

CENTRAL BANK OF SRI LANKA



ANNUAL REPORT

1998



CENTRAL BANK OF SRI LANKA



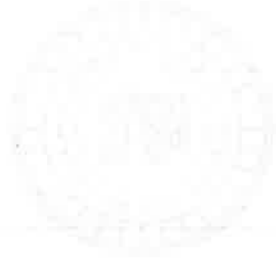
ANNUAL REPORT

OF THE MONETARY BOARD TO THE
HON. MINISTER OF FINANCE

FOR THE YEAR

1998

ANNUAL REPORT 2018



ANNUAL REPORT

ISBN 955-575-055-6
ISSN 1391-3581

Price per copy

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HER EXCELLENCY THE PRESIDENT
AND MINISTER OF FINANCE AND PLANNING
MINISTRY OF FINANCE AND PLANNING
COLOMBO

Your Excellency,

Section 35 of the Monetary Law Act (Chapter 422) requires the Monetary Board of the Central Bank of Sri Lanka to submit an Annual Report to your Excellency on the state of the economy, the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board, within four months after the end of each financial year. The Forty Ninth Annual Report of the Monetary Board of the Central Bank, in respect of the Year 1998 is submitted herewith in fulfilment of this obligation.

Yours sincerely,

A.S.JAYAWARDENA
Governor

Central Bank of Sri Lanka
at temporary premises,
Level 35, West Tower, World Trade Centre,
Echelon Square,
Bank of Ceylon Mawatha
Colombo 1.

30 April 1999

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CENTRAL BANK OF SRI LANKA

THE MONETARY BOARD

(As at 31 December 1998)

A.S. JAYAWARDENA

Governor

DIXON NILAWEERA

Secretary to the Ministry of Finance and Planning

C. CHANMUGAM

Appointed Member

Principal Officers as at 31 December 1998

- P. AMARASINGHE - *Deputy Governor*
S. EASPARATHASAN - *Deputy Governor*
H.M.R. ELLEPOLA - *Executive Director and Secretary to the Monetary Board*
P.M. NAGAHAWATTE - *Executive Director*
G.M.P.D. DE SILVA - *Executive Director*
S. PATTIWIDANA - *Executive Director*

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- M.B. DISSANAYAKE - *Chief Accountant*
A. SHANMUGASAMY - *Additional Chief Accountant*
Y.M.W.B. WEERASEKERA - *Additional Chief Accountant*

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Bank Supervision Department

- Y.A. PIYATISSA - *Director*
MISS C.I. FERNANDO - *Additional Director*

Currency Department

- J.M.T.B. JAYASUNDARA - *Superintendent*

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P.B. JAYASUNDARA - *Additional Director (on release)*

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M.D.D. GUNATILAKE - *Additional Superintendent*

Establishments Department

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M. RAMANATHAN - *Additional Director*

Exchange Control Department

- M.R. FERNANDO - *Controller*

Financial Markets Department

P.T. SIRISENA - *Director*

Information Department

MRS M.A.R.C. COORAY - *Director*

Information Technology Department

MRS S. N. FERNANDO - *Director*

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S. RUPASINGHE - *Director*

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Premises Department

T.H.D. PEIRIS - *Director*

Public Debt Department

T.S.N. FERNANDO - *Superintendent and Registrar*

U. VIDANAPATHIRANA - *Additional Superintendent (on release)*

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Secretariat Department

T.G. SAVUNDRANAYAGAM - *Secretary*

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S.S. COLOMBAGE - *Director*

Training Department

K.C.M. GUNASEKERA - *Director*

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H.A.G. HETTIARACHCHI - *Director*

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Welfare Department

W.S.L. FERNANDO - *Director*

Special Officer

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G.G.D. DE SILVA - *Legal*

D.L. KANNANGARA - *Banking and Financial Services (Training)*

H. PREMARATNE - *Banking and Financial Services (Training)*

K. SIVAGANANATHAN - *Banking and Financial Services*

G. USWATTE ARATCHI - *Economics and Public Finance*

N. VITHARANA - *Banking Supervision*

G. WEERAKOON - *Labour*

Auditor
S.M. SABRY
Auditor-General

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1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
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97	97	97	97	97	97
98	98	98	98	98	98
99	99	99	99	99	99
100	100	100	100	100	100

PART I

KEY ECONOMIC INDICATORS

	1994	1995	1996	1997	1998(a)
DEMOGRAPHY					
Mid Year Population ('000 persons)	17,865	18,112	18,315	18,552	18,774
Population Density (persons per sq.km.)	287	289	292	296	299
Population Growth Rate (per cent)	1.4	1.4	1.1	1.2	1.2
Labour Force ('000 persons) (b)	6,079	6,106	6,227	6,236	6,693
Labour Force Participation Rate (per cent) (b)	48.1	48.3	48.5	48.4	51.9
Unemployment Rate (per cent) (b)	12.1	12.0	11.1	10.3	9.1
OUTPUT					
GDP at Current Market Prices (Rs. billion)	579	668	768	890	1015
GNP at Current Market Prices (Rs. billion)	576	659	757	880	998
Per Capita GDP at Market Prices (Rs.)	32,414	36,869	41,940	47,988	54,035
Per Capita GNP at Market Prices (Rs.)	32,215	36,381	41,349	47,433	53,141
Per Capita GDP at Market Prices (US\$)	656	719	759	814	837
Per Capita GNP at Market Prices (US\$)	652	710	748	804	823
REAL OUTPUT (percentage change)					
GNP	5.3	6.0	3.2	6.8	4.6
GDP	5.6	5.5	3.8	6.3	4.7
Agriculture, Forestry and Fishing	3.3	3.3	-4.6	3.0	2.5
Mining and Quarrying	6.0	3.4	8.9	3.8	-5.4
Manufacturing	9.1	9.2	6.5	9.1	6.3
Construction	6.0	4.9	3.4	5.4	7.1
Services	5.2	5.1	5.8	7.1	5.2
AGGREGATE DEMAND AND SAVINGS (per cent of GDP)					
Consumption	84.8	84.7	84.6	82.7	81.1
Private	75.1	73.2	74.1	72.3	71.3
Government	9.7	11.5	10.5	10.4	9.8
Investment	27.0	25.7	24.2	24.4	25.4
Government	3.0	3.5	3.1	3.4	3.5
Public Corporations	4.0	4.4	3.1	2.7	2.6
Private	20.0	17.8	18.0	18.3	19.3
Net Imports of G & NFS	-11.8	-10.4	-8.9	-7.1	-6.5
Exports of G & NFS	33.8	35.6	35.0	36.5	36.0
Imports of G & NFS	45.6	46.0	43.9	43.6	42.4
Domestic Savings	15.2	15.3	15.3	17.3	18.9
Net Factor Income (c)	3.9	4.2	3.7	4.2	4.3
National Savings	19.1	19.5	19.0	21.5	23.2
PRICES AND WAGES (percentage change)					
Colombo Consumers' Price Index (1952 = 100)	8.4	7.7	15.9	9.6	9.4
Greater Colombo Consumers' Price Index (Jan. - Jun.1989 = 100)	4.8	3.9	14.7	7.1	6.9
Wholesale Price Index (1974 = 100)	5.0	8.8	20.5	6.9	6.1
GNP Deflator	9.4	8.4	12.2	8.7	8.4
Nominal Wage Rate Index for Workers in All Wages Boards	3.9	3.9	8.3	5.9	12.3
Nominal Wage Rate Index for Central Government Employees	8.9	7.7	3.2	10.8	10.5
GOVERNMENT FINANCE (per cent of GDP)					
Revenue	19.0	20.4	19.0	18.5	17.3
Grants	1.4	1.4	1.0	0.8	0.7
Expenditure and Net Lending	29.5	30.5	28.5	26.4	26.4
Current	21.9	23.1	22.8	20.8	19.7
Capital and Net Lending	7.5	7.4	5.7	5.7	6.8
Budget Deficit before Grants without Privatisation	-10.5	-10.1	-9.4	-7.9	-9.2
Budget Deficit after Grants with Privatisation	-8.5	-8.3	-7.8	-4.5	-8.1
Deficit Financing	8.5	8.3	7.8	4.5	8.1
Foreign	2.0	3.2	1.3	1.1	1.0
Domestic	6.5	5.1	6.5	3.4	7.0
Government Debt	95.1	94.6	92.2	86.0	89.4
Foreign	52.1	51.9	46.8	43.0	45.4
Domestic	43.0	42.8	45.4	43.0	44.0

(a) Provisional

(b) 3rd quarter data in 1998 and 4th quarter data for all other years.

(c) Includes workers' remittances.

KEY ECONOMIC INDICATORS (contd.)

	1994	1995	1996	1997	1998(a)
EXTERNAL TRADE (percentage change) (d)					
Terms of Trade	-0.7	-1.0	-0.5	6.8	14.2
Export Unit Value Index (1997 = 100)	4.8	14.8	11.6	9.3	11.6
Import Unit Value Index (1997 = 100)	5.8	15.6	12.0	2.4	-2.2
Export Volume	9.4	7.1	4.1	10.6	0.1
Import Volume	12.2	2.7	0.4	12.3	12.4
EXTERNAL FINANCE (US\$ million)					
Trade Balance	-1,559	-1,505	-1,344	-1,225	-1,157
Exports	3,209	3,807	4,095	4,639	4,735
Imports	4,767	5,311	5,439	5,864	5,891
Services and Income Accounts (net) (d)	18	-18	-92	-1	-36
Current Private Transfers (net)	622	675	710	788	848
Current Official Transfers (net)	58	61	49	44	55
Current Account Balance	-860	-786	-677	-393	-289
Overall Balance	240	52	-68	163	37
Current Account Balance (per cent of GDP)	-7.3	-6.0	-4.9	-2.6	-1.8
External Assets (months of same year imports)	7.2	6.6	6.0	6.4	5.9
Overall Debt Service Ratio (per cent of X G & S)	13.7	16.5	15.3	13.3	13.4
External Debt (per cent of GDP)	70.8	66.7	61.1	54.3	55.6
EXCHANGE RATES					
Annual Average					
Rs/US\$	49.42	51.25	55.27	58.99	64.59
Rs/SDR	70.75	77.74	80.23	81.17	87.66
End - Year					
Rs/US\$	49.98	54.05	56.71	61.29	67.78
Rs/SDR	72.76	80.39	81.38	82.69	95.44
MONETARY AGGREGATES (percentage change Dec. to Dec.)					
Narrow Money (M1)	18.7	6.7	4.0	9.8	12.1
Broad Money (M2b)	18.7	21.1	11.3	15.6	13.2
Net External Assets of the Banking System	40.4	10.2	-2.6	43.5	16.7
Net Domestic Assets	12.2	25.2	15.9	7.8	11.9
Domestic Credit from the Banking System to					
Government (net)	5.4	23.3	21.9	-4.0	42.8
Public Corporations	-26.0	16.6	16.4	-5.4	-26.1
Private Sector	21.7	29.0	9.0	14.5	11.8
Reserve Money	20.5	15.5	8.8	-2.1	10.9
Money Multiplier for M2b	3.15	3.30	3.38	3.98	4.07
Velocity of M2b	2.98	2.89	2.80	2.89	2.91
INTEREST RATES (per cent per annum at end year)					
Treasury Bill Rate					
3 Month	18.73	19.26	17.45	9.97	12.01
12 Month	19.43	18.97	17.38	10.21	12.59
Repurchase Rate (overnight)	20.00	16.50	12.75	11.00	11.25
Rediscount Rate (overnight)	19.15	20.00	18.58	12.85	15.00
Deposits Rates					
Commercial Banks Weighted Average Deposit	12.6	12.4	12.3	10.0	9.2
Commercial Banks 12 Month Fixed Deposit (max)	17.0	17.0	17.8	15.3	13.0
NSB Savings	14.0	12.0	12.0	10.8	10.5
NSB 12 Month Fixed Deposit	14.0	16.0	15.0	11.0	11.5
Lending Rates					
Com. Bank Weighted Average Prime Lending	18.5	20.1	20.2	15.2	14.9
Bills Purchased and Discounted	11.0-30.0	11.0-30.0	11.0-30.0	11.0-30.0	11.0-30.0
CAPITAL MARKET					
All Share Price Index (1985 = 100)	987	664	603	702	597
Sensitive Price Index (1985 = 100)	1,439	991	898	1,068	923
Value of Shares Traded (Rs. million)	34,505	11,249	7,403	18,315	18,144
Net Purchase by Non Nationals (Rs.million)	1,334	-90	352	716	-1,560
Market Capitalisation (Rs.billion)	144	107	104	129	117

(d) A new trade indices series has been introduced from 1998. Please refer Box 9 and foot note (a) in the Statistical Appendix Table 73 for a detailed description on the change of the methodology. Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

1. ECONOMIC PERFORMANCE, PROBLEMS AND POLICIES

1.1 Overview

Sri Lanka's economic performance in 1998 has to be assessed in the context of a highly unstable external environment where the entire world economy was experiencing the worst economic crisis since the Great Depression in the early 1930s. World financial markets and exchange rates had been experiencing tremendous instability since mid 1997. The East Asian financial market turmoil had immediate contagion effects and more lasting adverse repercussions on the world economy, particularly the financial and commodity markets. The subsequent eruption of a payment and currency crisis in Russia and the economic problems in South Africa, Brazil and several Latin American countries intensified the instability. In addition, there were concerns about the stability of some leading international banks and global investment funds due to their large exposure to countries in financial distress. Meanwhile, the Japanese economy continued to struggle with serious financial problems. Such worldwide financial and economic distress strained the resources of the International Monetary Fund, the World Bank and other institutions with global responsibilities to promote orderly international trade and payments. The crisis also spotlighted the vulnerability of financial systems in many countries, related to weaknesses in corporate governance, regulatory frameworks and

supervisory standards, excessive government involvement in running financial and business enterprises, inadequate timely information and political instability. Many financial institutions in crisis countries had to be closed down or restructured with public funds. Globally, financial flows to developing countries slowed down significantly and financial policies were tightened, initially raising interest rates to stabilise exchange rates. There was also continuous speculation on whether China would be compelled to devalue its currency to regain competitiveness, which could threaten the post crisis recovery in many Asian countries. Most crisis ridden countries adopted painful but necessary adjustment measures, which have tended to restore international confidence. Altogether, the growth of the world economy fell by nearly half, from 4.3 per cent in 1997 to 2.5 per cent in 1998, leading to a 70 per cent contraction of the growth of world trade. Non-debt creating capital flows to developing countries declined by over 20 per cent in 1997, with other capital flows also declining sharply. With this instability in world commodity and financial markets, exchange rate movements became highly volatile, particularly among key currencies, which made the task of managing the exchange rate and monetary policy of relatively more open and small economies like Sri Lanka a most challenging task. Survival in a sea of turbulence became an achievement and the Sri

TABLE 1.1
Selected Macroeconomic Indicators

Item	1980-89 Avg.	1990-94 Avg.	1994	1995	1996	1997	1998(a)
GDP (Real) Growth Rate	4.2	5.3	5.6	5.5	3.8	6.3	4.7
GDP Deflator	11.8	12	9.3	8.4	12.1	8.6	8.4
GDP (Nominal), per capita, rupees	9,608	25,148	32,414	36,869	41,940	47,988	54,035
GDP (Nominal), per capita, US dollars	362	515	656	719	759	814	837
Unemployment Rate, per cent	n.a	14.4	12.1	12.0	11.1	10.3	9.1
Import Coverage of Foreign Assets, months							
Gross Foreign Assets	n.a	n.a	7.2	6.6	6.0	6.4	5.9
Gross Official Reserves	1.8	3.6	5.1	4.7	4.3	4.2	4.0
	Per cent of GDP)						
Gross Domestic Investment	26.2	24.1	27.0	25.7	24.2	24.3	25.4
Gross Domestic Savings	12.9	14.4	15.2	15.3	15.3	17.3	18.9
Foreign Savings	13.3	10.3	11.8	10.4	8.9	7.0	6.4
Balance of Payments, Current Account	-8.1	-6.3	-7.3	-6.0	-4.9	-2.6	-1.8
Budget, Current Account	2.7	-1.6	-2.9	-2.7	-3.8	-2.2	-2.4
Budget, Overall Balance	-12.4	-9.8	-10.5	-10.1	-9.4	-7.9	-9.2
Money Supply (M2b), per cent change (b)	n.a	n.a	18.7	21.1	11.3	15.6	13.2
Colombo Consumers' Price Index, per cent change	12.8	13.1	8.4	7.7	15.9	9.6	9.4
Exchange Rate (Rs/US\$), per cent change	-9.1	-4.4	-0.8	-7.5	-4.7	-7.1	-9.6

(a) Provisional.

(b) Consolidated money supply including FCBUs

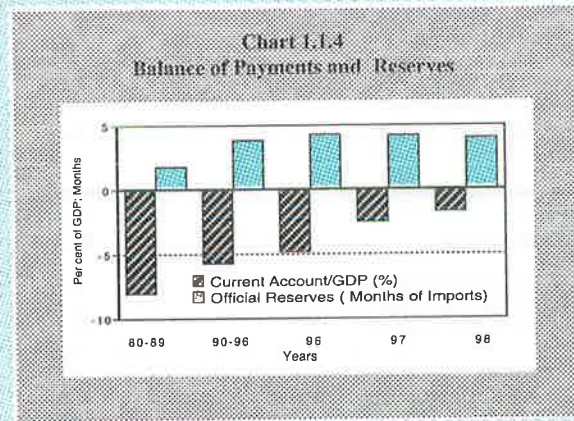
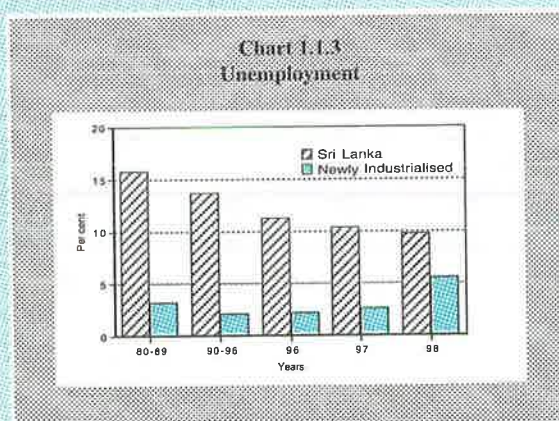
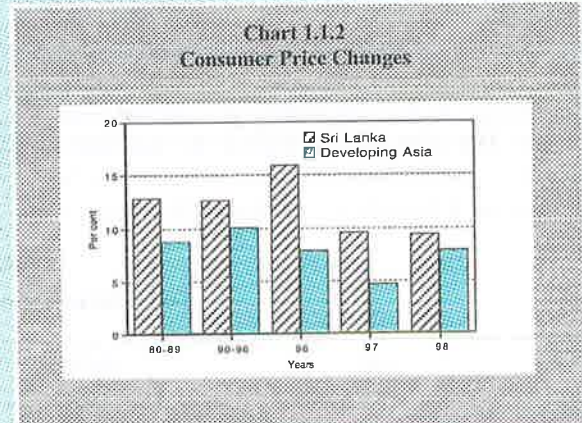
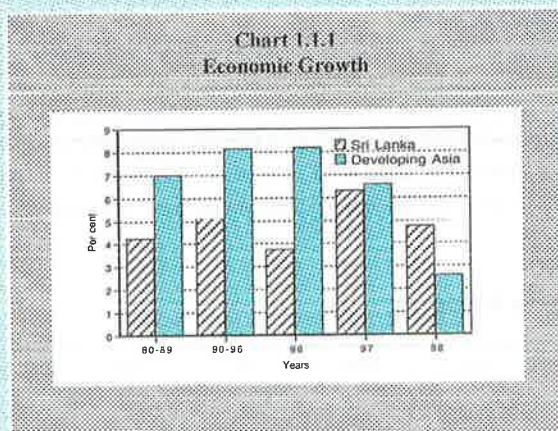
Source: Central Bank of Sri Lanka

Lanka economy could be deemed to have fared reasonably well during the biggest crisis it faced since the 1930s.

Sri Lanka achieved a moderate 4.7 per cent economic growth in 1998, reflected in almost all economic sectors. This is commendable in the context of many countries recording slow or negative growth. Although this growth rate was lower than the average growth of 5.6 per cent during the previous five years, it compares favourably with the estimated growth of 2.8 per cent for all developing countries in 1998. The inflation rate continued to decline in 1998 owing to improved supply conditions, a slowing down in the growth of money supply and the decline in prices of imported goods whose prices have declined sharply in world markets. The deceleration of the growth of money supply and higher positive real interest rates reduced the demand pressure on prices. A sharp reduction in the import

prices of many essential commodities such as wheat, crude oil, fertiliser and sugar kept the domestic prices of these items from rising in spite of the depreciation of the rupee in 1998. The annual average inflation, as measured by the Gross Domestic Product deflator, declined marginally to 8.4 per cent from 8.6 per cent in 1997. Consumer prices increased by 7.9 per cent with a sharper decline in the rate of increase during the second half. The rate of unemployment continued to decline with the increased absorption of labour into the manufacturing, construction, trade, hotel and informal services sectors. In the balance of payments, the trade deficit declined, owing mainly to higher tea prices and a sharp decline in import prices; the current account deficit declined too, from 2.6 per cent of GDP in 1997 to 1.8 per cent in 1998 owing to a continued increase in private transfers and a lower trade deficit. Foreign direct investment inflows increased to US dollars 150 million as

Chart 1.1
Selected Macroeconomic Indicators



several major private sector infrastructure projects started operations in 1998 in the telecommunication and power sectors, in addition to inflows to other sectors. The overall balance of payments registered a surplus of US dollars 37 million. The external reserves remained at a reasonably satisfactory level, adequate to finance 5.9 months of imports. The gross official international reserves were sufficient to cover four months of imports.

The performance on the fiscal front, however, indicated a setback as the overall budget deficit increased to 9.2 per cent of GDP in 1998 from 7.9 per cent in 1997, due largely to higher security related expenditures, an increased wage bill, transfers to loss making public sector institutions and a significant reduction in tax buoyancy due to extensive tax concessions granted in the 1997 and 1998 Budgets and the less than optimal rate fixed for the Goods and Services Tax. Despite the adverse external environment and an expansionary fiscal out-turn, Sri Lanka's financial market remained relatively stable in 1998 as in the previous year, mainly as a result of a flexibly managed exchange rate, perseverance with tight monetary controls which led to a slight increase in interest rates in the market and strengthening of the regulatory and supervisory environment for financial institutions.

In view of the high fiscal deficit, a further relaxation of monetary policy was not possible in 1998 to allow interest rates to decline in consonance with declining inflationary pressure. Instead, interest rates for government debt instruments and the prime lending rate edged upward somewhat owing to higher domestic resource utilisation by the government for deficit financing. A further relaxation of monetary policy would have had adverse implications on price stability and the exchange market. Although in terms of the overall deficit the fiscal performance in 1998 was a

setback compared with the commendable progress made during the previous three years, further progress was made in the structural reform area, mainly relating to the tax system, debt management and public enterprise reforms. However, it underlined the need to strengthen structural reforms in the coming years because of uncertainties relating to security related expenditure.

1.2 Output

Economic Growth

The economic growth rate of 4.7 per cent achieved in 1998 was almost equal to the historical long-term average growth rate of around 5 per cent and reflected the resilience of Sri Lanka's economy under the extremely difficult conditions of a global recession. The average economic growth during 1980-89 was 4.3 per cent, while it was 5.4 per cent during 1990-97, when external conditions were far more propitious. It was achieved in the midst of a global recession which had severe adverse effects on some of Sri Lanka's exports, mainly rubber, coconut products, processed diamonds, gems and jewellery.

The adverse effects of the slowing down of exports on the country's foreign exchange resources were more than offset by the declines in import prices of essential commodities. Yet, some of the affected sectors were hit hard by this recession. The rubber sector was the hardest hit. The nominal incomes in this sector, measured in terms of value added, declined by 21 per cent in 1998, following a similar decline in 1997. The real output of the rubber sector declined by 9 per cent in 1998. The coconut sector, which was affected by price competition due to the East Asian crisis and domestic production declines related to the lagged effect of adverse weather in 1997, experienced a slower growth of

Chart 1.2
Sectoral Composition of GDP

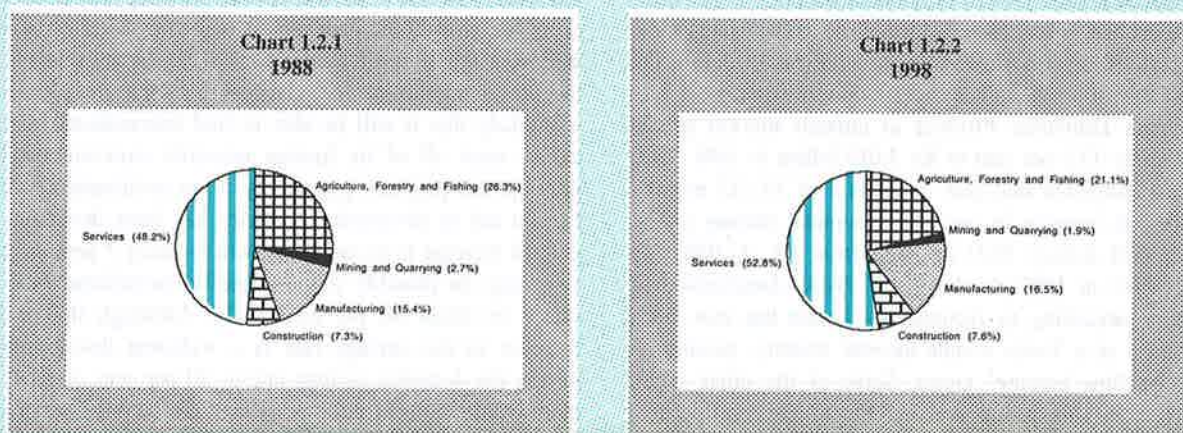


TABLE 1.2
Gross National Product at Constant Prices (Annual Percentage Change)

Item	1980-89 Avg.(a)	1990-96 Avg.(a)	1997(b)	1998(b)
1 Agriculture, Forestry and Fishing	2.3	2.2	3.0	2.5
1.1 Agriculture	2.3	2.2	2.9	1.8
Tea	0.3	4.4	7.1	1.1
Rubber	-2.7	0.9	-5.4	-9.0
Coconut	3.1	0.8	3.3	-3.2
Paddy	1.4	0.8	11.2	18.3
Other	4.6	3.5	0.5	-1.5
1.2 Forestry	3.3	1.5	1.3	1.2
1.3 Fishing	2.7	2.9	5.0	8.3
2 Mining and Quarrying	6.3	3.3	3.8	-5.4
3 Manufacturing	5.5	8.6	9.1	6.3
3.1 Processing of Tea, Rubber and Coconuts	0.	2.4	3.5	-1.2
3.2 Factory Industry	7.8	10.0	10.3	7.6
3.3 Small Industry	1.6	5.8	7.0	6.5
4 Construction	1.3	5.0	5.4	7.1
5 Electricity, Gas, Water and Sanitary Services	6.6	7.5	8.1	10.1
6 Transport, Storage and Communication	4.7	5.5	8.8	7.7
7 Wholesale and Retail Trade	4.6	5.7	6.3	4.5
7.1 Imports	2.7	7.8	9.6	8.2
7.2 Exports	4.4	11.2	12.0	0.1
7.3 Domestic	6.4	2.7	2.2	2.0
8 Banking, Insurance and Real Estate	9.4	8.2	10.2	6.4
9 Ownership of Dwellings	2.9	1.3	1.3	1.2
10 Public Administration and Defence	10.2	3.1	5.2	3.0
11 Services (n.e.s.)	2.2	5.3	6.1	3.7
12 Gross Domestic Product	4.2	5.3	6.3	4.7
13 Net Factor Income from Abroad	43.5	4.4	-21.7	11.9
14 Gross National Product	4.0	5.4	6.8	4.6

(a) At 1982 constant factor cost prices

(b) At 1996 constant factor cost prices

nominal income than any other sector except rubber. The real value added in the coconut sector declined by 3.2 per cent. The gem and diamond processing industries also experienced a slow growth in nominal incomes (5 per cent) with a decline in real value added. The growth rate of the industrial sector also slowed down significantly during the second half of 1998, with a deceleration in exports.

Gross Domestic Product at current market prices increased by 13.3 per cent to Rs. 1,015 billion in 1998. This, with the estimated mid-year population of 18.772 million, indicates an increase in per capita nominal income to Rs. 54,035 (US dollars 837) in 1998 from Rs. 47,988 (US dollars 814) in 1997. In the World Bank classification of countries according to income, Sri Lanka has now been recognised as a 'lower middle income' country, moving up from the 'low income' group. Some of the other Asian countries in this group are Indonesia, the Philippines, Thailand, China and the Maldives. The next layer is the 'upper middle income' group whose per capita GNP is in

the range of US dollars 3,116 – 9,635. Sri Lanka needs a steady 8.5 per cent annual economic growth for it to become an upper middle income developing country within the next ten years. In view of the recent slowing down of the economic growth and poor prospects for the world economy, achieving this is not feasible. Even if Sri Lanka remains in the 'lower middle income' category for some more time, it is unlikely that it will be able to find concessional foreign aid to meet all of its foreign resource requirements for development projects, particularly in an environment where foreign aid to developing countries has been declining. A gradual increase in economic growth to about 7 per cent per year may be possible if the domestic investment ratio is raised to about 30 per cent early. Although the recent increase in the savings rate is a welcome development, raising the domestic savings rate to 30 per cent of GDP or more within the next three years may not be possible, unless budgetary savings are raised through a surplus in the current account. Given this limitation, some amount of foreign

financing for future development projects will have to be raised in international capital markets.

In terms of the sectoral contribution to the increase in output, the manufacturing sector made the largest contribution of 23 per cent to GNP in 1998. The next highest contributions were from trade (22 per cent) transport and communication (18 per cent), construction (11 per cent) and financial services (11 per cent). The agriculture sector contributed 7 per cent, with a 12 per cent contribution by the paddy sub sector and overall negative contributions by other agricultural sectors. The manufacturing and services sectors continued to gain importance in the economy.

Manufacturing

The manufacturing sector grew by 6.3 per cent in 1998, a somewhat lower rate compared to 9.1 per cent in 1997. Reflecting a strong performance in the domestic market oriented industries such as petroleum products, cement, building materials, wheat flour, animal feed, liquor, milk products, pharmaceuticals, beverages and chemicals, the output of factory industries other than the processing of tea, rubber and coconut increased by 7.6 per cent in 1998, compared to 10.3 per cent in 1997. Export oriented industries showed a mixed performance. Fish products, rubber and ceramics maintained high positive growth rates, while diamonds, gems and jewellery exports declined. Textiles and garments, the leading industry, slowed down during the second half in the face of increased global competition. Factory industries, which accounted for 84 per cent of the manufacturing sector, contributed 22 per cent to the overall economic growth in 1998. The industrial sector production capacity is estimated to have increased by 4 per cent in 1998, while capacity utilisation remained at 84 per cent as in 1997. The labour productivity in the non-BOI sector is also estimated to have increased by 4 per cent in 1998.

The growth in the industrial sector was achieved in the midst of a depressed global trading environment where the growth of international trade declined by two thirds following the East Asian financial crisis and subsequent economic problems in many countries including Russia, Japan and in South and Central America. In depressed world market conditions, the competition among exporting countries intensified. The Sri Lanka rupee also depreciated faster (9.6 per cent compared to an annual depreciation of 5-6 per cent during the last few years) and helped the industrial sector to some extent. The economic downturn in the Asia-Pacific region depressed the demand for exports of processed diamonds, jewellery and ceramic products. Some export oriented industries continued to perform reasonably well, as the major buyers, who looked for product quality and reliable supply sources, continued to place orders with Sri Lankan manufacturers. However, a general slowing down of the export oriented industrial sector cannot be avoided.

The policy measures, including fiscal incentives for

advanced technology in industries, provision of foreign currency loans to non-BOI exporters and the liberalisation of textile imports, together with relatively low interest rates compared to high rates in the past, had a favourable impact on industrial growth. Production capacity has expanded with technology gains and new investments and the industrial base has become more diversified. Benefiting from the removal of the duty on capital goods, imports of investment goods increased by 12 per cent to refurbish existing factories and to start new industries during the year. Use of advanced technology has improved productivity in many industries (e.g., fruit and meat processing, rubber and garments), which has helped to offset a modest increase of wages and salaries.

A gradual increase in labour productivity appears to be taking place in the manufacturing sector and this sector, in terms of its implicit price deflator which measures the overall increase in cost of production, has been one of the relatively low cost areas. For example, the price deflator in factory industries was 6 per cent in 1998, compared to the overall GDP deflator of 8.4 per cent. Further improvement of competitiveness of this sector will have to come mainly from productivity improvements. In addition to timely upgrading of machinery and human skills, further development of the road and transport systems, port facilities and the communication network would be necessary for faster growth in this sector. The mismatch between demand for and supply of labour and rigidities in the labour market have been a constraint to faster industrial expansion.

Agriculture

The real output in agriculture is estimated to have increased by 2.5 per cent in 1998, compared to 3 per cent in 1997. A significant increase in the land under paddy, due to favourable weather conditions, and higher yields contributed to the increase in paddy output by 20 per cent. Improved output levels were shown in both Maha and Yala seasons. The Maha paddy output was higher by 22 per cent and the Yala output was higher by 16 per cent following a partial recovery from the drought in 1997. The average producer price of paddy declined by 7 per cent to Rs.215 per bushel. With the increased domestic production, rice imports declined to 168,000 metric tons in 1998 from 306,000 in 1997. The import duty on rice was restored at 35 per cent with a view to maintaining a reasonable price for rice in the domestic market in the interests of both consumers and producers.

Tea continued to attract higher prices until mid 1998 and production, which was increasing under the privatised management, increased further by 1 per cent to a new record level of 280 million kgs. in 1998. Tea prices started declining with the payments and currency crisis in Russia in July 1998 and the considerable increase in world tea supply, mainly following the recovery of production (30 per cent) in Kenya. Tea production in India also increased, exerting downward pressure on prices. On average, the

Colombo Auction price of tea increased by 13 per cent while the export price increased by 17 per cent (7 per cent in US dollar terms). In 1998, 40 per cent of Sri Lanka's tea exports went to the Commonwealth of Independent States (CIS), Turkey and the UAE. Tea exporters faced difficulties due to non-settlement of export bills by Russian buyers. Tea exports to Russia during the second half of 1998 had declined to 14 million kgs., from 25 million kgs. in the first half. The average cost of production of tea increased by 14 per cent to Rs. 107 per kg. The increase in the daily wage rate in the tea sector from Rs. 83 per day to Rs. 101 was a major contributory factor to the cost increase in 1998. Sri Lanka maintained its status as the largest tea exporter in the world in 1998.

Rubber production declined by 9 per cent, mainly due to the erosion of profit margins of rubber producers as a result of a continued decline in prices since 1996. The average export price of rubber declined by 10 per cent to Rs.68 per kg., while the Colombo Auction prices declined by 12 per cent to Rs.49.76. The price decline was a result of the depressed world demand, the release of stocks by the Thai government in early 1998 and price effects of currency depreciations in East Asian countries. The International Natural Rubber Price Stabilisation arrangement could not arrest the price decline and the International Natural Rubber Treaty was in disarray due to financing problems. However, the steady increase in the use of local rubber as a raw material in the industrial sector for export as well as domestic use has been an encouraging trend. In 1998, more than 50 per cent of the total rubber output was used by the domestic industries.

The decline in coconut production is attributed largely to the after effects of adverse weather experienced in 1997. However, some signs of recovery in output were observed during the second half of 1998. Production of desiccated coconut declined by 31 per cent, while oil production increased by 16 per cent. In addition, local consumption has also been rising recently, due to the use of coconut products by local industries such as confectioneries and biscuit manufacturing. The price of fresh nuts remained high throughout the year due to overall supply constraints.

Other export crops showed a considerable improvement, with pepper, cocoa, coffee, cardamom, nutmeg and cinnamon oil recording increased outputs. These crops benefited from favorable prices. Among other field crops, the output of black gram, green gram, cowpea and soya bean increased, while the output of chillies, red onions, big onions and potatoes declined to low levels as the local high cost producers could not compete with imports from India and Pakistan after the complete liberalisation of Sri Lanka's trade policy relating to agricultural commodities in 1996.

Fish production during the year increased by 8 per cent, particularly due to an improvement in marine fisheries. The livestock sector also showed an improvement in 1998.

Mining and Quarrying

The mining and quarrying sector suffered a decline in 1998. The Asian crisis reduced the demand for gems and semi-precious stones, thus adversely affecting the mining sub sector. Export earnings from gems declined by 34 per cent in US dollar terms. The quarrying sub sector, boosted by the growth in construction, performed well and partly offset the negative developments in the mining sub sector.

Economic Overheads

Insufficient infrastructure facilities has been one of the factors that has affected the competitiveness of Sri Lankan products and constrained faster economic expansion in Sri Lanka. The conflict in the North and the East has curtailed the development of key sectors due to resource constraints. Public investment had gradually declined from 13 per cent of GDP in 1985 to 5 per cent in 1997. Accordingly, the overall investment ratio had not been growing sufficiently to facilitate a growth rate of more than 5 per cent in the next few years. Realising this, the government maintained capital expenditures almost as planned in the 1998 Budget, despite a shortfall in revenues and increased security expenditures. Public investment increased to 6.8 per cent of GDP in 1998 and the target in the 1999 Budget is 7.5 per cent of GDP.

In 1998, investment in infrastructure by both the public and the private sectors made considerable progress. Private sector involvement in areas such as power, telecommunication and ports increased in 1998. The telecommunication sector further improved with increased private sector participation and improved efficiency of Sri Lanka Telecom (SLT) due to reorganisation of the

TABLE 1.3
Gross National Product
(Sector Shares in per cent)^(a)

	1978	1988	19976	1998
1 Agriculture, Forestry and Fishing	30.4	26.3	21.7	21.3
2 Mining and Quarrying	2.3	2.7	2.0	1.8
3 Manufacturing	18.5	15.4	16.6	16.5
4 Construction	4.8	7.3	6.9	7.1
5 Services	43.9	48.2	52.8	53.0
Electricity, Gas, Water and Sanitary Services	0.5	1.2	1.3	1.4
Transport, Storage and Communication	10.8	10.8	11.1	11.2
Wholesale and Retail Trade	19.9	19.9	22.0	22.3
Banking, Insurance and Real Estate	2.4	4.4	7.4	7.5
Ownership of Dwellings	3.8	2.6	1.9	1.9
Public Administration and Defence	3.8	5.4	5.0	4.9
Services (n.e.s.)	4.3	3.8	4.0	3.9
6 Gross Domestic Product	100.0	100.0	100.0	100.0
7 Net Factor Income from Abroad	-0.6	-2.6	-1.2	-1.3
8 Gross National Product	99.4	97.4	98.8	98.7

(a) At current factor cost prices

Source: Central Bank of Sri Lanka

management of SLT by NTT of Japan. In addition, the Ceylon Electricity Board (CEB) was evaluating proposals for the construction of a number of small hydro power projects by the private sector. The divestiture of a portion of Air Lanka Ltd., with a management contract to improve its performance, was a major step forward in the public enterprise reform programme. A preliminary agreement between the Government of Sri Lanka and South Asia Gateway Terminal (Pvt.) Ltd. has been signed to develop the Queen Elizabeth Quay (QEY) on a BOT basis at a cost of US dollars 240 million.

Investment in power generation, transmission and distribution grew sharply by 58 per cent. With the commissioning of new thermal plants, the power generating capacity of thermal plants grew by 4 per cent, reducing the reliance on hydro power to 69 per cent. The telecommunication sector grew rapidly, outpacing the growth of demand and the waiting list for telephones is expected to be eliminated by 2002. The availability of telephones, in terms of the number of persons per telephone, including cellular and wireless phones, improved from 41 in 1997 to 27 in 1998. Efforts to maintain the national road network were strengthened considerably. Initial work on large road infrastructure projects such as the Matara – Colombo Expressway, Colombo – Katunayake Highway and the Outer Circular Road connecting major highways in Colombo commenced in 1998.

The need to improve the quality of education had been well recognised and an ambitious reform programme commenced in 1998. In the area of health, under the health sector reforms, the priorities of the health sector were redirected, taking into consideration the emerging requirements in the sector. Initial work on health reforms began in 1998. The government plays a key role in both health and education. In view of the government's resource constraints and to improve efficiency, direct private sector participation in both areas needs to be promoted effectively. Meanwhile, the Presidential Task Force on Housing and Urban Development has emphasised the need to encourage private sector involvement in providing housing facilities.

1.3 Investment and Savings

Gross domestic investment is estimated to have increased in 1998 to 25.4 per cent of GDP from 24.3 per cent in 1997. While this increase is entirely due to higher public investment, it is noteworthy that investment by the private sector has been maintained as in the previous year at 18.5 per cent of GDP, despite weak prospects for faster economic expansion in the next two years due to the uncertain global economic environment. The new investments were largely in infrastructure projects and capacity expansion in manufacturing industries. There has been a gradual increase in private investment during the last four years, but this was not sufficient to raise Sri Lanka's potential growth significantly.

Chart 1.3
Savings and Investment

Chart 1.3.1
Investment and Investors

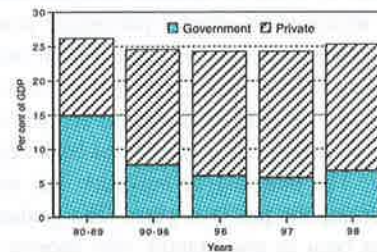


Chart 1.3.2
Savings and Savers

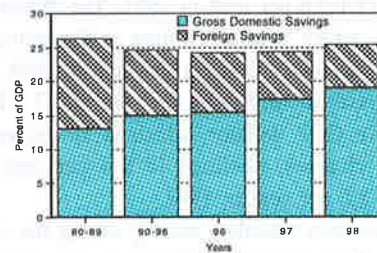
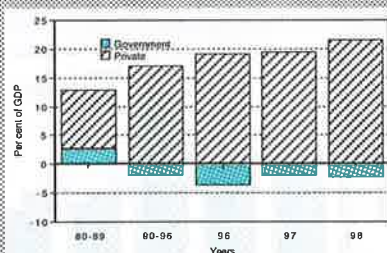


Chart 1.3.3
Financing of Investment



Sri Lanka's gross domestic savings ratio increased from 17.3 per cent in 1997 to 18.9 per cent in 1998. The Gross National Savings ratio also increased from 21.5 per cent of GDP to 23.2 per cent. The growth of savings is mainly attributed to growing per capita incomes and positive real interest rates. The real interest rates for investors in government debt instruments became more positive during the second half of 1998, as inflation declined and nominal interest rates increased by about 2 percentage points. While the average weighted commercial bank deposit rate declined from 10 per cent in 1997 to 9.2 per cent in 1998, the point to point inflation rate has been below six per cent since August 1998, making the real interest on bank deposits also more positive. The marginal savings ratio has remained at 30 per cent during the past two years. The gradual increase in savings has been an encouraging sign because it reflects the country's growing ability to finance a higher level of investment out of its own resources. However, it is a matter for concern that the growth of investment has been slow compared to savings.

1.4 Prices

All available price indices reflected a decline in inflation in 1998. The consumer prices increased by 6.9-9.4 per cent, compared to 7.1-9.6 per cent in 1997. The Wholesale Price Index (WPI), which measures prices at the primary market level, showed an increase of 6.1 per cent in 1998, compared to an increase of 6.9 per cent in 1997. The more comprehensive GDP deflator, which is an aggregate index of all price changes, declined to 8.4 per cent in 1998, compared to 8.6 per cent in 1997.

Price increases subsided, notably during the second half of the year. Consumer price inflation remained below 6 per cent from August 1998. Food prices continued to remain

high, despite a slowing down of the rate of increase in prices in the second half of the year. Food prices increased by 8-10 per cent and contributed to about 80 per cent of the increase in consumer prices in 1998. The rate of increase in food prices had decelerated to around 2-4 per cent by the end of the year, due to improved domestic supplies, including the successful paddy harvest both in the Maha and Yala seasons, as well as the increased availability of imported food. The indirect impact of the revision of electricity tariffs in September 1997 was felt in 1998. Price increases in clothing, footwear, telecommunication and health services have declined considerably due to the improved performance of these sectors. The introduction of the Goods and Services Tax (GST) in April in place of the turnover tax also raised consumer prices by 2-3 per cent initially, as traders used this opportunity to raise prices without offsetting turnover taxes.

1.5 Wages

After several years of slow growth, there were significant increases in both nominal and real wages in most sectors, including the public sector in 1998. With the implementation of the second stage of the salary increases following the Salary Review Committee recommendations, the Nominal Wage Rate Index for Government Employees increased by 10.5 per cent in 1998. In the organised private sector, the minimum wages applicable to a large number of Wages Boards were revised upwards and as a result, a substantial increase in wages was recorded for most categories of workers. From January 1998, the daily wage rate of workers in tea plantations covered by collective agreements increased from Rs.83 to Rs.95, with a share price bonus of Rs.6 per day when the price exceeded a given level, subject to a review at the end of every 18 months. The rubber sector

Chart 1.4
Changes in Prices

Chart 1.4.1
Inflation (Annual)

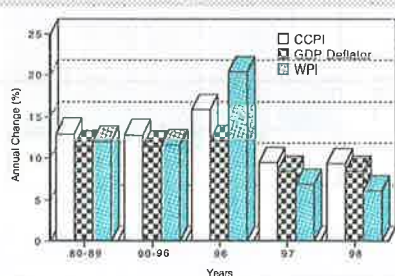
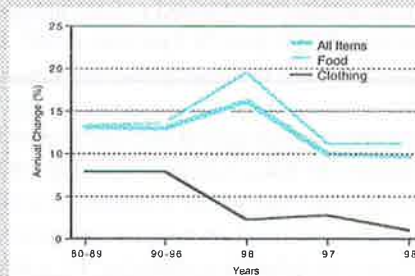
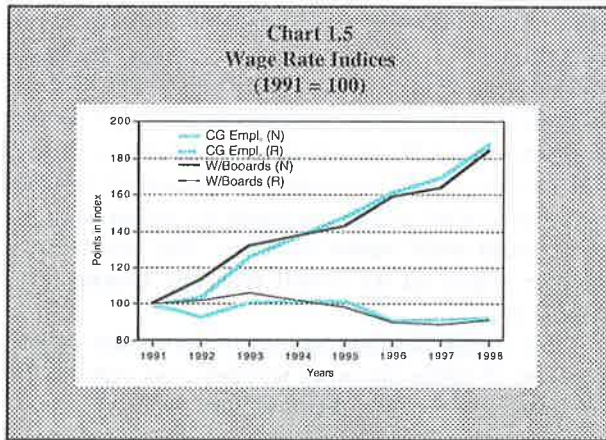


Chart 1.4.2
Consumer Prices (CCPI)





employees covered by the same agreement were also given a price wage supplement at a rate of 30 cents for each one rupee increase of the rubber price above Rs.65 per kg. The minimum wage rates of employees covered under 19 other Wages Boards were also raised. Accordingly, the overall Minimum Wage Rate Index for workers covered under the Wages Boards increased by 12 per cent.

Most informal sector employees, consisting of carpenters and masons in small scale construction activities and workers in small scale agriculture (tea, coconut and paddy), experienced wage increases in the range of 7-15 per cent, while those in some activities in the rubber sector experienced a decline in nominal wages, reflecting the deterioration of rubber prices.

1.6 Employment and Unemployment

The unemployment rate has continued to decline in 1998. According to the Quarterly Labour Force Surveys of the Department of Census and Statistics, it has fallen from 16 per cent of the labour force in early 1990 to 9.1 per cent by the third quarter of 1998. However, the past data on unemployment and the recent data are not strictly comparable, as the coverage has now been improved to include unpaid family workers as employed. If unpaid family workers were excluded, the unemployment rate would be about 10.3 per cent, which still confirms a declining trend in unemployment. Manufacturing, construction, trade, hotels, insurance, real estate and personal services were key areas of employment generation. The BOI firms, along with 137 new projects commencing operations in 1998, generated direct employment for nearly 36,000 persons, a considerable increase compared to 16,000 in 1997. New employment provided by the public sector was estimated at about 19,000. The manufacturing sector is estimated to have generated around 27,000 new employment opportunities at the end of the third quarter of 1998 compared to the third quarter of 1997. The construction sector, which has been growing at a faster rate than in 1997, had also generated about 5,400 new employment opportunities. The employment in the

agricultural sector, estimated at 2.4 million, represented 38 per cent of the employed work force. A little over 15 per cent of the employed were in the manufacturing sector, while the remaining 47 per cent were in the services sector. The share of public sector employment has been declining from 25 per cent in 1993 to about 18 per cent in 1998. Casual workers accounted for 9 per cent of public sector employment in 1998.

1.7 Fiscal Policy and Budgetary Operations

The successful fiscal deficit reduction achieved in the last two years could not be maintained in 1998. The target in the 1998 Budget was to reduce the overall fiscal deficit to 6.5 per cent of GDP while generating a surplus in the current account. However, slow growth of tax revenues and large expenditure overruns, particularly in the area of defence, led to larger current account and overall fiscal deficits. The current account deficit increased to 2.4 per cent of GDP in 1998 from 2.2 per cent in 1997, while the overall deficit (before grants and excluding privatisation proceeds) rose to 9.2 per cent from 7.9 per cent in 1997. The primary budget deficit, i.e., deficit excluding interest payments, increased to 3.8 per cent of GDP in 1998 from 1.7 per cent in 1997. Unlike in the past where capital expenditures were pruned in the face of large current account deficits, public investment in 1998 was significantly increased as envisaged in the Budget, to reduce shortcomings in infrastructure facilities. Thus, the larger overall deficit in 1998 was partly attributed to increased public investment.

The revenue buoyancy of the tax system continued to erode in 1998 largely owing to numerous tax exemptions and concessions that have been granted to promote private investment. In addition, the GST did not generate the expected revenue owing to transitional problems. Further, the rate of 12.5 per cent was below the estimated revenue neutral rate (vis a vis the turnover tax which it replaced) of about 17 per cent. Tax collections as a ratio of GDP declined to 14.5 per cent in 1998 from 16 per cent in 1997. Import tax revenue declined, mainly as a result of exemptions and concessions and a reduction in import values, reflecting a decline in the prices of Sri Lanka's major imports. The effect of the slow growth of tax revenues was partly offset by a marked increase of non-tax revenues in the form of additional profit transfers from public enterprises, increased rent payments from plantation companies and the timely collection of other non-tax revenue such as interest, levies and dividends. Total revenue declined to 17.3 per cent of GDP in 1998 from 18.5 per cent in 1997. This shortfall accounted for 44 per cent of the increase in the actual deficit, from the budgeted deficit.

Current expenditures were contained at 19.7 per cent of GDP, a decrease from 20.8 per cent in 1997, through a reduction in interest costs and payment of subsidies to households. Interest payments as a ratio of GDP declined

from 6.2 per cent to 5.4 per cent in 1998, reflecting the favourable impact of improved fiscal performance during the last two years, including the retirement of part of the public debt in 1997 using privatisation proceeds. Transfers to households, as a ratio of GDP, declined from 4.1 per cent in 1997 to 3.7 in 1998. However, the wage bill increased from 5 per cent of GDP in 1997 to 5.3 per cent of GDP in 1998. This was the result of increased employment as well as wage increases granted during the year. Total security expenditures, including repayments on account of the procurement of security equipment, are estimated to have increased from Rs.47,718 million (5.4 per cent of GDP) in 1997 to a record Rs.56,390 million (5.6 per cent of GDP) in 1998.

Public investment in 1998 (6.7 per cent of GDP) almost reached the 1998 Budget target of 6.9 per cent of GDP. This was a significant increase, compared with a decline to 5.8 per cent in 1997 from 7.9 per cent of GDP in 1995. The increase in public investment in 1998 was possible due to increased utilisation of foreign aid. As the government was committed to maintaining the investment programme, unlike in the past, the required matching rupee resources were

released more expeditiously. Capital expenditure was mainly concentrated in key areas such as energy, transport, telecommunication, port and water supply and drainage. Investment in these areas increased sharply by 55 per cent and accounted for 66 per cent of the total public investment. The increase in public investment was particularly important in a context where private investment has slowed down due to depressed world market conditions. This would have a positive impact on the overall economic growth in the coming years.

Net foreign financing and receipts on account of sales of shares of public enterprises provided 2 per cent of GDP for financing the budget deficit in 1998, while the other 7 per cent of GDP had to be financed through additional domestic borrowing. The increased domestic resource needs of the government led to a marked increase in bank borrowings, including the use of US dollars 100 million as a short-term loan from the Foreign Currency Banking Units. Generally, such a large increase in bank borrowings would have led to strong pressure on interest rates. However, as growth of credit to the private sector had slowed down, thus leaving additional resources in the banking system, a sharp

TABLE 1.4
Summary of Government Fiscal Operations

Item	(as a percentage of GDP)							
	1980	1985	1990	1994	1995	1996	1997	1998(a)
1 Revenue	19.6	22.3	21.1	19.0	20.4	19.0	18.5	17.3
2 Expenditure and Net Lending	41.8	34.1	31.0	29.5	30.5	28.5	26.4	26.4
2.1 Current Expenditure	18.5	20.1	22.3	21.9	23.1	22.8	20.7	19.7
2.1.1 Security	1.3	4.5	4.1	4.6	6.5	5.8	5.1	5.0
2.1.2 Interest	3.4	4.6	6.4	6.6	5.7	6.4	6.2	5.4
2.1.3 Wages(b)	4.5	3.6	3.9	3.1	3.4	3.3	3.1	3.0
2.1.4 Subsidies and Transfers	8.4	5.5	6.5	5.9	6.1	6.0	5.1	4.6
2.1.5 Others	0.9	1.9	1.4	1.8	1.4	1.3	1.3	1.6
2.2 Capital and Net Lending	23.3	13.9	8.7	7.5	7.4	5.7	5.7	6.8
2.2.1 Public Investments	18.5	13.8	8.3	7.0	7.9	6.0	5.8	6.7
Acquisition of Real Assets	7.9	4.5	3.7	2.9	3.4	2.7	2.9	3.2
Capital Transfers	9.4	8.6	2.3	2.4	2.9	2.2	2.1	2.2
On Lending	1.2	0.6	2.2	1.7	1.7	1.1	0.8	1.4
2.2.2 Other	4.7	0.2	0.4	0.6	-0.5	-0.3	-0.1	0.0
Restructuring Cost	0.0	0.0	0.0	0.6	0.5	0.0	0.2	0.4
Others	4.7	0.2	0.4	-0.1	-1.0	-0.3	-0.3	-0.3
3 Current Account Balance	1.1	2.2	-1.2	-2.9	-2.7	-3.8	-2.2	-2.4
4 Overall Deficit before Grants and excluding Privatisation Proceeds	-22.2	-11.7	-9.9	-10.5	-10.1	-9.4	-7.9	-9.2
5 Financing	22.2	11.7	9.9	10.5	10.1	9.4	7.9	9.2
5.1 Foreign Financing	9.2	6.4	5.7	3.5	4.5	2.3	1.9	1.7
5.1.1 Loans	5.3	4.4	3.6	2.0	3.2	1.3	1.1	1.0
5.1.2 Grants	3.9	2.0	2.1	1.4	1.4	1.0	0.8	0.7
5.2 Domestic Financing	13.0	5.3	4.2	6.5	5.1	6.5	3.4	7.0
5.2.1 Banks	9.8	2.9	0.1	0.2	1.1	1.7	-0.2	1.9
5.3 Privatisation	0.0	0.0	0.0	0.5	0.4	0.6	2.5	0.4
Memorandum Items :								
Total Wage Bill	5.0	4.2	4.9	5.1	5.2	5.0	5.0	5.3
Gross Defence Expenditure (c)	1.3	4.5	4.1	4.6	6.5	6.0	5.4	5.6

(a) Provisional

(b) Excluding those paid to defence staff.

(c) Including settlement of deferred payments.

Source: Central Bank of Sri Lanka

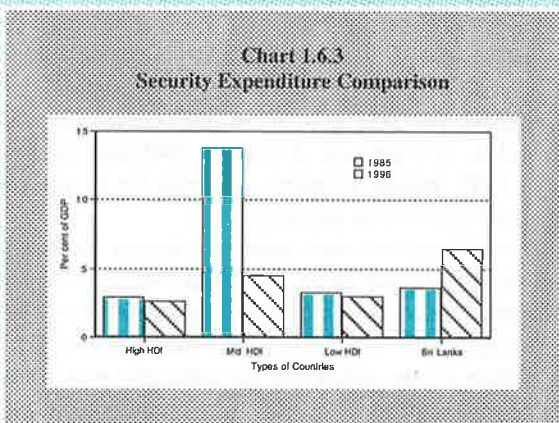
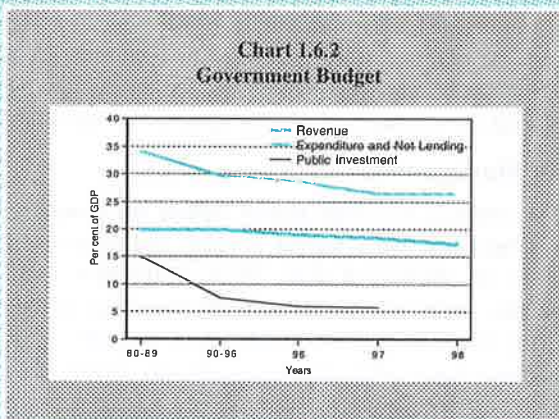
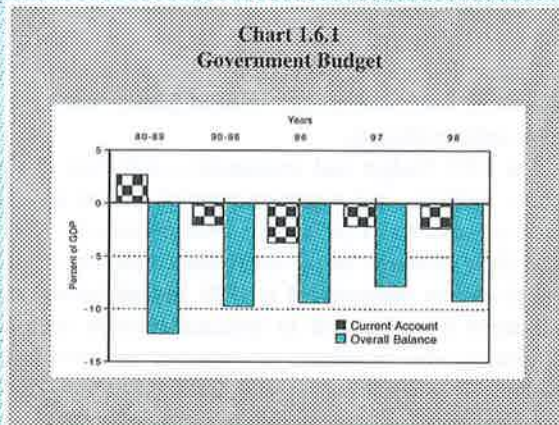
increase in interest rates could be avoided with a moderate monetary expansion. The Central Bank financing of the fiscal deficit increased by Rs. 5,609 million, compared to a repayment of Rs. 13,991 million in 1997.

Although the fiscal performance in 1998 was a setback in terms of the overall deficit, further progress was made in structural reforms relating to the tax system, public enterprise reforms and debt management.

Tax policy reforms, aimed at further simplifying the tax structure, improving the tax base and increasing transparency of the tax system, were continued during 1998. The introduction of the Goods and Services Tax (GST) with effect from 1 April 1998 in place of the Turnover Tax (TT) was a major structural change made in the tax system. The GST was put in place to eliminate the cascading effect of the TT system, improve tax compliance and increase transparency in the tax system. All exports are zero rated under GST, while domestic consumption is subject to taxation. Unprocessed agricultural products, public transport, fertiliser, cement, pharmaceuticals and most essential food items were exempted from the GST. Imports for the processing of exports, which were exempted under TT, were brought under the GST system. Financial services continued to be under TT, but at a lower rate of 1 per cent, compared to the previous 2 per cent. Many countries, when introducing a GST, had designed the system to be revenue neutral or revenue enhancing. However, Sri Lanka is one of the few countries to introduce a GST with a less than revenue neutral rate of 12.5 per cent. The revenue neutral rate was estimated to be about 17 per cent. Although a full year cycle will only be completed in April 1999, the indications in 1998 were that the GST was not generating sufficient revenues. This was due to the transitional problems at the initial stage and the lower GST rate. This was a major reason for the reduction of the revenue buoyancy of the tax system. Tax revenue as a ratio of GDP declined to 14.5 per cent from 16 per cent in 1997.

Tariff rates were reduced further by replacing the existing 3-rate band structure of 10, 20 and 35 per cent with a 5, 10 and 30 per cent rate structure. All imports of industrial raw materials and machinery not manufactured in Sri Lanka were brought under the 5 per cent band, while imports of transport, communication and medical equipment were classified as zero rated. Duty on motor cars and jeeps was brought down from 50-100 per cent to 30 per cent, while a 10 per cent additional excise tax was enforced on all vehicle imports to offset the revenue shortfall resulting from this reduction. With a view to protecting the domestic agricultural sector, the duty on agricultural products was maintained at 35 per cent, while the 20 per cent rate also continued for some imports. After all these revisions, Sri Lanka now has a 5-rate tariff structure. A 2-rate tariff structure is expected to be adopted in the year 2000, following the recommendation of the Presidential Tariff Commission Report.

Chart 1.6
Fiscal Overview



Other major policy changes under fiscal operations in 1998 were the liberalisation of textile imports and the subsequent acquiring of the textile sector debt liabilities by the government and the establishment of a Textile Debt Recovery Fund (TDRF) to assist the affected manufacturers, fixing the tariffs on garments at 10 per cent, and the introduction of various support schemes to assist research and development, vulnerable groups, selected priority sectors and regional industrialisation.

The 1997 Budget had announced a reduction of the corporate profit tax and maximum personal income tax rate from 35 per cent to 30 per cent in 1998 and then to 25 per cent in 1999. However, owing to revenue considerations, the proposal was not implemented in 1998. Instead, income tax concessions were granted to selected priority sectors. Accordingly, the corporate tax rate for enterprises in agriculture, fisheries, livestock and tourism was reduced to 15 per cent. Several changes were also made to the excise taxes, including the raising of taxes on liquor by 10 per cent and on petrol from 25 per cent to 50 per cent. Stamp duty on repurchase agreements, pro-notes, bills of exchange, mortgage backed securities and mortgage bonds on lease agreements were substantially reduced in 1998 with a view to lowering the cost of financial market transactions and improving the secondary market for government securities.

Debt Management

Further progress was made toward making the government debt programme more market oriented and reducing the reliance on short-term debt. Most of the new deficit financing needs of the government were met through Treasury bonds. In 1997, Rs.10,000 billion worth of Treasury bonds were issued while this increased to Rs.38,915 million in 1998. Consequently, the share of Treasury bonds in the total net domestic borrowings rose from 22 per cent in 1997 to 72 per cent in 1998. While the total stock of debt increased from 86 per cent of GDP in 1997 to 89.4 per cent in 1998, the short-term debt declined from 40 per cent in 1997 to 37 per cent in 1998. The share of foreign debt increased to 45.4 per cent of GDP in 1998, with 84 per cent of the increase in 1998 being on account of exchange rate depreciation. The total government debt service payments increased to 11.3 per cent of GDP in 1998 from 10.4 per cent in 1997. Interest payments accounted for 48 per cent of the total debt service payments.

Several measures were taken to improve the market orientation of Treasury bonds. The direct participation of the EPF at the Treasury bond auctions was discontinued in 1998. This eliminated the submission of non-competitive bids, i.e., bids without a rate, which was not consistent with market principles. The maturity period of Treasury bonds was gradually extended from 2 to 4 years, with the expectation that there would be a further extension to at least 6 years in 1999. A system of 'Jumbo' issues of Treasury bonds (one

large block of Treasury bonds with a given maturity, but sold in smaller lots at different periods) was introduced with the objective of giving greater flexibility to investors in the management of their portfolios. Commercial banks were permitted to hold Treasury bonds as part of their liquid assets. In addition, commercial banks and Primary Dealers were permitted to use Treasury bonds for transactions at the Central Bank's secondary window for investment of excess funds or to obtain temporary liquidity. In addition, high cost Rupee loans obtained in the past, amounting to Rs.16,000 million, were retired using the early retirement option.

1.8 The International Environment and External Sector

The international economic environment was plagued by a host of disturbing events in 1998. In particular, the impact of the East Asian currency crisis was felt acutely by the global economy during 1998. Continued deep recession in Japan, the rouble crisis in Russia since August and, to a lesser extent, the problems in South America, added fuel to a kindling uncertain global economic and financial environment. Against this background, the global economy continued to suffer from severely depressed demand, deflationary pressures with declining commodity prices and a flight of capital from many emerging market economies.

The world economy grew by only 2.2 per cent, a sharp slow down from 4.2 per cent in 1997. The growth rate of developing countries in Asia declined to 3.8 per cent from 6.6 per cent in 1997, while the growth of advanced economies slowed down to 2.2 per cent from 3.2 per cent in 1997. Japan's output declined by 2.8 per cent in 1998. In the euro area the output increased by 2.9 per cent, a slightly higher rate than in 1997. Asia, which remained the mainstay in world output growth for quite a long time, suffered a setback due to the currency crisis, registering a growth of 1.8 per cent against an initial forecast of 7.4 per cent. The most disturbing deterioration in output was seen in the ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand) which recorded a 9.5 per cent decline, after slowing down to 3.8 per cent in 1997. An encouraging feature in the global economy in 1998 was the continued robustness of the economies of the USA and many countries in Europe which contribute to about 60 per cent of world output. The US economy grew by 3.9 per cent as in 1997. Economic growth in countries in transition declined by 0.1 per cent, reflecting a 4.6 per cent decline in output in Russia.

Declining commodity prices due to depressed global demand, coupled with strong commitments by governments to price stability, ensured that inflation continued to drop in most regions except in Asia and in countries in transition. Consumer price inflation in advanced economies declined from 2.1 per cent in 1997 to 1.5 per cent in 1998, while in developing countries it increased from 9.3 per cent to 10.4 per cent. Meanwhile, inflation in countries in transition

Box 1

The Euro

The euro is the common currency of the newly formed "Euroland", a single economic zone formed by the integration of 11 of the 15 member countries of the European Union (EU)¹. The concept of a single currency for Europe has its origins in the attempt towards economic integration of Europe suggested in the Treaty of Rome in 1957, that established the European Economic Community (EEC), but the idea only crystallised during the Hague summit of European leaders in 1969. The final breakthrough came in 1992 when the Maastricht Treaty on European Union (EU) was signed and ratified by the member countries.

The formal introduction of European Monetary Union (EMU) and the euro has taken place in three stages. Stage I commenced on 1 July, 1990 and focused on the removal of capital controls and reducing the regional disparities within the European Union (EU). Stage II, which commenced on 1 January 1994, aimed at promoting the goal of achieving fiscal and monetary convergence among member states and the establishment of the European Monetary Institute which was the forerunner to the European Central Bank (ECB). The final stage commenced on 1 January 1999 with the formal introduction of the euro and the irrevocable fixing of the exchange rates between the participating countries². Euro notes and coins will be made available in physical form alongside national currencies only on 1 January 2002. The national currencies of participating countries will be completely replaced on 1 July 2002 after a six months transition

period. These 11 national currencies will no longer be accepted as legal tender thereafter.

The introduction of the euro, which is considered to be the most significant event in institutional developments in the global financial arena, after the Bretton Woods Institutions, would have far reaching implications on the global economy. If the euro succeeds in becoming a stable, internationally dependable currency, then the monetary union, which has the potential to create the largest domestic financial market in the world, would not only affect global economic relations and the potential balance of power, but also change their face in the long-term.

The potential benefits of the euro stem from different dimensions. The sheer potential size of the market in euros implies that it will have a greater depth and liquidity second only to the US dollar³. As the table below indicates, domestic currency bonds, listed equities and government debt within the EU are much larger than in Japan in absolute terms. A similar pattern could be seen in international debt and foreign exchange markets as well.

Capital Market Instruments
(US dollars billion as at 31 March 1997)

	Domestic Currency Bonds	Listed Equities	Government Debt
USA	4,677	6,939	7,231
EU(a)	2,776	4,359	4,689
Japan	1,368	3,106	3,203

(a) Includes all 15 countries

1 At present 11 of the 15 EU members have joined the EMU. They are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The United Kingdom, Denmark and Sweden have voluntarily opted out for their own reasons, while Greece is an involuntary exclusion due to non-compliance with the convergence criteria, which include (a) price stability (defined as the rate of inflation within 1.5 percentage points of the three best performing EU countries) (b) low long-term interest rates (defined as within 2 percentage points of the three member states with lowest interest rates), (c) exchange rate stability (meaning that for at least two years a country has kept within the normal fluctuation margins as specified under the European Monetary System (EMS)) and (d) a sustainable government financial position (defined as (i) a budget deficit no higher than 3% of gross domestic product (GDP) and (ii) a ratio of government debt no more than 60% of GDP.)

2 The exchange rates between the euro (EUR) and the national currencies of members of the EMU were fixed on 1 January 1999 as follows.

	Belgium	Germany	Spain	France	Ireland	Italy	Luxembourg	Netherlands	Austria	Portugal	Finland
1EUR =	40.3399	1.95583	166.386	6.55957	0.787564	1936.27	40.3399	2.20371	13.7603	200.482	5.94573

3 In 1997, the EU accounted for 24 per cent of the world's output, while exports and imports accounted for 39 per cent and 35 per cent of world trade, respectively. In contrast, the United States and Japan contributed to about 27 per cent and 14 per cent, of global output, respectively. While their exports accounted for nearly 13 per cent and 8 per cent, imports accounted for 16 per cent and 6 per cent, respectively. Sri Lanka's exports to and imports from the EU accounted for 30 per cent and 17 per cent, respectively, during the same year.

Box 1 (contd.)

This potential size of euro markets would lead to the development of new euro denominated financial instruments with lower financing costs. The euro will also eliminate the foreign exchange risk in long-term real and financial contracts between entities in the euro region, providing incentives to narrow interest spreads by increasing transparency and efficiency. Moreover, the increasing competitive pressures within the euro region would eliminate hitherto existing geographical advantages, paving the way for increased market integration. The convergence in macro-economic variables within the euro region, in particular the European System of Central Banks (ESCB) having been empowered with a mandate to maintain price stability as a priority (defined as an annual inflation rate of less than two percent) would have favourable spill over effects on the rest of the world. While the impact of the euro in reducing global interest rates would be beneficial for net capital importing countries such as Sri Lanka, the potential growth prospects for euro region economies would induce higher foreign direct investments and international trade vis-à-vis developing countries such as ours.

The concept of a single currency and the required structural changes are not devoid of serious challenges for the success and sustainability of EMU. The evolution of the system heavily depends on the

political and social cohesion of member countries. With the surrender of sovereignty in monetary and exchange rate policies to the ECB, which appears to have compelled the United Kingdom to opt out voluntarily from adopting the single currency, the only instrument available for member countries to influence the economy is the fiscal policy, which, in turn, is governed by the convergence criteria. However, achieving the appropriate policy mix at the Euroland level would be a challenging task, because policies that are necessary to deal with structural problems at national level would have implications on the conduct of a single monetary policy and the euro exchange rate. Most of the member countries of the euro region are beset by structural problems with considerable regulation. The mobility of labour is restricted, national labour markets are very rigid and there is very high unemployment in some member countries. The future strength and stability of European Monetary Union depends on the continued commitment to sustained macro economic convergence of member countries, the pace of structural reforms, and the political cohesion among euro members on key policy issues. However, the European Council, consisting of the Heads of State or Government and the President of the European Commission, has well recognised the need for this enhanced policy co-ordination.

increased from 28.2 per cent to 30.8 per cent. Parallel to a decline in the rate of inflation, global interest rates continued to decline. A sharp slow down in world trade from a high of 10 per cent in 1997 to 3.4 per cent was registered in 1998. The slow down in trade was seen in all regions. Developing country exports declined from 11.4 per cent in 1997 to 1.8 per cent in 1998. The advanced country exports slowed down to 3.6 per cent from 10.4 per cent in 1997. Imports to Asian countries declined by 4.2 per cent in 1998. Terms of trade moved in favour of advanced economies, with an improvement of 0.9 per cent against a further deterioration of 3.2 per cent for developing countries. Meanwhile, current accounts of the balance of payments in developing countries continued to deteriorate from a deficit of 4.9 per cent in 1997 to a deficit of 6.4 per cent in 1998.

International prices of major commodities declined further during 1998 due both to increased supply as well as depressed demand. Fuel prices declined sharply by 32 per cent in US dollar terms from already low levels amidst continued weak demand and supply

overhang. Non-fuel commodity prices declined by 15 per cent. International sugar prices continued to drop throughout the year due both to excess supply in the market for the fourth consecutive year and a slowing down in demand by the Russian Federation and Asian countries due to their poor economic conditions. Meanwhile, wheat prices also continued to drop during 1998, mainly as a result of weaker demand due to the economic slow down in Asia. Rice prices, on the other hand, increased sharply during the year in response to rice stocks falling to a 25 year low. The drop in world rice production is mainly a result of lower production in China and India which account for over a half of the world rice production and for a quarter of world rice exports. International rubber prices, although higher during most of the year than the low levels that prevailed at the beginning of the year, remained well below the previous year's level. International prices of coconut products continued to increase sharply during the first five months with some moderation thereafter. The rising trend in prices of coconut products was the result of a drop in world coconut production, particularly in the Philippines and Indonesia, due largely to abnormal

weather. Tea prices, which remained buoyant in 1997, suffered a setback during 1998 due to both increased supply and lower demand. Favourable weather enabled Kenya, a key tea producer, to increase its production by about 30 per cent, while production in India and Sri Lanka increased by 3 per cent and 1 per cent, respectively. Weaker demand from Russia, which accounts for 65 per cent of India's tea exports and about 20 per cent of Sri Lanka's, contributed to the decline.

A correction of large misalignments of exchange rates in most countries, particularly in the affected East Asian countries, which tumbled in 1997 and in early 1998, was witnessed during the latter part of the year. The reform efforts to address financial sector issues in domestic economies helped build investor confidence, resulting in an appreciation of the Korean won by 42 per cent, the Thai baht by 29 per cent, the Philippine peso by 3 per cent and the Malaysian ringgit by 2 per cent, against the US dollar. The Indonesian rupiah however, continued to depreciate and fell by 31 per cent against the US dollar against a backdrop of an uncertain economic and political environment. The Japanese yen appreciated against the US dollar by 12 per cent in response to initiatives undertaken to address financial sector reforms. Meanwhile, most European currencies appreciated against the US dollar in anticipation of the much awaited introduction of the euro on 1 January 1999. Financial sector problems in Russia led to a collapse of the rouble, which depreciated by 71 per cent against the US dollar in 1998. The South African rand and the Brazilian real depreciated by 17 per cent and 8 per cent, respectively, indicating the continuing uncertainty in international currency markets.

Short-term interest rates continued to drop in response to declining inflation rates world-wide. Six months LIBOR declined from 5.84 per cent per annum at the end of 1997 to 5.06 per cent per annum at the end of 1998. Commitments towards price stability and the perception of long-run low inflation rates resulted in a further drop in long-term interest rates. For example, the 30 year US Treasury bond rate declined from 5.81 per cent in December 1997 to 5.59 per cent in December 1998. However, despite this declining trend in interest rates, one of the disturbing factors observed during 1998 was the high risk premiums factored into bond issues in international capital markets, particularly by emerging market economies, which in turn prolonged the time required for economic recovery in those countries. While both sovereign issues and private issues were affected adversely, the latter took the full brunt. For example, interest spreads increased by over 300 basis points (bps) for issues by India, the Philippines and Thailand, while those for Korea and Hong Kong increased by over 500 bps. Spreads on Indonesian and Malaysian issues increased by over 1,000 bps. As a result, net private capital flows world-wide declined sharply from US dollars 124 billion in 1997 to US

dollars 57 billion in 1998. Asia suffered the most, with a net outflow of US dollars 44 billion in 1998 in comparison to a net inflow of US dollars 29 billion in 1997.

In the aftermath of the East Asian currency crisis and the subsequent adverse developments in other regions, particularly in Russia and South America, and the failure of Bretton Woods institutions to contain the global effects of these developments in a relatively short period, much of the debate during 1998 was on crisis resolution and prevention and the need for a new international financial architecture. Both the International Monetary Fund (IMF) and the World Bank took the lead in efforts to stabilise crisis driven economies by providing technical assistance and financial resources. The IMF proposed a 45 per cent increase of its quota to meet global resource needs in the current context. It re-activated the General Agreement to Borrow (GAB) to facilitate extended financing arrangements for Russia in the wake of the rouble crisis, while activating the New Agreement to Borrow (NAB) to support the Brazilian economic and financial programme.

The IMF-led initiatives to strengthen the architecture of the international monetary and financial system, which was firmly advocated by developing countries, aims at reducing the risk of disruptive shifts in market sentiments, limiting contagion and spillover effects, and strengthening the efficiency of crisis resolution efforts. Emphasis is being given to the development and implementation of international standards and principles of good practice with the ultimate goal of strengthening effective financial market supervision and regulation, improving the institutional infrastructure, enhancing transparency, market discipline and corporate governance, and improving risk management by financial institutions.

The severity and the complexity of the currency turbulence underscored the importance and relevance of the developing country voice on an orderly and cautious approach to liberalising the capital account and institutional arrangements for systemic reforms. During the year, developing countries also emphasised the need for meaningful measures on debt alleviation, orderly debt workouts for Heavily Indebted Poor Countries (HIPC) and implementing well-structured post-conflict programmes.

Meanwhile, progress towards the introduction of the euro on 1 January 1999, one of the most significant events of the century in the international monetary system, continued with much enthusiasm. The single currency was expected to be an essential building block for competition in Europe, which has been hitherto beset by high labour costs, inflexible labour markets and higher taxes that made Europe relatively less competitive than other leading advanced economies such as the USA. The direction of policy strategies by the European Union will have a significant influence on the global economy. The important role played by the USA, Japan and the European Union in

the world economy underscores the responsibility placed on these economies in taking a lead in directing the global economy towards economic recovery.

External Sector Developments

Sri Lanka's balance of payments experienced mixed blessings in 1998. A sharp decline in import prices acted as an automatic stabiliser, helping to offset the adverse impact of a considerable slowing down of exports on the trade balance. The trade and current account deficits declined further, leading to an overall balance of payments surplus of US dollars 37 million in 1998. Despite a sharp contraction of world exports, Sri Lanka's exports managed to record a modest growth of 2 per cent, in contrast to a 13 per cent growth in 1997. The value of imports increased marginally (0.5 per cent) as import prices of crude oil, wheat, fertiliser and sugar declined sharply under depressed world market

conditions. The services account generated a surplus of US dollars 143 million, compared to US dollars 159 million in 1997. A continued growth in private transfers and compensation payments of US dollars 78 million received on account of Sri Lankan workers displaced from Kuwait by the Gulf war in 1990, helped to reduce the current account deficit to US dollars 289 million from US dollars 393 million in 1997. The current account deficit as a ratio of GDP declined from 2.6 per cent in 1997 to 1.8 per cent in 1998. Foreign long-term private capital inflows continued to increase while there was a net outflow of short-term capital through the share market. Sri Lanka's exchange and money markets remained relatively stable, as domestic monetary and exchange rate policies were effective in maintaining financial market stability.

Net inflows in the financial account were lower in 1998, reflecting the fact that inflows in 1997 included a large

Chart 1.7
Selected External Sector Indicators

Chart 1.7.1
Balance of Payments

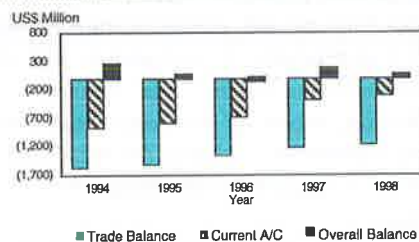


Chart 1.7.2
Effective Exchange Rates
(1995=100)

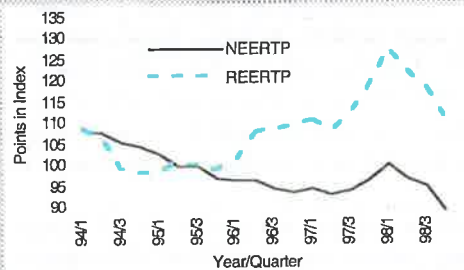


Chart 1.7.3
External Assets

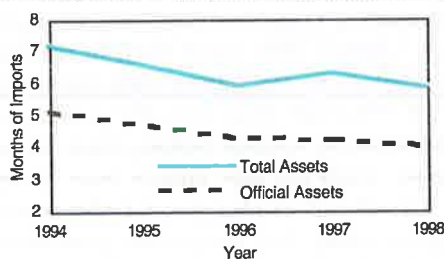
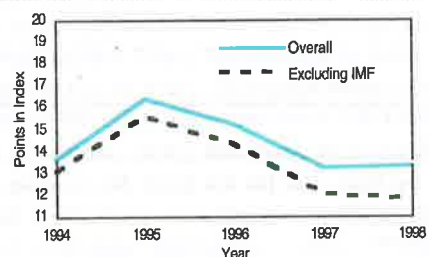


Chart 1.7.4
External Debt Service Ratio
(as a % of Exports of Goods and Services)



Box 2

Monetary Conditions Index

Central banks use operational and intermediate targets to guide policy. When a central bank makes a change to monetary instruments with the objective of having an impact on the final targets, the inflation rate and the growth rate of the economy, the transmission could take place through several channels. Interest rates and exchange rates have been identified as two main channels through which the effect of changes in monetary policy are transmitted to the final targets¹. Therefore, interest rates and exchange rates could serve as operational targets, and could be used to guide the monetary policy. The Monetary Conditions Index (MCI) is a combination of interest rates and exchange rates that could be used as an operational target.

Both interest rates and exchange rates influence the aggregate demand and supply which are the deciding factors of inflation and economic growth. An increase in interest rates will reduce aggregate demand by discouraging investment and consumption as well as the aggregate supply while encouraging savings. Usually, the impact on aggregate demand is greater than on aggregate supply thereby causing a reduction in the equilibrium price level and output. A depreciation in the exchange rate increases cost of production and causes a reduction in aggregate supply if firms use a large percentage of imported intermediate goods. It also enhances exporters' income causing an upward pressure on demand. The combined effect is an increase in the price level. Thus, an increase in interest rates and a depreciation of the exchange rate have opposite impacts on prices. Or, viewed another way, a decrease in interest rates and a depreciation of the exchange rate both lead to higher prices. Since both interest rates and exchange rates respond to policy changes and both variables have an impact on the final target, it is not sufficient to monitor the two variables individually and independently. Therefore, a more appropriate indicator is the MCI, a weighted average of the two variables. The MCI provides the policy maker with the flexibility to make smaller changes to one variable and make compensatory changes to the other as sometimes required by market conditions. This flexibility is more useful when exchange rates are freely floating without much intervention by the monetary authority.

The impact of monetary policy changes on short-term interest rates and exchange rates (equivalently, MCI) takes place immediately. The transmission from those operational targets to final targets takes a fairly long time depending on the structure of the economy. Both in the United Kingdom and Canada this transmission takes place within

about 8 to 10 quarters. In Sri Lanka, with a high degree of openness, it appears that the transmission takes place within 3 to 4 quarters.

Relative weights of the interest rates and exchange rates to be used in the MCI are usually derived using either a large structural model of the economy, a reduced form model, or a vector auto regressive model. The MCI could be constructed as a real variable or a nominal variable. Central banks estimate the predicted path of the MCI and the desirable path of the MCI. When the two paths deviate considerably further monetary policy changes are employed to eliminate deviations.

The MCI is constructed as the weighted deviation of the interest rate and exchange rate from the level that prevailed in a base period². It measures the pressure of the interest rate and exchange rate deviations on the deviation of inflation from the level that prevailed in the base period. Generally, the weight associated with the interest rate is calibrated as 1 and the weight associated with the exchange rate is calibrated as $1/\omega$. This implies that an increase of one percentage point in the interest rate has the same impact on the MCI as ω percent change in the exchange rate. The weight depends on the openness of an economy. Relatively less open economies could have a weight as high as 10 (i.e. a 100 basis point change in interest rates has 10 times the impact of a one percent change in the exchange rate) while open economies with heavy dependence on imports could have smaller weights around 1³.

The usefulness of an MCI as an operational target in Sri Lanka can be demonstrated using the real MCI and its ability to predict inflationary pressures. As data on freely moving interest rates and exchange rates in Sri Lanka are available for a relatively short period of time, a parsimonious reduced form model was used to construct weights for the MCI. The month to month variation of the Colombo Consumers' Price Index was taken as the inflation rate. The three-month Treasury Bill rate determined in the primary market was used as the nominal interest rate. The real interest rate was derived by subtracting the expected inflation rate from the nominal interest rate. The expected inflation was derived by assuming the existence of forward looking rational expectations on inflation. Thus, the expected inflation at any month was taken as the average month-to-month inflation rate of the future nine months⁴. The real effective exchange rate (REER) with respect to five major importing countries is used as the exchange rate. The base period was taken as January 1993. The relevant lag period is nine months. Relative weights were obtained by regressing the 9 month lagged real interest rate and the REER on the

Box 2 (contd.)

current inflation rate. Thus, the weight for the exchange rate movements in the MCI (MCI ratio or ω) is the ratio between the regression coefficients of the real interest rate and the REER⁵. The estimated MCI ratio is 1.5, indicating Sri Lanka's relatively high exposure to the external sector.

Figure 1 shows the behaviour of the interest rate and the exchange rate. An upward deviation of the exchange rate shows an appreciation of the exchange rate, and easing of the pressure on inflation. Similarly, a downward deviation shows a depreciation, and an increase of the pressure on inflation. An upward deviation of the interest rate also indicates an easing of inflationary pressures. Thus, an upward movement of the MCI shows easing of inflationary pressures, and a downward movement shows increasing pressures on inflation. This behaviour is clearly seen in Figure 2 which shows the behaviour of the 9 month lagged MCI, and deviation of the inflation from the base period inflation.

Central banks use the MCI as an aid to policy, and not as a mechanical rule to set exchange rates and interest rates. It measures the pressure on inflation due to aggregate demand and supply changes arising from changes in the interest rate and exchange rate. Therefore, the MCI is not a predictor of the headline inflation. The headline inflation is a combination of the pressures indicated by the MCI and other exogenous demand and supply shocks such as changes in autonomous consumption and weather associated changes in production. The MCI should also not be treated as a fundamental measure of monetary policy. It is only an operational target. The MCI also has some technical drawbacks. It is not clear if more variables than the interest rate and exchange rate should be included in the MCI. It suffers from the difficulties in estimating the other relative weights of its components. Further research is being conducted on the inclusion of

variables in the MCI, estimating more refined weights for the MCI, and its appropriateness as an operational target.

One of the major users of the MCI, the Reserve Bank of New Zealand (RBNZ) had to abandon the use of the MCI as an aid of the monetary policy in February 1999. The exchange rate in New Zealand depreciated as a result of the Asian Crisis, and to match this decline interest rates had to be raised so that the desirable path of the MCI is maintained. This sharp rise in interest rates weakened the economy considerably. The RBNZ is now following a more relaxed approach on determining required change in interest rates.

Although it is not advisable to use MCI as a mechanical tool to determine changes in monetary and exchange policies, it provides a useful conceptual framework to evaluate policy effects and guide future policy directions.

Figure 1
Deviations of Real Interest Rate and Real Effective Exchange Rate from the Levels in January 1993 and MCI

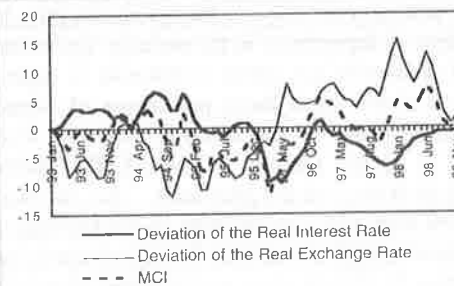
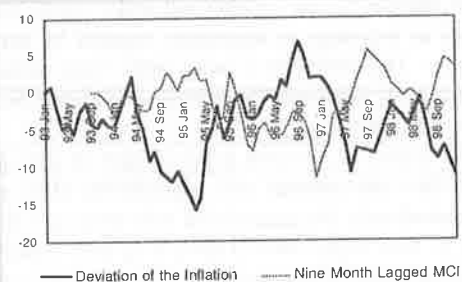
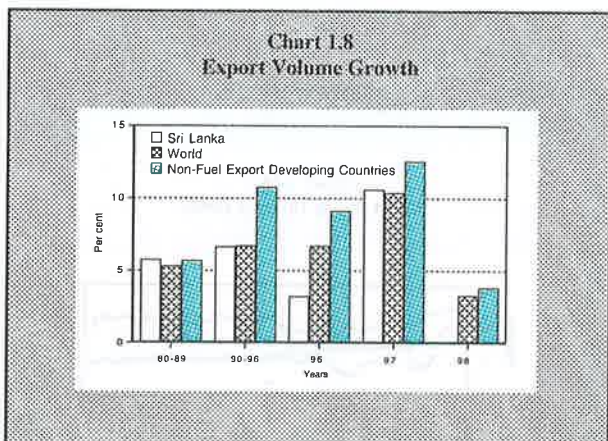


Figure 2
Deviation of Inflation from Level in January 1993 and Nine Month Lagged MCI



- 1 Other channels are the availability of credit and expected inflation.
- 2 Thus $MCI = [Real\ Interest\ Rate - Real\ Interest\ Rate\ at\ Base\ Period] + (1/w) \{ (Real\ Effective\ Exchange\ rate\ Index (REER) / REER\ at\ base\ period - 1) * 100 \}$; where w is the relative weight of the exchange rate.
- 3 Mayes, David G. and Viren Matti, 1998 'Exchange Rate Considerations in a Small Open Economy: A Critical Look at the MCI as a Possible Solution', mimeo, South Bank University and Bank of Finland
- 4 Expected inflation outside the period where data are not available was derived using official statements on future inflation combined with the long-term trend in inflation.
- 5 Suppose that the regression coefficients on the real interest rate and the REER are α and β respectively. Then $(1/\omega) = \beta/\alpha$ and $\omega = \alpha/\beta$.



volume of privatisation proceeds amounting to US dollars 301 million, compared to US dollars 56 million in 1998. Net short-term private capital outflows declined in 1998 despite a reduction in external liabilities of commercial banks and an outflow of short-term capital through the share market. It is noteworthy that long-term private capital inflows, including foreign direct investment, continued to increase in 1998. Long-term concessional capital inflows to the government increased during the year reflecting the government's commitment to maintaining a higher level of capital expenditure. Gross capital inflows to government (excluding the Floating Rates Notes issued in 1997) were higher by 8 per cent in 1998. Net capital inflows declined due to higher amortisation payments. Long-term capital flows to the private sector included a Floating Rate Notes (FRN) issue by DFCC Bank for US dollars 65 million in international capital markets and loans amounting to US dollars 43 million raised by Sri Lanka Telecom. Net long-term capital flows to this sector, however, declined due to

higher outflows arising mainly from an advance payment of US dollars 48 million by Air Lanka Ltd. towards its reflecting programme.

The appreciation of the yen alone increased the debt stock by around US dollars 200 million. The debt/GDP ratio stood at 56 per cent. About 1 percentage point of this increase was due to the appreciation of the yen. The stock of short-term debt accounts for only 6 per cent of total debt. Sri Lanka's debt service ratio in 1998 was estimated at 11 per cent, the same as in 1997.

The Central Bank continued to manage the exchange rate flexibly, playing a moderator's role in the exchange market. The exchange rate developments were monitored using a number of money market and exchange market indicators, including a real effective exchange rate index with a twenty four currency basket. The Central Bank's operating exchange rate band between its buying and selling rates for the U.S. dollar was 2 per cent. The world currency markets became more volatile than in 1997. The volatility of the US dollar/yen almost doubled in 1998 compared to 1997, due to the poor prospects for early recovery in Japan. The Sri Lanka rupee depreciated by 9.6 per cent in 1998. The real effective exchange rate depreciated by 12 per cent bringing this competitiveness indicator to the July 1997 level.

Gross official external assets were sufficient to finance 4.0 months of 1998 imports. Total gross external assets of US dollars 2,907 million, which include official assets and those of commercial banks, were sufficient for 5.9 months of import cover.

1.9 Financial Sector

Monetary policy had to be conducted in a highly unstable external environment. The world banking industry and financial markets had been experiencing tremendous

Chart 1.9
Money and Credit

Chart 1.9.1
Monetary Aggregates (Annual)

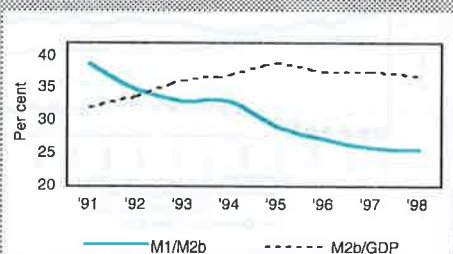
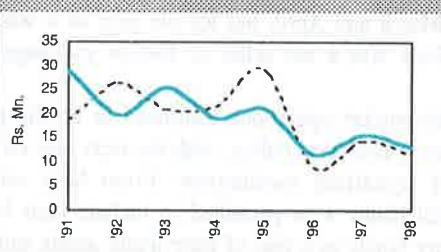


Chart 1.9.2
Money Supply (M2b) and Private Sector Credit



instability in the context of the global financial market crisis. On the domestic front, the government needed more resources to finance a larger fiscal deficit. Hence, a further relaxation of monetary policy could not be made to bring down interest rates, despite significant deceleration of the inflation during the second half of 1998.

The uncertainty in regional financial markets and somewhat higher domestic inflation at the beginning of 1998 required tightening of the policy stance in the first few months of the year. Although a slight relaxation was effected in the second quarter by reducing the repurchase rate from 12.00 per cent to 11.65 per cent by mid May, renewed volatility in the foreign exchange market required a further tightening of policy. A resurgence of international volatility and associated domestic speculative activity thereafter, prompted the Central Bank to tighten policy again by raising the repo rate to 12.00 per cent in May.

The recent developments have clearly demonstrated the need to maintain consistent exchange and monetary policies. The global financial crisis and the resultant volatility in international currency markets led to some uncertainty in the domestic foreign exchange market. This continued into 1998 with some articulate elements in the market demanding a large depreciation of the rupee. Under the current managed floating system, where the exchange rate has been allowed to change reflecting the underlying changes in macroeconomic conditions, such ad hoc depreciation of the rupee was not necessary. However, despite a trend decline in the rate of inflation, short-term interest rates were allowed to remain high, to counteract pressure on the exchange rate without undue intervention in the exchange market. Accordingly, in order to discourage the use of relatively inexpensive call market funds for speculative purchases of foreign currency, the repo rate was raised by 200 basis points in December 1997 and by a further 100 basis points in January 1998. Adjustments were also made to the Central Bank's discount and rediscount rates and the margin between these rates to support this tightening of the policy stance. These measures, together with some progress towards financial market and exchange rate stability in East Asia, were successful in reducing the speculative pressures. Commercial banks sold US dollars 54 million to the Central Bank in March and April, but for the year as a whole, the Central Bank was a net seller of foreign exchange to the market.

Open market operations continued to be the primary instrument of monetary policy, with the repo rate serving as the main signalling mechanism. From May onwards, commercial banks were permitted to include their holdings of Treasury bonds as a part of their liquid assets and to use those for secondary market transactions with the Central Bank in their liquidity management. In November, an overnight reverse repurchase facility was reintroduced to help stabilise short-term interest rates. With the Central Bank now

Chart 1.10
Interest Rates

Chart 1.10.1
Short-Term Interest Rates

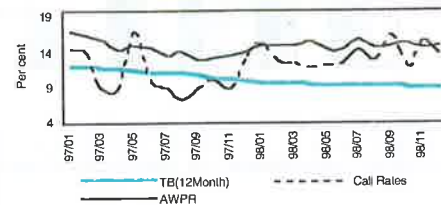


Chart 1.10.2
Interest Rates
(Real Rates Based on Point to Point Inflation)

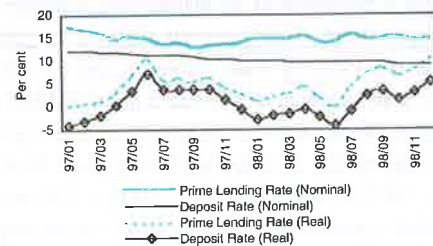


Chart 1.10.3
Interest Rates
(Real Rates Based on Average Inflation)

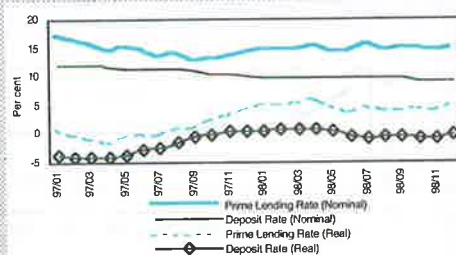


TABLE 1.5
Private Sector Credit From Financial Institutions

	Dec 94	Dec 95	Dec 96	Dec 97	Dec 98(a)
	Rs. Million				
Commercial Banks	163,278	210,704	229,771	263,139	294,064
Domestic Units	140,004	179,825	193,842	216,030	243,549
State Banks	85,728	105,781	106,007	111,650	122,512
Other Commercial Banks	54,276	74,044	87,835	104,380	121,037
Foreign Currency Banking Units	23,274	30,879	35,929	47,109	50,515
State Banks	9,813	10,047	10,393	14,649	16,734
Other Commercial Banks	13,461	20,832	25,536	32,460	33,781
Other Financial Institutions	33,960	38,023	62,670	73,627	89,675
Regional Rural Development Banks and Regional Development Banks	1,872	2,406	2,888	3,397	3,750
Licensed Specialised Banks	23,987	28,349	46,118	54,053	66,938
Development Finance Institutions (b)	16,935	20,037	31,411	38,023	47,320
National Savings Bank	3,108	3,441	8,537	8,150	9,495
Housing (c)	3,945	4,871	6,170	7,344	8,150
Other Savings and Development Banks (d)	-	-	-	536	1,972
Finance Companies	8,100	7,269	13,664	16,178	18,987
Total Private Sector Credit	197,238	248,727	292,441	336,766	383,739

(a) Provisional

Source: Central Bank of Sri Lanka

(b) Consists of DFCC Bank and National Development Bank

(c) Consists of State Mortgage and Investment Bank and the Housing Development Finance Corporation

(d) Consists of Pramuka Savings and Development Bank and SANASA Development Bank

providing both an overnight repo facility and an overnight reverse repo facility, volatility in the call market was expected to be restrained, thus bringing about greater stability in the money market.

The Central Bank's own securities continued to be available on tap throughout the year for mopping up operations. These securities had a maturity of 7 days and carried a yield equal to the 7-day repo rate. This facility was rarely used, as the portfolio of Treasury bills in the Central Bank was sufficient for its open market operations in 1998. The Central Bank continued its policy of not granting refinance under the Medium and Long-Term Credit Facility

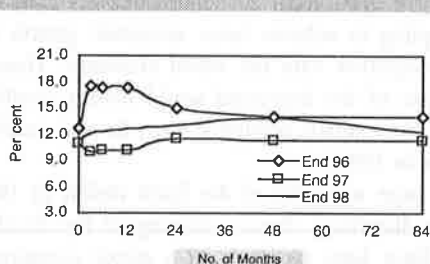
(MLCF) or any short-term facility. The outstanding level of refinance granted in the past declined from Rs.1,691 million at the end of 1997 to Rs.1,122 million at the end of 1998, due to continuation of repayments to the Central Bank.

Money Supply

The growth of consolidated broad money supply (M2b), i.e. broad money supply including FCBUs, continued to decline from 15.6 per cent in 1997 to 13.2 per cent in 1998, helping to contain inflationary pressure. A significant reduction in net foreign inflows and slow growth in credit to the private sector offset the expansionary effect of faster growth of credit to government. Net credit to government increased by 43 per cent, in contrast to a decline of 4 per cent in 1997. Credit to the private sector increased by 12 per cent in 1998, compared to 14.5 per cent in 1997, mainly reflecting the slowing down of the growth in economic activity. The slowing down of economic activity, together with strengthened supervision of banks, also contributed to the slow growth of credit to the private sector.

The deceleration of credit to the private sector was more pronounced in FCBUs, where credit growth fell from 31 per cent in 1997 to 7 per cent in 1998. The continuing uncertainty in foreign financial markets and slowing down of Sri Lanka's exports led to a contraction of lending by FCBUs and a reduction of their net foreign exposure. The volatility in the foreign exchange markets and the

Chart 1.11
Yield Curve for Government Securities



comparatively low domestic interest rates made borrowing from the FCBUs less attractive to domestic enterprises. FCBUs used some of their funds to syndicate a loan of US dollars 100 million to the government. Credit from the domestic units grew at a faster rate, i.e., at 12.7 per cent in 1998 compared with 11.4 per cent in 1997, and offset the decline in the FCBU credit expansion. It is notable that most of the increase in credit to the private sector came from the domestic commercial banks, not the foreign banks.

Credit to public corporations declined by 26 per cent in 1998, following a decline of 5 per cent in 1997. Lower international prices for petroleum and wheat improved the financial position of the Ceylon Petroleum Corporation (CPC) and the Co-operative Wholesale Establishment (CWE), enabling them to reduce their bank liabilities. The resulting improvement in the liquidity position of banks caused an increase in their investments in government debt instruments.

Reserve Money Programming

The Central Bank continued to use reserve money (high powered money or base money) as an important intermediate target in implementing monetary policy. An excessive expansion in reserve money was avoided to contain inflationary pressure, while providing sufficient liquidity to the market to ensure that economic activity was not constrained by liquidity shortages. Reserve money increased by 9 per cent, a lower rate than the growth in broad money supply. Accordingly, the broad money multiplier increased marginally from 3.98 at the end of 1997, to 4.07 at the end of 1998, reflecting the slight tightening of monetary policy in 1998.

1.10 Problems and Issues

The Sri Lankan economy continued to show its resilience to the turbulence in world financial markets and performed relatively better than many other developing countries, registering an economic growth rate close to 5 per cent in 1998, with lower inflation and unemployment than in 1997, a surplus in the overall balance of payments and relatively stable financial markets. As mentioned in the 1997 Annual Report, the resilience was due to the maintenance of an open economy with a fully liberalised current account and capital controls being maintained for prudential reasons and to avoid excessive accumulation of short-term debt, a flexibly managed exchange rate, improved co-ordination of macroeconomic policies and strengthening of the regulatory and supervisory framework for financial institutions.

The growth rate achieved in 1998 was better than the average economic growth of 4.2 per cent during 1980-89 and somewhat lower than the 5.3 per cent growth during 1990-97. It was close to the long-run growth rate of around 5 per cent. A major challenge in 1998 was to maintain a reasonable growth rate without disturbing monetary and price

stability. This objective was achieved. The medium-term objectives are to achieve a faster improvement in living standards through accelerated non-inflationary economic growth, better income distribution and a viable balance of payments situation.

Policy prescriptions toward this goal are largely those necessary to eliminate the remaining structural weaknesses in the economy, which tend to retard faster economic growth. They include reforms aimed at improving financial market efficiency; improving commercial viability of the state owned financial institutions; making labour markets more flexible and improving labour productivity; public service reforms to make it more efficient and productive; pension reforms to contain the budgetary burden and avoid an erosion of pension benefits through inflation; public enterprise reforms aimed at improving their commercial viability and tax reforms to simplify the tax structure, reduce distortions and improve revenue buoyancy. In addition, in the context of the recent world financial market crisis, greater emphasis needs to be placed on financial system soundness and improving corporate governance. Significant progress has been made in some areas, particularly financial market reforms, improving financial market soundness, public enterprise reforms through private sector participation and tax reforms including tariffs. Progress in other areas, however, is inadequate. Meanwhile, there are several short-term challenges and disturbing trends that need to be highlighted.

Although Sri Lanka's financial markets were not seriously affected by the contagion effect of the international financial crisis, the continuing world economic recession has threatened to affect Sri Lankan exports. Sri Lanka maintained an export volume growth rate of 8 per cent during the past four years. In 1997, the country's export volume grew by 11 per cent, comparable to the growth of world exports and of developing countries. With the sharp contraction of the world export growth to 3.6 per cent in 1998, developing country export growth has decelerated to 1.8 per cent and Sri Lanka's export growth declined to 0.1 per cent. Prospects for 1999 are not very encouraging. The current expectations are that world trade will recover somewhat during the second half of 1999 and that the developing country export volumes would grow by 4.7 per cent. However, a complete recovery is unlikely within the next two years. This would be a challenge for open small economies like Sri Lanka, which are attempting to achieve faster economic growth through greater integration with the world economy. Therefore, a continuation of the depressed world market conditions is likely to slow down economic growth and employment generation in 1999.

The large widening of the fiscal deficit in 1998 was somewhat disturbing. Some widening of the fiscal deficit may not have been avoidable in a global recession where government revenue tends to decline owing to slowing of export demand and national income. This was partly the case

in Sri Lanka in 1998. The Keynesian solution in a recessionary condition is expansionary fiscal policy to induce domestic demand to counteract declining export demand. It should be mentioned that the final objective of expansionary fiscal policies is to help maintain domestic employment and incomes. Although there has been a renewed emphasis on expansionary policies recently, those may be difficult to justify in Sri Lanka, given its continuing high fiscal deficits and high inflation. Higher fiscal deficits could trigger galloping inflation, aided by stronger depreciation of the rupee.

Sri Lanka is already a high inflation country. A high budget deficit, high inflation and high interest rates discourage private investment and slow down economic expansion. There is an urgent need to bring the fiscal deficit reduction programme back on track to protect balance of payments viability, avoid a rekindling of inflation, reduce pressure on the exchange rate and avoid an erosion of private sector confidence in the government's economic policies.

It should be mentioned that inflationary pressures of the enlarged budget deficit were not clearly felt during 1998 as the country benefited from the sharp reduction in import prices, particularly for crude oil, wheat grain, fertiliser and sugar, under depressed world market conditions. These price reductions helped to contain the growth in the import bill despite a depreciation of the rupee (9.6 per cent against the US dollar), thus leaving more resources with the banking system. It is clear that the resources freed by these reductions in the international prices of key commodities imported to Sri Lanka and the relatively slow growth of private sector credit enabled the banking system to finance a large proportion of the enlarged budget deficit without exerting excessive pressure on interest rates. Current trends indicate that a further large reduction in import prices is unlikely to occur. In this context, the government may not have the flexibility of running an expansionary fiscal policy without reversing the recent favourable trend in inflation.

The overall budget deficit increased in absolute terms by Rs.23,758 million to Rs.93,819 million. Increased security expenditures and revenue shortfalls were the major reasons for the enlargement of the fiscal deficit. Revenue shortfalls, reflected mainly in lower than anticipated turnover taxes/GST, income taxes and import duties, contributed to nearly 50 per cent of the increased deficit. Higher expenditures in non-defence areas such as salaries and wages and transfers to loss making public sector entities (Sri Lanka Railways and the Postal Department) also contributed to the increased deficit. Given the size of fiscal slippage in 1998 and the weaker prospects for higher economic growth in 1999, measures should be put in place to reduce the fiscal deficit to around 7.5 per cent of GDP in 1999, so that further fiscal consolidation could be targeted for 2000. Sri Lanka is yet to achieve a sustainable reduction of inflation, which would reduce inflationary expectations in the economy. Although

the average consumer price inflation has declined, according to the CCPI, to 10.2 per cent during the last five years from 13.5 per cent during the five years 1989-93, a steady reduction of the inflation rate to below 5 per cent would be required for the country to emancipate itself from an inbuilt inflationary bias. Sri Lanka's inflation rate has generally been higher than the average inflation rate of her trading partners and competitors. This has led to the depreciation of the exchange rate by about 5-6 per cent per year to enable Sri Lanka to remain competitive in world markets. As mentioned in the 1997 Annual Report, the exchange rate depreciation has a feedback effect on inflation as Sri Lanka is a highly trade dependent economy where exports and imports together account for about 70 per cent of GDP. The internal wage setting mechanism, which links many wages directly or indirectly to inflation rather than to labour productivity, has been another channel in this inflation-wage-exchange rate nexus. This has been further complicated by the increased security expenditures. Thus, continuing high budget deficits have made it a challenging task to eliminate high inflationary expectations among the public. Hence, measures have to be in place for a sustainable reduction in inflation by containing the fiscal deficit at below 5 per cent within the next three years and introducing a productivity based wage setting mechanism. These have to be supplemented with other measures to eliminate structural weaknesses in the labour market - measures which would make the labour market more flexible, while providing equal protection to both workers and employers in a competitive environment.

Among the structural policies mentioned above, pension reforms aimed at a sustainable social security system should be a priority. The demographic transition, together with improvements in other socio-economic conditions, has substantially reduced the growth rate of the population to well below that of most other developing countries. However, an annual addition of over 200,000 to the population has become a burden on other limited resources. There are several socio-economic issues associated with the current structure and trends in population. Unemployment, land fragmentation, the high cost of social welfare such as education and health, housing problems and an ageing population are major issues that need to be addressed early. The ageing of the population and a rising old age dependency ratio require a well planned strategy and a carefully designed social security system to avoid excessive burdens on the working population and an erosion of standards of living during old age. This has to be done in the context of policies designed to make labour markets more flexible, adaptable to the changing labour market needs and complementary to other growth-oriented policies.

At a time when Sri Lanka's exports are facing a major challenge in international markets, there have been some disturbing developments in the textile quota administrative

Box 3

Information Technology Innovations – Challenges for the Financial Sector

Technology has made remarkable headway in the field of telecommunications, providing the impetus for information technology (IT) to transform the way in which trade, commerce and banking are conducted in the world. Electronic commerce (e-commerce) is already opening up and countries like Sri Lanka will have to adapt to the changes or fall behind and miss out on the opportunities that may present themselves. Cross border transactions will not only grow in volume and value, but will also take on new dimensions. The way these transactions are conducted is undergoing rapid change. Resistance to change and failure to respond to these changes could prove to be harmful and would damage the economic strategy. Countries that are ready to participate in world trade in both goods and services under these new arrangements will benefit in the form of larger market shares and comparative advantage, while those that are not, will tend to languish in the midst of low productivity and high levels of inefficiency.

The Central Bank, in partnership with other institutions in the banking sector, will endeavour to promote the creation of the infrastructure necessary to respond effectively to the changes taking place in the global banking scenario. It is also in the interests of banks themselves to participate fully in this endeavour. With growing competition, escalating cost of funds, pressure on margins, disintermediation and the associated uncertainty, credit no longer constitutes the main source of profit for banks. Instead, fee based services are becoming the primary source of income with computers and communication playing a key role. The new developments that have come on stream in developed economies in cash management, funds transfer, payments systems and clearing systems make the banking system global instead of local.

Similarly, the introduction of Electronic Funds Transfer (EFT) systems has made retail branch networks obsolete in some respects as a delivery system for banking services. In terms of day to day transactional capabilities, banks are moving towards a two tier system. The provision of complex banking services requiring inputs from skilled personnel, such as arranging credit, are performed at regional branch offices where the specialist personnel work. For the provision of routine banking services, banks are automating their procedures to reach inside the home through interactive approaches and to restructure the large majority of their branch offices into computer driven, modular low cost operations, based on extensive use of EFT, Automated Teller Machines (ATM) and plastic cards.

A further development emerging in developed financial markets is the gradual encroachment of the traditional territory of banks by other business organisations

such as insurance companies, supermarkets, departmental stores, real estate agents etc. Increasingly, insurance companies not only insure houses, but also finance them; supermarkets and department stores have enormous databases on customers, easily accessible in computer storage, which could be used to provide routine financial services just as banks do; brokers who traditionally deal in financial instruments are extending their sphere of activity into banking operations; and real estate agents who handle the sale and transfer of property increasingly delve into mortgage business. All these and many more business organisations, such as oil companies and multi national corporations, have the financial resources, skills and expertise to provide banking services. An additional factor in their favour is that none of these organisations are constrained by regulatory requirements imposed on banks by regulators and bank supervisors.

It will not be long before these changes spread into developing financial markets. Sri Lanka will also witness some of these changes in the next decade. Some of the advancements in IT contemplated by the Central Bank will hasten this process. Proposals are under consideration by the Central Bank to modernise the payments system of the country by enlarging the scope of the existing off line Sri Lanka Interbank Payment System (GIRO System) to cover direct debit transfers, to strengthen the cheque clearing system through introduction of imaging, to move to an on line accounting system within the Bank, to introduce a real time gross settlements system (RTGS) as in leading financial markets and to promote existing ATM networks to build a shared network to expand the coverage of the existing systems. At the same time, the Central Bank will undertake modernisation of the government debt securities market through the introduction of a Central Depository and a scripless system to encourage the growth and improve the efficiency of the secondary market for government debt. In this effort, the Employees' Provident Fund will also receive attention to ensure its continued growth to serve its members more efficiently.

Recognising the transformation that has been taking place gradually in the 1980s in the economic strategy of the country, the Central Bank of Sri Lanka equipped itself with the necessary statutory powers under Section 105A of the Monetary Law Act No.26 of 1995 to participate in the equity of companies established for the purpose of furthering technological advancement in the field of banking. This measure is the direct result of its realisation that modernisation of the banking system, in line with developments abroad, will be important for the Sri Lankan economy to derive the full benefits of globalisation in industry, commerce and banking.

system recently, introducing further uncertainty among manufacturers. Quotas have been an important regulator of world trade in textiles and garments. The various schemes that have evolved now entail cumbersome procedures that require close supervision and monitoring to achieve maximum utilisation. Quota administration in Sri Lanka had been in some disarray in 1998 as quotas to the USA for some items such as men's and boys' jackets and shirts were over utilised and the Textile Quota Board had to take action to avoid the possible imposition of an embargo by the USA. Until quotas are fully phased out in 2005 under the Uruguay Round Agreement on Textiles and Clothing, optimal utilisation of quotas needs to be ensured to reap the full potential benefits under the existing international trade framework. Hence, the quota administration needs to be done efficiently. Although market based quota distribution through auctioning of quotas would have produced better results in terms of quota utilisation, various other objectives, such as the need to promote new investments, regionalise industries and generate more employment, have entered into the quota administration in Sri Lanka. Although a fundamental change in the quota allocation system may not be necessary, it should be the responsibility of quota administrators to ensure the smooth functioning of the system, so that the growth of the textile and garment industry and trade will not be interrupted. This is all the more important as the global competition among suppliers has intensified in the context of depressed world market conditions and there is a need to ensure a smooth transition to face more intense competition in a quota-free trading environment after 2005.

The growth of investment in Sri Lanka has been sluggish. This slow growth is due to a number of reasons. First, public investment slowed down in the wake of increased security expenditures as the government was committed to containing budget induced inflationary pressures. While a somewhat higher level of public investment could have been achieved by pruning expenditures in other areas (e.g., reducing transfers to loss making public sector entities), the political economy had not permitted this. Second, the uncertainty regarding the security situation discouraged private investment, both domestic and foreign. Third, Sri Lanka had very high lending rates of above 20 per cent for a long period, discouraging private investment. High fiscal deficits, high inflation rates, which averaged 13 per cent during 1980-96, and operational inefficiencies of the state banks had pushed up interest rates. Although interest rates have declined significantly after a slight relaxation of monetary policy in early 1997 and an

improvement in the fiscal situation during 1994-97, several years of low inflation are required for people's perceptions regarding high inflation and high interest rates to disappear and private long-term real investment to pick up. Sri Lanka is yet to make sufficient progress towards a steady reduction in the fiscal deficit, inflation and interest rates. Fourth, Sri Lanka maintained a complicated investment regime which discriminated against all non-export oriented sectors, including the traditional plantation crops, after the economic liberalisation in 1977, with a view to promoting export-led industrialisation with foreign participation. This biased incentive regime has existed for a long period. New elements have been added towards equalisation of incentives among different sectors through measures such as provision of foreign currency loans to non-BOI exporters, new fiscal incentives to the non-BOI sector including the relaxation of the export share requirement to be eligible for BOI concessions. However, the current investment regime needs to be simplified, particularly with a view to eliminating the inbuilt discretionary elements. A simple and transparent investment regime, with equal incentives for all sectors, and a narrow negative list would encourage new investment. Fifth, insufficient infrastructure facilities were another constraint to private sector investment. Significant improvements have been made in the power and telecommunication sectors, but further progress in all key areas of infrastructure, including health and education, is necessary. Sixth, the trade policy regime, particularly the provisions related to agriculture, has not been transparent. Ad hoc changes in tariffs and licensing have introduced uncertainty regarding the future direction of trade policy, discouraging the entry of the private sector into commercial farming in a consistent manner and developing better marketing links with the small scale non-plantation agricultural sector. This problem is now being addressed. The last remaining licenses were eliminated in 1996 and agricultural products are now placed at the maximum tariff rate of 35 per cent. Requests for greater protection of the agricultural sector are still voiced at various fora. Steady commitment to the current liberal policy for several years is required for investors to be convinced that there is a credible and consistent trade policy related to agricultural products. Seventh, inflexible labour markets and rigid labour laws that do not give sufficient weight to the concerns of investors are considered to be a major obstacle for faster growth of private investment. These are some of the long-term structural policy issues that have to be addressed, if Sri Lanka is to accelerate investment and economic growth within the next three years.

2. NATIONAL INCOME AND EXPENDITURE

2.1 Overall Trends

In 1998, the Gross Domestic Product (GDP) grew by 4.7 per cent in real terms. The GDP growth, though lower in comparison to 6.3 per cent recorded in 1997, was achieved in the midst of unfavourable global economic conditions, which emerged after the East Asian crisis. Most of Sri Lanka's major exports were affected by the global recession and competition from East Asian countries. However, at the same time, there were gains from price advantages on imported inputs to the manufacturing and construction sectors. Overall, domestic demand remained strong, supported by a growth in investment in both the private and public sectors and a rise in consumer expenditure. This helped to mitigate the negative impact of the weak external demand.

Gross National Product (GNP), defined as GDP adjusted for net factor income from abroad, grew by 4.6 per cent. This slightly lower rate of growth in GNP, compared to that of GDP, is due to deterioration in the net factor income from abroad (NFIA). This was caused by a decline in foreign investment income and higher outflows in the form of profits and dividends. In contrast to an increase in net foreign investment income by US dollars 37 million between 1996 and 1997, there was a net increase in these outflows by US dollars 19 million between 1997 and 1998. The slow growth in investment income receipts in 1998 was due to the lower international interest rates. Meanwhile, the larger outflow of income remitted abroad was in consonance with the continuous growth in FDI during the period 1996 - 1998.

The GDP at current market prices was estimated at Rs.1,015 billion. The mid-year population at 18.8 million in 1998 was estimated to have increased by 1.2 per cent over 1997. Accordingly, per-capita GDP rose to Rs.54,035 (US dollars 837) in 1998 from Rs.47,988 (US dollars 814) in 1997. In the World Bank classification of countries according to per capita income, Sri Lanka is now in the 'lower middle income' country group whose per capita income falls within the range US dollars 795 – US dollars 3,125. The country's economic growth rate has to be about 8 per cent for it to become an 'upper middle income' country within the next ten years. Even if Sri Lanka is to maintain a steady growth rate of 6-7 per cent, its domestic investment will have to be raised at least to 30 per cent of GDP, assuming a significant increase in productivity. In view of the recent slowing down of the economic growth and poor prospects for the world economy, achieving a steady growth of this magnitude does not appear to be feasible. Given Sri Lanka's rising per capita income, it is unlikely that it will be able to find concessional foreign aid to meet all of its foreign resource requirements, particularly in an environment where concessional aid to developing countries is declining. Hence,

some foreign financing for future development projects will have to be raised in international capital markets, unless domestic savings are increased substantially.

Gross Domestic Capital Formation (GDCF) as a ratio to GDP edged up to 25.4 per cent in 1998 from 24.4 per cent in 1997. The investment ratio, having reached a peak in 1994/95, declined in 1996, but recovered thereafter with investors gaining confidence in the government's commitment to maintaining open economic policies. Having a favourable effect on domestic investment were the growth in corporate profits leading to an increase in the level of retained earnings, moderation of interest rates, slowing down of inflation and lower import duties on investment goods. There was also an increase in the inflow of foreign direct investment, though small, when compared to 1997 and 1996. Also, the year 1998 was relatively free from labour unrest. Economic activities outside the Northern and Eastern provinces functioned relatively free of disruption. These developments contributed to strengthen investor sentiment.

The Manufacturing sector grew by 6.3 per cent in real terms, contributing almost one fourth towards the growth in real GNP. Factory industries, which accounted for 78 per cent of the manufacturing output in 1997, grew by 7.6 per cent in 1998, while the larger contribution to its growth came from the domestic market oriented industries responding to the increase in domestic demand. This was in contrast to the growth pattern observed in recent years where the impetus to growth was from export oriented industries. The textile and apparel sub-sector, which plays a significant role in the export earnings of the economy as well as employment generation, faced strong competition as there was a large contraction in the growth of world trade. The contribution of the textiles, apparel and leather goods sub-sector to the growth in real output of factory industries was only 24 per cent in 1998 compared to 69 per cent in 1997 due to the considerable slowing down in export growth of products in this sub-sector. A series of policy measures introduced in budgets in the recent past, including fiscal incentives to encourage the use of advanced technology in manufacturing, has led to an expansion in the capacity of industrial production and a more diversified industrial base. The investments in advanced technologies in several industrial sectors have improved productivity, enabling those sectors to offset a modest acceleration of wages and salaries.

The construction sector recorded a higher growth rate in 1998 (7.1 per cent) compared to 1997 (5.4 per cent). This was the combined outcome of an increase in the outlay on public investment relating to physical infrastructure development and a growth in private sector investment in commercial property development including residential

apartments, power generation and road projects, communication networks and factories.

As in the previous years, the largest contribution to the growth in GNP came from the expansion in Services, comprising energy, transport, communications, port services, trade and financial services. The transport, port services and communications sub-sector grew by 7.7 per cent, accounting for 30 per cent of the growth in services. The telecommunications sub-sector continued to remain buoyant with increasing participation of the private sector in expanding the telecommunication network and provision of value-added communication services. This resulted in a record 46 per cent growth in the telecommunication sector, adding to efficiency and productivity increases in other sectors of the economy. Transport services grew by 3.2 per cent, with the expansion concentrated in goods haulage, consequent on the expansion in the primary and secondary sectors. The growth in port services decelerated to 2.5 per cent from 16.8 per cent in 1997 due to reduced transshipment cargo handling. The impetus to the growth in trade services was from the expansion in import and domestic trade, together with the rise in domestic demand.

The electricity, gas and water sector registered a faster growth in 1998 when compared to the previous year. Electricity generation expanded in response to the increase in demand from the industrial and commercial sectors. The expansion in the generation capacity following large investments by both the Ceylon Electricity Board (CEB) and the private sector since 1996 enabled the sector to meet the increasing demand for electricity. Electricity generation increased by 13 per cent in 1998.

The Agriculture sector recorded a growth rate of 2.5 per cent in real terms, contributing 12 per cent to the growth in real GNP in 1998. The growth in Agriculture came from the paddy and fisheries sub-sectors, which grew by 18.3 per cent and 8.3 per cent, respectively. Growth in the paddy sector is attributed mainly to the increase in the land area brought under paddy cultivation on account of a plentiful supply of water a higher yield rate from increased fertiliser application and favourable weather conditions compared to 1997. The output in the fisheries sub-sector expanded owing to the resumption of fishing in the Eastern coastal belt and growth in production in aquaculture mostly shrimp farming. These developments also led to a noteworthy increase in export earnings from fisheries products. The 'other' agriculture sector displayed a mixed performance, with animal husbandry and vegetables displaying a better performance than in the previous year, while the output in subsidiary food crops is estimated to have declined due to competition from imports. In plantation agriculture, tea production continued to increase. Tea prices remained strong during the first half of the year, but declined thereafter due to the increase in global supply and the market uncertainty surrounding tea exports to Russia. Rubber production declined, as tapping on

marginal rubber lands became non-profitable due to rubber prices falling below cost of production. Meanwhile, coconut production which appears to face a secular decline dropped by 3.2 per cent.

GDP at current factor cost prices increased by 13.6 per cent to Rs.913 billion in 1998. Accordingly, the implicit GDP price deflator, a measure of the overall price change in the economy, increased by 8.4 per cent, compared to 8.6 per cent in 1997. This trend is consistent with other indicators of inflation.

On the expenditure side, Gross Domestic Expenditure (GDE) at current market prices was estimated to be Rs.1,080 billion, reflecting an increase of 13.3 per cent over 1997. Consumption expenditure, which represents the largest share in GDE, rose by 12 per cent. This indicates an increase in real consumption, when adjusted for the aggregate consumer price increase of 9.4 per cent during 1998. Private consumption expenditure increased by 3 per cent in real terms, while the increase in nominal terms was 16 per cent. The increase in private consumption expenditure was reflected in indicators such as new registration of motorcycles and motor cars, sales turnover in the food and beverage industry and imports of non-food consumer items. Moreover, household demand for services such as electricity, pipe-borne water, telecommunications and passenger transport indicated a considerable expansion. An increase in employment and real wages and growth in private remittances from abroad generated higher disposable incomes and led to an increase in private consumption expenditure. Public consumption expenditure recorded a growth, mainly due to the rise in security related expenditure.

Gross Domestic Capital Formation (GDCF) was estimated to have risen by 18.5 per cent to Rs.257 billion in 1998. The expansion in capital formation was reflected in a number of indicators including a substantial rise in the imports of capital goods, a faster rate of growth in the construction sector, an increase in foreign direct investment and a growth in long-term loans granted by the banking system. Public investment increased from Rs.52 billion in 1997 to Rs.68 billion in 1998. In public investment, relatively large outlays were observed on electricity generation and distribution, modernisation of the Colombo Port, road construction and rehabilitation, housing, urban development and infrastructure development in industrial locations. Owing to the increase in public investment expenditure, foreign long-term borrowing increased significantly.

Another healthy development was the increase of the Gross Domestic Savings ratio from 17.3 per cent in 1997 to 18.9 per cent in 1998. The contribution to the higher rate of savings came from the private sector, mainly due to higher corporate savings, while dis-saving in the public sector increased due to revenue shortfalls and rising current expenditure. The national savings ratio increased from 21.5

per cent in 1997 to 23.2 per cent in 1998. The investment savings gap narrowed to 2.2 per cent of GDP and the shortfall was met from foreign direct investments and long-term borrowings. Although the improvement in national savings in recent years has been encouraging, the level yet falls short of the desired investment level and is well below the high rates achieved by many Asian countries.

2.2 Sectoral Performance

The Manufacturing sector, which consists of factory industry, processing of plantation crops and small industries, grew by 6.3 per cent in 1998 compared to 9.1 per cent in 1997. This slight deceleration in growth was reflected mainly in the

export oriented industries due to the slowing down in external demand and in the processing of plantation crops which was affected by the decline in the output of rubber and coconut. The factory industries sub-sector, which accounted for almost 78 per cent of value-added in the Manufacturing sector in 1997, grew by 7.6 per cent in 1998 compared to 10.3 per cent in the previous year. The performance of this sector was adversely affected in 1998 by the unfavourable external factors arising from the sharp slowing down of world trade witnessed during the year following the global financial turmoil and the slump in commodity prices. Almost 75 per cent of the growth in

TABLE 2.1
Sectoral Composition and Increase in Gross National Product at Constant (1996) Prices

Sector	Rate of Increase (%)		Percentage Share of Increase in GNP(%)		Percentage Share of GNP(%)	
	1997(a)	1998(a)	1997(a)	1998(a)	1997(a)	1998(a)
1. Agriculture, Forestry and Fishing	3.0	2.5	10.0	11.9	22.0	21.5
Agriculture	2.9	1.8	7.6	6.6	17.3	16.8
Tea	7.1	1.1	1.6	0.4	1.5	1.5
Rubber	-5.4	-9.0	-0.5	-1.0	0.5	0.5
Coconut	3.3	-3.2	0.9	-1.3	1.8	1.7
Paddy	11.2	18.3	4.8	11.9	3.0	3.4
Other	0.5	-1.5	0.7	-3.4	10.4	9.8
Forestry	1.3	1.2	0.4	0.5	2.0	2.0
Fishing	5.0	8.3	2.0	4.8	2.7	2.8
2. Mining and Quarrying	3.8	-5.4	1.2	-2.3	2.0	1.8
3. Manufacturing	9.1	6.3	22.1	22.9	16.8	17.1
Processing of Tea, Rubber & Coconut kernel products	3.5	-1.2	1.2	-0.6	2.3	2.2
Factory Industry	10.3	7.6	19.5	21.7	13.2	13.6
Small Industry	7.0	6.5	1.3	1.8	1.3	1.3
4. Construction	5.4	7.1	5.6	10.6	7.0	7.1
5. Electricity, Gas, Water and Sanitary Services	8.1	10.1	1.6	2.9	1.4	1.4
of which						
Electricity	8.4	9.8				
6. Transport, Storage and Communication	8.8	7.7	14	18.2	11.0	11.3
of which						
Communication	31.6	45.8				
7. Wholesale and Retail Trade	6.3	4.5	21.2	21.6	22.6	22.5
Imports	9.6	8.2	13.4	17.0	9.7	10.0
Exports	12.0	0.1	4.2	0.1	2.5	2.4
Domestic	2.2	2.0	3.6	4.6	10.4	10.1
8. Banking, Insurance and Real Estate	10.3	6.4	11	10.2	7.5	7.6
9. Ownership of Dwellings	1.3	1.2	0.4	0.5	2.0	1.9
10. Public Administration and Defence	5.2	3.0	4.0	3.3	5.1	5.0
11. Services (n.e.s.)	6.1	3.7	3.6	3.1	4.0	4.0
12. G.D.P.	6.3	4.7	94.7	103.1	101.2	101.3
13. Net Factor Income from Abroad			5.3	-3.1	-1.2	-1.3
14. G.N.P.	6.8	4.6	100.0	100.0	100.0	100.0

(a) Provisional

Source: Central Bank of Sri Lanka

factory industry in 1998 was attributed to the production expansion in the categories of food, beverages and tobacco, textiles, apparel and leather goods and chemicals, petroleum, plastic and rubber products. Growth in the food, beverages and tobacco sub sector increased to 9.6 per cent from 3.4 per cent in 1997 due to an increase in domestic demand, mainly for processed cereal food, processed meat products and beverages. The output of the chemicals, petroleum, rubber and plastic goods sub sector grew by 13.1 per cent, mainly due to an increase in the output of petroleum products. In 1998, production at the petroleum refinery continued throughout the year, whereas in the previous year it had been closed for two months for routine maintenance. The expansion in construction activity stimulating the demand for PVC pipes and accessories, paints and chemicals, while the growth in demand for plastic and polythene products, mainly from the garment industry, also contributed to the growth of this sub sector. A considerable deceleration in the growth rate of the textiles, apparel and leather goods sub sector was due to unfavourable external factors, stemming from the East Asian financial crisis. An increase in the production of building materials, mainly cement, roofing materials and ceramic tiles, led to a higher rate of growth in the non-metallic mineral products category. The processing industry was affected by the setback in rubber and coconut production.

The Construction sector grew by 7.1 per cent in 1998 when compared to the growth of 5.4 per cent in 1997. The incentives given by the 1998 Budget to encourage private sector participation in housing construction and other infrastructure development accelerated the growth in this sector. Further, the state sector housing programme, which is implemented by the National Housing Development Authority, also showed significant progress in 1998. Growth in construction was also indicated by an increase in the sales of building construction materials such as cement, asbestos, steel and PVC. Net advances by commercial banks to housing and property development increased to Rs.5.8 billion during the first nine months of 1998 as compared to only Rs.1.6 billion in the corresponding period in 1997.

In the overall Services sector, the Electricity, gas and water sector has performed relatively better than all the other sectors. It registered a higher growth rate of 10.1 per cent in 1998 compared to 8.1 per cent in 1997. The electricity sub sector, which dominates the overall sector, was able to maintain an uninterrupted power supply though the demand is rising at an average rate of 10 per cent per annum. The expansion of thermal power generation under both the CEB and the private sector and continuation of hydro power generation at a high level owing to plentiful water supplies contributed to this growth. The installed capacity of power generation has increased from 1,586 MWh in 1997 to 1,626 MWh in 1998. Private sector participation in power generation continued to expand.

The Transport, storage and communications sub sector grew by 7.7 per cent in 1998. The sector has maintained its growth momentum despite the slowing down in GDP growth in 1998. Its contribution to the overall GNP growth has risen from 14.0 per cent in 1997 to 18.2 per cent in 1998. The growth in value added in port services declined from 16.8 per cent in 1997 to 2.5 per cent in 1998. In the Transport sector, it declined from 5.7 per cent to 4.4 per cent. The strong growth performance of the telecommunication sector in 1998 was able to offset the declines in the other two categories and maintain the overall growth momentum. Its growth rate had risen from 31.6 per cent in 1997 to a notable 45.8 per cent in 1998.

The telecommunication industry with state and private sector competition, continued to grow at a faster pace owing to the expansion in capacity under development projects of both Sri Lanka Telecom and private sector operators. This increasing growth trend was observed throughout 1997 and 1998. Sri Lanka Telecom was able to provide around 143,000 new telephone connections in 1998. The number of subscribers of all other private sector operators for various services increased by around 124,000. The cumulative investment during this period increased significantly. These expansion projects led to further improvement in telephone density, from one telephone to 59 persons in 1997 to one telephone to 41 persons in 1998. In addition to the expansion of the industry in terms of the number of subscribers, the quality of the services also improved due to increasing competition. Postal services also improved in terms of the variety of services and their quality. The postal department provided new services like e-mail facilities during 1998.

The transport sub sector, which includes passenger and freight transport, has three different segments, namely, roads, rail and air. The combined growth of all these sectors in 1998 was 3.2 per cent. Transport activities relating to road haulage dominate the overall transport sector, and are largely related to the performance in the Agriculture, Mining and quarrying, Manufacturing and Construction sectors. All these sectors, except Construction, experienced deceleration in their growth performance due to domestic and international factors. This had a negative impact on road haulage, resulting in a lower growth than in 1997.

Port activities indicated a decelerating trend in 1998. The performance of this sector depends mainly on the volume of cargo handled. The volume of domestic cargo handled declined marginally while the trans-shipments handled increased only by 2.0 per cent in 1998. Domestic cargo handling was affected by the slower growth in exports. Handling of trans-shipment was affected by both regional economic problems and emerging stronger competition in the region for the supply of port services. The establishment of a new port, the Mina Raysut in Salalah in Oman equipped with modern facilities close to shipping routes connected to port of Colombo have resulted in diversion of some

transshipment traffic away from Sri Lanka. With further expansion of these modern ports. Sri Lanka will face growing challenges in this area unless capacity and productivity of Sri Lanka's ports are improved further.

TABLE 2.2
Composition of the Other Agriculture Sub Sector

Sector	Value Added (1996) Constant Prices (Rs.Mn.)		
	1996(a)	1997(a)	1998(a)
Vegetables	31,189	31,676	33,126
Subsidiary Food Crops(b)	19,712	18,501	15,577
Minor Export Crops (c)	7,137	7,874	7,825
Sugar cane	1,260	1,203	1,202
Tobacco	1,496	1,553	1,569
Animal Husbandry (d)	6,065	6,293	6,560
Other	8,662	8,763	8,837
Total	75,521	75,863	74,696

Source: Central Bank of Sri Lanka

- (a) Provisional
 (b) Subsidiary food crops mainly include potatoes, chillies, red onions, big onions, green gram, cowpea and kurakkan.
 (c) Minor export crops mainly include coffee, pepper, cinnamon, cloves, cashew nuts and betel leaves.
 (d) Animal Husbandry comprises milk, eggs, poultry and other meats.

Sri Lanka being a heavily trade dependent country, with exports and imports accounting for 70 per cent of GDP, it is natural that trade assumes a major role, accounting for about 23 per cent of GDP. In 1998, it contributed 22 per cent of the GDP growth. However, the trade sector, which includes import, export and domestic trade, recorded a lower growth rate of 4.5 per cent in 1998 when compared to 6.3 per cent in 1997. The low growth was mainly due to the shrinking of international trade. The export trade sub sector grew marginally by 0.1 per cent in 1998 compared to a growth rate of 12.0 per cent in 1997. The import trade sub sector, which is responsible for about 42 per cent of the sector's value added, grew by 8.2 per cent in real terms in 1998 when compared to 9.6 per cent in 1997. This was mainly due to the decline in imports of rice (42 per cent), sugar (29.6 per cent), fish products (7 per cent) and intermediate goods such as fertiliser (6.5 per cent), petroleum products (36.1 per cent) and wheat (8 per cent). The domestic trade sub-sector grew by 2 per cent in 1998. The deceleration of output growth in the primary and secondary sectors of the economy was mainly responsible for slower growth in this sector.

The Banking, insurance and real estate sector grew by 6.4 per cent as compared to 10.3 per cent in 1997. The deceleration of external trade constrained the profitability of commercial banking. In particular, the adverse impact of the Russian crisis lowered the profits during the last quarter of 1998. Further, the depressed stock market conditions also led to erosion of profits in stock broking activities.

The Tourism sub sector registered a real growth of 4.1 per cent. The total number of tourists who arrived within the

year was 381,063 an increase of 4 per cent. This growth came mainly from a strong increase in arrivals from Western Europe, which accounts for about 60 per cent of the total arrivals, offset by a decline of tourists from the Asian region which was affected by the East Asian economic crisis. The gross earnings from tourism also increased by 10 per cent to register US dollars 230 million in 1998. The annual occupancy rate for graded accommodation also improved from 49 per cent in 1997 to 53 per cent in 1998. The continuous increase in domestic tourism also contributed to maintain the growth momentum in this sub sector. Local guest nights in 1998 increased by 15 per cent when compared with 1997.

Value added in the Agriculture sector, including forestry and fishing, grew by 2.5 per cent in real terms in 1998, arising mainly from the paddy and fisheries sub sectors. Paddy, the single most important crop in the Agriculture sector, registered an 18.3 per cent annual growth in 1998 owing to increased harvests of the 1997/98 Maha and 1998 Yala seasons. Enhanced production of paddy resulted in a marginal drop in rice prices and reduced the need for importation of rice.

The performance of the overall plantation agriculture sector, however, was mixed. Of the three plantation crops, tea registered a positive growth, which was marginal at 1 per cent, when compared to 7 per cent in 1997. Though production of tea rose to a record level in 1998, at 280 million kgs., the performance of this sub-sector was threatened by the Russian crisis accompanied by the over supply situation in the world market which depressed prices during the latter part of the year. The value added in the rubber sub sector dropped further in 1998, by 9.0 per cent for the second consecutive year, mainly due to demand deficiency reflecting the continuation of the negative impact of the East Asian crisis. The coconut sub sector also registered a drop of 3 per cent in 1998 in contrast to a growth of 3.3 per cent in 1997. This was attributed to the adverse effect of weather, but the growing conversion of coconut lands for other purposes such as housing may have also had an effect.

The 'other' agriculture sub sector, which includes all other agricultural activities, dominates the overall agriculture sector with a share of more than fifty per cent. The combined growth of all categories in this sub sector was negative in 1998. Within this sub sector, the value added in vegetable production increased by 5 per cent. Animal husbandry also improved, with a growth of 4 per cent, mainly due to the better performance in the poultry sub sector. However, a significant drop in subsidiary food crops such as potatoes, onions and chillies by 16 per cent and a marginal drop in minor export crops offset the positive impact of the vegetable and animal husbandry categories. The availability of cheap imports is said to be the main reason for the weaker performance of the subsidiary food crops sector.

The fisheries sector performed well with an increase of 8.3 per cent in 1998. The improvement was witnessed in both marine fishing and aquaculture. The increase in marine production was mainly attributed to the resumption of coastal fishing in the Eastern Province. Government encouragement and strengthening of infrastructure facilities such as Fishery harbours also contributed to the increase in output. The increase in aquaculture production was due to better supply of inputs and improved management. This improvement also reflected in a 45 per cent increase in export earnings of fish and fisheries products in 1998.

The Mining and quarrying sector suffered a decline in 1998. The decreased demand for gems and semi-precious stones from Japan and East Asia affected the mining sub sector. The export earnings from gems declined by 34 per cent in 1998, in US dollar terms, when compared with the earnings in the previous year. Sea transportation of mineral sands and mining operations was hampered by security concerns. However, the quarrying sub sector partly offset these negative impacts by performing well. This was mainly due to the growth of construction activities.

2.3 Expenditure

The aggregate demand generated by domestic economic activities is measured by the Gross Domestic Expenditure (GDE) which is the sum of consumption and investment (Gross Domestic Capital Formation) expenditures of the private and public sectors of the economy. The Gross Domestic Expenditure (GDE) was estimated at Rs.1,080 billion, showing an increase of 13 per cent in 1998.

Consumption expenditure was estimated at Rs. 823 billion, a 12 per cent increase over the Rs. 736 billion recorded in 1997. Private consumption expenditure, which represents 87 per cent of overall GDE, registered a growth of 12.4 per cent, from Rs. 644 billion in 1997 to Rs. 724 billion in 1998, induced by the increase in private sector disposable income underpinned by rising employment,

increases in real wages and growth in private remittances from abroad. Private consumption expenditure on imported goods and non-factor services increased at a slightly lower rate in 1998 as compared to 1997. Growth in expenditure on consumer durable goods, namely, motor cycles, motor cars and home appliances, increased at a faster rate than in 1997. In the food and beverages category, consumption expenditure on imported milk products, pulses and fruits has displayed a significant increase, while consumption of imported rice and fish products declined as their domestic production increased significantly. The increase in domestically produced goods and services contributed to almost 67 per cent of the overall increase in Private Consumption Expenditure in 1998. Among food items, expenditure on rice, fish and livestock products displayed a notable increase. Expenditure on industrial goods recorded a higher growth when compared to the previous year, with the consumption of processed foods, beer, clothing and ceramicware displaying a noteworthy increase.

Gross Domestic Capital Formation is estimated to have increased by 19 per cent to Rs.257 billion in 1998. Private investment increased by 19 per cent, while public investment, which contributes only 14 per cent of the total investment, had grown by 18.4 per cent. Private sector investment was concentrated in the key sectors of industry, housing, construction, transport and communications. The development and maintenance of economic infrastructure, such as roads irrigation, and water supply, accounted for public investment.

2.4 Availability and Utilisation of Resources

The total resources available to the economy, comprising Gross Domestic Product and imports of goods and non-factor services (foreign resources), increased to Rs.1,445 billion in 1998 from Rs.1,278 billion in 1997. This increase of Rs.166 billion was generated by a Rs.124 billion increase in GDP at current market prices and a Rs.42 billion increase in

TABLE 2.3
Total Resources and Their Uses at Constant 1996 Prices

Item	Percentage Share			Percentage Growth	
	1996(a)	1997(a)	1998(a)	1997	1998
1. Total Resources	100	100	100	7.6	6.8
GDP at Market Prices	69	69	67	6.4	4.7
Imports of Goods & Non-Factor Services	31	31	33	10.5	11.5
2. Utilisation	100	100	100	7.6	6.8
Consumption	59	59	59	7.1	7.0
Gross Domestic Fixed Capital Formation	17	16	18	5.1	15.3
Government	2	2	2	14.4	15.8
Private Sector & Public Corporations	14	14	15	3.7	15.2
Changes in Stocks	0	0	0	-92.4	-30.5
Exports of Goods & Non-Factor Services	24	25	24	11.6	1.0

(a) Provisional.

Source: Central Bank of Sri Lanka

TABLE 2.4
National Savings at Current Market Prices

Category	Rs. Mn		
	1996(a)	1997(a)	1998(a)
1. Gross Domestic Product at Market Prices	768,128	890,272	1,014,504
2. Domestic Savings	117,691	154,237	191,889
3. Net Factor Income from Abroad	-11258	-9409	-11529
4. Net Private Transfers from Abroad	39,242	46,472	54,785
5. National Savings	145,674	191,301	235,145
6. Domestic Savings Ratio (2 as a % of 1)	15.3	17.3	18.9
7. National Savings Ratio (5 as a % of 1)	19.0	21.5	23.2

(a) Provisional

Source: Central Bank of Sri Lanka

foreign resources. Of the total resources, 57 per cent was spent on consumption and 18 per cent on capital formation,

while the balance 25 per cent was contributed by the exports of goods and non-factor services. The noteworthy feature in the resource utilisation pattern was the slight decline in the proportion for consumption and an increase in the proportion for investment.

2.5 National Savings

National savings, the sum of domestic savings and net foreign income, increased to Rs.235 billion in 1998 from Rs.191 billion in 1997. About 86 per cent of this increase of Rs.44 billion was contributed by increased domestic savings. The domestic savings ratio rose significantly from 17 per cent to 19 per cent of GDP. Net private transfers, which are the main source of foreign income, are estimated to have increased by 17.9 per cent to Rs.55 billion in 1998. Accordingly, the national savings ratio increased from 21.5 per cent in 1997 to 23.2 per cent in 1998. It would thus appear that the savings of Sri Lankans earning abroad account for 4 percentage points of GDP. As the world wide recessionary conditions and weakness of commodity prices could affect prospects for foreign employment, continued efforts need to be made to raise domestic savings.

Box 4

Quarterly GDP Estimates

The Gross Domestic Product (GDP) is an estimate of the value of output, or alternatively, the income generated in the economy from various economic activities. The GDP estimates are used to make cross sectional and time series analyses of the performance of the economy. They are also used to examine the structural changes in an economy over time. Further, the responsiveness of the economy to changes in macro economic policies can also be evaluated with these estimates.

The global economic recession in the 1930s emphasised the need for detailed information relating to the performance of the economy. This led many countries to initiate compilation of GDP estimates. In 1939, the League of Nations first published national income estimates for 26 countries, in its Annual World Economic Survey. Though the annual estimates are useful to analyse the performance of economies with fairly static economic structures, for more dynamic economies the annual estimates have limited use since they do not reflect the changes that take place within the year. Within a given year, an economy can

experience changes in activities, in addition to inherent seasonal changes. Quarterly estimates help policy makers to make a continuous assessment of the economy rather than wait until the annual estimates become available. Such assessments enable them to identify the turning points in economic activity, if any, and take timely measures, if necessary. Accordingly, quarterly GDP estimates provide an additional set of information for economic analysis. Hence, countries where the data systems are reasonably developed have started to compile quarterly GDP estimates, complementing the annual GDP estimates.

The Central Bank of Sri Lanka has been compiling annual GDP estimates since 1952. In 1998, for the first time, quarterly GDP estimates were compiled and published. Estimates for the first, second and third quarters for 1998, together with comparable estimates for 1997 and 1996 were published during the course of 1998. This effort to establish a quarterly national income series to complement the annual estimates was to meet the growing demand for information from policy makers and the business

Box 4 (contd.)

community in a dynamic and competitive economic environment. Such quarterly GDP estimates facilitate sound economic management since the timely availability of information enables policy makers to take quick remedial measures in response to emerging developments. Moreover, the timely dissemination of quarterly GDP estimates is expected to meet the comprehensive macro economic data requirements of foreign investors.

The quarterly GDP estimates are compiled at 1996 base year prices, to reflect a more current structure in the production, income generation and input costs. Accordingly, the annual GDP estimates published for 1997, which were at 1982 base year prices, were adjusted to fall in line with the change in the base period. The 1998 annual GDP estimates are also compiled at 1996 base year prices. However, the aggregate value of the quarterly estimates and the value of annual estimates may not necessarily be equal. This is because the compilation of quarterly estimates is based on short-term statistical indicators such as production, sales, export and import statistics. Some data used for the annual estimates, for example accounting data, are not available more frequently. In some sectors, the statistical systems, though geared to provide annual data, have been slow to adjust their systems to compile reliable statistics on a quarterly basis. However it should be noted that improvements in statistical data collection systems are usually obtained with practice and regular collection of data. Even in developed countries, which have more efficient information systems and compile quarterly estimates, prepare preliminary estimates with

available information and revise those estimates several times before using them as the final values. The institutions compiling quarterly GDP estimates conduct sample surveys on their own to collect supplementary information, in addition to using the information from various other sources. The next step in the development of these quarterly estimates would be to reconcile the quarterly estimates of production with the expenditure side estimates of national accounts, i.e., the Gross Domestic and Gross National Expenditure.

The International Monetary Fund (IMF) has been encouraging its member countries to compile quarterly GDP estimates under its Special Data Dissemination System (SDDS) and General Data Dissemination System (GDDS) for the establishment of an international information base of the global economy so that economic changes become more transparent. Such a system is expected to serve the needs of investors and research institutions that need more detailed information at shorter frequencies. According to the IMF requirements, countries which are planning to enter the international capital markets to meet their resource requirements are required to subscribe to the SDDS under which the dissemination of quarterly GDP estimates is one of the requirements. One of the main reasons for the introduction of GDDS and SDDS was the Mexican crisis, which was mainly attributed to the lack of transparency due to poor information. It is believed that the crisis could have been avoided had there been more frequent and transparent information available.

**Gross Domestic Product at Constant Cost Prices (1996=100): Quarterly Estimates
Growth Rate 1997 and 1998**

Sector	1997				1998				Annual	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1997	1998
1. Agriculture, Forestry & Fishing	-0.5	3.6	1.9	7.5	3.5	1.0	-0.4	5.6	3.0	2.5
2. Mining and Quarrying	4.6	13.7	10.8	-12.3	-9.7	-5.9	-4.9	0.0	3.8	-5.4
3. Manufacturing	9.1	10.6	10.3	6.8	7.7	6.7	7.8	3.7	9.1	6.3
4. Construction	5.7	6.1	5.9	3.9	8.5	9.0	9.0	2.0	5.4	7.1
5. Services	5.7	7.8	8.7	6.2	6.4	4.7	5.2	4.6	7.1	5.2
GDP	4.6	7.4	7.3	6.1	5.7	4.4	4.5	4.4	6.3	4.7

3. AGRICULTURE, FISHING AND FORESTRY

3.1 Production Trends

The overall agricultural output grew by 2.5 per cent in 1998. This followed a 3 per cent growth in 1997. An increase in paddy output by 20 per cent and a record high production in tea contributed to this growth of agricultural output. An increase in the extents sown, as well as an improvement in the yield, contributed to the increase in paddy output. Tea production during the year recorded a new high level with a further 1 per cent improvement, following a continuous increase over the last five years. Tea prices remained buoyant during the first half of the year. During the latter part of the year, prices started declining with the Russian rouble crisis and the substantial increase in world tea output, mainly in Kenya. Rubber production declined by 9 per cent, mainly due to unattractive prices, while coconut production also declined by 3 per cent due to the lagged effect of the El nino phenomenon experienced in 1997. Production of other export crops showed a considerable improvement with pepper, cocoa, coffee, cardamom, nutmeg and cinnamon oil recording increased outputs. These crops benefited from favourable prices. Of the other field crops, output of black gram, green gram, cowpea and soya bean increased, while high value crops such as chillies, red onions, big onions and potatoes declined to very low levels as the local high cost producers could not compete with imports from India and Pakistan after the complete liberalisation of trade policy relating to agricultural commodities. Fish production during the year increased by 8 per cent, particularly due to an improvement in the inland fisheries sector. The livestock sector also showed an improvement in 1998.

TABLE 3.1

Production and Price Changes of Major Agricultural Items

Item	Unit	Production		% Change 1998/97	
		1997	1998	Production	Prices
Tea	Kg.Mn.	277	280	1	13
Rubber	Kg.Mn.	106	96	-9	-12
Coconut	Nuts Mn.	2,631	2,547	-3	8
Paddy	MT '000	2,239	2,692	20	-7
Sugar	MT '000	63	61	-3	-3
Fish	MT '000	240	260	8	-2

Sources : Relevant Authorities
Central Bank of Sri Lanka

3.2 Agricultural Policy

The policy relating to the non-plantation agricultural sector evolved around the policies mentioned in the National Policy Framework (NPF) prepared by the Ministry of Agriculture in 1995. The NPF emphasised, among other things, the provision of high quality seed and planting material,

streamlining the agricultural extension services and an integrated approach by the private and non-governmental organisations in developing the agricultural sector with the state sector providing a supportive role to achieve the policy objectives. The Hingurakgoda seed paddy farm was privatised during the year to facilitate the provision of high quality seeds. The National Seed and Planting Material Committee has almost completed the Seed Act which is to be implemented very soon. Further, the Committee held a seed production training programme for private sector entrepreneurs during the year.

In the plantation sector, the privatisation of state owned Regional Plantation Companies (RPCs), which commenced in 1995, continued further during 1998. During the year 39 per cent of the shares of Balangoda Plantations were sold to the public through the Colombo Stock Exchange (CSE) (20 per cent of the shares at Rs.20 per share and the balance 19 per cent at Rs.61 per share). Meanwhile, 20 per cent of the shares of 4 companies, viz, Madulsima Plantations (at Rs.15 per share), Hapugastenna Plantations (at Rs.10 per share), Kahawatta Plantations (at Rs.10 per share) and Udapusselawa Plantations (at Rs.10 per share) were sold to the public. Further, 15 per cent of the shares of Watawala Plantations (at Rs.60.75 per share) and Maskeliya Plantations (at Rs.45 per share) were also sold to the public through the CSE. The share prices of plantation companies reflected the changes in tea prices, with high levels in the first half and a decline during the second half.

A long and sustained development of the agricultural sector with increased commercialisation has been a prerequisite for the industrialisation of many countries. This has not happened in Sri Lanka, especially in the domestic agricultural sector, where state intervention has been very high. The real incomes of paddy farmers have declined over the years. The producer price of paddy had increased at a lower rate than the increase in general consumer prices and the cost of agricultural inputs including labour. Some paddy sector workers have experienced real wage decreases by 1 - 2 per cent during the last 5 to 6 years. This has resulted in a migration of labour out of agriculture. However, a corresponding improvement in agricultural productivity has not occurred. Instead, the large number of females migrating out of the country for employment has affected certain agricultural activities such as transplanting, weeding and harvesting, leading to low productivity. The migration of labour out of the country has also led to wage increases in the sector, resulting in the country becoming a high cost producer of paddy and other agricultural commodities and thus reducing the competitiveness of some agricultural commodities. To face the current shortage of agricultural

labour and the anticipated aggravation of this problem with the ageing population, the country will have to adopt labour saving strategies by increased mechanisation of agricultural activities. For mechanisation to take place in agriculture, commercially oriented private sector participation is essential. A major constraint to this type of development is the excessive fragmentation of agricultural lands. At present, more than 90 per cent of the paddy holdings are less than two hectares in size. Mechanised cultivation in such small parcels of land is not economically viable. To encourage mechanised agriculture, a land consolidation programme would need to be initiated. Consolidation of small plots into contiguous holdings of a viable size would make economic sense and increase efficiency and output, thereby improving the quality of life of the small farmers. In pursuance of this policy, a pilot project in land consolidation implemented since 1997 in the Ridibendiela and Chandrika wewa irrigation schemes continued through 1998. The trade policy relating to agriculture products had also not been transparent until the quantitative controls (licensing requirement) were eliminated for potatoes, onions and chillies. The policy had been to bring in import controls off and on through the licensing mechanism to over protect farmers at the expense of the large majority of consumers. This had been done away with and the agriculture sector is given protection through tariffs, keeping the tariffs at the maximum rate under the current tariff structure. Incentives were given in the 1998 Budget to encourage seed production. It has been clearly recognised that improved seed varieties will have to be used either through improved local products or through imports to encourage agricultural productivity.

3.3 Export Crops

Tea

Tea production, which recorded an upswing during the last few years, continued the same trend during 1998 as well. For the fifth consecutive year, tea production recorded a new high production level, surpassing the previous year's production by 1 per cent to reach 280 million kg. The record output was reached in spite of a drop in production in the high and mid elevational areas and came through the improved performance recorded in the low elevational areas. Well distributed rainfall, coupled with attractive prices for tea that prevailed during the first half of the year, which facilitated the increased application of fertiliser, contributed towards the overall improvement in tea production. The buoyant price of tea enjoyed by the Sri Lankan tea industry continued through the first half of 1998, but took a downturn from the beginning of the second half with the increased economic problems in Russia after the rouble crisis and the decline of world tea prices due to the substantial increases in production in major tea producing countries such as India and Kenya. Tea exports to Russia during the last three years

accounted for 20 per cent of Sri Lanka's tea exports. Direct tea exports to Russia in 1998 declined to 38 million kgs. from 49 million in 1997.

The increase in tea production came from the low elevation areas. Output in the low elevational areas, which showed a decline in 1997 due to the effect of the El-nino phenomenon, increased by 11 per cent in 1998 to reach an all time high of 150 million kgs. This accounted for 54 per cent of the total tea output. Meanwhile, the output in both high and mid elevations, which showed improvements last year, suffered a setback. The production in the high elevation areas dropped by 9 per cent, while that of the mid elevational areas declined by 6 per cent, compared to 1997.

Tea production in the smallholder sector continued to increase steadily, registering a further 11 per cent increase in 1998. The smallholders' share in the national output increased to 61 per cent from 54 per cent in 1997. The average yield of the smallholder sector increased by 11 per cent to 2,192 kgs. per hectare in 1998. Meanwhile, the yield level in the estate sector has been stagnant and far from satisfactory. It is approximately half (48 per cent) the yield level in the smallholder sector.

The average national yield was 1,559 kgs. per hectare. This was much lower than the yield levels of other competing countries such as Kenya and India, which were

TABLE 3.2
Statistics of the Tea Sector

Item	Unit	1996	1997(a)	1998(b)
1. Production	Kg.Mn.	258	277	280
High grown	Kg.Mn.	72	84	76
Medium grown	Kg.Mn.	48	57	54
Low grown	Kg.Mn.	138	136	150
2. Extent (c)				
Total extent	Hectares '000	189	194	195
Extent in bearing	Hectares '000	174	177	180
3. Fertiliser used	MT '000	154	160	182
4. Replanting	Hectares	937	931	1,239
5. New planting	Hectares	479	327	411
6. Prices				
Colombo (net)	Rs./Kg.	103.88	119.40	134.35
Export (f.o.b)	Rs./Kg.	139.56	158.39	184.94
7. Cost of production	Rs./Kg.	87.04	93.47	106.72
8. Exports	Kg.Mn.	244	269	272
9. Export earnings	Rs. Mn.	34,068	42,533	50,280
	US\$ Mn.	615	719	780
10. Value added as % of GDP (d)		2.2	2.3	2.6

- (a) Revised. Sources: Sri Lanka Tea Board
 (b) Provisional. National Fertiliser Secretariat
 (c) Based on a tea land survey conducted in 1994/95 by the Tea Commissioner's Division (excludes abandoned tea lands). Central Bank of Sri Lanka
 (d) In growing and processing only.

2,284 kgs per hectare 1,850 kgs per hectare, respectively. The poor yield level in the estate sector is attributed to the large extent of tea under poor yielding seedling tea compared to almost 100 per cent of the extent under vegetatively propagated (VP) tea in the smallholder sector. If the tea industry is to remain viable and competitive, even with a downturn in prices, the yields will have to be increased steadily. To improve yields, the plantation companies, in particular, will have to replace their poor yielding seedling tea with VP tea.

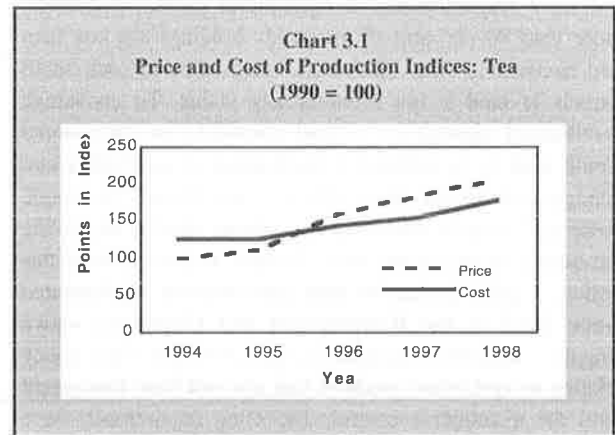
Fertiliser application in the tea sector has shown a steady increase since 1995. The fertiliser application during 1998 increased by 12 per cent and reached an all time high level of 181,800 metric tons. Fertiliser distribution under the fertiliser loan scheme implemented by the Tea Small Holdings Development Authority (TSHDA), which increased by 60 per cent in 1997, showed a further 9 per cent improvement during 1998.

The upward trend in tea prices, which commenced during the latter part of 1995, continued until August 1998. Thereafter, the prices tumbled from an average of Rs.136.52 per kg. in August to Rs.117.47 per kg. in December. In addition to the economic problems in Russia, which affected the direct tea exports to Russia, the global tea supply also improved considerably with the recovery of production especially in Kenya by nearly 30 per cent after the setback suffered owing to a drought in 1997. Production in India also increased, contributing to the downward pressure on world tea prices. The annual net sales average for all teas at the Colombo Auction, however, showed an increase of 13 per cent to Rs.134.35 per kg to reach a record price in rupee terms, owing to the extremely buoyant prices that prevailed in the first half of the year. The annual average export price also improved by 17 per cent to reach a record price level of Rs.184.94 per kg.

The quantity of tea exported increased by 1 per cent to 272 million kgs. This, coupled with improved prices, resulted in an improvement in the export earnings by 18 per cent to Rs.50,300 million. For the third consecutive year, countries of the Commonwealth of Independent States (CIS) continued to be the leading buyer of Sri Lanka tea and accounted for 16 per cent of the total share of exports. The three leading buyers, viz., CIS, UAE and Turkey, purchased almost 40 per cent of the total exports.

The tea sector in Sri Lanka still faces some structural problems. The rapidly increasing cost of production continued to be a problem in 1998. The weighted average cost of production (COP) of made tea of the state owned plantations and the 21 plantation companies increased by 14 per cent to Rs.106.72 per kg. The increase in the daily wage rate from Rs.83 (and a maximum price, share bonus (PSB) of Rs.10) to Rs.101 (daily wage rate of Rs.95 plus PSB of Rs.6) during the year, raised the COP. The share of labour cost in the COP increased further to over 66 per cent from

59 per cent in 1997. Payment for bought leaf (green leaf) also increased owing to the average price increases at the Colombo Auction for made tea, as the payment for green leaf is based on a formula linked to the Colombo Auction prices.



Though the value addition in tea in Sri Lanka is relatively high compared to other major tea producing countries, still a major share of the tea is exported in bulk form. Bulk tea exports during 1998 accounted for 59 per cent of the total export volume. Sri Lanka, which has over 130 years of experience in growing tea, does not appear to have concentrated adequately on the marketing aspects. This is reflected in the fact that there are only two internationally popular local brands of tea. Hence, it is very important to pay greater attention to the promotion of brand names, especially to penetrate and establish a special market for 'Ceylon Tea' in an internationally competitive environment.

The extent replanted has declined over the years due to the loss of income due to uprooting. As an incentive to increase the extents replanted, the replanting subsidy was increased with effect from 01 July 1998. The replanting subsidy rates in the mid and high elevations were increased, after three years, from Rs.67,000 per hectare to Rs.110,000 per hectare, while in low elevations it was increased from Rs.57,000 per hectare to Rs.100,000 per hectare. The extent replanted during the year was 635 hectares and the subsidy disbursed for the same by the TSHDA increased to Rs.58 million as against Rs.30 million disbursed during the previous year.

There has been no change in the new planting subsidy for the last 4 years. It remained at Rs.36,000 per hectare for all three elevations. The extent newly planted during the year was 381 hectares, while the subsidy disbursed by the TSHDA amounted to Rs.19.2 million. The other activities carried out by the TSHDA for the benefit of the smallholders included a special input subsidy scheme, provision of advisory and extension services, a fertiliser credit scheme and

the 'Tea Shakthi', a special savings investment insurance scheme. The 'Tea Shakthi' scheme for smallholders was introduced in 1997. The total number of members at end 1998 was 77,899 as against 55,648 members at end 1997. A total of 100 vehicles has been distributed among smallholder societies for the transport of green leaf under a special loan scheme using funds in the 'Tea Shakthi' Fund and special allocations made to the TSHDA in the 1998 Budget.

During 1998, nearly 60 colour separators had been purchased by the private factory owners and the plantation companies with a view to improving the quality of made tea. The buoyant prices for tea that prevailed during the first half of the year helped the companies to make these investments.

The tea industry is facing a severe shortage of labour, especially in the low elevational areas. With a view to overcoming this scarcity, the Tea Research Institute (TRI) recently introduced a harvesting shear in place of hand plucking. This shear is gaining popularity, especially in areas where the labour shortage is severe. The TRI claims that the skill required to operate the shear is simple, that no special training is required and that it is much easier than hand plucking.

The London Tea Auction, which was in operation for over 300 years, ceased to function with effect from 29 June 1998. It is said that the London Auction fell victim to a steady decline in trade volumes, which was a consequence of the growth in direct trade between producers and importers using modern technology, such as the Internet, to convey bids and offers and confirmation of contracts. At present, Colombo is the biggest tea auction centre in the world. Colombo has a vast potential to become the world's biggest tea trade centre. Other countries such as Pakistan and Dubai are also considering the possibility of opening up tea auction centres in their countries, to fill the void created by the closure of the London Auction.

Sri Lanka maintained its status as the largest tea exporter in the world, accounting for 271 million kgs. of world exports in 1998, followed by Kenya (264 million kgs.).

Rubber

Rubber production, which has shown a declining trend since 1996, recorded a further decline of 9 per cent to 96 million kgs. in 1998. A decline in yield per hectare and loss of tapping days due to heavy rain in the last quarter of 1998 were the major reasons for the lower level of production. Unattractive prices also led to the abandoning of tapping in certain rubber lands and discouraged the application of fertiliser, thereby reducing the yield levels further.

The declining price trend in international rubber markets in 1998 was also reflected in the domestic market. The Colombo Auction price of Ribbed Smoked Sheet (RSS) rubber declined to a very low level. The annual average

price of RSS at the Colombo Auction declined sharply by 12 per cent to Rs.49.76 while other grades of RSS prices declined by 15-17 per cent. The average export price (FOB) of all grades of rubber further declined by 10 per cent to Rs.67.72 when compared with 1997. The average cost of production of rubber (in large plantations as well as in the smallholder sector), as estimated by the Rubber Development Department (RDD), has increased by 10 per cent to Rs.44.41 per kg. This has led to an erosion of the profit margins of rubber smallholders.

TABLE 3.3
Statistics of the Rubber Sector

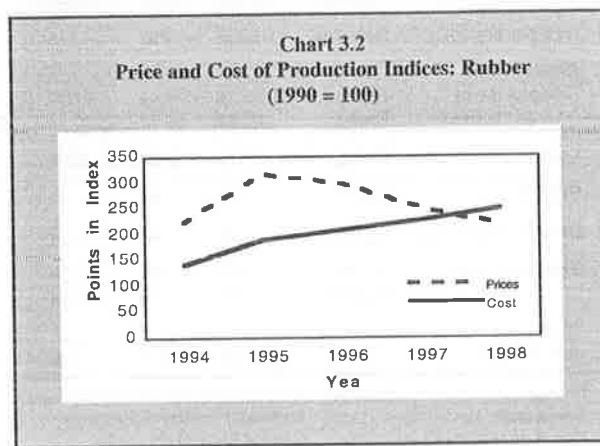
Item	Unit	1996	1997(a)	1998(b)
1. Production	Kg.Mn.	113	106	96
2. Area (c)				
Under cultivation	Hectares '000	162	163	158
Under tapping	Hectares '000	122	129	125
3. Yield	Kg./Hectare	926	822	768
4. Fertiliser used	MT '000	17	12	15
5. Replanting	Hectares	3,443	2,774	2,543
6. New planting (d)	Hectares	1,297	793	515
7. Prices				
Export (f.o.b)	Rs./kg.	79.78	75.42	67.72
Colombo (RSS 1)	Rs./kg.	67.85	56.62	49.76
8. Cost of production	Rs./kg.	36.70	40.37	44.41
9. Exports	Kg.Mn.	72	62	41
10. Domestic consumption	Kg.Mn.	40	44	54
11. Export earnings	Rs. Mn. US\$ Mn.	5,753 104	4,640 79	2,808 44
12. Value added as % of GDP (e)		0.9	0.7	0.5

- (a) Revised. Sources : Rubber Development Department
(b) Provisional. National Fertiliser Secretariat
(c) Based on the survey of agricultural crops and Central Bank of Sri Lanka
Livestock-1993. Department of Census and Statistics.
(d) Extents covered by cultivation assistance schemes of the RDD.
(e) In growing and processing only.

Several factors accounted for the recent decline in natural rubber prices in the international market. The release of a large quantity of buffer stocks held by the USA and larger depreciations in 1997 of the currencies of the major rubber producing countries such as Thailand, Indonesia and Malaysia (which account for 72 per cent of the global natural rubber production) triggered the decline in prices. The price decline was further aggravated by the release of natural rubber stocks by the Thai government in early 1998. The prices of synthetic rubber, which is a close substitute for natural rubber, also declined sharply owing to the drop in petroleum prices and contributed to the decline of the price of natural rubber. The recession in East Asia has led to a large reduction in the demand for vehicles in these countries. The major portion of the demand for natural rubber is a

derived demand arising from the demand for vehicles. Hence, the East Asian crisis has greatly affected the demand for rubber. The present weak demand could have a continuing depressing effect on rubber prices in the short-run.

The International Natural Rubber Organisation (INRO), which represents both natural rubber producers and consumers, usually intervenes in the market to stabilise rubber prices. However, such intervention did not take place in 1997/98 on the Daily Market Indicator Price (DMIP) as the prices did not come down below the threshold level. INRO has been attempting to find measures to solve the problems caused by the distortion to the DMIP due to depreciation of the currencies on which it is based. All in all, the natural rubber treaty, the world's only surviving traditional commodity price stabilisation agreement, could not stabilise rubber prices in the present context. The future of INRO is uncertain as Malaysia has already intimated its intention to withdraw from INRO with effect from 15 October 1999, while Thailand is also contemplating leaving INRO.



The impact of deteriorating prices was initially felt on the smallholder sector, where the production of (RSS) is dominant. The decline in rubber prices has led certain producers, particularly sheet rubber producers, to shift from the production of sheet rubber to the sale of liquid latex for the processing of centrifuged latex and to the production of crepe rubber. As a result, the production of sheet rubber during 1998 decreased by 36.5 million kgs., 21 per cent less than in 1997. The share of sheet rubber in total rubber production decreased from 44 per cent in 1997 to 35 per cent in 1998. The negative price trend slowed down in the early part of 1998 to some extent, due to the favourable prices for crepe rubber. Sri Lankan exporters enjoy a reasonable share of the world market for crepe. Further, the crepe rubber market is dominated by forward contracts. The production share of crepe rubber increased from 39 per cent to 47 per cent during this period.

With a view to arresting the deteriorating prices, the government removed the cess on rubber exports, which was Rs.5.40 per kg. in May 1998, and that had a positive impact on the prices obtained by the producers.

The use of rubber as an intermediary input in the manufacturing sector continued to increase. The increase in 1998 was 23 per cent, from 44 million kgs. in 1997 to 54 million kgs. in 1998. Accordingly, more than half (56 per cent) of the rubber output was used locally by the industrial sector. Concessions granted to the rubber product manufacturing sector in the 1998 Budget also helped to increase the domestic demand for rubber.

The reduction in prices and the lack of funds caused the extents newly planted and replanted to decline by 35 per cent and 1 per cent, respectively to 515 hectares and 1,160 hectares, respectively, in 1998. Replanting and new planting subsidies are financed through the funds generated by the cess collection. The replanting subsidy has played a vital role and acted as a catalyst in encouraging the replanting of rubber. Almost all the rubber smallholders have either availed themselves of the replanting or the new planting subsidy to establish their rubber stands. Hence the continuation of these subsidy schemes is very important. Therefore, even in the absence of a cess collection, the replanting and new planting subsidy programmes should be continued to ensure the long-term sustainability of the industry. Inter cropping of rubber land with short-term crops such as passion fruit and pineapple would enhance the rubber growers' income during the gestation period of rubber cultivation.

The low rubber yield in Sri Lanka is one of the major problems faced by the industry. The present yield levels are far below the yield levels obtained in India and Malaysia. India's average yield level is about 50 per cent higher than that of Sri Lanka due to the high use of rain guards and proper management. The low yield levels are associated with the abandoning of fertiliser application, particularly by smallholders. A recently conducted sample survey of smallholders by the Central Bank in the Ratnapura and Kalutara Districts revealed that the regular application of fertiliser has helped some of the smallholders to remain viable even after the recent decline in prices.

The survey further revealed that there is a shortage of experienced tappers. It has been observed that most of the present tappers are old and that members of the younger generation are reluctant to be employed as tappers, owing to the relatively lower wage and dignity attached to the occupation. In particular, young females prefer employment in garment factories, which is considered a more dignified occupation compared to being rubber tappers. However, with a view to overcoming the shortage of tappers, the Rubber Development Department has trained about 180 tappers in 1998, with the assistance of the Vocational Training Sector of the Vocational Training Ministry.

Coconut

The total coconut production in 1998 showed a slight decline compared to the 1997 level. This decline has been attributed to the lagged effect of the drought that prevailed in the coconut triangle in the previous year. Coconut production in 1998 is estimated to have declined by 3 per cent. Production of desiccated coconut (DC) declined due to weak international market conditions, by 31 per cent in terms of nut equivalent. DC exports showed a substantial decline during the first half of 1998 when compared with the corresponding period in the previous year. However, some signs of recovery in the sector were observed during the second half. The nut equivalent of coconut oil production increased by 16 per cent, to 334 million nuts during 1998. Coconut is largely a domestically consumed item. Domestic

use of coconut accounted for 69 per cent of total production in 1998. In addition to household use, coconut is used as an industrial raw material in areas such as confectionaries and biscuits. The use of coconut has been growing fast in recent years.

The price of fresh nuts remained fairly high throughout the year reflecting an overall supply shortage. It declined gradually with an improvement in supply and an easing of competition for procurement of nuts for DC and for the coconut oil industry. However, during the fourth quarter of 1998, with the onset of the lean season, price levels surged up again and at the end of the year reached a record level of Rs.7,842 per 1,000 nuts against Rs.6,495 per 1,000 nuts at the end of 1997.

Though the average export price (f.o.b.) of DC dropped by 2 per cent, the average export price (f.o.b.) of the three major coconut kernel products increased marginally from Rs.9.63 per nut in 1997 to Rs.9.73 per nut in 1998. However, in US dollars, the export price declined by 9 per cent in 1998. A substantial decline of 25 per cent (in rupee terms) was observed in kernel product exports. The fall in nut production, coupled with devaluation of currencies in the East Asian region, had a marked impact on the export performance. The export price of major coconut products such as DC and copra remained at low levels in 1998 consequent on the devaluation of currencies in the major coconut exporting countries, viz., the Philippines and Indonesia. Although export earnings from non-kernel products increased by 19 per cent from Rs.2,075 million in 1997 to Rs.2,478 million in 1998, export earnings from all coconut products declined by 12 per cent from Rs.6,939 million in 1997 to Rs.6,110 million in 1998.

However, the international price of coconut oil remained steady throughout the year, following a shortage in supply from major producer countries and a drop in the supply of substitutes such as palm oil and palm kernel oil. The major coconut oil producing countries, such as the Philippines and Indonesia, experienced difficulties in obtaining copra to manufacture coconut oil due to the impact of the El nino weather phenomenon which affected those countries during

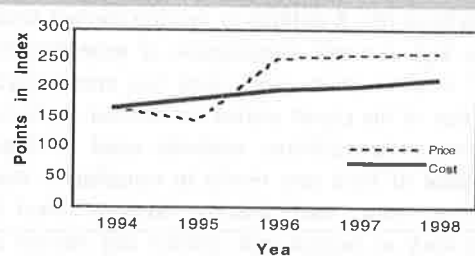
TABLE 3.4
Statistics of the Coconut Sector

Item	Unit	1996	1997(a)	1998(b)
1. Production (c)	Nuts Mn.	2,546	2,631	2,547
Desiccated coconut	Nuts Mn.(d)	425	524	362
Coconut oil	Nuts Mn.(d)	328	289	334
Copra (e)	Nuts Mn.(d)	39	42	52
Fresh nut exports	Nuts Mn.	17	18	18
Domestic nut consumption (f)	Nuts Mn.	1,720	1,744	1,762
2. Total extent	Hectares '000	417	417	439
3. Replanting/ Underplanting (h)	Hectares	578	1,221	595
4. New planting (h)	Hectares	841	931	656
5. Fertiliser used	MT '000	39	35	36
6. Cost of production	Rs./Nut	2.18	2.26	2.4
7. Retail price of a fresh nut	Rs./Nut	9.37	10.55	11.17
8. Average export price f.o.b. (g)	Rs./Nut	9.42	9.63	9.73
9. Export earnings	Rs.Mn.	6,091	6,939	6,110
Kernel products (g)	US\$ Mn.	110	118	94
Other products	US\$ Mn.	4,469	4,864	3,632
Kernel products (g)	US\$ Mn.	81	82	56
Other products	US\$ Mn.	1,622	2,075	2,478
10. Value added as % of GDP (i)		2.0	2.3	2.6

Sources : Coconut Cultivation Board
Coconut Development Authority
National Fertiliser Secretariat
Central Bank of Sri Lanka

- (a) Revised.
(b) Provisional.
(c) Estimated (breakdown does not add upto total production due to adjustments for changes in copra stock).
(d) In nut equivalent - converted for 1998 at 1 MT DC = 8,000 nuts
1 MT Oil = 8,800 nuts
1 MT Copra = 5,725 nuts.
Note: Conversion rates have been revised in 1998 based on a study conducted by the CDA in 1996/97. 1996-97 conversion rates are as given in the Annual Report of 1997.
(e) Exports only.
(f) Estimated on the basis of per capita household consumption of 94.8 nuts per year. Excludes industrial use.
(g) Extents covered by cultivation assistance schemes of the CCB
(h) Three major coconut kernel products only.
(i) In producing and processing only.

Chart 3.3
Price and Cost of Production Indices: Coconut
(1990 = 100)



the second half of 1997. Anticipating a shortfall in production, international prices of coconut oil surged up during 1998. The same price trend was more or less reflected in the local market. However, in the local market, a severe shortage of nuts was experienced immediately after the onset of the lean season. This aggravated the situation and the prices of copra and coconut oil increased sharply towards the end of 1998.

The total extent under coconut is estimated at about 439,000 hectares. The extent in bearing was around 363,000 hectares in 1998, the same as in 1997. The Coconut Cultivation Board (CCB) continued its productivity improvement programme through its extension services. Meantime, the CCB took the initiative, with the help of the Ministry of Public Administration, Home Affairs and Plantation Industries, to introduce legislation to regulate fragmentation of coconut lands. Draft legislation has been forwarded to the Legal Draftsman's Department for approval.

A joint venture company, Mahaweli Coconut Plantations Ltd., (MCPL) was formed by the Mahaweli Authority of Sri Lanka (MASL) and the DC Millers Association in 1998. The company expects to cultivate coconut in the Mahaweli area to offset production losses arising from the fragmentation of coconut lands in major coconut growing areas. The Mahaweli System B area has been identified by the company for cultivation of coconut using advanced technology (such as drip irrigation) with the help of foreign expertise. The cost of the project is estimated at Rs.279 million. Upon completion of the three phases of this project, around 1,500 hectares would be brought under coconut. The company also plans to promote intercropping (with banana, maize etc.,) in these new coconut lands.

Except for DC, the other cess rates for coconut product exports remained unchanged in 1998. The cess on DC exports was increased from Rs.1.00 per kg. to Rs.2.00 per kg. with effect from 1 March 1998 for a three year period ending 1 March 2001. The upward revision of the cess on DC was to mobilise adequate financial support for the new joint venture company (MPCL). The total cess collection in 1998 was about Rs.147 million, a 34 per cent increase over the previous year. During the year, the CCB utilised some of these cess funds to continue its support programmes such as new planting (Rs.13.5 million), re-planting (Rs.10 million), home garden (Rs.15 million) and the 'Kapruka Ayojana' Credit Scheme (Rs. 8 million) to develop coconut lands.

The high domestic consumption of more than 70 per cent of total coconut production has constrained the exploitation of the export market for coconut products to a great extent. In addition, methods used in domestic consumption of fresh nuts results in considerable wastage. In order to reduce such wastage, coconut kernel based products such as coconut milk powder and coconut cream should be promoted and made readily available to the consumer at an affordable price. Therefore, incentives should

be given to the manufacturers of such products, while market promotion also needs to be encouraged to popularise their local use. Apart from that, being a leading exporter of non-kernel products, such as coconut shells and activated carbon, Sri Lanka should further exploit the potential uses of coconut shells. Studies have revealed that coconut shell powder has great potential as an industrial raw material, e.g., as feed ingredients (fibre supplement), base material for mosquito coils, etc.

Other Export Crops

The other export crop sector consists mainly of spices such as cloves, cardamom, cinnamon, pepper and nutmeg, beverage crops such as cocoa and coffee and essential oils such as cinnamon and citronella. This sector showed a considerable improvement in 1998 with export earnings increasing by 21 per cent to US dollars 120 million. Significant increases in production were shown in pepper, cocoa, coffee, cardamom and cinnamon leaf oil.

Pepper production, which has shown a steady improvement over the last few years, increased by 73 per cent in 1998. This is mainly attributed to the improved management induced by attractive prices during the last few years and new areas coming into bearing. The international price of pepper increased for the fifth consecutive year, owing to continuing global supply shortages in the face of growing demand. A reduction in pepper production in Brazil, Vietnam and Thailand owing to unfavourable weather also contributed to the supply shortage. The average export price of pepper rose by 31 per cent to reach Rs.335 per kg. The average auction and farm gate prices too rose by 28 per cent and 32 per cent to Rs.287 per kg. and Rs.262 per kg., respectively.

Supplies of nutmeg were affected by the production decline in Indonesia, the largest nutmeg producer in the world, due to the El nino phenomenon. As a result, the local average farm gate price of nutmeg with shell, as well as mace, increased by almost 80 per cent in 1998. The international prices and producer prices of all the other export agriculture crops also showed an improvement in 1998.

The land area under these crops is estimated to have improved by 1 per cent to 77,782 hectares in 1998. During the year, nearly 800 hectares were newly planted with these crops. For the third consecutive year, the major share of the newly planted extent (82 per cent) was under pepper. Support provided under the Export Agriculture Crop Assistance Scheme amounted to Rs.32 million in 1998 compared to Rs.27 million in 1997. As in the three previous years the major share of assistance (70 per cent) was for pepper and cinnamon.

Budgetary resources for the development of this sector in 1998 amounted to Rs.204 million in the form of a special allocation of Rs.150 million and the normal allocation of

TABLE 3.5
Production of Other Export Crops

Crop	Metric Tons		
	1996(a)	1997(a)	1998(b)
Coffee	2,158	2,165	2,343
Cocoa	1,628	1,709	1,904
Cinnamon quills	10,891	11,453	11,206
Cinnamon leaf oil	110	100	150
Pepper	3,988	3,912	6,776
Clove	1,437	2,333	2,022
Cardamom	75	75	90
Nutmeg and mace	1,198	1,108	1,382
Citronella	190	210	190

(a) Revised
(b) Provisional.

Source: Department of Export Agriculture

Rs.54 million. The special allocation was earmarked to develop export agriculture crops in the four districts of Kandy, Matale, Kegalle and Badulla. Accordingly, several new projects have been launched to develop these crops. The existing subsidy rates for replanting and new planting of pepper, coffee, cocoa, cardamom, citronella and cinnamon were enhanced. To improve quality and reduce post harvest losses, a special unit named the Post Harvest Advisory Services Unit has been established under the Department of Export Agriculture. Under this programme, new machinery, processing equipment and technical assistance have been provided to improve export agriculture crops. With a view to popularising these crops in the plantation sector, a Plantation Advisory Unit has been established to provide extension services on technical knowhow and crop diversification in plantation agriculture.

After the successful completion of the Perennial Crop Development Project (PCDP) in 1997, the government negotiated another loan with the Asian Development Bank (ADB) for the second phase of the PCDP. The objective of the project is to establish a commercially viable perennial crop sector.

The second PCDP commenced operations in September 1998. The ADB is providing US dollars 20 million in the form of a soft loan, while the participatory credit agencies are expected to provide supplementary funding of about US dollars 15 million. The project duration will be six years. The second phase of the project has been expanded to cover 17 districts compared to 8 districts under the first PCDP. During the four months of operation of the project, 107 loan applications for Rs.84 million had been screened and a sum of Rs.10 million had been disbursed.

3.4 Domestic Agriculture

Paddy

Paddy production in 1998 rose by 20 per cent, on top of a 9 per cent increase in 1997. The output reached a level of 2.7 million metric tons (129 million bushels). This is the

second highest level of production ever recorded and only 4 per cent less than the peak production registered in 1995. There have been production improvements during both the Maha and Yala seasons. An increase in the area under paddy by 16 per cent, as well as a significant increase in the average yield in Yala 1998, contributed to this improvement in output.

Paddy output in Maha 1997/98 increased by 22 per cent to 1.78 million metric tons (85 million bushels), which was almost similar to the peak production level reported during the Maha 1982/83 season. The improvement in the Maha output could be attributed to the increased area cultivated, especially in the dry zone districts of Anuradhapura, Batticaloa and Kurunegala, following normal rainfall during the North East monsoon. These three districts together accounted for over 90 per cent of the increase in production. The most notable improvement in production was in the Anuradhapura district, which showed a more than fourfold increase to 230,000 metric tons. The major paddy producing districts of Anuradhapura, Ampara, Kurunegala and Polonnaruwa accounted for 48 per cent of the total Maha output. Paddy output in the Yala season, after showing a partial recovery in 1997, increased by 16 per cent to 911,000 metric tons (44 million bushels) in 1998. A substantial production increase in the low country dry zone districts more than offset the decline in production in wet zone paddy areas during Yala 1998.

The annual average paddy yield improved by a further 1 per cent in 1998 to 3,636 kgs. per hectare. This improvement was recorded purely on account of significant improvements in the Yala yield as the yield in the Maha season indicated a decline. The average yield during 1997/98 Maha declined by 3 per cent to 3,555 kgs. (69 bushels per acre) per hectare, mainly as a result of increased extents of marginal paddy lands being brought under cultivation, promoted by the better rainfall experienced during the season. In contrast, the average yield during Yala 1998 increased significantly by 8 per cent, to reach the best ever Yala yield of 3,806 kgs. per hectare (75 bushels per acre). The average yield under all three types of irrigation improved considerably during the Yala season. Yields in the rain fed areas showed a 10 per cent improvement compared to the previous Yala season. Favourable rainfall reduced crop damage to 2 per cent compared to 5 per cent in 1997. The Uda Walawe area recorded the highest average yield of 4,787 kgs. per hectare during the Yala season. For the second consecutive Maha season, the Mahaweli 'H' area recorded the highest average yield, which was 7 per cent higher than in the previous Maha season.

The total extent of paddy lands that were insured against crop failure by the Agricultural Insurance Board (AIB) during the cultivation year stood at 14,000 hectares, while the premia collected amounted to Rs.9.25 million. Indemnities paid during the year amounted to a sum of Rs.

1.5 million. According to the Agricultural Insurance Act No. 27 of 1973, it is compulsory to insure all paddy lands against crop failure. However, the extent insured is less than 2 per cent of the gross extent sown. The AIB attributes this low rate of participation in the scheme to practical difficulties in enforcing the law and the reluctance of farmers in less risky areas to join the scheme voluntarily.

Fertiliser issues to the paddy sector during both the Maha and Yala seasons increased by 4 per cent. The total quantity of fertiliser issued was 251,000 metric tons, compared to 242,000 metric tons issued during the previous cultivation year. Fertiliser issues during the Maha season increased by 5 per cent to 162,000 metric tons, while the issues during the Yala season increased by 2 per cent to 89,500 metric tons.

Under the New Comprehensive Rural Credit Scheme (NCRCS), a sum of Rs.178 million was granted to the paddy sector during the Maha 1997/98 season. This was 35 per cent less than the credit granted during the corresponding season of the previous year. The amount of credit granted during Yala 1998 also declined from Rs.108 million in Yala 1997 to Rs.99 million in Yala 1998.

The average producer price of paddy declined by 7 per cent to Rs.215 per bushel (Rs.10.32 per kg.) compared to the previous year owing to the increase in output. However, the producer price remained well above the Guaranteed Price of Rs.155 per bushel (Rs.7.42 per kg.) which has not been revised since 1993. The Paddy Marketing Board has not actively participated in purchasing paddy since 1996. However, paddy purchases made by the Co-operative Wholesale Establishment (CWE) and the farmer organisations

at prices ranging from Rs.9 to Rs.12.40 per kg. helped to stabilise prices during the glut period.

One of the problems faced by the paddy sector is the increasing cost of production and reduced profitability. The average cost of production (COP) of paddy has risen over the years owing to the increased costs of inputs, especially labour wages, tractor hiring fees and agro-chemicals. This has made the cultivation of paddy in certain districts, especially in the Wet Zone, unremunerative. The government has recognised this problem and made a special allocation for the Department of Agriculture in the 1998 Budget to identify such areas, conduct research and make recommendations to persuade these paddy farmers to diversify into other food crops.

The Extension Division of the Department of Agriculture continued the special 'Yaya' demonstration programme for the third consecutive year to improve farmer awareness of scientific methods of cultivation among 13,000 farmers. Sri Lanka's paddy yields are higher than those of all SAARC countries as well as other major paddy producing Asian countries such as Thailand, Myanmar and Philippines. However, the yield levels achieved by countries such as China, South Korea and Japan are over one and a half times the paddy yield obtained in Sri Lanka. Hence, it is apparent that there is a potential for further increases in paddy yields in Sri Lanka.

According to the 1996/97 Consumer Finances and Socio Economic Survey of the Central Bank of Sri Lanka, the annual per capita consumption of rice is 106 kgs. After adjusting for wastage and seed paddy requirements, what was available for consumption reflected a self-sufficiency ratio of

TABLE 3.6
Statistics of the Paddy Sector

Item	Unit	1997(a)			1998(b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown	Hectares '000	473	257	730	574	274	848
Gross extent harvested	Hectares '000	443	247	690	563	266	829
Net extent harvested	Hectares '000	397	222	619	501	239	740
Production	MT '000	1,457	782	2,239	1,781	910	2,692
	Bushels '000	69,835	37,496	107,331	85,345	43,607	128,952
Yield (c)	Kg/ Hectare	3,670	3,529	3,603	3,555	3,802	3,634
Credit granted	Rs. Mn.	275	108	383	178	99	277
Purchases under the GPS	MT '000	-	-	-	-	-	-
Rice imports (Paddy equivalent)	MT '000	-	-	306	-	-	168
	(MT '000)	-	-	438	-	-	240

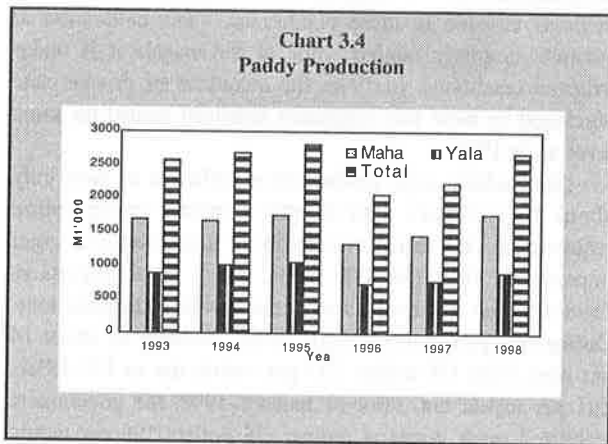
(a) Revised.

(b) Provisional.

(c) Yield per hectare for Maha and Yala are calculated using data from the Department of Census and Statistics which are based on crop cutting surveys, while total yield is calculated by dividing total production by the net extent harvested.

Sources : Department of Census and Statistics
Department of Agriculture
Ministry of Agriculture and Lands
Paddy Marketing Board
Sri Lanka Customs
Central Bank of Sri Lanka

83 per cent. The deficit in local supply was met through imports. In 1998, 168,000 metric tons of rice were imported. Of the total rice imports, 75 per cent or 125,000 metric tons were imported during the month of January, when a duty waiver on rice imports was introduced to reduce the escalating price of rice in the domestic market. Although there was a strong lobby by rice importers to enforce a duty waiver on rice imports during the latter part of 1998, the government did not accede to their request with the intention of stabilising paddy prices at a reasonable level, considering the farmers' interests as well.



Other Field Crops

The other field crops (OFC) sector showed a mixed performance in 1998. The production of high value crops such as potatoes, onions and chillies declined, while the production of legumes such as black gram, green gram, soya and cowpea indicated an increase.

Available provisional estimates indicated production increases in black gram (30 per cent), green gram (14 per cent), soya (55 per cent) and cowpea (5 per cent). Cowpea output increased on account of a 14 per cent improvement in yield. The output of groundnuts and sesame declined, compared to 1997. Both an increase in the extent cultivated and an improvement in the yields contributed towards the increased output of black gram, green gram and soya. The output of cereal crops such as maize and kurakkan too recorded significant increases. Maize production increased by 49 per cent, while the production of kurakkan, which is gaining popularity as a health food, increased by 35 per cent.

Chillies, potatoes, red onions and big onions which had faced stiff competition from cheaper imports since the removal of import restrictions in 1996, showed further output declines in 1998. The extent under potatoes declined by 64 per cent to 2,300 hectares, while the extent under big onions declined by 52 per cent to 1,400 hectares. The price advantage enjoyed, particularly by the potato farmers, in a highly protected market disappeared with the increased imports from India and Pakistan, helping a large number of

consumers. Potato production, which declined by 35 per cent in the previous year, recorded a further 61 per cent drop to 25,900 metric tons.

Big onion production declined by 40 per cent in 1998. However, the quantity of big onions imported during the year also declined by 24 per cent to 90,700 metric tons, compared to 1997. This was due to a ban on the export of big onions in India on account of a severe shortfall in production. This led to an escalation of domestic prices by 64 per cent to Rs.71.25 per kg. in November 1998.

The poor performance in the production of potatoes can be attributed to several factors. Potatoes remained a highly protected crop with a complete ban on the import of consumption potatoes from 1968 until 1996. As a result of the heavy protection, potato cultivation became very inefficient over the years and the yield levels had declined by almost half from about 16 metric tons per hectare to about 10 metric tons per hectare. During the period of import restrictions, potatoes became a very remunerative crop. As a result, most of the potato farmers who had leased out land for cultivation, especially in the Nuwara Eliya district, did not adhere to proper agricultural practices and neglected crop rotation programmes. Some of them cultivated potatoes continuously in the same field, which would have led to soil borne diseases and subsequently low yields. The cost of production (COP) of local potatoes, which is around Rs.26 per kg., is extremely high compared to other countries. The main reasons for the high COP are poor yields, high cost of seed potato, which accounts for more than 50 per cent of the total COP, and high wage rates. Sri Lanka has to depend mostly on imported seed potato tubers from either Holland or Australia. Seed potatoes are bulky and imported seeds are very expensive. Unlike Sri Lanka, India produces its own seed potato requirements especially in the Northern parts of India at a very low cost. The labour cost in India is also lower than in Sri Lanka. Further, certain inputs in India are heavily subsidised. Hence, even with a 35 per cent tariff protection, the local potato producers could not compete with cheap imports from India, Pakistan and 15 other countries. Sri Lanka imported 116,000 metric tons of potatoes in 1998, of which 86 per cent came from India and Pakistan. Imports of potatoes had increased by 7 per cent in 1998.

Chillies were also a remunerative crop when heavily protected through non-tariff barriers such as licensing, which restricted imports. However, the removal of the import restrictions made the high cost local production uncompetitive. The extent under chillies dropped by 10 per cent to 21,600 hectares, while production declined by 13 per cent to 15,600 metric tons. Imports of chillies increased by 45 per cent to 19,200 metric tons in 1998.

Most of these crops except chillies, potatoes and onions (high value crops) have received little attention from the government, compared to rice, resulting in a lack of research

and development. Farmers often use traditional methods of cultivation and grow most of the legumes and cereals under rain fed conditions with very low levels of inputs such as fertiliser, reflecting low levels of crop management leading to low yield levels.

Vegetables and Fruits

According to the available preliminary estimates, production of up-country vegetables such as carrots, cabbage, beet and leeks, which are the temperate species grown intensively under irrigation, especially in the Central Province and the Uva Province, increased by 6 per cent to 169,900 metric tons in 1998. This increase is partly a result of the increased extents brought under vegetables in the Nuwara Eliya and Welimada areas, reflecting the shift from potatoes to other types of vegetables. The increased supply of up-country vegetables stabilised their prices throughout most of the year. However, the cultivation of low-country vegetables such as bitter gourd, snake gourd, pumpkin and brinjals, which are mostly grown in paddy fields in the North Western Province, North Central Province and Southern Province during the Yala season, declined, as adequate rainfall and irrigation water led to an increased use of such lands for paddy cultivation. Overall, vegetable production during the year decreased marginally to 352,000 metric tons, compared to the previous year. However, the export of vegetables increased by 12 per cent to 7,700 metric tons.

Production of mangoes showed a 2 per cent increase, compared to 1997. Large scale banana cultivation in the Embilipitiya and Uda Walave areas increased the domestic supply and the producer price of bananas declined in 1998. There was also a marginal decline in consumer prices. The production of papaw and pineapples was estimated to have declined by 13 per cent and 18 per cent, respectively. Exports of fresh fruits declined by 10 per cent to 2,670 metric tons in 1998.

Fruit production in Sri Lanka largely takes place in a non-commercial manner. Except for pineapples in the Gampaha and Kurunegala districts and bananas in the Hambantota and Ratnapura districts, there are no organised orchards. Strawberries are grown under intensive cultivation in green houses in Nuwara Eliya. Of the fruits, the important ones are mango, banana, pineapple and papaw. Research on the cultivation and processing of fruits is very limited. There is considerable potential for both the cultivation and processing of some of these fruit crops for the local and the export market.

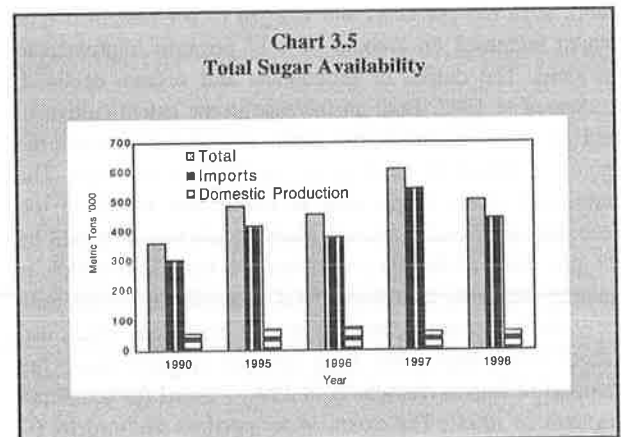
Sugar

Sugar production in 1998, estimated at 61,549 metric tons, showed a marginal decline of about 2 per cent, compared to 1997. The decline in production was a result of the non-operation of the Hingurana sugar factory, which was re-vested in the government after unsuccessful privatisation.

The other two sugar factories, namely Pelwatte and Sevanagaia, reported increased production during the year by about 5 per cent and 13 per cent, respectively. Despite a reduction in the area harvested at Pelwatte, sugar production in these two factories improved on account of increased cane harvests during the year. Favourable weather conditions helped to increase the average yield at Pelwatte by 36 per cent to about 45 metric tons of cane per hectare, while at Sevanagala the increase was 16 per cent, to 81 metric tons of cane per hectare. In spite of yield improvements, there is a vast difference in yield levels at Pelwatte and Sevanagala. This is largely due to different irrigation methods adopted in these plantations. Cane cultivation at Pelwatte is solely rainfed while at Sevanagala it is under irrigated conditions. In 1998, the quantities of private cane purchased by these two companies remained around the same level as in 1997.

Sri Lanka's sugar production is sufficient to meet only about 10 - 12 per cent of the domestic consumption requirement. Due to the availability of large stocks of sugar imported in 1997 (545,000 metric tons), sugar imports in 1998 declined by about 19 per cent to 444,300 metric tons. During this period world sugar prices declined by about 14 per cent, from US dollars 337 per metric ton to US dollars 291 per metric ton. Prior to January 1998, the government stabilised sugar prices at around US dollars 500 per metric ton by imposing an ad valorem duty on imported sugar. However, since January 1998 a flat rate of Rs.3,500 per metric ton is being levied on sugar imports. When compared with the average import price of Rs.18.80 per kg. in 1998 this amounted to an 18 per cent ad valorem tax on sugar, compared to 25 per cent in the latter part of 1997. The average domestic consumer price of sugar declined by 3 per cent in 1998.

Chart 3.5
Total Sugar Availability



Currently, the large scale sugar cane plantations are concentrated in the dry zone of Sri Lanka (Ampara and Moneragala districts). Sugar cane cultivation and the

TABLE 3.7
Statistics of the Sugar Sector

Item	Unit	Hingurana Sugar Factory		Sevanagala Sugar Factory		Pelwatte Sugar Factory		Total	
		1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998(b)	1997 (a)	1998 (b)
1. Total area under cane (with ratoons) (c)	Hectares	1,679	916	3,147	3,157	4,836	4,470	9,662	8,543
2. Area harvested (c)	Hectares	934	-	2,377	2,422	4,435	3,928	7,746	6,350
3. Cane harvested (c)	MT (000)	69	-	169	195	148	174	386	369
4. Private cane purchased	MT (000)	26	-	2	2	361	358	389	360
5. Quantity of cane crushed	MT (000)	95	-	169	197	509	532	773	729
6. Average yield (c)	MT/Hectare	73	-	70	81	33	45	53 (d)	58
7. Sugar production (without sweepings)	MT (000)	6	-	15	17	42	44	63	61
8. Sugar recovery rate (e)	%	6.20	-	8.76	8.7	8.34	8.35	8.15	8.37

(a) Revised.

(b) Provisional.

(c) Includes nucleus estates and allottees.

(d) Excludes data in Hingurana Sugar Industries Ltd.

(e) Recovery rate = $\frac{\text{Sugar produced}}{\text{Quantity of cane crushed}} \times 100$

Sources : Pelwatte Sugar Industries Ltd.
Sevanagala Sugar Industries Ltd.
Hingurana Sugar Industries Ltd.

processing industry provide direct and indirect employment opportunities for a large number of settlers (more than 20,000 families) in these areas. However, relatively low yields, low sugar recovery rates and frequent labour problems have affected the industry somewhat. The situation has been further aggravated by the sharp decline in international prices which led to an erosion of the financial viability of the industry. The faster depreciation of the rupee in 1998, and the government taxes on sugar imports kept the sugar prices from falling, in spite of a large decline in international prices. Any fiscal incentive to improve the financial viability of the industry could have been possible only by burdening the consumer.

3.5 Fish and Livestock

Fish

Fish production in 1998 is estimated to have increased by 8 per cent to 260,100 metric tons. Marine fish production (coastal, deep sea and off shore) accounted for 230,200 metric tons or 89 per cent of total fish production. Marine fish production increased, reflecting the improved production in the Northern and Eastern provinces. The encouragement and strengthening of the off shore fisheries sector by providing better facilities through multi day boats and fishing gear also contributed to this increase.

Aquaculture fish production (inland, coastal brackish water prawn and cultured prawns) increased by 11 per cent to about 29,900 metric tons during 1998. This was mainly due to the increased release of fingerlings to tanks, better

management of aquaculture resources and proper monitoring. Shrimp farming, which was affected by the white spot disease in 1997, recovered fully in 1998. This industry has now become a major source of foreign exchange earnings in the fisheries sector. The total number of shrimp farms in existence in 1998 has been estimated at 970.

The white spot viral disease affecting prawns erupted due to poor on-farm and off-farm management practices. After two or three setbacks, and with the introduction of water management and other management measures, shrimp production re-commenced in 1998. Almost all shrimp production in 1998 was exported. The total quantity of shrimp exports and export earnings nearly doubled when compared with 1997. According to Customs statistics, the total volume of shrimp exports in 1998 was about 6,038 metric tons, while export earnings amounted to about Rs.5,087 million.

TABLE 3.8
Fish Production

Sub-Sector	Metric Tons '000		
	1996	1997(a)	1998(b)
Marine (c)	206	213	230
Aquaculture (d)	22	27	30
Total	229	240	260

(a) Revised.

(b) Provisional.

(c) Coastal and deep sea sector.

(d) Inland sector, coastal brackish water prawn and cultured prawn production

Source: Ministry of Fisheries and Aquatic Resources Development

The fisheries sector is of strategic importance to the country. In recent times, it is being increasingly challenged to provide the people with an adequate supply of fish of good quality and to create more employment opportunities. The sector is also recognised as a traditional contributor to food production and nutrition. The Ministry of Fisheries and Aquatic Resources Development has implemented a number of development programmes and projects, in particular to modernise sectoral infrastructure and to rationalise the management of fisheries resources. The period 1997/98 has been characterised by a series of structural reforms to improve the economic efficiency of the fisheries sector. These reforms mainly focused on the pursuit of sustainable exploitation of aquatic resources, improvement in the quality of fish and enhancement of the living standards of the fishing community.

Livestock

The dairy and poultry industries, which are the more prominent and organised sectors of the country's livestock industry, performed well during 1998. The available estimates indicate a 2 per cent increase in cow milk production, from 252 million litres in 1997 to 256 million litres in 1998. The production of buffalo milk increased by 8 per cent, from 79 million litres in 1997 to 85 million litres in 1998. Kiriya Milk Industries Ltd. (formerly Milk Industries of Lanka Company Ltd.) accounted for the largest share in national milk collection. Despite the increase in milk production, milk collection by Kiriya Milk Industries Ltd. and Nestle Lanka Ltd. decreased by 9 per cent and 15 per cent to 53 million litres and 29 million, respectively, during 1998. The decline in collection volumes was on account of the emphasis given to the production of good quality milk. In this regard, a price incentive scheme has been introduced to promote the quality of milk. For example, milk that contained either 4.8 per cent of milk fat and 8.3 per cent solid non fat (SNF) or 4 per cent milk fat and 8.5 per cent SNF was paid an additional 50 cents per litre.

Kiriya Milk Industries Ltd., a joint venture between the Government of Sri Lanka and the Dairy Development Board of India has started promotional activities from the grassroots level. It also started a cattle feed production project in order to give dairy farmers quality cattle feed at a nominal price. Meanwhile, during 1998, the Ministry of Livestock Development and Estate Infrastructure took initiatives to re-organise the loss making National Livestock Development Board (NLDB) by streamlining its activities. The NLDB was able to shed some of its excess staff on a voluntary basis. The clustering process of farms has reduced the overhead costs of livestock farms managed by the NLDB to a great extent.

The poultry industry is dominated by the private sector and consists of a large number of small producers and a few large producers. The country's egg production has recorded a marginal increase of 2 per cent to 876 million eggs during

1998. The decline in the prices of feed ingredients enabled the price of animal feed to remain stable throughout the year. Favourable output prices with fairly stable input prices helped both the producers and consumers.

One of the major constraints in the livestock sector has been the non-availability of breeding animals. The NLDB is unable to meet the farmers' demand for animals (particularly, dairy and swine) due to the non-availability of good breeding stock in their farms. With a view to mitigating this problem, a livestock breeding project (for dairy farms) has been initiated with the co-operation of the National Dairy Development Board of India. Furthermore, in 1998, the Ministry of Livestock Development and Estate Infrastructure (MLDEI) has spent more than Rs. 30 million to import good breeding animals.

Poor animal health and inadequate extension services in rural areas are also a drawback to the development of the livestock industry. To upgrade livestock development and extension activities the Department of Animal Production and Health recruited 52 new veterinary surgeons and posted them to rural areas in 1998. These officers are responsible for implementing and monitoring animal health and production programmes at Divisional Secretariat level.

3.6 Inputs and Credit

Fertiliser

Total fertiliser issues during 1998 recorded an increase of about 5 per cent to 535,133 metric tons. Improved prices in the first half, favourable weather conditions and the introduction of a special fertiliser loan scheme contributed to a 12 per cent increase in fertiliser usage in the tea sector in 1998. In spite of a decline in market prices for rubber, fertiliser issues to the rubber sector also increased by 33 per cent because the cost of fertiliser is counted as an integral part of the new planting/replanting subsidy package. Under the participatory technology transfer programme, the CCB encouraged the use of chemical fertiliser in coconut cultivation. A larger increase in fertiliser issues (57 per cent) to the export crop sector was seen in 1998. Fertiliser issues

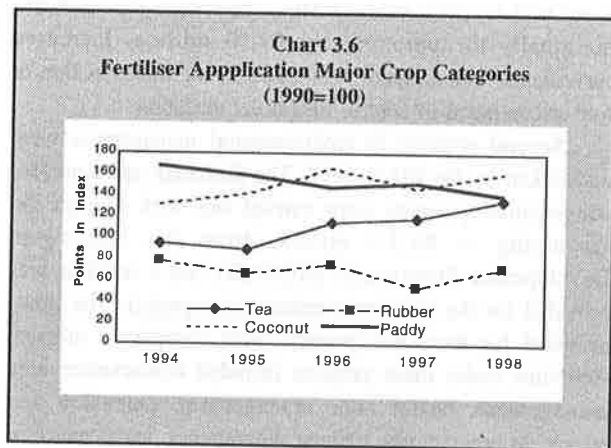
TABLE 3.9
Fertiliser Usage by Crops

Crop	Metric Tons '000		
	1996	1997(a)	1998(b)
Paddy	238	224	228
Tea	154	162	182
Rubber	17	12	16
Coconut	39	34	38
Other Field Crops	55	49	49
Other Export Crops	6	7	11
Others	16	20	13
Total	524	508	537

(a) Revised.
(b) Provisional.

Source: National Fertiliser Secretariat

to the paddy sector registered only a marginal increase, while the issues to the other food crop sector remained unchanged during 1998.



The revised fertiliser subsidy scheme in 1997, under which the subsidy was confined only to urea, continued during 1998. The National Fertiliser Secretariat has introduced a fertiliser quality control programme in 1998 with the assistance of field level agricultural extension officers. These officers have been delegated the powers to collect fertiliser samples from the local traders and to analyse these samples at regional laboratories of the Department of Agriculture/Research Institutes. Officers in 11 districts were trained for this purpose during the year.

Seed

As declared in the national seed policy, the Department of Agriculture (DOA) continued to co-ordinate and provide the required support to ensure the supply of quality seed and planting material in 1998. However, recognising the problems faced by the paddy sector owing to the lack of adequate seed paddy, the government announced a scheme in the 1999 Budget to promote seed paddy production in the Amparai, Anuradhapura, Hambantota, Kurunegala and Polonnaruwa districts. The DOA was provided with a special allocation to implement this programme and increase average yield through intensive land use.

The quantity of seed paddy issued by the government and private sector organisations such as the DOA, Provincial Councils, Mahaweli Authority, co-operatives, private companies and farmer organisations amounted to 10,965 metric tons in 1998. This was sufficient to meet about 9 per cent of the national seed paddy requirement. The balance had to be met by paddy farmers themselves. The DOA certified only a part of the seed paddy production of these institutions.

The issue of OFC seed, vegetable seed and potato seed by the DOA decreased by 50 per cent, 48 per cent and 2 per cent, respectively, in 1998. In line with government policy, seed production has been gradually transferred to the private sector. Several seed farms formerly managed by the

DOA have been vested in the private sector to undertake production on a commercial basis. Meanwhile, the import of seed and planting material has been made duty free with a view to making superior quality seed material available to the local producers at a reasonable price. As a result, the import of seed by the private sector increased considerably in 1998. Potato seed imports increased by 52 per cent to 1,706 metric tons, while vegetable seed imports increased by 26 per cent to 186 metric tons. Despite the increased imports, the price of potato seeds has remained high, accounting for a very high proportion of the cost of production.

Two new varieties of tomato, viz., B1, which is heat tolerant, high yielding and resistant to bacterial wilt, and BL 355, which produces the size, shape and colour preferred by farmers, were released by the DOA in 1998. In addition, a low sugar sweet potato variety ('Gannoruwa White'), a *Dioscorea alata* cultivar yam variety ('king yam') and an exotic ginger variety (Fiji) have been identified by the DOA for release in 1998.

Agro Chemicals

Available provisional estimates indicate an increase of 3 per cent in the sale volume of agro chemicals (insecticides, weedicides and fungicides) in 1998. The quantity of weedicides, which accounts for about 46 per cent of total agro-chemical sales, declined by 9 per cent to 2,704 metric tons, while insecticide sales increased by 20 per cent to 2,582 metric tons. The quantity of fungicide sales declined by 3 per cent to 574 metric tons.

Credit

Short term crop loans were granted under the New Comprehensive Rural Credit Scheme (NCRCS) by the commercial banks during 1998. The government increased the interest subsidy component from 7.5 per cent per annum to 10 per cent per annum with a view to increasing the flow of credit to domestic agriculture. However, the total loans granted under the NCRCS during the 1997/98 cultivation year declined to Rs.442 million from Rs.586 million in 1996/97. Of the total loans granted, 62 per cent, amounting to Rs.274 million, was during the 1997/98 Maha season, while the balance Rs.168 million was granted during the 1998 Yala season. Of the total loans granted, 63 per cent were in respect of paddy, while the balance was to the subsidiary food crops sector.

As in the previous year, the two state banks accounted for nearly two thirds of loans granted. The quantum of loans granted by the Regional Rural Development Banks (RRDBs) declined by 8 per cent to Rs.82 million and accounted for 19 per cent of the total loans granted during the cultivation year. During the 1998 Yala season the interest rates on the NCRCS loans were reduced from 16 per cent per annum to 12 per cent per annum.

3.7 Forestry

The Ministry of Forestry and Environment continued its activities related to policy review and formulation, long-term sectoral planning, legislative review and formulation, monitoring and co-ordination of sector activities, facilitating donor assistance and providing the other necessary supportive activities required for forestry and related activities, with a greater emphasis on the conservation aspects. The extent deforested (clear felled) from forest plantations for the supply of timber in 1998 was 210 hectares. During the year 571 hectares were reforested by the Forest Department (FD).

TABLE 3.10
Statistics of the Forestry Sector

Item	Unit	1996	1997(a)	1998(b)
1. Total forest cover (c)	000' Hectares	2,119	2,119	2119
Closed canopy forest (d)	000' Hectares	1,583	1,583	1583
Sparse forest	000' Hectares	464	464	464
Mangroves	Hectares	8,687	8,687	8687
2. Extent deforested (e)	Hectares	300	205	210
3. Extent reforested	Hectares	13,167	205 (f)	571
4. Number of forest offences recorded	No.	5,014	5,158	4193
Volume of timber detected	Cubic Meters	3,918	2,488	2589
Value of timber detected	Rs. Mn.	35.7	29.5	29.7

Source : Forest Department.

(a) Revised

(b) Provisional

(c) Approximately 72,350 ha. of viable forest plantations are included.

(d) Includes mangroves.

(e) Estimates

(f) Excluding extents under Participatory Forestry Project.

The number of forest offences recorded in 1998 decreased by 19 per cent to 4,193 from 5,158 in 1997. However, the volume of illicitly felled timber increased by 4 per cent to 2,589 cubic meters, while the value increased marginally to approximately Rs.30 million. Increased surveillance and stringent regulations in the transportation of timber continued to control illegal deforestation.

Several projects in environmental management were undertaken by the FD in 1998. The Sinharaja and Knuckles conservation projects were carried out with foreign aid amounting to Rs.3.9 million from the Norwegian Development Programme (NORAD). Rs.1 million was provided for the mangrove conservation project. The funds provided for these two projects were completely utilised. Activities under these projects included conservation area management, buffer zone management, extension and awareness programmes, training programmes, maintenance of buildings and the construction and maintenance of roads. The Asian Development Bank and Australian Aid (AUSAID) provided funds amounting to Rs.248.5 million, which have been completely utilised for the Participatory Forestry Project. Under this project, 10.5 million seedlings were produced in 1998 and forest plantations were raised through homestead development (7,392 hectares), farmer wood lots (2,540 hectares), protective wood lots (1,141 hectares) and miscellaneous tree planting programmes (591 hectares block planting and 464 km avenue planting.)

During the year, the FD engaged in formulating a national forestry policy and the preparation of an investment project for possible ADB funding for the implementation of a 5 year programme of the forestry sector master plan.

4. INDUSTRY

4.1 Overall Trends

Industrial output grew by 7.5 per cent in 1998 as against 10.2 per cent in 1997, reflecting a strong performance of domestic market oriented industries, such as refined petroleum products, cement, building materials, wheat flour, animal feed, liquor, milk products, pharmaceuticals, beverages and chemicals. Export oriented industries experienced a mixed performance. Fish and rubber products maintained positive growth rates, while diamonds, gems and jewellery indicated export declines. Exports of the apparel industry, which continued to expand in the face of global competition, tended to slow down towards the end of the year. Factory industries, which accounted for 84 per cent of the manufacturing sector, contributed 28 per cent to the overall economic growth in 1998. Capacity in the industrial sector increased by 4 per cent in 1998. The labour productivity in the non-BOI sector is also estimated to have increased by 4 per cent in 1998.

The growth in the industrial sector was achieved in the midst of a depressed global trading environment where the growth of international trade had declined by about two thirds following the East Asian financial crisis and subsequent economic problems in many countries including Russia, Japan and South and Central America. The larger devaluations of East Asian currencies caused by the crisis, lower labour costs and moderate inflation in the rest of the world intensified competition. But the faster depreciation of the rupee helped to maintain the competitiveness of domestic industry. The economic downturn in the Asia-Pacific region depressed the

demand for exports of processed diamonds, jewellery and ceramic products. However, several key export oriented industries continued to perform reasonably well, as the major buyers, who looked for product quality and reliable supply sources, continued to place orders with Sri Lankan manufacturers. Several large exporters had strong marketing links with the major international buyers through their joint ventures. Nevertheless, industrialists had to offer higher discounts to remain competitive.

The series of policy measures introduced by the successive budgets, including fiscal incentives for advanced technology in industries, provision of foreign currency loans to non-BOI exporters and the liberalisation of textile imports, together with relatively low interest rates compared to the high rates in the past, had a favourable impact on industrial growth. Production capacity has expanded and the industrial base has become more diversified. Benefiting from a removal of the duty on capital goods, imports of investment goods increased by 12 per cent to refurbish existing factories and to start new industries during the year. The increased spending on advanced technology has improved productivity in many industries, which has helped to offset a modest acceleration of wages and salaries.

Some industrialists have adopted strategies through awareness programmes, waste reduction methods and skills development programmes to improve productivity. The moderate depreciation of the Sri Lanka rupee, reduction of domestic inflation and the relatively low cost of bank borrowings have also helped to improve external competitiveness. As

Chart 4.1
Growth and Composition of Industrial Production

Chart 4.1.1
Growth in Industrial Output

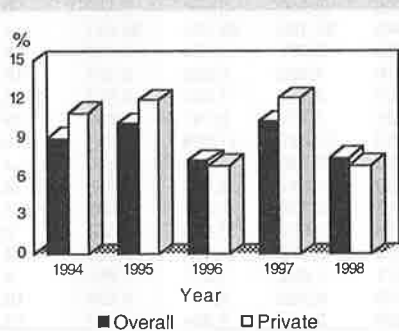
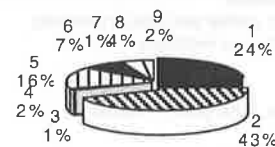


Chart 4.1.2
Composition of Industrial Production - 1998



- 1 Food, beverage and tobacco
- 2 Textiles, wearing apparel and leather products
- 3 Wood and wood products
- 4 Paper and paper products
- 5 Chemical, petroleum, rubber and plastic products
- 6 Non-metallic mineral products
- 7 Basic metal products
- 8 Fabricated metal products, machinery and transport equipment
- 9 Products not elsewhere specified

considerable amounts of raw materials for manufacturing industries are imported from East Asian countries, the larger devaluation in some East Asian currencies has helped to reduce the cost of intermediate inputs. An improvement in labour relations in the manufacturing sector was also a favorable development in 1998. The significant improvements in basic industrial infrastructure such as electricity, telecommunication and port facilities and the progress made in improving infrastructure under the industrial parks programme encouraged new entrants to industrial activities. A total of 201 large enterprises registered under the BOI and Ministry of Industrial Development commenced commercial operations during the year. Meanwhile, 37 enterprises ceased commercial operations temporarily owing to management problems and various other difficulties. Further development of the road and transport systems, port facilities and the communication network, in addition to timely upgrading of human skills and equipment, would be necessary for faster growth in this sector. The mismatch between demand for and supply of labour, and rigidities in the labour market have been a constraint to faster industrial expansion.

4.2 Production

Based on the Industrial Production Survey - 1998 of the Central Bank of Sri Lanka (which covers 475 non-BOI enterprises), the

industrial production of public sector enterprises and export data of BOI enterprises, the growth of industrial output in 1998 has been estimated at 7.5 per cent. According to the survey, the overall industrial output at current prices increased by 14 per cent. This gives an implicit price deflator of 6 per cent for factory industries. This reflected the rate of increase in cost of production in the industrial sector. The growth in industrial output in 1998 came mainly from the industrial categories of

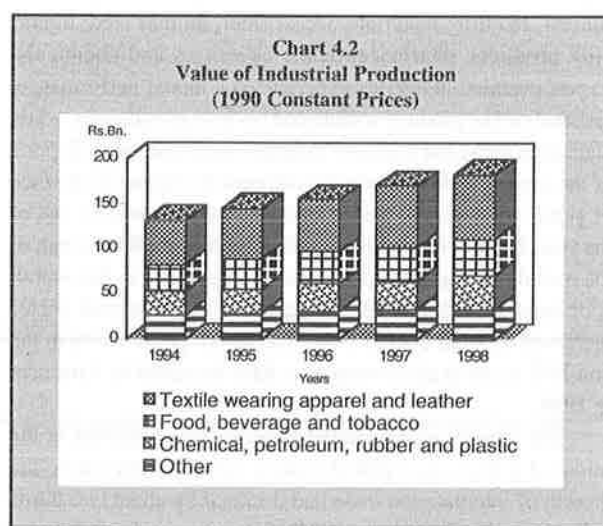


TABLE 4.1
Value of Industrial Production
(1990 Constant Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	30,445	33,641	35,908	37,146	40,729	3.4	9.6
Food and other	17,526	18,936	20,314	21,343	23,787	5.1	11.5
Liquor	2,251	2,630	3,027	2,961	3,458	-2.2	16.8
Beverage	5,023	5,961	6,104	7,032	7,686	15.2	9.3
Tobacco Products	5,645	6,114	6,463	5,810	5,798	-10.1	-0.2
2 Textile, wearing apparel and leather products	48,333	55,480	58,332	69,269	72,391	18.7	4.5
Apparel	40,353	46,702	49,292	59,280	62,050	20.3	4.7
Textile	5,509	6,202	6,299	6,926	7,226	10.0	4.3
Leather	2,471	2,576	2,741	3,063	3,115	11.7	1.7
3 Wood and wood products	1,085	1,243	1,321	1,334	1,378	1.0	3.3
4 Paper and paper products	3,565	3,508	3,550	3,561	3,446	0.3	-3.2
5 Chemical, petroleum, rubber and plastic products	25,838	27,543	31,135	32,582	36,841	4.6	13.1
Chemicals, paints and fertilisers	2,173	2,735	3,091	3,584	4,049	15.9	13.0
Rubber	3,091	3,956	4,660	5,539	6,004	18.9	8.4
Plastic & PVC	2,284	2,754	3,113	3,584	3,874	15.1	8.1
Pharmaceuticals, detergent and other	6,072	6,885	7,784	8,797	9,853	13.0	12.0
Petroleum	12,218	11,213	12,487	11,078	13,061	-11.3	17.9
6 Non metallic mineral products	11,643	12,516	13,360	13,914	14,629	4.1	5.1
Diamond processing	4,445	4,630	4,542	4,453	4,059	-2.0	-8.8
Ceramic products	1,688	1,867	2,138	2,226	2,302	4.1	3.4
Cement	3,039	3,316	3,607	3,896	4,628	8.0	18.8
Building materials and other	2,471	2,703	3,073	3,339	3,640	8.7	9.0
7 Basic metal products	1,568	1,377	1,636	1,671	1,856	2.1	11.1
8 Fabricated metal products	5,931	6,139	6,252	7,437	8,235	19.0	10.7
9 Manufactured products not elsewhere specified	2,617	3,005	3,443	3,904	4,093	13.4	4.8
Total	131,025	144,452	154,937	170,818	183,598	10.2	7.5

(a) Provisional

Sources: Central Bank of Sri Lanka
Board of Investment of Sri Lanka

TABLE 4.2
Private Sector Industrial Production Index

1990 = 100

Categories	Index					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	140	155	166	172	188	3.4	9.7
Food and other	145	155	166	176	196	5.9	11.4
Liquor	137	160	183	177	207	-3.3	16.8
Beverage	148	175	180	207	226	15.2	9.3
Tobacco Products	118	128	135	121	121	-10.1	-0.2
2 Textile, wearing apparel and leather products	179	206	217	258	269	18.7	4.5
Apparel	193	223	235	283	297	20.3	4.7
Textile	151	171	174	191	199	10.0	4.3
Leather	156	162	172	193	196	11.7	1.7
3 Wood and wood products	149	170	165	165	163	-0.3	-1.1
4 Paper and paper products	263	266	279	287	289	2.8	0.8
5 Chemical, petroleum, rubber and plastic products	159	196	224	257	286	14.7	11.1
Chemicals, paints and fertilisers	129	162	183	212	240	15.9	13.0
Rubber	141	181	213	253	274	18.9	8.4
Plastic & PVC	134	161	182	210	227	15.1	8.1
Pharmaceuticals, detergent and other	166	204	235	265	297	12.8	12.0
6 Non metallic mineral products	212	228	243	254	267	4.5	5.0
Diamond processing	235	280	270	260	237	-3.7	-8.8
Ceramic products	143	158	181	189	195	4.1	3.4
Cement	182	199	212	232	276	9.4	18.8
Building materials and other	164	180	204	221	241	8.2	9.0
7 Basic metal products	266	305	351	359	399	2.3	11.1
8 Fabricated metal products	141	147	150	178	197	18.7	10.7
9 Manufactured products not elsewhere specified	168	193	221	250	262	13.1	4.8
All Categories	172	192	205	230	246	12.1	6.9

(a) Provisional

Sources: Central Bank of Sri Lanka
Board of Investment of Sri Lanka

food, beverage and tobacco; chemical, rubber, petroleum and plastic products and textiles, wearing apparel and leather products. These categories contributed 86 per cent of the growth in industrial output.

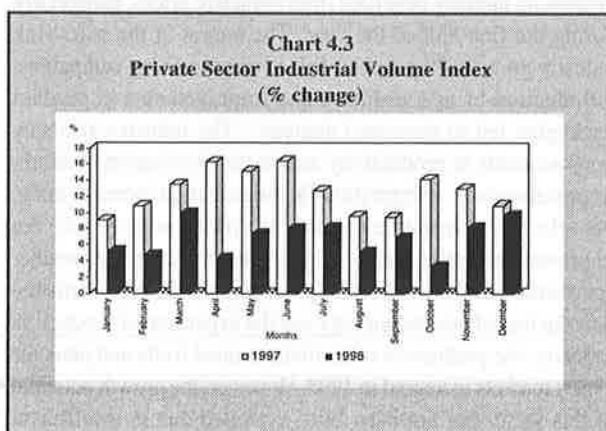
Private Sector Industries

Private sector industrial output grew by 6.9 per cent, down from the 12.1 per cent growth in the previous year and accounted for 93 per cent of total industrial production in 1998. The output growth of BOI industries is estimated at 6.4 per cent in 1998, compared to 19 per cent in the previous year. The domestic market oriented non-BOI industries expanded by 7.5 per cent compared to a 5.2 per cent growth in 1997. The expansion of

private sector industries was in food beverage and tobacco; chemicals, rubber, petroleum and plastic products; textiles, apparel and leather products and fabricated metal products. Employment in the non-BOI sector increased by 2.7 per cent during the year. The capacity utilisation of this sector was around 84 per cent, as in the previous year, while profitability declined from 14.9 per cent in 1997 to 12.5 per cent in 1998.

Textiles, Apparel and Leather Products

The growth of the textiles, wearing apparel and leather products category (TWLP) in 1998 is estimated at 4.5 per cent, a significant slowing down from the 18.7 per cent in the previous year. This category contributed to 24.4 per cent of the growth in private sector industrial production in 1998. Shipments in excess of quotas, in the case of some quota items, to the USA became a matter for concern in quota administration and some manufacturers had to defer their exports until 1999. Hence, there was a stock build up at the end of the year. Year end stocks with the BOI firms increased by 12 per cent. The BOI apparel and textile industries registered a moderate output growth of 4.6 per cent during the year. The availability of apparel and textile quotas increased by 4.5 per cent in 1998. The rate of quota utilisation increased from 73.6 per cent in 1997 to 74.1 per cent in 1998. The elimination of duties on imported textiles helped to reduce Customs delays and price increases of clothing in the domestic markets., but exposed the textile industry to open import competition. The problems of some factories were



compounded, leading to the stoppage of operations and the redundancy of about 3,000 employees (Veytex and Pugoda). However, salaries continued to be paid to these employees.

Exports of textiles and apparel from Sri Lanka to the USA accounted for 2.1 per cent of the USA requirement and 60 per cent of total apparel and textile exports by Sri Lanka in 1998. Exports of apparel to the USA increased by 3.4 per cent from 322 million square meter equivalents (SME) in 1997 to 333 SME in 1998. Of these, 77 per cent are under quota. The value of these exports increased by 8.7 per cent, from US dollars 1,204 million in 1997 to US dollars 1,308 million in 1998. There was a price gain of 5.5 per cent. This is a favorable development compared with a decline in the overall import price of apparel to the USA from all countries. Manufacturers were moving to higher value added items and Sri Lanka's apparel attracted higher prices in the USA under a highly competitive market environment. Other textile exports to the USA increased from 157 SME in 1997 to 195 SME, indicating 24 per cent growth. Exports of non-quota items increased by 25 per cent.

The total availability of quotas in 1998 increased by 4.5 per cent with a 3.2 per cent increase in the US quota, 13.3 per cent increase in the EU quota and 7.8 per cent increase in the Canadian quota. The quotas in respect of shirts and blouses, nightwear, underwear, terry and other pile towels, shop towels and fabrics, such as spun cell, woven and poplin, to the USA increased significantly during the year. In the EU market, the availability of quotas, except for men's and boys' woven shirts, increased in 1998. The reduction of quotas in the men's and boys' woven shirt category did not have significant impact on apparel exports because the utilisation rate of this category has been below 50 per cent. There were significant increases in the quotas for coats, jackets and rainwear, underwear, sleepwear and bath robes and bed sheets to the Canadian market. However, the quota in respect of high value added items such as coats for women and men, dressing gowns and trousers, did not reflect an adequate growth in 1998.

As in the previous year, the rate of utilisation of quotas shifted from low value added items to higher value added items. The quotas in the US market were fully utilised in respect of some items of coats, men's and boys' non-suits, women's and gents' coats, dresses, knit shirts and blouses, men's and boys' not-knit shirts, trousers and dressing gowns. In the Canadian market, the utilisation rates were high in the case of quota items of trousers, overalls and shorts. The largest demand for other quota items in 1998 was in the categories of skirts, nightwear, underwear, shop towels and trousers. The utilisation rates in respect of low value added items such as pillowcases, dish towels, not-knit shirts and blouses were low as manufacturers shifted into high value added items. However, the lower utilisation rates in respect of parkas, anoraks, windcheaters and fine suits has been mainly due to the inadequacy of the necessary technology and skills in Sri Lanka to manufacture these items with the required quality at competitive prices.

When the quota system is fully phased out by 2005,

international competition is likely to be intense. In order to face this future challenge successfully, the industry needs to invest in new technology and enhance its skills to improve productivity. Improved information systems, would help the industry respond quickly to changing market conditions, particularly in preferences and designs.

Food, Beverage and Tobacco

The food, beverage and tobacco sub-sector grew by 9.6 per cent and contributed 28 per cent to private sector industrial growth in 1998. Sub sectors such as food, liquor and beverage in this category registered higher output levels. The food sub sector grew further, reflecting higher production of wheat flour, milk products, animal feed, biscuits, sweets and desserts, sugar and processed meat products. The demand for wheat flour increased due to the increased price of rice and growth in food preparation industries. Improvement in quality and more effective distribution channels helped the milk products industry to grow. Some leading manufacturers in this industry operated three production shifts in order to meet the growing demand. The expansion of small scale poultry farming throughout the country increased the demand for animal feed. The introduction of a range of new products in chocolates, biscuits, confectioneries and processed meat were well received by the consumers. Effective advertising and improvements in packaging also helped to raise the demand for these products. With the expansion of capacity, the output of liquor grew by 9 per cent in 1998. A capacity expansion in the beer industry in 1998 enabled it to meet the growing demand effectively. Several new brands and varieties of beer were introduced during the year. Even though prices increased, this did not depress the demand for beer significantly. In Sri Lanka, beer consumption accounts for less than 10 per cent of the total alcohol consumption, whereas in developed countries this ratio is around 80 per cent. Hence, there appears to be untapped potential in the beer industry in Sri Lanka. The growth of this industry can be facilitated by issuing more licences to increase the network for retail sales of beer.

The beverage sub sector grew by 9 per cent, reflecting the growth of the tea processing and soft drinks industries. The tea processing industry benefited from attractive prices, particularly during the first half of the year. The output of the soft drink industry grew by 29 per cent. Effective advertising campaigns, introduction of new products and improvements in product packaging led to increased demand. The industry also saw improvements in productivity and in the distribution network. Improvements in refrigeration facilities and an increase in the vehicle fleet strengthened the distribution network. An improvement in the supply of fruits due to favorable weather conditions helped the fruit processing industry. With the introduction of new technology and the expansion of production capacity, the production of cordials, canned fruits and jams for export markets increased in 1998. However, the growth potential of this sector has not been fully exploited due to insufficient

storage facilitates, lack of commercial cultivation, quality seeds and closer integration between agriculture and industry. Tobacco processing remained sluggish for the second consecutive year. Smuggled cigarettes continued to be a major threat to this industry. The legal restrictions on advertising tobacco products and the greater awareness of tobacco related health problems also reduced the demand for cigarettes especially among the youth. The value of cigarette sales declined by 3.7 per cent, while production declined by 1.5 per cent in 1998.

Chemical, Petroleum, Rubber and Plastic Products

The chemical, rubber and plastic products industry continued to grow, with an 11 per cent increase in output in 1998. Both BOI industries and domestic market oriented industries in this sector grew appreciably. In pharmaceuticals, the high quality and lower prices of domestic products helped the domestic industry to maintain its advantage over imports. Improvements in quality, better packaging and aggressive advertising campaigns helped to increase the demand for consumer products such as detergents, soaps, cosmetics and toothpaste.

The expansion of construction activities in 1998 raised the demand for paints, varnish, PVC and chemical products. The plastic products industry grew as an ancillary industry, supplying packaging materials to the other growing industries and trade. In addition, the domestic production of plastic furniture also increased in 1998. The demand for ayurvedic drugs continued to increase during the year.

Other Products

The fabricated metal product category grew by 11 per cent. Despite the price competition in international markets, BOI manufacturers were able to sell their products in western markets due to the strong marketing links they had with major buyers. The domestic oriented industries, such as those manufacturing furniture and light engineering products, grew further in 1998. The increased substitution of steel based furniture for wooden

items due to the scarcity of supply and high price of wood helped the steel furniture industry. Similarly, in construction activity, the use of aluminum instead of wood for products such as door and window frames and partitions increased owing to advantages of price, durability and appearance. The output of building materials increased by 9 per cent in 1998. The demand for electrical items and cables also increased with the growth in construction activities. The manufacture of boats and boat repair activities continued to increase in 1998 owing to increased orders placed by the government. However, as in the previous year, the fabrication of motor coaches and lorries and the manufacture of bulbs declined owing to competition from imports.

The output of non-metallic mineral products increased by 5 per cent, a slightly higher rate than the 4.4 per cent in 1997. The output of processed diamonds, gems and diamond studded jewellery and some ceramic products continued to decline due to depressed demand for these products from the Asia-Pacific region. The output of cement, concrete works, terra-cotta products, ceramic products and asbestos roofing and ceiling sheets increased in 1998. The production capacity of the cement industry expanded in 1998. The growth in building construction increased the demand for asbestos, concrete products and ceramic products such as wall and floor tiles, mosaic wall tiles, sanitary ware and insulators. Productivity in the ceramic sector improved with the use of new machinery. The domestic sales of ceramic tiles increased with intensified sales promotion. Sri Lanka at present supplies less than 2 per cent of the total requirement in the world market. There is substantial growth potential in this industry and attempts should be made to improve Sri Lanka's market share by improving its capacity to meet the requirements of a growing and competitive market.

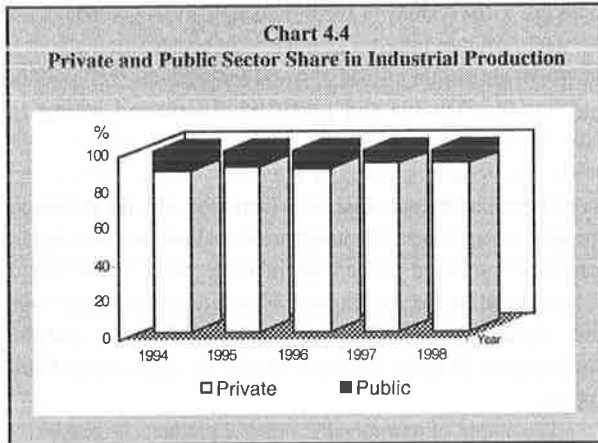
The output of paper and paper products showed a significant growth owing to growing demand for printed materials, labels, exercise books and calendars, the increase in the circulation of newspapers and the introduction of new magazines. The expansion of other industries stimulated the

TABLE 4.3
Value of Industrial Production
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	45,054	54,927	68,209	75,713	86,994	11.0	14.9
2 Textile, wearing apparel and leather products	80,845	99,602	112,539	142,249	160,543	26.4	12.9
3 Wood and wood products	1,601	1,929	2,171	2,299	2,511	5.9	9.2
4 Paper and paper products	4,066	4,595	5,069	5,462	5,593	7.8	2.4
5 Chemical, petroleum, rubber and plastic products	34,017	38,321	46,936	50,682	59,724	8.0	17.8
6 Non metallic mineral products	14,580	16,740	18,997	21,403	23,830	12.7	11.3
7 Basic metal products	1,909	1,736	2,248	2,439	2,841	8.5	16.5
8 Fabricated metal products, machinery, and transport equipment	7,122	7,977	8,807	11,327	13,241	28.6	16.9
9 Manufactured products not elsewhere specified	4,083	5,271	6,183	7,324	8,137	18.5	11.1
Total	193,277	231,098	271,159	318,898	363,414	17.6	14.0

(a) Provisional

Sources: Central Bank of Sri Lanka
Board of Investment of Sri Lanka



demand for labels, corrugated cartons and paper boxes. Despite the increased supply of imported items, exercise book production increased owing to the improvement of quality as well as the price advantage over imported exercise books. The output of the wood and wood product category showed a slight decline in 1998, despite the total elimination of import duty on timber in 1996. The export oriented manufacturers were not able to reap the full benefit of this measure owing to increased competition in the international market for wood products. Although the domestic oriented wood products category registered a moderate growth during the year, the growth potential of the industry is severely constrained by the shortage in the domestic supply of timber.

Public Sector Industries

The public sector industrial output grew by 16 per cent in 1998 compared to a contraction of 15 per cent in 1997. The higher growth reflected the contribution from the Ceylon Petroleum Corporation, which accounts for over 90 per cent of total public sector industrial output. The uninterrupted operation of the petroleum refinery resulted in an 18 per cent increase in the output of the Ceylon Petroleum Corporation in 1998. All public sector manufacturing enterprises, except Lanka Salt Ltd. and the National Paper Co. Ltd., have registered higher output levels during the year. Non-metallic mineral products registered the highest growth (30 per cent) followed by wood and wood products (23 per cent), chemical, petroleum, rubber and plastic products (18 per cent) and food, beverages and tobacco (5 per cent). However, production in the public sector paper and paper products category declined by 23 per cent.

With the establishment of latex collecting centers in rubber growing areas in 1997, the Sri Lanka Rubber Manufacturing and Exports Corporation Ltd. was able to purchase an increased volume of raw rubber, which enabled it to increase its output by 10 per cent in 1998. The output of the State Timber Corporation rose by 23 per cent. The Forest Department allocated more forest areas for felling operations during the year. The output of Sevanagala Sugar Industries Ltd. rose by 16 per cent in 1998, reflecting the increased supply of sugarcane. The area harvested

by the Sevanagala factory increased to 2,422 hectares in 1998 from 2,377 hectares in 1997, while the quantity of cane crushed rose to 197,000 metric tons from 169,000 metric tons. The output of Lanka Mineral Sands Ltd. rose by nearly 51 per cent owing to the availability of more storage facilities and uninterrupted production in 1998, compared to the previous year in which production had been suspended for more than seven months due to the security related problems in the East. The output of Lanka Phosphate Ltd. increased by 24 per cent, mainly due to growing demand for phosphate, particularly from the domestic agricultural sector.

The output of Lanka Salt Ltd. declined by 22 per cent in 1998 mainly due to bad weather conditions. Output of the National Paper Co. Ltd. declined by 23 per cent due to the disruption to the power supply in the Valachchenai mill and the frequent break down of machinery at Empilipitiya.

4.3 Value Added and Capacity Utilisation

The value added in the industrial sector increased in nominal terms by 15.4 per cent in 1998 owing mainly to a reduction in the cost of imported raw materials. Value added, in real terms, increased by 7.5 per cent during the year. The value addition, as a percentage of total value of production, increased marginally to 37.5 per cent in 1998. The value added ratios in wood and wood products, non metallic mineral products and fabricated metal products were above 50 per cent. In the chemicals, petroleum, rubber and plastic products it was 24 per cent. In basic metal products it was 25 per cent. The value added ratios were relatively high in food, beverages and tobacco products; paper and paper products and other industrial products. Domestic value addition in the textiles, wearing apparel and leather products was 34 per cent. This has been increasing over the last five years.

The installed capacity of the non-BOI industrial sector expanded by a further 4.0 per cent in 1998. Benefitting from the removal of import duties on machinery and equipment under the Advanced Technology Incentive Programme and the continuation of the policy of a lower National Security Levy (0.5 per cent), the non-BOI industries have imported a considerable

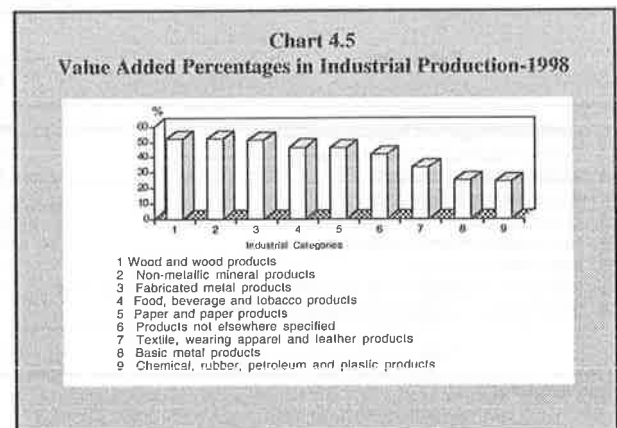


TABLE 4.4
Public Sector Major Industry Output Index

1977 = 100

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	9.3	10.2	9.2	8.6	9.4	-6.2	9.0
2 Textile, wearing apparel and leather products	-	-	-	-	-		
3 Wood and wood products	22.0	26.3	31.7	34.0	41.7	7.4	22.8
4 Paper and paper products	187.8	173.2	152.2	136.2	104.4	-10.5	-23.4
5 Chemical, petroleum, rubber and Plastic products	126.3	118.0	132.0	116.8	137.7	-11.5	17.9
Petroleum products	134.2	124.2	138.9	122.8	144.8	-11.6	17.9
6 Non metallic mineral products	5.5	5.9	6.8	4.7	6.0	-31.7	29.6
7 Basic metal products	130.8	95.0	116.5	-	-		
8 Fabricated metal products, machinery, and transport equipment	-	-	-	-	-		
All Categories	83.8	78.0	86.2	72.2	83.5	-16.3	15.6
Excluding Petroleum	27.7	24.5	25.1	13.5	12.2	-46.4	-9.7

(a) Provisional.

Source: Central Bank of Sri Lanka

TABLE 4.5
Value Added in Industry
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	24,373	29,507	32891	35585	40452	8.2	13.7
2 Textile, wearing apparel and leather products	20,660	24,859	31184	40714	47494	30.6	16.7
3 Wood and wood products	1,081	1,177	1250	1257	1312	0.6	4.4
4 Paper and paper products	2,301	2,458	2580	2633	2578	2.1	-2.1
5 Chemical, petroleum, rubber and plastic products	5,758	6,898	8957	10745	14274	20.0	32.8
6 Non metallic mineral products	9,272	9,726	10537	11600	12463	10.1	7.4
7 Basic metal products	356	347	450	598	710	32.9	18.7
8 Fabricated metal products, machinery, and transport equipment	4,344	4,547	4809	5924	6779	23.2	14.4
9 Manufactured products not elsewhere specified	1,838	2,319	2763	3157	3426	14.3	8.5
Total	69,983	81,838	95,421	112,213	129,488	17.6	15.4

(a) Provisional

Sources: Central Bank of Sri Lanka

amount of machinery. As in the previous year, the highest capacity expansion (of 5.5 per cent) was in the textile, apparel and leather product sub sector. The installed capacity in many industrial categories showed improvements during the year. The major improvements were in food, beverage and tobacco products (3.9 per cent); paper and paper products (4.3 per cent); chemical, petroleum, rubber and plastic products (2.8 per cent); non-metallic mineral products (2.3 per cent) and basic metal products (3.1 per cent). The overall capacity utilisation ratio of the industrial sector remained unchanged at 84 per cent in 1998.

4.4 Cost of Production, Profitability and Employment

The average ex-factory profit ratio (profits as a percentage of ex-factory value of industrial production) of the 475 non-BOI firms declined from 14.9 per cent in 1997 to 12.5 per cent in 1998. This is due to the increase in cost of production as well as slow growth or decline in output prices. In absolute terms,

wages, energy, raw material and other costs increased in 1998. The cost of imported raw materials as a percentage of total cost of production, declined marginally to 42.5 per cent in 1998 from 43.0 per cent in 1997. Many exporters had offered higher discounts to retain their export orders. The increase in the electricity cost following the imposition of GST also affected the profitability of the industrial sector. The profitability declined in many industrial categories during the year. Improvements in labour productivity in many industrial categories helped to avoid larger decline in profitability in the face of increased costs. The highest profitability was in the textile, apparel and leather product category (20.7 per cent). However, this was a decline from the 23.9 per cent in 1997. Profitability of the non-metallic mineral products category declined from 14.8 per cent in 1997 to 9.4 per cent in 1998. The profitability of the paper and paper products category improved from 10.9 per cent in 1997 to 11.5 per cent in 1998 owing to a reduction of cost.

TABLE 4.6
Ex-Factory Profit Ratios of Non-BOI Private Sector Industries (a)

Categories	Total Cost of Production (Rs. Mn.)		Total Value of Production (Rs. Mn.)		Factory Profit Ratio (percentage)	
	1997	1998	1997	1998	1997	1998
	1 Food, beverage and tobacco products	45,713	52,611	52,604	59,180	13.1	11.1
2 Textile, wearing apparel and leather products	14,571	17,329	19,147	21,866	23.9	20.7
3 Wood and wood products	881	977	1,011	1,097	12.9	10.9
4 Paper and paper products	3,080	3,372	3,457	3,810	10.9	11.5
5 Chemical, petroleum, rubber and Plastic Products	13,078	15,377	14,828	17,067	11.8	9.9
6 Non metallic mineral products	8,903	12,043	10,450	13,292	14.8	9.4
7 Basic metal products	1,035	1,221	1,192	1,389	13.2	12.1
8 Fabricated metal products, machinery, and transport equipment	7,070	7,648	8,230	8,740	14.1	12.5
9 Manufactured products not elsewhere specified	2,867	3,285	3,240	3,642	11.5	9.8
Total	97,198	113,863	114,159	130,083	14.9	12.5

(a) Based on information received from 475 non-BOI private sector firms.

Sources: Central Bank of Sri Lanka

TABLE 4.7
Domestic Cost Structure of Non-BOI Private Sector Industries (a)
(As a percentage of total cost of production)

Categories	Domestic Cost (percentage)							
	Power & Fuel		Wage		Raw Material		Interest	
	1997	1998	1997	1998	1997	1998	1997	1998
1 Food, beverage and tobacco products	2.5	2.7	9.3	9.0	41.3	41.0	2.1	1.7
2 Textile, wearing apparel and leather products	4.6	4.6	16.7	16.2	15.4	16.7	2.8	2.1
3 Wood and wood products	8.1	8.4	17.9	18.1	36.6	37.9	4.9	3.9
4 Paper and paper products	2.0	2.1	12.4	12.4	14.1	13.8	5.1	4.7
5 Chemical, petroleum, rubber and Plastic Products	3.9	4.1	12.4	12.5	31.5	29.7	3.9	3.3
6 Non metallic mineral products	16.4	16.1	16.1	15.4	20.1	20.8	4.4	4.4
7 Basic metal products	7.8	7.9	10.1	10.8	34.6	33.9	4.2	3.8
8 Fabricated metal products, machinery, and transport equipment	2.8	3.1	9.8	10.5	22.3	21.9	4.1	3.8
9 Manufactured products not elsewhere specified	4.7	4.8	12.5	11.9	38.2	39.1	3.2	2.0
Total	4.5	4.7	11.8	11.6	31.7	31.4	3.0	2.5

(a) Based on information received from 475 non-BOI private sector firms.

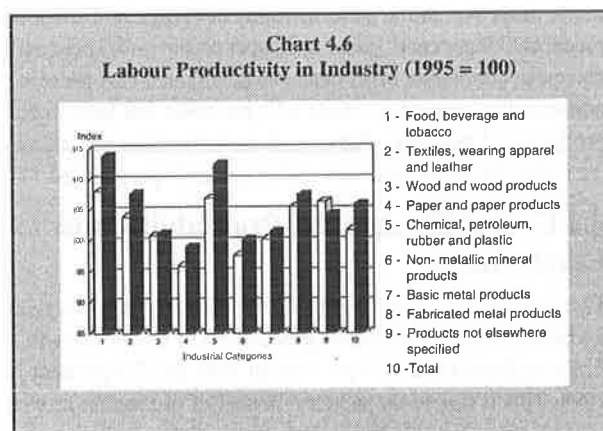
Sources: Central Bank of Sri Lanka

The labour cost, as a percentage of total cost of production, declined slightly from 11.8 per cent in 1997 to 11.6 in 1998. The share of energy costs increased from 4.5 per cent in 1997 to 4.7 per cent in 1998. The energy cost, in nominal terms, increased by 24.2 per cent during the year. Energy formed the principal element in the total cost of production of non-metallic mineral products; wood and wood products and basic metal products. The share of energy in the total cost of production is low in food, beverage and tobacco products and paper and paper products. The proportion of expenditure on interest declined slightly in 1998, from 3.0 per cent in 1997 to 2.5 per cent in 1998. Some companies however had obtained capital for investment in new projects at comparatively high costs and this share of interest cost in the total cost of production was relatively higher.

Labour Productivity in Industry

The industrial production survey of the Central Bank of Sri Lanka indicated an improvement of labour productivity by 4.1 per cent. Increases were seen in all major industrial categories.

Measures have been put in place to improve labour productivity. These took the form of skills development programmes for workers. Upgrading of machinery, improved work conditions and improved management which have contributed to labour



productivity. The labour productivity improved in food, beverage and tobacco products (5.3 per cent); textile, apparel and leather product (3.7 per cent); non-metallic mineral products (5.0 per cent) and paper and paper products (3.1 per cent).

Employment in Industry

Employment in the industrial sector increased by 10.5 per cent in 1998, reflecting increased labour absorption in BOI and non-BOI industries. Employment in BOI industries increased by 14 per cent, while the employment in the non-BOI sector increased by 2.7 per cent. According to BOI sources, although employment opportunities for skilled labour were available in the export processing zones, the vacancies could not be filled due to shortage of workers with the required skills. Some industries were able to reduce their casual labour without affecting the production during the year. The introduction of capital intensive new technology also helped to reduce the less productive workers. Employment in the industrial categories of wood and wood products and fabricated metal products increased by over 7 per cent. Employment increases were also seen in food, beverage and tobacco products (3.4 per cent), textile, apparel and leather products (3.7 per cent), and basic metal products (4.5 per cent). There has been a reduction of employment in non-metallic mineral products by 2.3 per cent in 1998.

TABLE 4.8
Labour Productivity Index in the
Non-BOI Private Sector (a) 1995 = 100

Categories	1997	1998	% Change
1 Food, beverage and tobacco products	108.2	113.9	5.3
2 Textile, wearing apparel and leather products	104.0	107.8	3.7
3 Wood and wood products	101.0	101.3	0.3
4 Paper and paper products	96.0	99.0	3.1
5 Chemical, petroleum, rubber and plastic products	107.1	112.5	5.0
6 Non metallic mineral products	97.7	100.3	2.7
7 Basic metal products	100.4	101.6	1.2
8 Fabricated metal products, machinery, and transport equipment	105.7	107.5	1.7
9 Manufactured products not elsewhere specified	106.4	104.4	-1.9
Total	101.8	106.0	4.1

Source: Central Bank of Sri Lanka

(a) Based on information received from 475 non-BOI private sector firms

Investment

Foreign Investment

The international environment for foreign private investment in the Asian region remained depressed. Nevertheless, Sri Lanka continued to attract a slightly higher amount of foreign private investment in 1998. The Board of Investment of Sri Lanka (BOI), which functions as the main government agency for the promotion of foreign investment, undertook several investment promotion missions, to the USA, India, Singapore, Germany,

Italy, Thailand and Belgium, in 1998. Business delegations from the Indian Chamber of Commerce and Industry, and the Confederation of Asia Pacific Chambers of Commerce visited Sri Lanka to search for new investment opportunities. Special missions from Australia, Germany and China also visited Sri Lanka to look for investment opportunities. The realised investment of the BOI industries increased by 17.6 per cent in 1998, from Rs. 27,375 million in 1997 to Rs.32,209 million in 1998.

The BOI, under Section 17 of the BOI Law, approved 400 new investment projects, as compared to 328 projects approved in the previous year. The total investment commitment of approved projects increased from Rs.73,607 million in 1997 to Rs.158,107 million in 1998. Of the projects approved in 1998, 82 were entirely foreign owned, 108 were joint ventures and 210 were entirely domestically owned. The expected employment generation of these projects was estimated at 92,012 persons. The foreign component of these projects was about 72 per cent of the total approved investment in 1998. Australia, China, France, Hong Kong, Japan, Korea, the Netherlands, and the USA were the source countries for this investment. Among the approved projects in 1998, 131 projects were in the textile, apparel and leather product category, 34 in the food, beverage and tobacco category and 25 in the chemical, petroleum, rubber and plastic product category, while the balance was in various other categories including services.

As in the previous year, the number of contracted projects also registered a considerable improvement. The BOI signed agreements in respect of 229 projects with an investment commitment of Rs.48,635 million in 1998 compared to 185 projects with an investment commitment of Rs 39,820 million in 1997. The foreign component was estimated at Rs.25,847 million or 53 per cent of the total investment of the contracted

TABLE 4.9
Employment in Private Sector Industries

Categories	1997	1998	% Change
(i) Non-BOI Private Sector (a)			
1 Food, beverage and tobacco products	25,282	26,132	3.4
2 Textile, wearing apparel and leather products	34,599	35,865	3.7
3 Wood and wood products	2,166	2,334	7.8
4 Paper and paper products	6,135	6,261	2.1
5 Chemical, petroleum, rubber and Plastic Products	20,815	21,215	1.9
6 Non metallic mineral products	13,293	12,991	-2.3
7 Basic metal products	783	818	4.5
8 Fabricated metal products	5,968	6,538	9.6
9 Manufactured products not elsewhere specified	5,624	5,590	-0.6
Sub Total	114,665	117,744	2.7
(ii) BOI Enterprises	258,185	294,381	14.0
Total	372,850	412,125	10.5

Source: Central Bank of Sri Lanka

Board of Investment of Sri Lanka

(a) Based on information received from 475 non-BOI private sector firms

TABLE 4.10
Realised Investments in BOI Enterprises (a)

Categories	No. of Enterprises		Foreign Investment (Rs. Mn.)		Total Investment (b) (Rs. Mn.)	
	1997(c)	1998(d)	1997(c)	1998(d)	1997	1998(d)
1 Food, beverage and tobacco products	92	149	4,253	5,200	7,923	11,392
2 Textile, wearing apparel and leather products	287	386	15,456	16,819	21,843	25,021
3 Wood and wood products	21	26	514	671	689	935
4 Paper and paper products	14	22	438	461	688	649
5 Chemical, petroleum, rubber and plastic products	76	101	5,920	7,121	7,173	9,370
6 Non metallic mineral products	48	66	1,035	3,044	1,985	4,841
7 Fabricated metal products, machinery, and transport equipment	25	35	1,185	2,832	1,817	3,616
8 Manufactured products not elsewhere specified	122	171	4,207	5,646	6,179	8,853
9 Services	300	402	45,679	58,438	70,700	86,529
Total	985	1,358	78,687	100,232	118,997	151,206

(a) Cumulative as at end year

Source: Board of Investment of Sri Lanka

(b) Projects approved under Section 17 of the Board of Investment Law

(c) Revised

(d) Provisional

TABLE 4.11
Employment and Export Earnings of BOI Enterprises

Categories	Employment (End Dec)		Gross Export Earnings (Rs.Mn) (F.O.B)	
	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	8,625	11,699	5,653	9,333
2 Textile, wearing apparel and leather products	161,321	189,395	98,203	114,721
3 Wood and wood products	3,147	2,723	396	380
4 Paper and paper products	1,011	871	1,144	1,133
5 Chemical, petroleum, rubber and plastic products	22,319	25,699	17,260	20,300
6 Non metallic mineral products	9,709	10,920	6,496	5,657
7 Fabricated metal products, machinery, and transport equipment	1,681	2,503	1,685	3,424
8 Manufactured products not elsewhere specified	31,563	31,538	15,143	16,649
9 Services (b)	18,809	19,033	8,908	9,884
Total	258,185	294,381	154,888	181,480

(a) Provisional.

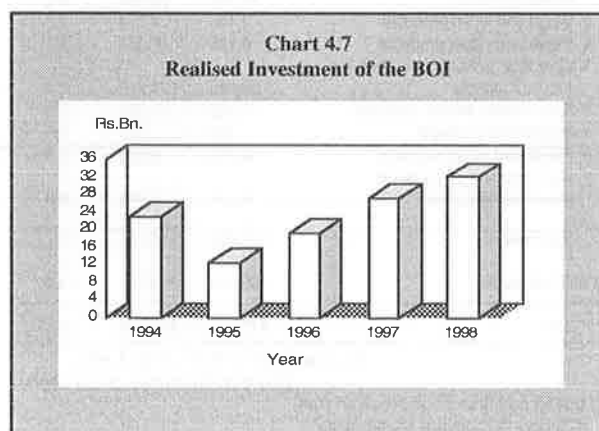
Source: Board of Investment of Sri Lanka

(b) Excluding Air Lanka Ltd.

projects. Of the 1,693 projects contracted up to end 1998, 927 enterprises with an investment commitment of Rs.118,207 million were in commercial operation at end 1998. The foreign

investment component of these projects was estimated at Rs.73,836 million or 62 per cent of the total investment. The potential employment of these projects is estimated at 254,505 persons. By the end of 1998, there were 96 projects in the Export Processing Zone (EPZ) in Katunayake, 58 in the Biyagama EPZ, 11 in the Koggala EPZ, 2 in the Mirigama EPZ, 4 in the Malwatta Export Processing Park, 4 in the Kandy Industrial Park and 752 enterprises outside the export processing zones, of which most are in the garment sector.

During 1998, the BOI had approved 90 projects under Section 16 of the BOI Law (normal Law). The total investment commitment of these projects amounted to Rs.5,205 million, while the foreign component was Rs.2,645 million or 50 per cent. The estimated employment of these projects was 3,164 persons, compared to 4,046 persons in the projects approved in the previous year. Of the total approved projects, 42 projects were entirely foreign owned and 47 projects were joint ventures.



Under Section 16 of the BOI Law, 397 projects were in commercial operation at end 1998. The total estimated investment in these projects was Rs.18,416 million, of which Rs.9,689 million or 52 per cent was from foreign sources.

Local Investment

The domestic investment commitment of the 400 projects approved under Section 17 of the BOI Law during 1998 was Rs.44,122 million and accounted for 28 per cent of the total investment commitment. The estimated local investment of the projects that signed agreements in 1998 was Rs.19,787 million or 40 per cent of the total investment. The share of the local investment in 927 commercially operated projects under the BOI amounted to Rs.44,370 million or 38 per cent of the total investment at end 1998. A significant portion of the investments was in enterprises located outside the EPZs.

The total investment in 1,731 enterprises registered under the Ministry of Industrial Development amounted to Rs. 89,728 million as at end 1998. The employment potential of these industries is estimated at 292,841 persons. These investments were mainly in the industrial categories of textile, apparel and leather products; chemical, rubber and plastic products; food, beverage and tobacco products and non-metallic mineral products.

4.6 Availability of Credit to the Industrial Sector

The amount of credit available to the industrial sector from commercial banks and long-term lending institutions increased during the year. The National Development Bank (NDB) and DFCC Bank continued to provide long-term financial facilities in the form of direct loans and equity participation, while the commercial banks provided mostly short-term financial facilities as working capital. In addition, the NDB provided refinance

under the Small and Medium Enterprise Assistance Project (SMAP), which was launched in 1997, using the funds raised by the NDB jointly from foreign commercial sources and the Asian Development Bank (ADB).

During 1998, the NDB and DFCC Bank together have approved financial facilities amounting to Rs.22,016 million to the industrial sector compared to Rs.15,575 million approved in 1997, an increase of 41 per cent. The food, beverages and tobacco product category and chemical, petroleum, rubber and plastic products category received a large portion of these financial facilities. Rs.3,864 million has been approved in respect of 439 projects in the food, beverages and tobacco category, while Rs.2,743 million has been approved in respect of 277 projects in the chemical, petroleum, rubber and plastic products category. During the first nine months of the year, commercial banks provided credit facilities amounting to Rs.27 billion to the industrial sector, as against Rs.25 billion lent during 1997. The rate of growth of industrial credit granted by commercial banks during the first three quarters of 1998 was approximately 12 per cent.

During the year, the NDB approved Rs.1,336 million of refinance under the SMAP in respect of 1,313 projects. Of this, credit amounting to Rs.263 million was approved in respect of 225 projects in the food, beverages and tobacco products category, Rs.170 million in respect of 127 projects in the chemical, petroleum, rubber and plastic products category and Rs.107 million in respect of 97 projects in the wood and wood products category. The NDB provided equity finance amounting to Rs.1,229 million for 12 projects in 1998, compared to Rs.418 million for 8 projects last year. Of this Rs.1,229 million, about Rs.530 million was provided for 3 projects in the chemical, petroleum, rubber and plastic products category. Direct financial assistance remains the major source of industrial credit from the NDB. During the year, the NDB approved Rs.14,963 million worth of direct financial assistance in respect of 809 projects,

Chart 4.8
Approved and Contracted BOI Projects

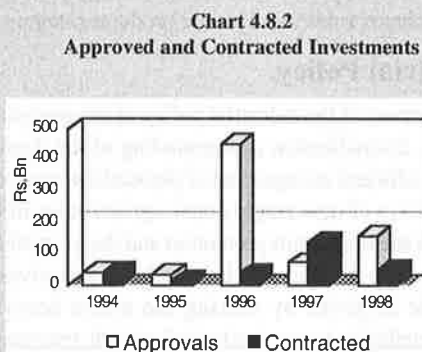
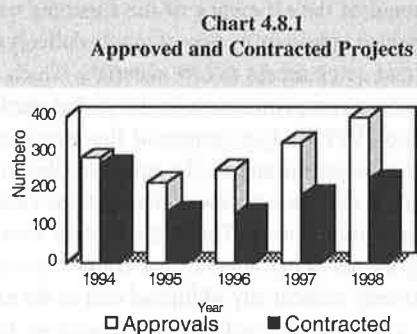


TABLE 4.12
Financial Assistance to the Industrial Sector by the NDB and DFCC Bank - 1998 (a)

Categories	Refinance Approved under SMAP		NDB				DFCC				Grand Total					
	Direct Finance Assistance(b)		Equity		Total		Loan Approvals		Equity		Total		No.	Amount Rs. Mn.		
	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.				
1 Food, beverage and tobacco products	225	263	65	1,982	1	60	291	2,305	148	1,559	-	-	148	1,559	439	3,864
2 Textile, wearing apparel and leather products	70	70	52	663	1	75	123	808	66	1,039	-	-	66	1,039	189	1,847
3 Wood and wood products	97	107	41	102	-	-	138	209	42	50	-	-	42	50	180	259
4 Paper and paper products	-	-	27	499	-	-	27	499	25	100	-	-	25	100	52	599
5 Chemical, petroleum, rubber and plastic products	127	170	94	1,219	3	530	224	1,919	53	824	-	-	53	824	277	2,743
6 Non metallic mineral products	-	-	2	17	-	-	2	17	13	429	-	-	13	429	15	446
7 Basic metal Products	-	-	-	-	-	-	-	-	9	51	-	-	9	51	9	51
8 Fabricated metal products, machinery, and transport equipment	-	-	-	-	-	-	-	-	74	436	-	-	74	436	74	436
9 Manufactured products not elsewhere specified	794	726	528	10,481	7	564	1,329	11,771	-	-	-	-	-	-	1,329	11,771
Total	1,313	1,336	809	14,963	12	1,229	2,134	17,528	430	4,488	-	-	430	4,488	2,564	22,016

(a) Provisional

(b) Projects and Equipment Finance Loans only

Sources: Development Finance Corporation of Ceylon Bank
National Development Bank

up from Rs.11,647 million approved in respect of 733 projects in the previous year. The amount of loans approved increased by 29 per cent over the previous year, while the number of projects approved increased by 10 per cent. A large number of projects in the food, beverages and tobacco products category and chemical, petroleum, rubber and plastic products category have absorbed a significant amount of this financial assistance.

The number of projects and the amount of credit approved by DFCC Bank increased considerably in 1998. During the year, DFCC Bank approved credit amounting to Rs.4,488 million in respect of 430 industrial projects compared to Rs.3,380 million approved in respect of 337 projects in 1997. Of the Rs.4,488 million, Rs.1,559 million was approved in respect of 148 projects in the food, beverages and tobacco products category, Rs.1,039 million was approved in respect of 66 projects in the textiles, wearing apparel and leather products category and Rs.824 million was approved in respect of 53 projects in the chemical, petroleum, rubber and plastic products category.

4.7 Industrial Policy

The main objectives of the industrial policy of the government are expansion, diversification and upgrading of the domestic industrial base, efficient management of physical and manpower resources, creation of new employment opportunities in both rural and urban sectors, export promotion and the promotion of industrialisation at the regional level. These objectives are expected to be achieved by making the macro economic environment conducive to rapid industrial growth, encouraging private sector participation, promoting direct foreign investment, facilitating the expansion of small and medium sector industries, promoting regional industrialisation, encouraging

commercialisation of research and development and promoting linkages between large and small firms.

A Presidential Trade and Tariff Commission was appointed to rationalise the existing tariff structure. The Commission recommended a reduction of the prevailing tariff rates and a move towards a two band tariff structure in two stages. The government Budget for 1999 also indicated that a two band tariff structure would be introduced in the year 2000. The standard duty rates of 10, 20 and 35 per cent were replaced with 5, 10 and 30 per cent, respectively. Accordingly, all imported industrial raw material and machinery were brought under a duty rate of 5 per cent. This measure is expected to reduce the cost of production and thereby enhance the competitiveness of Sri Lankan products.

The Presidential Trade and Tariff Commission has also recommended a complete review of the Customs Ordinance and systems and procedures to improve Customs administration. The improvement of the efficiency of the Customs would assist export oriented industries by way of timely delivery of finished products and quick access to raw materials, which are crucial to maintaining competitiveness in the global market. In this regard, the 1999 Budget proposed the appointment of a committee of experts from both the public and the private sector to undertake a complete review of the Customs Ordinance and systems and procedures. The 1999 Budget also proposed extending the servicing hours of Sri Lanka Customs and the Ports Authority without any additional cost to the exporters.

The government took several measures to improve industrial and social infrastructure facilities. The expansion of telecommunication services, power generation, port development, industrial parks and industrial townships are

expected to encourage industrial investment. In order to overcome the problem of a lack of skilled labour, the 1999 Budget proposed to set up a Skills Development Fund to encourage employers to conduct job entry training, upgrading and retraining of their employees, as well as to improve enterprise based training. In addition, measures are needed to make the labour market more flexible. This would include the introduction of necessary reforms to the existing labour laws, which are often viewed as discouraging private investment.

The duties on textiles and other related raw materials were abolished in the 1998 Budget to overcome the Customs related problems faced by the export oriented garment manufacturers who rely heavily on imported raw materials. Accordingly, the import of yarn, fabrics and all related intermediate and capital goods was made duty free from November 1997. This measure is expected to eliminate Customs delays, smuggling and under invoicing and also to reduce the lead time of exports. A 10 per cent Customs duty was imposed on imports of ready-made garments to encourage the domestic garment industry, while a restructuring programme for the textiles industry was launched to assist the industry to modernise its mills and to introduce new generation technology.

Incentives to the Industrial Sector

The fiscal incentives offered through the 1996 Budget were extended for a further period of two years in the 1998 Budget in order to encourage the use of advanced technology. This scheme offers duty free importation of approved machinery and equipment for new enterprises investing over Rs.4 million and Rs.1 million for existing enterprises and a five year tax exemption on incremental profits. The minimum investment requirements relating to the importation of approved machinery and equipment were removed in the 1999 Budget with a view to encouraging small scale enterprises to acquire advanced technology. However, income tax concessions are extended only if the investment proposals are above the prevailing minimum level of investment. Under this scheme, approvals have been given for 142 new enterprises with a total investment commitment of Rs.10,883 million, and for 378 existing enterprises with a total investment commitment of Rs.23,270 million as at end 1998. During this period, Rs.22,465 million worth of machinery and equipment has been imported under this scheme. The potential employment of these projects is estimated to be 31,771 persons.

With a view to encouraging private sector involvement in training facilities in priority sectors such as gems and jewellery, electronics, computer software and garments, the 1999 Budget proposed to amend the BOI incentives to grant a 5 year tax holiday, provided that each training institute undertakes training for a minimum of 300 persons. Prior to this amendment, the BOI provided a preferential tax rate of 15 per cent and a duty free facility to establish training facilities. It was also proposed to provide financial assistance to expand and improve existing training institutions and to establish new training facilities. The

proposed Skills Development Fund is expected to support employers to conduct job entry training, upgrading and retraining of their employees as well as to improve enterprise based training.

Following the recommendations made by the Development Review Committees of the Advisory Councils for Industry, certain industries such as electronics and components for assembling, ceramics and glassware, rubber based industries, light and heavy engineering, cutting and polishing of gems, diamonds and manufacture of jewellery were declared as 'thrust industries'. Special incentives were made available to promote such industries in 1998. New enterprises, which establish such industries in designated zones with a minimum investment of Rs.50 million, create 50 new employment opportunities and export over 90 per cent of output, are eligible for a 10 year tax holiday with other BOI incentives and concessions. Non-BOI enterprises that have already engaged in a thrust industry are permitted to import plant and machinery on a duty free basis to modernise existing factories. In addition to these duty free concessions, a 5 year tax holiday is granted to those enterprises which reach the 50 per cent export requirement within a period of 5 years, while a 10 year tax holiday and full BOI status would be granted to those enterprises which comply with the 90 per cent export requirement. Further, investors investing their undisclosed accumulated income in thrust industries were declared eligible for a tax/exchange control amnesty. Those engaged in the gold, gem and jewellery industry were also given a host of other incentives, including exemption from income tax and National Security Levy and duty free import of gems and gold.

The 'Restructuring Programme for the Textile Industry', introduced after the liberalisation of textile imports in 1998, is expected to encourage domestic textile manufacturers in introducing new generation technology to increase efficiency and competitiveness. A special fund known as the Textile Debt Recovery Fund was set up to transfer all outstanding loans, together with accrued interest of the textile manufacturers. Upon transferring the outstanding debt to the Fund the enterprises become eligible to obtain new financial assistance for modernisation and restructuring of the mills against the collateral/mortgage already furnished as security for previous loans. By end 1998, about 128 entrepreneurs had submitted applications to avail themselves of relief offered under this restructuring programme. Of these, 101 applications have been considered favorably and their total debt outstanding, amounting to Rs.3,781 million, has been transferred to the Textile Debt Recovery Fund (TDRF). Of the claims relating to these 101 entrepreneurs, five have already been finalised and the rest are being processed. The government has already paid Rs.204.2 million to the banks, (Rs.97.6 million principal and Rs.106.7 million interest) in respect of the debts transferred to the TDRF. By the end of 1998, one entrepreneur had already undertaken a modernisation project and it is expected that more will start modernisation of their factories, once the relevant agreements

TABLE 4.13
Projects Approved under the Advanced Technology Incentive Scheme as at end 1998 (a)

Categories	New			Existing			Total		
	No	Investment Rs.Mn	Potential Employ- ment	No	Investment Rs.Mn	Potential Employ- ment	No	Investment Rs.Mn	Potential Employ- ment
1 Food, beverage and tobacco products	20	2,204	1,468	67	6,152	3,810	87	8,356	5,278
2 Textile, wearing apparel and leather products	13	705	1,007	40	1,832	2,640	53	2,537	3,647
3 Wood and wood products	5	220	432	9	203	505	14	423	937
4 Paper and paper products	11	664	838	36	1,437	1,425	47	2,101	2,263
5 Chemical, petroleum, rubber and plastic products	38	1,642	2,241	110	5,039	5,688	148	6,681	7,929
6 Non metallic mineral products	7	1,408	531	9	428	645	16	1,836	1,176
7 Basic metal Products	5	1,004	824	15	1,044	840	20	2,048	1,664
8 Fabricated metal products, machinery, and transport equipment	12	665	897	50	2,452	2,553	62	3,117	3,450
9 Manufactured products not elsewhere specified	20	1,838	1,827	20	689	803	40	2,527	2,630
10 Services	11	533	609	22	3,994	1,574	33	4,527	2,183
Total	142	10,883	10,674	378	23,270	20,483	520	34,153	31,157

(a) Provisional

Source: Ministry of Industrial Development

are signed. A full interest subsidy for those textile manufacturers who are classified as good customers of the banks was also introduced. These manufacturers were also allowed to import project related machinery, equipment, parts and inputs, including raw materials and accessories for the textile industry, on a duty free basis. The government has also decided to procure from these manufacturers the requirements of fabric materials for school uniforms, uniform requirements of service personnel and items such as bandages and gauze for the health sector and uniform requirements of the Postal and Railway Departments etc., commencing from January 1999, until their products reach the quality standards demanded by international markets. For the purpose of implementing this procurement plan, a Domestic Textile Allocation Committee (DTAC) has been set up in the Ministry of Industrial Development to assess the fabric requirements of government institutions and to identify the manufacturers eligible to receive these orders on a quota basis.

To promote regional industrialisation the government has also introduced an incentive scheme aimed at promoting geographical dispersion of industries. Accordingly, any BOI or non-BOI enterprise in commercial operation would be entitled to receive incentives offered by the BOI, provided that such enterprise sets up an expansion unit or relocates in a zone designated as a 'difficult area' or a 'most difficult area' before 31 December 1998, employs a minimum of 150 persons and exports a minimum of 50 per cent of the output. The minimum export requirement will be 90 per cent in the case of the garments industry. An enterprise in commercial operation setting up an expansion unit or relocating to 'difficult area' or a 'most difficult area' will be entitled to 5 year and 8 year tax holiday periods, respectively, along with other BOI incentives. It was also proposed to grant an additional 5 year tax holiday and other incentives to existing BOI enterprises currently located in difficult and most difficult areas for expansion at the same

location for the manufacture of garments, ancillary products or other related items for the garment industry and for setting up of specialised training centres in advanced technology, provided that such enterprises are commissioned before 31 December 1998 and the enterprise provides employment for a minimum of 100 persons. Although this incentive scheme was to expire in 1998, it has been extended till 31 December 1999, in the 1999 Budget.

National Productivity Decade Programme

The National Productivity Decade Programme, launched in 1997 with the objective of improving productivity in both the private and public sectors, continued in 1998. The year 1998 was considered an important year in the implementation of the productivity programme, in view of the emphasis placed on productivity improvement in the public sector, carrying the message of productivity to peripheral areas and formulating a strategic Five Year Plan for productivity improvement. The Five Year Plan aims to improve productivity in the public, private and non-corporate sectors through leadership improvement, human resource development, information technology (IT) improvement, improvement of utilisation of finances and introduction of reforms to rules, regulations and procedures. According to the Ministry of Industrial Development, the Five Year Plan will be implemented from 1999. The Ministry of Industrial Development paid special attention to popularising worker participation techniques and enhancing awareness on productivity themes among employees, manufacturers and the general public. Productivity cells have been set up in almost every ministry and liaison officers have been appointed to co-ordinate the productivity improvement activities of the respective ministries, departments and public sector organisations. Radio discussion programmes that stressed the need for awareness creation among the public on productivity

improvement themes were given priority. During 1998, 50 English programmes, 50 Sinhala programmes and 52 children's programmes were broadcast.

4.8 Industry Location

Many industrialists prefer to locate their factories in the Colombo and Gampaha districts, owing to the availability of relatively better infrastructure facilities in these districts and the close proximity to the sea and air port. The concentration of industries in these districts has created several economic and social problems, including congestion in the capital city, scarcity of labour for industries, environmental pollution and escalation of real estate prices. The government has taken several policy measures in the recent past to minimise excessive concentration of industries in these areas and to discourage migration of people to those areas for employment and investment purposes. The most important measures taken by the government in this regard include the introduction of the Two Hundred Garment Factory Programme and the Fifty Garment Factory Programme, the establishment of mini Export Processing Zones or Parks in Kandy, Malwatta, Watupitiwala, and Mirigama, the introduction of the regional industrial parks, industrial estates and industrial township programme, the implementation of the Southern Development Programme and the provision of fiscal incentives to set up industries in designated difficult and most difficult areas of the country.

To overcome inadequate infrastructure facilities in the regions, the government launched the regional industrial parks programme. The Seethawaka Industrial Park established under this programme has completed its construction work in 1998 by providing infrastructure facilities such as factory buildings, access roads, electricity, water, telecommunication and waste disposal facilities. Selling of factory lots in the Seethawaka Industrial Park commenced in July 1998. The more environment friendly industries such as food processing, gems and jewellery, garments, electronic and electronic products, wooden furniture, rubber based industries and assembling of electronic components are encouraged in this park. A preliminary report on the construction of the Matugama Industrial Park, covering 300 acres, has already been prepared. State land, 105 acres in extent in Bata-atha in the Southern province, is being developed to set up an industrial park for the tanning industry, with the necessary infrastructure facilities including waste water disposal plant, chrome recovery units and a solid waste disposal system.

The BOI has taken steps to set up mini Export Processing Zones in Malwatta, Mirigama and Watupitiwala by providing

the required infrastructure facilities. The Malwatta mini EPZ will accommodate 11 industries, after completion of its construction work. The potential employment of this project is estimated at 5,000 persons. The Mirigama mini EPZ, extending over 40 hectares has a capacity for 15 industrial units. The first phase of the construction of this park is expected to be completed in mid 1999. The Watupitiwala mini EPZ consists of 27 hectares for 20 industrial plots.

Under the regional industrial estate development programme, construction work in twelve industrial estates at Homagama, Minuwangoda, Karandeniya, Beliatta, Pannala, Udukawa, Matale, Dankotuwa, Ampara, Kuruwita, Kalutara, and Thamankadawa commenced in 1997 and 1998. These parks will cover 324 acres and will have the capacity to accommodate around 225 industrial units. At end 1998, 80 blocks of land had been allocated to potential investors and 17 industrial projects in these sites were in commercial operation, employing 3,460 persons. Setting up of 15 more industrial estates in the Kurunagala, Anuradhapura, Nuwara-Eliya, Ampara, Trincomalee, Batticaloa, Vavuniya, Jaffna, Moneragala and Kandy districts was being considered. The total extent of land to be developed under this programme has been estimated at 335 acres. The envisaged employment opportunities in these industrial estates were estimated at 15,000 persons. The 1999 Budget also proposed to set up several 'Dedicated Economic Centres' in regions in order to promote economic activities giving more consideration to area specific problems. The construction of the Divulapitiya and Dandulla Dedicated Economic Centres commenced in 1998.

There were 160 garment factories registered under the Two Hundred Garment Factory Programme in 21 districts at the end of the year. The location of these factories shows wide regional distribution with 138 factories or 86.2 per cent of the total of 160 factories being located in districts other than Colombo and Gampaha. There were factories in difficult districts such as Moneragala, Batticaloa, Trincomalee and Ampara. Under this programme, the Ratnapura and Anuradhapura districts had 15 factories each, while the Puttalam and Kandy districts had 12 factories each. However, of the 1,274 enterprises registered under Section 16 and 17 of the BOI Law, 939 or 73 per cent were located in the Colombo and Gampaha districts. Of the 1,747 factories registered with Ministry of Industrial Development under the Industrial Promotion Act of 1990, 1,511 factories were also located in these two districts.

5. ECONOMIC AND SOCIAL OVERHEADS

5.1 Overview

A lack of infrastructure facilities has been highlighted as one of the major factors that has affected the external competitiveness of Sri Lankan products and constrained faster economic expansion in Sri Lanka. Resource constraints caused by the continuing military conflict in the North and the East since 1983 curtailed the development of key economic infrastructure sectors to a large extent. Public investment had gradually declined as a percentage of GDP from 13 per cent in 1985 to 5 per cent in 1997, resulting in a sharp deterioration in the quality and adequacy of the infrastructure base. A further fall in public investment may have adverse implications on future growth prospects as the overall investment ratio has not been growing sufficiently to facilitate a growth rate of more than 5 per cent per year in the next five years. This trend has been arrested to some extent in 1998. The government strictly adhered to maintaining capital expenditure as planned in the 1998 Budget despite a shortfall in revenue and increased security expenditure. Accordingly, public investment increased to 5.9 per cent of GDP in 1998, a significant increase compared to 1997. The 1999 Budget envisaged a further increase in public investment to 7.5 per cent of GDP in 1999. Nevertheless, the current level of investment is still below the required level, considering the dilapidated condition of some of the existing infrastructure and future economic needs. In this context, private sector participation in providing economic infrastructure has to be further encouraged within a clear medium-term policy framework and a well designed regulatory mechanism.

In 1998, both the public and the private sector made considerable investments in key infrastructure sectors. Despite the adverse developments in the global economic environment, private sector involvement in areas such as power, telecommunication and ports progressed further during 1998. The thermal power generating capacity was increased with the commissioning of a 51 MW power plant by Asia Power Ltd. at a cost of US dollars 62 million in 1998. In addition, negotiations had been completed in respect of 165 MW Combined Cycle Power Plant on a BOOT basis and a 60 MW Barge Mounted Power Plant on a BOO basis during the year. Further, Kool Air Ventures (Pvt.) Ltd. installed a 10 MW Diesel Power Plant at Kankasanturai on a BOT basis in order to restore the power supply in the Jaffna Peninsula. In addition, the CEB was evaluating proposals for the construction of a number of small hydro power projects by the private sector. The performance of Air Lanka Ltd. improved substantially with the divestiture of a 40 per cent of equity and the management to Emirates Air Lines during the year. A preliminary agreement between the

Government of Sri Lanka and South Asia Gateway Terminal (Pvt.) Ltd. has been signed to develop the Queen Elizabeth Quay (QEY) on a BOT basis at a cost of US dollars 240 million. The telecommunication sector further improved with increased private sector participation and improved efficiency of SLT due to reorganisation of the management of Sri Lanka Telecom (SLT) by NTT of Japan.

TABLE 5.1
Government Investment in Infrastructure

Year	Economic Services		Social Services		Total	
	Rs. Mn.	% of GDP	Rs. Mn.	% of GDP	Rs. Mn.	% of GDP
1985	18,950	11.7	1,826	1.1	20,776	12.8
1990	18,798	5.8	3,019	0.9	21,817	6.7
1991	26,022	7.0	2,964	0.8	28,986	7.8
1992	20,444	4.8	6,137	1.4	26,581	6.2
1993	29,600	5.9	6,075	1.2	35,675	7.1
1994	29,304	5.1	7,677	1.3	36,981	6.4
1995	36,106	5.4	9,854	1.5	45,960	6.9
1996	31,409	4.1	10,322	1.3	41,731	5.4
1997	32,481	3.6	11,552	1.3	44,033	4.9
1998	44,677	4.4	15,258	1.5	60,205	5.9

Source: Central Bank of Sri Lanka.

In 1998, public investment in key areas such as power, telecommunication, roads and ports expanded considerably, compared with the previous year. Investment in power generation, transmission and distribution grew sharply by 58 per cent. With the commissioning of new thermal power plants, the power generating capacity of thermal power plants grew by 4 per cent, reducing the reliance on hydro power to a level of 69 per cent in accordance with the policy statements made in 1998. The telecommunication sector grew rapidly, outpacing the growth of demand, and it is estimated that the waiting list for telephones will be eliminated by 2002. The total investment in the telecommunication sector, both private and public, amounted to Rs. 16,162 million in 1998. Consequently, the number of persons per telephone, including cellular and wireless phones, improved from 41 in 1997 to 27 in 1998. Efforts to maintain the national road network was strengthened considerably by the investment of a sum of Rs.5,783 million in 1998, an increase of 3 per cent over the previous year. Initial work on large road infrastructure projects such as the Matara – Colombo Expressway, Colombo – Katunayake Highway and the Outer Circular Road connecting major highways in Colombo, commenced in 1998. However, efforts to maintain provincial and local road networks are still at an inadequate level. Although measures have been taken to improve the scale of operations of the passenger transport sector, attention has not

been given to maintaining the commercial viability of the industry and this may undermine the expected benefits of the restructuring programme of the transport sector in the foreseeable future. The prospects of the Colombo Port being a major hub in South Asia are severely threatened with the emergence of new ports in the region. This strongly emphasises the urgent need for the Colombo Port to expand its capacity while improving its operational efficiency too. In order to meet the expanding needs of the commercial and trading sector, the need for the speedier development of postal services is well recognised and draft legislation to restructure the Department of Posts has been prepared in 1998.

In order to maintain the sustainability of social sector achievements, ambitious reform programmes were executed in the area of health and education during the year under review. The need to improve the quality of education is well recognised and education reforms commenced in 1998. Under the health sector reforms, the priorities of the health sector were redirected, taking into consideration the emerging health needs of the society with an appropriate health care delivery strategy. Initial work on health reforms began in 1998. It is important to recognise that the allocation of adequate resources and timely implementation are crucial for the success of these reforms. In addition, direct private sector participation in both areas should be effectively encouraged in order to mitigate the fiscal burden as well as to improve the efficiency of the sector. Meanwhile, the Presidential Task Force on Housing and Urban Development emphasised and recommended the need to enhance the involvement of the private sector in providing housing facilities, with an appropriate strategy which would ensure adequate availability of finances and land. As emphasised in the previous years, there is also a vital need to confine the benefits of the government's welfare programmes to the most deserving.

5.2 Health

Sri Lanka's health indicators compare favourably with those of developed countries mainly due to the heavy investment by the government, especially in the health sector and in other welfare activities in general, during the past few decades. Successive governments, since independence, have maintained a fairly high level of expenditure varying in the range of 1 - 2 per cent of GDP on the health sector. This has improved the access to health facilities even in rural areas. The continuous government involvement in poverty reduction programmes also contributed to improving the health conditions of the population. However, the sustainability of these achievements in the health sector has been threatened by emerging health hazards due to changing life styles, demographic transition, poor environmental conditions and weaknesses in the existing health care delivery system. The situation is further aggravated by the large number of casualties in the on going military conflict.

A marked increase in mental disorders, traumatic injuries, poisoning and suicides has also been seen. Meanwhile, health problems related to an aging population will be most crucial in the next two decades. According to various population projections, the old age population (60 years and over) in Sri Lanka will gradually increase from 9.1 per cent in 1995 to 21.5 per cent in 2030. This increase in the old age population will lead to an increased demand for health care services for cardiovascular, neurological, cancer and rheumatological diseases and other common physical and mental problems of the aged. There is an urgent need to redirect the priority in the health sector with an appropriate strategy for expanding health care delivery. This need has been well recognised and the Presidential Task Force (PTF) on the health sector, appointed in 1997, has made specific recommendations to address these issues.

A Health Sector Reforms Implementation Unit (HSRIU) was formed in January 1998 to co-ordinate and facilitate the implementation of recommendations made by the PTF. Within the broad aim of the health policy of Sri Lanka, i.e., to increase life expectancy and improve quality of life, the immediate focus of the government is to address health problems like inequities in the provision of health service, the problems of the elderly and disabled, the increase in non-communicable diseases, accidents, suicides and substance abuse. In order to address these issues, five thrust areas have been identified for immediate implementation from a series of recommendations made by the PTF. They are: improvement of one hospital in each district, expansion of the health services to cover special needs (such as the elderly, disabled, war victims, mental health, estate health etc.), development of health promotional programmes with special emphasis on revitalising school health programmes, reformation of the organisational structure of the health sector and resource mobilisation and management including alternative financing mechanisms, resource sharing between the private and public sectors and rationalising human resource development.

During 1998, initial steps were taken by the HSRIU to address community health needs, through the setting up of day care centres, preparation of a plan of action for elderly persons affected by the armed conflict and the disabled, development of the mental hospital as a teaching hospital complex and decentralisation of mental health care. Development work in the Polonnaruwa hospital has already commenced under the programme to set up at least one well-equipped hospital in each administrative district. In order to strengthen the dental services, 40 new dental clinics have been opened in various regions. In accordance with the recommendations made by the PTF, 50 estate hospitals have been identified to be taken over by the government and two of these have already been acquired. A programme has also commenced to train 15,000 volunteers to promote community health care. For effective implementation, broad

recommendations will have to be broken into clearly defined tasks assigned to identified persons, committees or institutions, along with a specified time frame in which to perform such tasks. In particular, problems that can be addressed in the short-term must be separated from those that need long-term solutions. It would also be useful to identify expenditure estimates and funding sources for each of the activities.

The number of government hospitals practising Western medicine increased to 550 with the opening of a Dental Teaching Hospital at Peradeniya and the acquisition of 2 estate hospitals in 1998. The number of hospital beds per 1,000 population improved to 2.9 from 2.8 in 1997. In addition, there were 389 central dispensaries by end 1998. The health sector manpower stands at 69,369, of which 5,104 were recruited during 1998. The number of doctors including Assistant Medical Practitioners (AMPs) and Interns, at 6,981, works out to 3.7 doctors per 10,000 people, up from 3.4 in 1997. Although the nursing staff has increased in absolute terms, the number of nurses per 10,000 population decreased to 7.7 from 7.8 in 1997. Inadequate nursing staff has been disturbing inpatient services in hospitals for a number of years. The private sector health care service also greatly suffers from a lack of qualified nurses. To address these issues, the government recruited 1,553 persons to nursing schools in 1998 to be trained as nurses. At the same time, the construction of a new nurses' training school at the Sri Jayawardenapura hospital also commenced in 1997. The shortage of qualified para-medical staff, both in government and private hospitals, hinders the effective treatment of patients. During 1998, only 42 para-medics were recruited to government hospitals. However, a record 1,100 persons have been enrolled for training during the year. Adoption of a long-term plan to train health personnel is required as the demand, particularly for nurses, para-medics and technicians, is growing fast.

TABLE 5.2
Public Health Services

Item	1996	1997	1998 (a)
Hospitals(practising Western Medicine) (No.)	540	547	550
No. of Beds	52,613	52,635	53,737
Central Dispensaries(No.)	377	371	389
Total No. of Doctors	4,391	4,956	5,611
Total No. of Asst.Medical Practitioners	1,464	1,380	1,370
Total No. of Ayurvedic Physicians	14,808	15,078	15,359
Total No. of Nurses	13,846	14,399	14,463
Total No. of Attendants	5,758	6,650	6,717
Number of In-Patients('000)	3,339	3,453	n.a.
No. of Out - Patients ('000)	35,348	39,503	n.a.
Total Health Expenditure (Rs.Mn)	11,913	12,135	14,419
Current Expenditure (Rs.Mn)	9,260	9,581	10,089
Capital Expenditure (Rs.Mn)	2,653	2,554	4,330

(a) Provisional.

Sources: Ministry of Health and
Indigenous Medicine
Central Bank of Sri Lanka

Efforts to improve primary health care services, particularly in remote areas, continued during the year under review. The 'Suva Udana' health service programme aimed at providing preventive and curative health services to underserved areas of the country through specialist services was held in ten areas during 1998. The National Immunisation Day for Polio Eradication was held for the fourth successive year. The country has already achieved its global target (90 per cent) of immunisation coverage of infants against six vaccine-preventable diseases. Meanwhile, dengue haemorrhagic fever showed an increase in incidence. During 1998 there were 227 confirmed dengue cases, compared to 193 confirmed cases in 1997. A Dengue Control and Preventive Week from 22 to 29 June 1998 was declared. The outbreak of cholera, which commenced in 1997, continued in 1998. The outbreak commenced in the Puttalam District and in 1998, most of the cases were reported from the Puttalam, Kurunegala, Moneragala and Polonnaruwa districts. The main reasons for the spread of cholera were lack of safe drinking water and sanitary facilities and poor personal hygiene. There was no significant change in the incidence of Japanese encephalitis during 1998. However, immunisation of children between 1-10 years against the disease was continued during the year. Despite the control activities undertaken, the incidence of Malaria remained high. However, the number of Positive cases reported during 1998 dropped marginally to 211,691.

Total government expenditure in the health sector was Rs.14,419 million in 1998, indicating an increase of 18 per cent over the previous year. In relation to GDP, expenditure rose from 1.3 per cent in 1997 to 1.4 per cent in 1998. The capital expenditure of the government on the health sector at Rs. 4,330 million reflected an increase of 70 per cent. Construction work of the National Nurses Training School at Sri Jayawardenapura, at a cost of Rs.723 million, was in progress in 1998. Construction work is scheduled to be completed by mid-1999 and the first batch of 100 nursing students will be recruited during the same year. A ten-storied building complex with 390 beds for the Lady Ridgeway Hospital is under construction with financial assistance from China. The estimated total cost of the project is Rs.320 million and the construction work is scheduled to be completed by the end of August 1999. With Korean financial assistance, steps have been taken to improve the patient care services of the Gampaha and Negombo Base Hospitals at a cost of Rs.225 million and to provide basic medical equipment to peripheral hospitals at a cost of Rs.300 million in 1998. The Government of France has granted a soft loan of Rs.170 million for improving the cardio-thoracic unit at the Kandy Teaching Hospital. The IDA/World Bank funded Health Service Project, which commenced in 1997, continued in 1998. A large quantum of funds under the project has been allocated for malaria eradication (Rs.252 million), STD/AIDS (Rs.603 million), nutrition

(Rs.200 million), non-communicable diseases (Rs.31 million) and for health education services (Rs.174 million). The total cost of the project is estimated to be Rs.1,490 million. The Health and Population Project funded by the ADB for improving the health care delivery system in the North Central, North Western and Central provinces and in the Kalutara District was nearing completion in 1998. Most activities financed by foreign funds were for those activities identified under the health sector reforms. Therefore, timely and efficient utilisation of foreign resources within the stipulated time frame will be necessary for the health reforms to be productive.

Private Sector Health Care

The private health services sector is made up of a network of private hospitals, nursing homes and private general practitioners. The government has recognised the importance of developing the private sector health services in parallel with its own free health service in order to meet the growing demand as well as to guarantee easy access to quality health care. Accordingly, the government has provided various incentives in the form of duty exemptions for the import of medical equipment, tax concessions for investments in two tier private hospitals and the provision of free land etc. in order to encourage private investment in the health sector. At the same time, all BOI approved hospital projects are eligible to receive BOI concessions. Further, an appropriate public-private mix in the delivery of health services has been emphasised in the health sector reforms. The decision of Indian Hospitals Corporation, the owners of the Apollo Hospital Group of India, to establish a hospital in Sri Lanka at an estimated cost of Rs. 2,000 million is an important development in this sector during 1998.

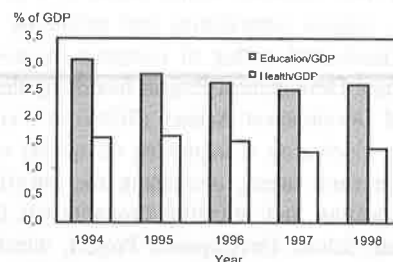
According to Health Ministry sources, there are about 120 private hospitals with a bed capacity of about 2,500. As one of the major problems in assessing the coverage and performance of the private sector health services is the lack of information about the service providers, the Central Bank conducted a postal survey among 70 selected hospitals in order to collect data on private hospitals. A total of 36 private hospitals, including all major private hospitals in Colombo, responded to the questionnaire. The total bed capacity of these hospitals had improved marginally to 1,600 during 1998. The number of inpatients and outpatients had increased by 4 per cent and 20 per cent, respectively, to 72,616 and 1,202,922, respectively during the year under review. There were 136 permanent doctors, 1,057 visiting doctors and 185 part-time doctors working in these hospitals at end 1998. The nursing staff of these hospitals had expanded by 4 per cent to 970, while the para-medical staff had risen by 5 per cent to 345 during the year. Almost all hospitals provide specialist consultation services.

Many private hospitals that were surveyed had stated that further expansion of their services has been restricted

largely by the lack of suitable land for extension. Small private hospitals find it difficult to compete with larger hospitals as these enjoy BOI concessions on their investments. At the same time, patients, particularly those whose medical expenses are borne by their employers, prefer to go to larger hospitals with modern facilities in Colombo, rather than go to small hospitals located elsewhere. Almost all private hospitals suffer from a deficiency of trained nursing and technical staff. Although the government has recognised the need for training health personnel for the private sector, there is still no proper plan in place to address this issue.

Neither the Ministry nor any other institution has been empowered with the necessary authority to regulate the private sector health institutions and their activities. The Ministry of Health and Indigenous Medicine has recently created a separate unit within the Ministry to oversee the activities of the private sector health services. However, the functions of the unit have been largely restricted, as the necessary legal authority has not yet been established. The proposed Act for monitoring, regularising and supervising private health institutions is still under preparation. In any event, establishment of a regulatory and monitoring authority for the private health sector is a pressing need to guarantee quality health care facilities for the public at an affordable price, in a situation where the number of private institutions engaged in the provision of health services is rapidly increasing.

Chart 5.1
Expenditure on Health and Education



5.3 Education

A continuous improvement in the quality of education is a pre-requisite to meet the challenges of a fast moving and competitive global economic environment. The present education reforms are considered to be an initial step to address this challenge. In particular, they are aimed at reducing the mismatch between educational attainments and the opportunities available in the labour market. Various reforms have been introduced from time to time to address

this situation, but have failed to reach the expected goals because of the piecemeal nature of such efforts. A comprehensive reform programme, covering all sections in the education system, has emerged as an urgent necessity. Hence, reforms are being introduced in general education, university education, technical education and vocational training sectors in order to meet this challenge.

General Education

In 1998, 15 new schools were established and the total number of government schools reached 10,373, with a student population of 4,143, 442. On average, there was one school per 6.3 sq. km., with about 399 students per school. There were 188,200 teachers resulting in a student-teacher ratio of 22. About 26 per cent of teachers were graduates, while the rest were mostly trained teachers, certified teachers and uncertified teachers who had GCE (O/L) and GCE (A/L) qualifications. Total government expenditure on education, including related infrastructure, amounted to Rs. 26,694 million in 1998. This was an increase of 19 per cent as compared with the previous year. In relation to GDP, total expenditure on the education sector rose from 2.5 per cent to 2.6 per cent in 1998. The resource requirement in the education sector would be larger in the future as the proposed reforms require new equipment for practical education, a trained teacher network, library facilities etc.

Several foreign funded projects in the education sector were in operation during the year. These included (a) the General Education Project II funded by the International Development Association (IDA) at a cost of US dollars 83.4 million, (b) the Secondary Education Development Project funded by the Asian Development Bank (ADB) at a cost of US dollars 40.7 million, which includes building new classrooms, science laboratories and extending available space in schools and setting of computer centres, (c) the Primary School Development Project funded by the Swedish International Development Agency (SIDA) at a cost of Rs. 404 million, which aims at improving the quality of primary education in rural areas, increasing the enrollment for primary education and reducing dropouts (d) the SIDA funded Estate School Development Project, which aims at developing 484 schools out of the total of 833 schools in the estate sector by giving priority to the qualitative development of education in these schools, (e) the Teacher Education and Teacher Deployment Project, with IDA funding of US dollars 79 million and (f) the Primary Mathematics Project and the Primary Education Planning Project with partial assistance from the Department for International Development (DFID) in the United Kingdom.

The project for the development of schools at Divisional Secretariat (DS) level continued in 1998. The objective of the project is to develop at least two selected schools at DS level to meet the growing demand for popular schools. These selected schools are provided with various facilities including

class rooms, laboratories, technical units, libraries and other infrastructure facilities including water, electricity and play grounds. The estimated cost of the project is Rs. 2,100 million. The development of 317 schools has commenced under the first phase of this project. There were 270 National Schools operating in all provinces at end 1998, compared to 249 schools at end 1997. A plan has been drawn up to provide computer training for 150,000 students per year in 150 computer centres by the year 2000. The cost of setting up one center is estimated at Rs. 3 million and 72 units have already been set up in 1998, with a capacity to provide training for 60,000 students per year.

Several measures were introduced during 1998 to improve the training of teachers. Accordingly, the National Authority for Teacher Training was formulated in 1998, under the National Teacher Education Act No. 32 of 1977, to accelerate teacher education. The number of Colleges of Education is to be increased from the current 11 to 14 in the future. Introduction of new courses and increasing student teacher enrollments are among the major objectives of this effort. However, the enrollment for the courses conducted by the Teacher Training Schools indicates a decline, since the preference is for distance mode teacher training programmes conducted by the National Institute of Education (NIE). A programme for providing foreign training in various important areas of education for teachers, principals, teacher educators, education administrators and officers in the NIE has been implemented.

The government spent Rs.1,989 million for the provision of free school uniforms, school text books and season tickets during 1998. A new School Library Service Unit has been set up under the Education Service Division of the Ministry of Education to promote library facilities in schools and educational institutions.

Although resource limitation is considered the major constraint to the development of the education sector, it has been observed that on some occasions, even the available resources have not been utilised as planned. The utilisation rates of the funds under the two ongoing IDA funded projects, i.e. the General Education Project II and the Teacher Education and Teacher Deployment Project, have not been satisfactory. Efforts need to be intensified to complete the existing projects and to ensure that resources available under these projects are utilised effectively.

There are a number of officially approved/certified private schools, international schools, private tutorials and private pre-schools operating in Sri Lanka as non-state education institutions. The number of approved/certified private schools in 1998 increased to 79 from 75 in 1997. The student population of these schools was 91,536 as at end 1998. These private schools generally follow the same curricula as government schools and prepare students for examinations conducted by the government. The international schools prepare their students mainly for different types of

foreign examinations. There were 34 international schools registered with the Registrar of Companies as at end 1997. Based on the recommendations made by the National Education Commission (NEC), the Ministry of Education is preparing a comprehensive Education Act which will incorporate laws for the regulation of international schools, to ensure that they maintain standards and quality. As pre-school education has also grown significantly over the years, a streamlined system in order to improve the quality of pre-

school education appears necessary. This should include the opening up of training facilities for pre-school teachers and the specification of required qualifications. These facilities should be developed in urban as well as in rural areas.

Higher Education

In 1998, 12 national universities, 6 post graduate institutes and 5 other institutes, namely the Institutes of Aesthetic Studies, Computer Technology, Indigenous Medicine, Gampaha Wickramarachchi Ayurveda and Workers' Education, were functioning as institutes of higher education. There were 38,192 university students in 1998. The number of new entrants to the universities increased by 14 per cent to 10,450. This was only 15 per cent of the total number of 70,379 students who satisfied the minimum requirements for university entrance and only about 7 per cent of the students who sat for the GCE (A/L) examination. The enrollment of both full time and part time students in post graduate courses was about 6,500. The Open University of Sri Lanka (OUSL) had an enrolment of about 19,500 students to follow its courses through the distance mode of education. About 91,000 students had registered for external degrees at the Kelaniya, Peradeniya, Sri Jayawardanapura, Ruhuna and Eastern universities. Several universities added new courses to their programmes during 1998. The OUSL introduced a degree programme in Primary Education. The University of Kelaniya introduced a post graduate course in Mathematics. The University of Colombo commenced a degree programme in Pharmacology. The University Grants Commission (UGC) has formulated an Inter-University Committee for teaching English.

The Prohibition of Ragging and Other Forms of Violence in Educational Institutions Act No. 20 of 1998 was introduced in 1998. The backlog which arose as a result of the long-term closure of universities due to the political disturbances during 1987-89 was being cleared, thereby enabling the universities to follow their normal work programmes. This was possible due to the continued supply of additional resources by the UGC to hire staff on a temporary basis and to obtain other facilities. The establishment of new universities also helped to ease this situation.

Steps were taken to improve infrastructure relating to higher education. This included the continuation of the development of hostel facilities and expansion of university space. The target is to provide hostel facilities for 75 per cent of the student population by 2000. The number of students who received Mahapola Scholarships in 1998 increased to 23,500 from 19,900 in 1997. In addition, Government Bursaries were given to other eligible students. The amount of the assistance provided varies from Rs.1,150 to Rs.1,300 and is provided for a period of ten months in a year.

The need to change university education has also been emphasised in the National Education Commission Report.

TABLE 5.3
General and University Education

Item	1996	1997	1998 (a)
General Education			
1. Total Schools (No.)	10,936	10,983	11,007
1.1 Government Schools	10,312	10,358	10,373
National Schools	238	249	270
Other Schools	624	625	634
1.2 Other Schools	79	75	79
Private	545	550	555
Pirivenas			
2. Pupils (No.)	4,265,076	4,260,989	4,286,894
2.1 Government Schools	4,132,749	4,124,125	4,143,442
2.2 Other Schools	132,327	136,881	143,452
Private	86,707	85,890	91,536
Pirivena	45,620	50,991	51,916
3. New Admissions	322,686	353,639(a)	353,047
4. Teachers (No.)	193,720	187,539	196,476
4.1 Government Teachers	185,842	179,589	188,200
4.2 Others	7,878	7,950	8,276
5. Pupil/Teacher Ratio (Govt. Schools)	22	23	22
6. Total Expenditure on Education (Rs. Million) (b)	20,402	22,329	26,694
6.1 Current	16,018	17,737	20,582
6.2 Capital	4,384	4,592	6,112
University Education			
1. Universities (No.)	12	12	12
2. Students (No.) (c)	32,800	34,139	38,192
3. Lecturers (No.) (d)	2,808	2,927	3,050
4. Graduates (No.)	5,216	6,738	n.a
4.1. Arts and Oriental Studies	1,999	2,513	n.a
4.2. Commerce & Management Studies	999	1,219	n.a
4.3. Law	160	182	n.a
4.4. Science	844	882	n.a
4.5. Engineering	403	496	n.a
4.6. Medicine	505	1,022	n.a
4.7. Dental Surgery	58	56	n.a
4.8. Agriculture	165	201	n.a
4.9. Veterinary Science	27	36	n.a
4.10. Architecture	23	58	n.a
4.11. Quantity Surveying	33	72	n.a
5. New Admissions for Basic Degrees (No.)	8,663	9,787	10,450

Sources: Ministry of Education and Higher Education
University Grants Commission
Central Bank of Sri Lanka

(a) Provisional

(b) Includes government expenditure on higher education too.

(c) Excluding the Open University of Sri Lanka

(d) At the beginning of the year.

A Presidential Task Force appointed in March 1997 has made recommendations to address the weaknesses in university education. The proposals cover important areas such as the expansion of university education, curricula reform, quality assurance, staff development, career guidance, counseling and finance. The implementation of the proposals commenced in 1998.

Under these reforms, the number of universities will be increased to 14 by setting up two new universities in the Wayamba and Uva provinces to improve the regional dispersion of universities. Initial steps have already been taken to set up the Wayamba University. Subsequently, the number of students admitted to universities will be gradually increased to 15,000 in the academic year 2000/2001. Action has also been taken to convert courses into a unit system. Accordingly, there will be assignments, practical work, projects, workshops etc. in addition to the written examinations held at the end of the year. Further, newly recruited lecturers will undergo a programme on teaching techniques at Staff Training Units (STUs). Three such units have already been set up at the Universities of Colombo, Peradeniya and Kelaniya. Other universities are also expected to set up STUs. In addition, there are Career Guidance Units (CGUs) set up in 5 universities, namely, Sri Jayawardanapura, Colombo, Kelaniya, Jaffna and Peradeniya. The main objectives of these CGUs are to provide assistance in career development to graduates and to help them to find employment.

Technical Education and Vocational Training (TEVT)

TEVT has become a more important sector in the context of recent developments in the labour market. As a result, there is a vital need for restructuring and expanding the traditional ways of providing technical and vocational training in accordance with the emerging demand. As the university education opportunities are very limited and highly competitive, this sector can provide an alternative route of development not only to school dropouts, but also to those who have completed the usual period of secondary education. It can also help to improve the skills of those already employed in low skilled jobs, and help them to improve their jobs or commence self-employment. The importance of TEVT has been identified by the NEC and the Presidential Task Force has made proposals for the upliftment of this sector.

The Department of Technical Education and Training (DTET), being a premier provider of training in this sector, extended its services through 36 Technical Institutions and a staff of 1,562, which comprised 623 academic staff (lecturers/instructors) and 939 administrative staff. The total number of students enrolled for various courses at the DTET was 14,981 as at end 1998. The certificate courses in Business Studies and Technical courses attracted a large

number of students (71 per cent). Students also followed trade courses, other diploma courses and short-term courses. The Sri Lanka Institute of Advanced Technical Education conducted courses in Engineering, Accountancy, Commerce and Agriculture. The total intake of students to this institute was 2,206 in 1998. The Vocational Training Authority also enrolled 18,316 students for 92 courses during the year. In addition, a total of 22,626 students were enrolled in about 180 courses, including situational trades at the National Apprentice and Industrial Training Authority.

There is a need to improve the quality of training through reorientation of the programmes to suit current changes in this sector. To this end, existing facilities should be expanded with newer facilities to accommodate a greater number of students to follow courses. New courses in the areas of Hotel and Tourism, Textile and Garments, Construction, Gem and Jewellery, Information Technology, Computer Training and Printing etc. may be introduced as there is a greater demand locally as well as in foreign countries for persons qualified in these areas. Necessary steps should be taken to expand TEVT into rural areas, enabling students in those areas also to benefit from this training.

The objectives of the on-going education reforms are ambitious. Their success will be known only after several years. A continuing weakness in the education sector policies is that no attempt has been made to do away with the public sector dominance in the sector. While a public sector presence in the provision of education services is seen even in developed countries, there the private sector also plays a major role. Mobilising private sector resources for the development of university and technical education, as well as direct private participation in the provision of these services should be effectively encouraged. Formal links and staff and student exchange programmes with reputed foreign academic institutions/technical colleges would also help in strengthening educational reforms. The idea of 'Career Guidance Units' is a welcome development. This scheme needs to be promoted through regular dialogue between the private sector and university/technical college management and academic staff, which will help in the identification of labour market requirements and prepare students to meet these requirements.

Parents as well as students must be clearly aware that, in the future, the public sector will not be able to provide employment opportunities for a majority of new entrants to the labour force. Resources are limited, particularly in the public sector and hence the relative size of the public sector will shrink in the development strategy, which aims at accelerating economic growth through greater private sector participation. It is only through a coherent collective effort by all parties concerned, i.e., the government, teachers, managers, students and parents and the private sector, that the education system can be reformed to meet the challenges of the future.

5.4 Communication Services

The Postal Service

The formulation of a comprehensive restructuring programme for the Postal Department (PD) was underway in 1998 with the assistance of the Universal Postal Union and the World Bank. The draft legislation has already been prepared for this purpose. Under the restructuring programme, the PD is expected to be converted into a Postal Corporation, named the Sri Lanka Postal Corporation, with greater autonomy to function as a commercial organisation. The new postal corporation is expected to carry out normal postal services as well as value added and ancillary services in an effective manner. A reliable and efficient postal service is essential for speedier development of trade and commerce.

During 1998, the post office network expanded from

4,313 to 4,362 post offices, mainly due to an increase in private post offices and Rural Agency Post Offices (RAPO). RAPO were first introduced in 1996 with the assistance of Co-operative Credit and Thrift Societies (Sanasa) to expand the postal services further into rural areas. Since then, the RAPO network has expanded by adding 76 new post offices connecting remote areas. Consequently, the area served by a post office has decreased to 15 sq. kms. The population served by a post office has also dropped marginally to 4,304 at end 1998.

The domestic postal services also expanded significantly with the restoration of postal services in the Jaffna peninsula. At end 1998, there were 30 main post offices and 131 sub-post offices operating in Jaffna. Meanwhile, the foreign parcels office was decentralised with the opening of two foreign parcel offices in Kandy and Galle. Similarly, the mail

TABLE 5.4
Growth of Postal and Telecommunication Services

Item	1996	1997	1998(a)	Percentage Change	
				1997	1998 (a)
1. Postal Service					
Delivery Areas (No)	6,729	6,729	6,729	0.0	0.0
Post Offices (No)	4,252	4,313	4,362	1.4	1.1
Public	4,032	4,034	4,036	0.0	0.0
Private	203	216	250	6.4	15.7
Rural Agency Post Offices	17	63	76	270.6	20.6
Area Served by a Post Office (Sq.Km)	15.5	15.3	15.0	-1.3	-2.0
Population Served by a Post Office	4,339	4,326	4,304	-0.3	-0.5
Letters per Inhabitant	27	24	23	-11.1	-4.2
2. Telecommunication Service					
2.1 Sri Lanka Telecom Ltd. (SLTL)					
No. of Telephone Lines in Service (No.)	254,500	315,241	455,598	23.9	44.5
New Telephone Connections Given(No.)	50,170	72,457	143,075	44.4	97.5
Applicants on Waiting List (No.)	270,800	284,876	224,441	5.2	-21.2
Expressed Demand for Telephones (No.)	525,300	600,117	680,039	14.2	13.3
Telephone Density (Telephones per 100 persons)	1.39	1.69	2.43	21.6	43.8
2.2 Other Private Sector					
Cellular Phones					
Operators (No.)	4	4	4	0.0	0.0
Subscribers (No.)	71,028	114,888	174,202	61.8	51.6
Total Cumulative Investment (Rs. Mn.)	5,307	6,870	8,842	29.5	28.7
Public Pay Phones					
Operators (No.)	4	4	5	0.0	25.0
Telephone Booths (No.)	2,152	2,571	4,610	19.5	79.3
Total Cumulative Investment (Rs. Mn.)	610	718	1,090	17.7	51.8
Radio Paging Services					
Operators (No.)	5	5	5	0.0	0.0
Subscribers (No.)	10,721	10,829	10,511	1.0	-2.9
Total Cumulative Investment (Rs. Mn.)	221	222	222	0.5	0.0
Data Communication Services					
Operators (No.)	7	8	8	14.3	0.0
Subscribers (No.)	355	11,745	19,019	3,208.5	61.9
Total Cumulative Investment (Rs. Mn.)	574	665	768	15.9	15.5
Wireless Local Loop Telephones					
Operators (No.)	2	2	2	0.0	0.0
Subscribers (No.)	527	26,381	67,931	4,905.9	157.5
Total Cumulative Investment (Rs. Mn.)	1,743	6,796	9,291	289.9	36.7

(a) Provisional

Sources : Department of Posts
Sri Lanka Telecom Ltd.
Telecommunications Regulatory
Commission of Sri Lanka

delivery service operated by the Central Mail Exchange has been decentralised to post offices in Boreia, Kotahena, Slave Island and Wellawatte.

The total number of postal articles handled by the PD dropped by 3 per cent during 1998, mainly due to labour disputes that prevailed for about two months between March and May. As a result, the average number of letters per inhabitant per year dropped to 23 in 1998 from 24 in 1997. The handling of foreign letters and parcels also dropped by 4 per cent to 65 million articles during 1998 for the same reason. With the expansion of modern communication facilities such as e-mail, internet, facsimile and IDD facilities, particularly for international communication, the use of the traditional letter post is becoming less attractive. Private sector courier services were also becoming popular, especially among financial and commercial organisations.

The PD continued to expand and improve its value added services during 1998. The post fax services were extended to cover 177 post offices by end 1998. This facility expedites the transactions of the post office savings scheme. The bulk mail facility was also extended to 60 business organisations in Colombo by end 1998. The fax money order service was available at 98 post offices. The International Expedited Mail Service (EMS) handled 77,575 mail articles, reflecting a 27 per cent growth during the year. However, the Speed Post Service displayed no progress during 1998. The post code numbering system has been introduced to all post offices and sub-post offices. An awareness programme to promote the use of the post code system is in progress. The PD is taking steps to provide e-mail and internet facilities through post offices. Initially, main post offices in major towns will be connected with e-mail and internet. As a result of the rationalisation of the free postage facilities provided to government ministries and departments, the volume of free mail has substantially decreased, while at the same time, accountability in the use of free postage has increased. A proposal has been made to automate post office counter duties in 54 selected main post offices shortly. The PD has also planned to open RAPO in certain areas in the estate sector and already 62 estates have been identified for this purpose.

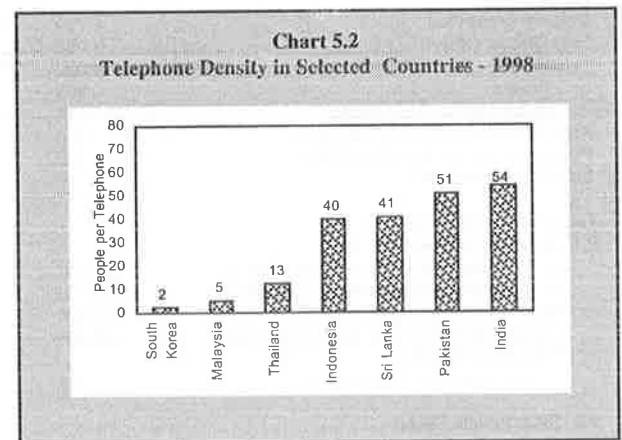
The total revenue of the PD increased by 15 per cent to Rs. 1,617 million in 1998, despite a crippling of the postal service for nearly 2 months due to trade union action. However, even in a normal year, the total postal revenue is not sufficient to meet the operational expenses of the department. The operational expenditure of the PD, which comprises mainly salaries and wages, expanded by 12 per cent in 1998. The PD maintains an excessive workforce of 23,458 employees. In the 1999 Budget, the postal charges were raised somewhat to cover a part of the operating losses. Accordingly, the postage for an ordinary post normal letter was raised by Rs.1.00 to Rs. 3.50. The total operating expenditure of the department rose by 12 per cent to Rs. 2,125 million in 1998, resulting in an operating

loss of Rs. 558 million to the department. The capital expenditure of the department amounted to Rs. 228 million in 1998.

Telecommunication

Telecommunication has been one of the fastest growing sectors in the economy. The liberalisation of the telecommunication industry in 1991 and the subsequent divestiture of a part of Sri Lanka Telecom Ltd. (SLT) to NTT of Japan in 1997 had a major impact on the growth of the telecommunication sector. The traditional forms of telecommunication, such as fixed phones, telegraphs, cables etc. are being replaced by more sophisticated telecommunication devices and computer-based methods of information transfer, such as e-mail, internet, video-conferencing, wireless technology etc. in recent years. In Sri Lanka, new communication facilities are being expanded to non-urban areas as well. However, about 53 per cent of the SLT subscribers are still located in the Colombo metropolitan area.

With the re-organisation of SLT management by NTT, there has been a significant improvement in its overall



performance. The number of effective direct exchange lines increased by 45 per cent (143,075 new telephone lines) to 455,598 during 1998. The SLT network capacity also increased substantially during 1998. The exchange line switching capacity was augmented by 25 per cent to 543,897, while the number of main cable pairs rose by 23 per cent to 623,036. SLT was able to provide more telephone facilities to regions during 1998. Of the total number of new telephone lines, 62 per cent or 86,964 were given to the regions. The number of persons per direct telephone line dropped to 41 in 1998 from 59 in 1997. Notwithstanding these new developments, the numbers in the waiting list for new telephones remained high at 224,411, reflecting the growing demand. The waiting time for SLT telephone connections has been reduced substantially from

nearly 10 years during the early 1990's to between 3-12 months by end 1998, depending on the exchange area and availability of switches. The private wireless telephone operators provide service within a few weeks and there is no waiting list. The total number of international circuits was also increased by 26 per cent to 2,158. With this increase in access to international telecommunications, constraints on IDD facilities were substantially relaxed during 1998.

The total investments in the telecommunication sector by the SLT amounted to Rs.11,177 million during 1998. The second telecommunication project had been successfully completed at a cost of about US dollars 200 million by end 1998. The foreign cost of the project amounting to about US dollars 120 million was financed mainly by the IDA, while the co-financiers were the ADB, Overseas Economic Co-operation Fund (OECF) of Japan, AT&T and UNDP/ITU. The SLT is currently implementing a number of telecommunication projects under the 'Telecommunication Development Programme 1996 – 2000' with assistance from donor agencies such as the OECF, French Protocol, the Swedish International Development Agency (SIDA) and the Economic Development Co-operation Fund (EDCF) of Korea, at a cost of Rs.11 billion. The major activities planned under this programme include an expansion of external plant capacity by 61,000 primary cable pairs in the Kandy, Matale, Hatton and Kalutara areas, expansion of external plant capacity by 28,500 primary cable pairs in Gampaha, provision of 30,000 subscriber lines and 12,000 trunk lines at the Colombo Central Exchange and the expansion of the switching capacity by 36,000 additional lines in the Colombo metropolitan area. In addition, SLT is implementing a local network expansion project in the Colombo metropolitan area with OECF assistance to expand the switching capacity by 144,000 lines in two phases and to establish a fibre optic transmission system. Further, SLT is implementing a programme for augmenting the existing exchanges by 100,000 lines to meet the escalating demand.

Sri Lanka Telecommunication Services Ltd. (SLTS), a subsidiary of SLT, continued to implement the 150K line Telecommunication Development Project aimed at installing about 200,000 exchange lines and 250,000 main cable pairs to cover townships and rural areas. The project commenced in 1996 and by the end of 1998 about 149,200 exchange lines and 193,000 main cable pairs were added to the network. A total of 40 telephone exchanges with a capacity of 68,096 lines were commissioned during 1998. In addition to the exchange capacities and primary cable pairs of the telecom network, the traffic carrying capabilities of the network has also been augmented. A total of 58 Digital Radio Systems and 50 Optical Fibre Systems have been established for local transmission in 15 districts under the 150K project.

During 1998, SLT introduced several new facilities. The Frame Relay Facility and packet switching technology were

introduced for high speed transfer of large volumes of data among computer networks. The ISDN facility was introduced for simultaneous transmission and reception of voice/fax/data and images through a single 2 wire telephone line. This provides a range of services including high speed image and data transfer, desktop conferencing and calling line identification. SLT continued to be active in the installation of public pay phones, provision of internet and e-mail services and packet switching facilities. As at end 1998, SLT had installed 1,587 public pay phones. There were 8,560 subscribers for internet and e-mail facilities and twelve customers for the packet switching facility. In accordance with customer requirements, SLT had provided 247 domestic leased circuits and 39 international leased circuits as at end 1998. SLT has drawn up a 5 - year medium-term expansion plan covering 1999-2003 based on the medium-term demand forecast to eliminate the waiting list by end 2002. Under this plan, SLT expects to invest about Rs.20 billion in 1999. Delays in obtaining clearance from the Road Development Authority, delays in obtaining government approvals, bank guarantees and delays associated with security reasons had been the constraints to the timely implementation of telecommunication projects.

The total revenue of SLT increased by 19 per cent to Rs.16,388 million during 1998. Foreign exchange earnings accounted for about 33 per cent of the revenue, compared to 30 per cent in 1997. The increase in revenue is partly attributable to the tariff revision effected from April 1998, with a view to balancing the tariffs on domestic and international calls. The monthly rental was raised from Rs.80 to Rs.180, while domestic call charges were raised from Rs.1.10 to Rs.1.65 per unit for consumers whose monthly telephone usage exceeds 200 units. However, as operating costs of SLT also rose by about 25 per cent, after tax earnings of the SLT dropped by about 24 per cent to Rs.1,825 million. Employment at SLT increased by 4 per cent to 8,648 during 1998. As the new telephone connections given during 1998 grew faster, the number of telephone lines per employee increased from 37.8 to 52.7 in 1998.

The performances of private sector operators of telecommunication services improved further during 1998. The subscriber network of all services except radio paging services expanded considerably in 1998. The subscriber network of the 4 cellular phone operators increased by 52 per cent to 174,202 by end 1998. The total cumulative investment in cellular services also rose by 29 per cent to Rs.8,842 million. The total number of pay phones installed in the country, including those of SLT, increased by 79 per cent to 4,610 as at end 1998. As a new company also entered into this service, the cumulative investment rose by 52 per cent to Rs.1,090 million during the year. The subscriber network of the radio paging services dropped by about 3 per cent, mainly due to the increased use of other wireless facilities. Meanwhile, the number of subscribers for

Box 5

The Year 2000 (Y2K) Challenge

The most striking achievement of this century is the remarkable advances made in science and technology. The advances in computer technology and communications have significantly changed the perception of distance and time. Further developments and advances in the use of science and technology can be expected in the next millennium.

Hence, it is ironical that these same technological advances should contribute towards the creation of the Y2K problem. This problem occurs when computer hardware and software and micro chips used in many plant and equipment, have been programmed using a two digit year notation which does not provide for recognition of the millennium change. This problem can cause computers to be 'confused', malfunction or even completely shut down.

This problem is not a mere Information Technology (IT) issue. It is now understood as a business issue. It is not confined to any country or any sector of society, but affects the whole world and the day to day life of the people. It is, therefore, the responsibility of every organisation to solve this problem.

The solution is a technical one. It is difficult and time consuming to locate and rewrite lines of computer code in existing systems. But the deadline for compliance is fixed (31 December 1999) and no extension of time is possible. Where remediation is not feasible, systems will have to be replaced by new ones. Backup plans will also have to be put in place. The solution is therefore tedious, requiring extensive financial and human resources.

The complexity of the problem was elaborated by President Clinton in his address to the National Academy of Sciences in Washington DC on the Y2K issue on 14 July 1998. He stated that "with millions of hours needed to rewrite billions of lines of code for hundreds of thousands of interdependent organisations, this is clearly one of the most complex management challenges in history. Consider just one major bank, Chase Manhattan. It must work through 200 million lines of code, check 70,000 desktop computers, check 1,000 software packages from 600 separate software vendors."

The problem may not be that extensive in Sri Lanka. However, its impact on government institutions, banks and the financial sector, airports and sea ports, telecommunication, power and energy etc. is of a

serious nature and can cause disruption to the economy and the day to day life of the people.

On a Cabinet directive, a National Task Force was appointed under the auspices of the Council for Information Technology (CINTEC) in May 1998 to monitor and guide government institutions in dealing with the Y2K problem. A Task Force was also appointed in the Central Bank to monitor the progress of Y2K remediation activities and guide the banking and financial sector.

The National Task Force presented a report to the President on 16 December 1998 giving the status of the Y2K readiness of government and private sector institutions, including the financial sector, based on information provided by the relevant institutions.

In May 1998, the Central Bank issued guidelines to the banks on action to be taken, setting deadlines on tasks to be met. A consultant was engaged from the Financial Services Authority of the UK to review and report on Y2K projects in the banks. A seminar was also held in August 1998 to create awareness amongst the senior management including the Boards of Directors of the banks and finance companies. A press advertisement was also published in the daily newspapers to create awareness amongst the general public.

The Central Bank is working towards a target of June 1999 by which date all banks in the country should have their systems fully tested and ready for the Year 2000 change. The Central Bank commenced remediation work on its own systems in 1996 and is now in the process of carrying out intensive testing to ensure Year 2000 compliance. Officers from the Bank Supervision Department together with officers from the Information Technology Department are engaged in continuous monitoring of the Y2K remediation projects in commercial and specialised banks.

Although it is almost impossible for every organisation to get every system needing remediation, Year 2000 ready, it is essential that all the mission critical applications, i.e., those that are necessary to keep the business in operation, be remedied, tested, verified and audited.

This is one situation where it is in the interests of all competing organisations to work together towards a common goal. A problem of one can adversely affect another; hence it is important that collective efforts be made by sharing information and resources to ensure

Box 5 (contd.)

the achievement of Year 2000 compliance. Even if all the banks get all their computer systems remedied, if power or telecommunication systems malfunction, the banks will not be able to function smoothly. Since there is so much interdependence among financial systems in countries, disruption in one country can adversely affect other countries as well.

Many international organisations are involved in providing assistance to developing countries. The Bank for International Settlements has a web site providing information and guidelines, giving check lists of activities to be carried out and information with respect to the status of Y2K projects in various important institutions.

The World Bank, through its 'Infodev' programme offered two grants, a US dollars 100,000 Planning Grant and a US dollars 500,000 Implementation Grant, to each developing country that requires such assistance. Sri Lanka has already received the Planning Grant of US dollars 100,000 on submission of its plan for Y2K remediation in the economy. This will be made available through CINTEC. CINTEC is also preparing

a proposal for the Implementation Grant. In addition, the Central Bank requested a loan from the World Bank to help the financial sector and some critical government institutions to deal with this problem. The World Bank relaxed many of its normal procedures and processed this loan within 3 months of the original request. This loan, for US dollars 29 million, is a soft loan granted under terms and conditions which are very favourable to Sri Lanka. The funds will be made available to banks and certain key government institutions. Two Project Co-ordinating Units, one for the banking sector comprising of officers from the Central Bank and the other for public sector institutions comprising officers from the Ministry of Finance, are now operational to oversee the disbursement of the loan.

This is no doubt the greatest management challenge that the world has had to face with a concerted effort. Everybody has to do his or her part to successfully overcome this problem. By acting together and acting promptly, this can become a challenge that is met successfully.

data communication services grew sharply by 62 per cent to 19,019. The two Wireless Local Loop (WLL) telephone operators have provided 41,550 new connections during 1998. Consequently, the subscriber network of WLL increased by 158 per cent to 67,931 by end 1998, while the investment in this sector rose by 37 per cent to Rs.9,291 million. When both SLT telephone and WLL telephones are taken together, the telephone density improves to 30 persons per telephone. The total employment in the private telecommunication sector was 8,599 as at end 1998.

5.5 Energy

The energy sector benefitted from the decline in petroleum product prices and satisfactory rainfall in the catchment areas. In 1998, the Ceylon Electricity Board (CEB) was able to utilise about 98 per cent of the hydro power potential and generated 3,908 GWh. With the commissioning of a 51 MW new private sector power plant on a BOT basis, thermal power generation capacity expanded to 497 MW in 1998. Consequently, the overall power generation capacity increased by about 4 per cent to 1,636 MW. These developments enabled the CEB to decommission completely the expensive hired power plants by May 1998. Self-generation of electricity was also reduced substantially during the year. The demand for power rose by 12 per cent to 4,509 GWh. in 1998.

Special emphasis has been recently placed on the expansion of the thermal power capacity, by both the public sector and the private sector, to reduce over-dependence on hydro power. The national power policy aims at maintaining an adequate level of investment in the sector at all times by harnessing private sector investment to enhance supply reliability and lower the price to the consumer. The private sector is expected to play a key role, particularly in the areas of thermal power and mini-hydro power generation.

Electricity

The installed power generating capacity of the country increased by 4 per cent to 1,636 MW. during 1998. The entire increase in the capacity came from independent power producers (IPP). As a result, the hydro dependency of the installed capacity further decreased to 69 per cent from 72 per cent at the end of the previous year. Asia Power (Pvt.) Ltd. commenced operating its 51 MW diesel power plant, constructed at a cost of US dollars 62 million, in May 1998. Kool Air Ventures (Pvt) Ltd., which owns the 8.2 MW diesel power plant at Malabe, established another 10 MW diesel power plant at Kankasanturai at a cost of US dollars 10 million in November 1998. However, the plant is not operating at its optimal level as transmission and distribution lines have not yet been fully restored. Meanwhile, the private hydro generating capacity also increased to 2.2 MW with the

TABLE 5.5
Salient Features of the Energy Sector

Item	Unit	1996	1997	1998(a)	Percentage Change	
					1997	1998
1. Electricity						
Available Capacity	MW	1,453	1,595	1,636	10	3
Installed Capacity	"	1,409	1,575	1,636	12	4
CEB - Hydro	"	1,137	1,137	1,137	0	0
Thermal	"	272	405	405	49	0
Private - Hydro	"	-	1.5	2.2	-	47
Thermal	"	-	30.7	92.7	-	199
Hired Private Power	"	44	20	0	-55	-100
Units Generated	GWh	4,530	5,145	5,673	14	10
CEB - Hydro	"	3,249	3,443	3,908	6	14
Thermal	"	974	1052	1246	8	18
Private - Hydro	"	3	4	5	33	25
Thermal	"	-	13	388	-	2,885
Hired Private Power	"	152	398	18	162	-95
Self Generation	"	152	235	108	55	-54
Total Sales	"	3,740	4039	4509	8	12
Domestic	"	1,046	1213	1368	16	13
Industrial (b)	"	1,513	1430	1612	-5	13
Commercial	"	592	689	757	16	10
Local Authorities/LECO	"	542	657	722	21	10
Street Lighting	"	47	50	50	6	0
2. Petroleum Products						
Quantity Imported						
Crude Oil	MT'000	2,033	1,814	2,034	-11	12
Refined Products	"	729	1,084	692	49	-36
L.P. Gas	"	71	87	98	23	13
Value of Imports (C&F)						
Crude Oil	Rs Mn.	16,809	15,584	13,240	-7	-15
	US\$ Mn.	304	263	205	-13	-22
Refined Products	RS Mn	8,465	12,467	5,966	47	-52
	US\$ Mn.	153	212	92	39	-57
L.P. Gas	Rs Mn	1,237	1,635	1,568	32	-4
	US\$ Mn.	22	28	24	27	-14
Average Price of						
Crude Oil (C&F)	Rs/Barrel	1,116	1,155	884	3	-23
	US \$/Barrel	20.19	19.42	13.63	-4	-30
Quantity of Exports	MT'000	661	547	468	-17	-14
Value of Exports	Rs. Mn	5,740	6,131	4,665	7	-24
	US\$ Mn.	104	95	72	-9	-24
Local Sales						
Super Petrol	MT '000	2,120	2,321	2,436	9	5
Auto Diesel	"	197	193	203	-2	5
Heavy Diesel(c)	"	1,048	1,295	1,181	24	-9
Super Diesel	"	87	-	-	-	-
Kerosene	"	26	33	38	27	15
Furnace Oil	"	228	225	235	-1	4
Avtur	"	336	372	551	11	48
L.P. Gas	"	110	104	111	-5	7
	"	88	99	117	13	18
Local Price						
Super Petrol	Rs/Litre	50.00	50.00	50.00	0	0
Auto Diesel	"	13.20	13.20	13.20	0	0
Heavy Diesel	"	11.70	-	-	-	-
Super Diesel	"	18.50	18.50	18.50	0	0
Kerosene	"	10.40	10.40	10.40	0	0
Furnace Oil	"	-	-	-	-	-
500 Seconds	"	7.80	7.80	7.80	0	0
800 Seconds	"	7.50	7.50	7.50	0	0
1,000 Seconds	"	7.20	7.20	7.20	0	0
L.P. Gas	Rs/Kg	22.30	23.07	23.07	3	0

(a) Provisional

(b) Excluding Self Generation.

(c) From June 1996 onwards heavy diesel sales are also classified under auto diesel

Sources: Ceylon Petroleum Corporation
Ceylon Electricity Board
Shell Gas Lanka Ltd.
Lanka Marine Services (Pvt.) Ltd.

commissioning of two micro power projects, namely, Ritigahaoya (0.112 MW) and Rakwana ganga (0.76 MW) during the year.

Total power generation, inclusive of self-generation registered with the CEB, increased by 10 per cent to 5,673 GWh. in 1998, when compared to the 14 per cent growth recorded in 1997. Hydro power, which accounted for 69 per cent of the total power generation, grew by 14 per cent compared with 6 per cent in the previous year. This was the highest growth recorded after 1993. Thermal power generation grew further by 18 per cent to meet the growing demand. Electricity generation from CEB sources rose by 15 per cent in 1998. Meanwhile, power generation by the IPPs grew sharply to 393 GWh. from a mere 17 GWh. in 1997 as the Lakdhanavi Power Plant (22.5 MW) commissioned at the end of 1997 was in operation throughout 1998 and the Asia Power Plant (51 MW) was in operation since its commissioning in May 1998. The Lakdhanavi power plant has the capacity to generate 168 GWh. per annum, while the Asia Power Plant is capable of generating 330 GWh. per annum. Meanwhile, the CEB allowed self-generation of electricity during March – June and again during December, as scheduled. The recorded self-generation of electricity during 1998 amounted to 108 GWh., which represents a 54 per cent drop when compared to 1997. The cost of thermal power generated by the CEB and by the hired power plants dropped sharply by 49 per cent to Rs.2,751 million, mainly due to the provision of fuel by the CPC at duty exempted prices from July 1997. Meanwhile, the cost of power purchases from IPPs amounted to Rs.1,776 million due to an increase in the volume of power purchases in 1998. According to the power purchasing agreements, the CEB purchases a minimum guaranteed 168 GWh. of power per annum from the Lakdhanavi power plant and 330 GWh. of power per annum from the Asia Power Plant at a price determined by taking into account the financial charge/capacity charge, an energy charge, an operating charge and taxes to be paid. The all inclusive annual average power purchasing price has been estimated at Rs.4.58 per KWh. in 1998 which is higher than the average tariff of Rs.4.47 per KWh. in 1998. However, this did not create a major problem for the CEB, as the overhead cost per unit of electricity generated declined in 1998 owing to almost full utilisation of low cost hydro power and an indirect subsidy to the CEB from the CPC in the form of duty exempted fuel supplies. However, the share of power purchases from other sources out of total electricity available with the CEB (about 7 per cent) was not substantial.

The average tariff for electricity was increased by about 8 per cent in 1998. This increase was mainly an outcome of the general tariff revision in September 1997, under which the average tariff was raised by about 11 per cent. In addition, the imposition of GST on the electricity bills of those consumers who consume over 90 KWh. per month also

contributed to the increase in the average tariff. At the prevailing tariff rates, the domestic consumers are highly subsidised by the commercial and industrial sectors. The average domestic tariff was Rs.3.11 in 1998 whereas the average cost, excluding interest payment, was Rs.3.50 per KWh. The average tariff rates of electricity for general purposes, at Rs.7.00 per KWh., was twice the average cost. For industrial purposes the tariff, at Rs.5.20 per KWh., was 49 per cent above the average cost. The actual cost of electricity generation has been rising on account of increasing reliance on thermal power. However, the need for another tariff increase in 1998 was averted as the government agreed to provide fuel to the CEB at duty exempted prices. The CEB further benefited as it was allowed to pass the GST to the consumers without adjusting the tariff for turnover tax which had been paid by the CEB. Primarily due to the reasons mentioned above, the average cost of producing a unit of electricity dropped substantially from Rs.4.50 in 1997 to Rs.3.50 in 1998. However, this type of implicit and non-transparent tariff changes will not bring a lasting solution to the existing weaknesses in the CEB tariff system. An explicit strategy, based on the economic cost of power generation, transmission and distribution, is needed to rationalise the tariff structure of the CEB.

Total electricity consumption of the country increased by about 12 per cent to 4,509 GWh. in 1998, mainly due to the expansion of the consumer base. Electricity sales to the domestic sector rose by about 13 per cent to 1,368 GWh., while the domestic sector consumer network, including those of Lanka Electricity Company Ltd. (LECO) also increased by 10 per cent to 2,053,833 during the year. (Of the total electricity sales, about 16 per cent was sold through LECO). This increase in the domestic consumer network was attributed mainly to the rapid expansion of rural electrification projects in recent years. The proportion of houses with electricity increased to about 52 per cent of the total houses in 1998. However, a recent survey by the CEB reveals that only about 36 per cent of the rural houses have electricity, compared to 95 per cent in the urban areas. While the rural electrification programmes are costly, there is an indirect benefit to society due to the increased availability of power. The cost could be reduced by developing renewable energy sources and thermal power sources at regional level, thereby reducing transmission and distribution losses. Meanwhile, electricity sales to the industrial sector, exclusive of self-generation, rose by about 13 per cent to 1,786 GWh., of which 174 GWh. was sold by LECO. The industrial consumer network, inclusive of those under LECO, grew by 5 per cent to 28,006 during the year under review. Electricity sales by the CEB to the general purpose category expanded by 10 per cent to 757 GWh., while sales by LECO to this category rose by 15 per cent to 118 GWh. The total general purpose consumer network expanded by 7 per cent to 252,016, of which 32,750 were under LECO.

Chart 5.3
Major Energy Sources

Chart 5.3.1
Electricity Generation and Sales
(1990 = 100)

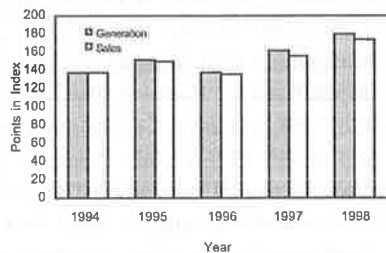


Chart 5.3.2
Electricity : Average Tariffs and Unit Costs

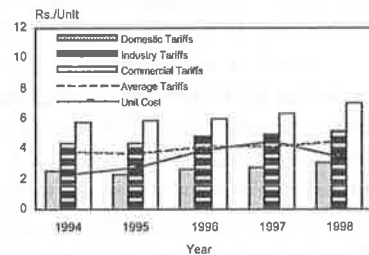


Chart 5.3.3
Petroleum: Prices and Costs

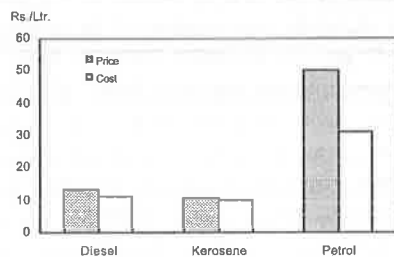
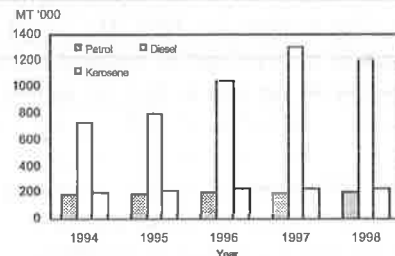


Chart 5.3.4
Petroleum Products - Domestic Sales



Investment in the electricity sector increased sharply by about 58 per cent to Rs.14,873 million during the year under consideration. The total capital expenditure was financed by foreign sources (Rs.6,029 million), government funds (Rs.1,000 million), funds generated internally by the CEB (Rs.6,044 million) and from consumer contributions (Rs.1,800 million). Construction work for a number of power projects was in progress during 1998. The 40 MW. second extension to the Sapugaskanda diesel power station was in progress in 1998 and is expected to be completed by end 1999. The preliminary work relating to the construction of access roads etc. of the proposed Kukule Ganga Hydro Power Plant (70 MW) commenced in 1997 with OECF assistance and continued in 1998. The main construction work of the project is scheduled to be started by early 1999. The estimated cost of the project is Rs.13,000 million. Meanwhile, the wet blanket remedial works against the right

bank leakage of the Samanlawewa hydro reservoir commenced in March 1998 and Phase I was completed in October 1998. As a result, the leakage of 2.8 cubic meters per second (cumecs) was reduced to 2.2 cumecs and downstream ground water pressure was also reduced. The total estimated cost of the wet blanketing is Rs.1,428 million, of which Rs.768 million was spent in 1998. Phase II is to commence after assessing the success of Phase I.

The construction work of the OECF funded 150 MW Kelanitissa Combined Cycle Power Plant has also been initiated and this is to be completed by the end of the year 2000. The environmental clearance for the Upper Kotmale Hydro Power Project has now been granted by the Secretary to the Ministry of Forestry and Environment. However, a court case has been filed by a non-governmental organisation against this decision and the court decision is awaited. The Technical and Environmental Impact Assessment of the

proposed West Coast Coal Power Plant was carried out during 1998 and the Environmental Impact Assessment report has been submitted for approval.

The third rural electrification project, which commenced in 1997 with ADB assistance, continued in 1998. The project has been designed to provide electricity to at least 110,000 new consumers in rural areas by the end of year 2000. The total cost of the project is Rs.3,051 million. About 52 per cent of the work had been completed by end 1998.

Work on several private sector power projects, was being implemented in 1998. A 10 MW diesel power plant was installed in KKS on a BOO basis by Kool Air Ventures (Pvt.) Ltd. towards end 1998. Negotiations are being conducted to set up a 40 MW diesel power plant at the regional level at Anuradhapura/Matara/Matugama. A Letter of Intent (LOI) was signed between the relevant parties to build a new Combined Cycle Power Plant of 165 MW on a BOOT basis at Kelanitissa. The major shareholder of this project is the USA based AES Corporation. Negotiations were concluded in respect of setting up a 60 MW Barge Mounted Power Plant at Colombo on a BOO basis at an estimated cost of Rs.3,500 million. The power generation is expected to commence by the middle of 2000. In addition, construction work on another 4 micro hydro projects with a total capacity of 4.03 MW and one Waste Heat Power Plant by Haycarb Ltd. (0.390 MW) had been completed during 1998. Proposals were being evaluated in respect of 5 other mini-hydro projects with a capacity of 27.7 MW. The Power Purchasing Agreement (PPA) between the CEB and the developers of the Delgoda mini-hydro power plant (2.5 MW) was signed during the year, while two other PPA (11.3 MW) were under negotiations.

Petroleum

The total petroleum consumption in the country accounts for about 32 per cent of the total primary energy consumption in Sri Lanka. The demand for petroleum products has been increasing at an average rate of 12 per cent per annum over the last 5 years. The growth of demand for diesel and furnace oil has been relatively higher owing to the recent expansion of thermal power plants and expansion in the transport sector.

Crude oil imports during 1998 increased by 12 per cent to 2 million metric tons as the refinery was fully operational throughout the year. As a result, refined product imports dropped by 36 per cent during the year. The value of petroleum imports during 1998 dropped sharply by 36 per cent to US dollars 345 million primarily due to lower crude oil prices in the world market. The average price of crude oil dropped to US dollars 13.63/barrel in 1998 from US dollars 19.42/barrel in 1997. The price of crude oil as at end 1998 was US dollars 10.97 per barrel.

Although crude oil prices dropped considerably, there was no corresponding reduction in the local prices of

petroleum products. As a result, the profit margins of the CPC on all its products expanded. Super petrol was selling at 60 per cent higher than the cost of production including taxes. In the case of diesel and furnace oil, the selling prices were higher by 24 per cent and 19 per cent, respectively. Meanwhile, despite the sharp drop in international prices, gas prices also remained unchanged. However, the total profit accruing to the CPC eroded to some extent due to the depreciation of the rupee against the US dollar by 9.6 per cent during the year. In addition, the government absorbed part of this profit by imposing special levies on the CPC and increasing the duty on petroleum imports from 25 per cent to 30 per cent with effect from November 1998. The CPC also used a part of its profits to reduce its liabilities. According to provisional data, the CPC has posted a before tax net profit of Rs.6.6 billion against a Rs.407 million profit in 1997 and a Rs.3,657 million loss in 1996. In the context of the increased resource needs of the government, a downward revision of the prices of petroleum products was not made in 1998, even though world petroleum prices declined significantly.

The local sales of petroleum products rose by 5 per cent to 2.4 million metric tons during 1998. The increase was clearly seen in furnace oil sales, which grew by 48 per cent, primarily due to the heavy demand from the new thermal power plants. This led the CPC to restrict supplies of furnace oil for bunkering services. As a result, Lanka Marine Services Ltd. (LMS) could not meet the entire demand for furnace oil by ships calling at the Port of Colombo for bunkering, thus losing earnings of foreign exchange. Sales of furnace oil for bunkering services dropped by 15 per cent to 189,000 metric tons and earnings dropped by 33 per cent to US dollars 16 million. Ships calling at the Port of Colombo for bunkering services have been decreasing owing to relatively higher prices charged for bunkering services at the Port of Colombo. The average price of fuel oil at Colombo was US dollars 86 per metric ton in 1998. At present, LMS, which is a subsidiary of the CPC, has a monopoly for the supply of bunker fuel. In view of the relatively higher fuel prices and insufficient supplies, there is a strong demand by shipping lines to liberalise bunker supplies at the Port of Colombo. In any event, it should be noted that a consistent policy should be adopted for providing bunker fuel at a competitive price to attract more ships for bunkering, as this would help many other economic activities.

Meanwhile, super petrol sales increased by about 5 per cent compared with a 2 per cent drop in the previous year, basically due to an increase in the number of petrol driven motor vehicles. However, auto diesel sales dropped by about 9 per cent to 1.2 million metric tons during the year on account of lower demand from the diesel thermal power projects, particularly from hired thermal power projects. The demand for diesel for thermal power generation dropped by

64 per cent to 110,201 metric tons, while that for transportation activities rose by 11 per cent to 1,042,109 metric tons. Kerosene sales rose by 4 per cent. In the meantime, Avtur (aviation turbine oil) sales increased by 7 per cent despite the fact that these prices are the highest in the region. Setting of fuel prices at competitive levels is a pre-requisite if Sri Lanka intends to emerge as a hub air transit port in the region. The consumption of Liquefied Petroleum (LP) gas grew by 19 per cent to 117,269 metric tons during 1998. LP gas imports rose by 13 per cent to 97,905 metric tons, while purchases from the CPC increased by 24 per cent to 17,221 metric tons. LP gas sales to the domestic sector, at 86,090 metric tons, reflected a growth of 16 per cent over the previous year mainly due to the expansion in the LP gas usage in households. Industrial gas sales increased by 28 per cent to 31,179 metric tons during 1998. Conversion of petrol driven vehicles to LP gas is also partly responsible for the increase in the demand for LP gas. According to rough estimates, there are some 5,000 vehicles converted by reputed companies so far to run on LP gas and the number is on the increase. Therefore, it is now necessary to introduce regulations and procedures in order to monitor this industry and to ensure the safety standards of these conversions.

The CPC implemented several projects to upgrade its storage facilities and distribution network. Under the project for emergency rehabilitation of petroleum facilities, rehabilitation of the damaged tanks at Orugodawatte and Kolonnawa and construction of a new distribution facility at Sapugaskanda commenced in early 1998 with ADB assistance. Rehabilitation of 3 tanks at Orugodawatte and 6 tanks at Kolonnawa are scheduled to be completed by mid-1999. The Sapugaskanda new distribution facility will be completed towards the end of 1999. The total cost of the project has been estimated at Rs.3,048 million. The CPC has initiated a project for the improvement of regional storage facilities with its own funds at a cost of Rs.55 million. A project to develop an aviation fuelling facility at Katunayake also commenced in 1998. The total cost of the project has been estimated at Rs.462 million. It has also been planned to rehabilitate the existing product transfer pipelines from the Colombo Port to the Kolonnawa terminal at a cost of Rs.150 million.

5.6 Transportation

Transport Network

Transportation by land, sea and air constitutes a vital part of the economic infrastructure. The provision of transportation in Sri Lanka is still mainly dominated by the public sector, although private sector participation has been increasing in recent years, especially in bus transportation. The transport sector in 1998 indicated a moderate improvement, although some sub-sectors reflected setbacks.

The benefits of clustering Peoples Bus Companies into Regional Transport Companies (RTCs) in 1997 and the recent initiatives by Sri Lanka Railways (SLR) towards a dedicated passenger service are yet to be realised.

About 90 per cent of the demand for transportation in Sri Lanka is met by using the islandwide road network of nearly 100,000 kms. The Road Development Authority (RDA) is responsible for the maintenance and development of A and B class national highways, which account for 11,285 kms. Approximately another 15,000 kms of roads, categorised as C and D class roads, are under the purview of Provincial Councils (PCs). The remaining roads, which comprise local roads, estate roads and agricultural roads, are under the local governments and other public and private institutions including plantation companies, the Mahaweli Authority, the Irrigation Department and the Wild Life Department.

The bus fleet of the RTCs stood at 7,942 at end 1998. This indicated a marginal decrease of one per cent, mainly due to the sale of a number of buses, which were not in operational condition. The number of private buses engaged in passenger transportation in 1998 was nearly 14,000. The number of motor cars registered at the Department of Motor Traffic (DMT) since 1980 was 300,532, while the number of motor cycles amounted to 711,617. The registered number of goods transport vehicles during the same period amounted to 106,438, reflecting its significant contribution towards the goods transportation service. The total number of three wheelers so far registered at the DMT amounted to 75,666. These vehicles have become an important mode of transportation in both urban and rural areas. The total number of vehicles including motor cycles and three wheelers, registered since 1980, was 1,267,496 as at end 1998. The rolling stock position of the SLR comprised 65 locomotives, 26 power sets, 1,262 carriages and 2,575 wagons. The rail network remained unchanged at 1,463 kms. Air Lanka, the national carrier, continued its operations to 29 destinations in 21 countries. This covers the geographical areas of the Indian sub continent, the Far East, Europe and the Middle East. With regard to sea transportation, Sri Lanka mainly acts as a facilitator by operating several sea ports rather than entering into the competitive shipping industry. The Sri Lanka Ports Authority (SLPA) is the apex institution in this sector and operates 4 major ports in Colombo, Trincomalee, Galle and Kankasanturai. The Ceylon Shipping Corporation and several private sector shipping companies provide limited shipping services in the country.

Road Development

The RDA was responsible for the development and maintenance of national highways, which stood at 11,285 kms. in 1998. A total of 138 kms. was added to the national highways during the year. In addition, 4,200 bridges were also maintained by the RDA. The total expenditure on roads

increased by 3 per cent to Rs. 5,783 million in 1998. Of the total expenditure, 57 per cent was allocated to rehabilitation and improvement of roads, bridges and culverts, while 38 per cent was allocated for construction, additions and improvements of the roads. Meanwhile, the amount allotted to national road maintenance has increased by 3 per cent to Rs. 265 million.

Although Sri Lanka has relatively a good road coverage and road density, road maintenance and improvement have not kept pace with the increasing need for a better road network due to resource limitations. There are several other factors, such as the resistance that has to be faced in acquiring lands for building of new roads or widening the existing roads, the waste of funds due to the lack of co-ordination among highway authorities and utility agencies and financial constraints faced by contractors, that delay the completion of some projects. At the local and the provincial levels, the improvement of the road network is long overdue. As most of the provincial roads are not designed or built according to accepted engineering standards, the increasing number of vehicles, particularly heavy vehicles, cause damage to these roads. Resource constraints have been the major problem for the rehabilitation of these roads.

Efforts to develop and maintain the national road network increased considerably in 1998. A number of foreign funded road development projects were in progress under the RDA during this year. Almost all of these projects have been designed with the view to improving the quality of national highways. The Third Road Rehabilitation Project for the rehabilitation of 397 kms. of roads and construction of 19 bridges in the Southern, Western and North Western provinces was in progress with World Bank assistance during the year. The work on most contracts had been completed. The Third Road Rehabilitation and Improvement Project with assistance from the Asian Development Bank (ADB) was also in progress. Under this project, rehabilitation of a total of 82 kms. on the Narammala-Giriulla, Kurunegala-Padeniya, Katugastota-Matale, Wattagama-Matale, Peradeniya-Gampola and Kandy-Tennekumbura roads is nearing completion. The Katunayake-Puttalam road is also being rehabilitated/improved at a cost of Rs. 1,084 million under the same project. The total value of the work completed under this project in 1998 was Rs. 753 million. Phase II of the Sri Lanka-Japan Friendship Bridge is also being constructed with assistance from the OECF and is scheduled to be completed by 2000. Work on the Baseline Road Rehabilitation Project (Phase I) was in progress, with assistance from the OECF. Under this project, a dual 3 lane causeway is being constructed from the Kelanitissa roundabout to the Kanatta roundabout with a flyover across the main line railway at Dematagoda and a pedestrian subway at Borella. The work on the balance section from the Kanatta roundabout to the High Level Road will commence in 1999. The total cost of the project has been estimated as Rs. 1,530 million, of which Rs. 457 million was incurred in 1998.

The rehabilitation/reconstruction of 28 bridges at a cost of Rs. 600 million with the assistance of the Kuwait Fund for Arab Economic Development was in progress during 1998. Meanwhile, a project for the procurement of road construction machinery and equipment has been completed during the year with assistance from the OECF. In addition, the fourth ADB Road Improvement Project is also scheduled to commence in 1999 with a view to improving 345 kms. of roads and 47 bridges. The Periodic Maintenance Programme, involving extensive sand sealing and surface dressing also continued with the assistance of the OECF. The cumulative kilometerage completed under this project totaled 3,215 kms, of which sand sealing was for 3,104 kms and double bitumen surface treatment (DBST) was for 111 kms. The amount spent in 1998 under the project was Rs. 1,179 million.

The construction and improvement of highways and bridges under the Consolidated Funds Project continued with a provision of Rs. 1,658 million for the execution of work on a provincial basis. Under this, the work on the Marine Drive along the western coast line was in progress at a total estimated cost of Rs. 72 million. The Duplication Road extension was also under construction and the total estimated cost for this project is Rs. 52 million. In addition, the work on 50 bridges has been completed and these were opened during the Independence celebrations. The construction work of the Kelanisiri Bridge over the Kelani river was in progress at a cost of Rs. 110 million. Meanwhile, the construction of a flyover across the main railway line at Ragama at an estimated cost of Rs. 200 million was nearing completion. For the first time in Sri Lanka, a pedestrian subway was constructed in Kandy during 1998 at a cost of Rs. 24 million. More subways of this type are to be built in other areas in the country, based on the necessity for safe movement of pedestrians and to reduce congestion.

Several decisive measures have been taken to cope with the emerging demand for fast and reliable roadways in the country. Accordingly, the construction of three expressways is proposed. The Colombo-Katunayake expressway, which is designed as a 4 lane dual carriage expressway, will commence in 1999 at a cost of Rs. 6.5 billion. The final report of the feasibility study for the Matara-Colombo expressway is being finalised and the detailed engineering designs will commence in March 1999. With regard to the Colombo-Kandy expressway, a pre-feasibility study is scheduled to be carried out in 1999.

Passenger Transport

For the development of the passenger transport system, the focus in 1998 was on increasing the number of buses, streamlining of bus and rail services and providing necessary support by way of financial as well as infrastructure development. The lack of attention to commercial viability has been one of the major inefficiencies in the passenger

transport sector. The provision of 500 imported 32 seat buses for augmenting bus services, particularly in rural areas, and the distribution of 500 engine kits for RTCs to repair their buses were the major changes made in 1998. Although the performance was not as satisfactory as expected, the restructuring of Peoples Bus Companies into Cluster Bus Companies has also provided a strong base for future development. The SLR was also strengthened somewhat during the year, so as to provide a better rail transport service, in spite of current difficulties.

Bus Transport

The demand for bus transportation has been increasing over the years. About 6,340 buses are required to provide a satisfactory service by the RTCs. However, the average number of buses operated by the RTCs was only 4,325 in 1998. The operated kilometrage of the RTCs decreased by

6 per cent to 313 million kms. in 1998. The passenger kilometrage also decreased by 8 per cent to 17,716 kms. The total revenue of the RTCs dropped by 3 per cent to Rs.4,742 million. The RTCs received a subsidy of Rs. 435 million from the government on account of operations on non-remunerative bus routes and for the issuance of season tickets at subsidised rates to school children. The total expenditure of RTCs also decreased by 2 per cent to Rs. 6,362 million in 1998.

A number of steps are being taken under the restructuring programme of bus transportation by the public sector with a view to providing an efficient service. A Voluntary Retirement Scheme (VRS) has been introduced in the Sri Lanka Central Transport Board (SLCTB) to retrench approximately 1,500 employees, for which the required funds have been made available through a supplementary estimate of Rs. 800 million. A Central Monitoring Unit (CMU) is to

TABLE 5.6
Salient Features of the Transport Sector

Item	Unit	1996	1997	1998 (a)	Percentage Change	
					1997	1998 (a)
1. New Registration of Motor Vehicles						
Buses	Nos.	1,364	1,999	3,190	46.6	59.6
Private Cars	"	17,671	31,338	41,151	77.3	31.3
Dual Purpose Vehicles	"	14,250	16,293	18,455	14.3	13.3
Motor Cycles	"	31,955	36,755	42,089	15.0	14.5
Goods Transport Vehicles	"	5,660	5,561	8,703	-1.7	56.5
Land Vehicles	"	8,340	7,652	8,405	-8.2	9.8
Private Coaches	"	115	60	158	-47.8	163.3
Others	"	65	16	62	47.8	163.3
2. Sri Lanka Railways (SLR)						
Operated Kilometers	'000	7,705	7,787	8,467	1.1	8.7
Passenger Kilometers	Mn.	3,241	3,290	3,538	1.5	7.5
Freight ton Kilometers	Mn.	107	96	102	-10.3	6.3
Total Revenue	Rs.Mn.	938	1,030	1,190	9.8	15.5
Current Expenditure	"	1,826	1,742	2,256	-4.6	29.5
Operating Loss	"	887	712	1,066	-19.7	49.7
Capital Expenditure	"	4,624	4,187	3,457	-9.5	-17.4
3. Regional Bus Companies						
Operated Kilometers	Mn.	348	332	313	-4.6	-5.7
Passenger Kilometers	"	20,259	19,154	17,716	-5.5	-7.5
Total Revenue	Rs.Mn.	5,170	4,892	4,742	-5.4	-3.1
Operational Expenditure	"	6,012	6,467	6,362	7.6	-1.6
Operating Loss	"	842	1,575	1,620	87.1	2.9
4. Air Lanka						
Hours Flown	Hrs.	29,899	31,045	24,118(b)	3.8	n.a.
Passenger Kilometers Flown	Mn.	3,809	4,264	3,056(b)	11.9	n.a.
Passenger Load	%	69.9	75.9	69.7(b)	8.6	n.a.
Weight Load	%	63.1	68.6	62.1(b)	8.7	n.a.
Freight	MT.	25,128	36,959	27,743(b)	47.1	n.a.
Employment	No.	5,089	4,793	4,782(b)	-5.8	n.a.

(a) Provisional.
(b) Up to September

Sources : Department of Motor Traffic
Sri Lanka Railways
Sri Lanka Transport Board
National Transport Commission
Department of Civil Aviation

be set up with selected officers who remain with the SLCTB. The affiliated institutions of the SLCTB will also be restructured. Accordingly, the Ceylon German Technical Training Institute and the Driver Training Schools will be allowed to function independently under the Ministry of Transport and Highways.

A significant development in the private sector passenger bus service was seen in 1998. In the provinces, a total of 11,242 buses were in operation (except in the Northern and Eastern Provinces) as at end 1998. This indicated an increase of 19 per cent, as compared to 1997. The total seating capacity of these private buses also increased significantly by 29 per cent in 1998. The total number of permits issued by the Provincial Councils increased by 17 per cent. The number of routes allocated to the private sector at provincial level increased to 1,446 in 1998 from 1,335 in 1997. However, the number of bus owners has increased significantly from 9,432 in 1997 to 10,922 in 1998, reversing the trend of gradual transformation of the single owners to fleet owners observed in the previous year. This could have an adverse impact on cost effectiveness as well as on the monitoring of the private bus industry. The number of direct employment opportunities in this sector at provincial level has been estimated as around 27,000 in 1998. Meanwhile, the total number of new registrations of passenger transport buses at the DMT by RTCs and private operators increased by 60 per cent to 3,190 in 1998.

The National Transport Commission (NTC), which advises the government on the national policy on omnibus passenger transportation, implemented several programmes in order to improve the present bus service in the country. Steps have been taken by the NTC with the help of provincial authorities to operate buses on common schedules for private operators and the RTCs, using common terminals. The work on phasing out the existing low roof buses was also in progress. The NTC continued its islandwide programme to train private bus crews in collaboration with the SLCTB Driver Training Schools and with assistance from the World Bank. As at end 1998, a total of 6,266 drivers and 8,529 conductors had been trained under this programme. In addition, another 10,000 bus crews attached to the RTCs will also be trained. The main objective of this programme has been to enhance productivity, improve service and enhance road discipline in passenger transportation. A programme for educating bus owners has been successfully completed in the Southern Province. Provision of private bus accident relief, issuance of permits to inter-provincial and intra-provincial buses and provision of financial support for rural bus services (Rs. 212 million) are among the other activities carried out by the NTC during 1998. The NTC has also proposed the setting up of a Central Bus Information System on countrywide bus operations, with the assistance of the World Bank.

The Road Safety Secretariat (RSS), which was opened in 1998 and is funded by the Asian Development Bank (ADB), is engaged in regulating and managing the flow of traffic on highways. Under the directions of the RSS, a number of traffic lights were installed at various places in and around Colombo during 1998. The cost of traffic lights has been reduced by about 80 per cent as a result of the local production of traffic lights by the Road Construction and Development Company (RCDC) and the University of Moratuwa as a joint project.

A committee appointed to formulate a National Bus Transport Policy for Sri Lanka has recommended that the share of the state sector bus service be increased from the present 50 per cent to at least 60 per cent in order to provide a better service at a reasonable cost. This is expected to provide an efficient, user-friendly transport network by optimising the use of available resources. The need for setting up private bus companies with a minimum fleet of 50 buses, with a view to improving the productivity and to ease the monitoring procedures has also been emphasised. However, the main problem in the bus (as well as railway) transportation system has been the control of bus fares at non-remunerative level. This has hindered the development of the sector through private participation. Without addressing this basic issue, increasing the size of the public sector in bus transportation will be a reversal of policies.

Among the current developments in the road transport sector, it is evident that the use of private vehicles for transportation is on the increase, mainly due to the prevailing deficiencies in the public transport system. This trend has led to heavy congestion in city centres, particularly during peak hours. As a part of this trend, the number of vehicles, such as school vans, motor cycles and three wheelers in city centres is rapidly increasing. Although this trend has a positive impact on the economy through increasing economic activities and providing employment, the regulatory network has not been sufficiently developed to prevent unnecessary road congestion, and more importantly, to ensure the safety of passengers travelling by these vehicles. On the other hand, the usage of road surface by other vehicles is more than 60 per cent, while the passenger transportation buses use only a very low percentage of the road surface though their effect is much more significant to the economy. Meanwhile, employee transportation by the private sector and public sector commercial organisations has been encouraged by giving fiscal incentives. The expenditure incurred by these institutions on purchasing buses is exempted from income tax. In addition, these institutions are allowed to import buses and coaches free of customs duty. The local companies engaged in the bus assembling industry are also allowed duty free imports of parts and equipment. It is expected that these policies would result in decreasing the demand pressure for passenger transportation, especially during peak hours. In addition, the duty concession has been further extended to

the importation of buses with over 40-seat capacity by private sector bus operators.

Although the Public Transport Fare Committee recommended an adequate fare increase in 1996, the government allowed only 15 per cent and 20 per cent fare increases for bus and rail transport, respectively, with effect from July and March 1996. This increase has now been more than eroded by rising costs due to sharp increases in the prices of spare parts, increases in wages and due to the Goods and Services Tax (GST) introduced in April 1998. Lower profit margins in the industry have resulted in not only a deterioration of the quality of the service but also discouraged new investments in the bus industry. The continuation of the present fare structure would certainly be a burden to the government in time to come via subsidies to the public sector bus companies. The additional expenses arising from the wage increase of Rs. 1,000 given to the employees of RTCs with effect from January 1999 will also have to be borne by the government with increased budgetary allocations. There is a compelling need to increase the passenger fares by a reasonable amount, provided the additional income is satisfactorily used to provide a better quality and more reliable bus service to the public.

Rail Transport

During the year under review, the SLR showed slight improvements in several areas of its operations although it continued to suffer from chronic problems such as insufficient rolling stock and decaying rail infrastructure. Accordingly, the operated kilometrage of the SLR increased by 9 per cent reaching 8.5 million kms. The passenger kilometrage of the SLR also increased by 8 per cent to 3,538 million while the number of passengers carried increased marginally by one per cent to 87.4 million. The operated freight kilometrage indicated an increase of 6 per cent to 102 million ton kms., while the volume of goods carried increased by 4 per cent to 1.2 million metric tons in 1998.

Despite the improvements in the scale of operations of the SLR during 1998, it continued to experience hardships. The problems faced by the SLR are manifold. The weak track, which has resulted in frequent derailments and enforcement of a number of speed limits, poor performance of the rolling stock, an obsolete centralised traffic control and communication system and inappropriate technical specifications etc. can be identified as major problems of a technical nature. Poor worker productivity is one of the major internal social problems, while the unsettled security situation in the Northern and Eastern Provinces is a major external social problem faced by the SLR. These problems are compounded by the unrealistically low rail fares, which are by no means near a cash recovery charge. It is unfortunate that a proposal for raising rail fares in the 1999 Budget had to be withdrawn at the last stage.

In order to cope with this situation, several steps have been taken, especially in the areas of improving the quality of the service, strengthening the rolling stock and developing the infrastructure of the SLR. Accordingly, the train service on the main line (up country) was rescheduled by introducing two new trains especially for the convenience of school children who travel by train between Polgahawela/Kandy and Nawalapitiya/Galaboda. The introduction of the express train between Colombo Fort and Gampaha in the Colombo Suburban Zone helped to ease the evening office train congestion. A new inter-city train was introduced between Galle and Colombo Fort. A day train service operated on the Trincomalee line and the Baticaloa line terminated at Polonnaruwa due to security reasons. Five new sub-stations were opened for train services during 1998. In addition, steps were taken to provide new stations in Kattuwa, Poonawa, Agbopura, Thismalpura and Pinnawala. Meanwhile, the operation of trains on schedule was improved as 60 per cent of trains arrived at their destination on time. The scheduled operations were further improved in the Colombo suburban areas, where up to 75 per cent of trains arrived at their destinations on time. The cancellation of trains accounted for only 5 per cent of total scheduled train journeys during 1998. Regular discussions with Travellers' Associations helped to rearrange the train time tables according to the requirements of passengers.

The SLR continued its efforts to ensure the availability of rolling stock for the regular services. Accordingly, two new Indian locomotives were added to the existing fleet at a cost of Rs.180 million, while an M5 type locomotive, remaining in the re-engining programme was released for service in 1998. An M2 type locomotive, which was stranded in Kankasanturai for nearly 10 years, was brought to Colombo and added to the fleet for normal service after repairs. Four W3 class locomotives were also added to the service after rehabilitation under assistance from the OECF. In addition, a tender was awarded to deliver 10 Broad Gauge locomotives by mid 2000. Approval for the procurement of 15 Diesel Multiple Units of which 6 units will be supplied in 1999, was obtained. This will strengthen the power set fleet. Phase I of the project designed to upgrade the Electric Locomotive Shed at Maligawatta, which will increase the quality of repairs, was completed in 1998.

With a view to improving the condition of the rail track and constructing additional railway lines, the SLR initiated a number of programmes during the year. The Track Rehabilitation Project was continued during 1998 with OECF assistance. In addition, a track length of 40 kms. was also rehabilitated using local funds. The construction of the Polgahawela to Rambukkana duplication track was completed and construction of another duplication track from Panadura to Aluthgama commenced and was concluded during the year. The work on a double line from Ragama to Negombo also commenced during the year. The installation of new

Colour Light Signaling Systems along the coastline was also in progress. Steps are being taken for the electrification of the suburban railway network and a Cabinet memorandum has already been submitted in this connection.

As far as the financial position of the SLR is concerned, the total revenue of Rs.1,113 million in 1998 showed an increase of 8 per cent over the previous year, mainly owing to the sharp increases in revenue from goods transportation and other sources, which accounts for 20 per cent and 27 per cent, respectively. Current expenditure increased significantly by 16 per cent to Rs. 2,030 million due to a 26 per cent increase in maintenance expenditure and a 2 per cent increase in expenditure on salaries. Meanwhile, capital expenditure of Rs.3,504 million indicated a significant drop of 22 per cent compared with 1997, resulting in a drop of 11 per cent in the total expenditure. Consequently, the operational loss of the SLR increased by 29 per cent to Rs. 917 million. As such, the efficient usage of existing resources, as well as a reasonable passenger fare increase is required to minimise the losses incurred by the SLR.

The SLR intends to take several steps in order to improve the rail transportation service. Accordingly, the access to the railway track by freight customers jointly with the SLR under an Open Access Policy to operate freight services will be allowed. The main objective of this policy is to increase the utilisation of the presently under-utilised railway track enabling the SLR to earn an additional income through commercialisation of goods transportation. The Strategic Business Unit has made considerable progress on implementing this policy during 1998. In addition, the National Development Council (NDC) has proposed a management restructuring of the SLR in order to increase the efficiency further. This proposal is to be implemented early by providing a certain degree of management autonomy to the SLR through a Railway Management Council (RMC), while a new concept of setting up of Performance Centers will also be initiated.

Civil Aviation

The Department of Civil Aviation (DCA), as the apex institution in the civil aviation sector of the country, is primarily responsible for ensuring the international safety standards for civil air transportation and operational standards to meet the global industry requirements. The functions of the DCA include work relating to negotiation of bilateral air services agreements and air traffic rights, civil aircraft registration and issuance of airworthiness certificates for civil aircrafts, investigation of air craft accidents, licensing of crew, ground engineering and other operational personnel and air traffic control personnel as well as aerodromes and air services operators. In Sri Lanka, there are 12 domestic airports in addition to the Bandaranaike International Airport (BIA) which functions as Sri Lankas' gateway to the outside world. Most of the domestic airports are sparsely used, for

civil flights, while some are mainly used for military purposes. Several private air transport companies who operate aircrafts, primarily under lease arrangements, also use some of these airports in their limited operations.

Ownership of the national airline, Air Lanka Limited, was diversified in 1998 by transferring 26 per cent of its shares to the Emirates Air Lines (EAL) for US dollars 43 million. The management of the Air Lanka was also vested with the EAL. After the diversification and under the new management, the Air Lanka worked out a massive capital investment programme under which it is to purchase 6 new Airbuses, orders for which have already been placed. In addition, scheduled flights have also been rationalised in order that the benefits to Air Lanka will be maximized. The flown kilometers of the Air Lanka increased by 6 per cent, reaching 22,925,000 kms. in 1998. The freight tons carried at BIA indicated an increase of 4 per cent as compared with 1997. The total revenue of the Air Lanka amounted to Rs. 17,608 million. As the operating expenditure amounted to Rs.14,640 million, the after tax net profit of the Air Lanka amounted to Rs.1,642 million.

Although the air passenger transportation sector showed some improvements with the recent diversification of Air Lanka, the civil aviation sector as a whole has not been developed to its potential level to derive the maximum possible benefit to the country. Hence, the International Civil Aviation Organisation (ICAO) has been called upon to audit safety capabilities and to make recommendations towards restructuring the DCA. An action plan has also been prepared by the ICAO and implementation of the proposals in the plan is in progress. The DCA is to be transformed into the Civil Aviation Authority of Sri Lanka (CAASL), which is expected to operate as an autonomous body managed by a board.

The overall performance of the air transportation sector has been stagnating for years basically due to the absence of a committed effort and the inability to adjust suitably to the rapid changes that are taking place in the world. As far as passenger transportation is concerned, only the national carrier has shown some improvements in recent years. Although private operators are willing to provide expanded domestic air transport services, and have already invested a large amount of money, security reasons and the absence of a clear and consistent civil aviation policy have adversely affected their performance. However, there is a considerable potential for developing the aviation sector as a commercially viable industry, in addition to the present achievements which have been mainly concentrated on travel and tourism. Sri Lanka has every possibility of emerging as a hub airport in the region for passenger and freight transit, as well as for other air transportation related services. Setting up an international aviation maintenance facility within the country, development of aviation related manufacturing industries, promotion of aviation related service industries and air

freight services are some of the major potential areas that will be beneficial to the industry as well as to the country. As for infrastructure services, the BOO/BOT system could be adopted to attract the required funds locally and internationally to develop the infrastructure needed for the development of this sector.

Port Services

The Port of Colombo has now been ranked among the first 26 container handling ports in the world, in terms of container throughput. The port presently operates at its maximum designed capacity of 1.7 million Twenty Foot Equivalent Container Units (TEUs) per annum. The strategic location of Colombo in close proximity to international shipping lanes and emerging markets in the South Asian region enabled the Port of Colombo to achieve this position within a relatively short period of 18 years, since the commencement of containerisation of the Port of Colombo. However, the rapid growth in cargo handling during recent years apparently came to a halt in 1998 owing mainly to

capacity limitations, the impact of the East Asian financial crisis, reduced operational efficiency and more importantly, due to heavy competition for transshipment cargo from other ports in the region. As the Port of Colombo is highly dependent on transshipment cargo (about 75 per cent of the total cargo handling is transshipment cargo) any development in the outside world has a significant impact on its operations. There are a number of new ports and terminals being constructed in the region and one such new port at Salalah in Oman has already been opened for cargo handling since the latter part of 1998. This port at present has a capacity to handle 900,000 TEUs per annum and 1.9 million TEUs per annum on completion by the year 2000. Another new hub terminal at Aden in Yemen is due to be opened in early 1999. In India, several projects have been initiated to upgrade port facilities during the next few years. This includes a new container terminal called Nhava Sehva with a capacity of 500,000 TEUs per annum at the Jawaharlal Nehru Port. The major ports in the Middle East are also expanding. Singapore is also implementing a programme to

TABLE 5.7
Performance of the Port Services

Item	1996	1997	1998 (a)	Percentage Change	
				1997	1998 (a)
1 Vessels Arrived (No.)	3,857	4,088	4,233	6	4
Colombo	3,467	3,627	3,879	5	7
Galle	84	56	104	-33	86
Trincomalee	306	404	250	32	(38)
2 Total Cargo Handled (MT '000.)	22,722	26,832	26,847	18	0
Colombo	20,885	25,117	24,793	20	(1)
Galle	236	182	402	-23	121
Trincomalee	1,601	1,533	1,652	(4)	8
3 Total Container Traffic (TEUs '000) (b)(c)	1,356	1,687	1,714	24	2
4 Transshipment Container (TEUs '000) (d)	980	1,232	1,191	26	(3)
5 Revenue (Rs. Mn.)	9,007	10,974	13,638	22	24
Colombo	8,775	10,731	13,221	22	23
Galle	81	81	218	0	170
Trincomalee	151	162	199	8	23
6 Expenditure (Rs. Mn.)	6,551	8,194	8,590	25	5
Colombo	6,188	7,807	8,163	26	5
Galle	150	152	186	2	22
Trincomalee	213	235	241	10	3
7 Net Profit before Tax (Rs.Mn.)	2,456	2,780	5,048	13	82
Colombo	2,587	2,924	5,059	13	73
Galle	-69	-72	32	4	-145
Trincomalee	-62	-73	-42	17	-42
8 Employment (No.)	17,476	19,033	18,957	9	0
Colombo	15,589	17,101	17,181	10	0
Galle	841	831	759	-1	(9)
Trincomalee	1,046	1,101	1,017	5	(8)
9 Productivity Indicators (Main Vessels)					
Gantry Moves per Hour (Gross)	14	16	16	14	0
Gantry Moves per Hour (Net)	15	17	18	13	6

(a) Provisional

(b) Containers are handled only in the Port of Colombo

(c) TEUs = Twenty-foot Equivalent Container Units

(d) Exclusive of Re-stowing

Source: Sri Lanka Ports Authority

expand its capacity substantially. This scenario illustrates that the container handling capacity in the region is growing faster than the rate of growth of transshipment cargo in the region. Under these circumstances, the Port of Colombo urgently needs to expand its capacity while improving its operating efficiency to attract main liners and to continue to function as the hub port in the region.

The total number of ship arrivals at the ports of Colombo, Galle and Trincomalee increased by 4 per cent to 4,233 during 1998. The cargo ship arrivals at the Port of Colombo increased by 7 per cent, while ship arrivals for repairs, bunkering and other services dropped by 20 per cent to 74. Ships arrivals at the Port of Colombo for other services, particularly for bunkering services, have been consistently decreasing over the past few years, mainly due to the relatively higher fuel prices and limited fuel supply at Colombo. Meanwhile, the total cargo handled at the Port of Colombo dropped marginally during 1998, in contrast to a 20 per cent rise in 1997. Container handling in 1998 rose only by 2 per cent to 1,714,000 TEUs, when compared with a 24 per cent increase in 1997. The transshipment container handling dropped by 3 per cent to 1,191,000 TEUs, in comparison to a 26 per cent growth in 1997. However, domestic container handling increased by about 15 per cent to 478,698 TEUs owing to expansion in foreign trade. Meanwhile, the performances at the ports of Galle and Trincomalee improved satisfactorily during 1998. The cargo handling at the Port of Galle increased over two fold, while at Trincomalee it rose by 8 per cent.

There were several factors contributing to the decline in the transshipment container handling at the Port of Colombo during 1998. First, the merger of several main shipping lines such as New World Alliance, and the purchase of APL by NOL resulted in a loss of nearly 100,000 TEUs to the Port of Colombo in 1998. Second, with the opening of the Port of Mina Raysut at Salalah in Oman, the Sealand/Maersk Consortium diverted a greater portion of their transshipment handling from Colombo to Salalah, resulting in a loss of about 35,000 TEUs. Third, due to an accident, the Jaye Container Terminal (JCT) 2 terminal had to be closed for several months and as a result some vessels by-passed Colombo due to berthing delays. Finally, some alliances withdrew their services from Colombo due to the disintegration of these services and berthing delays in the Port of Colombo. This decline in transshipment handling partly recovered as several new shipping lines commenced their services to Colombo. Furthermore, the deployment of additional equipment at JCT, the opening of a new terminal and the change of the shift system to work 24 hours a day were helpful in reducing the turnaround time of ships to some extent and in preventing further diversion of transshipment cargo.

The SLPA is implementing several projects aimed at enhancing the productivity and expanding the port facilities

to meet the future demand for port services. These projects have been designed mainly to enhance the container handling capacity of the Port of Colombo in accordance with the master plan for port development. Most of these projects are funded by JICA. Construction of an eight-high stacking empty container yard with the necessary equipment is in progress with assistance from JICA at a cost of Rs.612 million. In order to enhance the capacity and the productivity of the JCT, additional equipment is being installed at a cost of Rs.1,750 million. Phase I of the North Pier development Project has been completed with the opening of a new container terminal called the Unity Container Terminal (UCT) in November 1998. The capacity of the UCT is 100,000 TEUs per annum. Phase II of the project is to commence shortly to add an additional 100,000 TEUs per annum. The total cost of the project has been estimated at Rs.2,375 million, of which Rs.828 million has been spent for Phase I of the project.

With a view to developing the Queen Elizabeth Quay (QEQ) with private sector participation on a BOT basis, the government entered into a primary project agreement with the South Asia Gateway Terminals (Pvt.) Ltd. during 1998. Under the project, the Quay wall will be widened inwards by 100 meters and 3 container berths will be constructed at an estimated cost of US dollars 240 million. After completion of the project, the container handling capacity of the QEQ will be enhanced to 1 million TEUs per annum from the present 250,000 TEUs per annum. The construction work of the project is to commence in 1999 and will be completed in three stages by 2004. Meanwhile, the SLPA has invited bids to construct an additional feeder berth at the Port of Colombo at a cost of Rs.1,200 million. In addition, steps have also been taken to build a jetty at the Port of Galle at a cost of Rs.900 million to serve the needs of the Southern Province as well as to ease the congestion at the Port of Colombo by diverting break-bulk cargo ships to Galle. The construction of a new pier at the Trincomalee harbour at a cost of Rs.2,000 million has also been planned.

It has been proposed to construct a new South Port of Colombo outside the QEQ to meet the long-term demand for port services. According to the tentative plans, this port would have 11 berths with deeper drafts with capacity to handle 4 million TEUs per annum. The engineering study for this project will be undertaken shortly. At the same time, the government has recognised the need for developing a new outer harbour at the Port of Galle. It has been proposed that the breakwater and dredging of the approach channel and harbour base of the port would be constructed by the government, while construction of terminals would be carried out by the private sector on a BOT basis.

The gross revenue of the SLPA during 1998 increased by 24 per cent to Rs.13,638 million mainly due to an increase in port tariff towards the end of 1997 and an increase in other income. Total expenditure at Rs.8,590

million, reflected an increase of 5 per cent. As a result, the SLPA posted a gross profit of Rs.5,048 million for 1998, as compared with Rs. 2,780 million in 1998.

5.7 Irrigation and Settlement Schemes

The main activities of the Mahaweli Development Programme during 1998 were management restructuring, systems development and rehabilitation activities. The Mahaweli Authority of Sri Lanka (MASL) implemented a voluntary early retirement package as a part of its management restructuring and re-organisation. The total expenditure incurred during the year amounted to Rs.1,844 million. The total extent cultivated under the Mahaweli command area reported a marginal increase from 118,371 hectares in 1997 to 119, 574 hectares in 1998.

During 1998, rehabilitation work in System H under World Bank funding continued, while development activities of the Walawe Left-Bank Extension area commenced. Operations of the Minipe Nagadeepa Irrigation Rehabilitation Project (MNIRP), the National Irrigation Rehabilitation Project and the North Western Province Special Irrigation Project (NWPSIP), the three major foreign funded projects, continued in 1998 as well. Under these programmes Rs.488 million, Rs.567 million and Rs.65 million, respectively, were spent during the year. Under the MNIRP, rehabilitation work on 24 major and medium schemes and 952 minor schemes had been completed by the end of the year. Under the NWPSIP, work on 9 schemes was completed. The 'Yaya' demonstration pilot programme, in operation since 1994, was extended to all the Mahaweli System areas during the year. The MASL also took measures to extend seed paddy production programmes further. In addition, action has been taken to establish farmer companies beginning with a new Farmer Company Plan established at the Chandrikawewa Block, Uda Walawe.

5.8 Special Programmes

Housing

The demand for housing, particularly for urban housing, is growing rapidly with the expansion of the urban population. According to a recent report of the Presidential Task Force on Housing and Urban Development, the backlog of urban housing has been estimated at 169,111 units at end 1996. It has also been estimated that the housing requirement during the period 1998 – 2005 would be 511,987 units of which 322,556 units would be in the urban sector. Of the total housing requirement, the state sector and private developers are expected to provide about 20 per cent and 23 per cent, respectively while the balance (57 percent) is expected from individuals. In order to expand the housing supply adequately, the housing policy should aim at attracting private investments into this industry, while facilitating individual house builders.

During 1998, public sector housing construction indicated further improvement. The National Housing Development Authority (NHDA), which is primarily responsible for the implementation of state sector housing programmes, implemented seven major housing programmes, namely, Janaudana programme, Rural Housing Programme (RIIP), Urban Housing Programme (UHP), Estate Housing Programme (EHP), Direct Construction Programme (DCP), Disaster Housing Programme (DHP) and Fisheries Housing Programme (FHP), during 1998. The performance of the public sector housing development programmes showed a significant progress in terms of the number of housing units commenced and units completed during the year under review. The total number of housing units commenced under the public sector housing programmes rose sharply by 52 per cent to 51,630 housing units, while the number of units

TABLE 5.8
Expenditure on Selected Major Foreign Funded Irrigation Schemes

Name of Project	Source of Aid (a)	Total Foreign Aid Commitment (In Mn.)	Expenditure in 1997 (b) (Rs.Mn.)	Expenditure in 1998 (c) (Rs.Mn.)	Cumulative Expenditure at end 1998 (Rs.Mn.) (c)
1. Minipe Nagadeepa Irrigation Rehabilitation Project					
(i) Mahaweli Bridge			283	256	961
(ii) Irrigation	OECF	J.Yen 1,850	78	232	815
2. North Western Province Special Irrigation Project	CEC	ECU 6.3	105	65	628
3. National Irrigation Rehabilitation Project	IDA EEC	Rs.1,406.9 Rs.1,622.6	512	567	2,199

Source: Irrigation Department.

(a) JICA - Japanese International Co-operation Agency
OECF- Overseas Economic Co-operation Fund (Japan)
CEC - Commission of European Communities
IDA - International Development Association (World Bank)
EEC - European Economic Community

(b) Revised
(c) Provisional

Box 6

Greater Colombo Housing Approval Index (GCHAI)

Housing construction is an important economic activity and is an important part of domestic capital formation. There is no suitable criterion to gauge the volume and trends in housing construction in the country at present. While certain field surveys contain some information on dwellings, it is nevertheless difficult to obtain those data on a continuous basis. The Central Bank of Sri Lanka (CBSL) collects data relating to building approvals by the Colombo Municipal Council (CMC), including apartment complexes, and these are published in the monthly Bulletins. The coverage and the presentation of these data are limited and need to be improved. The limited availability of land and the high prices restricted housing construction within the CMC. Hence, it is necessary to widen the coverage, at least to include the Greater Colombo area, to obtain more representative information on the subject. In addition, an index for housing construction would be helpful in analysing the relationship between housing construction and general economic trends, in forecasting future economic trends and in identifying housing investor sentiment in response to changes in economic policies.

proximity to Colombo were the main criteria used in selecting the LGAs. The population of these 15 LGAs represented 54 per cent of the population in the Western Province and 15 per cent of the total population of the country.

A simple housing approvals index was computed for different categories of floor area (Table I). Monthly and quarterly indices were also prepared.

The GCHAI (1995 = 100) had dropped to 93.3 in 1996 and risen somewhat to 95.7 in 1997 and further to 96.7 in 1998. Approvals of medium size houses (1000 - 2000 sq. ft.) had increased by about 3 per cent during this period. Approvals of small houses (less than 1000 sq. ft.) had declined by about 16 per cent, while approvals of larger houses exceeding 2000 sq. ft. had grown by 3 per cent during this period. Although, there was an expansion in housing construction in 1997 and 1998 after a setback in 1996, housing approvals in 1998 were lower than in 1995. The change in the GCHAI is comparable to the growth rates in the construction sector.

An index of approvals for all categories of buildings (residential, commercial, and other) was also

TABLE I
Greater Colombo Housing Approvals Index for Residential Buildings (GCHAI)

Period	No. of Approvals				GCHAI (1995 = 100)			Overall Index
	<1000 sq. ft.	1000-2000 sq. ft.	>2000 sq. ft.	Total	<1000 sq. ft.	1000-2000 sq. ft.	>2000 sq. ft.	
1995	3,462	4,094	3,101	10,657	100	100	100	100
1996	2,895	3,906	3,144	9,945	83.6	95.4	101.4	93.3
1997	2,986	4,152	3,066	10,204	86.3	101.4	98.9	95.7
1998	2,908	4,213	3,186	10,307	84.0	102.9	102.7	96.7
1997 Q1	620	924	702	2,246	79.2	94.7	93.7	89.5
Q2	773	1019	750	2,542	98.7	104.4	100.1	101.4
Q3	831	1112	860	2,803	106.1	113.9	114.8	111.8
Q4	762	1097	754	2,613	97.3	112.4	100.7	104.2
1998 Q1	673	976	754	2,403	85.9	100.0	100.7	95.8
Q2	647	895	717	2,259	82.6	91.7	95.7	90.1
Q3	765	1,202	973	2,940	97.7	123.2	129.9	117.2
Q4	823	1,140	742	2,705	105.1	116.8	99.1	107.6

With the objective of preparing an index for housing construction, the CBSL collected monthly data from 1995 relating to housing approvals by 15 Local Government Authorities (LGAs) comprising 4 Municipal Councils (MCs), 3 Urban Councils (UCs) and 8 Pradeshiya Sabhas (PSs) in the Colombo, Gampaha and Kalutara districts. The density of population and

computed (Table II). This index also follows the same trend as the index for residential buildings.

The ideal index to meet the objectives stated above would be a Housing Starts Index (HSI), which shows the actual commencement of construction of houses. However, the information needed for compiling such an index is not available with LGAs or with any other

Box 6 (contd.)

TABLE II
Greater Colombo Housing Approval Index for all Buildings

Period	No. of Approvals	Index (1995 = 100)
1995	13,379	100.0
1996	11,243	84.0
1997	11,173	83.5
1998	11,620	86.9
1998 Q1	2,747	85.4
Q2	2,593	80.6
Q3	3,278	101.9
Q4	3,002	93.3

institutions. Some LGAs, especially MCs, keep records of the issuance of Certificates of Conformity (COC), which are normally issued by LGAs at the completion of construction work. However, it has been observed that COC issues are highly under recorded due to the fact that some individuals do not apply for a COC even though they have completed construction work.

Thus, the GCHAI should be treated as an approximate index to identify the trends in housing construction. This index will be regularly updated and published by the CBSL.

completed rose by 17 per cent to 39,807 housing units. Total loans and grants provided under public sector housing programmes amounted to Rs.888 million, recording, a 39 per cent growth, compared to 1997. In 1998, the performance of the Janaudana programme and RHP slowed down, compared to 1997, as much attention was paid to solving the urban housing problem. However, as at end 1998, a total of 196 Janaudana villages with 11,484 housing units had been completed. Under the UHP, a sum of Rs.65 million was granted during 1998, as against Rs.16 million in 1997. Accordingly, construction of 7,300 housing units were commenced during the year, while 5,070 housing units were completed by end 1998. Keeping in line with the government policy of providing own houses for estate workers, the NHDA, jointly with the Plantation Housing and Social Welfare Trust (PHSWT), implemented the EHP. Under the EHP, each beneficiary is given a loan of up to Rs.30,000 at an interest rate of 15 per cent per annum and recoverable within 15 years. During 1998, under the EHP, 2,224 housing units were begun, while 1,397 units were completed. Total loan disbursements under the EHP increased by 4 per cent to Rs.20 million by end 1998. The NHDA was directly involved in the construction of houses to be sold at a reasonable price, particularly to urban middle class families, under its DCP. During 1998, the construction of 810 such housing units was begun and 400 units were completed at a cost of Rs.339 million. The DHP has been designed especially to provide houses to displaced families in the Northern and Eastern Provinces. Some of these families have opted to resettle in the Southern region so that housing facilities were provided there. Under the DHP, 2,351 housing units were completed, while the construction of 82 new units was begun at a total cost of Rs.25 million.

Meanwhile, several other agencies, such as the PHSWT, the Mahaweli Authority of Sri Lanka and the Ministry of Fisheries and Aquatic Resource Development, implemented

several housing programmes to cater to the needs of specific sections of the population during the year. The PHSWT continued to provide housing loans and infrastructure facilities, such as survey of land, access roads, water supply and sanitation facilities for estate workers, under the Social Welfare Programme II (SWP II). Under this programme, 794 new housing units were constructed and 1,075 units were upgraded during 1998, compared with 298 new housing units and 420 upgraded units in 1997. Further work on 1,135 housing units was in progress by end 1998. A sum of Rs.41 million was spent for these programmes under the SWP II during the year. The Ministry of Fisheries and Aquatic Resource Development introduced a new 'Diyawara Gammana' housing project in 1997 for the benefit of those engaged in fishing. During 1998, a total of 741 housing units was completed at a cost of Rs.107 million under this project. There were no new settlements under the Mahaweli Programme during 1998. Meanwhile, action has been initiated under the Clean Settlement Project to resettle an estimated 60,000 households living in slums and shanties within the Colombo Municipal limits. The project has been designed to provide housing facilities to these households without creating a burden to either the government or the beneficiary, through the creation of a financial instrument backed by the land released due to resettlement.

Housing construction undertaken by individuals also expanded during 1998. According to the Greater Colombo Housing Approval Index (GCHAI), compiled by the Central Bank, housing approvals by the Local Government Authorities in the Greater Colombo area improved by 4 per cent to 11,620 during 1998. (Please see Box 6) Commercial banks and other financial institutions actively participated in granting housing loans for construction of individual houses during 1998. In addition to the two state banks, other financial institutions such as the State Mortgage and Investment Bank (SMIB), National Savings Bank (NSB),

TABLE 5.9
Public Sector Housing Programme

Sub Programme	Units Commenced (No.)		Units Completed (No.)		Disbursements (Rs.Mn.)	
	1997	1998(a)	1997	1998(a)	1997	1998(a)
Janaudana Programme	6,582	16,083	9,751	9,010	142	180
Rural Housing Programme	23,307	23,102	20,705	19,933	305	211
Scattered Loan & Grant Programme						
Urban Housing Programme	1,279	7,300	845	5,070	16	65
Scattered Loan & Grant Programme						
Estate Housing Programme	1,008	2,224	883	1,397	19	20
Direct Construction Programme	562	810	92	400	123	339
Disaster Housing Programme (Southern Province)	184	82	1,571	2,351	23	25
Fisheries Housing Programme	1,006	2,029	180	1,646	10	49
Total	33,928	51,630	34,027	39,807	638	889

(a) Provisional

Source: National Housing Development Authority

Housing Development Finance Corporation of Sri Lanka Ltd. (HDFC), the Insurance Corporation of Sri Lanka and some private commercial banks were involved in financing the construction of houses. People's Bank introduced five new housing loan schemes namely, "Siyatha" (for Sri Lankan returnees from Kuwait), "Videsika" (for Sri Lankan employees abroad), "Shakthi" (for Employees of Associated Motorways, Kalutara), a loan scheme for members of the Sri Lanka Working Journalists' Association and a loan scheme for employees in the government sector. People's Bank also continued its former housing loan schemes. In total, the bank had granted 16,359 housing loans worth Rs.904 million by end September 1998. According to People's Bank, the repayment of housing loans granted against EPF balances is unsatisfactory. In 1998, the number of housing loans granted by the SMIB dropped by about 6 per cent to 8,913, although the value of loan disbursements rose by 11 per cent to Rs.1,590 million. In addition to the normal housing loan facilities, the SMIB has started a new housing loan scheme for estate sector employees against their individual EPF balances. Generally, a loan of Rs.25,000 is given under this scheme and as at end 1998, more than 5,000 such loans had been granted under this project. The major problem that confronts the SMIB is the mismatch of funds.

There has been a growing demand for housing loans provided by the NSB in 1998 largely due to the relatively low interest rates (between 14-15 per cent) charged by the NSB in relation to other housing financing institutions and due to the expansion of its branch network. The total number of housing loans granted by the NSB rose by 93 per cent to 1,851 in 1998. The total value of loans disbursed also grew twofold to Rs.711 million. Meanwhile, the HDFC had granted 4,745 housing loans by end October 1998 as against 4,368 housing loans granted in the previous year. The total value of housing loans granted by the HDFC during 1998 at Rs.530 million, indicated an increase of 11 per cent over the previous year. The average rate of interest charged by

the HDFC remained unchanged at 16 per cent per annum during the year. A high incidence of non-performing loans and a lack of low cost funds were some of the problems faced by the HDFC in expanding its housing finance programme.

Urban Development

The Urban Development Authority (UDA) was established in 1978 for the purpose of promoting the integrated planning and development of major urban areas in Sri Lanka. Accordingly, the development of infrastructure facilities within the 14 Municipal Councils (MCs) and some selected 34 Urban Councils (UCs) and 68 Pradeshiya Sabha (PSs) areas are carried out under the purview of the UDA. The UDA has the prime objective of creating a sustainable, healthy and dynamic urban environment. Accordingly, the UDA continued to implement projects such as construction of administrative and commercial complexes, town improvement projects, industrial complexes, integrated projects and social and cultural projects during 1998. In addition, the UDA undertook infrastructure development projects on behalf of clients and implemented the ADB funded Urban Development Sector Project. The UDA also continued to maintain the Land Bank. The total cost of implementing these programmes amounted to Rs.778 million in 1998, compared to Rs.765 million in 1997.

Of the total investment of the UDA, 77 per cent or Rs.602 million was spent on projects undertaken on behalf of clients. Of this, almost 63 per cent (Rs.492 mn.) was spent under the Urban Development Sector Project (UDSP) which is partly funded by the ADB. The UDSP was launched with the objective of providing infrastructure facilities to 17 small and medium scale towns in the island. Developing water supply and sanitation facilities for low cost houses, upgrading shanties, constructing roads and bridges, constructing drainage networks, solid waste management, town centre development and opening industrial estates are

Box 7

Real Estate Development and Bank Financing

The real estate sector witnessed a significant expansion during the last few years in response to rising demand and generous fiscal incentives offered to property development activities. Attractive tax incentives offered by the BOI encouraged both local and foreign entrepreneurs to invest in the real estate sector. Consequently, a total of 147 projects with a value of Rs. 99 billion had been approved by the BOI by the end of 1997. The Central Bank conducted a survey to examine the present status of some major real estate development projects located in Colombo and the suburbs, with special attention to the rate of occupancy and financial viability of the projects. A total of 33 large property development firms located in the Colombo City and suburbs were covered under this survey. The survey was conducted during July-August 1998. Sample selection was based on information obtained from the BOI and a few banks. The main selection criterion was the cost of the construction project. New construction projects with costs exceeding Rs.200 million were included in the survey. Following are the findings of the survey.

Of the 33 companies surveyed, 14 had residential construction projects, 11 had office buildings and 3 were commercial building projects, while the rest of the projects were combinations of residential/commercial and/or office projects. Overall, the 33 projects had a total office and commercial floor area of 2.8 mn. sq. ft. and 2,230 apartment units. Of the projects surveyed, 73 per cent were fully owned by locals, while foreign investors and domestic and foreign joint venture companies owned the rest. All companies except 2 had BOI status. The total project costs amounted to Rs. 31,000 million. Of the 33 projects surveyed, only 23 projects were in full commercial operation. The average occupancy rate for commercial/office floor area was 70 per cent, while for residential units it was 64 per cent. Of the total establishments, 25 buildings were under-occupied. Negotiations were in progress with prospective tenants for the sale, rent or lease of the property in the case of 17. Agreements had already been reached with clients in the case of the remaining 8 establishments. About 50 per cent of the buildings had full occupancy.

In order to examine the financial viability, indicators such as the sources of funds, repayment capacity, outstanding loan amounts and loan rescheduling were considered. The major sources of

capital funds for the projects surveyed were - share capital, own capital and long-term loans. Two companies had issued debentures, while 8 companies had obtained foreign loans. The total amount of long-term loans taken by all companies surveyed was Rs.7,554 million, of which Rs.6,006 million was outstanding at the time of the survey. Of the outstanding loan amount, about 56 per cent was due from residential property developers, while 21 per cent was due from commercial cum office property developers. The main sources of long-term loans for projects surveyed were commercial banks (both domestic banking units and foreign currency banking units) and Development Finance Institutions. Over 50 per cent of property developers had taken loans from commercial banks. The total amount of loans extended by commercial banks to the property development projects surveyed amounted to Rs.2,834 million, while the two major long-term lending institutions had provided Rs.1,680 million.

Some developers had not yet commenced loan repayments. About 25 per cent (7 projects) of property developers surveyed has applied for loan rescheduling, while about 45 per cent indicated that they had no difficulty in repaying their loans. The total outstanding local loan amount of those who had applied for loan rescheduling was Rs.1,598 million. Half of the requests were from residential property developers.

According to the survey, the average rate of rent/lease of commercial/office spaces was Rs.61.75 per sq.ft. with a highest rate of Rs.87.50 per sq.ft. for property in Colombo 4. The lowest rate was recorded in Colombo 3.

The general security situation and slow growth in demand due to economic slow down were the major reasons for the low rate of occupancy. Increasing costs of building materials, slow recovery of tourists arrivals, some legal barriers (e.g. the Condominium Act restricts the lease/sale of apartments below the 6th floor to foreigners) were some other immediate constraints experienced by real estate developers. Demand for office and commercial premises has been adversely affected by the security situation, whereas demand for residential premises has been affected by the economic slow down.

Many property developers expressed concern regarding the high interest rates. They were of the view that at the present level of interest rates, property development projects were not viable unless at least 75 per cent of the project cost was raised by way of equity.

Box 7 (contd.)

Almost all property developers expressed concern about the complicated administration procedures and bureaucratic red tape, which had increased the cost of construction and resulted in unnecessary delays.

There was an excess demand for low and middle-income houses. In this regard, a major problem appears to be the difficulty faced by prospective homeowners to obtain bank loans, as banks are reluctant to grant loans on mortgages of apartments. Demand for commercial and office premises has been restricted as many residences in and around Colombo have been converted into office or commercial premises. This has resulted in various other problems as due consideration has not been paid to environmental and socio-economic consequences of such conversions. Despite all these drawbacks, several property developers mentioned that they would engage in new investment once the economy recovers from the current depressed situation.

Some broad conclusions can be drawn from the survey results. The average rate of occupancy of commercial/office and residential premises is 70 per cent and 64 per cent, respectively. At this level of occupancy, most companies are in a position to cover only the operating expenses, excluding debt repayments. As a result, about 21 per cent of the surveyed

companies have already applied for loan rescheduling. In order to increase the occupancy, some companies have reduced their rental charges, which, in turn, could lead to further reduction in their income. Several companies have housed offices of their subsidiaries in under-utilised buildings to minimise the loss. Loan repayments by several companies have also been backed by parent companies. Unless the occupancy rate improves further, the financial position of the real estate sector would be weak.

According to the survey, total long-term loans taken by real estate development companies amounted to Rs.7,554 million, of which Rs.3,854 million was from local sources. Of the local loans, 59 per cent or Rs.2,284 million was taken from commercial banks. According to the Central Bank's Quarterly Survey of Bank Advances, by end September 1998, credit for property development and construction of business premises amounted to Rs. 7,338 million (3.2 per cent of credit to the private sector), while total credit to the entire real estate sector was 13 per cent of credit to the private sector. Therefore, although the exposure of commercial banks to the real estate sector does not appear to be excessive at present, caution should be exercised in further expanding the provision of credit to this sector.

some of the activities carried out under this project. Meanwhile, the UDA spent Rs.53 million during the year for the further improvement of facilities of the administrative complexes at Battaramulla and Pelawatte. The development of the Avissawella urban area and Dambulla town was carried out at a cost of Rs.15 million. The expenditure on the improvement of low cost housing, public servants' housing and middle income housing schemes amounted to Rs.20 million. The UDA also undertook several industrial development projects at Homagama and Ratmalana. Meanwhile, a sum of Rs.82 million was spent by the UDA on integrated projects and Rs.22 million for acquisition of lands for the Land Bank.

The UDA completed the formulation of a comprehensive regional structure plan for the Colombo Metropolitan Region during 1998. The major objective of this plan is to reduce the high population concentration in the City of Colombo and its suburbs. In addition, Regional Draft Structure Plans have also been prepared in respect of the Sabaragamuwa, Uva, Central, North Western and Southern provinces. Further, the UDA has commenced formulation of urban development plans at district level. Accordingly, urban plans are being prepared in respect of 22 selected towns in 7 provinces. Under the integrated planning and physical development programme, the UDA undertook the work relating to the Gampaha District Integrated Urban Development Project, compilation of the Kandy sacred area development plan, the Warakapola Town Development Project, the Balangoda Town Extension Project and the Nuwara Eliya Lake Gregory Development Project. The UDA is also responsible for the planning and co-ordination of the Ruhunupura Project as identified by the Southern Development Authority. In the meantime, the UDA acts as the co-ordinator for the Sitawakapura Industrial Estate Project under which 168 acres of land are being developed for the purpose of locating 77 small, medium and large scale industries.

Water Supply and Sanitation

The demand for a reliable supply of pipe-borne water is growing rapidly due to the expansion in the population as well as due to the escalating demand from the commercial and industrial sectors. At present, the total water production of the National Water Supply and Drainage Board (NWS&DB), is growing at about 3 per cent per annum. According to the recent Consumer Finances and Socio Economic Survey 1996/97 of the Central Bank of Sri Lanka, only about 31 per cent of the population has access to pipe-borne water. As stated in the Report of the Presidential Task Force on Housing and Urban Development, the annual investment in the water supply sector has to be increased by about three times the present level to meet the present demand for safe drinking water.

The NWS&DB is the prime institution responsible for

planning, designing, constructing, operating and maintaining the water supply facilities in the country. During 1998, it managed 276 water supply schemes. The total water production of the NWS&DB, at 297 million cubic meters, indicated only a 3 per cent increase over the previous year. The total number of connections given by the NWS&DB rose by 11 per cent (47,694) to 438,384 as a large number of major and minor water supply schemes was completed during the year. About half of the new connections were given to the rural sector.

The government's goal is to provide safe drinking water for all by the year 2010. By end 1998, about 66 per cent of the population had access to safe drinking water (pipe borne, tube wells and protected dug wells). In the urban areas, 90 per cent of the population had access to safe drinking water, while in the rural sector only about 57 per cent enjoyed this facility. This emphasises the need for further expansion of water supply facilities in the rural sector in order to improve the hygienic conditions of the rural population. The expansion in urban population, inadequate availability of safe drinking water in rural areas and high growth in industrial and commercial activities have forced the authorities to engage in urgent expansion of the water supply facilities in the country. With this end in view, the NWS&DB spent a sum of Rs.2,533 million on the water supply sector during the year under review. Of the total investment, 58 per cent was financed from foreign sources such as IDA, ADB, OECF and ODA on concessional terms. The major water supply schemes (WSS) completed by the NWS&DB during the year included the Matara WSS, Nilambe WSS, Towns East of Colombo WSS, Udunuwara – Yatinuwara WSS, Deraniyagala WSS, Balapitiya – Demodara WSS, Udappuwa WSS and Marandagahamula WSS. The second water supply and sanitation project funded by the ADB to carry out rehabilitation work on 16 water supply schemes in the Western and Central provinces was in progress during 1998. The third water supply and sanitation project, also funded by the ADB aims at strengthening the private sector, local authorities and community organisations to monitor and manage their own water supply schemes in rural areas. Preliminary studies are being conducted in respect of the Kalu Ganga Project to enhance the water capacity of the Colombo WSS by 6,000 cubic meters per day through the intake of water from the Kalu Ganga. Meanwhile, with the objective of expanding the water supply facilities in rural areas, the Community Water Supply and Sanitation Project (CWSSP), funded by the IDA continued to be implemented during 1998 under several sub-programmes, such as the Village Water Supply and Sanitation Programme, the School Water Supply and Sanitation Programme and the Small Town Water Supply and Sanitation Programme. The CWSSP aims at providing water and sanitation facilities to 680,000 people living in 2,800 villages and in 12 small towns in the Badulla, Matara, Ratnapura and Moneragala districts.

Total revenue of the NWS&DB rose by 19 per cent to Rs. 2,404 million in 1998. This increase in revenue was largely attributable to the upward revision of the water tariff with effect from 1 March 1998. In this tariff revision, the tariff applicable to the domestic sector was raised by 20 – 39 per cent. The tariff rates applicable to the industrial and commercial sectors were raised by a low rate of 9 per cent, while the tariff for tourist/guest house category increased by 10 per cent. The main objective of the water tariff increase was to recover a part of the increased cost of water production, due to increased electricity bills and rising emoluments to employees. Another objective of the tariff revision was to reduce the cross subsidy between different categories of water consumers. In addition, the tariff revision was also intended to motivate people to conserve water and reduce wastage by giving an economic value to water. Another concern over the water supply sector of the country is the high proportion of unaccounted water, amounting to 42 per cent, mainly due to unattended leakages, illegal tapping, stand posts etc. The NWS&DB would benefit significantly if the proportion of unaccounted water is reduced to an acceptable level through timely and effective maintenance of the distribution network. Private sector participation, particularly in the areas of distribution, maintenance and revenue collection within some franchised areas, could enhance the productivity in this sector.

The operational and maintenance expenditure of the NWS&DB grew by 13 per cent to Rs.1,952 million in 1998. Accordingly, the operational surplus of the NWS&DB, before interest and tax, amounted to Rs.488 million as compared with Rs. 316 million in 1997.

Integrated Rural Development Programme

The Integrated Rural Development Programme (IRDP) commenced in 1979 as a district programme with heavy investment in infrastructure development. The objective of the programme was to widen economic opportunities and enhance general living standards of the people in rural areas and to reduce inter and intra district disparities to promote a balanced growth with an effort to encourage local initiative and meet local needs. The programme developed gradually, and since 1989, the focus had been on increasing private sector participation and strengthening a participatory approach. From 1997, the IRDP was reoriented towards a rural economic advancement programme, focussing more attention on employment and income generating activities.

At present, the IRDP consists of 19 projects covering 15 districts. The total expenditure incurred under the IRDP during 1998 was Rs.1,508 million as against Rs.1,375 million spent during 1997. The Area Based Growth with Equity Programme (ABGEP) in the Uva Province and the Batticaloa District Rehabilitation and Development Project commenced in 1998. The UNDP funded ABGEP has an estimated project cost of Rs.328 million and is spread over a five year period.

ABGEP has a national and a provincial component. During the year a sum of Rs.3 million had been spent under the programme. The Rehabilitation and Development Project of the Batticaloa District is funded by the NORAD. An investment of Rs.520 million over a six year period is envisaged under this programme. During the year, Rs.53 million had been spent under this programme.

The Southern Province Rural Development Project (SPRDP) completed its eighth year of implementation in 1998. The amount expended under the SPRDP during the year was Rs.531 million and accounted for over one third of the total expenditure incurred under the IRDP during the year.

The expenditure incurred under the Asian Development Bank funded North Central Province Rural Development Project amounted to Rs.238 million.

Samurdhi Programme

In Sri Lanka, the successive governments since independence have implemented various programmes to support the poor by way of income transfers in kind or in cash. The Samurdhi Programme was introduced in 1995 in order to reduce the problems of the under-privileged, by providing benefits in a meaningful way to uplift their economic and social conditions, as well as to address their problems relating to unemployment. Accordingly, almost all the social benefit schemes hitherto operated by different institutions were brought under this Samurdhi Programme. The total number of beneficiary families in the Samurdhi Programme as at end 1998 was 1,973,183, which was a marginal decline, compared to 1997. This decrease was a result of the policies implemented during 1998 in order to bring the total number to a realistic level by restricting new entrants and removing non-eligible families. Despite this decrease, Samurdhi beneficiaries still account for about 51 per cent of the total number of families though it is estimated that the number of families in the low income group should be around 30 – 40 per cent of the total. This situation has adverse effects on the entire programme by preventing the really deserving groups from receiving improved benefits. Therefore, more emphasis should be placed on better targeting.

During the past 4 years, the Samurdhi Programme has grown into a massive poverty alleviation programme, dealing with a wide array of activities. It has now changed from a simple income transfer scheme to a much more comprehensive programme including banking, insurance, savings, training, infrastructure development and self employment. The institutional framework of the Samurdhi programme has also been set up to facilitate policy formulation and implementation, monitoring and measuring the feedback. The Ministry of Samurdhi, Youth Affairs and Sports (MSYAS) is primarily responsible for formulating policies relating to the Samurdhi Programme. Three other institutions, namely, the Department of Poor Relief (DPR),

the Samurdhi Authority of Sri Lanka (SASL) and the Department of the Samurdhi Commissioner General (DSCG), are responsible for the execution of the Samurdhi Programme at national level under the direction of the MSYAS. The district Samurdhi offices at District Secretariats and the divisional Samurdhi offices at Divisional Secretariats function as the second and third level implementing branches of the Samurdhi Programme. The Samurdhi Zonal Offices which operate under Samurdhi Zonal Managers, are the fourth level of the organisational structure. The Samurdhi Task Forces functioning at the Grama Niladhari divisional level act as the fifth level of operation of the Samurdhi Programme.

The DPR is responsible for the identification of beneficiaries and implementation of relief programmes, special nutritional programmes and distribution of dry ration cards to displaced families. The DPR implements the Samurdhi Relief Programme (SRP) in all districts except those in the Northern Province where the programme is operating only in the Vavuniya South Divisional Secretariat (DS) Division. The total cost of the SRP at Rs. 7,963 million in 1998, was a decrease of 3 per cent, compared to 1997. Under the relief programme, about one per cent of the beneficiary families who were considered as ultra poor received Rs.1,000 per month, while another 45 per cent or 896,783 families received Rs. 500 per month. In addition, another 323,710 families received Rs. 200 per month, while 216,445 families received Rs. 100 per month, depending on the number of members in the household. Meanwhile, 521,886 families, including former Janasaviya recipients, received a monthly allowance of Rs. 250. The DPR also continued issuing dry ration cards to displaced families at a cost of Rs. 1,265 million, while 78,430 nutrition cards worth Rs. 75 million were distributed under the nutritional allowance programme during 1998.

The DSCG is basically responsible for the operation of human resource development and institutional development programmes for effective implementation of the Samurdhi Programme. In addition, implementation of the social security network, initiation of family based economic, social and cultural development programmes as well as planning, monitoring and evaluation of the Samurdhi Programme are the responsibility of the DSCG. By end 1998, 21,257 Samurdhi Animators had been appointed in 13,560 Grama Niladhari divisions by the DCSG to carry out programmes identified under the Samurdhi Programme at village level. This includes 6,667 permanent Samurdhi Animators and 841 permanent Govi Animators. The DSCG also continued the operations of the Samurdhi Social Security Fund (SSSF), which was set up with a view to assisting beneficiaries to meet the expenses of their urgent social obligations. A total of Rs.212 million had been paid in respect of 80,675 claims during 1998. The new Samurdhi Janatha Project (SJP) Programme begun in 1998, had approved 1,536 projects, while the expenditure incurred as at end 1998 amounted to

Rs. 199 million. The SJP programme aims to create employment opportunities in the agricultural sector by way of improved irrigation facilities in relevant areas in order to enhance agricultural production and income levels of the poor.

Among the major activities of the SASL are the development of community organisations and human resources. In line with this, the SASL continued its activities with regard to two types of savings schemes, namely, the Compulsory Savings Scheme and Voluntary Savings Scheme for Samurdhi beneficiaries. Beneficiaries who receive Rs. 1,000 and Rs. 500 per month respectively are required to save Rs. 200 and Rs. 100, respectively, under the Compulsory Savings Scheme. The total savings under this scheme increased by 40 per cent to Rs.3,818 million by end 1998. The Voluntary Savings Scheme, on the other hand, is intended to motivate Samurdhi beneficiaries to save through small groups at the grassroots level. At end 1998, a total of Rs. 407 million had been saved under the Voluntary Savings Scheme.

The Rural Community Projects programme (RCP), aimed at providing small scale rural infrastructure facilities for the benefit of low-income groups, continued during 1998. Under this programme, 6,045 projects were completed at a cost of Rs. 350 million in 1998. In addition, the Small Industry Development Programme (SIDP), which was introduced in 1998, has now been extended to 8 DS divisions. Under the SIDP, the Samurdhi beneficiary families are provided with the necessary capital funds and marketing facilities to set up small industries with a view to improving their income levels. As at end September 1998, there were about 311 persons engaged in those small industries and an amount of Rs. 8 million had been provided as credit.

The system of Samurdhi Banking Societies (SBSs) continued to function under the SASL. These societies envisage to educate the poor regarding banking practices, promote savings among them, improve the income levels through increased investments and strengthen their production capacity through the provision of necessary support services. At the end of 1998, the total number of SBSs amounted to 517 with a membership of 639,106. The amount of deposits was Rs.457 million at end 1998. Further, the SBSs have provided 68,300 members with credit amounting to Rs.237 million to carry out projects in agriculture, fisheries etc. The SBSs have grown significantly owing to the increased amount of deposits and active participation by Samurdhi recipients. This progress has been greatly supported by the assistance provided by the government, especially by way of infrastructure facilities. As a removal of these facilities could make the scheme unviable, the SBS may themselves need to acquire these facilities to strengthen the system. In addition, adequate auditing, monitoring and evaluation procedures should be put in place to avoid any possibility of financial mismanagement.

Meanwhile, with a view to assisting Samurdhi recipients to start and improve their existing income generating activities, the Samurdhi Development Credit Scheme (Sasana) is being implemented by the SASL. By end September 1998, a total of Rs. 449 million had been granted to 76,270 sub-borrowers in Samurdhi families. These loans carry a concessionary interest rate of 10 per cent per annum with a maximum repayment period of 2 years. The Samurdhi Entrepreneurship Development Credit Scheme (SEDCS) was also implemented in collaboration with the Bank of Ceylon (BOC) and the People's Bank (PB). This aims at providing opportunities to Samurdhi recipients to raise funds for self employment and to develop entrepreneurship. Under this programme, BOC and PB had provided loans totaling Rs.6 million by end August 1998. The maximum loan amount under the SEDCS is Rs 50,000, while the interest rate is 10 per cent. The loan has to be settled within 3 years, depending on the income generated.

The total expenditure on SRP in 1998 amounted to Rs.7,963 million. In addition, a sum of Rs.420 million had been incurred as salaries for Samurdhi Niyamakas, while the capital expenditure of the programme was Rs.780 million in 1998.

5.9 Environment

The important relationship between the environment and macro-economic variables such as economic growth, employment and prices, has been increasingly recognised in policy formulation and project implementation in recent times. Even at a low income level, where people tend to value output more than the quality of the environment, Sri Lanka has been able to establish a relatively strong legal and institutional framework to protect the environment and manage the natural resource base of the country effectively. The National Environment Act (NEA) was enacted in 1980, and subsequently, in 1981, the Central Environment Authority (CEA) was established for the conservation and management of the environment. Further, a Ministry for Environment was set up in 1990 with a view to co-ordinating environmental activities at the national level and setting national environment policies towards achieving sustainable development. Accordingly, the Ministry prepared a National Environment Action Plan (NEAP) in 1994 and updated it in 1998 to identify the issues and necessary policy intervention relating to land and water, forest and biodiversity, coastal and marine resources, industrial and urban pollution and the energy and minerals sectors. Currently, serious environmental problems exist in the areas of municipal solid waste disposal, urban air pollution, deforestation and water pollution, which require urgent attention.

In 1998, the Ministry of Forest and Environment carried out several programmes to improve the environment. The Ministry updated the NEAP in consultation with all relevant

stakeholders and made a series of recommendations. A number of policy studies have also been undertaken during the year to analyse issues and to make more specific recommendations. In order to review the recommendations made in the NEAP and the policy studies further, eight committees on Environment and Environment Policy Management have been established. These committees, in turn, are expected to report to the Committee on Integrating Environment and Development Policies. The Ministry has also initiated action to study the impact on the environment of globalisation and the other commitments arising from global and regional agreements, conventions and treaties.

A draft national solid waste management strategy has been developed in collaboration with other relevant authorities. The Ministry also continued to assist local authorities to develop solid waste management strategies at the local level. Action is being taken to launch a compost bio-gas production project, with NORAD funding, in the Maharagama Predeshiya Sabha area. The Ministry continued to implement the Basel Convention on the control of trans-boundary movements of hazardous wastes and their disposal and the Montreal Protocol, which is aimed at eliminating the use of ozone depleting substances in industry and trade.

Meanwhile, the CEA processed 32 Environmental Impact Assessments (EIA) and 32 Initial Environment Evaluations (IEE) and approved 11 EIAs and 7 IEEs during the year under review. The CEA has taken steps to amend the NEA with a view to expediting the processing of IEE. In the proposed amendment, this is to be achieved by removing the 30 day period given for public comment on IEE reports. However, it may be more advisable to reduce the time period allocated for public comment, rather than removing it altogether, in order to guarantee transparency in project implementation. Meanwhile, the CEA issued 194 new Environmental Protection Licences (EPL) and renewed 370 EPLs in 1998, compared with 163 and 309, respectively, in 1997. The CEA continued monitoring the discharge of effluents, air emissions and noise by industries, and analysed 354 industrial affluent samples, against 219 during 1997. Further, the CEA monitored the Seethawaka Industrial Estate Development Project, the LPG Import Terminal Project at Kerawalapitiya, the Kukuleganga Hydropower Project and the Alupotha Sanitary Land Filling Project during 1998. The ambient air quality monitoring programme and the monitoring of major water bodies in the country were also continued. Meanwhile, the CEA received 1,221 public complaints on environment related problems. Action has been taken in respect of 461 of those by the CEA. The rest were referred to the respective Local Government Authorities and other relevant organisations. Further, the CEA trained 100 officers of Local Government Authorities in the issue of EPL and selection of sites for industries. A number of programmes were conducted by the CEA in 1998 to enhance environmental awareness, change attitudes and develop skills, particularly among school children.

6. PRICES AND WAGES

6.1 Prices

Inflation continued to decline in 1998 owing to a slowing down of growth of money supply, decline in imported inflation and increased availability of imported consumer goods. The slowing down of the rate of monetary expansion, together with higher positive real interest rates, reduced the demand pressure on prices. Meanwhile, a sharp reduction in import prices of many essential commodities such as wheat, crude oil, fertiliser and sugar kept the domestic prices of these items from rising in spite of a larger depreciation of the rupee in 1998. Price increases subsided, particularly during the second half of the year, and the consumer price inflation remained below 6 per cent from August 1998. Food prices continued to remain high, despite a slowing down of the rate of increase in prices towards the latter half of the year. While the aggregate consumer prices increased by 7-9.5 per cent, average food prices increased by 8-10 per cent and contributed to about 80 per cent of the increase in consumer prices in 1998. The rate of increase in food prices had decelerated to around 2-4 per cent by the end of the year, due to improved domestic supplies including the successful paddy harvest both in the Maha and the Yala seasons, as well as the increased availability of imported food items. The tariffs on electricity were revised upwards in September 1997 and the direct and indirect impact of this increase was felt in 1998. Price increases of clothing, footwear, telecommunication and health services have declined considerably due to improved performance of these sectors. The introduction of the Goods and Services Tax (GST) raised consumer prices by 2-3 per cent although about 80 per cent of the items in the Colombo Consumers' Price Index basket have been exempted from GST.

All available consumer price indices reflected an easing of inflation in 1998. The Colombo District Consumer Price Index (CDCPI) computed by the Central Bank of Sri Lanka indicated an annual average increase of 7.3 per cent in 1998, marginally down from 7.4 per cent in 1997. The Colombo Consumers' Price Index (CCPI), the official measure of the cost of living computed by the Department of Census and Statistics, recorded an annual average increase of 9.4 per cent which was also slightly lower than the 9.6 per cent increase recorded by this index in 1997. The Greater Colombo Consumers' Price Index (GCPI), which is an alternative consumer price index also computed by the Department of Census and Statistics, indicated an increase of 6.9 per cent in 1998, again slightly below the 7.1 per cent increase registered by the same index in 1997. Meanwhile, at the primary market level, the Wholesale Price Index (WPI) increased by 6.1 per cent in 1998 as compared with an increase of 6.9 per cent in 1997.

The normal seasonal pattern of price behaviour was observed in 1998 with the price level declining according to all consumer price indices during the February- March period, which corresponds to the Maha harvesting period, and the July - September period, which corresponds to the Yala harvesting period. It is notable that in the first half of the year, all indices pointed to a slight acceleration of inflation when compared with the first half of 1997. As at June 1998, the point to point increase of the CCPI (June 1998 over June 1997) was 14.1 per cent, while the corresponding increases registered by the CDCPI and GCPI were 9.5 per cent and 10.1 per cent, respectively. However, the inflationary situation turned more favourable in the second half of the year, with the overall rate of inflation at end 1998 being in fact slightly below that of 1997. As at December, the point to point increase of the CCPI (December 1998 over December 1997) dropped to 3.7 per cent while the corresponding figures for the CDCPI and GCPI declined to 4.0 per cent and 3.5 per cent, respectively. On the demand front, the slowing down of the growth of real income under depressed world market conditions, containment of the growth of money supply to around 13 per cent, compared with 14.9 per cent in 1997, and higher positive real interest rates, contributed to an easing of demand pressure on prices.

TABLE 6.1
Annual Average Price Changes (%)

	CCPI	GCPI	CDCPI	WPI	GNPD
1980	26.1	-	-	33.7	18.2
1981	18.0	-	-	17.0	20.6
1982	10.8	-	-	5.5	10.2
1983	14.0	-	-	25.0	14.7
1984	16.6	-	-	25.6	17.4
1985	1.5	-	-	-15.2	0.8
1986	8.0	-	-	-2.9	5.5
1987	7.7	-	-	13.4	6.8
1988	14.0	-	-	17.8	11.5
1989	11.6	-	-	9.0	9.7
1990	21.5	24.6	-	22.2	20.0
1991	12.2	11.5	-	9.2	11.2
1992	11.4	9.4	-	8.8	10.0
1993	11.7	8.4	-	7.6	9.5
1994	8.4	4.8	-	5.0	9.4
1995	7.7	3.9	-	8.8	8.4
1996	15.9	14.7	-	20.5	12.2
1997	9.6	7.1	7.4	6.9	8.7
1998	9.4	6.9	7.3	6.1(a)	8.4(a)

(a) Provisional

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

Sri Lanka is yet to achieve a sustainable reduction of inflation. Although the average consumer price inflation has declined, according to the CCPI, to 10.2 per cent during the last five years from 13.5 per cent during the five years 1989-93, a steady reduction of the inflation rate to below 5 per cent would be required for the country to disentangle itself from the inbuilt inflationary bias. Sri Lanka's inflation rate has been higher than the average inflation rate of her trading partners and competitors. This has forced the exchange rate to depreciate at a rate of about 5-6 per cent per year for Sri Lanka to remain competitive in the world commodity markets. As mentioned in the 1997 Annual Report, the exchange rate depreciation has a feedback effect on inflation as Sri Lanka is a highly trade dependent economy where exports and imports together account for about 70 per cent of GDP. The internal wage setting mechanism, which links many wages directly or indirectly to inflation rather than to labour productivity, has been another channel in this inflation-wage-exchange rate nexus. These, together with continuing high budget deficits, have made it a challenging task to eliminate high inflationary expectations among the public. Hence, measures have to be in place for a sustainable reduction in inflation by containing the fiscal deficit at below 5 per cent and introducing a productivity based wage setting mechanism. These have to be supplemented with other measures to eliminate structural weaknesses in the labour market - measures which would make the labour market more flexible, while providing equal protection to both workers and employers in a competitive environment.

Colombo District Consumer Price Index

In 1998, the Central Bank finalised the computation of an alternative price index, the Colombo District Consumer Price Index. This index is based on 12 months data of the Consumer Finances and Socio-Economic Survey 1996/97. The commodity basket for the index was chosen using the

consumption pattern of the lowest 40 per cent of households (when ranked by income) in the Colombo District covered by the survey. All non-durable items were taken into account in computing the weights of the index. These items were grouped into 9 sub categories for which separate sub-indices are computed. These categories are food; clothing; fuel and light; rent; liquor, tobacco, betel and arecanut; personal care and health; transport; education and recreation; and miscellaneous items. In terms of the CDCPI, the rate of increase in prices decelerated in all categories other than food, fuel and light and miscellaneous items.

Food prices increased by 8.9 per cent during the year and contributed 71.5 per cent of the overall increase in the CDCPI in 1998. In 1997, the increase in prices in the food category was lower at 7.3 per cent. The price of wheat flour, which was revised upward in August 1997 remained at that level throughout 1998. The increase in the price of rice, the staple food, was slight during the year with prices of some varieties actually declining, due to the increase in paddy production by about 20 per cent when compared to last year. The contribution of rice to the overall increase of the CDCPI was only 1 per cent, while the contribution of bread and wheat flour was just below 5 per cent. In contrast, prices of most varieties of vegetables increased sharply during the first half of the year. Heavy rains in the closing two months of 1997, the very warm weather conditions in March/April and the windy conditions in the Nuwara-Eliya area which came earlier than usual, adversely affected the production of vegetables. In the second half of the year, however, vegetable prices declined due to improved supplies. Vegetables are estimated to have contributed to around 13 per cent of the overall increase of the CDCPI during the year.

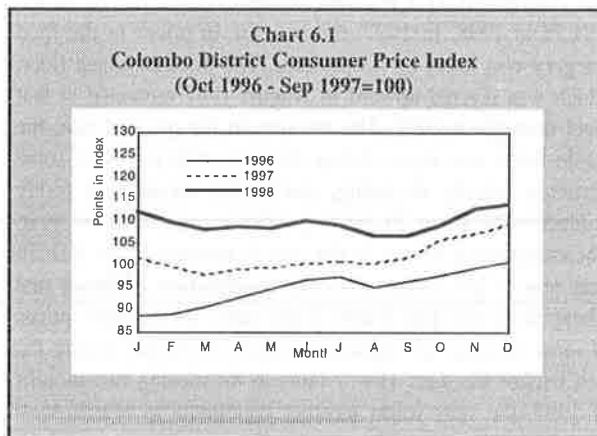
Among major subsidiary foods, the prices of dried chillies and red onions registered increases exceeding 30 per cent, while the price of big onions increased by over 70 per

TABLE 6.2
Colombo District Consumer Price Index
(Oct 1996 - Sep 1997=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to increase in 1998 (%)
		1997	1998	1997	1998	Dec. 1997	Dec. 1998	
All Items	100.0	102.0	109.5	7.4	7.3	8.3	4.0	100.0
Commodity Wise								
Food & Drink	58.7	102.0	111.1	7.3	8.9	8.3	3.8	71.5
Housing	13.2	101.7	105.0	4.4	3.3	6.7	1.1	5.9
Fuel & Light	4.9	104.3	118.7	8.9	13.8	16.8	2.5	9.5
Clothing & Footwear	6.2	101.8	104.2	10.1	2.4	6.7	2.5	2.0
Liquor, Tobacco, Betel & Arecanut	4.4	103.2	111.0	14.1	7.6	11.8	19.8	4.7
Personal Care & Health Services	3.8	103.1	109.1	14.4	5.8	12.6	6.6	3.1
Education & Recreation	2.8	101.1	102.3	4.6	1.2	4.5	2.4	0.4
Transport	3.7	100.1	100.3	1.4	0.2	0.5		0.1
Miscellaneous	2.2	101.7	111.3	7.0	9.5	5.1	13.9	2.9

Source: Central Bank of Sri Lanka

cent. The price of potatoes also increased sharply. The upsurge in prices of subsidiary food items was brought about by the sharp drop in domestic production in response to depressed prices registered last year, as well as the relatively higher import prices that prevailed owing to production shortfalls in several supplying countries. Major subsidiary food crops like dried chillies, onions and potatoes contributed 19 per cent of the increase in the CDCPI. The price of coconuts increased by about 12 per cent during the year following a further drop in domestic production. These price increases were slightly offset by the decrease in the price of sugar due to lower world market prices.



Prices in the fuel and light category increased by 13.8 per cent in 1998 when compared with a lower increase of 8.9 per cent last year. The impact of the increase in the tariff on electricity in September 1997 was a major reason for the increase in the fuel and light category during the year. Price increases in this category were found to have contributed 9.5 per cent of the increase in the overall index.

Prices in the housing; clothing and footwear; liquor, tobacco, betel and arecanut; personal care and health;

education and recreation; and transport categories all decelerated, registering increases of 3.3 per cent, 2.4 per cent, 7.6 per cent, 5.8 per cent, 1.2 per cent and 0.2 per cent, respectively, as compared with 4.4 per cent, 10.1 per cent, 14.1 per cent, 14.4 per cent, 4.6 per cent and 1.4 per cent, respectively, last year. The deceleration in the rate of increase in the clothing and footwear category could be mainly attributed to the liberalisation of the textile sector in the 1998 Budget. Prices in the miscellaneous category, however, accelerated, registering an increase of 9.5 per cent in 1998 as compared with 7.0 per cent last year.

Colombo Consumers' Price Index

The Colombo Consumers' Price Index (CCPI), which recorded an annual average increase of 9.4 per cent in 1998, registered a point to point increase of 3.7 per cent in December 1998 as compared to a much higher point to point increase of 10.7 per cent registered at the end of last year. The CCPI has consistently indicated a higher inflation rate than both the CDCPI and GCPI. This could be attributed to both the greater impact of the overall food category, as well as of some individual food items such as vegetables (which registered sharp increases in 1998) in this index when compared to both the CDCPI and the GCPI.

Food prices, which contributed to 84 per cent of the increase in the overall index, rose by 10.9 per cent during the year. This increase was similar to the increase registered for food prices in the CCPI last year. Higher prices of vegetables, coconut and subsidiary foods, such as dried chillies, red onions and potatoes, were mainly responsible for the rise in food prices during the year.

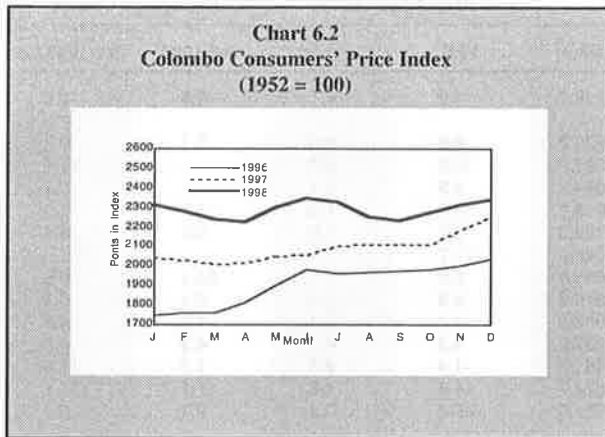
Prices in the clothing, fuel and light and miscellaneous categories decelerated, registering increases of 1.0 per cent, 3.2 per cent and 7.5 per cent, respectively, as compared with sharper price increases of 2.7 per cent, 4.5 per cent, 8.2 per cent, respectively, registered last year. The contributions

TABLE 6.3
Colombo Consumers' Price Index
(1952=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase in 1998 (%)
		1997	1998	1997	1998	Dec. 1997	Dec. 1998	
All Items	100.0	2089.1	2284.9	9.6	9.4	10.7	3.7	100.0
Commodity-wise								
Food	61.9	2336.9	2592.1	10.9	10.9	13.3	2.3	84.0
Clothing	9.4	844.0	852.3	2.7	1.0	1.4	1.6	0.4
Fuel & Light	4.3	3752.8	3872.8	4.5	3.2	4.7	0.2	2.6
Rent	5.7	109.8	109.8	-	-	-	-	-
Miscellaneous	18.7	2157.8	2319.9	8.2	7.5	4.7	12.7	13.0

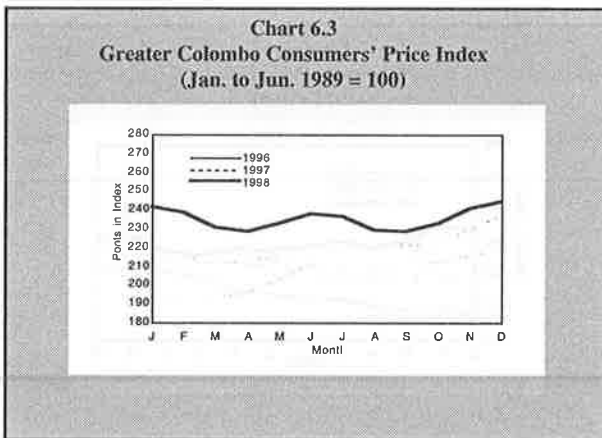
Source: Department of Census and Statistics

towards the increase in the CCPI in 1998 from the fuel and light and miscellaneous categories were approximately 3 per cent and 13 per cent, respectively.



Greater Colombo Consumers' Price Index

In terms of the GCPI, food prices rose by 7.7 per cent in 1998 compared with 7.5 per cent in 1997. Prices in the fuel and light category increased by 6.4 per cent in 1998 as



compared with an increase of 5.2 per cent in 1997. Reflecting the impact of the liberalisation of textile imports, price increases in the clothing category decelerated to 1.9 per cent in 1998 from 4.0 per cent last year. Price increases in the liquor, tobacco, betel and arecanut; personal care and health services, household goods and services; transport and communication and miscellaneous categories also decelerated.

Wholesale Price Index

The annual average increase of the Wholesale Price Index (WPI) declined to 6.1 per cent in 1998 from 6.9 per cent in 1997. The drop in paddy prices, the lower import prices for wheat grain and rice, the relatively lower increase in tea prices, the decline in rubber prices and unchanged prices for petroleum products were some of the contributory factors for the slow down in prices at the primary market level. Prices in the alcoholic drinks, textiles and footwear, chemical and chemical products, metal products, and fuel and light categories, also showed lower increases in 1998.

Prices in the food group increased by 8.0 per cent in 1998, a lower increase in comparison to the 8.8 per cent rise registered last year. In the food group, the open market producer price of paddy dropped by around 6 per cent due to enhanced production during the year. The CIF prices of imported rice and wheat grain also declined due to lower international commodity prices. Meanwhile, prices of both mid-grown and low grown tea registered lower increases of 13 per cent and 10 per cent as compared with increases of 20 per cent and 13 per cent last year. These developments were the main contributory factors for the deceleration in food prices in the Wholesale Price Index. As in the case of retail prices, however, prices of subsidiary food crops and vegetables accelerated at the primary market level.

Prices of alcoholic drinks, textiles and footwear, chemical and chemical products, metal products, and fuel and light categories showed lower increases in 1998. However, prices in the paper products, machinery and miscellaneous categories, which had registered declines in 1997, registered increases in 1998.

TABLE 6.4
Greater Colombo Consumers' Price Index
(January to June 1989 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1997	1998	1997	1998	Dec. 1997	Dec. 1998
All Items	100	220.1	235.2	7.1	6.9	7.9	3.5
Commodity Wise							
Food & Drink	69.3	232.2	250.1	7.5	7.7	8.9	2.4
Liquor, Tobacco, Betel & Arecanut	3.8	273.4	295.8	9.0	8.2	4.2	21.4
Housing	8.9	109.9	110.0	0.1	0.1	0.2	-
Fuel & Light	5.4	227.1	241.6	5.2	6.4	9.2	0.6
Clothing & Footwear	2.8	227.1	231.4	4.0	1.9	2.7	6.8
Personal Care & Health Services,							
Household Goods and Services	4.9	227.0	242.7	11.9	6.9	10.9	5.9
Transport & Communication	2.8	195.0	196.0	7.3	0.5	0.4	0.8
Miscellaneous	2.1	179.2	183.5	3.1	2.4	1.5	11.3

Source: Department of Census and Statistics

TABLE 6.5
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1997	1998(a)	1997	1998(a)	Dec 1997	Dec 1998 (a)
All Items	100.0	1224.3	1298.7	6.9	6.1	6.6	0.9
Commodity Wise							
Food	67.80	1132.2	1223.2	8.8	8.0	8.1	0.2
Alcoholic Drinks	2.86	1361.3	1398.3	15.8	2.7	-	21.1
Textile & Footwear	4.02	633.8	634.5	1.2	0.1	-	0.2
Paper Products	1.37	902.9	915.0	-15.1	1.3	-0.7	2.0
Chemicals & Chemical Products	5.16	717.3	772.0	8.5	7.6	8.4	8.4
Petroleum Products	6.42	1528.2	1528.2	11.2	-	-	-
Non Metallic Products	1.78	2387.6	2655.8	6.6	11.2	24.1	6.5
Metal Products	0.93	806.1	816.3	2.8	1.3	2.1	0.4
Transport Equipment	0.80	937.3	933.9	3.2	-0.4	1.2	-4.6
Electrical Appliances & Supplies	0.96	800.6	837.9	4.3	4.7	4.3	1.5
Machinery	1.33	596.1	651.3	-1.4	9.3	1.3	11.6
Fuel & Light	1.79	2694.8	2824.7	11.8	4.8	17.1	-11.1
Miscellaneous	4.78	2582.5	2587.5	-5.4	0.2	-2.7	0.4
Sectorwise No. I							
Domestic Group	50.31	1059.1	1111.6	6.5	5.0	8.0	2.8
Import Group	27.17	933.5	934.1	8.2	0.1	3.7	0.1
Export Group	22.52	1944.5	2156.7	6.7	10.9	6.5	-0.9
Sectorwise No. II							
Consumer Goods	75.30	1190.4	1280.8	8.9	7.6	8.2	0.9
Intermediate Goods	20.52	1324.6	1328.7	1.2	0.3	-1.0	-0.4
Investment Goods	4.18	1342.7	1473.5	5.6	9.7	18.7	6.5

(a) Provisional

Source: Central Bank of Sri Lanka

Sectorwise, prices in both the domestic and import groups increased slowly in 1998. Prices in the export category accelerated in 1998. The improvement in the export price of coconuts was a major contributory factor for this acceleration.

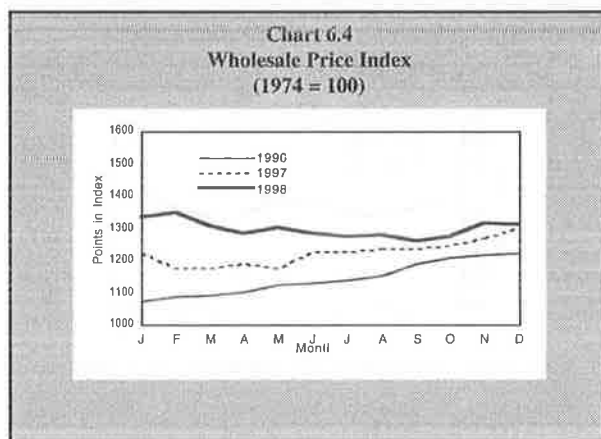
In the end-use classification, price increases in the consumer and intermediate categories decelerated, while prices in the investment category accelerated in 1998.

TABLE 6.6
Retail Sales Prices of Selected Food Items
(All Island)

Item	Unit	Rupees		
		1997	1998(a)	Changes in 1998(a)
Rice (Ordinary par boiled)	Kg.	22.26	22.03	-1.0
Bread, 450 gm.	Loaf	7.57	8.25	9.0
Eggs (Ordinary)	Each	4.46	4.21	-5.6
Coconut (Medium)	Each	8.82	9.76	10.7
Vegetables				
Bitter Gourd	Kg.	26.98	32.00	18.6
Cabbages	"	24.64	31.90	29.5
Carrots	"	34.90	43.42	24.4
Green Beans	"	33.40	41.34	23.8
Leeks	"	31.72	39.39	24.2
Potatoes	"	32.29	37.28	15.5
Red Onions (Medium)	"	46.65	65.50	40.4
Dried Chillies (Gr. I)	"	98.86	125.78	27.2
Sea Fish				
Kelawalla	Kg.	149.16	150.49	0.9
Mullet	"	118.71	121.37	2.2
Hurulla	"	83.74	87.87	4.9
Salaya	"	61.00	64.33	5.5

(a) Provisional

Source: Central Bank of Sri Lanka



Regional Price Variations

As in the previous year, regional variations in the prices of less perishable items such as rice, dried chillies and potatoes were relatively low, while substantial variability was observed with respect to prices of vegetables and fish. Regional variation in prices of eggs and coconuts was observed to have widened in 1998 when compared with 1997.

In conformity with the regional production patterns, samba rice was lowest in price in Anuradhapura, while Matara recorded the lowest prices for kekulu rice. The highest prices for rice were registered in Colombo. Prices of vegetables were lower in regional centres when compared to Colombo with lowest prices being registered in

TABLE 6.7
Average Retail Prices of Selected Food Items in Selected Markets in 1998 (a)

Item	Prices (Rs./Kg.)				Difference from Colombo(%)		
	Colombo	Kandy	Matara	Anuradhapura	Kandy	Matara	Anuradhapura
Samba Rice	29.96	29.71	28.95	27.22	-0.8	-3.4	-9.1
Kekulu Rice	24.61	24.05	21.11	22.57	-2.3	-14.2	-8.3
Beans	53.71	44.61	41.59	39.89	-16.9	-22.6	-25.7
Cabbages	40.98	33.26	33.64	31.69	-18.8	-17.9	-22.7
Brinjals	35.13	24.72	21.50	20.15	-29.6	-38.8	-42.6
Pumpkins	24.51	23.44	19.38	17.11	-4.4	-20.9	-30.2
Red Onions	66.16	73.55	66.08	61.11	11.2	-0.1	-7.6
Big Onions	42.22	42.33	41.88	42.03	0.3	-0.8	-0.5
Potatoes	32.72	33.12	32.20	32.20	1.2	-1.6	-1.6
Dried Chillies	130.00	136.38	130.75	129.33	4.9	0.6	-0.5
Kelawalla	138.85	165.17	158.00	165.28	19.0	13.8	19.0
Hurulla	80.48	98.56	71.06	94.33	22.5	-11.7	17.2
Eggs (each)	3.42	3.63	4.03	3.62	6.1	17.8	5.8
Coconut (each)	13.40	11.22	13.07	10.50	-16.3	-2.5	-21.6

(a) Provisional

Source: Central Bank of Sri Lanka

Chart 6.5
Monthly Prices of Selected Commodities

Chart 6.5.1
Samba Rice

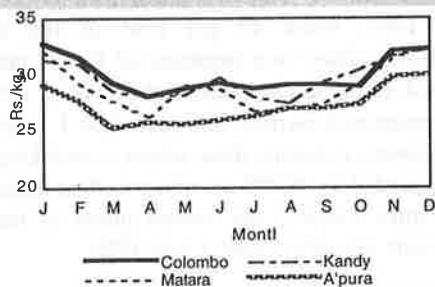


Chart 6.5.2
Beans

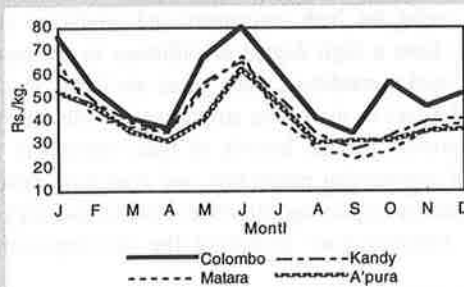


Chart 6.5.3
Red Onions

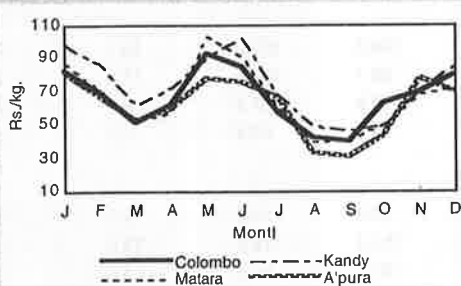
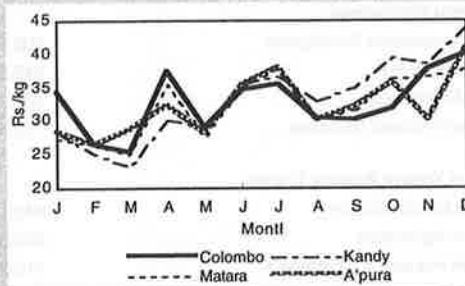


Chart 6.5.4
Potatoes



Anuradhapura. Prices of eggs were lowest in Colombo. A notable feature in price variation with respect to eggs was that comparatively high prices prevailed in the Matara market in 1998.

Seasonal variations were fairly similar in the four markets considered. However seasonal variations in the price of rice seemed less pronounced than in 1997. Prices of beans displayed a sharper seasonal behaviour in 1998 than in 1997 in all markets, with prices declining from relatively high levels in January to low levels in March - April and thereafter increasing sharply again to reach a peak level in June. Prices dropped thereafter and were relatively low in the second half of the year. This pattern of price behaviour was observed in the case of most vegetables. Prices of beans in Colombo were found to be notably higher than those prevailing in the regional markets throughout the year. Prices of red onions displayed a clear seasonal pattern as in the previous year. However, due to the lower production, prices did not plummet to such low levels as in 1997 during the glut season. It is also notable that prices of red onions in the Kandy market exceeded those in the Colombo market during most of the year. Prices of potatoes also indicated less seasonality than in 1997 due to lower production and the availability of imports throughout the year.

Variation of commodity prices across regions as well as within regions during the year has declined somewhat in the last three years. Further reduction of this variability would be useful for both consumers and producers since traders who have a high degree of influence in the market can exploit market conditions when prices are highly variable due to weaknesses in marketing arrangements. This situation can be improved for the benefit of both consumers and producers if commercial production and marketing systems are developed by improving extension services and regional marketing infrastructure including the development of

packing, handling and storage facilities with increased private sector participation. Mechanisms for developing an efficient forward market for agricultural products should also be explored.

6.2 Wages

Both nominal and real wages improved in the public sector in 1998. This was the outcome of the nominal wage increase given to all categories of public sector employees following the implementation of the second phase of the B. C. Perera Salary Review Committee proposals. In the organised private sector, minimum wages applicable to a large number of Wages Boards were revised upwards and as a result, a substantial increase in wages was recorded for most categories of workers. The growth in overall wages in the organised private sector was sharper than in 1997. Real wages of workers in agriculture, industry and commerce improved. In the informal sector, wages increased in nominal terms in most major activities. Significant real wage improvements were registered in major activities in paddy, tea and coconut cultivation. A reduction of real wages was observed in building construction activities as well as in major activities in rubber cultivation.

Public Sector

In the public sector, the restructuring of salary scales proposed by the Salary Review Committee was implemented in a phased manner. The first phase took effect from 1 January 1997, when 40 per cent of the increase recommended, subject to a minimum of Rs.325 per month, was granted. In the second phase of the revision, the balance of the recommended increase was granted on 1 January 1998 to all employees excepting those whose consolidated annual salaries exceeded Rs.90,000 according to the revised scales. For the latter category the second phase of the salary revision came into effect from 1 July 1998.

TABLE 6.8
Wage Rate Index Numbers
(December 1978=100)

	Nominal		Real		Percentage Change In 1998	
	1997	1998(a)	1997	1998(a)	Nominal (a)	Real (a)
1. Government Employees						
Central Government Employees	906.5	1001.4	104.0	104.9	10.5	0.9
Non-Executives	842.9	959.6	96.7	100.5	13.8	3.9
Minor Employees	966.7	1029.1	110.8	107.8	6.5	-2.7
Government School Teachers	778.5	805.5	89.3	84.4	3.5	-5.5
2. Workers in Wages Boards Trades						
All Wages Boards Trades	849.1	953.3	97.3	99.9	12.3	2.7
Workers in Agriculture	971.8	1097.7	111.4	115.0	13.0	3.2
Workers in Industry & Commerce	710.8	807.7	81.4	84.6	13.6	3.9
Workers in Services	487.2	506.4	55.9	53.0	3.9	-5.2

(a) Provisional

Sources: Department of Labour
Central Bank of Sri Lanka

As a result of these wage increases, wages in the government sector, as measured by the Nominal Wage Rate Index, increased by 10.5 per cent in 1998 following an increase of 10.8 per cent in 1997. Given a consumer price inflation of 9.4 per cent (in terms of the CCPI) during the year, this represents a moderate real wage improvement of 0.9 per cent which follows the improvement of 1.0 per cent last year. Wages in the non-executive category increased by a substantial 13.8 per cent, which represents a real wage increase of 3.9 per cent. In the previous year, this category of workers had received a nominal wage increase of 11.3 per cent which represented a real wage improvement of 1.5 per cent. Wages in the minor employee category increased at a slower rate of 6.5 per cent representing a real wage deterioration of 2.7 per cent. In the previous year, although the increase in the nominal wages of this category was 10.0 per cent, their real wage improved only by 0.2 per cent. Nominal wages of government school teachers, which increased moderately by 3.5 per cent, represented a real wage deterioration of 5.5 per cent in 1998.

Organised Private Sector

In the organised private sector there was a major revision of wages in the plantation sector. Plantation workers covered by the collective agreement that was effected in settlement of the industrial dispute in plantations were granted a wage increase with effect from 1 January 1998. Under this agreement, the daily wages of adult workers were increased from Rs.83 to Rs.95. In the case of workers in the tea sector, an additional price share supplement of Rs.6 per day also became payable. This payment is, however, subject to review at the end of 18 months or earlier if there is a serious downturn in tea prices. For workers in the rubber sector, a price share supplement is also payable on a fluctuating basis at the rate of 30 cents for each one rupee increase in the price of rubber (RSS No.1), over the threshold price of Rs.65. These price share supplements, however, do not attract Employees' Provident Fund or Employees' Trust Fund benefits. The collective agreement covered workers in plantations in the Sri Lanka State Plantations Corporation, Janatha Estates Development Board and Regional Plantation Companies.

Plantation workers not covered by the above agreement are covered by the relevant Wages Boards. Their minimum wages, which had also been fixed at Rs.83 per day, were increased to Rs.95 from October 1998 in the case of the tea growing and manufacturing trade and from November 1998 in the case of the rubber growing and manufacturing trade. Minimum wages were also increased in 1998 by 19 other Wages Boards. These were the Wages Boards covering Paddy Hulling, Match Manufacturing, Building, Janitorial Services, Baking, Biscuit and Confectionery Manufacturing, Hosiery Manufacturing, Hotel and Catering, Cinema, Ice and Aerated Water Manufacturing, Garment Manufacturing, Tyre

and Tube Manufacturing, Engineering, Motor Transport, Nursing Home, Retail and Wholesale Trade, Coir Mattresses and Fibre Export, Coconut Growing and Liquor and Vinegar Manufacturing.

Wage movements in the organised private sector are monitored by the Minimum Wage Rate Indices in Wages Boards Trades. As a result of the above-mentioned revision in minimum wages of a large number of Wages Boards, the Minimum Wage Rate Index of all workers covered by Wages Boards increased by 12.3 per cent in nominal terms in 1998. This increase is significantly higher than the increase of 5.9 per cent registered for these workers in 1997. In contrast to the previous year, when real wages had deteriorated by 3.4 per cent, an overall improvement in real wages of 2.7 per cent was registered in 1998. Wages of workers in agriculture improved by 13.0 per cent in nominal terms representing a real wage improvement of 3.2 per cent due to revisions in plantation wages. Minimum wages for workers in industry and commerce improved by a substantial 13.6 per cent in nominal terms representing a real wage improvement of 3.9 per cent. Workers in services received a more moderate nominal wage increase of 3.9 per cent, indicating a decline in real wages.

Informal Sector

Information on daily wages in the informal sector is collected through the Countrywide Data Collection System of the Central Bank. According to provisional data, daily wages of carpenters and masons in small scale construction activities increased on average by 7 per cent and 8 per cent, respectively, in 1998. Wages for skilled helpers in carpentry and masonry increased by 9 per cent and 7 per cent, respectively. Meanwhile, wages for unskilled helpers in building construction registered increases of between 7 and 8 per cent. In paddy cultivation, wages for different major activities registered increases ranging from 9 to 15 per cent. Real wages were reported to have improved for workers engaged in ploughing, broadcasting, spraying, weeding, harvesting and threshing. In small scale tea plantations, wages for major activities improved significantly, reflecting both the impact of the increase in minimum wage rates applicable to the tea sector and the buoyant tea prices. Daily wages for preparation of land and for female pluckers increased by 10 per cent and 12 per cent, respectively. In contrast, in rubber smallholdings, wages for tapping declined slightly in nominal terms reflecting the deterioration in rubber prices (in some cases, payment for tapping is tied to the value of latex tapped). Reflecting the improvement in coconut prices, wages in activities in coconut cultivation improved substantially with wages for digging of pits increasing by 13 per cent and wages for plucking (with sticks) increasing by over 20 per cent. Accordingly, real wages improved substantially for workers engaged in these activities in coconut cultivation.

7. POPULATION, LABOUR FORCE AND EMPLOYMENT

7.1 Population

The mid year population in 1998 has been estimated at 18.8 million. This shows that population growth declined to 1.2 per cent from 1.3 per cent in 1997. The decline was a result of a reduction in the natural increase in population. There has been an addition of 222,000 to the mid year population in 1998. The population density, which is estimated as the number of persons per sq. km. of land, increased to 299 in 1998 from 296 in 1997. While the demographic transition, together with improvements in other socio-economic conditions, has substantially reduced the growth rate of the population to well below that of most other developing countries, an annual addition of over 200,000 to the population has become a burden on other limited resources. As mentioned in last year's Annual Report, there are several socio-economic issues associated with the current structure and trends in population. Unemployment, land fragmentation, the high cost of social welfare such as education, health and housing and problems associated with an ageing population continue to be some of the major issues. The ageing of the population and a rising old age dependency ratio require a well planned strategy and a carefully designed social security system to avoid excessive burdens on the working population and an erosion of standards of living during old age. This has to be done in a context of policies designed to make labour markets more flexible, adaptable to the changing labour market needs and complementary to other growth-oriented policies.

7.2 Labour Force

A series of quarterly labour force data is available from the surveys conducted by the Department of Census and Statistics since 1990. According to this survey, the labour force is defined as the economically active population aged 10 years and above. The labour force at the end of the third quarter of 1998 was estimated at 6.7 million. This estimate is not strictly comparable with previous estimates, as the latest survey includes unpaid female family workers, such as housewives engaging in

TABLE 7.2
Labour Force Participation

Year	Total Labour Force (‘000 persons)	Labour Force Participation Rate (%) (a)		
		Total	Male	Female
1990	6,001	51.9	67.7	36.2
1993	6,032	49.1	65.3	33.1
1994	6,079	48.7	65.4	32.0
1995	6,106	47.9	64.4	31.7
1996	6,242	48.7	65.9	31.6
1997	6,229	48.4	65.4	31.7
1st Quarter	6,237	48.5	65.2	31.8
2nd Quarter	6,226	48.4	65.7	31.6
3rd Quarter	6,218	48.3	65.7	31.2
4th Quarter	6,236	48.8	64.8	32.3
1998(b)	6,637	51.5	67.3	36.4
1st Quarter	6,647	51.6	66.6	37.6
2nd Quarter	6,574	51.0	67.7	34.8
3rd Quarter	6,693	51.9	67.5	36.7

Source: Department of Census and Statistics

(a) Labour force as a percentage of household population aged 10 years and above.

(b) Average of first three quarters

supporting family income generating activities, especially in the agricultural sector, who were counted as ‘not in labour force’ in previous years. The labour force participation rate, i.e., labour force as a percentage of household population aged 10 years and above, has been estimated at 52 per cent in the third quarter of 1998. The labour force participation rate has fluctuated within a range of 48-52 per cent during the period since 1990. While there has been an increase in labour force participation from 49 per cent in 1997 to 52 per cent in 1998, this increase was partly a reflection of the improved coverage of the workforce. The growing entry of females to the labour force appears to be an important reason for this increase.

7.3 Employment

The quarterly labour force surveys define an employed person as one who works for pay, profit or unpaid family gain for one

TABLE 7.1
Basic Demographic Indicators

Year	Population (‘000)	Annual Change (%)	Crude Birth Rate (per‘000)	Crude Death Rate (per‘000)
1871	2,417	0.8	28.5	20.0
1946	6,657	1.5	35.4	14.3
1953	8,098	2.8	48.0	10.4
1963	10,582	2.7	34.1	8.5
1971	12,690	2.2	30.4	7.7
1981	14,847	1.7	28.2	5.9
1991	17,247	1.5	20.6	5.5
1995	18,136	1.4	18.9	5.8
1996	18,315	1.0	18.6	6.5
1997	18,552	1.3	17.9	6.1
1998(a)	18,774	1.2	n.a.	n.a.

(a) Provisional

Sources: Registrar General's Office
Department of Census and Statistics

hour or more during the week preceding the collection of data from that person. Persons who are temporarily absent from work are also considered as employed. Employees, employers, self-employees (own account workers) and unpaid family workers are the broad categories of the employed. According to the surveys, employment has risen steadily from 84.1 per cent of the labour force in 1990 to 90.9 per cent by the end of the third quarter of 1998. Correspondingly, the unemployment rate has fallen from 15.9 per cent of the labour force to 9.1 per cent during that period.

Manufacturing, construction, trade, hotels, insurance, real estate and personal services were key areas of employment generation. Enterprises under the BOI, with 137 new projects commencing operations in 1998, generated direct employment for nearly 36,200 persons. The manufacturing sector is estimated to have generated around 27,000 new employment opportunities.

The construction sector also had generated about 5,400 new jobs. New employment provided by the public sector was estimated at about 19,000. The number of casual workers (those not in the permanent cadre) accounted for 9.1 per cent of the total public sector employment in 1998.

While data on the change in the agricultural sector are not available, the total employment in this sector is estimated at 2.4 million and represented 38 per cent of the employed work force. A little over 15 per cent of the employed workforce were in the manufacturing sector, while the balance 47 per cent were in the services sector. Data also revealed that the employment generation was particularly evident in small scale business and manufacturing activities throughout the country.

The share of public sector employment (government and semi-government) in total employment continued to decline in 1998. The public sector share in total employment has fallen

TABLE 7.3
Employment by Economic Activity

Item	('000 persons)					Percentage of Total Employed		
	1995	1996	1997	1997(a)	1998(a)	1995	1997(a)	1998(a)
Employment by Industry								
Agriculture	1,966.8	2,072.2	2,069.1	1,971.5	2,391.6 (b)	36.7	35.4	38.2
Mining and Quarrying	89.2	86.8	77.8	80.1	79.1	1.7	1.4	1.3
Manufacturing	788.6	806.7	870.1	904.4	931.1	14.7	16.2	15.2
Electricity, Gas and Water	24.9	27.5	32.3	21.6	36.5	0.5	0.4	0.7
Construction	285.5	297.1	301.0	298.9	304.3	5.3	5.4	4.6
Trade and Hotels	652.8	663.6	715.8	690.3	712.0	12.2	12.4	11.7
Transport, Storage and Communication	252.2	270.7	269.9	294.0	279.9	4.7	5.3	4.2
Insurance and Real Estate	81.3	109.7	92.0	112.5	121.7	1.5	2.0	2.0
Personal Services and Other	1,215.8	1,202.9	1,151.3	1,197.8	1,235.3	22.7	21.5	22.1
Total Employment	5,357.1	5,537.4	5,580.0	5,571.4	6,085.4 (b)	100	100	100
% of Labour Force	87.7	88.7	89.6	89.6	90.9 (b)			

(a) Third Quarter

Source: Department of Census and Statistics

(b) Data are not comparable with those of the previous years due to a definitional change that has been made in the Sri Lanka Labour Force Survey to improve the coverage of the employed labour force.

TABLE 7.4
Labour Force and Employment

	Thousand Persons					
	1993	1994	1995	1996	1997	1998 (a) (b)
Total Population	17,619	17,865	18,136	18,315	18,552	18,774
Household Population aged 10 years and above	12,278	12,493	12,736	12,831	12,864	12,896
Labour Force	6,032	6,079	6,106	6,242	6,229	6,693
Employed	5,201	5,281	5,357	5,537	5,580	6,085
Public Sector	1,295	1,325	1,307	1,161	1,080	1,091
Government	676	700	738	752	762	790
Semi-Government	619	625	569	409	310	301
Private Sector	3,906	3,956	4,050	4,376	4,500	4,994
BOI Enterprises	180	206	233	242	258	294
Other	3,726	3,750	3,817	4,134	4,242	4,700
Unemployed	830	798	749	705	649	607
Memorandum Items						
Labour Force Participation Rate, %	49.1	48.7	47.9	48.6	48.4	51.9
Unemployment Rate, %	13.8	13.1	12.3	11.3	10.4	9.1
Unemployment Rate excluding Unpaid Family Workers, %	15.1	14.3	13.4	12.4	11.4	10.3

(a) Third Quarter

Source: Department of Census and Statistics, Central Bank of Sri Lanka

(b) The large increase in labour force and employment in 1998 was partly due to the increase in coverage of female unpaid family workers in the agricultural sector. In the sector-wise breakdown, this is shown in the private sector 'other' category. Therefore, the total labour force and the employed in the private sector 'other' category are not comparable between 1998 and other years.

TABLE 7.5
Status of Employment

Year	Public Sector Employees	Private Sector Employees	Employers	Self Employed	Unpaid Family Workers	Percentage
						Total
1990	21.5	33.7	1.8	29.2	13.8	100
1991	22.9	39.5	2.2	25.4	10.0	100
1992	20.0	40.0	1.6	27.1	11.2	100
1993	17.4	42.8	2.0	27.4	10.4	100
1994	16.4	44.3	2.3	27.2	9.8	100
1995	15.6	44.3	2.5	28.3	9.4	100
1996	15.0	45.8	2.3	26.8	10.0	100
1997	15.2	44.0	2.4	29.1	9.3	100
1st Quarter	15.0	44.7	1.7	29.0	9.7	100
2nd Quarter	15.6	44.2	2.4	27.5	10.2	100
3rd Quarter	16.5	42.9	2.7	28.8	9.1	100
4th Quarter	13.7	44.3	2.7	31.2	8.2	100
1998(a)	13.8	41.7	2.0	28.8	13.5	100
1st Quarter	13.1	41.8	1.7	28.8	14.7	100
2nd Quarter	14.4	41.6	2.3	28.7	12.9	100

(a) Average of first two quarters

Source : Department of Census and Statistics

from 25 per cent of employment in 1993 to nearly 18 per cent in 1998. The decline has taken place particularly in the semi-government sector with the ongoing public enterprise reforms with private sector participation and the expansion of private sector economic activity. A larger part of the new employment opportunities generated has been in the private sector. This trend is confirmed by both the Department of Census and Statistics survey and the Central Bank's survey data. Public sector employment in 1998 was estimated at 1.09 million, recording a marginal increase of 1.8 per cent over 1997. The employment in the government sector (central and local) increased by 3.7 per cent, a higher rate of increase than in the previous two years. Semi-government institutions recorded a marginal decline of 2.9 per cent in their employment level following considerable declines in the previous three years.

7.4 Unemployment

A steady decline in unemployment in recent years has been a reflection of the rapid economic growth and the resultant growth of employment opportunities in the country. Persons who are looking for or are available for work but do not have employment are considered as the unemployed. The unemployment rate (unemployed persons as a percentage of the labour force) has declined from 15.9 per cent in 1990 to 9.1 per cent in the third quarter 1998, recording a drop of 6.8 percentage points. The estimate of the unemployment rate in 1998 had some downward bias due to increased coverage of unpaid family workers as employed persons in the labour force. When these data are adjusted to exclude unpaid family workers, the unemployment rate was estimated at 10.3 per cent in the third quarter of 1998 compared to 11.4 per cent in 1997. Thus, in 1998, the unemployment rate has, in fact, declined notably by about one percentage point.

According to the survey, the decline in unemployment in the country was seen in both male and female unemployment although unemployment among females was twice as high as for males. The male unemployment rate declined from 11.8 per cent in 1990 to 7.1 per cent in the third quarter of 1998, whereas the

female unemployment rate fell from 23.4 per cent to 12.7 per cent during the same period. It is noteworthy that the female unemployment rate has declined faster, reducing the female-male gap in the unemployment rate from nearly 12 percentage points in 1990 to 6 percentage points in 1998.

Another salient feature in recent trends in unemployment has been the continuously higher unemployment among persons with higher formal educational qualifications. Although unemployment rates at all levels of education have declined over time, the unemployment rate among persons with qualifications of GCE (A/L) and above has remained at a significantly higher level than that of the unemployment rate in the population as a whole. In fact, the proportion of persons with qualifications of GCE (A/L) and above in total unemployment increased from 15

TABLE 7.6
Unemployment Rate

Year	Percentage of Labour Force		
	Male	Female	Total
1990	11.8	23.4	15.9
1991	10.2	23.0	14.7
1992	10.7	22.9	14.6
1993	9.7	21.7	13.8
1994	9.7	20.1	13.1
1995	8.8	18.8	12.3
1996	8.5	18.0	11.3
1997	7.6	16.2	10.4
1st Quarter	8.0	16.2	10.7
2nd Quarter	7.2	16.3	10.2
3rd Quarter	7.4	16.7	10.4
4th Quarter	7.7	15.5	10.3
1998(a)(b)	6.9	14.6	9.7
1st Quarter	7.1	16.2	10.6
2nd Quarter	6.6	14.9	9.5
3rd Quarter	7.1	12.7	9.1

Source: Department of Census and Statistics

(a) Average of first three quarters

(b) Data are not comparable with those of the previous years due to a definitional change that has been made in the Sri Lanka Labour Force Survey to improve the coverage of the employed labour force.

TABLE 7.7
Unemployment Rate by Level of Education

Period	Percentage of Labour Force					Total
	No Schooling	Grade 0-4 Year 1-5	Grade 5-9 Year 6-10	GCE (O/L) NCE	GCE (A/L) HNCE and Above	
1990	3.4	5.2	17.2	23.8	29.4	15.9
1991	4.0	4.9	14.9	25.0	24.7	14.7
1992	3.5	5.4	16.1	21.8	20.7	14.6
1993	3.0	4.9	13.7	21.3	23.2	13.8
1994	2.6	5.0	13.0	19.6	23.8	13.1
1995	1.9	3.0	12.8	18.4	19.9	12.3
1996	2.7	3.4	12.2	16.4	18.9	11.3
1997	1.3	2.3	10.8	15.7	19.0	10.4
1st Quarter	2.4	1.5	11.1	15.6	21.2	10.7
2nd Quarter	0.2	2.2	11.0	16.1	18.9	10.2
3rd Quarter	0.5	3.1	10.2	14.6	19.3	10.4
4th Quarter	2.2	2.6	10.8	16.7	16.7	10.3
1998(a)	0.2	2.6	10.2	13.5	16.2	9.7
1st Quarter	0.1	2.9	12.0	15.8	14.9	10.6
2nd Quarter	0.5	1.9	9.1	14.4	18.9	9.5
3rd Quarter	0.0	3.0	9.4	10.3	14.8	9.1

(a) Average of first three quarters

Source : Department of Census and Statistics

per cent in 1990 to 21 per cent in 1998, whereas the proportion of persons with these qualifications only rose from 8 per cent to around 13 per cent for the entire labour force. A similar trend is seen, when those in the labour force with qualifications of GCE (O/L) and above are considered, although the differences are somewhat less severe. This indicates the mismatch between academic training and employment opportunities.

The current education system appears to have contributed largely to this situation. The current education system is based on testing the textbook knowledge of students in traditional subjects that do not equip them adequately to function effectively in an increasingly competitive and dynamic modern work environment. Meanwhile, a greater demand exists in the emerging private sector labour market for persons qualified in professional and technical fields such as accountancy, finance, management, marketing, computer applications and the English language. Consequently, the system tends to create expectations among students that cannot be fulfilled by their inadequate traditional academic training. Such students often wait for white-collar jobs after leaving school. Therefore, the higher the formal academic qualifications acquired under the existing education

system, the less could be the opportunities for gaining the expected employment. This is a highly simplified description of the unemployment problem among the higher educated in the country, which is considered most acute. The current education reforms are aimed at addressing this issue as well as other aspects, so that the education system would produce persons who are readily employable in the market.

Recent estimates based on the Labour Force Survey indicate differences in unemployment among the provinces in the country. The rate of unemployment was lowest in the North Central Province (6.7 per cent), while the highest unemployment was in the Southern Province (13.6 per cent).

7.5 Foreign Employment

According to the Sri Lanka Bureau of Foreign Employment (SLBFE), migration for foreign employment through recorded sources increased gradually until 1995, reaching the highest level of about 172,000 persons per annum. While there had been a decline in the number of people leaving for employment abroad during 1996 and 1997, this number is estimated to have increased by about 7 per cent to around 158,000 persons in 1998. The Bureau has also intensified its surveillance through counters at the airport so that persons migrating for foreign employment will have the required registration with the Bureau.

During the year, the government continued to provide pre-employment training and welfare services for employees abroad and their families. In 1998, twelve welfare officers were appointed to assist Sri Lankan employees in the Middle Eastern countries and Singapore. The SLBFE has introduced a number of support facilities for migrant workers and their families. These included the provision of training facilities to prospective migrant workers, an insurance scheme for migrant workers registered with the SLBFE, provisions of air fare to employees who return before the expiry of their contract periods, a scholarship programme for children and funding a low cost housing programme implemented through People's Bank.

TABLE 7.8
Unemployment Rate by Province 1997

Province	Percentage of Labour Force		
	Male	Female	Total
Western	9.0	14.5	10.7
Central	8.8	18.5	12.3
Southern	9.1	22.3	13.6
North Western	6.2	13.6	8.5
North Central	4.5	11.8	6.7
Uva	5.4	11.5	7.8
Sabaragamuwa	6.2	18.0	10.0
Total	7.7	16.1	10.5

Source : Department of Census and Statistics

8. FISCAL POLICY AND BUDGETARY OPERATIONS

8.1 Overview and Policy Strategy

The successful fiscal deficit reduction achieved in the last two years could not be maintained in 1998. The 1998 Budget expected to reduce the overall deficit to 6.5 per cent of GDP while generating a surplus in the current account. This was an ambitious target considering the high degree of uncertainty that prevailed in late 1997 about the prospects for the world economy, domestic security expenditures and revenue implications of the impending Goods and Services Tax (GST). The reduction of the fiscal deficit was to be achieved through better financial control, enhancing revenue buoyancy, containment of the growth of current expenditures, further progress in public enterprise reforms with private sector participation and the strengthening of debt management. The 1998 Budget also envisaged an increase in public investment to 6.9 per cent of GDP, as inadequate infrastructure facilities were emerging as a constraint for faster economic growth.

In terms of the overall deficit, the fiscal performance in 1998 was a setback. However, on the policy side, progress was made in the structural reforms relating to the tax system, debt management and public enterprise reforms. The budget deficit (before grants and excluding privatisation proceeds) increased to 9.2 per cent of GDP, indicating a substantial fiscal slippage of 2.7 percentage points, when compared with the target of 6.5 per cent of GDP. The current account continued to be in deficit, rising to 2.4 per cent of GDP from 2.2 per cent in 1997. While a slippage could not have been avoided in 1998 owing to revenue and other implications of the slowing down of the economy as a result of the crisis in the global economy, the magnitude of the slippage was worrisome. It thwarted the objective of easing the high interest rates to promote investment and employment. In fact, during the year, interest rates on government debt instruments and the prime lending rate started rising, reflecting the increased domestic resource needs of the government for deficit financing. A further relaxation of monetary policy to dampen the increase in interest rates was not possible, as this would have had adverse implications on price stability and the exchange market. Given these developments and the weaker prospects for economic growth, the target of 6 per cent of GDP for the overall deficit in 1999 as expected in the 1999 Budget appears difficult to achieve. Early measures may have to be taken to contain the budget deficit at a realistic level of around 7.5 per cent of GDP in 1999.

In absolute terms, the budget deficit increased by Rs.23,086 million to Rs.93,147 million. Increased security expenditures and revenue shortfalls were the major reasons for the enlargement of the deficit. Additional security related expenditures accounted for 29 per cent of the increased

deficit. Revenue shortfalls, reflected mainly in lower than anticipated turnover taxes/GST, income taxes and import duties, accounted for about 58 per cent. Higher expenditures on non-security related salaries and wages and transfers to loss making public sector entities (Sri Lanka Railways and the Postal Department) also contributed 7 per cent. The inflationary pressures of the enlarged budget deficit were not clearly seen in 1998 as the country benefited from the sharp reduction in import prices, particularly for crude oil, wheat grain, fertiliser and sugar, under depressed world market conditions. These price reductions helped to contain the growth in the import bill, despite a 9.6 per cent depreciation of the rupee against the US dollar, thus leaving more resources with the banking system. It appears that the resources thus freed by these reductions and the relatively slow growth of private sector credit enabled the banking system to finance a large portion of the enlarged budget deficit without exerting excessive pressure on interest rates.

However, several desirable tax policy reforms, aimed at further simplifying the tax structure, reducing tax rates, improving the tax base and increasing transparency of the tax system, were implemented during 1998. The move towards lower rates of taxation was expected to raise savings and private investment. The major structural change made in the tax system was the introduction of the GST with effect from 1 April 1998 to eliminate the cascading effect of the turnover tax and to operate on the destination principle, where all exports are zero rated, while domestic consumption is subject to taxation. Initially, unprocessed agricultural products, public transport, fertiliser, cement, pharmaceuticals and some essential food items were exempted. Imports for the processing of exports, which were exempted under turnover tax by a laborious administrative action, were brought under the GST system with a refunding mechanism. Importers of such goods are entitled to a deferment facility of 45 days to settle their tax liabilities (this period was later increased to 60 days). The banking and financial services sector continued to be under turnover tax, but the tax rate applicable was further reduced from 2 per cent to 1 per cent with a view to reducing the cost of funds. Initially, a single GST rate of 12.5 per cent was applied. Although this rate yield was less than the former turnover tax system, it was considered prudent to start with a lower rate in order to achieve greater public acceptance.

With the introduction of GST, excise tax rates on some items were raised to offset the revenue loss arising from the change. Accordingly, the excise tax on petrol was increased from 25 per cent to 50 per cent, while the excise tax on liquor was raised from 12.75 per cent to 20.2 per cent. In the case of cigarettes, the GST rate was applied to the excise inclusive value.

In order to further rationalise the income tax structure, the 1997 Budget announced a reduction of both the corporate profit tax and the maximum personal income tax rate from 35 per cent to 30 per cent in 1998 and then to 25 per cent in 1999. However, owing to revenue considerations, the proposal was not implemented in 1998. Instead, income tax concessions were granted to selected priority sectors. Accordingly, the corporate tax rate for enterprises in agriculture, fisheries, livestock and tourism was reduced to 15 per cent. The regional industrialisation programme was further strengthened in 1998 with fiscal incentives for relocation, setting up of new garment factories and for the establishment of dedicated economic centres. In addition, generous BOI concessions were granted to selected thrust industries such as electronics, ceramics, glassware, rubber based industries, light and heavy engineering industries, cutting and polishing of gems and diamonds and jewellery manufacturing.

In order to assist the development of the capital market, companies seeking a listing on the Colombo Stock Exchange (CSE) and those already listed were given an income tax bonus of 5 percentage points. Capital gains arising from the sale of equity held in unquoted companies was exempted from income tax, while expenses incurred by companies in seeking a listing were treated as deductible expenses. As the cost of share transactions was considered high, the stamp duty on initial public offers was reduced to 50 cents for every Rs.1,000 and the cess imposed by the Securities and Exchange Commission (SEC) was reduced from 0.15 per cent to 0.10 per cent. Listed companies were allowed to operate their own provident funds. In order to encourage the participation of individuals in stock market activities, a deduction from the assessable income was re-introduced in respect of investments in new shares of listed companies. To bolster investor confidence in the settlement of market transactions, a Settlement Guarantee Fund and a Compensation Fund were established in 1998 to reduce settlement risks.

Unit Trusts, which mobilise funds from small investors, were given a further extension of their tax holiday status in view of their role in mobilising resources for the development of the equity and debt securities market. In order to promote the private sector debt securities market, private sector companies were granted an exemption from income tax on capital gains arising from the sale of debentures and other debt instruments issued by registered companies. Stamp duty on repurchase agreements, pro-notes, bills of exchange, mortgage backed securities and mortgage bonds on lease agreements were substantially reduced with a view to lowering the cost of financial market transactions and improving the secondary market for government securities.

The Presidential Tariff Commission, appointed in 1997 to recommend a more rational tariff structure, submitted its final report in 1998. The main recommendation was to move to a two-rate band tariff structure in two stages. The

government decided to adopt a two-rate band tariff structure in the year 2000. Meanwhile, tariff rates other than for agriculture, were reduced further by replacing the existing three-rate structure of 10, 20 and 35 per cent with a 5, 10 and 30 per cent rate structure. All imports of industrial raw materials and machinery not manufactured in Sri Lanka were brought under the 5 per cent band, while imports of transport, communication and medical equipment were classified as zero rated. Duty on motor cars and jeeps was brought down from 50-100 per cent to 30 per cent, while a 10 per cent additional excise tax was enforced on all vehicle imports to offset revenue shortfalls resulting from this reduction. With a view to protecting the domestic agricultural sector, the duty on agricultural products was maintained at 35 per cent, while the 20 per cent rate also continued for some imports. Hence, in the interim period until the two-rate structure is established, effectively, Sri Lanka has a five-rate tariff system.

Textile imports were fully liberalised with the objectives of increasing large scale production of textile and other materials locally, eliminating customs delays, reducing corruption and smuggling, reducing the lead time in exports to improve the competitiveness of exporters and preparing textile manufacturers and exporters to face a more competitive international trading environment in the future that would result from the phasing out of restrictions imposed under the Multi Fibre Agreement. Under this liberalisation process, the import of yarn, fabric and all related intermediate and capital goods was made duty free, while the tariff rate on imports of ready-made garments was fixed at 10 per cent to protect the non-export garment industry. A restructuring programme for the textile industry, designed to operate through commercial and development banks, was also drawn up to assist textile industries to modernise and adopt new technology. Under this restructuring programme, a Textile Debt Recovery Fund (TDRF) has been set up by the government to mitigate the adjustment problems faced by the local textile manufacturing industry.

In 1998, the government continued with its welfare programmes by providing vulnerable groups with basic needs such as food, housing and health. The Samurdhi Programme, the key poverty alleviation programme, covered nearly 2 million families. It has diversified its role by launching several credit schemes and leasing facilities for Samurdhi beneficiaries to promote self-employment activities. The setting up of Samurdhi banking societies (which are like savings and loans associations) was also continued with a view to popularising the savings habit among the low income groups. Several housing development programmes were started, targeting specific groups such as fishermen, plantation workers and under-served settlers in urban centres. Private sector participation in free public health services was encouraged by introducing the concept of a two tier private hospital system under the BOI regulations, one tier being dedicated to free health care for the poor with in-door and

out-door facilities and the other tier being a fee based health care service.

Expenditure controls were continued with the imposition of a 10 per cent cut on recurrent expenditure other than salaries, pensions and household transfers. The expenditure cut was imposed on all public sector spending agencies other than those in the Ministry of Health and Education. Specific borrowing limits were enforced on public enterprises to improve financial discipline. In spite of this, transfers to some public corporations and institutions such as Sri Lanka Railways and Sri Lanka Transport Board increased further in 1998. With the objective of reducing the interest cost to the government, the option of early retirement of Rupee loans was exercised in 1998. Thus, Rupee loans worth Rs.16,000 million, carrying interest rates of 15 to 16 per cent per annum, were retired early. New Rupee loans at lower interest rates were also issued with a similar option for early retirement.

Progress was made in making the government debt programme more market oriented. Most of the new deficit financing needs of the government were met through Treasury bonds. This was reflected in an increase in the share of Treasury bonds in the total net domestic borrowings from 33 per cent in 1997 to 59 per cent in 1998.

Several measures were taken to improve the market orientation of Treasury bonds. The direct participation of the Employees' Provident Fund (EPF) at the Treasury bond auctions was discontinued in 1998. This stopped the submission of non-competitive bids, i.e., bids without a rate, which was not consistent with market principles. The maturity period of Treasury bonds was gradually extended from 2 to 4 years, with the expectation that there would be a further extension to at least 6 years in 1999. A system of 'Jumbo' issues of Treasury bonds (one large block of Treasury bonds with a given maturity, but sold in smaller lots at different periods) was introduced with the objective of giving greater flexibility to investors in the management of their portfolios. Commercial banks were permitted to hold Treasury bonds as part of their liquid assets. In addition, commercial banks and Primary Dealers were permitted to use Treasury bonds for transactions at the Central Bank's secondary window for investment of excess funds or to obtain temporary liquidity.

8.2 Budget Out-turn

As mentioned earlier, fiscal performance, in terms of the deficit, recorded a significant setback in 1998. A slow growth of tax revenue, together with large expenditure overruns, particularly in the area of security, derailed the fiscal consolidation process that was seen during the last three years. Total security expenditures increased from Rs.47,718 million in 1997 to Rs.56,390 million in 1998, raising its ratio to GDP from 5.4 per cent in 1997 to 5.6 per cent in 1998. The current account deficit increased to 2.4 per cent from 2.2 per cent of GDP in 1997. Meanwhile, increased capital expenditure and net lending also added 1.1

percentage points to the overall budget deficit. Consequently, the overall budget deficit (before grants and privatisation) rose to 9.2 per cent of GDP from 7.9 per cent in 1997 as against a target of 6.5 per cent envisaged in the 1998 Budget. The primary budget deficit, i.e., deficit excluding interest payments, rose to 3.8 per cent of GDP in 1998 from 1.7 per cent in 1997.

Following the trend since 1995, total revenue as a ratio of GDP further declined to 17.3 per cent in 1998 from 18.5 per cent in 1997. The revenue target for 1998 was 18.4 per cent. The shortfall in revenue was entirely the outcome of a sharp reduction in tax revenues, from 16 per cent of GDP in 1997 to 14.5 per cent of GDP in 1998. The GST failed to generate sufficient revenue owing to a less than revenue neutral tax rate, transitional problems and a large number of exemptions. Numerous tax exemptions and concessions granted in lieu of income taxes contributed to some erosion of the income tax base. Import tax revenue declined, mainly as a result of exemptions and concessions and a reduction in import values, reflecting the decline in prices of Sri Lanka's major import commodities. Non-tax revenue registered a marked increase of 23 per cent owing to additional profit transfers from public enterprises, increased rent payments from plantation companies and the timely collection of other non-tax revenue such as interest, levies and dividends.

Current expenditure as a ratio of GDP declined by about 1 percentage point owing to lower interest costs and subsidies. Interest payments as a ratio of GDP declined from 6.2 per cent to 5.4 per cent in 1998, reflecting the favourable impact on interest cost of improved fiscal performance during the last two years. The growth of transfers to households was also contained in 1998, and these as a ratio of GDP declined by 0.6 percentage points to 3.7 per cent of GDP in 1998. However, the wage bill increased from 5 per cent of GDP in 1997 to 5.3 per cent of GDP in 1998 both in respect of security personnel and other public employees. This was the result of increased employment in the public sector and wage increases granted during the year.

Public investment in 1998 (6.7 per cent of GDP) almost reached the 1998 Budget target of 6.9 per cent of GDP. This was a significant increase compared with a decline during the last two years to 5.9 per cent of GDP. The maintenance of public investment at a higher level was possible due to increased utilisation of foreign aid during 1998. While gross foreign aid disbursements increased by Rs.6,590 million in 1998, the aid utilisation rate increased from 79 per cent to 82 per cent. In the past, the public investment programme slowed down mainly due to resource constraints. However, as the government was committed to maintaining the investment programme, unlike in the past, the required rupee resources were released and this was reflected in a 41 per cent increase in rupee funds in 1998, compared with 11 per cent in 1997. Capital expenditure was mainly concentrated in key areas such as energy, transport, telecommunication, port and water supply and drainage. Investment in these

TABLE 8.1
Summary of Government Fiscal Operations (a)

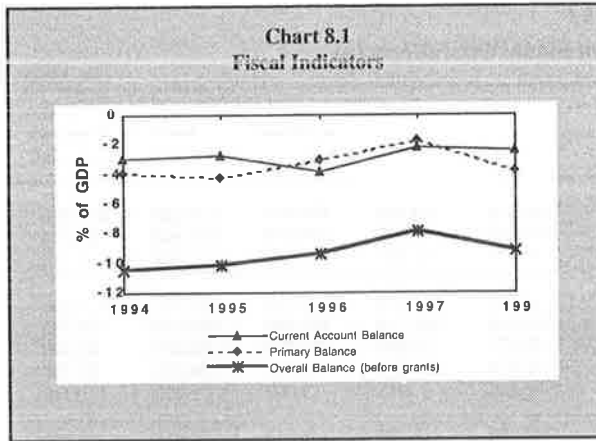
	Rs. Million						
	1994	1995	1996	1997	1998 Approved Estimates	1998 Provi- sional	1999 Approved Estimates
Total Revenue	110,038	136,258	146,279	165,036	188,437	175,032	214,320
Tax Revenue	99,417	118,543	130,202	142,512	164,048	147,368	185,410
Non Tax Revenue	10,621	17,715	16,077	22,524	24,389	27,664	28,910
Expenditure and Lending minus Repayments	170,764	203,483	218,659	235,096	255,085	268,179	283,263
Current	127,084	154,159	175,148	184,749	187,090	199,648	199,205
Capital and Net Lending	43,680	49,324	43,511	50,347	67,995	68,531	84,058
Public Investment	40,455	52,809	45,973	51,260	70,997	68,278	84,556
Other Capital	3,225	-3,486	-2,463	-913	-3,002	253	-498
Current Account Surplus/Deficit (-)	-17,046	-17,901	-28,869	-19,714	1,347	-24,616	15,115
Primary Account Surplus/Deficit (-)	-22,695	-29,000	-23,457	-14,815	-11,282	-38,250	-9,163
Overall Deficit (before grants)	-60,726	-67,225	-72,380	-70,061	-66,648	-93,147	-68,943
Financing	60,726	67,225	72,380	70,061	66,648	93,147	68,943
Foreign Financing	20,035	30,252	17,898	17,287	25,426	17,396	20,283
Net Borrowings	11,778	21,224	10,160	9,958	16,426	10,196	12,283
Grants	8,257	9,028	7,739	7,329	9,000	7,200	8,000
Domestic Financing	37,696	33,972	49,754	30,275	33,221	71,362	40,660
Market Borrowings	38,362	33,424	39,391	39,644	33,221	72,292	40,660
Non Bank	37,205	26,359	26,301	41,816	33,221	53,338	40,660
Bank	1,157	7,065	13,090	-2,171	-	18,954	-
Monetary Authority	1,764	7,662	9,873	-13,991	-	5,609	-
Commercial Banks	-607	-597	3,218	11,820	-	13,345	-
Other Borrowings	-666	548	10,363	-9,369	-	-930	-
Privatisation Proceeds	2,996	3,001	4,728	22,499	8,000	4,389	8,000
As a percentage of GDP							
Total Revenue	19.0	20.4	19.0	18.5	18.4	17.3	18.5
Tax Revenue	17.2	17.8	17.0	16.0	16.0	14.5	16.0
Non Tax Revenue	1.8	2.7	2.1	2.5	2.4	2.7	2.5
Expenditure and Lending minus Repayments	29.5	30.5	28.5	26.4	24.9	26.4	24.5
Current	21.9	23.1	22.8	20.8	18.3	19.7	17.2
Capital and Net Lending	7.5	7.4	5.7	5.7	6.6	6.8	7.3
Public Investment	7.0	7.9	6.0	5.8	6.9	6.7	7.3
Other Capital	0.6	-0.5	-0.3	-0.1	-0.3	0.0	0.0
Current Account Surplus/Deficit(-)	-2.9	-2.7	-3.8	-2.2	0.1	-2.4	1.3
Primary Account Surplus/Deficit(-)	-3.9	-4.3	-3.1	-1.7	-1.1	-3.8	-0.8
Overall Deficit (before grants)	-10.5	-10.1	-9.4	-7.9	-6.5	-9.2	-6.0
Financing	10.5	10.1	9.4	7.9	6.5	9.2	6.0
Foreign Financing	3.5	4.5	2.3	1.9	2.5	1.7	1.8
Net Borrowings	2.0	3.2	1.3	1.1	1.6	1.0	1.1
Grants	1.4	1.4	1.0	0.8	0.9	0.7	0.7
Domestic Financing	6.5	5.1	6.5	3.4	3.2	7.0	3.5
Market Borrowings	6.6	5.0	5.1	4.5	3.2	7.1	3.5
Non Bank	6.4	3.9	3.4	4.7	3.2	5.3	3.5
Bank	0.2	1.1	1.7	-0.2	-	1.9	-
Monetary Authority	0.3	1.1	1.3	-1.6	-	0.6	-
Commercial Banks	-0.1	-0.1	0.4	1.3	-	1.3	-
Other Borrowings	-0.1	0.1	1.3	-1.1	-	-0.1	-
Privatisation Proceeds	0.5	0.4	0.6	2.5	0.8	0.4	0.7

(a) The format of this table has been changed in line with 1996 GFS guidelines. Accordingly, privatisation proceeds have been shifted from the capital expenditure and net lending category to the financing section. Source: Central Bank of Sri Lanka

areas increased sharply by 41 per cent and accounted for 62 per cent of the total public investment. The increase in public investment was particularly important in a context where private investment has slowed down due to depressed world market conditions.

The total net borrowing requirement of the government, which is equivalent to the overall budget deficit after foreign

grants and privatisation proceeds, more than doubled in 1998 to Rs.81,558 million or 8 per cent of GDP. The utilisation of foreign resources for financing the budget deficit remained almost unchanged at 1 per cent of GDP in 1998. Consequently, the borrowing requirement from domestic sources rose considerably to 7 per cent of GDP in 1998 from 3.4 per cent in 1997. The increased demand for domestic



resources by the government led to a marked increase in bank borrowings. Generally, such a large increase in bank borrowings would have added strong pressure on interest rates. However, as private sector credit had slowed down, a sharp increase in interest rates could be avoided with a moderate monetary expansion.

8.3 Revenue and Grants

Total government revenue in 1998 at Rs.175,032 million recorded a slow growth of 6 per cent, in comparison to the 13 per cent rise in 1997. Revenue as a ratio of GDP, which had declined in the recent past from a peak of 20.4 per cent in 1995 to 18.5 per cent in 1997, deteriorated further to 17.3 per cent in 1998. The decline was entirely due to a drop in tax buoyancy. Tax revenue as a percentage of GDP declined further to 14.5 per cent of GDP in 1998, reflecting mainly the deterioration of the revenue base. Correspondingly, the share of non-tax revenue rose from 2.1 per cent of GDP in 1996 to 2.7 per cent of GDP in 1998. The emerging trends in government revenue clearly highlight the compelling need for an improvement of the tax base and strengthening of tax administration. Foreign grants utilised for budgetary purposes were estimated at Rs.7,200 million in 1998 as compared to Rs.7,329 million in 1997.

Tax Revenue

Tax revenue at Rs.147,368 million recorded a marginal increase of 3 per cent in 1998 in comparison to a 9 per cent increase in 1997. As a share of total revenue, tax revenue has declined continuously in recent years from 89 per cent in 1996 and 86 per cent in 1997, to 84 per cent in 1998. Similarly, tax revenue as a ratio of GDP declined to 14.5 per cent in 1998 from 17.8 per cent in 1995 and 16 per cent in 1997. This was the lowest recorded tax/GDP ratio since 1950. Various tax exemptions and concessions granted during the last few years with a view to enhancing investment and developing the capital market and the transformation of the turnover tax system to a GST with a less than revenue neutral tax rate of 12.5 per cent were the major contributory factors to the slowing down of tax revenue in 1998. The

slowing down of economic growth also contributed to this decline in revenue.

A major step taken during the year with a view to rationalising the tax structure was the introduction of the GST from 1 April 1998. This new consumption tax, introduced with a standard rate of 12.5 per cent, is levied on the incremental value added at every stage in the production and distribution of goods and services. Although the GST replaced the turnover tax, financial services in the non-manufacturing sector continued to be under the turnover tax system. The implementation of the GST was also accompanied by revisions to excise taxes with a view to maintaining revenue neutrality. However, a marked shortfall in GST collections (by Rs.7,787 million compared with the expected target for the year) resulted in a lacklustre performance of this tax in 1998. Total revenues from the turnover tax and GST at Rs.39,343 million recorded a 9 per cent drop in 1998 as compared to a 16 per cent growth observed in TT collections in 1997.

In the manufacturing sector, the combined revenue from the turnover tax and GST declined by 4 per cent in 1998. The overall tax revisions made to excisable products in order to overcome the revenue shortfall arising from the exemption of petroleum products from GST and the reduction in the liquor tax rate from 18 per cent to 12.5 per cent resulted in a revenue shift of about Rs.800 million from GST on manufacturing activities to excise duty in 1998. Moreover, the provision of input credit facilities for service inputs in the manufacturing sector also contributed towards this decline. Meanwhile, in the non-manufacturing sector, TT/GST revenue declined by 5 per cent in 1998 as compared with a substantial growth of 37 per cent in 1997. The exclusion of certain service sectors from the GST, such as shipping, airlines and a major segment of the services rendered by the Ports Authority and Airport and Aviation Services, together with the input tax credit facility newly introduced under the GST can be cited as the major reasons for the decrease in this revenue source. Moreover, the full impact of the reduction of the turnover tax rate from 2 per cent in 1997 to 1 per cent in 1998 on financial activities was felt in 1998, thus contributing to the lower collection from the non-manufacturing sector. Revenue from GST/TT on imports amounted to Rs.25,358 million, while refunds on account of imported inputs totalled Rs.7,826 million. Accordingly, the net revenue collection on account of GST on imports at Rs.17,532 million registered a drop of 15 per cent in comparison to an increase of 9 per cent observed in the import turnover tax revenue collection in 1997. The abolition of the 10 per cent mark up margin (which was 25 per cent before November 1997) for the computation of the import tax base under the GST system, together with the increase in exemptions, have lowered the effective GST base. Possible irregularities in the refund process and the increase in the deferment period from 45 days to 60 days on the request of exporters may have also contributed

TABLE 8.2
Summary of Revenue by Component

Item	Rs. Million						
	1994	1995	1996	1997	1998 Approved Estimates	1998 Provi- sional	1999 Approved Estimates
Tax Revenue	99,417	118,543	130,202	142,512	164,048	147,368	185,410
Income Taxes	15,277	17,161	20,751	21,548	24,064	20,429	24,192
Personal	5,621	7,358	7,315	8,183	8,639	8,099	9,934
Corporate	9,656	9,803	13,311	13,038	14,850	11,788	13,544
Save the Nation Contribution	-	-	125	327	575	542	714
Taxes on Property	4,386	5,162	5,279	6,392	8,056	7,079	9,293
Tax on Treasury Bills held by Central Bank	471	1,050	1,604	1,080	-	-	-
Taxes on Domestic Goods and Services	56,685	70,797	77,105	86,750	100,968	91,706	120,798
General Sales and Turnover Tax/GST	32,300	36,429	37,631	43,492	47,130	39,343	58,111
Manufacturing	9,171	9,906	8,874	9,475	10,255	9,121	11,993
Non Manufacturing	6,445	7,074	9,711	13,328	10,800	12,690	19,590
Imports	16,684	19,449	19,046	20,689	23,975	17,532	26,528
Excise Tax	14,632	19,436	22,067	24,775	31,464	30,293	34,544
Liquor	4,686	6,298	5,839	6,181	8,369	7,665	9,192
Tobacco	7,888	8,788	12,833	14,139	16,295	15,051	17,002
Other	2,058	4,350	3,395	4,455	6,800	7,577	8,350
National Security Levy	9,693	14,408	16,441	17,338	20,500	21,079	26,700
Licence Fees	60	524	966	1,145	1,874	991	1,443
Taxes on International Trade	22,598	24,373	25,464	26,743	30,960	28,154	31,127
Imports	22,598	24,365	25,459	26,739	30,960	28,154	31,127
Exports	-	8	5	4	-	-	-
Non Tax Revenue	10,621	17,715	16,077	22,524	24,389	27,664	28,910
Property Income	7,360	12,011	10,059	15,022	15,178	18,462	18,895
of which: Central Bank Profits	1,200	1,200	1,700	1,500	2,650	2,650	3,000
Interest Income	4,560	6,991	5,222	8,002	7,108	7,786	7,050
Fees and Charges	988	1,751	2,827	2,800	2,858	2,890	3,329
Other Non-tax Revenue	2,273	3,953	3,191	4,702	6,353	6,312	6,686
Total Revenue	110,038	136,258	146,279	165,036	188,437	175,032	214,320
As a percentage of GDP							
Tax Revenue	17.2	17.8	17.0	16.0	18.4	14.5	16.0
Income Taxes	2.6	2.6	2.7	2.4	2.7	2.0	2.1
Personal	1.0	1.1	1.0	0.9	1.0	0.8	0.9
Corporate	1.7	1.5	1.7	1.5	1.7	1.2	1.2
Save the Nation Contribution	-	-	-	-	0.1	0.1	0.1
Taxes on Property	0.8	0.8	0.7	0.7	0.9	0.7	0.8
Tax on Treasury Bills held by Central Bank	0.1	0.2	0.2	0.1	-	-	-
Taxes on Domestic Goods and Services	9.8	10.6	10.0	9.7	11.3	9.0	10.4
General Sales and Turnover Tax	5.6	5.5	4.9	4.9	5.3	3.9	5.0
Manufacturing	1.6	1.5	1.2	1.1	1.2	0.9	1.0
Non Manufacturing	1.1	1.1	1.3	1.5	1.2	1.3	1.7
Imports	2.9	2.9	2.5	2.3	2.7	1.7	2.3
Excise Tax	2.5	2.9	2.9	2.8	3.5	3.0	3.0
Liquor	0.8	0.9	0.8	0.7	0.9	0.8	0.8
Tobacco	1.4	1.3	1.7	1.6	1.8	1.5	1.5
Other	0.4	0.7	0.4	0.5	0.8	0.7	0.7
National Security Levy	1.7	2.2	2.1	1.9	2.3	2.1	2.3
Licence Fees	-	0.1	0.1	0.1	0.2	0.1	0.1
Taxes on International Trade	3.9	3.6	3.3	3.0	3.5	2.8	2.7
Imports	3.9	3.6	3.3	3.0	3.5	2.8	2.7
Exports	-	-	-	-	-	-	-
Non Tax Revenue	1.8	2.7	2.1	2.5	2.7	2.7	2.5
Property Income	1.3	1.8	1.3	1.7	1.7	1.8	1.6
of which: Central Bank Profits	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Interest Income	0.8	1.0	0.7	0.9	0.8	0.8	0.6
Fees and Charges	0.2	0.3	0.4	0.3	0.3	0.3	0.3
Other Non-tax Revenue	0.4	0.6	0.4	0.5	0.7	0.6	0.6
Total Revenue	19.0	20.4	19.0	18.5	21.2	17.3	18.5

Source: Central Bank of Sri Lanka

towards the revenue shortfall from this source in 1998. It is therefore essential to improve GST collections by strengthening tax administration and adopting strict monitoring and auditing procedures.

The revenue collection from excise taxes at Rs.30,293 million registered an increase of 22 per cent in comparison to a 12 per cent growth in 1997. As a share of total tax revenue, excise taxes increased from 17.4 per cent in 1997 to 20.5 per cent in 1998. Revenue from cigarette excise taxes, however, recorded a lower increase of 6 per cent in 1998 in comparison to 10 per cent in 1997. This was mainly due to two reasons. First, it reflects the impact of downward adjustments in excise tax rates on cigarettes to maintain revenue and price neutrality with the implementation of the GST. Accordingly, the shift in tax collection from excise to GST is estimated to be about Rs.1,100 million. Second, price increases on cigarettes in July and November 1998 (the overall price increase was 22-25 per cent) adversely affected the growth in sales. Sales of cigarettes, which grew by 5 per cent during the first half of the year, dropped to less than 1 per cent during the second half of 1998. In contrast, the excise tax revenue mobilised through liquor rose by 24 per cent in 1998, compared to a 6 per cent growth in 1997. This was the combined outcome of the upward revision of the excise tax on hard liquor under the Excise (Special Provisions) Act from 12.75 per cent to 20.20 per cent in April, a further increase of the excise tax by 10 per cent on all varieties of hard liquor and the introduction of an excise tax on malt liquor on a strength basis from November 1998. Moreover, the increase in the production of all hard liquor varieties and malt liquor helped to increase liquor excise revenues. The production of hard liquor increased by 12 per cent, while the production of malt liquor increased substantially by 45 per cent with the commissioning of two beer factories with an annual production capacity of 28 million bulk litres in 1998. Revenue collection under the Excise (Special Provisions) Act, excluding cigarettes and liquor, recorded a significant increase (70 per cent) in 1998. The excise tax on petrol, one of the major revenue sources under this category, was increased from 25 per cent to 50 per cent in April 1998 to offset the revenue losses arising from the exemption of petrol from the GST. This revision, combined with a 4 per cent increase in petrol sales, has resulted in a revenue shift of about Rs.1,500 million from the GST to excise taxes. An additional excise duty of 10 per cent levied on all imported private vehicles from November 1998 also contributed towards the increase in revenue under the Excise (Special Provisions) Act.

The National Security Levy (NSL) generated Rs.21,079 million, recording a significant growth of 22 per cent in 1998. As a ratio of GDP, NSL collections accounted for 2.1 per cent, while its share in total tax collection was 14 per cent. The expansion of the services sector, together with the upward revision of the price structure of taxable services (telecommunication and electricity) and the increase in the

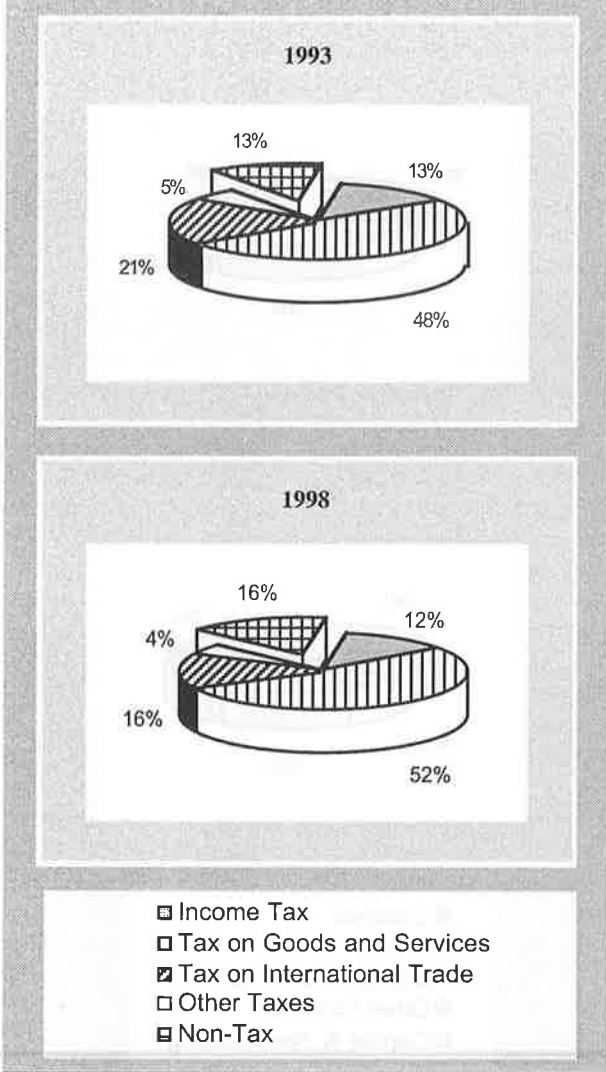
NSL rate from 4.5 per cent to 5.5 per cent during the latter part of 1998, contributed to the increase in revenue from this source. Thus, revenue from NSL on domestic activities increased by 20 per cent in 1998, while that on imports registered a slower growth of 18 per cent. Consequently, the share of NSL on imports declined to 63 per cent of total NSL collections from 65 per cent in 1997.

Despite the moderate growth in the value of imports by 10 per cent in 1998, the duty collected on imports increased only by 5 per cent, as in the previous year, to Rs.28,154 million. The average duty rate, i.e., the ratio of total import duty to total value of imports, dropped marginally to 7.4 per cent in 1998 from 7.7 per cent in 1997. The slow growth in import duty collections can largely be attributed to the removal of import duties on yarn, fabric, intermediate and capital goods for the textile industry and the grant of similar concessions to assist priority sectors such as agriculture, fisheries, industry, telecommunication, computer software manufacturing and tourism. The new duty exemptions limited the growth of dutiable imports to 5 per cent in 1998. Consequently, the share of dutiable imports to total imports declined to 35 per cent in 1998 from 37 per cent in 1997, while the average effective duty rate remained unchanged at 20.9 per cent in 1998. Moreover, the rationalisation of the tariff structure, which brought about a downward revision of the tariff rates from 10, 20 and 35 per cent in 1994 to 5, 10 and 30 per cent in November 1998, together with the lower international prices for Sri Lanka's major dutiable imports in 1998, also contributed towards the slow growth in import duty collections.

The revenue from income taxes at Rs.20,429 million showed a 5 per cent decrease in 1998 owing to a marginal reduction in non-corporate income taxes to Rs.8,099 million and a 10 per cent decline in corporate income taxes to Rs.11,788 million. Collections from the Save the Nation Contribution grew from Rs.327 million to Rs.542 million. Income taxes as a percentage of tax revenue declined to 13.8 per cent in 1998 from 15.1 per cent in 1997, while as a percentage of GDP, income tax revenue dropped from 2.4 per cent in 1997 to 2 per cent in 1998. The unification of the tax threshold at Rs.144,000 for all tax payers, the widening of tax slabs to Rs.100,000 and the decrease in the withholding tax rate on interest income from 15 per cent to 10 per cent in 1997, contributed to the decline in the collection from personal income taxes. Corporate income taxes showed a decline of 11 per cent in 1998. Reduction of the corporate tax rate on priority sectors such as agriculture, fisheries, livestock and tourism to 15 per cent, investment tax allowances granted for manufacturing enterprises and tax incentives granted to develop thrust industries under BOI facilities, software industries and for regional industrialisation can be identified as major reasons for the declining trend in the corporate income tax collection.

Stamp duties, totalling Rs.7,069 million in 1998, showed an increase of 11 per cent, compared to a 21 per cent growth

Chart 8.2
Composition of Revenue



in 1997. The reduction of stamp duty on financial instruments such as promissory notes, repurchase agreements relating to Treasury bills and mortgage backed securities and the subsequent removal of the stamp duty on the issue of listed debt instruments such as debentures, promissory notes and repurchase agreements on Treasury bills in November 1998 led to a deceleration in the stamp duty collection. Moreover, the slower growth of imports in 1998 also affected the stamp duty collection from imports.

Despite an increase in the vehicle stock liable for diesel and luxury taxes, revenues from this source declined by 14 per cent to Rs.991 million. The unification of the dual levy on diesel vehicles at the lower rate of Rs.5,000 with effect from 1 April 1997 partly contributed to this decline. Weaknesses in the monitoring of this tax also appear to have been another reason for this decline.

Non-Tax Revenue

Non-tax revenue in 1998 registered a growth of 23 per cent, increasing from Rs.22,524 million in 1997 to Rs.27,664 million in 1998. Its share in total revenue rose to 16 per cent as compared to 14 per cent and 11 per cent in 1997 and 1996, respectively. As a percentage of GDP, non-tax revenue at 2.7 per cent in 1998, was marginally higher than in 1997. This growth in the non-tax revenues offset, to some extent, the shortfall in the tax revenue. Property income, which accounts for 67 per cent of total non-tax revenue, rose by 23 per cent mainly due to higher interest receipts, rent, profits and dividends collected from public enterprises. Interest receipts at Rs.7,786 million were higher than the estimate of Rs.7,108 million in 1998, due to the collection of arrears and the strict enforcement of time limits on payments due from public enterprises such as the Ceylon Electricity Board (Rs.3,069 million) and the Sri Lanka Ports Authority (Rs.727 million). Central Bank profit transfers increased from Rs.1,500 million in 1997 to Rs.2,650 million in 1998. The increase from this source of revenue offset the revenue loss arising from the abolition of the withholding tax on Treasury bills held by the Central Bank. Profits, dividends and levies, excluding Central Bank profit transfers, increased from Rs.4,284 million in 1997 to Rs.6,190 million in 1998, an increase of 44 per cent. Major contributors were the Sri Lanka Ports Authority (Rs.2,350 million), Ceylon Petroleum Corporation (Rs.500 million) and Air Lanka Ltd. (Rs.632 million). Meanwhile, a levy of Rs.1,000 million was collected from Bank of Ceylon under the Finance Act. The government also recovered Rs.658 million from the Bank of Ceylon and Rs.572 million from the People's Bank out of interest payments made on account of restructuring bonds to these two banks. Receipts from rent income increased by 66 per cent to Rs.1,410 million, mainly due to rent collected from privatised plantation companies. Revenue collected from other non-tax sources, such as fees and charges, social security contributions and non-industrial sales, also recorded a considerable increase of 23 per cent totalling Rs.9,202 million in 1998. These sources contributed to the increase in non-tax revenue in 1998.

Foreign Grants

Total foreign grants utilised for budgetary purposes during 1998 at Rs.7,200 million registered a decline of 2 per cent, reflecting a reduction in the flow of non-debt creating foreign aid in 1998. Grants in relation to GDP, at 0.7 per cent, were marginally lower than in 1997. Receipts on account of project grants, which funded the public investment programme, amounted to Rs.4,750 million. Japan continued to be the largest donor of grants, accounting for 46 per cent of the total, followed by India with a 22 per cent share in 1998.

8.4 Expenditure

Total government expenditure and net lending increased by 14 per cent to Rs.268,179 million in 1998. As a per cent

of GDP, overall expenditure at 26.4 per cent was at the same level as in 1997. However, this was higher than the 24.9 per cent of GDP expected in the 1998 Budget. The increase in expenditure was mainly due to additional security expenses, a higher wage bill and a considerable increase in public investment. However, current expenditure as a ratio of GDP declined in 1998 to 19.7 per cent from 20.8 per cent in 1997, mainly owing to lower interest payments. Public investment rose to 6.7 per cent of GDP in 1998 from 5.8 per cent of GDP in 1997.

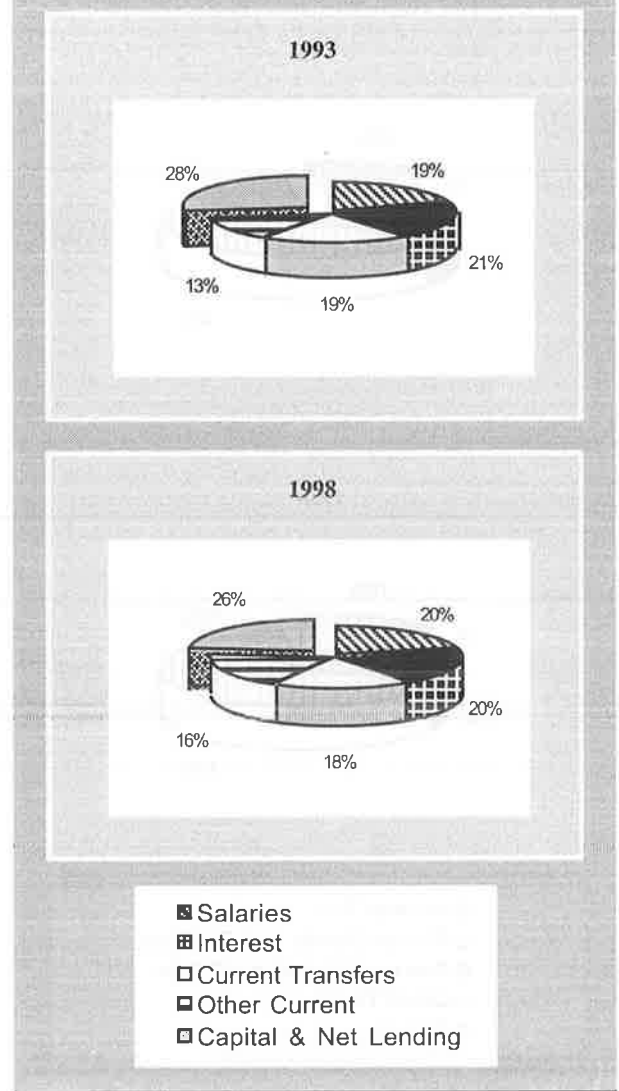
Current Expenditure

Current expenditure increased by 8 per cent to Rs.199,648 million in 1998, as compared to a 5 per cent rise in 1997. As a percentage of total expenditure, current expenditure declined to 74.4 per cent in 1998 from 78.6 per cent in the previous year. The drop in interest payments and current transfers and subsidies helped to avoid large increases in current expenditure. Interest payments declined marginally to Rs.54,897 million in 1998. As a percentage of GDP, interest payments declined from 6.2 per cent of GDP in 1997 to 5.4 per cent in 1998. Current transfers and subsidies, at Rs.46,984 million in 1998, indicated a decline to 4.6 per cent from 5.1 per cent in 1997. Defence and other security related expenditure increased by 13 per cent and accounted for 26 per cent of total current expenditure in 1998. As a percentage of GDP, defence expenditure remained at 5 per cent in 1998, around the same level as in 1997. Meanwhile, expenses on account of salaries of central and provincial government employees and other goods and services incurred by ministries and departments also recorded a considerable increase of 21 per cent in 1998, compared to 5 per cent in 1997.

The total salary bill rose by 21 per cent to Rs.53,880 million in 1998. The increase in 1997 was 17 per cent. As a ratio of GDP, salaries rose to 5.3 per cent in 1998 as compared to 5 per cent in the previous year. The increase in the salary bill was due to enhanced outlays on account of allowances paid to defence personnel for security operations carried out in the Northern and Eastern Provinces and the implementation of the second stage of the salary increase recommended by the Salaries Commission in 1995.

The new salary structure for public sector employees, which came into place in 1998, was implemented in two stages. In the first stage, 40 per cent of the proposed salary increase was granted to all employees from January 1997. The second stage, comprising the balance 60 per cent of the increase, which was scheduled to be implemented from January 1998, was sequenced due to resource constraints. Accordingly, all employees in the defence services and other public sector employees drawing less than Rs.7,500 per month were granted the increase with effect from January 1998. For those drawing salaries in excess of this amount, the balance increase was granted from July 1998 onwards.

Chart 8.3
Composition of Expenditure



The progress made in reducing the fiscal deficit during the previous two years, a relatively lower inflation rate and improved monetary and debt management helped to reduce the interest burden. Interest payments on government debt decreased marginally to Rs.54,897 million, owing to lower interest payments on domestic debt. This was a result of lower interest rates in 1997. Domestic interest payments, as a ratio of end year total domestic debt, declined to 11 per cent from 12.7 per cent in 1997. An improvement in debt management, particularly the popularising of government securities as risk free savings instruments among the people, could help to reduce interest costs further. The importance of reducing the fiscal deficit needs to be re-emphasised in this regard.

In spite of an increase in the outstanding Treasury bill stock by Rs.5,000 million in 1998, interest expenditure on

Treasury bills registered a notable reduction of 31 per cent in 1998. Interest payments for Treasury bills, as a ratio of end year Treasury bill stock, declined from 15.7 per cent to 10.3 per cent in 1998. The retirement of Rs.10,000 million of Treasury bills in 1997 reduced the interest expenditure in 1998 by Rs.350 million.

Interest payments on Rupee loans rose by 10 per cent to Rs.33,100 million in 1998, reflecting a rise in the stock of Rupee loans (Rs.33,500 million in 1997 and Rs.11,000 million in 1998). Interest payments on Rupee loans as ratio of the end year Rupee loan stock increased from 12.6 per cent to 13.2 per cent in 1998. The retirement of Rupee loans, which carried high interest rates of 15.0-16.0 per cent, and their replacement with new Rupee loans at lower interest rates of 11.0-12.25 per cent under the early retirement option reduced the interest cost by Rs.180 million in 1998. Interest payments on account of Treasury bonds increased from Rs.327 million in 1997 to Rs.2,100 million in 1998, mainly due to the increase in the stock of Treasury bonds, which partly replaced fixed interest Rupee loans.

Interest expenditure on account of foreign debt rose only by 9 per cent to Rs.7,300 million, despite a 20 per cent rise in the foreign debt stock in 1998. The annual average interest rate on foreign debt was 1.6 per cent as compared to 1.8 per cent in the previous year, reflecting the concessionary nature of such debt.

Total current transfers and subsidies increased by 3 per cent to Rs.46,984 million in 1998. As a ratio of GDP, however, the expenditure dropped to 4.6 per cent from 5.1 per cent in 1997. The efforts made to consolidate welfare programmes of the government, such as the improved screening process for Samurdhi recipients which led to a reduction of beneficiaries by 44,671 in 1998, helped to contain the growth of transfers to households.

Transfers to households, consisting mainly of pensions, assistance under the Samurdhi Programme, the fertiliser subsidy and other welfare payments, declined marginally by Rs.662 million to Rs.37,719 million in 1998. Accordingly, the household transfers to GDP ratio declined from 4.3 per cent in 1997 to 3.7 per cent in 1998. Outlays on account of pension payments increased by 9 per cent to Rs.19,477 million in 1998 due to the addition of 5,705 new retirees at the end of 1998 and the payment of arrears on account of the cost of living increase granted to pensioners in 1995. Pension payments, as a percentage of GDP, decreased from 2 per cent to 1.9 per cent in 1998. The number of families receiving Samurdhi benefits amounted to 1,973,183 while Samurdhi payments in 1998 marginally declined to Rs.7,963 million. Total transfer payments on account of the Samurdhi Programme also declined from Rs.8,718 million in 1997 to Rs.8,652 million in 1998. The fertiliser subsidy payments increased by 14 per cent to Rs.2,152 million in 1998. In spite of a sharp decline in the international price of urea, from US dollars 182 per metric ton in 1997 to US dollars

133 per metric ton in 1998, the higher outlay incurred was the combined effect of a 4 per cent increase in the usage of urea and the settlement of the 1997 arrears. Other transfers to households, which consist of payments in respect of refugees, school uniforms, school textbooks, school season tickets and other development subsidies, amounted to Rs.7,438 million in 1998. Payments on account of refugees amounted to Rs.2,117 million. The cost of the school uniform programme and the school textbook programme was Rs.1,736 million in 1998. The distribution of dry rations to displaced families in the Northern and Eastern Provinces continued. There were 113,558 recipients and the total expenditure under this programme amounted to Rs.1,054 million in 1998.

Transfers to institutions and corporations rose from Rs.5,350 million in 1997 to Rs.7,287 million in 1998. While transfers to corporations reflected an increase of 10 per cent during the year, transfer payments to public institutions increased by 63 per cent to Rs.4,320 million in 1998. The increase in transfer payments can largely be attributed to the accommodation of the new salary structure in these institutions. However, the reclassification of a major portion of Mahaweli Authority transfers to current from capital was also responsible for the increase in such expenditures to public institutions. Meanwhile, payments made to settle pension, EPF and ETF arrears at the Sri Lanka Central Transport Board (SLCTB) also contributed towards the increase in transfers to corporations (excluding Sri Lanka Railway and Postal Department), which rose from Rs.726 million in 1997 to Rs.1,324 million in 1998. A sharp reduction in wheat grain prices in the international market, to an annual average of US dollars 143 per metric ton (cif) in 1998 from US dollars 175 per metric ton in 1997, helped the government to completely phase out the flour subsidy in 1998, thus moderating the increase in transfers to corporations. Transfer payments to local governments also rose by 2 per cent to Rs.1,977 million owing to higher salaries and wages.

Current operational losses of Sri Lanka Railway (SLR) and the Postal Department increased to Rs.1,643 million as a result of higher wage bills and lower charges. A proposal to increase railway fares in the 1999 Budget by 25 per cent had to be withdrawn eventually. However, the postal rates were raised by 40 per cent from December 1998 and action has also been initiated to improve the commercial viability of the Postal Department by corporatisation. An upward revision of railway fares and a restructuring of the SLR are long overdue.

Expenditure on other goods and services, which represent day to day operational expenditure of government ministries and departments (excluding defence) rose by 38 per cent to Rs.15,930 million.

In terms of the functional classification, current expenditure on social services declined to 6.3 per cent of

TABLE 8.3
Economic Classification of Expenditure and Lending minus Repayment (a)

Item	1994	1995	1996	1997	Rs. Million		
					1998 Approved Estimates	1998 Provi- sional	1999 Approved Estimates
Current Expenditure	127,084	154,159	175,148	184,749	187,090	199,648	199,205
Expenditure on Goods and Services	54,700	75,447	80,003	83,831	85,604	97,768	91,976
Salaries and Wages	29,309	34,909	38,332	44,677	47,855	53,880	54,292
Other Goods and Services	25,391	40,538	41,671	39,154	37,749	43,888	37,684
Interest Payments	38,031	38,225	48,923	55,246	55,367	54,897	59,780
Foreign	5,511	6,162	6,739	6,692	7,418	7,300	8,060
Domestic (b)	32,520	32,063	42,184	48,554	47,949	47,598	51,720
Current Transfers and Subsidies	34,180	40,487	46,223	45,672	45,419	46,984	47,749
To Public Corporations	2,634	7,841	8,232	2,693	2,374	2,967	2,486
To Public Institutions	1,976	2,182	2,284	2,657	5,381	4,320	6,033
To Other Levels of Government	1,307	1,157	1,592	1,941	1,524	1,977	2,103
To Households and Other Sectors	28,263	29,307	34,114	38,381	36,140	37,719	37,127
Food Stamps, Food Subsidy etc.	4,654	1,799	591	-	-	-	-
Janasaviya/Samurdhi	5,369	5,130	8,591	8,718	9,670	8,652	8,374
Pensions	13,271	14,549	15,465	17,916	18,285	19,477	19,321
Fertilizer Subsidy	630	1,345	1,500	1,895	1,500	2,152	1,500
Other	4,339	6,484	7,967	9,852	6,685	7,438	7,932
Provision for Under Expenditure / Contingency	-	-	-	-	700	-	-300
Capital Expenditure	30,391	41,722	37,638	43,982	57,339	54,160	68,736
Acquisition of Real Assets	16,747	22,589	20,938	25,468	35,185	32,246	37,734
Capital Transfers	13,644	19,134	16,701	18,514	22,153	21,915	33,597
To Public Corporations	4,246	7,614	6,017	5,880	6,396	6,801	9,828
To Public Institutions	8,433	10,446	9,603	11,041	13,980	13,285	19,261
To Other Levels of Government	914	1,057	1,042	1,511	1,745	1,764	1,975
Other	51	17	39	83	32	65	2,533
Provision for Under Expenditure	-	-	-	-	-	-	-2,595
Lending minus Repayment	13,289	7,602	5,873	6,366	10,656	14,370	15,322
Advance Accounts	2,462	-1,580	630	1,226	500	2,784	500
On Lending	10,064	11,087	8,335	7,278	13,658	14,117	15,820
Restructuring Cost	3,739	3,191	90	2,193	1,500	3,688	3,980
Loan Repayments	-2,976	-5,097	-3,182	-4,331	-5,002	-6,218	-4,978
Total Expenditure and Net Lending	170,764	203,483	218,659	235,096	255,085	268,179	283,263
As a percentage of GDP							
Current Expenditure	21.9	23.1	22.8	20.8	18.2	19.7	19.6
Expenditure on Goods and Services	9.4	11.3	10.4	9.4	8.3	9.6	9.1
Salaries and Wages	5.1	5.2	5.0	5.0	4.7	5.3	5.4
Other Goods and Services	4.4	6.1	5.4	4.4	3.7	4.3	3.7
Interest Payments	6.6	5.7	6.4	6.2	5.4	5.4	5.9
Foreign	1.0	0.9	0.9	0.8	0.7	0.7	0.8
Domestic (b)	5.6	4.8	5.5	5.5	4.7	4.7	5.1
Current Transfers and Subsidies	5.9	6.1	6.0	5.1	4.4	4.6	4.7
To Public Corporations	0.5	1.2	1.1	0.3	0.2	0.3	0.2
To Public Institutions	0.3	0.3	0.3	0.3	0.5	0.4	0.6
To Other Levels of Government	0.2	0.2	0.2	0.2	0.1	0.2	0.2
To Households and Other Sectors	4.9	4.4	4.4	4.3	3.5	3.7	3.7
Food Stamps, Food Subsidy etc.	0.8	0.3	0.1	-	-	-	-
Janasaviya/Samurdhi	0.9	0.8	1.1	1.0	0.9	0.8	0.8
Pensions	2.3	2.2	2.0	2.0	1.8	1.9	1.9
Fertilizer Subsidy	0.1	0.2	0.2	0.2	0.1	0.2	0.1
Other	0.7	1.0	1.0	1.1	0.6	0.7	0.8
Provision for Under Expenditure /Contingency	-	-	-	-	0.1	-	-
Capital Expenditure	5.2	6.2	4.9	4.9	5.6	5.3	6.8
Acquisition of Real Assets	2.9	3.4	2.7	2.9	3.4	3.2	3.7
Capital Transfers	2.4	2.9	2.2	2.1	2.2	2.2	3.3
To Public Corporations	0.7	1.1	0.8	0.7	0.6	0.7	1.0
To Public Institutions	1.5	1.6	1.3	1.2	1.4	1.3	1.9
To Other Levels of Government	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Other	-	-	-	-	-	-	0.2
Provision for Under Expenditure	-	-	-	-	-	-	-0.3
Lending minus Repayment	2.3	1.1	0.8	0.7	1.0	1.4	1.5
Advance Accounts	0.4	-0.2	0.1	0.1	-	0.3	-
On Lending	1.7	1.7	1.1	0.8	1.3	1.4	1.6
Restructuring Cost	0.6	0.5	-	0.2	0.1	0.4	0.4
Loan Repayments	-0.5	-0.8	-0.4	-0.5	-0.5	-0.6	-0.5
Total Expenditure and Net Lending	29.5	30.5	28.5	26.4	24.9	26.4	27.9

Source: Central Bank of Sri Lanka

- (a) In accordance with the 1996 GFS guide lines, privatisation proceeds, which had previously been treated as a net lending item, are now considered as a financing item and hence, this item has been removed from the above expenditure table.
(b) From 1996 onwards, includes interest payments on long-term bonds issued to the two state banks and the NSB.

GDP in 1998 from 6.7 per cent of GDP in 1997. Expenditure on social services accounted for 32 per cent of total current expenditure. Education and health absorbed almost 50 per cent of the total expenditure on social services.

Current expenditure on economic services showed a marked increase of 42 per cent to Rs.10,547 million during the year. Expenditure on transport and communication, agriculture and irrigation and energy and water supply indicated sharp increases in 1998. Outlays on general public services grew by 12 per cent to Rs.66,158 million in 1998. Expenditure on defence and public order and safety at Rs.50,960 million accounted for 77 per cent of the expenditure on general public services.

Public Investment

Public investment, consisting of capital expenditure and on-lending to public enterprises, recorded a sharp increase

of 33 per cent to Rs.68,277 million in 1998. Expenditure directly incurred by ministries and departments under the Public Investment Programme (PIP) for construction and development of fixed assets recorded a 27 per cent increase in 1998 to Rs.32,246 million. Capital transfers to commercially oriented public corporations and boards rose by 16 per cent to Rs.6,801 million. Over 75 per cent of these transfers went to the National Water Supply and Drainage Board (Rs.2,390 million), Ceylon Electricity Board (Rs.432 million), Land Reclamation and Development Corporation (Rs.1,552 million) and the National Housing Development Authority (Rs.867 million). Meanwhile, capital transfers to non-commercial public institutions rose by 20 per cent to Rs.13,285 million in 1998. Principle users of these resources were the Road Development Authority (Rs.7,479 million), Mahaweli Development Authority (Rs.1,049 million), Urban Development Authority (Rs.492 million), the Restructuring

TABLE 8.4
Functional Classification of Expenditure

Item	Rs. Million						
	1994	1995	1996	1997	1998 Approved Estimates	1998 Provi- sional	1999 Approved Estimates
Current Expenditure							
General Public Services	30,444	47,888	53,915	58,926	56,948	66,158	58,070
Civil Administration	4,637	6,562	10,207	13,956	12,577	15,196	14,721
Defence	19,415	35,186	38,117	37,062	36,457	42,498	35,619
Public Order and Safety	6,392	6,140	5,591	7,908	7,914	8,466	7,730
Social Services	47,656	57,648	59,294	59,742	64,356	63,595	66,763
Education	14,836	15,784	16,018	17,757	21,920	20,582	22,231
Health	7,666	8,818	9,260	9,581	10,269	10,089	10,651
Welfare	24,560	32,106	32,824	31,251	30,858	31,472	31,168
Housing	-	-	-	-	-	-	-
Community Services	593	941	1,191	1,154	1,309	1,451	2,713
Economic Services	6,195	8,078	8,807	7,418	10,756	10,547	9,862
Agriculture & Irrigation	2,506	3,826	3,894	3,723	4,969	5,444	4,963
Fisheries	99	105	148	156	350	175	184
Manufacturing and Mining	351	252	282	599	767	325	436
Energy and Water Supply	518	990	590	486	874	757	876
Transport & Communication	2,024	2,014	2,423	1,674	2,672	2,934	2,060
Trade & Commerce	72	172	891	159	243	167	306
Other	625	719	580	622	880	745	1,037
Other	42,789	40,546	53,132	58,662	54,332	59,348	64,811
of which; Interest	38,031	38,687	48,923	55,246	55,368	54,897	59,780
Provision for Under Expenditure	-	-	-	-	700	-	-300
Total Current Expenditure	127,084	154,159	175,149	184,749	187,091	199,648	199,206
Capital Expenditure and Lending							
General Public Services	2,390	5,776	3,161	3,442	7,527	6,243	8,149
Civil Administration	1,753	3,962	1,935	3,442	7,527	6,243	8,149
Public Order and Safety	637	1,814	1,226	-	-	-	-
Social Services	7,677	9,854	10,322	11,552	15,059	15,528	16,969
Education	2,877	3,124	4,384	4,592	5,957	6,112	7,304
Health	1,519	2,134	2,538	2,554	4,308	4,330	4,774
Welfare	1,681	1,690	868	751	396	967	141
Housing	802	1,610	1,174	792	1,647	1,314	1,514
Community Services	798	1,297	1,359	2,863	2,751	2,804	3,236
Economic Services	29,304	36,106	31,409	32,479	46,633	44,677	57,526
Agriculture & Irrigation	5,179	6,060	4,718	3,780	6,730	6,018	9,726
o/w Mahaweli Project	2,598	3,090	1,940	1,626	1,265	1,049	2,127
Fisheries	368	361	311	480	773	562	876
Manufacturing and Mining	22	250	356	1,442	2,167	2,191	836
Energy and Water Supply	5,518	5,003	6,035	6,816	10,203	8,804	12,627
Transport & Communication	14,522	18,888	12,636	12,946	20,536	18,908	23,013
Trade & Commerce	182	20	105	182	909	230	394
Other	3,513	5,524	7,247	6,835	5,316	7,965	10,055
Other	1,084	1,074	1,081	3,787	1,778	1,829	4,508
Provision for Under Expenditure	-	-	-	-	-	-	-2,595
Total Capital Expenditure and Lending	40,455	52,810	45,973	51,260	70,998	68,277	84,556

Source: Central Bank of Sri Lanka

and Rehabilitation Authority of the North (Rs.996 million) and the Board of Investment (Rs.326 million).

The government's on-lending programme, which channels foreign resources to public enterprises, showed a twofold increase in 1998 to Rs.14,117 million. The target in the 1998 Budget was Rs.13,658 million. The Ceylon Electricity Board (CEB) utilised Rs.5,648 million for power generation and transmission projects, while on-lending to the Sri Lanka Ports Authority was Rs.3,356 million. However, Sri Lanka Telecom (Rs.2,426 million) was able to utilise only 71 per cent of its budgetary allocation due to delays in project implementation.

Public investment for economic services rose by 38 per cent to Rs.44,677 million (4.4 per cent of GDP). These investments were largely concentrated in the areas of transport and communication (Rs.18,908 million), energy and water supply (Rs.8,804 million) and agriculture and irrigation (Rs.6,018 million), accounting for 76 per cent of the total investment in economic services. Expenditure incurred on development of the road network through the Road Development Authority was Rs.7,479 million, while funds released to develop railway, port and telecommunication services amounted to Rs.9,239 million. Investments in the energy and water supply sectors through the CEB and the National Water Supply and Drainage Board rose by 29 per cent to Rs.8,804 million in 1998. Expenditure incurred by these two institutions accounted for over 95 per cent of total public investment in the energy and water supply sector in 1998. Capital expenditure on account of social services increased by 34 per cent to Rs.15,528 million in 1998. Investments in the health (Rs.4,330 million), education (Rs.6,112 million), community services (Rs.2,804 million) and housing (Rs.1,314 million) sectors accounted for over 90 per cent of the total expenditure on social services.

Under the public enterprise restructuring programme, a sum of Rs.3,688 million was spent in 1998. A major portion of restructuring expenditure was provided for the retrenchment of personnel at the Mahaweli Development Authority and for restructuring of the textile sector. Reflows of funds on account of loan repayments by public enterprises amounted to Rs.6,218 million. These were from the CEB (Rs.2,137 million), Sri Lanka Telecom (Rs.1,413 million), National Development Bank (Rs.1,162 million), DFCC Bank (Rs.562 million) and the Ports Authority (Rs.476 million), accounting for 92 per cent of total repayments. Meanwhile, operations on advance account activities resulted in a net outflow of Rs.2,784 million, in comparison to a budgetary estimate of Rs.500 million in 1998. The higher borrowing capacity of public sector employees owing to the salary increase and the reduction in interest rates on loans granted to public sector employees led to increased borrowings through the advance account.

8.5 Provincial Councils

The revenues of Provincial Councils (PCs) increased by 11 per cent to Rs.6,002 million, covering 22 per cent of their

resource requirement. Their expenditures rose by 14 per cent to Rs.26,736 million in 1998. The PCs had an aggregate overall deficit of Rs.20,734 million in 1998, an increase from Rs.18,060 million in 1997. The deficit was financed through block grants, criteria based grants and matching grants from the Central Government.

Revenue

Major revenue sources of provincial councils were turnover taxes, licence fees and stamp duties. Reflecting an expansion of wholesale and retail businesses, the turnover tax collections increased by 9 per cent to Rs.2,980 million in 1998 and accounted for 50 per cent of the total. Revenues from licence fees increased by 13 per cent mainly due to a substantial increase in the registration of vehicles. Reflecting an increase in the value of property transactions during the year, revenues from stamp duty at Rs.1,267 million showed an increase of 21 per cent. Stamp duties accounted for 21 per cent of the revenue in 1998. Sales and charges, including court fines and fees increased by 18 per cent to Rs.481 million in 1998.

The Western provincial council mobilised Rs.3,981 million, accounting for 66 per cent of the total PC revenues, while the Central, Southern and North Western provincial councils, each accounted for about 8 per cent in 1998.

Expenditure

Current Expenditure

Current expenditure, at Rs. 25,230 million accounted for 94 per cent of the total expenditure as in 1997. There was a 14 per cent increase in current expenditure, in comparison to 6 per cent in 1997. This was entirely due to enhanced expenditure on personal emoluments by 16 per cent to Rs.19,744 million in 1998. The implementation of the second stage of the salary increase proposed in the 1997 Budget was mainly responsible for the higher salary bill. On a functional basis, education (Rs.13,507 million), health (Rs.3,737 million) and divisional administration (Rs.651 million) accounted for 92 per cent of total personal emoluments in 1998. Other recurrent expenses such as travelling, supplies, contractual services, transfers etc. registered a decline as compared to a growth of 6 per cent witnessed in the previous year.

Expenditure on social services consisting of education, health and other social activities at Rs 21,787 million rose by 14 per cent accounting for 86 per cent of total recurrent expenditure. Meanwhile, outlays on account of provincial administration and economic services grew by 22 per cent and 14 per cent to Rs.2,377 million and Rs.1,067 million respectively, during the year.

The current expenditure of the Western Provincial Council at Rs.5,687 million accounted for the largest share of 23 per cent of total current expenditure of all PCs. While the Central provincial council was responsible for the next

largest share of 14 per cent, all other provincial councils each accounted for 11 per cent of total current expenditures in 1998.

Capital Expenditure

The capital expenditure programme of the PCs decelerated in 1998. Capital expenditure, which includes equipment outlay, land improvement and structures outlay, capital

transfers and subsidies and maintenance of capital assets, at Rs.1,507 million, registered a moderate increase of 8 per cent in comparison to a higher growth of 18 per cent recorded in the previous year. The slow growth in the capital programme was mainly due to resource constraints. PCs have been assigned certain work related to capital expenditure with the necessary funds being provided under the Medium-Term Investment Programme (MTIP) of the respective line ministries.

Central Government Transfers

PCs in 1998 had an overall deficit of Rs.20,734 million, as compared to a deficit of Rs.18,060 million in 1997. The Central Government provided a block grant of Rs.19,194 million to meet the current expenditure requirements in 1998. Of the total grants, block grants accounted for 95 per cent. Meanwhile, the balance financial requirement for capital expenditure was provided through criteria based grants and matching grants amounting to Rs.1,163 million and Rs.237 million, respectively, in 1998.

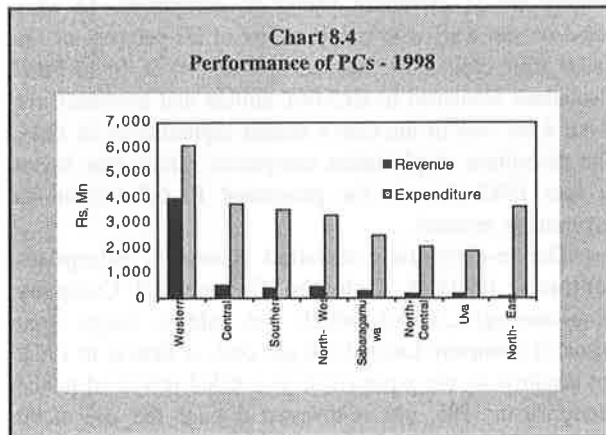


TABLE 8.5
Budget Out-turn for Provincial Councils

	Rs Million			
	1995	1996	1997	1998(a)
1 Total Revenue	4,440	4,884	5,395	6,002
1.1 Tax on Production and Expenditure	3,181	3,416	3,744	4,114
Turnover Taxes	2,335	2,464	2,734	2,980
Licence Fees	840	946	1,000	1,127
Other Taxes	6	6	10	8
1.2 Profits and Dividends	68	67	175	129
1.3 Sales and Charges	317	355	408	481
1.4 Stamp Duty	867	1,036	1,051	1,267
1.5 Other	7	10	17	11
2. Total Expenditure	20,852	22,128	23,455	26,736
2.1 Current Expenditure	19,795	20,941	22,055	25,230
Functional Basis	19,795	20,941	22,055	25,230
Provincial Administration	2,067	1,942	1,941	2,377
Economic Services	755	834	939	1,067
Social Services	16,973	18,166	19,175	21,787
Economic Basis	19,795	20,941	22,055	25,230
Personal Emoluments	16,031	16,263	17,067	19,744
Other	3,765	4,679	4,988	5,486
2.2 Capital Expenditure	1,057	1,187	1,400	1,507
Acquisition of Capital Goods	594	757	729	773
Capital Transfers	66	53	55	75
Other	397	377	616	658
3. Financing	15,288	16,873	18,348	20,594
3.1 Block Grants	14,066	15,831	16,855	19,194
3.2 Criteria Based Grants	897	800	1,168	1,163
3.3 Matching Grants	325	242	325	237

(a) Provisional

Source: Ministry of Provincial Councils & Local Governments

8.6 Public Enterprise Reforms

Public enterprise reforms continued in 1998, with the divestiture of the shares of some major public enterprises, Air Lanka Ltd., plantation companies and Orient Lanka Ltd. However, there was a slowing down of the process due to uncertainty in the global economic environment and the weak stock market. The proceeds from the sale of shares amounted to Rs.4,387 million as compared to a target of Rs.8,000 million in the 1998 Budget.

The divestiture of a 40 per cent equity stake in Air Lanka with a 10 year management contract constituted the single largest privatisation agreement concluded in 1998. While the government received a cash offer of US dollars 70 million for a total of 40 per cent of Air Lanka shares, 26 per cent of the shares were sold in 1998 for a sum of US dollars 45 million (Rs.2,816 million). The remaining 14 per cent stake, amounting to US dollars 25 million, is to be transferred before end December 2000. Under the Air Lanka restructuring and refloating programme, a sum of US dollars 600 million is expected to be invested on the modernisation of the Air Lanka fleet in 1999 and 2000. The required resources for this investment are expected to be raised from external sources.

The divestiture of 20 per cent of shares in each of the five plantation companies, namely, Madulsima Plantations Limited, Hapugastenne Plantations Limited, Balangoda Plantations Limited, Uda Pussellawa Plantations Limited and Malwatta Plantations Limited through a public share issue generated Rs.232 million in 1998. Further, three plantation companies, viz., Watawala Plantations Limited, Maskeliya

Plantations Limited and Balangoda Plantations Limited, transferred 19 per cent of their shares held by the government to the highest bidders on the Colombo Stock Exchange (CSE), collecting Rs.557 million towards government revenue in 1998. However, the annual public enterprise reform programme targeted for plantation companies in 1998 could not be completed during the year due to weak conditions prevailing in the stock market. Among the 21 privatised plantation companies, 13 were listed on the CSE with public offers of 20 per cent of the issued share capital. The market capitalisation of the 13 listed plantations amounted to Rs.5,061 million and accounted for about 4 per cent of the CSE's market capitalisation in 1998. The divestiture of plantation companies, which was begun in late 1995, has so far generated Rs.6.5 billion as government revenue.

The re-divestiture of failed privatised enterprises continued in 1998. Colombo Commercial Company (Engineering) Limited, which was sold to Cargo Boat Dispatch Company Limited (60 per cent of shares) in 1993, but acquired by the government as a failed privatised public enterprise in 1995, was re-divested through the sale of 90 per cent of its shares to Serendib Engineering Agencies Private Limited generating Rs.38 million to government revenue in 1998. Lanka Loha Hardware Limited was also redivested through the transfer of the entire ownership to Ceylon Heavy Industries and Construction Company Limited (CHICO). However, this transaction did not generate revenue for the government as the liabilities of the company exceeded the value of assets.

TABLE 8.6
Realisation of Privatisation Proceeds in 1998(a)

Name of Enterprise	Sale of Majority Share Holding			Public Share Issue		Total Amount Realised Rs. Million
	% Divested	Local Rs. Million	Foreign Rs. Million	% Divested	Amount Realised Rs. Million	
Plantation Companies						
Watawala Plantations				19	231.80	231.80
Maskeliya Plantations				19	171.00	171.00
Madulsima Plantations				20	60.00	60.00
Hapugastenna Plantations				20	40.00	40.00
Balangoda Plantations				39	233.90	233.90
Udupussellawa Plantations				20	19.00	19.00
Kahawatta Plantations				20	33.00	33.00
Other Enterprises						
Colombo Commercial Co (Eng)	90	38.50				38.50
Air Lanka	26		2,816.16			2,816.16
Orient Lanka	37		740.00			740.00
Hinguragoda Seed Paddy Farm						3.88
TOTAL		38.50	3,556.16		788.70	4,387.24

Source: Public Enterprise Reform Commission

(a) The Government accounts show net receipts from divestiture proceeds after payment of commission to Colombo Stock Exchange, other service charges etc. The table shows only the proceeds received through the Public Enterprise Reform Commission. In addition to this, instalment payments are received directly by the Treasury.

The 1998 Budget proposed to improve commercial seed paddy production through the long lease of selected government farms to the private sector. The Hingurakgoda Seed Paddy Farm was leased to CIC Fertiliser (Private) Limited and generated Rs.3.88 million (Rs.3 million for movable assets and Rs.0.88 million for long-term lease of land and fixed assets) as government revenue in 1998.

8.7 Financing of the Deficit

The Budget deficit (before grants and privatisation proceeds) in 1998 rose sharply to Rs.93,147 million from Rs.70,061 million in 1997. Gross foreign borrowings amounting to Rs.28,548 million were utilised for financing the deficit in 1998, an increase of 23 per cent over 1997. However, due to a repayment of Rs.18,351 million, net foreign borrowings during the year amounted to Rs.10,196 million. Net domestic financing of the deficit increased by Rs.41,087 million to Rs.71,362 million in 1998 in contrast to a decline of Rs.19,480 million witnessed in the previous year. Accordingly, net domestic financing as a percentage of GDP witnessed a substantial rise from 3.4 per cent in 1997 to 7 per cent in 1998. While net borrowings through domestic sources consisted of Rs.52,408 million from non-bank sources, bank borrowings amounted to Rs.18,954 million. This was in sharp contrast to a repayment of Rs.2,171 million effected to the banking sector in 1997.

Gross borrowings from domestic sources in 1998 totalled Rs.113,908 million. Gross borrowings from non-bank domestic sources amounted to Rs.94,954 million in 1998 in comparison to Rs.57,048 million in 1997. Rupee loans, Treasury bonds and Treasury bills continued to be the major instruments of resource mobilisation from domestic non-bank sources in 1998. The market orientation of medium-term debt was further enhanced with the mobilisation of Rs.34,509 million through Treasury bonds in 1998 as compared to a sum of Rs.8,224 million in 1997. While the coupon rates on 2, 3 and 4 year maturities of Treasury bonds were fixed at 11.0, 11.5 and 12.0 per cent, respectively, the weighted average yield rates for these securities hovered in a range of 10.81 - 13.94 per cent, 12.44 - 13.93 per cent and 12.93 - 13.94 per cent, respectively, during the year. A considerable deviation between the coupon rate and the weighted average yield resulted in a cash shortfall of Rs.1,156 million during 1998. Major subscribers to the Treasury bond programme continued to be the institutional investors, with the Employees' Provident Fund (EPF) and saving institutions investing Rs.8,812 million and Rs.8,763 million, respectively, in 1998. Reflecting the increased popularity of this instrument, subscriptions to Treasury bonds by other non-bank investors in the private sector amounted to Rs.17,320 million in comparison to Rs.3,503 million in 1997.

Gross borrowings through the floatation of Rupee loans raised a sum of Rs.52,300 million in 1998. However, a

repayment of Rs.41,231 million inclusive of a sum of Rs.16,000 million on Rupee securities in respect of which the government exercised the option of early retirement, resulted in a net borrowing of Rs.11,069 million during the year. In 1997, net borrowings through Rupee loans amounted to Rs.33,500 million. The budgetary pressures during the year were reflected in the Rupee loan interest rate structure which increased from 11.00-11.25 per cent during the beginning of the year to 12.00-12.25 per cent in the latter part of 1998. As in the previous year, the principle subscriber to the Rupee loan programme was the EPF with a gross investment of Rs. 38,672 million in 1998. Investment by the National Savings Bank (NSB) amounted to Rs.9,528 million, while the balance Rs.4,100 million was taken up largely by other institutional investors.

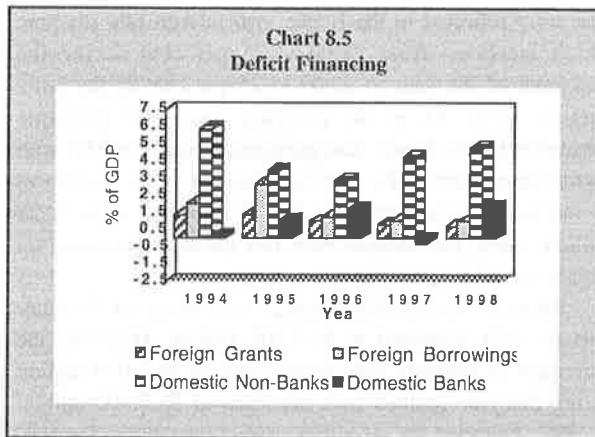
Resource mobilisation through new issues of Treasury bills in 1998 amounted to Rs.7,000 million. However, the retirement of Treasury bills to the value of Rs.2,000 million during the year resulted in a net issue of Rs.5,000 million in 1998. Adjusting for secondary market operations, Treasury bill holdings of the Central Bank increased by Rs.1,016 million to Rs.8,238 million. In contrast, the Treasury bill holdings of commercial banks registered a decline of Rs.6,938 million from Rs.20,490 million in 1997 to Rs.13,552 million in 1998. Consequently, the share of Treasury bills held by the banking sector diminished from 33 per cent in 1997 to 20 per cent in 1998, while that of the non-bank sector increased from 67 per cent to 80 per cent between the two years.

In the wake of a large resource gap in 1998, the government resorted to borrowings from the banking system to finance the deficit. Accordingly, net domestic borrowings from the banking system totalled Rs.18,954 million (including a FCBU loan of US dollars 100 million) in 1998. Despite the contractionary impact exerted by a reduction in cash items in the process of collection by Rs.660 million, the combined effect of the use of provisional advances by Rs.1,885 million, increase in Treasury bill holdings by Rs.1,016 million and a drawdown of government deposit balances by Rs.3,368 million resulted in a net borrowing of Rs.5,609 million from the Central Bank in 1998, contributing to the expansion of reserve money in the economy.

Net credit to the government from commercial banks which increased by Rs.13,345 million in 1998, was reflected in increased utilisation of import bills (Rs.9,892 million), increase in Treasury bond holdings by commercial banks (Rs.3,232 million) and the rundown of government deposits by Rs.2,083 million.

Gross foreign borrowings increased by 23 per cent to Rs.28,548 million in 1998, meeting 91 per cent of what was expected in the 1998 Budget. In net terms, foreign resources available for financing the deficit in 1998, at Rs.10,197 million, amounted to 1 per cent of GDP and were sufficient to finance only 12 per cent of the deficit in 1998. A higher

level of on-lending and acceleration of the government's investment as expected in the Budget and the allocation of required domestic funds for capital expenditure can be identified as major reasons for the higher utilisation of foreign aid.



8.8 Government Debt

Total government debt stood at Rs.907,426 million in 1998. As a percentage of GDP, it increased to 89.4 per cent from 86 per cent in 1997. This was inclusive of a sum of Rs.47,961 million of long-term bonds issued for the re-capitalisation of the two state banks and the National Savings Bank in 1993 and 1996. The outstanding debt, excluding these bonds, amounted to Rs.859,465 million showing an increase of 21 per cent. Domestic debt, excluding restructuring bonds, stood at Rs.398,586 million and accounted for 46 per cent of total debt, compared to 47 per cent in 1997. Total domestic debt consisted of Rs.146,961 million of short-term debt and Rs.251,625 million of medium and long-term debt. Accordingly, the share of short-term debt decreased from 40 per cent in 1997 to 37 per cent in 1998, while medium and long-term debt increased their share from 60 per cent to 63 per cent. The stock of foreign debt increased by 20 per cent to Rs.460,879 million in 1998.

Domestic Debt

Domestic debt, net of restructuring bonds, increased by 19 per cent to reach Rs.398,586 million in 1998. Of this, medium and long-term debt comprised Rs.202,609 million of Rupee securities, Rs.48,915 million of Treasury bonds and a liability of Rs.12 million on account of Treasury Certificates of Deposit. The debt stock on account of Rupee securities, exclusive of those issued for restructuring purposes, stood at Rs.202,609 million in 1998 registering an increase of 6 per cent over 1997 as compared to a rise of 21 per cent witnessed during the previous year. Rupee loans with a longer maturity of 4-10 years were issued during the year at an interest rate of 11-12.25 per cent, as against the

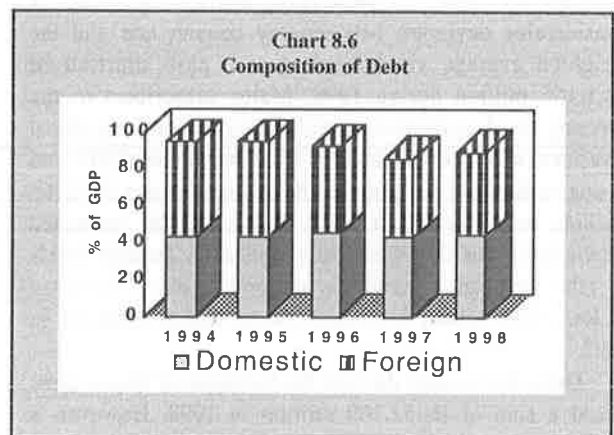
issuance of 2-8 year maturities in 1997 with an interest rate ranging from 11.25-14.5 per cent. Major subscribers to the Rupee loan programme continued to be the EPF and the NSB.

The stock of Treasury bonds rose to Rs.48,915 million in 1998, reflecting the progress made towards market orientation of debt. As a share of medium and long-term debt, Treasury bonds rose from 5 per cent in 1997 to 19 per cent in 1998. Subscriptions to Treasury bonds have shifted from principal subscribers in 1997 such as the EPF, NSB and the banking sector, to other non-bank investors in 1998. The decision to permit commercial banks to treat Treasury bonds as liquid assets and the acceptance of these bonds for transactions relating to the repurchase and reverse repurchase facility of the Central Bank increased the commercial banks' demand for Treasury bonds.

The outstanding liability on account of Treasury Certificates of Deposit continued to decline as in the previous year, with the debt stock in 1998 amounting to Rs.12 million as compared to Rs.83 million in 1997.

Short-term debt, consisting of Treasury bills, provisional advances and borrowings from FCBUs rose from Rs.133,303 million at the end of 1997 to Rs.146,961 million at end 1998. The debt stock on account of Treasury bills increased to Rs.119,996 million due to new issues of Rs. 5,000 million of Treasury bills in 1998. Short-term debt on account of provisional advances rose from Rs.18,307 million in 1997 to Rs.20,192 million in 1998.

The debt held by the banking system, inclusive of the restructuring bonds, decreased to Rs.100,903 million from an outstanding liability of Rs.101,966 million as at end 1997. The debt stock, exclusive of long-term bonds, totalled Rs.52,942 million, registering a marginal decrease of 2 per cent over the debt of Rs.54,005 million at the end of 1997. The debt held by commercial banks registered a decline of 7 per cent to Rs.71,753 million in 1998, mainly due to a reduction in the debt outstanding on account of Treasury bill holdings of commercial banks from Rs.30,857 million in 1997 to Rs.14,850 million in 1998. The decrease in the



commercial bank debt was in spite of an increase in their outstanding liability on account of Treasury bonds by Rs.4,020 million and the debt of Rs.6,773 million arising from the FCBU loan of US dollars 100 million contracted in 1998. Meanwhile, the debt held by the Central Bank rose from Rs.24,999 million in 1997 to Rs.29,150 million in 1998 mainly due to an enhanced liability on account of Treasury bills by Rs.2,266 million and provisional advances by Rs.1,885 million.

Foreign Debt

The foreign debt at Rs.460,879 million registered an increase of 20 per cent over the debt stock of Rs.383,116 million as at end 1997. The rise in the outstanding liability on account of foreign debt was due to a net borrowing of

Rs.12,645 million and a substantial increase of Rs.65,118 million arising from exchange rate variations. In comparison, the increase in the debt stock due to exchange rate variations in 1997 was Rs.2,004 million.

Concessional loans increased by 23 per cent to Rs.445,938 million in 1998, compared to 4 per cent in 1997. As a percentage of total foreign debt, debt on concessional terms rose marginally from 95 per cent in 1997 to 97 per cent in 1998. Debt to multilateral sources accounted for 47 per cent of the total, while the balance was from bilateral sources. Major multilateral sources comprised institutions such as the ADB, IDA and IFAD, while the principal bilateral sources included Japan, the USA and Germany. The debt stock on account of non-concessional loans reduced to Rs.14,941 million in 1998.

TABLE 8.7
Outstanding Central Government Debt (at end year)

	1994	1995	1996	1997	1998 Provisional
Total Domestic Debt(a)	249,119	285,759	349,007	382,962	446,547
Short Term	108,725	127,470	142,689	133,303	146,961
Medium and Long term	140,394	158,289	206,318	249,659	299,586
By Debt Instruments	249,119	285,759	349,007	382,962	446,547
Rupee Securities	137,554	157,928	205,975	239,475	250,570
Treasury Bills	98,896	113,771	124,996	114,996	119,996
Treasury Bonds	-	-	-	10,000	48,915
Other	12,669	14,060	18,036	18,491	27,066
By Institutions	249,119	285,759	349,007	382,962	446,547
Banks	100,043	113,355	103,553	101,966	100,903
Central Bank	21,345	28,684	34,807	24,999	29,150
Commercial Banks(b)	78,698	84,671	68,746	76,967	71,753
Sinking Fund	137	100	100	100	100
Non-Bank Sector	148,939	172,304	245,354	280,896	345,544
National Savings Bank	46,407	48,406	47,794	62,498	67,260
Employees' Provident Fund	79,745	95,000	113,236	134,867	157,711
Other	22,786	28,898	84,324	83,531	120,573
Total Foreign Debt	301,812	346,286	359,390	383,116	460,879
Project Loans	246,075	286,848	302,666	321,122	399,890
Non-Project Loans	55,737	59,438	56,724	61,994	60,989
By Type	301,812	346,286	359,390	383,116	460,879
Concessional Loans	293,556	336,795	350,024	362,435	445,938
Non-Concessional Loans	8,256	9,491	9,366	20,681	14,941
By Currency	301,812	346,286	359,390	383,116	460,879
SDR	95,340	115,537	130,818	142,733	172,375
US Dollars	67,546	72,488	74,623	89,896	89,757
Yen	89,291	101,537	99,868	98,738	139,548
Deutsche Mark	25,009	29,114	27,313	25,746	29,432
Other	24,626	27,610	26,768	26,003	29,767
External Supplier's Credits	950	1,020	923	499	575
Total Outstanding Govt. Debt	550,931	632,045	708,397	766,078	907,426
Total Outstanding Govt. Debt Net of Sinking Fund	550,794	631,945	708,297	765,978	907,326
Memorandum item: Debt/GDP(%)					
Domestic Debt	43.0	42.8	45.4	43.0	44.0
Foreign Debt	52.1	51.9	46.8	43.0	45.4
Total Debt	95.1	94.6	92.2	86.0	89.4

Source: Central Bank of Sri Lanka

(a) Inclusive of Rs. 24,088 million and Rs. 23,873 million of Long Term Bonds issued in 1993 and 1996 respectively
(b) Inclusive of Rs. 6,773 million (US\$ 100 million) borrowings from FCBUs.

TABLE 8.8
Effect of Exchange Rate Variation on Foreign Loans (a)

Item	Rs.Million				
	1994	1995	1996	1997	1998(b)
Gross receipts	19,384	24,359	23,992	24,642	30,996
Repayments	7,606	8,477	8,939	10,004	18,351
Net receipts	11,778	15,882	15,053	14,638	12,645
Change in liability due to exchange rate variations	19,810	28,592	-1,654	2,004	65,118
Liability as at end of period	301,812	346,286	359,685	383,116	460,879

Source: Central Bank of Sri Lanka

(a) Data are based on value date recording system provided by the Public Debt Department of the Central Bank of Sri Lanka

(b) Provisional

Project loans increased by 25 per cent to Rs.399,890 million in 1998 and accounted for 87 per cent of foreign debt. The largest bilateral source for project financing was Japan, with gross disbursements of Rs.11,960 million in 1998, while the ADB and the IDA together accounted for a total disbursement of Rs.14,086 million. Non-project loans in the form of cash, commodity and other loans decreased from Rs.61,994 million in 1997 to Rs.60,989 million in 1998.

Debt Service Payments

The debt service payments of the government increased by 24 per cent to Rs.114,866 million. Of this, Rs.59,968 million was for amortisation payments, accounting for 52 per cent of total debt service payments. Interest payments marginally declined to Rs.54,898 million. Interest payments as a ratio of current expenditure of the government declined to 27.5 per cent in 1998 from 29.9 per cent in the previous year. As a ratio of GDP, debt service payments increased to 11.3 per cent in 1998 from 10.4 per cent in the previous year.

Total amortisation payments at Rs.59,968 million,

consisted of Rs.41,617 million on account of domestic debt and Rs.18,351 million on account of foreign debt. The repayment to the domestic sector increased by Rs.17,596 million in 1998 mainly due to the early retirement of Rupee loans with an optional maturity. Amortisation payments to the foreign sector included a sum of Rs.5,434 million on account of deferred payments for purchases of defence services.

Total interest payments on domestic debt and foreign debt in 1998 amounted to Rs.47,598 million and Rs.7,300 million, respectively. In spite of the increase in the volume of outstanding domestic debt by 17 per cent in 1998, interest payments on domestic debt in 1998 showed a marginal reduction to Rs.47,598 million, compared to Rs.48,555 million in 1997. The interest expenditure on Treasury bills declined by Rs.5,776 million to Rs.12,398 million in 1998, reflecting the impact of lower interest rates on the government interest cost. Meanwhile, interest on account of medium and long-term debt rose by Rs.4,819 million to Rs.35,200 million. Interest payments on foreign debt rose by 9 per cent to Rs.7,300 million.

TABLE 8.9
Government Debt Service Payments

Item	Rs.Million				
	1994	1995	1996	1997	1998(a)
Debt Service Payments	66,213	77,663	81,263	92,519	114,866
Amortization Payments	22,671	36,546	33,240	37,272	59,968
Domestic	15,065	28,069	22,749	24,021	41,617
Foreign	7,606	8,477	10,491	13,251	18,351
Interest Payments	43,542	41,117	48,023	55,247	54,898
Domestic	38,031	34,955	41,284	48,555	47,598
Short Term	18,712	13,947	18,053	18,174	12,398
Medium & Long- Term	16,699	21,008	23,231	30,381	35,200
Foreign	5,511	6,162	6,739	6,692	7,300
Interest /Current Expenditure(%)	34.26	26.67	27.42	29.90	27.50
Debt Service/GDP(%)	11.43	11.63	10.57	10.39	11.32
Foreign Debt Service/Exports(%)	8.27	7.50	7.60	7.27	8.37

(a) Provisional

Source: Central Bank of Sri Lanka

9. TRADE, BALANCE OF PAYMENTS AND TOURISM

9.1 Overview

Sri Lanka's balance of payments showed a further reduction in the trade and current account deficits and a surplus in the overall balance in 1998. In line with a sharp contraction of world exports, the growth rate of Sri Lanka's exports also decelerated to 2 per cent. Despite an increase in the import volume, the value of imports increased marginally (0.5 per cent) as prices of major import commodities such as crude oil, wheat, fertiliser and sugar declined sharply under depressed world market conditions. Thus, the trade deficit declined in 1998. The services account continued to register a surplus, though somewhat lower than in the previous year. In addition to the compensation payments of US dollars 78 million, received on account of the Sri Lankan workers displaced from Kuwait by the Gulf war in 1990, private transfers continued to increase, making a positive contribution to the balance of payments. Consequently, there was a further significant reduction in the current account deficit in 1998. Foreign long-term private capital inflows continued to increase while there was a net outflow of short-term capital through the share market. Meanwhile, the rupee depreciated by nearly 10 per cent against the US dollar, a faster rate compared to the previous five-year average of around 6 per cent. Sri Lanka's exchange and money markets remained relatively stable, as domestic monetary and exchange rate policy was effective in maintaining financial market stability. A lower trade deficit, a considerably lower current account deficit, a surplus in the balance of payments and a stable foreign exchange market were the highlights of external sector developments in 1998.

The external sector developments displayed Sri Lanka's ability to withstand external shocks to a certain extent, but the adverse impact of the depressed world market conditions was being felt seriously during the second half of 1998. Export growth, which was around 8 per cent during the first half, declined to 2 per cent by the end of the year. Imports increased by one half of one per cent in 1998. The slow down in imports was mainly the outcome of low world commodity prices. The noteworthy increases in the volume of imports, particularly in investment goods, during the first few months of 1998, reflected the response by investors to fiscal incentives proposed in the 1998 Budget. However, a gradual slow down has been noticed since then. Meanwhile, the terms of trade improved by 14 per cent due both to higher export prices and lower import prices. Consequent to these developments in external trade, the trade deficit narrowed from 8.1 per cent of GDP in 1997 to 7.2 per cent in 1998.

The services account registered a surplus of US dollars 143 million in 1998. Net factor income outflows, which

consist of interest payments and profits and dividends, increased by 12 per cent. Net current transfers increased by 8 per cent owing to aggressive promotional campaigns by commercial banks to increase their market share of such funds, as well as compensation payments to 31,279 Sri Lankan workers who were displaced from Kuwait by the Gulf War in 1990. Consequently, the current account deficit of the balance of payments improved considerably from 2.6 per cent of GDP in 1997 to 1.8 per cent in 1998, continuing its downward trend for the fourth consecutive year.

Net inflows in the financial account were lower in 1998, reflecting the fact that inflows in 1997 included a large volume of privatisation proceeds amounting to US dollars 301 million, compared to US dollars 56 million in 1998. In view of the uncertainty in the capital markets, a further sale of Telecom shares was deferred until 1999. Net short-term private capital outflows showed a reduction in net short-term liabilities of commercial banks by US dollars 48 million, an outflow of US dollars 24 million through the share market and a small increase in other short-term private capital inflows. It is noteworthy that long-term private capital inflows, including foreign direct investment, continued to increase in 1998, reflecting the growing foreign investor confidence in Sri Lanka's medium-term development strategy. Over half the FDI inflows of US dollars 150 million were to the telecommunication sector, with significant inflows to the energy and manufacturing sectors as well. Investment outflows to approved projects amounted to around US dollars 13 million. Long-term concessional capital inflows to the government increased during the year. Net capital inflows to government declined by 17 per cent as a result of a drop in non-concessional capital inflows and somewhat higher amortisation payments.

Long-term capital flows to the private sector included a Floating Rate Notes (FRN) issue by DFCC Bank for US dollars 65 million in international capital markets and loans amounting to US dollars 43 million raised by Sri Lanka Telecom. Net long-term capital flows to this sector however, declined due to higher outflows arising mainly from an advance payment of US dollars 48 million by Air Lanka Ltd. towards its refueling programme.

Sri Lanka's stock of external debt increased by more than the net increase in debt creating capital flows, mainly due to the impact of the appreciation of the yen, raising the debt to GDP ratio by 1 per cent in 1998. The appreciation of the yen alone increased the debt stock by around US dollars 200 million. The debt/GDP ratio stood at 56 per cent. The stock of short-term debt accounts for only 6 per cent of total debt. Sri Lanka's debt service ratio in 1998 was estimated at 11 per cent, the same as in 1997.

TABLE 9.1
Balance of Payments-Analytic Presentation
(Incorporating FCBUS of Commercial Banks as Part of the Domestic Banking System)(a)

Item	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998(b)	1994	1995	1996	1997	1998(b)
Trade Balance	-1,559	-1,505	-1,344	-1,225	-1,157	-77,022	-77,109	-74,276	-71,833	-73,945
Exports	3,209	3,807	4,095	4,639	4,735	158,554	195,092	226,801	274,194	306,329
Imports	4,767	5,311	5,439	5,864	5,891	235,576	272,201	301,077	346,026	380,274
Services, net	180	152	105	159	143	8,884	7,796	5,805	9,386	9,201
Receipts	745	821	765	875	913	36,793	42,045	42,358	51,692	58,986
Payments	566	669	660	716	770	27,910	34,250	36,553	42,306	49,786
Income, net (c)	-162	-170	-197	-160	-179	-8,068	-8,717	-10,923	-9,417	-11,468
Receipts	171	226	186	234	214	8,473	11,596	10,258	13,792	13,882
Payments	333	396	383	393	392	16,541	20,312	21,182	23,210	25,350
Goods, Services and Income (net)	-1,541	-1,522	-1,436	-1,225	-1,192	-76,207	-78,030	-79,395	-71,864	-76,212
Private Transfers, net	622	675	710	788	848	30,766	34,593	39,230	46,494	54,843
Receipts (d)	707	790	832	922	999	34,992	40,482	46,003	54,445	64,585
Payments	85	115	122	135	151	4,226	5,889	6,773	7,951	9,742
Official Transfers (net)	58	61	49	44	55	2,890	3,114	2,709	2,625	3,490
Current Account	-860	-786	-677	-393	-289	-42,551	-40,324	-37,456	-22,745	-17,880
Capital and Financial Account	943	699	459	602	395	46,569	36,647	25,725	30,691	25,321
Capital Account	113	117	96	87	61	5,589	6,009	5,286	5,140	3,862
Capital Transfers(net)	113	117	96	87	61	5,589	6,009	5,286	5,140	3,862
Receipts	116	121	100	91	65	5,720	6,191	5,495	5,386	4,164
Payments	3	4	4	4	5	131	182	209	246	301
Financial Account	830	581	363	515	334	40,979	30,638	20,439	25,550	21,459
Long-term:	705	502	381	716	398	34,849	25,939	20,962	37,029	25,904
Direct Investment	158	53	120	430	193	7,815	2,931	6,606	25,504	12,379
Foreign Direct Investment	158	16	86	129	137	7,815	1,011	4,756	7,587	8,846
Privatisation Proceeds	0	37	33	301	56	0	1,920	1,850	17,918	3,533
Private Long-term (net),(c)	295	91	2	47	7	14,554	4,648	88	3,054	711
Inflows (e)	384	194	156	150	149	18,992	9,937	8,628	8,741	9,873
Outflows	90	103	155	102	142	4,438	5,289	8,539	5,687	9,162
Government, Long-term (net) (f)	253	358	259	239	198	12,479	18,359	14,268	8,471	12,814
Inflows	440	674	497	500	487	21,757	34,526	27,442	24,761	31,525
Outflows	187	315	238	262	290	9,278	16,166	13,174	16,291	18,711
Short-term:	124	79	-18	-201	-64	6,131	4,699	-523	-11,479	-4,445
Portfolio Investment	28	-2	7	13	-24	1,334	-90	353	749	-1521
Private Short-term (net),(c)	172	33	-44	-20	8	8,495	1,702	-2426	-1195	414
Commercial Bank Assets (net),(c)	-158	14	59	-323	180	-8160	-2731	1,127	-23384	5,035
Commercial Bank Liabilities (net),(c)	82	35	-40	129	-228	4,461	5,818	423	12,352	-8374
Government Short-term (net),(c)	-	-	-	-	-	-	-	-	-	-
SDR Allocations	-	-	-	-	-	-	-	-	-	-
Valuation Adjustments	-	-	-	-	-	-1380	6,394	4,213	-562	8,559
Errors and Omissions	157	139	150	-46	-69	11,062	5,091	7,527	8,461	-2,201
Overall Balance (g)	240	52	-68	163	37	13,700	7,809	9	15,845	13,800
Monetary Movements (g)	-240	-52	68	-163	-37	-13700	-7809	-9	-15845	-13,800
Exchange Rate Rs/US\$	-	-	-	-	-	49.42	51.25	55.27	58.99	64.59
Ratio to GDP in percentages	-	-	-	-	-	-	-	-	-	-
Trade Account	-	-	-	-	-	-13.3	-11.5	-9.7	-8.1	-7.3
Current Account	-	-	-	-	-	-7.3	-6.0	-4.9	-2.6	-1.8
Current Account without Grants	-	-	-	-	-	-7.8	-6.5	-5.2	-2.8	-2.1

Source: Central Bank of Sri Lanka.

- (a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund. In addition, beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system. (see technical note in Box 8)
- (b) Provisional
- (c) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8.
- (d) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990.
- (e) Includes adjustment to capital inflows in 1993, 1994 and 1995 on account of the import of five aircraft for which advance payments had been made in previous years.
- (f) Data since 1994 have been revised to incorporate additional information.
- (g) All transactions in the Monetary Sector are converted at the end of year exchange rates.

Box 8

Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics

The Balance of Payments is a summary statistical statement of all economic transactions (those relating to goods, services, transfers, financial assets and liabilities and capital) of an economy with the rest of the world. In the compilation of balance of payments statistics, the relevant transactions are identified as those between residents and non-residents. Individuals who are in a country for more than one year are generally treated as residents. Business enterprises, including foreign financial institutions operating in a country, even if they are incorporated elsewhere, are treated as residents because it is the location of the enterprise engaged in economic activity that matters for balance of payments purposes.

Countries have been applying the resident/non-resident distinction flexibly in the compilation of balance of payments statistics. This has made the international comparison of balance of payments statistics difficult. Similarly, in Sri Lanka in the past, foreign currency banking units (FCBUs) of commercial banks operating in Sri Lanka were treated as non-residents or pure off-shore units in the compilation of both monetary and balance of payments statistics, although conceptually, they should have been treated as residents. This was because FCBUs were expected to undertake mainly off-shore transactions, while also catering to companies operating in Export Processing Zones under Section 17 of the Board of Investment (BOI) Law, which were predominantly foreign owned, at that time. This treatment was reconsidered in the context of increasing transactions over time between FCBUs and the domestic economy. It was felt that it was timely to treat FCBUs as resident enterprises and make the corresponding changes to the monetary and balance of payments statistics.

Accordingly, as a first step in treating FCBUs as resident enterprises, in 1996, FCBU transactions were incorporated in the monetary aggregates, generating a broader concept of money supply (M2b) (Box 10 of the Central Bank's Annual Report of 1996). The treatment of FCBUs as resident enterprises in the compilation of balance of payments statistics is the next step. External data have now been adjusted to treat FCBUs as resident enterprises. Under this revised definition, transactions involving FCBUs and non-residents, i.e., banks and other institutions abroad, are included in the compilation of balance of payments statistics. Transactions involving FCBUs and residents are excluded, as those are

domestic transactions denominated in foreign currency. This technical note explains the justification for the definitional change and its implications on the balance of payments and other external sector indicators.

The justification for the treatment of FCBUs as resident entities in the balance of payments and monetary statistics is as follows:

- (a) This treatment will make the balance of payments statistics conform to the standard international classification of external sector transactions as laid down in the Balance of Payments Manual and the UN System of National Accounts (SNA), which would be a step forward in further improving Sri Lanka's economic statistics.
- (b) FCBUs have become an integral part of the domestic banking system, catering largely to resident enterprises, mainly BOI enterprises approved under Section 17 of the BOI Law. (It should be noted that BOI enterprises have always been treated as residents in the compilation of balance of payments statistics). Nearly 70 per cent of the assets of FCBUs at end 1998 represented their claims on resident enterprises, as compared with about 30 per cent on non-resident enterprises. This is in contrast to the situation in the early 1980s. In 1985, 62 per cent of the assets of FCBUs were claims on non-residents.
- (c) Most FCBU transactions are undertaken by domestic commercial banks. Accordingly, at end 1998, 66 per cent of the assets, representing their lending to resident enterprises, were held by the FCBUs of domestic banks while the balance 34 per cent were held by the FCBUs of foreign banks operating in Sri Lanka.
- (d) FCBUs mobilise a larger part of their resources from the domestic economic system, in the form of domestic banking unit (DBU) placements of their foreign currency deposits in FCBUs and deposits belonging to other resident enterprises, mainly BOI firms. Placements of foreign exchange funds by DBUs, mainly funds in Non-Resident Foreign Currency (NRFC) accounts, provide nearly 30 per cent of FCBU resources. (Over 50 per cent of NRFC accounts, themselves are held by residents.) A larger part of the remaining FCBU resources was in the form of deposits belonging to BOI enterprises.

Box 8 (contd.)

- (e) Increasingly, a large number of domestically owned enterprises or domestic-foreign collaborations are registering as BOI enterprises and are becoming eligible for FCBU facilities, thus leading to increased integration of FCBUs with the domestic economy. FCBU dealings with non-residents accounted for only about 30 per cent of total FCBU transactions at end 1998.

In view of the foregoing, it is appropriate to include only the transactions of FCBUs with non-residents in the balance of payments statistics, and to exclude transactions of FCBUs with residents. The following are the implications of this definitional change on the balance of payments and other external sector economic indicators (Table 1).

- (a) **Income Account:** Changes stem from changes in interest receipts and payments by commercial banks and the private sector. Interest receipts and interest payments by commercial banks rise, as both foreign assets and foreign liabilities of commercial banks increase when FCBUs and DBUs are amalgamated. Interest receipts and payments by the non-bank private sector decrease as interest payments on borrowings from FCBUs by non-bank residents, mainly BOI enterprises, and interest receipts on deposits held with FCBUs by such residents are excluded. The net outcome of these changes is a reduction in the deficit in the income account in 1998, and a corresponding decline in the current account deficit.
- (b) **Financial Account:** Changes stem mainly from the borrowings by BOI and non-BOI enterprises and the government from FCBUs being excluded and the new definition of the assets and liabilities of commercial banks to include both FCBUs and DBUs.
- **Private Long-term Capital:** There is no change in the net position due to the definitional change in 1998 in private long-term capital inflows. This is a coincidence.
 - **Private Short-term Capital:** Private short-term capital inflows and outflows decline considerably, as FCBU transactions with the domestic private sector, in particular BOI enterprises, as well as certain public corporations, in particular the Ceylon Petroleum Corporation, are now treated as transactions between residents and are not included as short-term foreign capital inflows, unlike in the old definition. The outcome is a change in net

private short-term capital from a deficit in the old presentation, to a small surplus in the revised presentation, in 1998.

- **Government Long-term Capital:** Government borrowings from and repayments to FCBUs are excluded and are reflected under domestic sources of financing. The syndicated loan from FCBUs to the government of US dollars 100 million raised in November 1998 has been classified under the new definition as a domestic borrowing.
- **Commercial Banks:** Assets are redefined to exclude placements of DBU balances in the FCBUs, while balances held by FCBUs and DBUs with non-residents are included as foreign assets. Liabilities exclude all foreign currency deposits of residents, but include those of non-residents in both FCBUs and DBUs. Under the revised presentation, both gross foreign assets and gross foreign liabilities of commercial banks are considerably higher. Gross foreign assets are higher because the assets held abroad by FCBUs are added to assets held abroad by DBUs. Foreign liabilities of FCBUs are added to the foreign liabilities of DBUs. However, as explained in Box 10 of the Annual Report of the Central Bank for 1996, the increase in foreign liabilities under the revised presentation is less because foreign currency deposits of residents are treated as domestic liabilities of DBUs denominated in foreign currency.

The net outcome of these changes in the financial account is a substantial drop in net financial flows in 1998 under the new definition.

- (c) **Overall Balance:** It should be noted that this treatment of FCBUs as residents in the compilation of balance of payments statistics does not affect the overall balance.
- (d) **External Debt and Debt Service Payments:** As FCBU lending to domestic enterprises is considered as debt to the domestic banking system, the overall external debt stock declines by 5 per cent of GDP. The debt service ratio also declines by 1 percentage point, as interest payments on borrowings from FCBUs by domestic entities are treated as resident to resident transactions (with a corresponding increase in domestic debt obligations and domestic debt service payments of the government and the private sector to the banking sector).

Box 8 (contd.)

TABLE 1
Balance of Payments - 1998 (a)

Previous Presentation (FCBUs being treated as off-shore units)				New Presentation (FCBUs being treated as part of the domestic banking system)			
Item	US Dollar Million			Item	US Dollar Million		
	Credit	Debit	Net		Credit	Debit	Net
A GOODS	4,735	5,891	-1,157	A GOODS	4,735	5,891	-1157
B SERVICES	913	770	143	B SERVICES	913	770	143
Transportation	400	263	137	Transportation	400	263	137
Passenger Fares	139	124	15	Passenger Fares	139	124	15
Freight	34	57	-23	Freight	34	57	-23
Other	227	82	145	Other	227	82	145
Travel	230	202	28	Travel	230	202	28
Insurance Services	34	18	16	Insurance Services	34	18	16
Other Business Services	224	253	-29	Other Business Services	224	253	-29
Government Expenditure n.i.e.	25	34	-9	Government Expenditure n.i.e.	25	34	-9
C INCOME	214	423	-209	C INCOME	214	392	-179
Compensation of Employees	12	13	-2	Compensation of Employees	12	13	-2
Direct Investment	2	91	-89	Direct Investment	2	91	-89
Other	200	319	-119	Other	200	288	-88
D CURRENT TRANSFERS	1,054	151	903	D CURRENT TRANSFERS	1,054	151	903
Private	999	151	848	Private	999	151	848
General Government	55	0	55	General Government	55	0	55
CURRENT ACCOUNT	6,915	7,235	-320	CURRENT ACCOUNT	6,915	7,204	-289
CAPITAL AND FINANCIAL ACCOUNT	1,918	1,291	627	CAPITAL AND FINANCIAL ACCOUNT	1,676	1,282	395
A CAPITAL ACCOUNT	65	5	61	A CAPITAL ACCOUNT	65	5	61
Capital Transfers	65	5	61	Capital Transfers	65	5	61
General Government (Other)	55	0	55	General Government (Other)	55	0	55
Other Sectors (Migrant Transfers)	10	5	5	Other Sectors (Migrant Transfers)	10	5	5
B FINANCIAL ACCOUNTS	1,853	1,287	566	B FINANCIAL ACCOUNTS	1,611	1,277	334
Private Investment	1,266	989	276	Private Investment	1,124	988	136
Long - Term	373	174	200	Long - Term	355	155	200
Direct Investment	150	13	137	Direct Investment	150	13	137
Privatisation Proceeds	56	0	56	Privatisation Proceeds	56	0	56
Other Private Long-term	167	160	7	Other Private Long-term	149	142	7
Short - Term	893	816	77	Short - Term	768	832	-64
Portfolio Investment	70	93	-24	Portfolio Investment	70	93	-24
Other Private Short-term	452	460	-7	Other Private Short-term	183	175	8
Commercial Bank - Assets	141	219	-78	Commercial Bank - Assets	386	206	180
Commercial Bank - Liabilities	229	44	186	Commercial Bank - Liabilities	130	358	-228
Central Government	587	297	290	Central Government	487	290	198
Long-Term	466	157	308	Long-Term	466	157	308
Other Long-Term	121	140	-18	Other Long-Term	22	132	-110
Short - Term	0	0	0	Short - Term	0	0	0
MONETARY SECTOR	607	644	-37	MONETARY SECTOR	607	644	-37
Government - Assets	12	13	-1	Government - Assets	12	13	-1
Government - Liabilities	0	0	0	Government - Liabilities	0	0	0
Central Bank - Assets	302	257	46	Central Bank - Assets	302	257	46
Central Bank - Liabilities	293	291	2	Central Bank - Liabilities	293	291	2
Transactions with IMF	0	83	-83	Transactions with IMF	0	83	-83
Allocation of SDRs	0	0	0	Allocation of SDRs	0	0	0
Valuation Adjustments	0	0	0	Valuation Adjustments	0	0	0
Monetary Gold	0	0	0	Monetary Gold	0	0	0
Errors & Omissions	0	-270	-270	Errors & Omissions	0	-69	-69

Disbursed and Outstanding External Debt (a)

Item	Old 1998	New 1998
1.Total Debt	9,615	8,753
1.1 Government	7,000	6,897
1.2 Private Long-term	1,119	1,002
1.3 Private Short-term	1,129	487
1.4 IMF Drawings	367	367
2.Total Debt as a % of GDP	61.1	55.6

(a) Provisional

External Debt Service Payments(a)

Item	Old 1998	New 1998
1.Debt Service Payments	811	754
1.1 Amortization	492	467
1.2 Interest Payments	319	288
2. Debt Service Ratio		
2.1 Overall Ratio	14.4	13.4

Box 9

Monthly Trade Indices

Monthly trade indices provide useful information on the changes in the economy and are an important input to decision making, research and other policy studies on the economy. Monthly trade indices provide an understanding of the seasonal variations in trade, provide inputs for the estimation of national income on a more frequent basis than annually and help understand terms of trade pass-through on monthly inflation in the economy.

The Central Bank of Sri Lanka (CBSL) first introduced trade indices in 1953 in its publications, and continued to publish these indices until 1969. The indices were presented on both monthly and annual bases, and were published in the Monthly Bulletins and the Annual Reports of the CBSL. In 1969 the classification of exports and imports was changed from the Standard International Trade Classification to the Brussels Tariff Nomenclature (BTN) which was introduced at that time¹. This resulted in a delay in releasing the detailed data on exports and imports on monthly basis by the Sri Lanka Customs, and publication of the monthly indices was abandoned². Since 1969, only the annual trade indices have been published.

In view of the usefulness of monthly trade indices, the CBSL embarked on compilation of monthly trade indices in 1997. This endeavor was facilitated by the innovations in information technology which enabled timely processing of large volumes of monthly data by the Sri Lanka Customs. Monthly indices have been compiled from January 1996 up to December 1998, and are given in the Statistical Appendix tables 70, 71 and 72 of this report³.

Coverage of Indices

The CBSL monthly series comprises six indices, namely, value, volume and unit value indices for both exports and imports. The total number of Harmonized Commodity Description and Coding System (H.S.) items at 8 digit level classified under exports and imports were 5,229 and 8,624, respectively, as at end 1997.

Export items were sub-divided into three major categories, Agricultural, Industrial and Mineral. The three main categories were further sub divided into 16 major sub categories and 70 sub-sub categories. Import items were divided into three major categories, Consumer Goods, Intermediate Goods and Investment Goods. These three categories were further divided into 18 major sub categories and 16 sub-sub categories. Value, volume and unit value indices were computed for each major category, sub category and sub-sub category. Indices of the major categories and some important sub categories are published in this report.

Currently, the sub categories and sub-sub categories cover 97 per cent of exports and 68 per cent of imports based on 1997 values. The base year and index coverage are expected to be reviewed and revised, as necessary, every three years. The coverage of imports is expected to be expanded in the future.

Computation of Indices

The base values for calculating monthly indices were taken as the average monthly values and volumes of 1997⁴. Average monthly value shares in 1997 were used as weights. The number of Customs entries in the base year data for exports and imports were 204,382 and 279,592 respectively.

In each category, the value index was computed as a simple index of the ratio of values between the current month and the base period. The index was

defined as $\frac{\sum_i P_{it} Q_{it}}{\sum_i P_{i0} Q_{i0}}$, where P_{it} and Q_{it} are price and

quantity of the i^{th} good at time t , respectively, and P_{i0} and Q_{i0} are the price and quantity of the i^{th} good in the base period.

The volume index was calculated as a Laspeyres index. Operationally, weights (value shares of the base period) were multiplied by the ratio of the quantities between the current month and the base period, i.e., the volume index for the sub category, was the weighted

1. In 1989 the Customs classification underwent a further change from the BTN to the Harmonized Commodity Description and Coding System (H.S).
2. As discussed in the Central Bank of Sri Lanka, Annual Report, 1969 - Appendix Table 49 / Foot note No.2
3. The recording system of units of exports and imports was changed after 1995 by the Customs. To avoid complications that would arise in calculating volume indices due to this change, computation of past indices was limited to 1996.
4. The year 1996 was not used as a base year since the trade patterns (especially exports) were abnormal in that year due to the prolonged drought that prevailed.

Box 9 (contd.)

average of the volume indices of sub-sub categories. The volume index for the major category, was the weighted average of the volume indices of the sub categories. The volume index was defined as

$$\sum_i w_i \frac{Q_{it}}{Q_{i0}} = \sum_i \left(\frac{P_{i0} Q_{i0}}{\sum_i P_{i0} Q_{i0}} \right) \frac{Q_{it}}{Q_{i0}}$$

where w_i is the value share in the base year. This simplifies to the Laspeyres index given by

$$\frac{\sum_i P_{i0} Q_{it}}{\sum_i P_{i0} Q_{i0}}$$

For homogeneous categories, monthly volumes were divided by respective base volumes to obtain indices. Difficulties arise in calculating volume indices for categories consisting of heterogeneous goods. For those categories, indices were calculated as the weighted averages of the volume indices of the individual items in the category. However, in certain categories, where the number of items was very extensive with considerable price variation, volume indices were based on samples of H.S. items in the categories selected on the basis of value shares as well as a clear identification of such H.S. items. The monthly volume indices of those selected H.S. items weighted by their value shares were used to calculate the volume indices for each category.

The unit value index was calculated effectively as a Paasche index by dividing the value index by the volume index⁵.

Quarterly and Annual series were calculated on the same basis.

Main Trends Observed Using the Index

Monthly export value indices given in Figure 1 reflect clear seasonal increases in summer and winter months in Sri Lanka's exports, attributable mainly to increases in volumes of garment exports. Monthly import value indices given in Figure 2 show increases just preceding the festival seasons in April and December due mainly to increases in the volume of

food and other consumer goods imports. The peak in the import volume in October 1996 shows the importation of a large volume of rice towards the end of the period during which import duties on rice were completely waived⁶. Importation of a large number of machinery parts is reflected in the second peak in import volume in May 1998 which resulted in a slump in the unit value. As seen in the two figures, the value indices of both exports and imports move closely with volume indices, while unit value indices did not vary greatly.

Figure 1
Monthly Export Indices

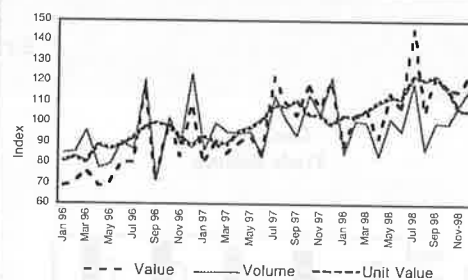
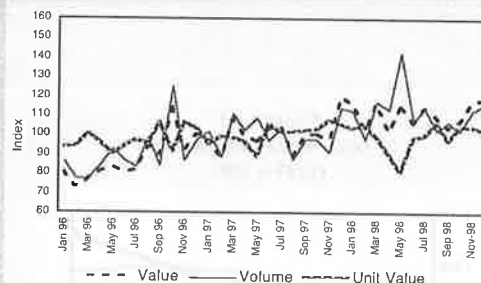


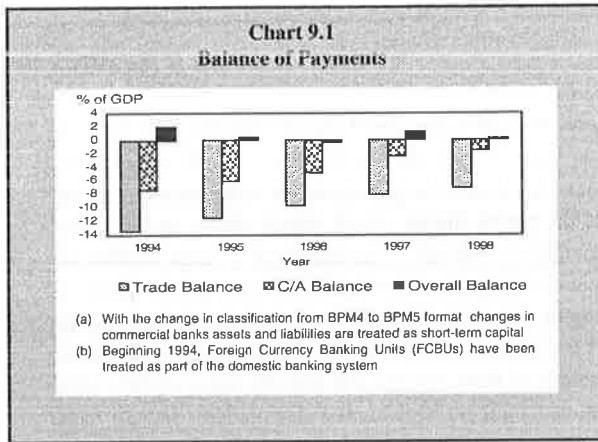
Figure 2
Monthly Import Indices



5. The unit value index is computed as the ratio between the value index and the volume index, thus becoming the Paasche index given by the formula

$$\frac{\sum_i P_{it} Q_{it}}{\sum_i P_{i0} Q_{it}}$$

6. The duty waiver on rice was first granted for a six months period from 15.4.96 to 15.10.96 and was further extended for another two months later.

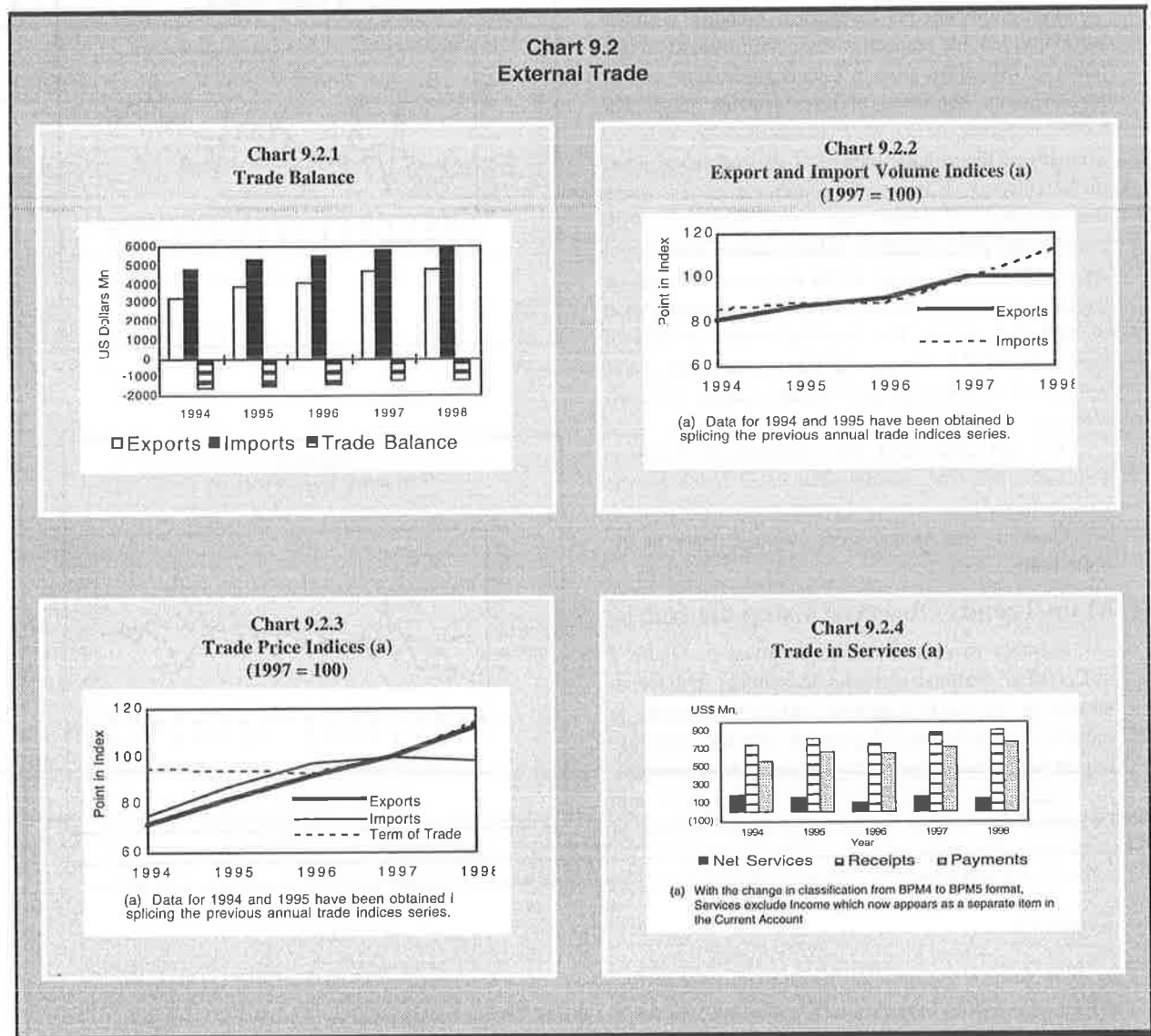


**TABLE 9.2
External Trade Performance**

Year	Growth Rates(a)		Price Indices (b) (1997=100)			Ratios
	Exports	Imports	Exports	Imports	Terms of Trade(c)	Exports/Imports
1996	7.6	2.4	91.5	97.7	93.6	0.79
1997	13.3	7.6	100.0	100.0	100.0	0.79
1998 (d)	2.1	0.5	111.6	97.8	114.2	0.80

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

- (a) Growth rates are given in U.S. dollar terms.
- (b) A new trade indices series has been introduced from 1998. Please refer Box 9 and footnote (a) in the Statistical Appendix Table 73 for a detailed description on the change of the methodology.
- (c) (Export unit value index / Import unit value index) * 100
- (d) Provisional.



Exchange rates among key currencies continued to be highly volatile in the international exchange markets. Although this posed a challenge in the management of exchange rates for developing countries, with the flexibly managed exchange rate system in place, Sri Lanka was able to maintain relative stability in the domestic exchange market. The rupee depreciated by 9.6 per cent against the dollar. The real effective exchange rate of the Sri Lanka rupee against the 24 currency basket depreciated by 12 per cent in 1998, offsetting the appreciation that was seen in 1997 due to the large depreciation of some of the East Asian currencies.

The overall balance of the balance of payments registered a surplus of US dollars 37 million in 1998. Gross official assets were sufficient to finance 4.0 months of imports of the same year. Total gross external assets at US dollars 2,907 million, which include official assets and those of commercial banks, were sufficient for 5.9 months of import cover.

9.2 Exports

The export growth in 1998 was 2.1 per cent compared to the 13 per cent growth experienced in 1997. Export earnings recorded an 8 per cent growth in the first half of 1998 but slowed down in the second half, recording a negative growth

of 3 per cent. This situation was the result of slow growth in textiles and garments and tea, and the negative growth in natural rubber and some of the rubber based products, coconut products, gems, diamonds and jewellery. These sectors were affected by the lower global aggregate demand and the increased competition from the East Asian countries. Earnings from the single largest export item, i.e., textile and garments, which began to slow down in late 1997, showed a recovery towards July 1998 but again slowed down thereafter. Tea prices, which remained buoyant till July 1998, came down during the last quarter of the year mainly due to world production surpluses and the Russian crisis that began in mid August. Although slowed down, textiles and garments, tea, minor agricultural products, food beverages and tobacco and travel goods showed positive growth, but their impact on overall export performance was negated by the negative growth in earnings from rubber, coconut products, gems, diamonds and jewellery.

Industrial Products

Industrial exports led by textiles and garments continued to be the largest contributor to export earnings, accounting for 75 per cent of total exports. Earnings from this sector grew by 3 per cent in 1998 compared to 14 per cent in 1997. Textiles and garments, the largest category in the sector,

TABLE 9.3
Composition of Exports

Category	US Dollars Million					Rs. Million				
	1994	1995	1996	1997	1998(a)	1994	1995	1996	1997	1998(a)
1. Agricultural Exports	702	829	961	1,060	1,088	34,692	42,478	53,206	62,667	70,225
Tea	424	481	615	719	780	20,964	24,638	34,067	42,533	50,280
Rubber	72	111	104	79	44	3,582	5,713	5,753	4,640	2,808
Coconut	76	103	110	117	94	3,761	5,270	6,091	6,939	6,110
Kernel Products	50	69	81	82	56	2,476	3,520	4,469	4,864	3,632
Other	26	34	29	35	38	1,285	1,750	1,622	2,075	2,478
Minor Agricultural Products	129	134	132	145	170	6,385	6,857	7,295	8,555	11,027
2. Industrial Exports (b) (c)	2,399	2,870	3,006	3,436	3,544	118,544	147,094	166,543	203,114	229,437
Food, Beverages and Tobacco	86	98	95	91	118	4,262	5,040	5,272	5,354	7,586
Textiles and Garments	1,552	1,853	1,902	2,274	2,460	76,685	94,946	105,341	134,455	159,303
Petroleum Products	80	85	104	97	73	3,959	4,374	5,740	5,743	4,662
Rubber Products	102	153	169	178	178	5,026	7,851	9,357	10,513	11,528
Ceramic Products	39	46	48	55	54	1,920	2,371	2,677	3,246	3,478
Leather and Footwear	90	118	139	183	214	4,456	6,054	7,690	10,812	13,855
Machinery and Equipment	93	124	154	204	182	4,572	6,348	8,572	12,076	11,811
Diamonds and Jewellery	170	196	192	142	68	8,419	10,023	10,643	8,384	4,421
Other Industrial Exports	187	197	202	212	197	9,245	10,087	11,251	12,531	12,793
3. Mineral Exports	87	87	96	90	60	4,292	4,447	5,292	5,271	3,863
Gems	79	78	86	84	56	3,917	3,972	4,771	4,899	3,577
Other Mineral Exports	8	9	10	6	4	375	475	521	372	286
4. Unclassified (c) (d)	21	21	32	53	43	1,026	1,073	1,760	3,141	2,803
Total Exports	3,209	3,807	4,095	4,639	4,735	158,554	195,092	226,801	274,193	306,328

(a) Provisional.

(b) Adjusted.

(c) Revised.

(d) Includes re-exports

Sources : Sri Lanka Customs
Ceylon Petroleum Corporation
Central Bank of Sri Lanka

Box 10

Indo-Lanka Free Trade Agreement

The Indo-Lanka Free Trade Agreement (FTA), officially titled the Free Trade Agreement Between the Democratic Socialist Republic of Sri Lanka and the Republic of India, was signed on 28 December 1998 by the Sri Lankan President Chandrika Bandaranaike Kumaratunga and the Indian Prime Minister Shri Atal Bihari Vajpayee.

A bilateral free trade agreement is an agreement between two countries on the reduction of border tariffs and other non-tariff and para-tariff measures for a specified set of goods. The primary objective is the promotion of long-run economic growth and development of a country by removing barriers to trade with the preferred trading partner. The removal could take place immediately or gradually over a period of time. An agreement could exclude some tradable products on the basis of concerns such as the potential injury to important domestic industries due to the removal of trade barriers, and also for national security reasons. Lists of those excluded items are called 'negative lists'. Those items on negative lists do not receive concessions but are traded subject to normal terms of trade. Since the purpose of a preferential trade agreement is the promotion of the countries' own products, the agreement specifies rules of origin criteria. Thus, to receive concessions, a product should either be wholly obtained in a country or go through a substantial transformation within a country if it contains any material imported from a third party country. The required degree of transformation is specified under the rules of origin criteria in the agreement.

There are several justifications for choosing India as Sri Lanka's first partner of free trade. India is Sri Lanka's closest geographic neighbour, as well as a close economic neighbour. India has been among Sri Lanka's most important import suppliers during the last several years, reaching the top in the last three years. This proximity and low border tariff facilitate trade and investment between the two countries, as well as investment by any third country in Sri Lanka aiming for the Indian market.

Proponents of the FTA believe that countries like Sri Lanka and India can no longer achieve higher growth by emulating experiences of newly industrialised countries. Some of the important factors include the deceleration of the developed economy markets, increased protectionism in those countries, increased competition among developing and emerging economy exporters, emergence of trading blocs centred around economically powerful countries and stagnant or declining net foreign aid. Thus, developing countries should seek each others co-operation in promoting exports and economic growth. India, being a large economy and a market with a significantly large group of middle income earners, could provide opportunities for the expansion of Sri Lanka's exports by offering preferential tariffs to Sri Lanka.

The FTA demonstrated the political commitment of the two countries, at the highest level, to promote free trade. It signals the manufacturing and business ties of the two countries, the need for improving their competitive edge to face challenges posed by the intensifying process of globalisation. The FTA does not remove all tariffs on all goods at once. As in the North American Free Trade Agreement (NAFTA), it removes tariffs on a phased out

schedule. India will remove tariffs entirely on some goods immediately, while partial concessions will be granted to some selected products. The tariffs on those products will be removed gradually over a period of three years. Sri Lanka will also fully remove tariffs immediately for some products, and will grant partial concessions on some other products. Sri Lanka will gradually remove tariffs on those products over a period of eight years.

The FTA provides protection to some industrialists by establishing negative lists. The negative lists contain products on which no tariff concession will be granted. Though such negative lists hinder the effectiveness of the FTA, it has become obvious that they are an unavoidable component of the agreement at this stage. These could avoid destabilising effects by providing an opportunity to delay the exposure of some of the domestic industries to foreign competition. Therefore, the next best option would be to minimise the negative lists. The negative lists of the two countries were to be finalised.

Among other important criteria, the FTA has adopted the principles of national treatment criteria enshrined in Article III of GATT 1994. State trading enterprises may be established and maintained as understood in Article XVII of GATT 1994. The agreement allows safeguard measures that could result in provisionally suspending the preferential treatment if they cause or threaten to cause a serious injury to the economy of the importing country, or in view of balance of payment difficulties. The domestic legislation too may be applied to counteract any unfair trade practices such as subsidies or dumping. The FTA has a provision to set up a Joint Committee at ministerial level to review at least annually the progress made in the implementation of the FTA, and to set up a working group on Customs related issues including harmonisation of tariff headings between the two countries. The agreement has provision for the settlement of disputes. The agreement can be terminated by either country by giving six months written notice to the other of its intention to terminate the agreement. Any amendment to the agreement may be made through mutual agreement of the two countries.

The FTA does not preferentially lift any para-tariff or non-tariff barriers. Thus, lifting those barriers would be a focal point of the Joint Committee. If the barriers are asymmetric between Sri Lanka and India, the Joint Committee should negotiate to even out differences, or to address it through 'tariffication', thereby imposing suitably high tariffs to negate effects of para-tariff and non-tariff barriers.

Any trade agreement or a change in trade policy affects consumers, exporters and importers and producers in contracting countries. It also affects countries in the rest of the world to the extent of trade diversion caused by the preferential trade agreement. In contracting countries, in the short-run, a reduction in tariffs will lower the price faced by domestic consumers, thus enhancing their welfare. Exporters and importers may experience larger volumes of trade, thus enhancing their income levels. Industrialists and producers catering to the export market may realise the benefits of freer

Box 10 (contd.)

trade, while industrialists and producers catering to the domestic market may face competition and loss of market share. The government too may lose tariff related fiscal revenue. However, this may not be a serious issue, as the generation of fiscal revenue through trade causes unhealthy trade distortions.

It is impossible to avoid trade diversion resulting from preferential trade agreements. The preferentially lower tariff could make some Indian products cheaper for Sri Lankans even though the price before tariff for similar products may be lower in other countries. This distorts global resource allocation, global welfare, and welfare of Sri Lankan consumers if there exists a sufficiently large quality difference in those products between India and the rest of the world.

In the long-run freer trade promotes efficiency, foreign investment, technology flows and knowledge spillovers; the ingredients of higher long-run growth. The growth will further be accelerated due to agglomeration effects, i.e., benefits accruing via larger markets, greater specialisation and economies of scale. Industries with comparative advantage or competitive advantage over their rivals in contracting countries will realise benefits of larger markets. Even in the absence of any comparative advantage, removal of trade barriers and restrictions on transportation may enable greater intra-industry trade, i.e., trade in semi-finished goods similar to the trade patterns observed in the European Union.

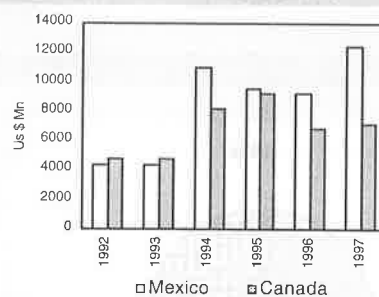
Sri Lanka expects to benefit through enhanced investment from India and other countries resulting from the FTA. The ability to derive the benefits depends on the relative efficiency of procedures relating to trade and investment in Sri Lanka, the degree of infrastructure development including port services and road networks, and India's willingness to accept and facilitate raw material imports and finished goods exports by Sri Lanka. The lower tariff structure in Sri Lanka and non-existence of para-tariff and non-tariff barriers will be advantageous. However, infrastructure facilities will have to be further developed for Sri Lanka to remain competitive and efficient to attract foreign investment. In this regard government institutions could play a larger role together with private sector participation. Many infrastructure products such as roads are public goods. They play an eminent role in the acceleration of long-run growth. Public goods, similar to private goods, should also be planned, produced and delivered efficiently and on time, and this process requires entrepreneurial capabilities.

Potential investors in Sri Lanka motivated by the FTA would also like to see Sri Lanka's plans for infrastructure development. Therefore, Sri Lanka should prepare a realistic comprehensive plan for infrastructure development so that the FTA could play its catalytic role in economic development.

The impact of the FTA on Sri Lanka in the long run could be assessed using similar historical events. Sri Lanka underwent a drastic policy change in 1977 that eliminated a substantial volume of tariff and non-tariff barriers. In the subsequent span of two decades Sri Lanka experienced greater volumes of foreign investment, higher volumes of both exports and imports, and faster economic growth. All this was achieved while facing the constraint of civil strife.

The impressive export performance of Sri Lanka illustrates its capability to compete with any country in the world successfully in winning shares of the world market. The evidence of NAFTA indicates that both Canada and Mexico experienced higher volumes of exports and direct investment after the signing of the agreement in 1994. Thus, if effectively implemented, Sri Lanka could benefit from the FTA in the years to come.

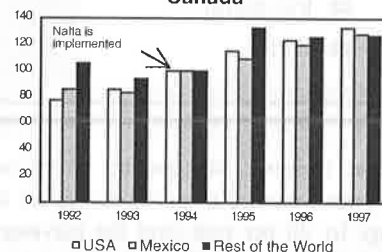
Figure 1
Development in Foreign Direct Investment in Mexico and Canada before and after Implementing NAFTA in 1994



Source: International Financial Statistics

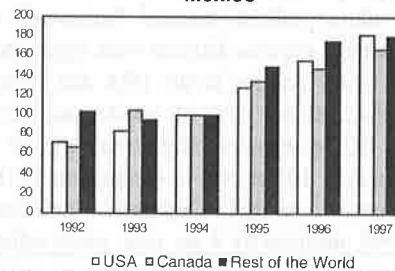
Figure 2
Indices of Export Value in US Dollar Terms and Direction of Exports before and after Implementing NAFTA in 1994 (Index 1994=100)

Figure 2a
Canada



Source: International Financial Statistics

Figure 2b
Mexico



Source: International Financial Statistics

Chart 9.3
Value of Exports by Major Categories

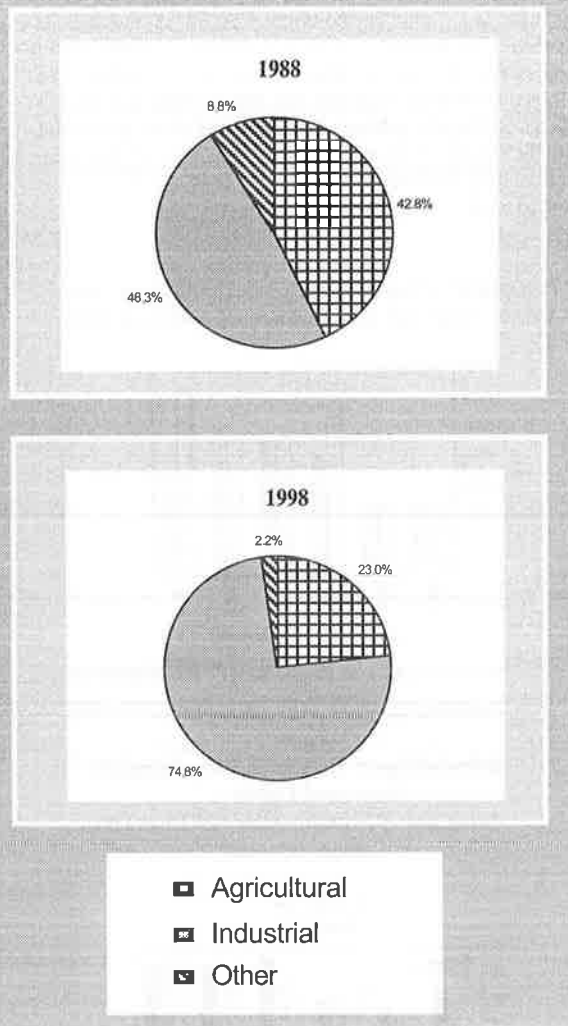
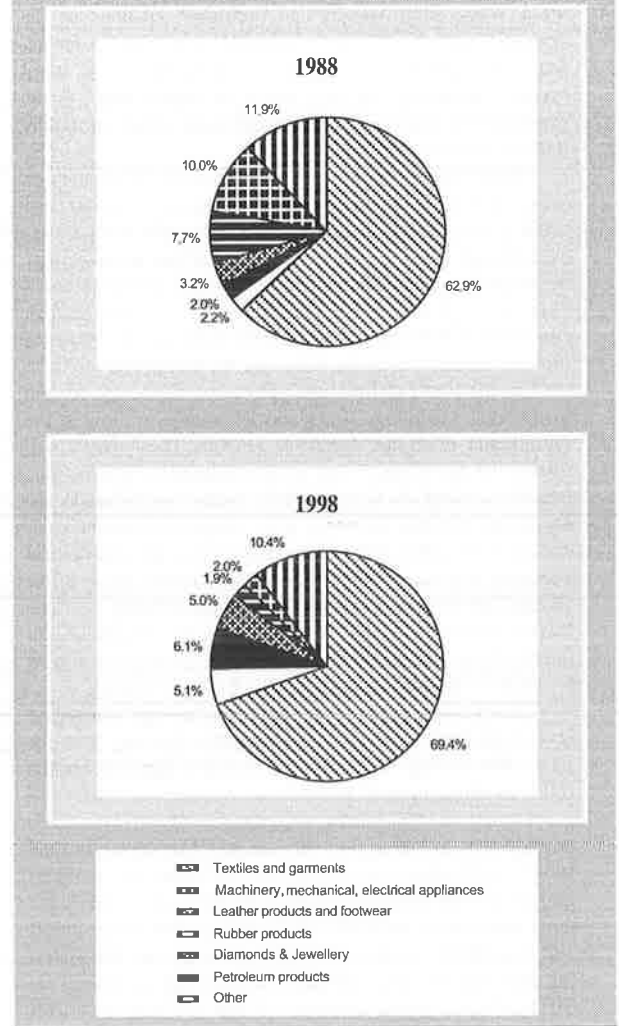


Chart 9.4
Value of Industrial Exports by Major Categories



grew by 8 per cent. However, high product prices, coupled with lower input prices, resulted in an increase in net foreign exchange earnings by 20 per cent over the previous year. The unit value of textiles and garments increased by 5 per cent, while volumes increased by 3 per cent in comparison to 8 per cent and 11 per cent, respectively, in 1997. As seen in the monthly volume indices, seasonal fluctuations were clearly seen in garment exports. Exports were higher before the summer and winter seasons in the USA and European markets. More than 90 per cent of textile and garment exports were by BOI companies. Export earnings of BOI enterprises increased by 10 per cent in comparison to 18 per cent in 1997. Those of non-BOI enterprises, which rose by 34 per cent in 1997, declined by 4 per cent, partly reflecting the adverse impact of the East Asian currency crisis on small - scale exporters of these products who produced for the lower end of the market. Of the earnings from this sub

sector, garments, the major contributor, which accounted for 90 per cent, increased by 7 per cent, while textiles grew by over 11 per cent. The textile and garment industry benefited from the package of incentives introduced in the 1998 Budget, which made all intermediate and capital goods used in the industry non-dutiable. Textile and garment exports continued to be the leading export sub category, contributing 69 per cent to total industrial exports in 1998.

Within the leather and footwear category, travel goods increased by 40 per cent largely attributable to increased demand from the USA for handbags and travel cases. Earnings from footwear declined by 7 per cent due to lower exports of sports items and non-exclusive footwear. This sector suffered due to a productivity drop by a major manufacturer following strikes among its workforce, as well as a decline in competitiveness with China and South and East Asian countries. Other articles of leather exports

declined by 28 per cent largely due to the drop in exports of sports goods to the USA and UK markets.

Earnings from machinery, mechanical and electrical equipment exports declined by 11 per cent, mainly due to lower exports of ferrous waste and scrap metal and parts and accessories of electrical equipment and electronic office equipment such as word processing and data processing machines. However, export earnings of this category have almost doubled during the last five years, raising its sectoral share in total industrial exports to 5 per cent.

Export earnings from rubber based products, which accounted for about 5 per cent of total industrial exports, remained virtually unchanged in 1998. The main reason for this was the substantial drop in exports of surgical gloves, which accounted for 22 per cent of rubber based products in 1997. This share dropped to 12 per cent in 1998 due to a temporary interruption to production of examination gloves in a single firm that underwent a transition in production technology. The production of examination gloves recommenced with the operation of new machines in November 1998. However, earnings from other rubber based products collectively increased by 13 per cent due to higher earnings from tyres and tubes, non-surgical gloves, floor covering and mats, rubber bands and other rubber products. Satisfactory performance in tyre exports was due to the expansion of production capacity in the industry and the commencement of operations by one of the pioneer tyre manufacturers, in December 1997, after a lapse of nine months.

Export earnings from the food, beverage and tobacco sub category increased by 30 per cent owing to a 55 per cent increase in the earnings from crustaceans and molluscs, which contributed 67 per cent to this sub-category. The industry has been recovering since the last quarter of 1997 from the white spot disease in major shrimp producing areas. Shrimp feed was made duty free, with effect from August 1996, for two years as a relief measure to shrimp farmers. The growth in this sub sector slowed down somewhat in the last quarter of 1998 due to a sharp decline in lobster and prawn exports. Some prawn farms ceased prawn cultivation temporarily in August 1998 due to the spread of the yellow head disease in those farms.

Earnings from the export of petroleum products declined by 25 per cent in 1998. This was mainly due to the increased local consumption of fuel oil for thermal power generation. The export volume of petroleum products declined only by 12 per cent, while prices declined by 15 per cent in line with lower international oil prices that prevailed during the year.

There was a marked reduction in diamond (54 per cent) and jewellery (41 per cent) exports due to lower demand. Diamond exports continued to fall due to lower demand from Belgium, Japan, and Thailand, whose share was about 89 per cent of total diamond exports. Diamond exports to Belgium,

the largest market for Sri Lanka, declined by 58 per cent due to lower demand from the depressed Japanese and East Asian markets. Under the present depressed market conditions, Belgium, which is the major diamond centre, purchased less and also maintained lower stocks than usual due to uncertainty in the market. Exporters were badly affected by the loss of the Japanese market that purchased high quality products. Large diamond manufacturers in the country have found it difficult to maintain their normal production levels and as a result they have cut down their production to a considerable extent. Possible improvements in this market were undermined by the depressed gem and jewellery industry. The jewellery market, which suffered similarly due to the East Asian crisis, lost its markets in Singapore, Japan and Hong Kong. With a view to encouraging the jewellery industry, the import of gems and gold was made duty free, while gem and jewellery industries were exempted from the National Security Levy (NSL) from November 1997 and from income tax from 24 August 1998.

Among other manufactured export categories, exports of chemical products increased by 11 per cent. However, earnings from tableware, tiles, ceramic statuettes and ornamental articles and plastics were lower in 1998 largely due to increased competition from East Asian countries.

It was evident that sectors catering to the lower end of the market were the most affected. Hardly any effect was seen on products of high quality and special designs for niche markets. Therefore, a gradual move to high quality products, new and efficient technology that can respond to fast changes in patterns and styles, use of qualified designers and use of a trained workforce are essential if industries are to improve productivity to survive in the present competitive global environment.

Plantation Crops

Earnings from plantation crops remained at the previous year's level due to negative growth in rubber and coconut exports, which offset the improved earnings from tea. The export volume of tea increased by 1 per cent to 272 million kgs. with tea production at a record high level of 280 million kgs, which was one per cent higher than in the previous year. Meanwhile, tea prices increased by 7 per cent to US dollar 2.87 per kg. in 1998. Tea prices remained strong during the first five months of the year and then increased at a slower rate till August 1998. The continued high demand for tea from the Commonwealth of Independent States (CIS) and Turkey, improvement in the quality and tight supply conditions in the other major auction centres, mainly Kenya and India, contributed to this development. However, tea prices fell after August 1998 following the Russian currency crisis which began in mid-August and also due to production surpluses in major producing countries. The Russian rouble had depreciated by 70 per cent by end 1998. Russia being the largest single tea importer from Sri

Lanka, earnings from tea exports slowed down from July 1998, lowering the cumulative growth to 8 per cent during 1998. In the first half of 1998 tea exports increased by 33 per cent.

In the composition of Sri Lanka's tea exports, more than 58 per cent was in bulk form, while 34 per cent was in packed form. Higher value added forms of tea such as tea bags, Sri Lanka tea blended with foreign teas and instant and green teas accounted for the remainder, less than 8 per cent of the total. Sri Lanka imported 4.3 million kgs. of tea, which was less than 2 per cent of the domestic production in 1998. As in the previous year, Russia, which continued to be the prime destination for Sri Lanka's tea, accounted for 16 per cent of exports. The UAE emerged as the second largest buyer (12 per cent), while Turkey became the third largest buyer, accounting for 11 per cent. The other major buyers were Syria (6 per cent), Libya (5 per cent) and Saudi Arabia (4 per cent).

A significant decline was recorded in the earnings from rubber (45 per cent). The decline in rubber exports was due to both volume (33 per cent) and price (18 per cent). The average export prices of latex and other crepe rubber, except sole crepe, which accounted for about 50 per cent of total exports, declined by 23 per cent, while the average price of sheet rubber grades declined by 31 per cent in 1998. However, the average price of sole crepe used in the manufacture of sanitary and pharmaceutical items increased by 6 per cent in 1998. Export prices and quantities of rubber had started to slow down even before the East Asian currency turmoil. Production surpluses in major producing countries such as Thailand and Indonesia led to lower prices. Sharp currency depreciations in Thailand, Indonesia and Malaysia, which contribute more than 88 per cent to world rubber exports, have also affected international rubber prices since the latter part of 1997. Global supply trends and price forecasts show increased world supply and lower prices in 1999 and 2000. The industry does not show any evidence of a price turnaround in the near future.

Local consumption of rubber increased by 20 per cent to 53 million kgs., reflecting the expansion of the rubber based products sub-sector. The import volume of natural rubber declined to 259,869 kgs. in 1998 from 270,891 kg. in 1997. Rubber imports are exempted from GST but are liable for an import duty of 10 per cent and NSL of 5.5 per cent (until November 1998, 4.5 per cent), thereby providing protection to domestic rubber producers.

The export volume of desiccated coconut, which accounts for about 80 per cent of total kernel product exports, fell by 29 per cent, as major producers, the Philippines and Indonesia, offered attractive prices. Local producers were unable to compete with these prices, as their cost of production was relatively higher. The use of coconuts for the manufacture of coconut oil rose due to high international prices resulting from the ban on palm oil exports by Indonesia. Export prices of coconut oil increased

by 31 per cent in 1998, to US dollars 1.15 per kg. Export earnings of coir fibre based products, mainly coir fibre mattresses, increased by 13 per cent in 1998. However, local coir producers faced difficulties, as raw material prices were much higher than those of competing countries. Since Sri Lanka produces the finest coir in the world market, producers were able to maintain their export levels, but at a lower profit margin.

Other Agricultural Products

Earnings from other agricultural products increased by 18 per cent mainly due to a substantial increase in prices (18 per cent). Earnings from pepper increased by 94 per cent, benefiting from higher prices and volumes. Demand for pepper from Egypt, India, Pakistan, the UK and USA increased substantially. Cinnamon exports rose by 8 per cent, attributable to a 23 per cent increase in prices, despite the decline in volumes. The volume of un-manufactured tobacco rose by 43 per cent despite depressed prices, due to higher demand from the UK, Italy and Spain. These three products together contributed 68 per cent of the total earnings from other agricultural products. Earnings from fresh and dry fruit declined by 41 per cent. Reduced earnings were due to a more than 87 per cent decline in the volume of tamarind, largely exported to Pakistan, which accounted for 67 per cent of the total volume of fresh and dried fruits exported in 1997. Exports of all other agricultural products, except betel leaves, cashew nuts and cloves, recorded increases.

Mineral Products

The export earnings from all mineral products decreased by 33 per cent and contributed only 1 per cent to exports in 1998 owing to lower earnings from precious and semi-precious stones (34 per cent). The demand for gems was adversely affected by the continued depression in the Japanese gem and jewellery market. Gems exported to Thailand, Taiwan, Singapore and Malaysia too declined substantially. Accordingly, export volumes of precious stones declined by 24 per cent in 1998, as against a marginal drop in 1997. The USA and UK markets for precious and semi-precious stones have been stable for low value products. On the supply side, the problems that the Gem and Jewellery Authority had with the plantation companies relating to sharing proceeds from auctions of the leases of land for gem mining were resolved in March 1998. As a result, legal mining increased. However, illegal mining was still high due to the problems associated with leasing state lands for mining. The entry of new producing countries such as Tanzania, Vietnam and Madagascar to the world market may also have increased the competition in this industry. These new entrants may have taken some of the major buyers away from Sri Lanka, particularly Thai merchants from the 'Geuda' market. Earnings from other mineral exports fell by 30 per cent due to lower earnings from metallic ores and

iron pyrites, ilmenite and other mineral products. However earnings from natural graphite grew, containing the decline in the mineral sector export earnings.

9.3 Imports

Total outlay on imports increased marginally by 0.5 per cent compared to the 8 per cent growth recorded in 1997. This slow growth was a result of an 11 per cent drop in average import prices and a 12 per cent growth in volumes. The falling international commodity prices (sugar, wheat, fertiliser and crude oil) and many intermediate and investment good prices contributed to the fall in import prices. Outlay on

of food and drinks declined by 7 per cent reflecting mainly the partial recovery in rice production, lower international prices of wheat and sugar, a lower volume of sugar imports in comparison to the exceptionally high volume of imports in 1997 following the generous duty waivers and tax exemptions enjoyed by this commodity at that time. The duty waiver on sugar was reduced from 17 per cent to 10 per cent for a period of five months from 11 August 1997, and this was changed to a duty waiver based on a specific duty rate of Rs. 3.50 per kg. from 16 January 1998. Outlay on wheat declined by 8 per cent entirely due to lower international prices. The volume of wheat imports increased

TABLE 9.4
End-Use Classification of Imports

Category	US Dollars Million					Rs. Million				
	1994	1995	1996	1997	1998(a)	1994	1995	1996	1997	1998(a)
1. Consumer Goods	1,048	1,181	1,234	1,223	1,255	51,810	60,508	68,372	72,062	80,956
Food and Drinks	602	720	801	781	723	29,739	36,901	44,377	45,996	46,543
Rice	13	2	91	73	42	655	122	5,118	4,331	2,621
Sugar	180	170	145	184	129	8,875	8,737	8,026	10,788	8,384
Wheat	118	198	204	139	127	5,825	10,155	11,267	8,128	8,133
Other	291	349	361	385	425	14,384	17,887	19,966	22,749	27,405
Other Consumer Goods	447	461	433	442	532	22,071	23,607	23,995	26,066	34,413
2. Intermediate Goods	2,307	2,702	2,767	3,096	2,977	114,004	138,475	153,117	182,754	192,240
Petroleum	296	387	479	539	345	14,641	19,827	26,525	31,828	22,275
Fertiliser (b)	63	86	76	66	62	3,097	4,406	4,189	3,916	3,989
Chemicals	121	143	134	136	143	5,975	7,310	7,402	8,024	9,241
Textiles and Clothing	1,038	1,159	1,168	1,386	1,397	51,299	59,375	64,601	81,816	90,099
Other Intermediate Goods	789	928	910	969	1,030	38,992	47,557	50,400	57,170	66,636
3. Investment Goods	1,366	1,189	1,204	1,325	1,477	67,524	60,916	66,647	78,232	95,322
Machinery and Equipment	559	503	649	742	786	27,635	25,769	35,987	43,853	50,592
Transport Equipment	454	304	179	208	264	22,425	15,564	9,885	12,276	17,098
Building Materials	241	272	263	272	303	11,898	13,956	14,540	16,030	19,590
Other Investment Goods	113	110	113	103	124	5,566	5,627	6,235	6,073	8,042
4. Unclassified Imports	45	240	234	220	182	2,238	12,301	12,940	12,978	11,757
Total Imports (c)	4,767	5,311	5,439	5,864	5,891	235,576	272,200	301,076	346,026	380,275

Sources : Sri Lanka Customs

Co-operative Wholesale Establishment

Ceylon Fertiliser Co. Ltd. and other major importers of fertiliser

Ceylon Petroleum Corporation

Central Bank of Sri Lanka

(a) Provisional.

(b) From 1997 onwards Customs data on fertiliser have been used instead of data obtained from Ceylon Fertiliser Co. Ltd. & other major importers of fertiliser.

(c) Adjusted.

consumer goods grew by 4 per cent while intermediate goods declined by 4 per cent, due to lower outlay on fertiliser, petroleum products and diamond imports. However, excluding petroleum products, intermediate good imports grew by 3 per cent. Import of investment goods grew by 11.5 per cent largely due to growth in machinery and equipment and transport equipment. Monthly import volumes fluctuated within the year showing seasonal increases just preceding the festival seasons in April and December due mainly to increases in volumes of food and consumer durables.

Consumer Goods

Positive growth in the consumer goods category was entirely due to the significant increase in durables. Outlay on imports

by 11.5 per cent to 879,500 metric tons, while 46,283 metric tons of wheat flour were imported too. Expenditure on rice imports declined by 42 per cent entirely due to the lower quantity imported following the improved harvest in Maha 1998. Of the 167,600 metric tons of rice imported during the period under review, 125,200 metric tons were imported in January 1998, when the full duty waiver was effective, signifying the reaction of the market to duty waivers. The full duty waiver on rice was available for the period 20 November 1997 to 31 January 1998. All other food imports increased by 10 per cent, with substantial increases in milk products, wheat flour, dried and other fish, chillies and potatoes.

In the durable consumer goods category, imports of motor cars and motor cycles increased by 55 per cent, while

imports of rubber tyres and tubes declined by 2 per cent reflecting the higher utilisation of locally produced goods. Imports of radio receivers and television sets grew by 2 per cent. Medical and pharmaceutical products imports rose by 17 per cent due to higher prices. Other consumer durable imports that increased in 1998 were printed books, electrical home appliances and clothing accessories.

TABLE 9.5
Volumes of Major Imports (a)

Item	1994	1995	1996	1997	1998(b)
Rice	58	9	341	306	168
1st Quarter	37	8	1	104	136
2nd Quarter	12	...	23	9	12
3rd Quarter	5	...	117	12	2
4th Quarter	4	1	201	181	18
Wheat	826	1,057	913	789	880
1st Quarter	178	315	201	302	340
2nd Quarter	259	213	303	172	155
3rd Quarter	222	323	157	168	126
4th Quarter	168	206	252	147	259
Sugar	491	417	381	545	444
1st Quarter	127	133	94	176	79
2nd Quarter	147	76	84	163	129
3rd Quarter	134	95	58	83	99
4th Quarter	83	113	146	123	137
Petroleum (Crude Oil)	1,898	1,860	2,033	1,814	2,156
1st Quarter	503	332	566	299	567
2nd Quarter	547	452	493	389	431
3rd Quarter	364	584	466	606	662
4th Quarter	484	492	508	520	496
Fertiliser	427	452	361	391	440
1st Quarter	99	185	104	56	109
2nd Quarter	159	97	60	87	98
3rd Quarter	71	56	53	87	82
4th Quarter	97	115	144	161	151

(a) Adjusted.
(b) Provisional

Sources: Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Fertiliser Co Ltd. & other
major importers of fertiliser
Ceylon Petroleum Corporation

Intermediate Goods

Expenditure on intermediate goods declined by 4 per cent, largely due to lower international prices which negated the positive growth in import volumes. Outlay on fertiliser imports decreased by 7 per cent entirely due to lower prices. Lower prices and the build up of domestic stocks contributed to high volumes imported in 1998. The volume of textile imports grew by 10 per cent but lower prices helped to slow down the growth in outlays on such imports. Hence, the import bill on textiles increased by only 1 per cent. Outlay on crude oil dropped by 18 per cent in contrast to the higher volume of imports. Prices of crude oil declined from US dollar 19.42 per barrel to US dollar 13.63 per barrel between

the two periods. Other petroleum products declined by 53 per cent attributable to lower prices as well as the lower quantity of imports as against higher volumes of refined petroleum products imported in early 1997 to meet the additional demand due to the temporary routine closure of the refinery. Non-petroleum intermediate goods imports increased by 3 per cent. Diamond imports declined substantially reflecting the setback in the diamond industry. Chemicals increased by 5 per cent. Other intermediate goods imports increased by 6 per cent, largely attributable to imports of inputs for the food, soap, livestock and rubber based manufacturing industries.

Investment Goods

Import outlays on investment goods increased by 12 per cent in 1998 in comparison to 10 per cent in 1997. These imports increased at a higher rate during the first five months of 1998 but slowed down thereafter. The average growth rate for the first five months was 23 per cent. Reflecting an immediate response to the generous incentive package provided by the 1998 Budget for the agriculture, transport, textile and garments and telecommunication sectors, imports of machinery and equipment and transport equipment increased during the first two months by 44 per cent and 20 per cent, respectively. A duty waiver too was available for large commercial organisations to import buses and coaches for providing transportation to their employees.

Investment goods imports also continued to benefit from lower international prices, reflected in an 8 per cent drop in the unit value index. Accordingly, the volume growth in the investment good category was as high as 21 per cent. This growth was predominantly in garment and textile machinery, data processing machines, tractors, telecommunication equipment and construction related imports, signifying the continuation of the momentum of investment growth seen since 1997 in those sectors. Transport equipment imports increased by 27 per cent, attributable to higher imports of passenger transport vans and buses, particularly buses with a seating capacity of 30 or more, refrigerated trucks, chassis and other parts and accessories for motor vehicles. Building material imports increased by 12 per cent, reflecting continued growth in the construction industry related to expansion of commercial infrastructure as well as real estate development.

Direction of Trade

The USA continued to be the largest single buyer of Sri Lanka's exports in 1998. Its market share increased from 36 per cent in 1997 to 40 per cent in 1998, largely due to increased garment exports. Garment exports to the USA increased by 12 per cent during the year. The UK, the second largest buyer, accounted for 11 per cent, while Germany overtook Japan and became the third largest buyer, accounting for 5 per cent of Sri Lanka's exports, mainly due

to higher garment exports. As a result, the industrialised countries, taken together as a group, accounted for 74 per cent of the total exports in 1998 as against 73 per cent in 1997. Exports to East Asian countries declined by 23 per cent in 1998. However, increased exports to Middle East countries offset this decline to maintain the market share of developing countries at 21 per cent as in the previous year. Exports to CIS countries declined by 13 per cent due to lower tea exports to Russia. The heavy concentration of Sri Lanka's exports to Western industrial countries made them, as a group, Sri Lanka's largest trading partner.

Japan regained its position as the largest single supplier of imports to Sri Lanka, displacing India, which had been the largest supplier since 1996. Imports from Japan rose by 16 per cent, while those from the USA and UK increased by 23 per cent and 8 per cent, respectively, enhancing the industrialised countries' share from 35 per cent to 37 per cent. Imports from Middle East countries declined by 29 per cent, reducing their market share from 9 per cent to 6 per cent, largely due to the price effect of petroleum imports. However, imports from East Asian countries increased by 7 per cent, broadening the trade deficit with these countries.

9.4 Services and Income

The services account registered a surplus of US dollars 143 million in 1998. This was a lower surplus compared to US dollars 159 million 1998, and reflected the slowing down in the port-related services. Net receipts from transportation services dropped by 12 per cent in 1998 owing to a marginal increase in receipts (3 per cent) against a faster growth (13 per cent) in payments. Slow growth in import and export trade and a decline in transshipment cargo handled led to a slower growth in receipts from port related services, while increased freight charges were partly responsible for higher payments in transportation services. Tourist arrivals during the early months of 1998 were affected due to both the uncertain security situation arising from terrorist attacks in February and March and the depressed global economic conditions, particularly in the East Asian region. Competition from countries in the East Asian region also had an impact on tourist arrivals during the year. However, tourist arrivals reflected a recovery in the last quarter of the year with a significant increase of 16 per cent. This contributed to an overall growth of 4 per cent in 1998, resulting in a 10 per cent growth in receipts from travel. Travel payments rose by 12 per cent, leading to a marginal drop in net travel receipts. This was due to an increased number of Sri Lankans travelling to cheaper destinations in the Asian region for pleasure, as well as business purposes.

The income account, which consists of interest income, foreign direct investment income and compensation payments to employees (according to the BPM5 presentation), showed a larger deficit of US dollars 179 million in 1998 in comparison to US dollars 160 million in 1997. This was

entirely due to lower foreign investment income of the Central Bank owing to a reduction in foreign exchange trading activities abroad in a volatile international investment climate and a reduction of international interest rates. Total outflows in the income account remained around the same level as last year.

TABLE 9.6
Net Services, Income and Transfers (a)

ITEM	US Dollars Million		Rs. Million	
	1997	1998(b)	1997	1998(b)
1. Transportation	156	137	9,194	8,836
2. Travel	29	28	1,728	1,826
3. Insurance Services	10	16	578	1,011
4. Other Business Services	-29	-29	-1,723	-1,889
5. Government Expenditure n.i.e.	-6	-9	-392	-583
Total Services	159	143	9,386	9,201
1. Compensation of Employees	-2	-2	-91	-99
2. Direct Investment	-75	-89	-4,424	-5,747
3. Other (c)	-83	-88	-4,902	-5,621
Total Income	-160	-179	-9,417	-11,468
1. Private (d)	788	848	46,494	54,843
2. General Government	44	55	2,625	3,490
Total Current Transfers	832	903	49,119	58,333

Source: Central Bank of Sri Lanka.

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund

(b) Provisional

(c) From 1994 onwards Foreign Currency Banking Units (FCBUs) of commercial banks have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8

(d) Includes US dollars 64 mn. and US dollar 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990

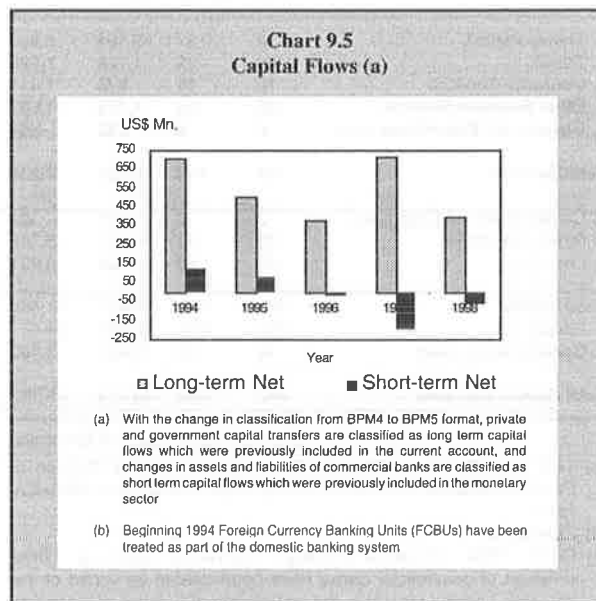
9.5 Current Transfers

Following the same upward trend seen in the previous year, net current transfers further rose significantly by 8 per cent entirely due to private transfer receipts, which increased by 8 per cent during 1998. Both worker remittances and compensation payments rose. A sum of US dollars 78 million was received as compensation payments, at the rate of US dollars 2,500 per worker, by 31,279 Sri Lankan employees who were displaced from Kuwait during the Gulf War in 1990. Net transfer receipts increased by 8 per cent to US dollars 848 million in 1998, which was sufficient to finance 70 per cent of the deficit in the goods, services and income account in 1998, compared with a 64 per cent coverage in 1997. Official current transfers, which consist mainly of food and commodity grants, increased by 25 per

cent to US dollars 55 million in 1998. In 1998, India also contributed US dollars 25 million as a special cash grant for budgetary purposes.

9.6 Capital Movements

The capital and financial account registered a net inflow of US dollars 395 million, reflecting a decline of 34 per cent compared with the 6 per cent increase recorded in 1997. As a result, the surplus in the overall balance declined to US dollars 37 million in 1998 from US dollars 163 million in 1997.



Capital Transfers

Net capital transfers declined to US dollars 65 million in 1998 from US dollars 91 million in 1997. Reflecting the general reduction in the flow of concessional aid to developing countries, the grant component of foreign aid has been declining in the case of Sri Lanka too. Official project grants declined by 34 per cent. Japan continued to be the major donor, contributing 67 per cent of total grants during the year.

Long-Term Capital

Net inflows of private long-term investment recorded a 58 per cent decline to US dollars 200 million, mainly due to lower privatisation proceeds and increased outflows of other private long-term funds. Efforts to reform public enterprises with private sector participation continued and inflows of foreign exchange through this programme in 1998 were US dollars 56 million, compared with US dollars 301 million in 1997. The proceeds in 1998 were from the sale of the government's duty free shop, Orient Lanka Ltd. (US dollars 11 million) and the sale of a 26 per cent equity stake in Air

Lanka Ltd. (US dollars 45 million) to Emirates. Long-term outflows increased by 39 per cent, partly due to advance payments by Air Lanka Ltd towards purchase of aircraft in 1999 and 2000 under its proposed refueling programme. The expansion plan for the national carrier includes more destinations and greater frequency of flights. This is to be facilitated by the medium-term refueling programme. Plans are underway to purchase 6 aircraft over the next two year period. Other large inflows during the year were US dollars 65 million raised by DFCC Bank through the Floating Rate Notes issue (for which the principal amount is guaranteed by the Asian Development Bank and the interest payments guaranteed by the Government of Sri Lanka) and several loans, totalling US dollars 43 million, raised by Sri Lanka Telecom Ltd. for financing their development projects. Foreign direct investment flows were somewhat higher than in 1997. The largest share of FDI flows during the year were to the telecommunication (55 per cent), power (19 per cent) and rubber manufacturing (6 per cent) sectors. Investment outflows were mainly in respect of a tourism project in the Maldives.

The net inflows of long-term capital to the government decreased by 17 per cent due both to higher loan repayments and lower disbursements of non-concessional loans during the year. Inflows of concessional loans to the government from both multilateral and bilateral sources increased by 40 per cent to US dollars 466 million. Sectors which received significant concessional financial flows during the year were power generation, water resources development, health, telecommunications and rural development. The major multilateral donors were the Asian Development Bank (ADB) and the International Development Association (IDA), which extended US dollars 117 million and US dollars 91 million, respectively, of concessional assistance during 1998, indicating a growth over 1997 of 23 per cent and 16 per cent, respectively. Japan continued to be the major aid donor to Sri Lanka. Aid disbursements from Japan increased to US dollars 189 million in 1998 from 118 million in 1997. Aid from Japan accounted for 41 per cent of the total aid receipts in 1998 compared to 36 per cent in 1997.

Short-Term Capital

Short-term private capital inflows increased by 54 per cent to US dollars 768 million in 1998, mainly due to a decline in commercial bank assets abroad, while payments rose by 19 per cent to US dollars 832 million.

Inflows of portfolio investment declined by 50 per cent to US dollars 70 million in 1998. Depressed global stock markets and particularly the impact of the Asian crisis affected the Colombo stock market, resulting in a net sale by foreign participants. The stock market performance was further dampened after the nuclear testing by India and Pakistan in May 1998 further raising uncertainties about the Asian region among international investors. Consequently, a

net outflow was recorded in portfolio investment in 1998, compared with a net inflow in 1997. Other private short-term flows turned to a net inflow in 1998 in contrast to the net outflow recorded in 1997, mainly due to lower repayments by the Ceylon Petroleum Corporation to non-FCBU foreign sources of short-term financing.

Changes in assets and liabilities of commercial banks in the financial account were largely influenced by the changes in deposits and advances of their Foreign Currency Banking Units (FCBUs). A decline in the external borrowings of FCBUs resulted in a decline in commercial bank liabilities by US dollars 228 million, while assets of commercial banks also declined by US dollars 180 million, mainly due to a drop in FCBU deposits with banks abroad.

9.7 Exchange Rate Movements

The uncertain and volatile conditions observed in international exchange markets during the latter part of 1997

continued in early 1998, with a tendency to stabilise towards the latter part of the year. Except for, the Indonesian rupiah, all other currencies in the region that were severely affected by the currency turbulence in East Asia in 1997 recovered during 1998. The rupiah continued to depreciate, by 31 per cent, against the US dollar during the year against a backdrop of both economic and political uncertainties. With the regaining of some market confidence following stringent reform efforts, other currencies appreciated; the Korean won (42 per cent), the Thai baht (29 per cent), the Philippine peso (3 per cent), the Malaysian ringgit (2 per cent) and the Singapore dollar (1 per cent). Meanwhile, the Japanese yen appreciated against the dollar by 13 per cent in response to initiatives undertaken to address issues in the financial sector. The uncertainties in the international exchange markets were renewed with the rouble crisis in the Russian Federation and the financial sector problems in Brazil during the latter part of the year.

Chart 9.6
Effective Exchange Rate Indices

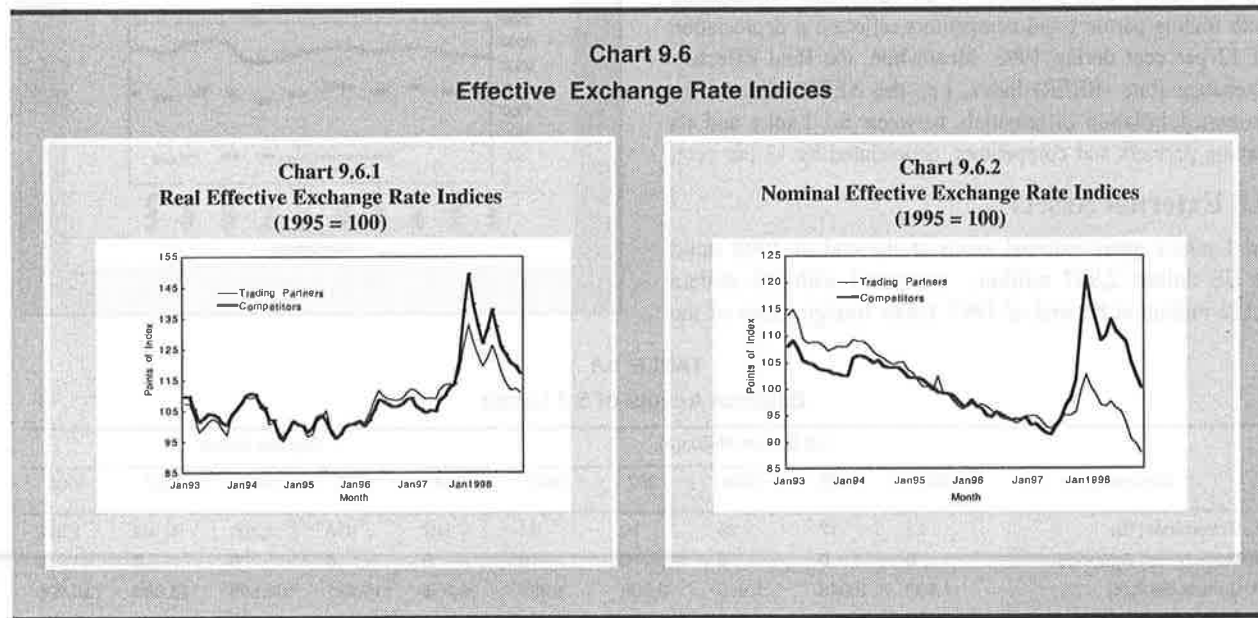


TABLE 9.7
Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year(a)			
	End of Year Rates			Annual Average			Point to Point		Annual Average	
	1996	1997	1998	1996	1997	1998	1997/96	1998/97	1997/96	1998/97
Deutsche Mark	36.46	34.24	40.36	36.75	34.07	36.80	6.5	-15.2	7.8	-7.4
French Franc	10.81	10.23	12.03	10.81	10.12	10.98	5.6	-14.9	6.8	-7.8
Indian Rupee	1.58	1.56	1.59	1.56	1.63	1.57	1.3	-1.3	-4.5	3.8
Japanese Yen	0.49	0.47	0.59	0.51	0.49	0.50	3.6	-20.3	4.1	-1.6
Pound Sterling	95.86	101.60	112.62	86.34	96.69	107.05	-5.6	-9.8	-10.7	-9.7
US Dollar	56.71	61.29	67.78	55.27	58.99	64.59	-7.5	-9.6	-6.3	-8.7
SDR	81.38	82.69	95.44	80.23	81.17	87.66	-1.6	-13.4	-1.2	-7.4

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka Rupees.
A minus sign indicates depreciation.

Source: Central Bank of Sri Lanka.

Sri Lanka continued to manage its exchange rate flexibly. The exchange rate policy adopted by Sri Lanka has proven to be effective in helping the export sector and maintaining exchange market stability. The Sri Lanka rupee depreciated by 9.6 per cent against the US dollar, reflecting a faster depreciation during 1998 than in the previous year. Meanwhile, the Sri Lanka rupee depreciated by 13.4 per cent against the SDR reflecting the significant depreciation of the US dollar against most major currencies during the year. Overall, the Sri Lanka rupee had depreciated by 13 per cent against the US dollar since the currency turmoil in East Asia erupted in early July 1997. This compares with depreciation of the Indonesian rupiah by 69 per cent, the Malaysian ringgit by 34 per cent, the Philippines peso by 33 per cent, the Thai baht by 30 per cent, the Korean won by 25 per cent and the Singapore dollar by 14 per cent during the same period.

The Nominal Effective Exchange Rate (NEER) index for Sri Lanka with a basket of 24 currencies representing both trading partners and competitors reflected a depreciation of 12 per cent during 1998. Meanwhile, the Real Effective Exchange Rate (REER) index, i.e., the NEER adjusted for estimated inflation differentials between Sri Lanka and its trading partners and competitors, depreciated by 12 per cent.

9.8 External Assets

Sri Lanka's gross external assets at the end of 1998 stood at US dollars 2,907 million, compared with US dollars 3,132 million at the end of 1997. Gross foreign assets of the

Central Bank declined by 2 per cent at end 1998. Gross external assets of commercial banks declined from US dollars 1,103 million in 1997 to US dollars 923 million, indicating a reduction of investments abroad by FCUBUs. Their gross foreign liabilities also declined by a larger amount (US dollars 228 million) as external borrowings by FCUBUs declined. Hence, there was an improvement in net foreign assets of the commercial banks by US dollars 48 million. Gross official reserves, comprising foreign assets held by the Central Bank and the government, declined by US dollars 45 million to US dollars 1,984 million during 1998. However, there was a larger decline in gross official short-term liabilities which include the repayments to the IMF of US dollars 83 million and the settlement of ACU

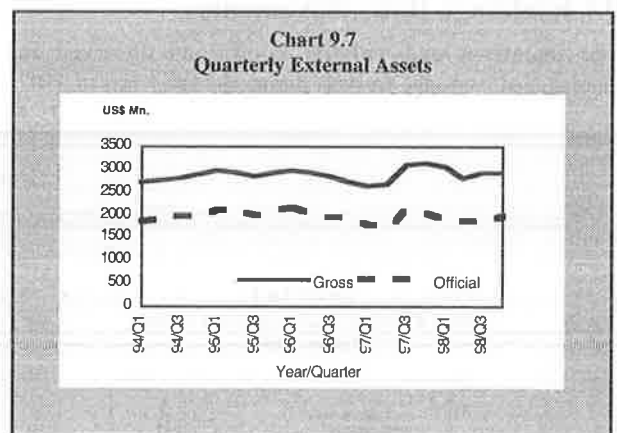


TABLE 9.8
External Assets of Sri Lanka

Ownership	US Dollars Million(a)					Rupees Million				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
1. Government (b)	23	17	23	19	20	1,132	938	1,295	1,192	1,372
2. Government Agencies	0	0	0	0	0	0	0	0	0	0
3. Central Bank (c)	1,999	2,046	1,915	2,009	1,964	99,859	110,521	108,506	123,093	132,900
4. Total Official Assets	2,022	2,063	1,937	2,029	1,984	100,991	111,459	109,800	124,286	134,272
5. Commercial Banks (d)	853	839	780	1,103	923	42,607	45,338	44,211	67,596	62,561
6. Total External Assets	2,874	2,902	2,717	3,132	2,907	143,598	156,797	154,011	191,881	196,833
7. Gross Official Assets in Months of										
7.1 Merchandise Imports	5.1	4.7	4.3	4.2	4.0					
7.2 Import of Goods and Services	4.5	4.1	3.8	3.7	3.6					
8. Total Assets in Months of										
8.1 Merchandise Imports	7.2	6.6	6.0	6.4	5.9					
8.2 Import of Goods and Services	6.5	5.8	5.3	5.7	5.2					

(a) Converted at the following end year rates except for certain items in the International Reserve of the Central Bank which were converted at the representative rate agreed with the IMF

Year	1994	1995	1996	1997	1998
Rs per US Dollar	49.98	54.05	56.71	61.29	67.78

(b) Figures since 1985 have been revised to include the DST's Special Revolving Credit Balances

(c) Figures since 1993 have been revised to include foreign currency deposits of commercial banks maintained with the Central Bank as reserve requirement on their foreign currency deposits.

(d) Since 1994 Foreign Currency Banking Units (FCUBUs) have been treated as a part of the domestic banking system, rather than as off-shore units, in the compilation of balance of payments statistics. Accordingly, external assets of commercial banks have been revised to include balances held by FCUBUs with non-residents and to exclude placements by domestic commercial banks with FCUBUs. (see technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics in Box 8)

Source: Central Bank of Sri Lanka.

balances. As a result, the net official reserves improved by US dollars 37 million, resulting in an overall surplus in the balance of payments by that amount. Total external assets at the end of 1998 were sufficient to finance 5.9 months of imports for 1998, while gross official reserves were sufficient to finance 4 months of the same year imports.

9.9 External Debt

The total external debt of Sri Lanka increased to US dollars 8,753 million at the end of 1998 from US dollars 8,197 million in 1997. Over 85 per cent of the increase was due to exchange rate variations, in particular, the strengthening of the Japanese yen against the US dollar. Medium and long-term debt accounted for 94 per cent of the total debt stock, consisting mainly of concessional assistance received from the ADB, Japan and the International Development Association (IDA). Total debt outstanding to the IMF declined by 15 per cent in dollar terms during the year to US dollars 367 million.

Government debt accounted for about 79 per cent of the total debt stock. The outstanding government guaranteed debt

of public corporations and the private sector rose by 8 per cent to US dollars 724 million in 1998, mainly due to the US dollars 65 million Floating Rate Note issue raised by DFCC Bank. The external debt to GDP ratio rose to 56 per cent in 1998 from 54 per cent in 1997. Short-term debt outstanding at the end of the year reflected an increase of

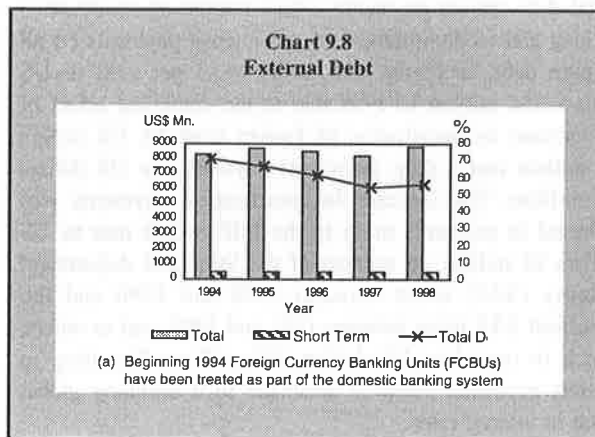


TABLE 9.9
Disbursed and Outstanding External Debt (a)

Item	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998(b)	1994	1995	1996	1997	1998(b)
1. Medium and Long-term Debt	7,788	8,152	7,988	7,719	8,266	389,232	440,570	452,944	473,043	560,279
1.1 Government (c)	6,216	6,637	6,554	6,346	6,897	310,665	358,710	371,648	388,925	467,477
1.2 Public Corporations and Private Sector with Government Guarantee (c)	696	640	637	670	724	34,802	34,582	36,098	41,061	49,052
1.3 Public Corporations and Private Sector without Government Guarantee (c)	261	279	267	270	278	13,027	15,066	15,144	16,521	18,854
1.4 IMF Drawings	615	596	530	433	367	30,738	32,212	30,054	26,536	24,896
2. Short-term Debt	510	542	498	478	487	25,487	29,309	28,262	29,323	33,001
2.1 Government	0	0	0	0	0	0	0	0	0	0
2.2 Central Bank Borrowings	0	0	0	0	0	0	0	0	0	0
2.3 Other (c),(d)	510	542	498	478	487	25,487	29,309	28,262	29,323	33,001
3. Total Debt(1+2)	8,298	8,694	8,486	8,197	8,753	414,719	469,879	481,206	502,366	593,280
MEMORANDUM ITEMS										
Medium and Long-term Debt										
(1) Project Loans	4,218	4,594	4,654	4,530	5,160	210,818	248,296	263,918	277,637	349,738
(2) Non-Project Loans	1,835	1,871	1,724	1,612	1,641	91,719	101,137	97,745	98,788	111,221
(3) Suppliers' Credits	161	256	239	343	251	8,051	13,837	13,537	21,015	17,020
(4) IMF Drawings	615	596	530	433	367	30,738	32,212	30,054	26,536	24,896
(5) Other Loans (e)	959	834	841	801	847	47,907	45,088	47,690	49,067	57,405
Total Debt as a percentage of GDP	70.8	66.7	61.1	54.3	55.6	71.6	70.4	62.6	56.4	58.4
Short-term Debt as a percentage of GDP	4.4	4.2	3.6	3.2	3.1	4.4	4.4	3.7	3.3	3.2
Short-term Debt as a percentage of Total Debt	6.1	6.2	5.9	5.8	5.6	6.1	6.2	5.9	5.8	5.6

Sources: Central Bank of Sri Lanka
External Resources Dept.

(a) Since 1994 Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system, rather than as off-shore units, in the compilation of balance of payments statistics. Accordingly, disbursed and outstanding external debt data have been revised to exclude FCBU loans to domestic entities as they are considered as domestic transactions under the new definition. Please see the technical note on "Redefining FCBU Transaction in the compilation of Balance of Payments Statistics" in Box 8.

(b) Provisional

(c) Data since 1994 have been revised to incorporate additional information.

(d) Includes acceptance credits of Ceylon Petroleum Corporation and other trade credits.

(e) Includes long-term loans of public corporations and private sector institutions.

2 per cent in US dollar terms, mainly due to borrowings by BOI enterprises and accounted for only 6 per cent of the total debt. These are largely suppliers' credits for raw materials supplied to the export processing industries and trade credits to the Ceylon Petroleum Corporation.

9.10 Debt Service Payments

Total debt service payments, which consist of amortisation of long and medium-term debt and interest payments on all foreign debt, increased marginally by 3 per cent to US dollars 754 million in 1998 due to the combined effect of an increase in amortisation of foreign loans by US dollars 37 million and a drop in interest payments by US dollars 15 million. The increase in amortisation payments was reflected in payments made to the IMF, which rose to US dollars 83 million on account of the Structural Adjustment Facility (SAF) taken between 1988 and 1990 and the Enhanced SAF taken between 1991 and 1994, and to others, which increased to US dollars 384 million. The drop in interest payments could be attributed to a declining global trend in interest rates.

The debt service ratio increased marginally from 13.3

per cent in 1997 to 13.4 per cent in 1998 due to the combined effect of reduced interest payments and a slower growth in export earnings during the year. Debt service payments as a ratio of receipts from goods, services, income and private transfers remained unchanged at 11.0 per cent during the period under review.

9.11 External Trade Environment and Policy

Import and Export Controls

Sri Lanka's external trade and tariff policy has continued to focus on rationalising the trade and tariff system through lowering and simplifying the tariff structure, while progressively reducing quantitative restrictions and removing distortions associated with ad hoc duty waivers and exemptions. The licensing requirements on exports and imports have been limited to a well defined narrow list considered necessary mainly for reasons of national security, public health, environmental protection and domestic producer protection. The import of maize remained under license for reasons of domestic producer protection, while

TABLE 9.10
External Debt Service Payments (a)

Item	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998(b)	1994	1995	1996	1997	1998(b)
1. Debt Service Payments	540	764	746	733	754	26,644	38,652	40,953	42,645	48,504
1.1 Amortization	290	452	439	430	467	14,313	22,642	24,007	24,764	29,895
(i) To IMF	13	33	47	66	83	616	1,184	2,314	3,290	5,100
(ii) To Others (c)	277	419	392	364	384	13,697	21,458	21,693	21,475	24,794
1.2 Interest Payments	250	312	307	303	288	12,330	16,011	16,946	17,881	18,609
(i) To IMF	7	8	7	6	6	348	407	409	361	376
(ii) To Others (c)	242	304	300	297	282	11,982	15,604	16,537	17,520	18,233
2. Earnings From Merchandise Exports and Services	3,954	4,627	4,861	5,514	5,648	195,347	237,137	269,159	325,885	365,316
3. Receipts From Merchandise Exports, Services, Income and Private Transfers	4,833	5,644	5,878	6,670	6,861	238,812	289,215	325,420	394,122	443,782
4. Debt Service Ratio (d)										
4.1 As a percentage of 2 above										
(i) Overall Ratio	13.7	16.5	15.3	13.3	13.4	13.6	16.3	15.2	13.1	13.3
(ii) Excluding IMF Transactions	13.1	15.6	14.2	12.0	11.8	13.1	15.6	14.2	12.0	11.8
4.2 As a percentage of 3 above										
(i) Overall Ratio	11.2	13.5	12.7	11.0	11.0	11.2	13.4	12.6	10.8	10.9
(ii) Excluding IMF Transactions	10.8	12.8	11.8	9.9	9.7	10.8	12.8	11.7	9.9	9.7
5. Government Debt Service Payments										
5.1 Government Debt Service Payments (e)	324.1	342.2	378.5	393.4	417.0	15,749	17,888	20,947	24,060	26,063
5.2 As a percentage of 1 above	60	45	51	54	55	59	46	51	56	54

Source: Central Bank of Sri Lanka.

(a) Since 1994 Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system, rather than as off-shore units, in the compilation of balance of payments statistics. Accordingly, external debt service payments have been revised to exclude those payments by domestic entities to FCBUs as they are considered as domestic transactions under the new definition. Please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8

(b) Provisional

(c) Data since 1994 have been revised to incorporate additional information.

(d) Debt service ratios calculated in rupee values and US dollar values differ due to variations in exchange rates during the year.

(e) Excludes IMF transactions

rice in husk remained under licence for phyto-sanitary reasons. Imports of wheat and meslin and wheat and meslin flour continued to remain under licence control in 1998 in order to fulfil the contractual obligations between the government and Prima Ceylon Ltd., a milling company. Some restrictions that had existed hitherto were relaxed, including the enhancement of the upper limit on advance payment for imports, from US dollars 3,000 to US dollars 7,500, by way of amendments made to the Import and Export Control Act No. 1 of 1969, with effect from 8 April 1998. During the year, selected parts of motor vehicles were brought under import licence. The licence requirement on three year of age diesel engines of cubic capacity less than 3,250 was revised to five year old engines. Importers had been required to obtain licences for imports of vehicles over 5 years old in the past. However, certain categories of motor vehicles less than 7 years of age, used for goods transportation, were permitted to be imported without licence requirement for a period of four and a half months from 17 November 1998. This decision is not in keeping with the present policy direction as it amounts to an ad hoc policy change. In summary, about 300 items out of about 6,000 items at the 6 digit level of the Harmonised System Code (HSC) remained under import licence at end 1998.

Four categories of exports, i.e., coral chunk and shells, wood and article of wood (ebony), ivory and ivory products and passenger motor vehicles first registered in Sri Lanka prior to 1945, continued to remain under licence with the objectives of environmental protection and preservation of antiques.

Tariffs and Taxes on External Trade

Sri Lanka's tariff policy continued to focus on stimulating export led growth by implementing measures conducive to enhancing the competitiveness of exports within the framework of a simple and transparent tariff structure with lower rates and to improve the Customs administration with a commitment to reform the prevailing system to facilitate international trade and commerce to meet the challenges in the next millennium. In this context, the Presidential Trade and Tariff Commission (PTTC), which was appointed by the government in 1997 to study and recommend appropriate changes to the tariff structure, made its recommendations in July 1998. The PTTC recommended reduction of the prevailing tariffs and a move towards a two band tariff system in two stages. In line with these recommendations, the three band tariff system with 10, 20 and 35 per cent rates for imports, which had been effective since February 1995, was replaced with a three band tariff system of 5, 10 and 30 per cent with effect from 6 November 1998. All industrial raw material and machinery not manufactured in Sri Lanka are classified under the 5 per cent band. Further consolidation of the tariff structure to a two band system is expected to commence in the year 2000.

A few items remained outside the three-band tariff system. In line with the present policy direction of rationalisation of the tariff structure to simplify and minimise anomalies, duty on imports of motor cars and jeeps, which were under the duty range of 50-100 per cent, was reduced and unified at 30 per cent. However, to safeguard government revenue targets, an excise duty of 10 per cent was levied. Import duty on crude oil and petroleum products, which had remained outside the three band system since 6 November 1997, was increased from 25 per cent to the upper rate of 30 per cent. To simplify the procedures involved, concessions extended to transport, communication and medical equipment were classified under a zero rate of duty. Import duty on sports items too was removed with the objective of facilitating sports activities in Sri Lanka towards reaching international standards. Import duty on agricultural

TABLE 9.11
Effective Import Duty Collection Rate (a)

Item	1995	1996	1997	1998(b)
Consumer Goods	10.7	10.3	11.7	12.7
Food and Drink	10.1	9.1	11.4	12.6
Rice	38.5	0.3	6.3	2.4
Flour	0.0	2.3	0.0	0.0
Sugar	14.6	15.9	17.8	20.8
Wheat and Meslin	0.0	0.0	0.0	0.0
Milk and Milk Products	11.5	11.5	11.8	11.5
Dried Fish	2.0	2.1	1.6	1.1
Other Fish Products	4.6	4.2	4.9	4.8
Other Food Items	18.7	19.0	17.9	20.5
Non-Food Consumer Goods	11.8	12.6	12.2	12.8
Motor Cars & Cycles	21.7	24.3	24.5	23.6
Radio Receivers- Television Sets	6.9	12.1	11.5	12.4
Rubber Tyres & Tubes	33.6	32.5	33.5	32.0
Medicinal & Pharmaceutical Products	1.5	1.5	1.3	0.9
Other Non-Food Items	11.1	10.6	9.4	10.1
Intermediate Goods	9.1	8.1	5.9	4.7
Fertiliser	0.0	0.0	0.1	0.0
Crude Oil	41.1	33.5	21.7	26.4
Other Petroleum Products	23.4	24.6	18.7	16.7
Chemical Elements and Compounds	9.8	7.6	7.6	5.8
Dyeing, Tanning and Colouring	8.8	8.2	7.1	7.5
Paper and Paper Boards	9.8	6.9	6.0	6.0
Textiles & Clothing	1.0	1.1	0.8	0.1
Other Intermediate Goods	9.2	5.7	5.2	4.8
Investment Goods	10.1	7.6	7.0	6.0
Building Materials	8.7	9.3	9.1	9.3
Transport Equipment	21.6	18.9	17.3	11.8
Machinery and Equipment	6.2	3.9	3.4	3.0
Other Investment Goods	10.1	6.7	6.3	4.4
Total	9.7	8.5	7.7	7.4

Source: Sri Lanka Customs,
Co-operative Wholesale Establishment,
Ceylon Petroleum Corporation.

(a) Actual import duty collection as a percentage of total adjusted import values (c.i.f.).

(b) Revised

(c) Provisional

products remained at the present level of 35 per cent to allow the domestic agricultural sector to adjust to a lower tariff regime over the medium term. However, import duty on agricultural seeds and planting material was maintained at a zero level. Only a few items remain under the 20 per cent band, while a limited number of items, namely sugar, tobacco and liquor, were under specific rates outside the three band system.

The number of items on the list of exemptions was increased from 26 to 39 in November 1997 and revised again by removing seeds, fruits, spores and plants imported for planting purposes and gold, rough stones of diamond and diamond powder imported for the jewellery industry from the schedule and introducing certain pharmaceutical products and packing materials used for packing milk, vegetable and fruit juices to the schedule with effect from 6 November 1998. The number of items under the list of exemptions remained at 39. The export sector has continued to be free from all export and ad valorem sales taxes since late 1992, while export cesses and royalties on some items continued to remain in 1998.

The three band turnover tax system, with 8, 12 and 18 per cent rates on imports, was replaced by a Goods and Services Tax (GST) with a single moderate rate of 12.5 per cent with effect from 1 April 1998. Under the GST, all exports are zero rated, while exemptions were granted for selected import items including essential food imports. Other than items included in the exemption schedule or under the zero rate of GST, all imports, whether duty free or not, were liable for GST.

In line with the present policy objectives, granting of duty waivers on imports was limited to items essential in the national interest. Towards achieving the objective of minimising distortions in the tariff structure, items on full duty waivers, namely, whole and split lentils (35 per cent band), dried fish, dried sprats and dried prawns, live animals used for breeding purposes and compact fluorescent lamps (10 per cent band) and one item on a partial waiver, canned fish (10 per cent band), were made duty free with effect from 6 November 1998. A partial duty waiver of 10 per cent on milk powder (20 per cent band) too was removed by reclassifying it under the 10 per cent in the tariff schedule itself. A full duty waiver had been provided to vitamins to rectify an anomaly in the tariff schedule and this was included in the exemption list with effect from 6 November 1998.

A full duty waiver (35 per cent band) on rice, which was introduced on 20 November 1997, was removed on 31 January 1998 following the successful Maha harvest. A partial duty waiver of 15 per cent was granted on onions and potatoes for the period of 27 November 1997 to 31 January 1998. A duty waiver of 10 per cent on sugar imports, effective since 11 August 1997, was changed to a specific duty rate of Rs. 3.50 per kg. with effect from 16

January 1998. A partial duty waiver of 20 per cent granted on edible oils other than coconut oil for a period of 18 months from 13 January 1997, was increased to 30 per cent with effect from 18 June 1998. The partial duty waiver of 20 per cent on copra, which had continued since 13 January 1997, remained unchanged. In order to mitigate the effects of a rising cost of living due to high food prices, a full duty waiver on wheat grain (20 per cent) continued throughout the year.

With regard to intermediate goods, a limited number of duty waivers were granted as relief measures. To ensure the availability of raw material for flour based products at reasonable prices, large scale manufacturers are allowed to import wheat flour and a full duty waiver was granted with effect from 21 January 1998. A full duty waiver was granted on shrimp food for the period 24 August 1996 to 23 August 1998, while a full duty waiver was provided for buses with 30 seats or above for a period of one year from 1 January 1998. Coaches with 15 seats and above were provided with a full duty waiver for one year from 16 March 1998 to encourage employers to provide transport facilities to workers. Since 7 May 1997, state electronic media institutions have been provided with a full duty waiver for media equipment in order to enable them to be competitive with private media institutions enjoying BOI status.

All these revisions, together with the removal of duty waivers on power generators, LP gas, petroleum products, cotton yarn in hunk form and live goats, operating in 1997, enabled the government to reduce the revenue foregone due to duty waivers from Rs. 11,550 million in 1997 to Rs. 6,245 million in 1998. The reduction in waivers given on various items to individuals too contributed towards this development. Although these duty waivers and exemptions are supported by objectives of national interest, these ad hoc waivers create uncertainty and hinder the development of an efficient market. Nevertheless, a clear indication of the policy path in the trade and tariff regime towards minimising distortions can be seen in the recent past.

The average import duty rate, i.e., the ratio of import duty collection to total adjusted imports, declined from 7.7 per cent in 1997 to 7.4 per cent in 1998, reflecting decreases in duty rates and dutiable imports. The share of dutiable imports in total imports declined from 37.0 per cent in 1997 to 35.4 per cent in 1998, reflecting the reduction in dutiable imports in the intermediate and investment goods categories. In the intermediate goods category, the average duty rate dropped from 5.9 per cent in 1997 to 4.7 per cent owing to the effect of the duty concessions granted on certain raw materials in the 1998 Budget.

Average duty rates on investment goods too declined in 1998, particularly with regard to transport equipment. This was due to a series of duty concessions offered by the 1998 Budget for the importation of tractors, lorries, prime movers, refrigerated trucks and items for manufacturing tractors, and

duty waivers provided to large commercial organisations to import buses and coaches for providing transportation to their employees. As a result, the average duty rate on transport equipment declined from 17.3 per cent in 1997 to 11.8 per cent in 1998.

In the consumer goods category, the average import duty rate rose for both food and drink and non-food consumer goods categories. The increase in the average import duty rate of the food and drink category was mainly reflected in imports of sugar. The impact of the duty waiver reduction on sugar from 17 per cent to 10 per cent on 11 August 1997, which was changed to a specific rate from 16 January 1998, was reflected in significantly higher average duty rates in 1998. Only a very marginal change was seen in the effective rate of non-food consumer goods.

Textile and Garment Quota Allocation

The performance based quota system, introduced in 1995, was continued in 1998. Shipment of products under quota categories is allowed only on proof of payment of EPF and ETF contributions. Priority was given to exporters who made new investments or expanded their existing capacities, in allocating new quota. Immediately after the allocation of performance quota, the remaining quota were allocated under the main pool quota scheme on a pro rata basis of number of employees, and preference was given to exporters to non quota countries and exporters of non quota items to quota countries. The under-utilised categories in the previous year were declared as 'cold' categories and allocated on the condition that shipment would be made within seven working days. The various schemes that have evolved under pool quota systems reflect cumbersome procedures that require close supervision and monitoring to achieve maximum utilisation. Quota administration had been in some disarray in 1998 as quotas to the USA for some items such as men's and boys' jackets and shirts were over utilised and the Textile Quota Board had to take action to avoid the possible imposition of an embargo by the USA government.

Quota availability to the USA, the EU and Canada rose by 3 per cent, 13 per cent and 8 per cent, respectively, under the flexibility provisions. Accordingly, overall quota availability increased by 5 per cent in 1998. The overall quota utilisation rate remained at around 74 per cent as in the previous year. The utilisation of quotas varied widely across different categories and countries. The under utilisation was partly due to insufficient demand for particular items and local producers used their capacity to produce high value added garments under other quota categories or to produce non quota garments. This was evident from the increased garment exports by the non-quota garment sector, and over utilisation of some popular categories to the USA and Canadian markets. Quota utilisation increased significantly for certain items such as men's and boys' jackets, men's and boys' shirts, women's

and girls' coats and dresses, shirt and blouses, women's and girls' suits, and shirts, nightwear, dressing gowns, coats and trousers. To the same market, allocation and utilisation were higher than in 1997 for other items such as skirts and towels. At the same time, even though the quota availability was raised for certain items, utilisation was much lower for those items. The quota utilisation rates for all items to the EU declined, despite the rise in the available quota. With regard to the Canadian quota, only a few categories indicated satisfactory quota utilisation. In spite of the 9 per cent growth recorded in garment exports to quota countries, the share of garment exports under the quota system declined from 63 per cent in 1996 to 62 per cent in 1997. Exports under quota to the USA declined from 88 per cent in 1996 to 83 per cent in 1997, while quota shares to the EU and Canada remained at 28 per cent and 87 per cent, respectively.

Quotas continued to be an important regulator of trade in textiles and garments. Until quotas are fully phased out in 2005 under the Uruguay Round Agreement on Textiles and Clothing, optimal utilisation of quotas needs to be ensured to reap the full potential benefits under the existing framework. Hence, the quota administration needs to be done efficiently. Although market based quota distribution through auctioning of quotas would have produced better results in terms of quota utilisation, various other objectives, such as the need to promote new investments, regionalise industries and generate more employment, have entered into the quota administration in Sri Lanka. Although a fundamental change in the quota allocation system may not be necessary, it should be the responsibility of quota administrators to ensure the smooth functioning of the system, so that the growth of the textiles and garments industry and trade will not be interrupted. This is all the more important as the global competition among suppliers has intensified in the context of depressed world market conditions and there needs to be smooth transition to face more intense competition in a quota-free trading environment after 2005.

Incentives to Exporters

During the year 1998, the government implemented various incentives proposed in the 1998 Budget targeting exporters as well as other industrialists. Accordingly, goods needed for the modernisation of agriculture, such as green houses, planting material, packaging material, refrigerated trucks, and requirements for the gem and jewellery industry, such as machinery and equipment and raw material, were exempted from customs duty and the GST.

A BOI incentive structure was provided to encourage investors to set up industries in difficult and most difficult areas by end 1998 to encourage regional industrialisation. In view of the encouraging response from investors, this facility was extended for another year in the 1999 Budget. Thus, exporters who set up their industries before 31 December

1999 in backward areas will be granted BOI incentives such as tax holidays, import duty exemptions on capital goods and raw material and will also be exempt from the provisions of the Exchange Control Act.

The fiscal incentive scheme introduced in the 1996 Budget to encourage investment in new and existing industries to acquire advanced technology was extended for a further period of two years by the 1998 Budget. This scheme allowed duty free imports for new companies investing over Rs 4 million and for existing companies investing over Rs.1 million. The minimum investment requirement for this scheme was eliminated in the 1999 Budget to provide benefits to small industries for importing machinery and equipment. However, the concession on income tax is applicable only to those with a minimum investment of Rs.4 million.

Institutional Support to Exporters

Exporters received institutional support from various traditional export product development authorities, the Export Development Board (EDB), the Sri Lanka Export Credit Insurance Corporation (SLECIC) and other related government institutions. The EDB played a major role in promoting non-traditional exports through its programmes on entrepreneur development, product development, market promotion, providing trade related information, granting financial assistance and making recommendations on related economic policy issues to the government. Institutional support for traditional exports such as tea, rubber and coconut was provided by the development authorities of the respective products. The SLECIC granted credit insurance and guarantee services. Other relevant institutions, especially the Ministry of Internal and International Commerce and Food (MIICF) and the Ministry of Foreign Affairs, educated exporters on facilities available through bilateral, regional and multilateral organisations and were instrumental in establishing contacts between Sri Lankan exporters and foreign counterparts. Business organisations in Sri Lanka, such as Chambers of Commerce, also provided institutional support to exporters.

Under its technical and skills development programmes the EDB conducted 63 programmes including product specific seminars and general workshops. The EDB provided assistance to exporters to participate in several international trade fairs for products such as coir goods, gems and jewellery, organic tea, spices, essential oils, herbs, cashew nuts, garments, footwear, fruits, vegetables, floriculture, light engineering goods and handicrafts. Confirmed orders to the value of Rs.241 million (0.1 per cent of exports in 1998) were secured by the exporters as those trade fairs. Under the Export Processing Village (EPV) programme, the EDB continued to assist the Dambadeniya, Polgahawela and Tissamaharama EPVs. The EDB provided financial assistance totalling Rs.216 million to 270 exporters under three

development programmes, namely, the 200 garment factory programme, the incentive scheme for the handloom textile industry and the agricultural products and rubber products rebate scheme.

To develop export oriented small and medium scale enterprises (SME), the EDB launched several programmes in the Southern, North Western and Central provinces. An exhibition in the Central and North Western provinces organised by the EDB helped SMEs to generate export orders for Rs.2 million. The EDB facilitated the participation of SMEs at other exhibitions such as the 'Jana Nipayum' trade exhibition organised by People's Bank and 'Sri Lanka Intrad '98' an industrial trade and investment exhibition. In addition, the EDB assisted the Federation of Chambers of Commerce and Industry of Sri Lanka to organise the SAARC Trade Fair held in Colombo in September 1998 where more than 300 exhibitors from all SARRC countries participated. In November 1998, the EDB participated in the trade mission to Iraq and organised Sri Lanka's participation at the 31st session of the Baghdad International Trade Fair with the objective of re-introducing Sri Lankan products to the Iraqi market.

The Sri Lanka Export Credit Insurance Corporation (SLECIC) continued to provide export insurance and guarantee services for the development of exports. During 1998, 60 insurance policies were issued for a value of US dollars 7.4 million, which was only 0.15 per cent of total export value. The year 1998 was a particularly difficult year for Sri Lankan exporters as they were hit by the East Asian and Russian currency crises. The SLECIC launched a special insurance policy covering tea exports to Russia on 15 October 1998, at the request of the Ministry of Finance and at the initiative of the Sri Lanka Tea Board. The special cover was for a period of 4 months and was limited to 75 per cent of the loss with a maximum limit of US dollar 15 million. However, the SLECIC issued only 4 policies for a total value of US dollar 2.7 million under this scheme. The SLECIC provided several schemes of guarantees to commercial banks against default risk on financial facilities granted to exporters. Those schemes helped exporters to obtain necessary financing on time. In 1998, the SLECIC issued a total of 66 guarantees for a total value of Rs.142.8 million for pre-shipment credit, post-shipment credit, export production credit and export performance guarantees. The SLECIC continued to issue direct guarantees to assist gems and jewellery exporters participating in trade fairs and exhibitions abroad, under the "Admission Temporaire Admission"(ATA Carnet) system. Under this scheme, exporters were assisted to obtain a standard certificate, which is a temporary admission permit issued by the Sri Lanka National Council of the International Chamber of Commerce (ICC) without any collateral security, which permitted duty free access to foreign exhibitions.

During 1998, the Chambers of Commerce held a number of seminars to enhance awareness on challenges

faced by exporters and facilitated business meetings between local entrepreneurs and their foreign counterparts. Further, the Chambers participated in monthly meetings between the Treasury, exporters and Customs and settled many of the problems faced by its members. They maintained data bases on overseas trade inquiries, potential foreign buyers, sellers and agents. During 1998, they issued export documents such as certificates of origin, invoices and phytosanitary certificates. In addition, miscellaneous commercial documents such as quality and weight certificates, agency agreements, radio activity certificates and entrepot certificates of origin were also issued. The Chambers held industrial, trade and investment exhibitions with the aim of creating awareness about Sri Lanka's manufacturing and trading capacity and investment potential.

Freight Rates

Shipping lines covering destinations in Asia such as Singapore, the Arabian Gulf, Dubai, Kuwait and Pakistan have adopted the Freight of All Kind (FAK) system. However, most of the shipping lines covering the UK, North Continent (North European destinations), the Mediterranean, France, Egypt, the USA and Canada adopted a commodity based freight rate system.

During 1998, average shipping freight rates changed significantly. For destinations such as the UK, the North Continent, the Mediterranean, France, Egypt and Syria, average freight rates were higher than in 1997, while for destinations in the Middle East (Dubai, Kuwait, Jeddah), Pakistan and Australia, freight rates were lower.

During the latter part of the year, certain major shipping lines had revised their proposed shipping charges on shipments to Europe and the USA, which they expect to implement with effect from 1 January 1999. According to the proposed rates, an increase of US dollars 1,000 for 40 foot containers to the USA was reported for many shipping lines. To destinations in Europe, an increase of US dollar 400 per container from January 1999 and a further increase of US dollar 300 from April 1999 were proposed.

Freight rates are determined partly by the global demand and supply forces and the degree of competition among shipping lines. In Sri Lanka, local agents implement rates given to them by their principal shipping companies, which mostly operate abroad. Thus, the rates may have an adverse impact on small scale exporters in Sri Lanka. In this light, the Exporters' Association of Sri Lanka (EASL) is strongly opposing rate hikes because of the fear of further erosion of competitiveness. Thus, the situation needs careful study before the negative impact on small scale exporters' competitiveness, as expected by the EASL, is felt.

The controversial Terminal Handling Charges (THC) levied in 1997 continued to generate further distress among exporters. In response to a complaint made by the EASL on this in 1997, the Fair Trading Commission (FTC) made

investigations into the matter. The FTC decided that the THC was anti-competitive and the Ceylon Association of Ships' Agents (CASA) was asked to remove the charge. The CASA appealed against the FTC ruling and the case has not been settled yet. Meanwhile, the CASA expects to increase the THC in 1999.

It should be noted that in the affairs of freight, the role of the Central Freight Bureau (CFB) is not clearly defined. Although the CFB provides statistical notes on freight charges, they do not provide any policy guidelines or regulatory services. Clearly, the manpower resources of the CFB could be utilised to address controversial issues on freight.

9.12 Trade Relations, Trading and Clearing Arrangements

With the objective of increasing the degree of integration into the global economy, Sri Lanka took several major steps to reduce tariffs on a unilateral, bilateral and multilateral basis and to strengthen regional, bilateral and multilateral relations in 1998.

Sri Lanka unilaterally reduced tariff levels and also dis-invoked Article XVIII B of GATT'94 in 1998, which was invoked in 1971 due to the country's balance of payment difficulties. Under the provisions of this Article, Sri Lanka could impose restrictions on imports until the balance of payment situation eases. Thus, Sri Lanka has removed the possibility of imposing non-tariff barriers under any future balance of payment difficulties. At present, Sri Lanka does not maintain any non-tariff barriers for economic reasons, but maintains para-tariff measures to raise funds for national defence and to maintain port services.

During the year, Sri Lanka's trading relations with India achieved new heights with India's unilateral removal of quantitative restrictions on 2000 items benefiting the region, and the signing of the Indo-Lanka Free Trade Agreement (ILFTA) in December. However, of the 2000 listed items, Sri Lanka exports only a few to India. The ILFTA is Sri Lanka's first ever free trade agreement. It was an outcome of the fourth round of negotiations under the Indo-Lanka Joint Commission. The effectiveness of the ILFTA could be affected by the exclusions to be imposed by the two countries under the 'Negative Lists'. Nevertheless, the ILFTA signals the willingness of the two countries to adopt a free trade environment and gradually remove the protection granted to local industries.

Tariffs will be removed under ILFTA immediately for some items by the two countries. The remaining items, excluding those in the negative lists, will receive a 25 to 50 per cent tariff cut immediately. The two countries will remove the rest of the tariff on those items, except for a few select items, over a period of three to eight years. Removal of non-tariff barriers seems to be taking place at a very slow pace both under the South Asian Preferential Trading

Arrangement (SAPTA) negotiations and under the ILFTA. This is disadvantageous, as Sri Lanka has already removed all non-tariff barriers, except for a few maintained for national security and health reasons.

Sri Lanka regularly holds meetings of its Joint Commissions with several countries. In 1998, the Sri Lanka-Pakistan Joint Commission meeting was held and issues dealing with trade expansion, market access, credit lines and technical co-operation were discussed. The fourth session of the annual consultations with Norway was held in 1998 and the need for a specific program was discussed.

Sri Lanka initiated bilateral discussions with Iraq, and as a result, Iraq resumed importing tea from Sri Lanka with an enhanced allocation of 2.3 million kilograms under the 5th phase of the Oil for Food Program.

Sri Lanka also entered into bilateral discussions with several economically important countries where Joint Commissions do not exist. Considering the importance of shipping, a bilateral agreement is planned with Italy. Similarly, for tea exports, Sri Lanka had bilateral discussions with the Russian Federation and several East European countries in the Commonwealth of Independent States (CIS). The discussions resulted in exchanging draft agreements on trade and economic and technical co-operation with Russia, Uzbekistan, Ukraine, the Czech Republic, the Slovak Republic and Hungary. A trade agreement with Romania has been cleared and verified on both sides and will be initialised at the next Joint Committee meeting to be held in Bucharest.

The tenth Summit of the South Asian Association for Regional Co-operation (SAARC) was held in Colombo in 1998. At this meeting, the Heads of Government decided to accelerate and complete the third round of trade negotiations under SAPTA, to consider reductions in the domestic content requirement under the rules of origin criteria, and to constitute a committee of experts with specific terms of reference to work on drafting a comprehensive treaty regime for creating a future free trade area in the region, the South Asian Free Trade Area (SAFTA).

The third round of negotiations under SAPTA concluded in November 1998. At this round Sri Lanka obtained several tariff concessions from other SAARC members ranging from 10 per cent to 20 per cent, and all non-tariff barriers on the items receiving tariff concessions were removed. Bangladesh and Bhutan each granted tariff concessions for 7 products. India granted tariff concessions for 25 products and Pakistan granted concessions for 6 products. The Maldives offered tariff concessions and removed non-tariff barriers for 358 items for all members, of which only a part may be useful to Sri Lanka.

The concessions are subject to the exporting country contributing a significant share to the processing of products, as laid down in the local content requirement of the rules of origin criteria. A proposal to revise this requirement down from 50 per cent to 40 per cent received approval at

the conclusion of the third round. This requirement is higher than the requirement imposed on trade under the ILFTA. However, having any such requirement is an impediment to the trading process as a bureaucratic process is involved in granting certificates on fulfilling the local content requirement.

The 14th session of the Sri Lanka-EC Joint Commission was held in 1998. At the meeting, Sri Lanka negotiated concessionary tariffs under the Generalized System of Preferences (GSP) for knitted garments and fabrics by obtaining a revision on the rules of origin criteria.

Sri Lanka continued to receive tariff concessions from the participating developed countries of the GSP. Those countries grant tariff concessions to all developing countries without expecting any reciprocity. The share of exports receiving concessions from various countries is in the range of 7 per cent to 42 per cent. Exports to the USA received the lowest concessions, while exports to Canada received the highest concessions. This generally low share of exports receiving concessions may be due to various safeguard measures adopted by importing countries and the lack of awareness by Sri Lankan exporters of the GSP scheme. Sri Lanka could improve the share of exports receiving preferential treatment under the GSP by obtaining further concessions on the local content requirement in the rules of origin criteria. In this connection, SAARC as a grouping could lobby to receive special concessions for its members on the local content requirement under the 'cumulative rules of origin' criteria for the grouping. Under these criteria, material imported from SAARC member countries and used in production in any other member country could be considered 'local material' in deciding the local content requirement. The Commerce Department of Sri Lanka has already taken initiatives on obtaining the cumulative rules of origin concessions and popularising the scheme among exporters.

Sri Lanka made further progress in receiving concessions from the participating developing countries of the Global System of Tariff Preferences (GSTP). Under this system a group of developing countries exchange tariff concessions with reciprocity. In 1998 Sri Lanka confirmed its offer for the second round of negotiations.

Sri Lanka continued to enjoy tariff concessions under the Bangkok Agreement (with the membership of India, Bangladesh, South Korea, the Republic of Laos and Sri Lanka). China is expected to become a member of the agreement, and is currently negotiating tariff concessions with member countries. Member countries attribute the modest performance under this agreement to the limited territorial coverage. Hence they are making attempts to encourage Fiji to join the group. Sri Lanka's exports to Fiji amounted to Rs.68 million and imports amounted to Rs.1 million in 1998.

The International Natural Rubber Agreement (INRA) faced new challenges as one prominent member, Malaysia,

withdrew from the agreement. It may face further setbacks if Thailand too withdraws, as speculated. The price stabilising arm of INRA, the International Natural Rubber Organisation (INRO), could not prevent the gradual deterioration of international rubber prices which affected all rubber producing countries including Sri Lanka. Sri Lanka will have to closely follow developments and re-evaluate the costs and benefits of being in the organisation.

Sri Lanka also participated in meetings of two regional groupings, BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Co-operation), incorporating countries situated along the rim of the Bay of Bengal and IOR-ARC (Indian Ocean Rim Association for Regional Co-operation). The membership of the IOR-ARC includes countries of the Indian Ocean spanning the continents of Africa, Asia and Oceania. Sri Lanka currently holds the vice-chairmanship of the IOR-ARC.

Sri Lanka is a member of the G-24 group of countries and was admitted to the G-15 group of countries in 1998. Both are groupings of developing countries. The purpose of the G-24 is to raise their voice and find common solutions to asymmetric effects of the international economic and financial system. Sri Lanka was the first vice-chairman of the group in 1998 and will assume the chairmanship in April 1999. The objective of the G-15 is to tackle mutual global issues from a South-South perspective. It was designed to serve as a forum for regular consultations among developing countries, with the aim of co-ordinating policies and action at the global level, and to help develop and implement programmes of co-operation.

The Sub-committee on Agriculture set up under the Inter Ministerial Co-ordinating Committee for trade agreements, and in particular the WTO, is conducting research on the implications of the WTO agreement on agriculture in Sri Lanka. The draft legislation prepared in consultation with the Sub-committee on Anti-Dumping and Countervailing Duties is being considered by the concerned parties in Sri Lanka.

9.13 Internal Trade and Institutional Arrangements

Internal trade in Sri Lanka is conducted in a free market environment with minimum intervention. The state intervenes to ensure price competition, stabilise prices and ensure the availability of a few essential goods, where large fluctuations in the quality supplied or in prices could have harmful effects on consumer and producer welfare. Those interventions are carried out by the Ministry of Internal and International Commerce and Food (MIICF) and its marketing organisations, viz., the Co-operative Wholesale Establishment (CWE), Salusala, Lanka General Trading Company, Kiriya Milk Industries of Lanka Company (Pvt) Ltd., the Ministry of Co-operative Development and its affiliated Co-operative Development Department, the General Treasury and the State

Pharmaceutical Corporation. The two regulatory bodies attached to the MIICF, viz., the Department of Internal Trade (DIT) and Fair Trading Commission (FTC), maintain price controls on pharmaceutical products and probe into unfair trading practices. Since there exists a certain duplication of roles between the two institutions, and to create a stronger institution probing into trading practices, a proposal was made in 1997 to amalgamate the two institutions. The Bill for the proposed amalgamation is being prepared by the Legal Draftsman's Department.

In order to ensure the availability and price stability of essential consumer goods and goods that affect producer welfare, the CWE continued to purchase bulk quantities locally and to import goods. The CWE has to play the role of market stabiliser, while ensuring its own financial viability. Local purchases of big onions dropped in 1998 to a very low level of 30 metric tons compared to 1,570 metric tons purchased in 1997. This drop was due to the favorable prices that prevailed in 1998 for big onions. Thus, the CWE did not have to intervene to support producers. Local purchases of dried chillies too declined in 1998 due to a poor harvest and reasonably high prices realised by the farmers. The quantity purchased in 1998 was 90 metric tons compared to 1,797 metric tons in 1997. The lower local purchases resulted from the lower domestic production of sugar. In 1998, the CWE purchased 650 metric tons of sugar due mainly to low domestic production. Though this is higher than the purchase of 290 metric tons in 1997, it is substantially lower than the 4,608 metric tons purchased in 1996.

Since the removal of the licensing requirement on essential food items in 1996, the CWE's share of essential goods imports declined drastically in 1997 and 1998. Thus, the CWE imported those goods only to supply its retail shops when local purchases were not sufficient. In 1998, the quantities imported were comparable to the quantities imported in 1997, after providing allowances for the better local rice harvest, and restrictions imposed by major exporting countries (India and Pakistan) on big onion exports due to poor harvests in those countries. In 1998, the CWE imported 5,148 metric tons of big onions (7 per cent of total imports), 198 metric tons of dried chillies (1 per cent of total imports), and 14,953 metric tons of rice (9 per cent of total imports). However, the importation of wheat flour, the only good under licence, increased from 5,213 metric tons to 46,283 metric tons due to a production disturbance at Prima Ceylon Ltd., the sole local miller of wheat grain in Sri Lanka.

The number of CWE shops operating in 1998 amounted to 147 retail shops and 42 wholesale shops, showing an increase of 7 wholesale shops in 1998. The total turnover was Rs.5,282 million, a drop from Rs.5,392 million reported in 1997. Franchise shops recorded an increased turnover in 1998, a reversal of the decline observed in 1997. The total

franchise sales in 1998 were Rs.613 million, a significant increase from the Rs.432 million recorded in 1997, but still lower than the turnover of Rs.698 million recorded in 1996. The satisfactory performance could be attributed to the introduction of mobile sales to franchise shops and the appointment of 260 new dealers and 18 super franchise dealers in 1998. The CWE ventured into opening franchise shops abroad in 1998 to popularise Sri Lankan produce and as a part of their profit making strategy. The first dealer has been appointed in Australia, and appointment of dealers in a few selected countries will follow in 1999.

The other marketing institutions of the MICF, viz., Salusala, Lanka General Trading Company, and Kiriya Milk Industries of Lanka Company (Pvt) Ltd., engaged in providing anchors for quality and prices of important consumer goods. They played an effective role in ensuring fair competition. The State Pharmaceuticals Corporation and the Co-operative Development Department too played similar roles. The Treasury influenced the supply of essential goods through duty waivers and tariff changes.

Both the DIT and the FTC were engaged in ensuring the orderly conduct of trade in the free market environment. The two institutions made considerable efforts to enhance consumer awareness of consumers' rights, promote the formation of consumer groups, take measures to protect consumers, establish fair trading practices, regulate internal trade and maintain price controls where required.

The DIT acted under the provisions of the Price Control Act (PCA), the Consumer Protection Act (CPA), and the Fertiliser Regulation Act (FRA). Imported drugs and pharmaceuticals were subject to price control in 1998. The DIT carried out 175 inspections under the PCA and in 53 of those, offences were found. Under the CPA, 2,275 raids were conducted, and 1,507 prosecutions were made. Investigations under the FRA resulted in revealing 82 cases of fertiliser adulteration, non-conformity to standards and violation of regulations on selling, distribution and storage. The DIT also received and investigated consumer complaints on the irregular imposition of the Goods and Services Tax (GST).

The DIT continued with its consumer awareness programme by conducting seminars and through its publications. It issued one directive requiring all mosquito coils to conform to the specification SLS 453. The DIT also continued to be in the Steering Committee of the Asia and Pacific Region of the Consumer International, an association collaborating with the UN Economic and Social Council.

The FTC continued to determine the prices of pharmaceuticals. For the first time, maximum retail prices were fixed for pharmaceuticals, manufactured or packaged locally. It investigated six anti-competitive practices, four consumer complaints and one merger of companies. There were no anti-dumping charges brought before the FTC and no investigations were done in 1998.

9.14 Tourism

The tourism sector continued to recover in 1998 from the major slowdown experienced in 1996. In 1996 the arrivals plummeted to 302,265 from 403,101 arrivals in 1995. Subsequently, in 1997, arrivals grew by 21 per cent to 366,165. In 1998 they grew by 4 per cent to 381,063, almost reaching the target of 388,000 set by the Ceylon Tourist Board, despite the two major terrorist attacks that occurred in early 1998. The competition from the East Asian countries

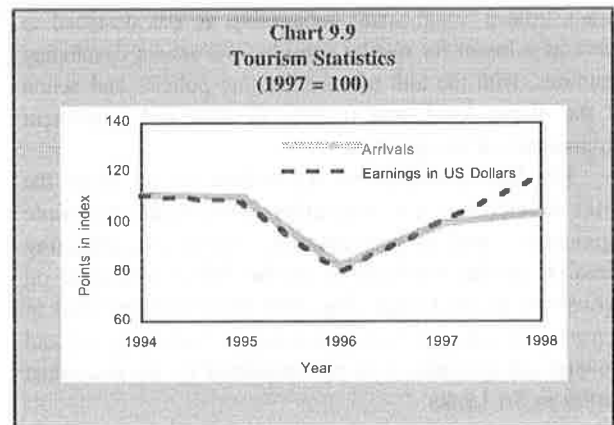


TABLE 9.12
Tourism Statistics 1996-1998

Item	1996	1997	1998(a)	Percentage Change	
				1997	1998
1. Tourist Arrivals	302,265	366,165	381,063	21.1	4.1
2. Tourist Guest Nights ('000)	2,974	3,680	3,950	23.7	7.3
3. Room Occupancy Rate (%)	40.3	49.1	52.8	21.8	7.5
4. Gross Tourist Receipts (Rs.Mn)	9,195	12,316	14,873	33.9	20.8
5. Per Capita Tourist Receipts (Rs.)	30,420	33,635	41,584	10.6	23.6
6. Total Employment	76,711	82,080	83,427	7.0	-1.6
Direct	31,963	34,200	34,780	7.0	-1.7
Indirect	44,748	47,880	48,647	7.0	-1.6

(a) Revised
(b) Provisional

Sources: Ceylon Tourist Board
Central Bank of Sri Lanka

as a result of currency depreciation, and the impact of the global economic slowdown were also contributory factors to the slow growth. The gross earnings from tourism grew by 21 per cent in 1998, more than the growth in arrivals, reflecting higher income earnings per tourist. This was due to the increased share of tourists arriving from high income European countries, with a longer average duration of stay.

Following the growth in arrivals, both the foreign guest nights and the overall occupancy rate showed increases of 7 per cent each. On a regionwise basis, occupancy rates in all regions, other than the Colombo City and the hill country, recorded increases. Higher growth rates were recorded in the South coast, Greater Colombo area and the ancient cities.

The number of hotel units in the graded accommodation sector increased from 158 to 163, mainly in the hill country and the South coast. With the increased number of hotel units, room capacity grew from 12,370 to 12,772.

Western Europe continued to be the major source of tourists to the country, accounting for 63 per cent of the arrivals. The number of arrivals from this region recorded a 13 per cent increase and the share of arrivals grew from 58 per cent to 63 per cent. Higher arrivals from Germany and the Netherlands contributed significantly, while increases were also recorded from all other countries in the region, except Sweden and Belgium. Germany led the arrivals, surpassing the UK, which had been the highest source of arrivals during the last two years.

The decline in arrivals from Asia was 12 per cent, largely due to the low turnover from India, Thailand and Malaysia. The East Asian crisis may have had an impact on arrivals from the Asian region. Arrivals from Eastern Europe, North America and Australasia grew by 13, 10 and 4 per cent, respectively.

Of the total arrivals, 69 per cent travelled by regular inter-regional flights, while 20 per cent arrived by regular intra-regional flights. Air Lanka flights brought in 42 per cent of the total number of tourists in 1998 compared to 46 per cent in 1997. The arrivals from charter flights continued to grow in 1998. Charter flights brought in 11 per cent of the total (42,755 arrivals) compared to 5 per cent (19,555 arrivals) in 1997, an increase of 119 per cent. The increase is partly due to the suspension of its activities in Sri Lanka by British Airways in March 1998, as evidenced by a doubling of arrivals from the UK by charters. Arrivals by charters from other countries, accounting for 66 per cent of the total charter arrivals in 1998, also grew by 101 per cent. As charters play a vital role in developing leisure destinations, efforts should be taken to increase charter flights into Sri Lanka.

The average duration of stay of tourists in the country grew marginally from 10.1 days in 1997 to 10.4 days in 1998. It was observed that the tourists coming by charter flights tended to stay longer in the country. In 1998, tourists arriving by charter flights stayed an average of 3 days more than other tourists. On a country wise basis, the highest stay was recorded by German tourists who stayed an average 15 days, followed by tourists from Austria (13 days), the Netherlands (12.5 days) and the UK (12 days) in 1998. In 1997 too, the highest stay of 14 days was recorded by German tourists.

The Department of Civil Aviation plays an important role in the travel trade through the management of the use of Sri Lanka's air space. In 1998, the Department signed seven bilateral agreements including those with the UK, Australia and France, to increase the frequency of flights per week and the seating capacity. Two charters were registered with the Department in 1998, one from Italy and the other from France, thus increasing the number of charters operated as at end 1998 to nine. The increase in flying capacity, particularly from Western European countries, will be favourable for the industry. The expected fleet expansion of Air Lanka Ltd in 1999 will also have a beneficial effect on tourist arrivals.

Vacation continued to be the main purpose of arrivals, accounting for more than 93 per cent of total arrivals in 1998. The remainder was for purposes of business and visiting friends and relatives. Re-enforcing the potential for novel aspects of pleasure tourism, such as eco-tourism and culture tourism, the revenue from foreign visitors who visited wild life parks, botanical gardens, zoological gardens and the cultural triangle continued to increase in 1998. The Department of National Zoological Gardens commenced preliminary work in 1998 on the proposed open modern zoo, which is to be established adjacent to the Pinnawala Elephant Orphanage on an extent of 38 acres, at an estimated cost of Rs.30 million. In order to provide tourists with greater access to Sri Lanka's culture and arts, the Tourist Board commenced work on the establishment of a National Arts and Cultural Centre in Colombo Fort in 1998. The Sri Lanka Convention Bureau continued to promote Meetings, Incentive travel, Conventions and Exhibitions (MICE) tourism in 1998. The Bureau sponsored 8 conferences and exhibitions in 1998 and had 1,925 tourists visiting the country under the MICE category. The Bureau participated in several international campaigns to promote Sri Lanka as the latest destination for MICE tourism in the Asia. However, incidents of crime, tourist harassment and pollution of beaches will seriously undermine the efforts of these ambitious projects.

10. FINANCIAL SECTOR

10.1 Monetary Policy

Monetary policy in 1998 focussed on making further progress towards achieving financial market stability and price stability. The policy had to be conducted in a highly unstable external environment. The world banking industry and financial markets had been experiencing tremendous instability since mid 1997. The East Asian financial market turmoil had immediate contagion effects and more lasting adverse repercussions on world financial and commodity markets. The subsequent eruption of the payments crisis in Russia and the economic problems in Brazil and Japan intensified the instability. In addition, there were concerns about the stability of some financial institutions western countries due to their large exposures to countries in financial distress. The stability of financial institutions in many countries was threatened by the weaknesses of their own corporate governance and regulatory framework and supervisory standards. Many financial institutions in crisis countries were closed down. Financial flows to developing countries slowed down significantly, and financial policies were tightened, initially raising interest rates to stabilise exchange rates. There were speculations about whether China would be compelled to devalue its currency to restore competitiveness. While market confidence in some of the Asian crisis hit countries was being slowly restored, interest rates of western industrial countries, as well as many other countries were adjusted downwards to avoid a sharper economic depression. With this instability in world financial markets, the directions of exchange rate movements were not clear and the high volatility of exchange rates among key currencies, particularly the yen/US dollar rate, made it a challenging task to co-ordinate exchange rate and monetary policies for relatively more open and small economies like Sri Lanka. Despite these difficulties, and a constraint created by a larger than expected domestic fiscal deficit, monetary controls and a flexibly managed exchange rate helped to maintain domestic financial market stability in 1998.

The above background constrained the ability of the Central Bank to continue the relaxation of monetary policy, begun in 1997, to permit a further reduction of interest rates. The uncertainty in regional financial markets and somewhat higher domestic inflation at the beginning of 1998 required tightening of the policy stance in the first few months of the year. Although a slight relaxation was effected in the second quarter, renewed volatility in the foreign exchange market required a further tightening of policy. This stance was maintained until the last quarter, when a reduction in inflationary pressures and the emergence of relative stability in the exchange markets permitted some easing of policy. Open market operations continued to be the primary instrument of monetary policy, with the repo rate serving as

the main signalling mechanism. From May onwards, commercial banks were permitted to include their holdings of Treasury bonds as a part of their liquid assets. In November, an overnight reverse repurchase facility was reintroduced. With the Central Bank now providing both an overnight repo facility and an overnight reverse repo facility, volatility in the call market would be restrained, thus bringing about greater stability in the money market.

The developments in the latter part of 1997 and in 1998 clearly demonstrated the links between external events and domestic markets, and the need to maintain consistent exchange and monetary policies. The East Asian financial crisis and the resultant volatility in international currency markets in the second half of 1997 also led to uncertainty in the domestic foreign exchange market. This continued into 1998 with the market speculating that a large depreciation of the rupee would be effected. The Central Bank indicated clearly that no such depreciation of the rupee was envisaged. Further, in order to discourage the use of relatively inexpensive call market funds for speculative purchases of foreign currency, the repo rate was raised by 200 basis points in December 1997 and by a further 100 basis points in January 1998. Adjustments were also made in the Central Bank's discount and rediscount rates and the margin between these rates to support this tightening of the policy stance. These measures, together with some progress towards financial market and exchange rate stability in East Asia, were successful in reducing the speculative pressures. In fact, commercial banks sold US dollars 54 million to the Central Bank in March and April. This permitted a slight relaxation in policy and the overnight repo rate was gradually reduced from 12.00 per cent to 11.65 per cent by end April. However, a resurgence of international volatility and associated domestic speculative activity thereafter, prompted the Central Bank to tighten policy again by raising the repo rate to 12.00 per cent, by mid May.

The repo rate was maintained at around 12 per cent until the last quarter of 1998, in which period some relaxation was possible. A significant deceleration in inflation was seen in the second half of the year. The East Asian crisis also eased, reducing the uncertainty in the exchange market. The Central Bank was therefore able to relax the monetary policy stance somewhat, without inducing further instability, by reducing the overnight repo rate in several steps to 11.25 per cent by the end of December 1998.

From 18 May 1998 onwards, commercial banks were permitted to include their holdings of Treasury bonds as part of their liquid assets, even though the remaining time to maturity of the bonds exceeded one year. They were also permitted to use these bonds for repurchase, discount and rediscount transactions at the Central Bank's secondary

window. Several reasons underlay this decision. It helps to make medium-term government bonds more marketable, it provides additional interest bearing instruments that commercial banks could hold as liquid assets and finally it would enhance the ability of the Central Bank to use these bonds for open market operations.

From 06 November 1998, an overnight reverse repo facility was reintroduced by the Central Bank. The Bank first introduced a reverse repurchase facility on a limited scale in 1995, when a shortage of market liquidity had created a tendency for call money rates to rise to unacceptably high levels. However, due to the limited amounts of funds offered and certain structural weaknesses in the market, this facility did not achieve its objective of stabilising the upper end of the interest rates in the call money market. Its use was discontinued in January 1996. The new facility introduced in November 1998 differs from the initial facility in several respects. It is limited, at present, to overnight transactions. It is open not only to commercial banks, but also to institutions which are not commercial banks but are Primary Dealers for Treasury bonds and bills. The major difference is that an unlimited volume of funds is available at a fixed rate, provided that the specified collateral, viz., Treasury bills or bonds, could be provided. Moreover, unlike in 1995 when the facility was created in conditions of a severe liquidity shortage, the market was quite liquid in 1998 and hence, the facility was not utilised very often. Its introduction was more in the nature of an assurance to market players that stability in interest rates would be preserved, rather than a means of injecting liquidity into the system immediately.

The Central Bank's own Securities continued to be available on tap throughout the year for mopping up operations. The Securities offered had a maturity of 7 days and carried a yield equal to the 7-day repo rate. However,

this facility was rarely resorted to as the portfolio of Treasury bills in the Central Bank was sufficient for its open market operations in 1998.

The Central Bank continued its policy of not granting refinance under the Medium and Long-Term Credit Facility (MLCF) or any short-term facility. The outstanding level of refinance granted in the past declined from Rs.1,692 million at the end of 1997 to Rs.1,122 million at the end of 1998, due to continuation of repayments to the Central Bank without new refinancing.

10.2 Money Supply

The growth of money supply continued to decline in 1998. A significant reduction in net foreign inflows and slow

TABLE 10.1
Summary Monetary Statistics

Item	End 1998	Change			
		1997		1998	
		Amount Rs.Bn.	%	Amount Rs.Bn.	%
Monetary Aggregates:					
Narrow Money Supply (M1)	96.3	7.6	9.8	10.4	12.1
Broad Money Supply (M2)	316.2	35.1	13.8	27.9	9.7
Consolidated Broad Money Supply (M2b)	377.7	45.0	15.6	44.1	13.2
Underlying Factors (a)					
Domestic Credit to :					
Government (net)	369.5	30.7	10.5	46.5	14.4
Public Corporations	64.6	-1.9	-4.0	19.4	42.8
Private Sector	10.8	-0.8	-5.4	-3.8	-26.1
External Assets (net)	294.1	33.4	14.5	30.9	11.8
Other Items (net)	105.6	27.4	43.5	15.2	16.7
Reserve Money	-97.4	-13.1	-19.5	-17.5	-22.0
	92.9	-1.8	-2.1	9.1	10.9

Source: Central Bank of Sri Lanka

(a) In relation to M_{2b}

Chart 10.1
Monetary Expansion

Chart 10.1.1
Monetary Growth - Moving Average

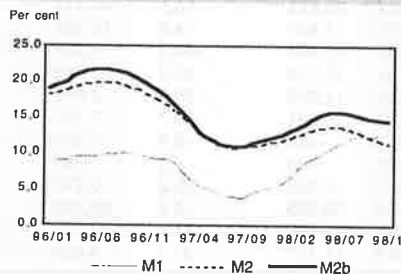


Chart 10.1.2
Monetary Growth - Point to Point

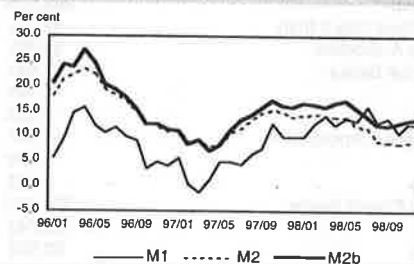


TABLE 10.2
Monetary Aggregates 1997 - 1998(a)

End of Period	Rs Million																	
	Narrow Money Supply (M ₁)					Broad Money Supply (M ₂)					Consolidated Broad Money Supply (M _{2b})							
	1997	1998	Percentage Change				1997	1998	Percentage Change				1997	1998	Percentage Change			
			Point to Point		Moving Average				Point to Point		Moving Average				Point to Point		Moving Average	
		1997	1998	1997	1998			1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	
January	77,889	85,527	5.6	9.8	9.2	5.8	253,157	289,017	11.0	14.2	16.9	11.9	288,640	335,827	10.8	16.3	17.8	12.5
February	77,597	87,262	0.2	12.5	8.3	-6.8	254,967	291,450	8.9	14.3	15.8	12.3	291,487	338,718	8.2	16.2	16.5	13.2
March	80,828	92,194	(1.2)	14.1	6.9	8.2	260,657	297,205	9.0	14.0	14.6	12.7	296,908	343,609	8.9	15.7	15.2	13.8
April	80,583	90,436	1.4	12.2	5.7	9.1	261,357	297,152	8.0	13.7	13.4	13.2	297,972	346,676	7.0	16.3	13.6	14.6
May	80,240	91,177	4.7	13.6	5.1	9.8	262,188	298,472	8.3	13.8	12.3	13.6	299,265	349,938	7.9	16.9	12.3	15.3
June	79,670	90,126	4.9	13.1	4.7	10.5	265,104	296,943	10.3	12.0	11.5	13.8	302,031	348,566	10.9	15.4	11.5	15.7
July	79,535	92,264	4.4	16.0	4.1	11.5	267,601	298,677	11.5	11.6	11.0	13.8	307,086	349,416	12.9	13.8	11.1	15.7
August	81,068	91,389	6.4	12.7	3.9	12.0	271,989	296,505	13.3	9.0	10.8	13.4	311,192	349,499	14.0	12.3	10.9	15.5
September	82,287	93,463	7.4	13.6	3.8	12.5	276,994	301,678	14.6	8.9	10.8	12.9	317,668	355,707	15.5	12.0	11.0	15.2
October	83,300	92,240	12.6	10.7	4.5	12.4	279,577	303,514	15.1	8.6	11.1	12.3	322,404	362,633	16.9	12.5	11.4	14.9
November	82,708	92,975	9.9	12.4	4.9	12.6	281,697	306,637	14.9	8.9	11.3	11.8	323,583	366,114	15.9	13.1	11.7	14.6
December	85,851	96,268	9.8	12.1	5.4	12.7	288,258	316,174	13.8	9.7	11.6	11.5	333,668	377,740	15.6	13.2	12.1	14.4
Monthly Average	80,963	91,277	5.5	12.7			268,629	299,452	11.6	11.6			307,659	352,037	12.0	14.5		

(a) Monetary data from 1990 have been reclassified to be consistent with the standard international practice. Source: Central Bank of Sri Lanka
Please refer notes to Appendix Tables 104,105 and 109.

TABLE 10.3
Monetary Aggregates and Underlying Factors 1996 - 1998 (a)

Item	Dec. 1996	Dec. 1997	Dec. 1998	Change			
				1997		1998	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
Currency held by the Public	42,565	45,680	51,767	3,115	7.3	6,087	13.3
Demand Deposits held by the Public	35,638	40,172	44,501	4,534	12.7	4,330	10.8
Narrow Money Supply (M ₁)	78,203	85,852	96,268	7,649	9.8	10,417	12.1
Time & Savings Deposits of the Private Sector held with Commercial Banks	210,454	247,816	281,473	37,362	17.8	33,657	13.6
DBUs	195,672	227,963	257,995	32,291	16.5	30,032	13.2
FCBUs	14,782	19,853	23,478	5,071	34.3	3,625	18.3
Consolidated Broad Money Supply (M _{2b})	288,657	333,668	377,741	45,011	15.6	44,074	13.2
Underlying Factors							
Net Foreign Assets	63,074	90,501	105,648	27,427	43.5	15,147	16.7
Monetary Authorities	73,541	89,936	101,744	16,395	22.3	11,808	13.1
Commercial Banks	-10,467	565	3,904	11,032	105.4	3,339	591.0
DBUs	-4,186	2,095	1,141	6,281	150.0	-954	-45.5
FCBUs	-6,281	-1,530	2,763	4,751	75.6	4,293	280.6
Net Domestic Assets	225,582	243,172	272,091	17,590	7.8	28,919	11.9
Domestic Credit	292,395	323,046	369,517	30,651	10.5	46,471	14.4
Claims on Government (net)	47,131	45,250	64,618	-1,881	-4.0	19,368	42.8
Monetary Authorities	34,291	20,300	25,909	-13,991	-40.8	5,609	27.6
Commercial Banks	12,840	24,950	38,709	12,110	94.3	13,759	55.1
DBUs	14,246	26,065	32,682	11,819	83.0	6,617	25.4
FCBUs	-1,406	-1,115	6,027	291	20.7	7,142	640.5
Credit to Public Corporations	15,491	14,658	10,835	-833	-5.4	-3,823	-26.1
DBUs	9,938	10,338	9,485	400	4.0	-853	-8.3
FCBUs	5,553	4,320	1,350	-1,233	-22.2	-2,970	-68.8
Credit to the Private Sector	229,773	263,138	294,064	33,365	14.5	30,926	11.8
DBUs	193,842	216,030	243,549	22,188	11.4	27,519	12.7
FCBUs	35,931	47,108	50,515	11,177	31.1	3,407	7.2
Other Items (net)	-66,813	-79,874	-97,426	-13,061	-19.5	-17,552	-22.0
DBUs	-47,798	-50,944	-60,248	-3,146	-6.6	-9,304	-18.3
FCBUs	-19,015	-28,930	-37,178	-9,915	-52.1	-8,248	-28.5

(a) Signs indicate the effect on M_{2b}.

Source: Central Bank of Sri Lanka

growth in credit to the private sector served to offset an enhancement in credit to the government and dampen the expansion of broad money. In contrast to the developments in 1996 and 1997, the rate of narrow money growth was comparatively high. Reflecting the slower growth, consolidated broad money (M2b), which includes both domestic banking units and Foreign Currency Banking Units (FCBUs), increased by 13.2 per cent in 1998, in comparison to a rate of 15.6 per cent in 1997. This slower growth in money supply, together with supply side developments, helped to reduce inflationary pressure.

The external sector developments had a lower expansionary impact on money supply as the balance of payments showed a lower overall surplus (US dollars 37 million) in 1998 compared to 1997 (US dollars 163 million). The net external assets of the banking system increased by 16.7 per cent in 1998 compared to 44 per cent in 1997.

External assets contributed to one third of the growth of broad money, in comparison to 60 per cent in 1997. The net foreign assets of the monetary authorities improved by Rs. 11,808 million. The net foreign assets of commercial banks also increased by Rs.3,339 million, entirely due to an improvement in the net foreign assets of FCBUs. This reflected mainly a sharp reduction in net exposure to the foreign sector.

An increase in net domestic assets was the main causal factor for the growth in monetary aggregates in 1998. Although credit to the private sector grew at a lower rate than in 1997 and credit to government corporations in fact showed a contraction, a surge in credit to the government resulted in a 14.4 per cent increase in domestic credit in 1998, in comparison to a growth of only 10.5 per cent in 1997. The slower growth in economic activity in the country in 1998 and the significant deceleration in the growth of

Chart 10.2
Monetary Aggregates, Velocity and Money Multiplier

Chart 10.2.1
Money Supply

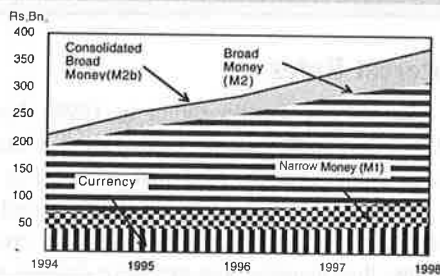


Chart 10.2.2
Domestic Credit

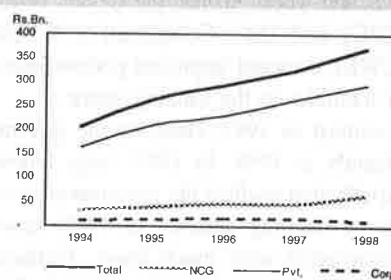


Chart 10.2.3
Net External Assets

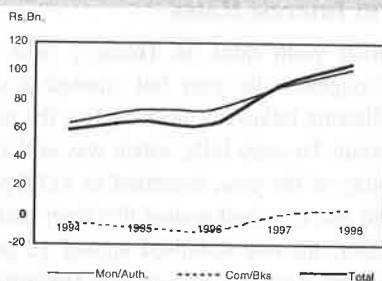
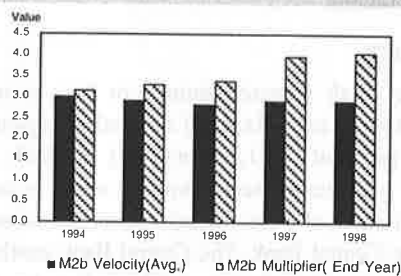


Chart 10.2.4
Income Velocity and Money Multiplier



exports and imports held down the growth in private sector credit to 11.8 per cent in 1998, in comparison to a growth of 14.5 per cent in 1997. This deceleration was more pronounced in the case of credit from the FCBUs, where credit growth fell from 31 per cent in 1997 to 7 per cent in 1998. Several factors operated to reduce credit growth from the FCBUs. The continuing uncertainty in foreign financial markets both led to a contraction in the absolute level of activity of the FCBUs and discouraged them from increasing their net foreign exposure. The volatility in the foreign exchange markets and the comparatively low domestic interest rates made borrowing from the FCBUs less attractive to domestic enterprises. In addition, the FCBUs used some of their funds to provide a syndicated loan of US dollars 100 million to the Government of Sri Lanka. Credit from the domestic units grew at a faster rate, i.e., at 12.7 per cent in 1998 compared with 11.4 per cent in 1997, partly to compensate for the decline in the growth of FCBU credit. The credit growth came from the domestic commercial banks, rather than the foreign banks.

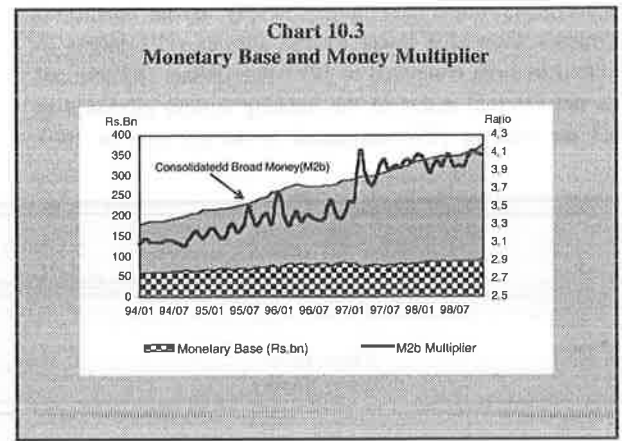
Credit to public corporations declined by 26.1 per cent in 1998, following a decline of 5.4 per cent in 1997. However, unlike in 1997 where the decline was in credit from FCBUs, in 1998, credit declines were seen in both FCBUs and domestic units. Lower international prices for petroleum products and wheat enabled the Ceylon Petroleum Corporation (CPC) and the Co-operative Wholesale Establishment (CWE) to record improved performances and thus reduce their liabilities to the banking sector.

In distinct contrast to 1997, credit to the government increased significantly in 1998. In 1997, large inflows of proceeds from privatisation enabled the government to reduce its liabilities to the banking system. In 1998, however, inflows from privatisation were much lower. Furthermore, government revenue was less than anticipated in the Budget, whereas expenditure increased, compelling the government to increase its borrowings. This led to a 42.8 per cent (Rs.19,368 million) increase in net credit to the government from the banking sector, including the US dollar 100 million syndicated loan from FCBUs. In 1997, credit to the government from the banking sector had declined by 4 per cent (Rs.1,881 million).

Reserve Money

Reserve money (high powered money or base money) increased by 10.9 per cent (Rs.9,130 million), as against a decline of 2.1 per cent (Rs.1,773 million) in 1997. The decline in 1997 was due to the government using proceeds from the privatisation of state owned enterprises to repay debt owed to the Central Bank. The Central Bank continued to use reserve money as an important intermediate target in implementing monetary policy. Policies were directed at preventing an excessive expansion in reserve money, which would lead to the build up of inflationary pressure in the

economy, while at the same time providing sufficient liquidity to the market to ensure that economic activity took place unhindered by liquidity constraints. Reserve money growth occurred mainly through the increase in net external assets of the Central Bank. As reserve money grew at a slightly lower rate than consolidated broad money (M2b), the consolidated broad money multiplier increased marginally from 3.98 at the end of 1997, to 4.07 at the end of 1998, reflecting the slight tightening of monetary policy in 1998. The average income velocity of money remained relatively stable at 2.9 in 1998.



10.3 Interest Rates

Interest rates were generally stable in 1998, though the tightened monetary policy stance caused rates to rise by 1-2 percentage points over the rates that prevailed at the end of 1997. Several factors helped to maintain reduced interest rate volatility. The growth of private sector credit was relatively low, thus avoiding any excessive demand pressure. The government obtained a syndicated loan of US dollars 100 million from the FCBUs in the latter part of the year, thus reducing the demand for domestic rupee funds. Meanwhile, the Central Bank reintroduced an overnight reverse repurchase facility with the objective of stabilising the upper end of the call money market rates.

Short-Term Interest Rates

Primary market yield rates on Treasury bills increased gradually throughout the year but showed a decline in December following inflows of liquidity into the market. The yield on 3-month Treasury bills, which was at 9.97 per cent at the beginning of the year, increased to 11.00 per cent in February 1998 and remained around this level until end July 1998. Thereafter, the rate stabilised around 12 per cent. A similar movement was seen in 6-month Treasury bill rates and 12-month Treasury bill rates. The weighted average yield rate for 6-month Treasury bills, which was 9.95 per cent at the beginning of the year, ended the year at 12.34 per cent.

The 12-month Treasury bill rate increased from 10.24 per cent at the beginning of the year to 13.06 per cent at end October 1998 and then decreased marginally to 12.59 per cent at the end of the year.

Following the same trend as the primary Treasury bill market, other short-term rates, i.e., the discount rate, rediscount rate and repo rate moved slightly upward during the year. The 3-month discount rate, which was 9.72 per cent at the beginning of the year, increased gradually to 12.50 per cent by mid November and then decreased to 11.86 per cent at the end of the year, while the 3-month rediscount rate, which was 12.97 per cent at the beginning of the year, increased to 15.65 per cent by mid November and came down to 15.01 per cent at the end of 1998. The 12-month discount rate increased from 9.99 per cent at the beginning of the year to 12.39 per cent at end December but with a peak of 12.91 per cent at end October 1998. The rediscount

rate for 12-month Treasury bills increased from 13.24 per cent at the beginning of August, before declining to 15.54 per cent at the end of the year.

The overnight repo rate, first introduced in 1993, serves as the primary signalling mechanism for interest rates and is a very important tool of monetary policy. It also serves to stabilise the lower end of the call money market. In the final month of 1997 and in early 1998, the overnight repo rate was gradually increased as the monetary policy stance was tightened somewhat. The overnight repo rate, which was 11.00 per cent at the end of 1997, was increased to 12.00 per cent in January and maintained at this level until end March, whereafter, with some easing of pressure in the foreign exchange market, it was reduced to 11.65 per cent in April. In May, following further volatility in exchange markets, it was raised again to 12.15 per cent and maintained at slightly over 12.00 per cent until October. Greater stability

Chart 10.4
Interest Rates

Chart 10.4.1
Treasury Bills

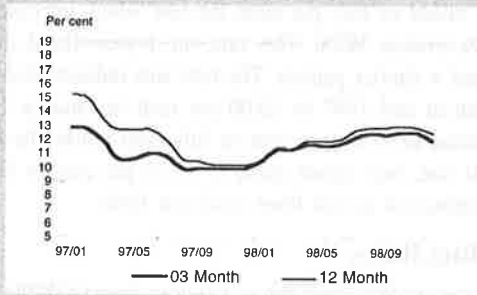


Chart 10.4.2
Deposit Rates

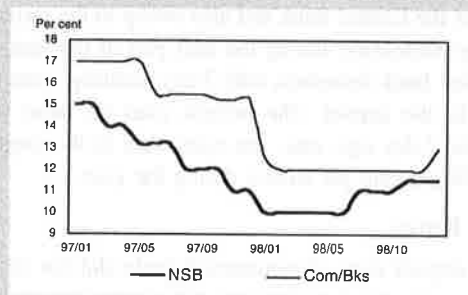


Chart 10.4.3
Lending Rates

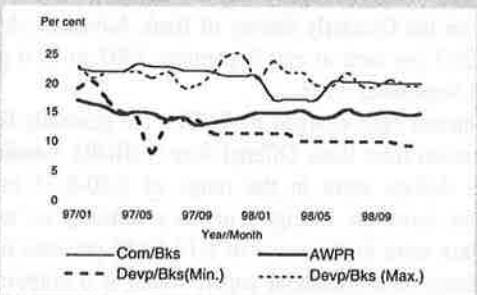
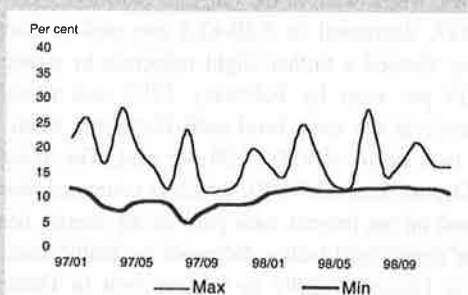


Chart 10.4.4
Call Market Rates



in the exchange market and a reduction in inflation in the latter part of 1998, enabled the gradual reduction of the overnight repo rate to 11.25 per cent by end 1998.

Call market rates showed comparatively little volatility during the year. They were in the range of 13.00-14.00 per cent at the end of 1998 compared to the range of 12.00-20.00 per cent at the end 1997. The lower end of the call market rates is greatly affected by changes in the repo rate. Call market rates moved to somewhat higher levels in March, July and October with a relatively higher spread between the maximum and minimum rates, reflecting temporarily liquidity shortages in the market. A peak of 28.00 per cent was experienced in July.

The Central Bank reintroduced a reverse repurchase facility in November 1998 with a view to further stabilising the short-term rates in the money market by creating stability at the upper end of the call market interest rate range as well. The reverse repo rate, which is determined by the Central Bank on a daily basis, is currently equivalent to the overnight discount rate at the Bank's secondary window. The reverse repo rate was 15.45 per cent when the facility was first reintroduced in November and was maintained at the same level throughout the rest of 1998.

The call market rates showed a lower volatility during the year due to repo market and reverse repo market activities of the Central Bank and also owing to the increases in liquidity particularly during the later part of the year.

Central Bank Securities, with 7-day maturity, were also available to the market. The interest rates on these were equal to the 7-day repo rate. The rates were in the range of 11.93-12.06 per cent per annum during the year.

Deposit Rates

Although deposit rates of commercial banks did not strictly follow the same trend as Treasury bill yields, deposit rates of commercial banks remained low throughout the year. Savings deposit rates of commercial banks, which were in the range of 3.00-11.00 per cent at end 1997, came down slightly to 3.00-10.00 per cent by end February and further to a range of 2.00 – 10.00 per cent and were maintained in this range during the rest of the period. One year fixed deposit rates, which were in the range of 8.50-15.25 per cent at end 1997, decreased to 8.50-12.5 per cent in January 1998. They showed a further slight reduction to a range of 8.50-12.00 per cent by February 1998 and remained approximately at the same level until December when they increased to a range of 9.00-13.00 per cent. The Weighted Average Deposit Rate (AWDR), which is computed monthly and is based on the interest rates paid on all interest bearing deposits of commercial banks, decreased gradually from 10.0 per cent in December 1997 to 9.2 per cent in December 1998. The Average Weighted Fixed Deposit Rate (AWFDR) also decreased from 11.5 per cent in December 1997 to 10.7 per cent in December 1998.

Interest rates on foreign currency savings deposits showed some variation during the year, following international developments. Savings deposits denominated in US dollars were in the range of 2.50 – 5.50 per cent at the beginning of the year and rose to a range of 3.00-6.25 per cent in July, before declining to a range of 2.75-6.25 per cent in September with the reduction in international rates. Sterling deposits obtained slightly higher rates, lying in a range of 3.00-8.00 per cent per annum at the beginning of 1998. The rates narrowed to a range of 4.50-6.00 per cent by end 1998. Similar trends were seen in the case of fixed deposits. US dollar 1-year fixed deposit rates, which were in a range of 5.20-6.00 per cent per annum in January 1998, moved to a range of 4.00-6.25 per cent by the end of the year. The rates on 1-year fixed deposits denominated in sterling pounds moved from a range of 5.75-7.00 per cent per annum to 4.65-6.63 per cent during the same period. Meanwhile, the rates offered by FCBUs on US dollar deposits were generally in a range of 4.00-6.00 per cent and on deposits in sterling pounds in a range of 5.25-7.00 per cent at the end of the year.

The savings deposit rate offered by the NSB, which influences many other rates in the market, was reduced from 10.8 per cent per annum at the end of 1997, to 9.6 per cent in January and maintained at this rate until end June, when it was raised to 10.5 per cent, the rate which prevailed until end December 1998. The rate on 1-year fixed deposits followed a similar pattern. The rate was reduced from 11.00 per cent at end 1997 to 10.00 per cent in January 1998. It was raised to 11.00 per cent in July, and unlike the savings deposit rate, was raised again to 11.50 per cent in October, and maintained at that level until end 1998.

Lending Rates

The Average Weighted Prime Lending Rate (AWPR), which is based on the rates offered by commercial banks to their prime customers, increased from 14.2 per cent in December 1997 to 15.0 per cent in January 1998. Throughout most of 1998 the AWPR hovered around 15 per cent with a peak of 15.8 per cent in July. The AWPR showed a slight increase from 14.5 per cent at end 1997 to 14.9 per cent at end 1998. The Average Weighted Lending Rate (AWLR), based on the Quarterly Survey of Bank Advances, decreased from 20.5 per cent at end September 1997 to 19.6 per cent at end September 1998.

Interest rates charged by FCBUs are generally based on the London Inter Bank Offered Rate (LIBOR). Lending rates in US dollars were in the range of 3.50-8.75 per cent. Interest rates on foreign currency lending to non-BOI exporters were in the range of 6.18-10.50 per cent in 1998.

Rates on commercial paper, which is a corporate debt instrument used in raising short-term funds, also saw a decline, and were in the range of 11.00-18.00 per cent during the year compared to the range of 10.00-27.60 per

cent in the previous year. Meanwhile, interest rates charged by commercial banks for payments through credit cards were in the range of 20.00-33.00 per cent as in the previous year.

The Legal Rate of interest and the Market Rate of interest, which are published by the Central Bank under the Civil Procedure Code (Amendment) Act No.6 of 1990 and in terms of Section 23 of the Debt Recovery (Special Provision) Act No.2 of 1990, respectively, were both 11.5 per cent per annum for the year 1998. They were both 12.7 per cent in the previous year.

Long-Term Rates

Long-term rates include interest rates on rupee securities, yield rates on Treasury bonds, lending rates of long-term credit institutions and debentures. Rupee loans with maturities of 4-5 years, 5 years, 5-6 years, 6-7 years, and 9-10 years were issued during the year. The associated interest rates, which are administratively determined, were in the range of 11.0-12.25 per cent, with the longer maturity loans having higher rates. Most of the issues were of maturities with 6-7 years. The rate offered on Rupee loans was higher in 1998 than in 1997. Rupee loans with 6-7 year maturities were issued at the rate of 12.25 per cent at end December 1998, compared to the rate of 11.75 per cent on Rupee loans with the same maturity issued in September 1997.

The Central Bank issued Treasury bonds with maturities of 2 years, 3 years and 4 years. These bonds both have a coupon (interest paid half yearly) and are auctioned. Treasury bonds with a 2-year maturity carried a coupon rate of 11.00 per cent, while the auction determined weighted average yield rate was 10.81-13.94 per cent during the year. The 3-year Treasury bonds carried a coupon rate of 11.50 per cent, while the weighted average yield rate was in the range of 12.44-13.93 per cent. Treasury bonds with maturities of 4 years were issued with a coupon rate of 12 per cent and had yield rates in the range of 12.93-13.94 per cent during the year.

Interest rates charged by long-term credit institutions decreased slightly in 1998. The State Mortgage and Investment Bank (SMIB) reduced its lending rates by 2 percentage points during the year. The SMIB rates were in the range of 15.00-18.00 per cent at the end of the period. DFCC Bank reduced its lending rates from a range of 13.0-22.0 per cent at end 1997 to 13.0-20.5 per cent at end 1998. Following the same trend, the National Development Bank (NDB) reduced its lending rates to 9.6-20.0 per cent from 11.5 -25.0 per cent at the end of the previous year. The lending rate of the National Housing Development Authority was in the range of 10.0-16.0 per cent compared to a range of 10.0-15.0 per cent during 1997. The lending rates of the National Savings Bank decreased by 1.5 percentage points and were in the range of 14.0-15.0 per cent at end 1998.

A new phenomenon in the market was the increased

issue of listed debentures. During the year, three domestic private banks issued debentures which had maturities of 5 years. There were four issues. Two of these carried fixed rates, (13.5 per cent per annum, payable quarterly), one had a floating rate fixed at the 3-month Treasury bill rate plus 1 percentage point and the other had an option of either a fixed rate or a floating rate fixed at the 1-year Treasury bill rate plus 1 percentage point. Three other listed companies also issued listed debentures with fixed rates in the range of 15.00-18.00 per cent per annum.

10.4 Commercial Banking

The domestic units of commercial banks showed a moderate growth while the activities of Foreign Currency Banking Units (FCBUs) slowed down during the year. A decline in domestic economic growth and a reduction in the growth of imports and exports constrained the growth in the banking sector. In addition, uncertainty in international financial markets and the comparatively low domestic interest rates which made borrowing in foreign currency less attractive, tended to lead to a contraction in the activities of the FCBUs. The total assets of the domestic units of commercial banks grew nearly at the same level in the previous year (13 per cent). Total assets of FCBUs declined by 9 per cent, in contrast to the significant growth of 17.6 per cent in 1997. A noteworthy feature was the reduction in the FCBU exposure to the domestic sector. The net foreign asset position of the FCBUs improved in 1998, despite the extension of a syndicated loan of US dollars 100 million to the Government of Sri Lanka. Meanwhile, net foreign assets of the domestic banking units deteriorated mainly due to increases in foreign liabilities. A substantial increase in foreign currency deposits was the main reason for the higher level of foreign liabilities. This appeared to reflect a desire on the part of residents to maintain their deposits in foreign currency in the context of volatile international foreign exchange markets and an expected large depreciation of the rupee.

With the yield rates on government debt instruments rising by about two percentage points, no appreciable decrease was seen in the general lending rates of commercial banks. Deposit rates stayed unchanged or declined in some instances. Thus, the margins of banks increased and several banks have reported growth rates in profits exceeding the growth rate in turnover. However, reflecting the preference shown by depositors to hold foreign currency denominated deposits and the slowing down of economic activities, the growth rate of rupee deposits, both demand deposits and time and savings deposits in domestic banking units, declined during the year. In contrast, foreign currency deposits with the domestic units showed a sharp increase (41 per cent in 1998, in comparison to 22 per cent in 1997). Meanwhile, credit to the private sector from domestic units of commercial banks increased by a slightly higher rate in

comparison to last year, partly reflecting the slower growth in credit from the FCBU's. The domestic banks accounted for the major portion of the increase in credit. Reflecting the reduced attractiveness of obtaining credit in foreign currency, the foreign currency loans extended by commercial banks to non-BOI exporters decreased from US dollars 254 million in 1997 to US dollars 177 million in 1998.

Towards the end of the year, the government obtained a syndicated loan of US dollars 100 million from FCBU's, which helped to reduce the pressure on the domestic market interest rates.

Structure of Assets and Liabilities of Commercial Banks

The total resources of domestic units of commercial banks increased by Rs.58,892 million or by 13.3 per cent in 1998, in comparison to the Rs.52,994 million (13.6 per cent) registered in 1997. The low growth in imports and exports

was reflected in a slower growth in credit. Total loans and advances including commercial bills expanded by 14.6 per cent and contributed 57 per cent of the total growth of commercial banks assets. Reflecting the substantial decline in receipts from external activities, the increase in foreign assets of the commercial banks contributed only 18 per cent of the growth in total assets, in comparison to 36 per cent recorded in 1997. This, and a decline in investment in Treasury bills, resulted in a slower growth in the liquid assets of commercial banks during the year. Thus, the change in overall liquid assets (including investments in Treasury bonds, which were considered as a liquid asset with effect from 18 May 1998) to the change in total assets ratio decreased from 40 per cent in 1997 to 33 per cent in 1998.

Holdings of commercial bills, which consist of export bills, import bills and local bills, grew at a higher rate of 36.4 per cent in 1998 compared to 9.5 per cent in 1997. The growth was entirely reflected in the holdings of import bills.

TABLE 10.4
Selected Items of Assets and Liabilities of Commercial Banks

Item	Change			
	97 Dec/96 Dec		98 Dec/97 Dec	
	Amount (Rs. Mn.)	%	Amount (Rs. Mn.)	%
Asset Category				
1. Liquid Assets	21,428	21.9	19,306	16.2
Cash on Hand	540	7.8	865	11.6
Due from Central Bank	-5,228	-15.3	2,303	7.9
Foreign Currency on Hand	19,385	87.1	10,596	25.5
Treasury Bills	4,960	31.9	-6,938	-33.9
Treasury Bonds (a)			5,008	
Commercial Bills	1,771	9.5	7,472	36.4
Local Bills	-61	-44.4	-66	-85.6
Import Bills	1,072	8.7	7,687	57.1
Export Bills	760	12.2	-150	-2.1
2. Investment	8,454	31.4	-3,193	-9.0
Treasury Bills	4,960	31.9	-6,938	-33.9
Government Securities	1,776	211.3	2,733	104.5
Other Investment	1,718	16.2	1,012	8.2
3. Total Loans and Advances	27,766	13.7	33,588	14.6
Loans	19,968	17.0	15,869	11.5
Overdrafts	6,027	9.1	10,247	14.2
Commercial Bills	1,771	9.5	7,472	36.4
4. Fixed and Other Assets	2,937	3.6	8,786	10.3
Liability Category				
1. Capital Accounts	5,131	13.1	5,851	13.2
2. Total Deposits	40,340	15.4	37,214	12.3
Demand Deposits	3,837	7.9	4,528	8.6
Time and Savings Deposits	36,502	17.1	32,686	13.1
3. Borrowings	-786	-2.8	4,630	16.9
Local Borrowings	-2,037	-7.8	4,242	17.6
Foreign Borrowings	1,251	63.0	388	12.0
4. Other Liabilities	8,310	13.7	11,197	16.3
Total Assets/Liabilities	52,994	13.6	58,892	13.3

(a) With effect from 18 May 1998 Treasury bonds are considered as part of liquid assets of commercial banks.

Source: Central Bank of Sri Lanka

Investments in export bills declined by 2.1 per cent in 1998 in comparison to a 12.2 per cent growth in 1997, which was a reflection of a decrease in export growth during the year.

Matching the slower growth in assets, the liabilities of domestic commercial bank units also grew more slowly in 1998 relative to 1997. Total deposit liabilities grew by 12.3 per cent in comparison to a 15.4 per cent growth recorded in 1997. Meanwhile, interbank borrowings increased by 17.6 per cent, in contrast to the 7.8 per cent decline shown last year. Following these developments, interest rates rose to a slightly higher level in comparison to the previous year.

The balances in the capital account improved by 13.2 per cent (Rs.5,851 million) in 1998, compared to the 13.1 per cent (Rs.5,131 million) increase in 1997. The banks continued to maintain shareholders' funds to total assets at an unchanged rate of 10 per cent as in 1997.

With the decline in foreign inflows, foreign assets of the domestic units grew by a lower rate of 21.5 per cent in 1998, compared with a 70.2 per cent growth in 1997. Assets with banks abroad increased by approximately 25 per cent to Rs.22,760 million at end 1998. In comparison, these assets increased by 109 per cent during 1997. Placements with FCBUs increased approximately by 27 per cent to Rs.28,927 million at end 1998. Foreign liabilities of the domestic units of commercial banks, of which about 81 per cent is accounted for by Non Resident Foreign Currency (NRFC), Resident Non National Foreign Currency (RNNFC) and Resident Foreign Currency (RFC) deposits, increased by 34.0 per cent to Rs. 54,409 million in 1998, in comparison to an 18.7 per cent growth in 1997. Thus, the net foreign asset position of domestic units deteriorated.

Twenty six FCBUs continued to operate in 1998. However, unlike in 1997 when they expanded significantly (by 26 per cent), the FCBUs contracted in 1998, with total assets/liabilities decreasing by US dollars 155 million (9 per cent). The major sources of funds of FCBUs are resident sources, mainly foreign currency deposits with domestic banking units and deposits by BOI enterprises. Investments with non resident enterprises and loans and advances to BOI enterprises were the main areas where FCBU funds were deployed. Reflecting partly the decline in export growth and partly a reduction in the attractiveness of foreign currency borrowing, credit extended by FCBUs to BOI enterprises declined by 3 per cent in 1998, in contrast to a growth of 20 per cent in 1997. The FCBUs of four domestic banks and a foreign bank formed a syndicate to provide US dollars 100 million as a loan to the government in November 1998. The FCBUs, whose net foreign asset position at the end of 1997 amounted to a net deficit of US dollars 25 million, improved their position to record a net surplus of US dollars 41 million at the end of 1998. Although both foreign assets and foreign liabilities declined, liabilities declined at a much faster rate, leading to the net improvement.

Total gross assets of FCBUs decreased by 9 per cent in 1998 to US dollars 1,526.5 million at the end of the year.

This was a result of a decline in claims on non residents by 30 per cent and an increase in claims on residents by 8 per cent. Placements with banks abroad declined by 35 per cent, while claims on non-banks increased by 5 per cent. Total lending to the private sector by FCBUs amounted to US dollars 745.3 million at the end of 1998, a 3 per cent decline in comparison to the previous year. However, in rupee terms an increase of Rs.3,407 million was seen between the two years. Of the total FCBU credit to the private sector, two thirds are provided by FCBUs of domestic banks.

One of the main purposes of establishing FCBUs was the provision of credit facilities to BOI enterprises. Fulfilling this purpose, such credit constituted the largest portion of FCBU assets. However, reflecting the slower growth of Sri Lankan exports, the credit granted to BOI enterprises declined by 3 per cent in 1998 in comparison to an increase of 20 per cent during the previous year. Meanwhile, credit to other residents (excluding the US dollar 100 million loan given to the government), decreased by 46 per cent. The decline was mainly reflected in credit granted to public corporations, which declined by US dollars 50 million during the year. This reduction was primarily due to the Ceylon Petroleum Corporation (CPC) and the Co-operative Wholesale Establishment (CWE) reducing their liabilities to the banks.

In the case of the special facility too, under which commercial banks were permitted to extend credit to non-BOI exporters either through their domestic units or through their FCBUs, a decline in credit extended was seen. A sum of US dollars 177 million was granted in 1998, as against a sum of US dollars 254 million in 1997. About 95 per cent of the loans under this facility, however, were extended through the domestic units, rather than through FCBUs.

On the liabilities side of the FCBUs, the decline was a combined outcome of a decline in non resident liabilities by US dollars 269 million, an increase in resident liabilities by US dollars 105 million and an increase in internal accounts by US dollars 9 million. The major portion of resident liabilities was from placements of funds by domestic units.

Sources and Users of Funds of Domestic Units of Commercial Banks

The slowing down of economic activities during the year was reflected in the total net availability of resources to the commercial banks, which increased by Rs.15,830 million in 1998 in comparison to an increase of Rs.30,074 million in 1997. In contrast to the experience in 1997 where the private sector was the major net source of funds, in 1998, the foreign sector and the other assets and other liabilities sectors accounted for about 92 per cent of the net increase in funds. The domestic private sector, which contributed over 50 per cent of the net funds in 1997, contributed only 8 per cent of net funds in 1998. The government sector was the sector

TABLE 10.5
Sources and Users of Resources of Commercial Banks

Category	Change (a)			
	1997		1998	
	Sources	Users	Sources	Users
1. Government Sector	12,797			6,618
Holdings of Government Securities		6,736	4,205	
Deposits	827			2,083
Import Bills		1,920		9,414
Short-Term Credit		406		901
Overdrafts		4,562	1,576	
2. Central Bank	5,413			3,129
Borrowings	725		39	
Reserves	5,228			2,303
Investment in Central Bank Securities				
Till Cash		540		865
3. Government Corporations		973		4,301
Deposits		573		5,153
Advances		400	853	
4. Co-operatives	425			482
Deposits	621			332
Advances		196		150
5. Other Domestic				
Private Sector	15,081		1,229	
Deposits (b)	32,455		27,667	
Local Bills	248		383	
Import Bills		490	1,460	
Overdrafts		1,731		10,966
Loans		17,323		17,234
Investments in Securities and Bonds		1,718		1,013
Debentures	3,640		930	
6. Inter-Bank Transactions		5,023		1,300
Balance With Domestic Banks	535			5,291
Deposits & Borrowings With Domestic Banks		5,558	3,991	
7. Foreign Sector		11,281		7,376
Borrowings	1,251		388	
Deposits	7,515		17,434	
Foreign Balances Including Export Bills		20,047		10,447
8. Other Assets & Other Liabilities	9,155		7,225	
Capital & Reserves	5,131		5,851	
Fixed Assets		1,436		1,821
Long-Term Government Bonds	1,000			
Restructuring Bonds				
Other Assets		2,501		6,965
Other Liabilities	6,962		10,160	
Total Net Sources/ Users	30,074	30,074	15,830	15,830

Source: Central Bank of Sri Lanka

(a) The bold figures indicate whether each sector is a net source or a net user of resources.

(b) Includes long-term deposits mobilised by the two state banks under special savings schemes.

which absorbed the largest proportion of the funds (42 per cent), while the Central Bank absorbed 20 per cent of the funds.

In contrast to the previous year, the foreign sector became the major source of funds during the year. Foreign inflows into the commercial banks increased mainly due to an increase in resident and non-resident foreign currency deposits, including compensation paid to Kuwaiti workers affected by the Gulf war. The total net receipts from foreign deposits and borrowings amounted to Rs.7,376 million in 1998. However, foreign balances including export bills, which are major users of funds, also reflected a decline in absorption from Rs.20,047 million in 1997 to Rs.10,447 million in 1998.

The other assets and liabilities sector was a net provider of funds, as in 1997. Commercial banks increased their capital and reserves, thus improving the stability of the banking system. In addition, other liabilities too were a source of funds, partly due to the inflows from the debentures issued by the banks. The domestic private sector became less important as a source of funds mainly due to the decrease in deposits and the increase in overdrafts during the year. This sector provided only a net sum of Rs.1,229 million compared to the Rs.15,081 million provided in 1997.

The government and the Central Bank were major users of funds. Unlike in 1997, holdings of government securities became a source of funds during the year as the commercial banks reduced their holdings. However, increases in government import bills discounted, provision of short-term credit and a decline in government deposits resulted in the government becoming a major user of funds, absorbing 42 per cent of the total increase in commercial bank resources in 1998. The Central Bank was a large user of funds in 1998 through the absorption of Rs.2,303 million as statutory reserves.

Commercial Bank Loans and Advances¹

According to the Quarterly Survey of Commercial Banks Advances and Deposits, the shares of loans and advances given to trading and industrial sectors in total credit recorded decreases, while the major increases were recorded in loans to the consumption and housing sectors. The decline in the share to the trading and industrial sectors was a result of the slowing down of the growth of imports and exports. All the other sectors indicated marginal improvements in their shares of total credit. In terms of the relative importance in sectoral credit growth, major increases have been recorded in consumption, housing, tourism, financial, agricultural and other sectors.

As in the past, the trading sector absorbed the largest amount of bank credit during 1998. Its contribution to total

¹ The description in this section depends on the information obtained through the Quarterly Survey of Bank Advances and Deposits and is based on domestic banking unit data upto end September 1998.

TABLE 10.6
Commercial Bank Advances by Purpose and Maturity (a)

Category	Short-Term		Medium-Term		Long-Term		Total	
	(1) Amount Rs. Mn.	(2) (1) as % of (7)	(3) Amount Rs. Mn.	(4) (3) as % of (7)	(5) Amount Rs. Mn.	(6) (5) as % of (7)	(7) Amount Rs. Mn.	(8) (7) as % of Grand Total
1. Trading								
1997 September	70,429	75.7	17,839	19.2	4,708	5.1	92,976	45.1
1997 December	73,364	74.0	20,682	20.9	5,126	5.2	99,172	45.8
1998 September	73,453	73.6	21,204	21.2	5,142	5.2	99,799	43.1
2. Financial								
1997 September	4,346	57.5	2,563	33.9	655	8.7	7,563	3.7
1997 December	4,059	53.3	2,711	35.6	844	11.1	7,614	3.5
1998 September	5,878	67.2	1,894	21.7	974	11.1	8,745	3.8
3. Agricultural								
1997 September	6,974	64.7	2,808	26.1	996	9.2	10,778	5.2
1997 December	7,668	65.2	3,085	26.2	1,001	8.5	11,755	5.4
1998 September	7,811	64.0	3,257	26.7	1,144	9.4	12,211	5.3
4. Industrial (b)								
1997 September	18,333	72.0	4,407	17.3	2,706	10.6	25,445	12.3
1997 December	18,508	73.1	4,796	18.9	2,022	8.0	25,326	11.7
1998 September	19,245	72.0	5,401	20.2	2,080	7.8	26,725	11.6
5. Tourism								
1997 September	1,470	45.0	663	20.3	1,131	34.7	3,264	1.6
1997 December	1,650	49.7	695	21.0	973	29.3	3,319	1.5
1998 September	1,563	40.5	830	21.5	1,462	37.9	3,855	1.7
6. Housing								
1997 September	6,498	25.3	10,014	39.0	9,159	35.7	25,671	12.4
1997 December	6,260	24.9	10,614	42.3	8,225	32.8	25,099	11.6
1998 September	7,820	25.3	10,951	35.5	12,095	39.2	30,866	13.3
7. Consumption								
1997 September	11,483	62.9	3,631	19.9	3,140	17.2	18,254	8.8
1997 December	12,414	63.7	4,126	21.2	2,945	15.1	19,484	9.0
1998 September	14,977	64.2	4,678	20.0	3,685	15.8	23,340	10.1
8. Other Loans								
1997 September	15,037	67.1	4,828	21.5	2,558	11.4	22,423	10.9
1997 December	14,510	58.1	5,043	20.2	5,404	21.7	24,957	11.5
1998 September	17,397	67.5	5,615	21.8	2,768	10.7	25,780	11.1
9. Total								
1997 September	134,570	65.2	46,753	22.7	25,052	12.1	206,375	100.0
1997 December	138,432	63.9	51,752	23.9	26,540	12.2	216,724	100.0
1998 September	148,142	64.0	53,829	23.3	29,350	12.7	231,321	100.0

Source: Central Bank of Sri Lanka

(a) Advances include loans, overdrafts and bills discounted and exclude cash items in the process of collection.

(b) Includes advances granted to the Engineering and Building Trade, Mining and Fishing.

credit outstanding at the end of September was 43 per cent, in comparison to 45 per cent at the end of the previous year. Meanwhile, credit granted to this sector increased by 7 per cent.

The housing and property development sector was the second largest absorber of total credit, taking 13 per cent of total credit, while credit granted to this sector increased by 20 per cent. The growth in credit to the housing sector, which was also seen in the credit given by finance

companies, may warrant caution to avoid any excessive exposure to this sector, which could result in asset price bubbles and a possible maturity mismatch on the part of institutions whose liabilities are essentially short-term.

The importance of industrial credit in commercial bank credits, which was 12 per cent at end September 1997, remained at around the same level at end September 1998.

Credit to tourism, financial, agriculture and other categories increased by 18.1 per cent, 15.6 per cent, 13.3 per

TABLE 10.7
Advances by Type of Security (a)
September 1997 - September 1998

Security	30 Sep. 1997		31 Dec. 1998		30 Sep. 1998	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
1. Documentary Bills	6,032	2.9	6,186	2.9	6,398	2.8
2. Government Securities	2,684	1.3	2,560	1.2	3,608	1.6
3. Shares of Joint Stock Companies, Bonds, Debentures and Sundries including Cash Value of Life Policies	2,139	1.0	2,763	1.3	3,448	1.5
4. Fixed, Saving and Other Cash Deposits and CDs	20,860	10.1	21,705	10.0	24,974	10.8
5. Stocks in Trade	16,597	8.0	18,546	8.6	17,494	7.6
6. Immovable Property, Plant and Machinery	52,384	25.4	55,748	25.7	60,522	26.2
7. Personal Guarantees and Pro Notes	31,543	15.3	34,389	15.9	37,874	16.4
8. Trust Receipts	11,407	5.5	12,092	5.6	10,585	4.6
9. Hire Purchase Agreements	1,301	0.6	876	0.4	1,118	0.5
10. Tractors and Motor Vehicles	2,791	1.4	2,563	1.2	2,798	1.2
11. Other Securities	32,046	15.5	31,777	14.7	35,621	15.4
12. Unsecured	26,591	12.9	27,518	12.7	26,881	11.6
TOTAL	206,375	100.0	216,724	100.0	231,321	100.0

Source: Central Bank of Sri Lanka

(a) Excludes cash items in the process of collection and advances granted for financing purposes under the Guaranteed Price Scheme.

cent and 14.9 per cent, respectively, while the combined share of these sectors in total credit was 21.9 per cent in 1998, in comparison to 21.4 per cent recorded in 1997. Consumption credit has increased by 28 per cent, while its share in total credit increased from approximately 9 per cent in 1997 to 10 per cent in 1998.

With regard to collateral, 88 per cent of the loans were secured, while 26 per cent of the total loans were issued against immovable property, plant and machinery. About 16 per cent of the loans were covered by personal guarantees and promissory notes.

The maturity structure reflected a slight decline in short-term credit (under one year) from approximately 65 per cent in 1997 to 64 per cent in 1998. The proportion of medium-term credit and long-term credit rose from 22.7 per cent to 23.3 per cent and 12.1 per cent to 12.7 per cent, respectively.

10.5 Central Banking

The Central Bank used a somewhat contractionary policy in order to maintain a tighter monetary policy stance in 1998. The repo rate was the main instrument used for this purpose. Interest rates remained at a slightly higher level, and helped to avoid excessive portfolio shifts to foreign assets during the year. As a further step towards maintaining market stability, the Central Bank reintroduced a reverse repo facility. The Central Bank's foreign assets position improved mainly through its earnings from investments, the sale to the Central Bank by government of the foreign exchange receipts

of the loan of US dollars 100 million from FCBUs and sale by DFCC Bank of the proceeds of US dollars 65 million received from the issue of Floating Rate Notes. Although the Central Bank took up about Rs.25,999 million worth of Treasury bills at the primary auctions, most of this was subsequently disposed of in the secondary market. As a result, the Bank's holdings of Treasury bills increased only by Rs.1,016 million in 1998.

Structure of Assets and Liabilities

The total resources of the Central Bank increased by 2.6 per cent (Rs.4,774 million) to Rs.188,673 million during 1998 compared to a 1.3 per cent (Rs.2,332 million) growth in 1997. A significant portion of this has come about through the increase in the rupee value of net foreign assets.

When the assets side is taken into consideration, the increase was entirely due to improvements in the foreign assets of the Central Bank. The total foreign assets of the Central Bank reached Rs.127,177 million recording a 6.9 per cent (Rs.8,178 million) increase during the year. Reflecting this, a surplus of US dollars 37 million in the balance of payments was recorded in 1998. In comparison, foreign assets in 1997 increased by 15 per cent (Rs.15,755 million).

Meanwhile, the domestic assets of the Central Bank decreased by Rs.3,401 million (5 per cent) in comparison to the Rs.13,423 million (17 per cent) decrease recorded in 1997. Loans and advances to the government through the revolving credit facility increased by Rs.1,885 million (7 per

cent). The Treasury bill holdings of the Central Bank increased by Rs.1,016 million (14 per cent) to Rs.8,238 million, in contrast to the decrease in the Central Bank's Treasury bills holdings by 58 per cent in 1997, mainly due to the retirement of Rs.10,000 million worth of Treasury bills by the government using the proceeds from privatisation.

On the liabilities side, total deposit liabilities of the Central Bank declined by 5 per cent (Rs.3,701 million), when compared with the decline of 4 per cent (Rs.3,277 million) in 1997. This was mainly attributed to the decline in government deposits by 52 per cent (Rs.3,367 million) in 1998. Deposits of commercial banks with the Central Bank increased by 7 per cent when compared with 1997, where a 15 per cent decline was experienced due to the reduction of the statutory reserve ratio.

The total currency issue by the Bank during the year increased by 13.1 per cent (Rs.6,952 million) compared to a 7.4 per cent increase recorded last year. The issue of currency notes increased by 13.1 per cent in 1998 compared to the 7.4 per cent increase recorded in the previous year, while the issue of coins recorded an increase of 12.3 per cent in 1998 in comparison to 7.8 per cent in 1997.

10.6 Banking Development

The total number of commercial banks operating in the country remained unchanged at 26 during the year. Of these, 8 were domestic banks and 18 were foreign banks. An important development that took place in the year 1998 was the commencement of the restructuring of Regional Rural Development Banks (RRDBs) by setting up Regional Development Banks (RDBs). A RDB is to be established in each province. This will take over the business of existing RRDBs in that province. This would ensure that each province in the country would have a development bank which would provide banking facilities in that area. As a first step towards implementing the restructuring programme, in terms of the provisions of the Regional Development Banks Act No.6 of 1997, a RDB named Ruhuna Development Bank was established by amalgamating the RRDBs of Galle, Matara and Hambantota. Subsequently, two more RDBs were set up in 1998, viz., the Kandurata Development Bank and the Rajarata Development Bank. This resulted in reducing the total number of RRDBs from 17 at end 1997 to 9 at end 1998. These RDBs have been issued licences to function as specialised banks under the Banking Act.

Branch Expansion

The total number of commercial bank branches including main branches (excluding 185 pawning centres), Agrarian Service Centres (ASC) branches, Kachcheri branches, extension offices and overseas branches, increased to 1,037 at end 1998 from 998 at the end of the previous year. Of the increase, 37 were branches of domestic banks and 2 of foreign banks. Commercial Bank of Ceylon Ltd. and Hatton

National Bank Ltd. (HNB) opened 12 and 10 new branches, respectively, during the year, while Sampath Bank Ltd., Union Bank Ltd. and Pan Asia Bank Ltd. opened 3 branches each. In addition, eight extension offices were opened by domestic banks, while 2 ASC branches of BOC were upgraded to main branches. The number of branches of domestic banks increased from 956 to 993 at end 1998. The total number of foreign bank branches increased by 2 with the setting up of a branch each by Muslim Commercial Bank Ltd. and The Hongkong & Shanghai Banking Corporation Ltd. In addition, People's Bank opened 18 pawning centres and 3 service centres during the year. This increase in the number of branches improved the provision of banking services and reduced the number of persons served by a commercial bank branch (excluding pawning centres) from 18,589 persons in 1997 to 18,104 persons in 1998. With the amalgamation of some RRDBs into RDBs, the total number of RRDB branches decreased from 176 at end 1997 to 96 at end 1998. Correspondingly, the total number of RDB branches stood at 80 at end 1998. The National Savings Bank expanded its branch network to 100 during the year.

TABLE 10.8
Distribution of Bank Branches

Category	1996	1997	1998(a)
1.No. of Institutions	44	44	39
Commercial Banks	26	26	26
Domestic Banks	8	8	8
Foreign Banks	18	18	18
Savings Banks	1	1	1
RRDBs (b)	17	17	9
RDBs (c)	-	-	3
2.No. of Bank Branches (d)	1,230	1,273	1,313
Commercial Banks	958	998	1,037
Domestic Banks	919	956	993
Main Branches	828	858	889
ASC Branches	17	14	12
Kachcheri Branches	23	23	23
Extension/Pay Offices	47	57	65
Overseas Branches	4	4	4
Foreign Bank Branches (e)	39	42	44
Pawning Centres	101	167	185
NSB Branches	97	99	100
RRDB Branches	175	176	96
RDB Branches	-	-	80

Source: Central Bank of Sri Lanka

- (a) Provisional
 (b) Regional Rural Development Banks established under the RRDB Act No.15 of 1985.
 (c) Rural Development Banks established under the RDB Act No. 6 of 1997.
 (d) Includes Head Offices
 (e) Includes Sub-branches.

Banking Facilities

With the expansion in the economy and the increased complexity in the financial sector, the activities of commercial banks also have expanded in a competitive environment. Rapid advances in telecommunications and

Box 11

The Use of Credit Cards in Sri Lanka

Following the technological advances throughout the world and also the gradual deregulation of financial sector activities starting from late 1977, Sri Lanka has taken many steps to create a more dynamic and innovative banking industry. One such step was the introduction of credit cards which marked Sri Lanka's first move towards a cashless society. There are four parties involved in credit card operations, viz., the credit card company which owns the trademark of the card, the bank which issues the card, the merchant and the cardholder. When issuing a credit card, the issuing bank and the card applicant enter into an agreement which includes terms and conditions relating to credit card operations. A cardholder need not necessarily be a bank's account holder.

Credit cards were introduced for the first time in Sri Lanka in the early 1980s, by a private company. The card was named the 'Golden Key Credit Card'. Its usage was initially limited due to the limited recognition of the card, difficulties in convincing customers and merchants of the benefits of using plastic money and also the lack of awareness of people about credit cards. However, over the years the acceptance of the card increased. Commercial banks began issuing credit cards in the 1980s, along with the introduction of a range of new financial instruments. These were initially for local transactions only. With the liberalisation of the current account following the acceptance of Article VIII status of the IMF by Sri Lanka in 1994, banks began to issue global access credit cards as well. The popularity of credit cards with the public has increased rapidly with greater awareness of their advantages. Various facilities and benefits offered by the card issuing banks, together with aggressive advertising campaigns, have also helped to popularise credit cards.

In Sri Lanka, six domestic banks and three foreign banks presently issue credit cards, and such issues are made under famous international trade names, such as VISA and MasterCard. At present, there are several types of cards issued by these banks e.g., 'Classic' cards, 'Gold' cards and 'Business' cards. Some of these cards are valid internationally as well as

locally, while some are valid only for local transactions.

Greater use of credit cards may reduce the conventional demand for credit from the banking sector. Greater use of credit cards could also lead to a faster growth of private sector credit. Those credits, which are used and settled within the month, will not be reflected in the balance sheets of the commercial banks. In

Credit Cards Issued by Commercial Banks

	1997	1998(a)	% Change
Total number of credit cards Issued	52,882	85,964	63
Local	29,985	59,043	97
Global	22,897	26,921	18
Outstanding credit at end of year (Rs. Mn.)	874	1,482	70
Local	358	317	-11
Global	516	1,165	126
Overdues (as % of outstanding credit)	9	19	-
Pastdues (as % of outstanding credit)	21	7	-
Interest Rate (%)	20-33	20-33	-
Commission from Dealers (%)	0.2-5.0	0.2-5.0	-

(a) Provisional

Sources: Relevant Institutions

addition, cash holdings of the public could decrease as people would need less cash for transactions. The decline in cash holdings by the public would increase the money multiplier. Further, the acceptability of credit cards in many countries of the world ensures a great degree of convenience to travellers.

The use of credit cards is becoming popular in Sri Lanka. While there are many advantages associated with the use of these cards, there are also disadvantages, such as card users becoming excessively indebted and thereby facing financial distress. The most recent information indicates that past dues (over 3 months in arrears) amount to about 7 per cent of outstanding credit card balances, while overdues (one to three months in arrears) amount to about 19 per cent. Fraudulent use of credit cards is also a possibility if cardholders do not exercise sufficient caution in the use of credit cards.

computer technology have further expanded the automation in the banking industry, with most commercial banks computerising a large part of their activities. Several banks have linked their branches through a computer network. The

services available to customers have been improved by providing them with telephone banking facilities or by permitting them to access their accounts at any time through their personal computers.

People's Bank introduced a form of plastic money, viz., Smart Card, sometimes called an electronic purse, in mid-1998, for the first time in Sri Lanka. This card is a multi-scheme card which allows a holder to use it as a multiple electronic purse, credit card and ATM card. Smart Cards can also maintain savings deposits in an electronic purse residing in its chip. A customer can deposit or withdraw cash from the electronic purse at any of the Smart Card merchant outlets or bank branches. In addition, Smart Card users have the benefit of reloading electronic money from their accounts at reloading stations. Meanwhile, Sampath Bank Ltd. continued issuing debit cards with the SET/CIRRUS/MAESTRO facility. In 1998, 11 commercial banks installed 68 Automated Teller Machines (ATMs), raising the total number of ATMs to 270 at end 1998. Nine commercial banks continued to provide credit card facilities. There were approximately 85,964 credit cards issued at end December 1998.

People's Bank (PB) introduced two new deposit schemes. One was the 'Swarna Prasada' Investment Account, which could be opened either with an initial lump sum deposit or by making monthly payments. The second was named 'Isuru Udana' and is aimed at minors. PB also launched several new loan schemes to grant loans for agriculture, rural development, small and medium projects, self employment, consumption etc.

Bank of Ceylon (BoC) introduced several new credit schemes during the year to promote the tea smallholder sector and the fishing industry. BoC also acted as a participating credit institution under the Rural Development Project funded by the Asian Development Bank (ADB) and the Rural Development Project funded by the International Fund for Agricultural Development (IFAD) and Swedish International Development Agency. Both PB and BoC granted credit under the Coconut Development Credit Programme and the Food and Nutrition Promotion Scheme.

Hatton National Bank (HNB) introduced a 'Gold Investment Account' Scheme, under which an individual is able to buy gold and hold it in an account. The depositor is entitled to withdraw the accumulated gold lying in the account and has the option of selling the gold back to the HNB. A gold account holder is also allowed to obtain loan facilities against the balance in the Gold Investment Account. In addition, HNB introduced a personal loan scheme for executives for vehicle leasing, purchase of consumer durables and also for education and purchase of property. It also introduced a phone banking facility. It was the first commercial bank in Sri Lanka to raise funds through the issue of debentures in 1998.

Commercial Bank of Ceylon Ltd. introduced new deposit schemes during the year, namely, the 'Arunalu' Minors' Savings Account Scheme, the 'Isuru-2' Minors' Savings and the Lump Sum Deposit Scheme. Commercial Bank of Ceylon also began keeping one branch open for

business on holidays and weekends to provide limited services such as acceptance of deposits, opening of accounts, issue and encashment of travellers' cheques, foreign currency notes, drafts and pay orders and for the settlement of utility bills. It also made two issues of debentures for Rs.250 million each.

Seylan Bank Ltd. introduced a new loan scheme named 'Piyasa Velenda Nivasa', an extension of its existing 'Piyasa' Housing Loan Scheme, to provide facilities to customers who wish to own a business premises and residence in a single unit. This scheme enables customers to borrow Rs.50,000 - Rs.10 million, with a pay back period of 6-25 years. The loans have a maximum grace period of 4 years, at a concessionary interest rate. The interest rate during the grace period is 16.2 per cent and is 19 per cent thereafter. Seylan Bank also introduced another loan scheme for farmers in the Kirindi Oya Settlements who have not been able to cultivate paddy for two consecutive seasons, to divert part of their paddy lands for the cultivation of bananas. Under this scheme, Rs.6.9 million has been approved for 258 customers. The rate of interest is 22 per cent per year. Seylan Bank also raised funds through an issue of debentures to meet its medium and long-term lending requirements.

Pan Asia Bank Ltd. introduced a new deposit product, called the 'Poorna Monthly Income Planner' which carries an interest rate of 10.75 - 13.50 per cent per year, depending on the maturity and amount of the deposit. Pan Asia Bank also commenced pawning business during the year. Meanwhile, Union Bank introduced a Children's Education Savings Account Scheme.

10.7 Credit Information Bureau of Sri Lanka

The Credit Information Bureau of Sri Lanka (CRIB), which was established by the Credit Information Bureau of Sri Lanka Act No. 18 of 1990, completed its eighth successful year of operation in 1998. The Bureau, as empowered by the incorporating Act, continues to collect and collate credit, trade and financial information on borrowers and prospective borrowers of lending institutions and to provide such information to lending institutions that are shareholders of the CRIB.

The Bureau presently collects information on irregular loans of Rs.100,000 and over and regular loans of Rs.500,000 and over. Thereafter, the Bureau updates the information on irregular loans of all lending institutions and regular loans of Western Province state banks monthly, and information on the regular loans of other lending institutions quarterly. The CRIB is increasing the coverage and enhancing the quality of its credit reports with a view to providing an up-to-date credit information service.

A substantial increase in the demand for credit reports from lending institutions has been observed. The Bureau issued 125,928 credit reports during the year 1998, a 23 per

cent increase compared to 102,175 credit reports issued in 1997. As a result, income from credit reports in 1998 increased by 33 per cent. Although the Bureau has gained a profit of Rs.3.7 million, it is still operationally running at a loss. During the year 1998, one Regional Development Bank and one licensed finance company were enrolled as shareholders of the Bureau. Presently, the shareholders of the Bureau are the Central Bank of Sri Lanka, commercial banks, licensed specialised banks and finance companies.

10.8 Rural Banking and Credit

Overall Trends and Developments

The policy of encouraging the establishment of a widespread rural banking network at the grassroots levels as a measure to make rural credit more accessible to the rural people was pursued vigorously during 1998. This policy, being a continuation of the steps taken in this direction in the preceding year, included the following: the formation of people-based micro-finance organisations; encouragement of the private sector to set up development and savings banks and the establishment of Regional Development Banks (RDBs) on a province-basis under the restructuring and amalgamation of the district-based Regional Rural Development Banks (RRDBs).

In the area of promoting people based organisations, the setting up of Samurdhi Bank Societies (SBS) and Isuru Development Societies (IDS) was continued, in geographical areas that had not been covered in the previous programmes. Private development and savings banks, viz., the Sanasa Development and Savings Bank, Pramuka Development and Savings Bank and the Ceylinco Development Bank, continued to open new branches outside Colombo. In addition, the National Development Bank and the DFCC Bank too continued their regional branch expansion programmes, thereby making their services accessible to people living in remote parts of the country. The RRDBs are being restructured to form Regional Development Banks (RDBs). Three such RDBs had commenced operations by end 1998. In the new RDBs the capital base was enhanced, diversifying the ownership among the two state banks, the National Savings Bank and the Employees' Provident Fund, in addition to the share ownership of the Central Bank. Further, RDB management was professionalised by making provisions for the appointment of a professional as the General Manager who will function as the Chief Executive Officer of the RDB.

The existing agricultural credit scheme, i.e., the New Comprehensive Rural Credit Scheme (NCRCS), which covers the paddy and subsidiary food crop sectors, continued to be funded by lending banks with an interest support from the government. A similar interest subsidy was provided by the government to lending banks in respect of Phase II of the self employment oriented micro-credit scheme titled

'Surathura' (Phase II). Three major policy changes were made during the year under review in the area of agricultural credit. First, the on-lending interest rate under the NCRCS, which had been fixed at 16 per cent per annum since 1991, was reduced to 12 per cent per annum from Yala 1998 to be in line with the general reduction in interest rates on development credit granted by commercial banks. Second, the interest subsidy on agricultural loans was raised by the government from 7.5 percentage points to 10 percentage points to facilitate the lending banks to cover a part of the cost of funds. Third, an Agricultural Credit Guarantee Fund was established with funding by the government to replace the then existing Central Bank Credit Guarantee Scheme. The new Fund will provide an indemnity of upto 60 per cent for loan losses of lending banks under the NCRCS and other agricultural credit schemes operated by the Central Bank.

The Isuru Development Societies in the districts of Puttalam, Galle and Matara, which had been registered as limited liability corporate bodies under the Societies Ordinance, took steps to form District Federations in the respective districts during the year under review. The objective of this step was to strengthen them financially on the one hand, and to enable them to grow as viable institutions in their role as linkage agencies, on the other. This exercise has proved that, if the poor are appropriately motivated, they could collectively achieve goals which permit them to advance their living conditions and get out of the poverty trap.

New Comprehensive Rural Credit Scheme (NCRCS)

The New Comprehensive Rural Credit Scheme (NCRCS) continued to fund small farmers island-wide by providing short-term cultivation loans for the cultivation of paddy and other subsidiary food crops. Loans granted during 1998 amounted to Rs.442 million in respect of 10,343 farmers. The Participating Credit Institutions (PCIs), which grant loans out of their own funds to prospective eligible farmers, are provided with an interest subsidy of 10 percentage points to enable them to lend to farmers at 12 per cent per annum. During the year under review, an interest subsidy amounting to Rs.24.7 million was paid by the government in respect of loans amounting to Rs.1,849 million that had been granted by PCIs in the six consecutive cultivation seasons from 1994/95 Maha to 1998 Yala.

The Farmers' Relief Scheme, introduced by the government in 1994, was also in operation during the year under review, as the termination date of the scheme was extended by a further six months from June 1998 to December 1998. Under this facility, relief was provided to defaulting farmers for credit obtained from 1978 to Maha 1993/94 by way of loan forgiveness, provided that they paid 25 per cent of the loan amount outstanding in their name to the lending bank concerned. In such cases, the balance

Box 12

Isuru Project: An Experiment in Poverty Alleviation through Micro Financing and the Credit Plus Approach

A generally accepted view by formal lending banks is that the poorest of the poor, the lowest stratum in the poverty pyramid, are not bankable or creditworthy. They are considered unbankable because they are not familiar with the lending and recovery procedures adopted by formal banks. They are considered uncreditworthy because they do not have a credit discipline and cannot provide the necessary collateral which lending banks normally insist on. As a result, the financial requirements of this category of people are not normally met by formal lending banks, but by the informal sector. Another reason for the aversion of the lending banks to providing credit facilities to this group is the high administration costs involved in maintaining a large portfolio of small loans.

In the late 1970s, the attention of international lending organisations that are geared to poverty alleviation was drawn to the need for developing a suitable credit system in which this group of borrowers could be provided with the necessary financial facilities through the formal banking system. The International Fund for Agricultural Development (IFAD) and the Asia Pacific Rural and Agricultural Credit Association (APRACA) took the lead in developing such a system. Around this time, acting independently, the Grameen Bank of Bangladesh headed by Professor Mohammed Yunus, managed to perfect a system to address this social issue. All these attempts, at a subsequent stage, converged to the development of what is today known as the *Credit Plus Approach*, as an effective micro finance system for poverty alleviation.

This approach was attempted in Sri Lanka in the late 1980s on an experimental basis by a partnership of the IFAD, Canadian International Development Agency (CIDA), the Government of Sri Lanka (GOSL) and the Central Bank of Sri Lanka (CBSL). The result was the implementation of a special poverty alleviation project titled “*Small Farmers and the Landless Credit Project*” (SFLCP), dubbed the “*ISURU*” Project in vernacular language, in four selected districts in which the incidence of poverty was concentrated in large pockets as a chronic and acute problem. The selected districts were Kandy, Puttalam (funded by IFAD) and Galle and Matara (funded by CIDA). A loan agreement signed in 1988 between the GOSL and the IFAD facilitated the implementation of the Project through a joint funding of IFAD, CIDA and CBSL on behalf of the GOSL. The Project was implemented on behalf of

the GOSL by the CBSL through its Rural Credit Department. The need for such a poverty alleviation project arose from the failure of some individuals in the rural population to improve their economic conditions by successfully integrating with the free market economy system that was introduced to Sri Lanka in 1977. Hence, leading such population towards eventual economic advancement through a concerted effort was considered necessary. All the agencies involved in the Project agreed that the ground situation in Sri Lanka provided a good opportunity for testing the credit plus approach, which had been developed, to some extent, in other countries in the region at that time. This approach essentially consisted of extending micro credit, associated with the provision of a host of support services to back it.

The strategy adopted by the Project in realising its objectives consisted of an entry by a change agent to the village and encouraging the target beneficiaries to form themselves into small self help groups (SHGs) of people in identical poverty situations. These group members were then taken through a social mobilisation programme, which covered areas such as the creation of an awareness of the reason for poverty, the way to get out of the poverty trap, the power and the value of the synergical force that are unleashed through group action, inculcation of thrift and savings habits, credit discipline, participation in group voluntary activities, development of occupational skills, leadership competence and basic entrepreneurial skills such as accounting, law and marketing. These SHGs also served to reduce the administration costs of banks and overcome the problem of lack of collateral through an inter-se guarantee that provided a mutual guarantee by other group members.

The Project work was carried out by the Central Bank with the Director/Rural Credit as the Project Director, and by setting up a Project Central Office headed by a Project Manager and supported by a Project District Co-ordinator in each of the four districts covered by the Project. The Project was inaugurated in 1989 and continued till the end of 1997. The Financing Plan of the Project envisaged a total expenditure of US dollars 17.9 million over the project period by IFAD (a soft loan of US dollars 6.7 million), CIDA (a grant of US dollars 6.6 million), CBSL (local expenditure amounting to US dollars 4.1 million) and the beneficiaries (an equity participation and savings

Box 12 (contd.)

generation amounting to US dollars 0.5 million). In the implementation of the Project, a large number of Non Governmental Organisations (NGOs) were admitted as Participating Agencies (PAs) to assist in social mobilisation and/or retail lending. The engagement of NGOs in this role was guided by their lower administration costs, their familiarity with lending and engaging in rural development work, the expertise they had acquired over time as effective social mobilisers and the widespread grassroots level network with which they were equipped to function as effective change agents at the entry points. The main NGOs so admitted in the Isuru Project were national NGOs such as SANASA, Sarvodaya, the Women's Bureau, Lanka Mahila Samithi and regional NGOs such as Gami Seva Sevana, Coconut Triangle Milk Producers' Co-operative, etc. The Regional Rural Development Bank (RRDB) in each of the districts covered by the Project functioned as the banker to the Project.

The target group of the Project was selected on the basis of an income criterion linked to the basic food needs of a family. Accordingly, at the outset, the income level for identifying the poorest of the poor was fixed at Rs.3,360 per head per annum. This was the income that was considered necessary to acquire the daily requirement of 2,200 calories by an individual.

TABLE 1
Isuru Project: Achievements Over the Project Period 1989 - 97

Description	Kandy	Puttalam	Galle	Matara	Total
No. of Villages surveyed	851	352	662	447	2312
No. of SHGs formed	3327	2253	1537	1605	5580
No. of beneficiaries Covered	19,895	12,668	9,953	10,477	52,993
No. of women Beneficiaries	11,702	8,740	7,448	7,821	35,711
Savings mobilised as group savings (Rs. million)	20.7	14.1	11.0	15.6	61.4
Total amount of loans (Rs. million)	144.0	120.0	59.3	92.2	415.6
Average Size of a Loan (Rs)	8785	10039	7591	10392	9228
Cumulative recovery rate	96.4%	96.2%	85.4%	92.6%	94.0%

Source: Rural Credit Department, Central Bank of Sri Lanka

With the increase in price levels over the years, this income level was revised upward from time to time. Accordingly, at end 1997, it stood at Rs.7,200 per head per annum.

The achievements of the project over the project period have been rated as remarkable by the donors.

Table 1 presents the cumulative achievements as at end December 1998.

With the supply of foreign funds for the Project ceasing at the end of 1997, the Central Bank took upon itself the task of continuing the project activities as per the original loan agreement by re-cycling the recoveries of the Project that had been accumulated in a revolving fund. In 1998, steps were taken to ensure the sustainability of the project activities by clustering the small self help groups of project beneficiaries into viable entities. Accordingly, action was taken to set up formal beneficiary organisations by registering them as Isuru Development Societies with the Registrar of Companies under the Societies Ordinance. These Development Societies, which are limited liability corporate bodies, are in a position to raise funds by issuing shares and mobilising savings from members and to provide micro loans to members. In addition, they can also function as retail loan disbursement institutions by linking with a formal bank which would grant a block loan to such Development Societies. Table 2 presents the status of the formation of Isuru Development Societies at end 1998.

With the success of the SFLCP in achieving its objectives, donor attention was paid to a possible replication of the experience in other parts of the country as well as other countries in the region. The IFAD uses

TABLE 2
The Status of the Formation of Isuru Development Societies as at end 1998

Particulars	Kandy	Puttalam	Galle	Matara	Total
No. of Development Societies	24	43	47	54	168
No. of members	867	1535	2043	1729	6174
Value of the share capital (Rs. thousand)	288.3	786.0	884.2	911.8	2870.3
Compulsory Savings (Rs. thousand)	46.4	224.0	561.0	544.0	1375.4
Voluntary Savings (Rs. thousand)	199.9	392.9	nil	385.2	978.0
No. of loans	1,115	2,897	5,761	3,397	13,170
Value of loans (Rs. thousand)	1,190	1,293	1,690	1,854	6,027

Source: Rural Credit Department, Central Bank of Sri Lanka

the experience to promote similar projects in other countries. In Sri Lanka, the Overseas Economic Co-operation Fund (OECF) of Japan has agreed to fund a further poverty alleviation project as a way to replicate the SFLCP in six more districts in the country.

TABLE 10.9
Cultivation Loans Granted Under the New Comprehensive Rural Credit Scheme
(Position as at 31 December 1998)

Rs. Million

Season	State Banks			Domestic Private Banks (a)			Regional Rural Dev. Banks (b)			Total Loans		
	Paddy	Subsidi- ary Food Crops	Total	Paddy	Subsidi- ary Food Crops	Total	Paddy	Subsidi- ary Food Crops	Total	Paddy	Subsidi- ary Food Crops	Total Loans Under NCRCS
1993/94 Maha	308	85	393	23	22	45	122	73	195	453	180	633
1994 Yala (c)	136	64	200	8	35	43	62	38	100	207	136	343
Cultivation Year 1994	444	149	593	31	57	88	184	111	295	660	316	976
1994/95 Maha	516	182	698	18	18	36	37	22	59	571	222	793
1995 Yala	179	131	310	8	23	31	34	22	56	221	176	397
Cultivation Year 1995	695	313	1,008	26	41	67	71	44	115	792	398	1,190
1995/96 Maha	265	76	341	18	28	46	25	33	58	308	137	445
1996 Yala	71	33	104	3	12	15	14	8	22	88	53	141
Cultivation Year 1996	336	109	445	21	40	61	39	41	80	396	190	586
1996/97 Maha	233	59	292	18	28	46	24	36	60	275	123	398
1997 Yala	72	35	107	20	32	52	16	13	29	108	80	188
Cultivation Year 1997	305	94	399	38	60	98	40	49	89	383	203	586
1997/98 Maha (d)	145	37	182	14	22	36	19	37	56	178	96	274
1998 Yala (d)	69	32	101	16	25	41	14	12	26	99	69	168
Cultivation Year 1998 (d)	214	69	283	30	47	77	33	49	82	277	165	442

(a) Hatton National Bank, Commercial Bank and Seylan Bank only.

(b) Data from RDBs are also included in 1998 figures.

(c) The Refinance Scheme was withdrawn in April 1994 and replaced by an Interest Subsidy Scheme.

(d) Provisional.

Source: Central Bank of Sri Lanka

75 per cent was written off with the Central Bank (a share of 37.5 per cent), the government (a share of 18.75 per cent) and the lending bank (a share of 18.75 per cent) taking up the losses. As at the end of 1998, a cumulative number of 32,359 farmers had benefited from the Farmers' Relief Scheme.

In the implementation of the scheme in 1998, a sum of Rs. 9 million was paid by the government, while Rs.5.8 million was met by the Central Bank under the provisions of its Credit Guarantee Scheme. Thus, the cumulative payments by the government and the Central Bank upto the end of 1998 amounted to Rs. 42 million and Rs. 83 million, respectively.

Crop Insurance Schemes

During the year under review, the Agriculture Insurance Board (AIB) continued to provide agricultural insurance coverage for paddy, subsidiary food crops and livestock. A special insurance scheme was also designed and implemented for 11 perennial fruit crops for which credit facilities are to be provided under the Second Perennial Crop Development Project funded by the Asian Development Bank. A similar scheme has also been introduced in respect of crops being funded under a credit scheme implemented by the Department of Export Agriculture. The AIB has introduced an agricultural insurance scheme on an experimental basis for maize in collaboration with the Southern Development

Authority in the Southern Region and will extend the scheme to other parts of the country in the future. In the meantime, preliminary steps were also taken by the AIB to design an insurance scheme for tea growers in consultation with the Tea Research Institute and the Tea Small Holder Development Authority. The Ceylinco Insurance Company Ltd (CICL), which is the only private insurer operating in this field, also expanded its insurance services to cover paddy, soya bean, chillies, banana and sugar cane. As a part of expanding its services, preliminary work was also completed by CICL to cover many perennial crops and fruit crops in their agricultural insurance scheme.

The extent of paddy land insured by the AIB in 1998 amounted to 14,000 hectares in comparison to 21,000 hectares covered in 1997. A gradual decline in the area covered by agricultural insurance has been reported since 1996, due to a fall in the credit levels granted under the NCRCS after the withdrawal of the Central Bank's re-finance scheme and the AIB of insurance coverage in respect of rain-fed paddy cultivation in certain parts of the country. The insurance premia collected under paddy amounted to Rs. 9.25 million as against an indemnity payment of Rs. 1.55 million during 1998. The area insured under other crops was 1,713 hectares and the premia collected on such insurance amounted to Rs. 0.64 million. The CICL insured an extent of 1,000 hectares of paddy land and collected premia to a value of Rs. 0.74 million. The payment of indemnity against

TABLE 10.10
Deposits and Advances - Selected Rural Sector Institutions

Rs. Million

	Co-operative Rural Banks (CRBs)		Bank of Ceylon Sub-Offices at Agrarian Services Centres		Regional Rural Development Banks (a)		Thrift and Credit Co-operative Societies (SANASA)		Sarvodaya		Janashakthi Bank Hambantota		Samurthi Banking Societies		SANASA Development Bank	
	1997 (b)	1998 (c)	1997 (b)	1998 (c)	1997 (c)	1998 (c)	1997 (c)	1998 (c)	1997 (c)	1998 (c)	1997 (c)	1998 (c)	1997 (c)	1998 (c)	1997 (c)	1998 (c)
Total Savings (d)	9,871	10,518	305	316	2,504	7,827	3,895	3,506	206	293	14	43	132	458	386	678
Savings	7,343	9,093	257	256	1,612	1,881	1,715	1,543	159	227	11	13	24	-	18	115
Special Savings	-	-	10	29	118	111	847	762	47	65	3	15	25	194	-	1
Fixed Deposits	2,528	2,445	37	32	773	5,835	493	443	-	-	1	1	-	-	231	410
Shares	-	-	-	-	1	1	840	756	-	-	-	15	83	263	138	151
Total Loans Granted (e)	3,363	3,907	151	170	3,929	9,194	2,335	1,868	1,010	1,352	313	58	27	827	20	339
Agriculture	879	341	14	16	662	4,156	290	232	290	319	170	29	6	57	1	10
Animal Husbandry	489	149	1	1	49	155	46	36	37	48	32	13	-	1	-	1
Fisheries	98	-	-	-	31	20	-	-	-	-	8	3	-	177	-	-
Small Industries	130	213	2	3	356	644	93	74	81	89	70	4	-	-	2	99
Building Construction, Electrification and Water Supply	1,358	2,011	3	3	134	179	253	202	-	-	14	6	-	-	-	32
Projects/Commerce	209	406	56	70	705	1,152	511	409	77	98	-	-	21	-	11	155
Others	199	787	75	77	1,992	2,887	1,143	914	525	798	19	3	-	593	6	43

(a) Data from RDBs are also included in 1998 figures.

(b) Revised.

(c) Provisional data

(d) Savings as at the end of the years 1997 and 1998

(e) Loans granted during the years 1997 and 1998

Sources: People's Bank
Bank of Ceylon
Regional Rural Development Banks
Regional Development Banks (RDBs)
Samurthi Authority of Sri Lanka
Sanasa Development Bank
SANASA
Sarvodaya
Women's Development Federation - Hambantota

crop failure under paddy by CICL was Rs. 0.6 million. The CICL also insured an area of 653 hectares for other crops. The premia collected on such insurance amounted to Rs. 0.72 million as against an indemnity payment of Rs. 0.56 million.

Both the AIB and the CICL continued to provide insurance coverage for livestock during 1998. The total premia collected by the AIB on this insurance amounted to Rs. 2.6 million, while the indemnities paid were Rs. 1.05 million. As for the CICL, the amount collected as premia on livestock insurance was Rs. 0.7 million, while the claims paid amounted to Rs. 0.22 million.

Agricultural insurance has expanded in the coverage of different products and crops in the recent past. Yet, its outreach, compensation levels and viability fall far short of the desired levels. The major agricultural insurer, the AIB, still depends on state funds for determining the coverage and compensation levels of its crop insurance schemes. This situation, which is a persistent feature, has raised serious issues about its viability and ability to serve the farming community. The private insurers, on the other hand, are

reluctant to enter the crop insurance business mainly due to the statutory monopoly position vested with the AIB. Hence, the farming community will benefit more if competition is promoted in the provision of agricultural insurance, since this may lead to a reduction in premium rates and an enhancement of compensation levels.

Micro Finance and Savings Schemes

Self-Employment Promotion through Micro-Enterprise Credit (Surathura Scheme)

The Surathura Phase II in which the lending banks, viz., Bank of Ceylon, People's Bank and Hatton National Bank, provide micro loans to the unemployed out of their own funds, continued to be in operation during 1998. This was an extension of Phase I of the Scheme in which the necessary funds were provided by the government by way of re-finance to the three lending banks. In order to maintain an on-lending rate of 10 per cent per annum, an interest subsidy of 10 percentage points was paid by the government in respect of performing loans under the Surathura Phase II.

TABLE 10.11
Surathura Scheme Progress as at end 1998

	Phase I			Phase II		
	No. of Loans	Value (Rs. Mn.)	Recovery Rate (%) (a)	No. of Loans	Value (Rs. Mn.)	Recovery Rate (%) (a)
Bank of Ceylon	3,740	150	69	5,050	221	65
People's Bank	4,042	150	59	9,759	341	67
Hatton National Bank	1,257	50	89	307	13	45
Total	9,039	350		15,116	575	

(a) Position as at 30.06.1998

Source: Central Bank of Sri Lanka

Samurdhi Development Credit Schemes

The Samurdhi Bank Societies (SBS), which were set up as an integral part of the Samurdhi Movement under the Sri Lanka Samurdhi Authority Act, continued to focus on mobilising savings from Samurdhi members, who have been organised into Self Help Groups (SHGs), and to grant them loans for undertaking income generating activities. At end 1998, 639,106 shares of SBS to a value of Rs. 263 million had been issued to members. The total deposits of SBS, including the value of shares issued, stood at Rs.458 million as at that date. With regard to loan disbursements, 68,474 micro loans to a value of Rs.238 million had been disbursed to members in respect of agriculture, small trading, fisheries, consumption and to a lesser extent, distress relief purposes. This reflects an average loan size of Rs.3,471, a very small micro-finance facility. The overall recovery rate maintained by the SBS has been reported at 96 percent. In addition, loans were also disbursed under the Samurdhi Development Credit Programme (SASANA) and the Samurdhi Enterprise Credit Programme (SAVANA) through the two state banks during the year under review. The total number of loans granted under both schemes stood at 82,725, while the value was Rs. 589 million. A recovery rate of 66 per cent has been reported in the SASANA Scheme and 98 per cent in the SAVANA Scheme as at end December 1998.

Two more loan schemes for the benefit of Samurdhi animators and Samurdhi beneficiaries were also introduced under the Samurdhi Scheme during 1998. The first scheme, which was operated as a Revolving Fund Scheme, was implemented to meet the urgent and small loan requirements of animators and beneficiaries. By end 1998, a total of 94,917 loans to a value of Rs.78 million had been granted under this scheme. The other loan scheme was for providing the animators and beneficiaries with equipment and vehicles such as water pumps, three-wheelers and two-wheel tractors, under a special leasing facility. A sum of Rs. 122 million, under 508 loans, had been provided up to end 1998. In addition, as at end 1998, the compulsory savings by 897,803 Samurdhi beneficiaries stood at Rs. 3,818 million, of which Rs.2,909 million was maintained in special savings accounts

with the two state banks. This records an increase of Rs. 1,094 million or 40 per cent over the level that prevailed at end 1997. During the year under review, 20,233 beneficiaries moved out of the Samurdhi scheme, after improving their economic conditions.

Gami Pubuduwa Scheme (GPS)

The Gami Pubuduwa Scheme (GPS), which is an innovative linkage banking scheme introduced by the Hatton National Bank, completed its ninth year of operations in 1998. Up to the end of 1998, a sum of Rs.876 million had been granted under the scheme for 27,500 small and micro projects. Most of these loans were fully re-paid by the respective borrowers on the due dates. Accordingly, the amount outstanding at end 1998 stood at Rs. 277 million, spread over 10,900 small projects. The scheme is implemented by 99 delivery units staffed by 114 field officers who carry out credit delivery and recovery activities. The GPS has continuously managed to maintain a collection ratio of 97.2 per cent, which is a very satisfactory record for a high risk micro finance scheme. In an attempt to further expand the GPS, Hatton National Bank has also initiated a financial assistance programme for educated rural youth, particularly school leavers and university undergraduates.

Thrift and Credit Co-operative Societies (TCCS) Credit Schemes

The TCCS credit schemes were operated during 1998 by both the Sanasa Development Bank (SDB) and the TCCS District and Primary Societies. The SDB is a specialised bank set up in August 1997 with a vision to raise the income levels of the low income groups through co-operative and development oriented financial services. The SDB grants loans to borrowers both directly and through the TCCS District Unions and Primary Societies.

Accordingly, several loan schemes targeting specific categories of borrowers were introduced by the SDB during 1998. These loan schemes were operated in selected areas of the country. At the end of 1998, 1,516 micro loans amounting to Rs. 21.2 million had been granted by the SDB under its micro credit schemes.

In the case of TCCSs, deposits mobilised and loans granted to members stood at Rs. 3,505 million and Rs. 1,868 million, respectively, at end 1998.

Janashakthi Banking Societies in Hambantota

Janashakthi Banking Societies (JBS) were first set up in 1989 as informal savings and loan associations by the Women's Development Federation (WDF) in the Hambantota District, with a vision to empower the women in poor families in the area to become both socially and economically self-reliant. The WDF continued to conduct awareness programmes on health, nutrition, thrift and viable economic activities for the target group. During 1998, 807 new members were registered with the existing 67 societies in 463 villages, increasing the

total membership to 26,807. The total deposits mobilised from the members at end December 1998 stood at Rs.43 million. The outstanding loans to members as at the same date, granted for agriculture, animal husbandry, fisheries, small trading and housing, amounted to Rs. 58 million. Further, the JBS managed to maintain its recovery rate at 95 per cent.

Sarvodaya Economic Enterprise Development Services (SEEDS)

The Sarvodaya Economic Enterprise Development Services (SEEDS), which functioned as a branch of the main Sarvodaya Movement, was established as a limited liability company by guarantee in 1998 so as to build up its own identity and cater to micro and small scale borrowers. The mandate of the new company has been to formulate and implement a five year working plan covering mobilisation of savings and extension of credit as a package service to target groups. The new company also functions as a participating lending NGO under a number of foreign funded credit schemes. It has also introduced its own micro loan products under such names as 'Saubhagya', 'SEFE' 'Sirikatha' and 'Sithum-Pathum', targeting specifically the rural poor. During 1998, SEEDS had disbursed 99,741 loans to a value of Rs.1,352 million, maintaining a recovery rate of 90 per cent.

Tea Shakthi Movement(TSM)

The Tea Shakthi Movement (TSM), which was introduced in February 1997 with a view to organising tea smallholders into self reliant and sustainable entrepreneurs and raising the fund base of tea smallholder societies, expanded its activities during the year under review. The savings of members, together with interest earned on investments, stood at Rs. 82 million at end 1998. The savings so mobilised were utilised to grant loans to Tea Small Holder Societies for the acquisition of vehicles and other types of investments. In addition, the TSM paid compensation to members under its insurance scheme for natural and accidental death, permanent incapacitation and heart surgery, amounting to Rs. 6.3 million in respect of 205 cases during 1998.

10.9 Other Financial Institutions

Savings Institutions

The National Savings Bank (NSB), strengthened its activities during the year. The total resources of the NSB rose by approximately 9 per cent, mainly through the growth of deposits. The introduction of several new savings schemes and a widespread advertising campaign helped to mobilise deposits. Interest rates paid by the NSB, which have a significant influence on deposit rates elsewhere, were reduced in the first half of the year, but rose in the second half. Diversification of the NSB's investment portfolio continued with an increase in the holdings of market based instruments.

New savings deposit schemes for children named 'Punchi Hapan' and 'Hapan' were introduced during the year. Savings deposits increased by 16 per cent, fixed deposits by 4 per cent and other deposits, including National Savings Certificates, Savings Certificates, Premium Savings Bonds and the NSB Pension Scheme, by 23 per cent. Total deposits of the NSB increased by 9 per cent in 1998 to reach Rs.84,280 million, in comparison to a 13 per cent increase in the savings and fixed deposits of commercial banks, to Rs. 287,929 million.

The interest rates offered by the NSB were revised several times during the year. The savings deposit rate and one year fixed deposit rate, which stood at 10.8 per cent and the 11.0 per cent, respectively, at end December 1997, were revised downward to 9.6 per cent and 10.0 per cent, respectively, in January 1998. In line with market trends, these rates were revised upward again at the beginning of the second quarter of the year. The savings deposit rate was raised to 10.5 per cent and the one year fixed deposit rate to 11.00 per cent with effect from 1 July 1998. While savings deposit rates remained at 10.5 per cent throughout the rest of the year, the one year fixed deposit rate was increased to 11.50 per cent in October 1998.

Similarly, the lending rates of the NSB were also adjusted several times during 1998. Interest rates on loans granted for housing purposes, which were in the range of 15.50 - 16.50 per cent, at end 1997, were reduced to a range of 15.00-16.00 per cent in January 1998 and prevailed at the same rate through January to July. Thereafter, these rates were further reduced to a range of 14.00-15.00 per cent in August and remained at the same level throughout the rest of 1998.

Total investments of the NSB increased by 9 per cent and stood at Rs.80,502 million at end 1998. A noteworthy feature in the investment portfolio of the NSB is the move towards investment in more market oriented government instruments which is, in fact, a reflection of the government itself moving towards more market oriented debt instruments. The share of investments in Treasury bills and Treasury bonds increased from 10 per cent at end 1997 to 21 per cent at end 1998. Investments in Treasury bills rose by 12 per cent during the year, while investments in Treasury bonds rose over sixfold from Rs.1,609 million to Rs.10,177 million at end 1998. Correspondingly, the share of investments in government Rupee securities fell from 75 per cent of total investments in 1997 to 62 per cent in 1998. Investments in debentures, Unit Trusts and shares also increased by 61 per cent and 18 per cent, respectively. Investments in government and government guaranteed securities continued to dominate the investment portfolio, accounting for 83 per cent of total investments of the NSB as at end 1998. The NSB Act requires the NSB to maintain at least 60 per cent of its investments in government and government guaranteed securities.

Chart 10.5
Employees' Provident Fund

Chart 10.5.1
Contributions and Refunds

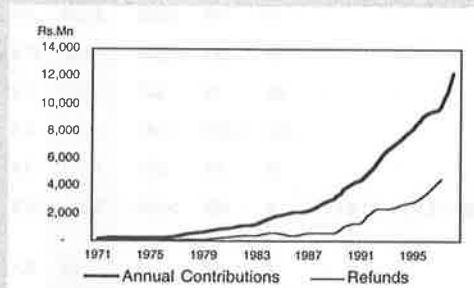
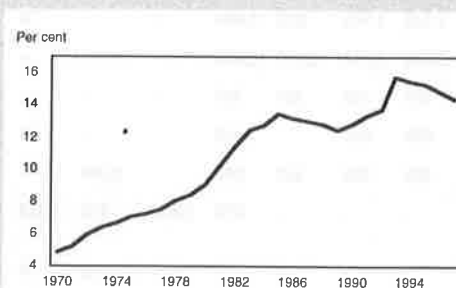


Chart 10.5.2
Rate of Return on Investments



The Employees' Provident Fund (EPF), the government's main compulsory savings institution and superannuation fund for corporation and mercantile sector employees, remains the largest single investment fund in the country. Contributions to the EPF have risen over the years, recording approximately Rs.12,300 million in 1998, an increase of 13 per cent over the level in the previous year. The refunds paid to members amounted to Rs.6,000 million compared to Rs.4,775 million in 1997. The total member balance of the EPF increased by 13 per cent to reach approximately Rs.144,000 million at end 1998. The Fund invested mainly in government and government guaranteed securities as in the previous years. Total investments of the Fund amounted to Rs.162,000 million. Of this amount 98 per cent had been invested in government paper. As the EPF is gradually being permitted to increase its investments in non-governmental securities, its holdings of such investments have increased by Rs.741 million during the year, to reach a total value of Rs.3,267 million at end 1998.

The Employees' Trust Fund (ETF), the country's second superannuation fund, also recorded increased inflows. The total assets of the Fund increased by 16 per cent in 1998 compared to the growth of 15 per cent in the previous year. Total contributions received increased by Rs.254 million to reach Rs.2,234 million in 1998. Total investments increased by Rs.3,242 million and stood at Rs.21,940 million at end 1998. Unlike the EPF, the ETF has greater flexibility in the composition of its investment portfolio. Consequently, at end 1998, it had 29 per cent of its portfolio in non-government securities. However, with the depressed conditions in the stock market, the bulk of its investments in 1998 was in government paper. At end 1998, its investments in Treasury bonds increased to Rs.571 million, investments in Treasury bills to Rs.10,054 million, and investments in Rupee

Securities to Rs.4,881 million. Other investments including investments in debentures, shares, Unit Trusts, commercial paper and asset backed notes increased marginally during the year.

Long-Term Lending Institutions

DFCC Bank expanded its activities during the year, while increasing its funds for future lending through the successful issue of Float Rate Notes (FRN) in the international market in December 1998. The FRN raised US dollars 65 million. During 1998, 1,418 loans worth a total of Rs.8,478 million were approved, compared with 1,066 loan approvals to the value of Rs.6,631 million in the previous year. The total amount of loans disbursed during the year was Rs.4,277 million, an increase of 16 per cent. As a result, total loans outstanding increased by 20 per cent and stood at Rs.13,513 million at end 1998. As in the previous year, the major share of loans disbursed during the year was for industrial purposes (55 per cent). The commercial sector received 12 per cent, mainly for wholesale and retail trading, while the agricultural sector and financial sector absorbed 11 per cent and 8 per cent, respectively. Loans granted to the tourism sector amounted to only 2 per cent of the total loans granted. Loans for other purposes, which include community and social services, electricity, gas and water, and transport services, accounted for 13 per cent of total disbursements. DFCC Bank provided Rs.45 million in 1998 by way of equity finance, compared to Rs.1,454 million in the previous year.

As in the past, the main focus of DFCC Bank was on medium and long-term financing. Of the total loans outstanding, 57 per cent were medium-term, 34 per cent were long-term and 8 per cent short-term. Given its emphasis on project lending, 89 per cent of the total loans outstanding were above Rs.1 million, while the majority of loans had

TABLE 10.12
Loans Approved and Granted by Long-Term Credit Institutions by Purpose

Purpose	Rs. Million																% of Total Loans Approved	
	DFCC		NDB(a)		NSB		SMIB		HDFC		NHDA		PSDBs (b)		Total			
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Agriculture	1,122	1,153	815	2,864	-	-	13	14	-	-	-	-	2	44	1,952	4,075	7.0	8.9
Industry	3,806	5,114	6,679	15,035	-	-	-	-	-	-	-	-	19	283	10,504	20,432	37.8	44.5
Tourism	181	126	307	782	-	-	-	-	-	-	-	-	59	10	547	918	1.9	2.0
Commercial	888	591	-	1,429	-	-	-	-	-	-	-	-	353	1,082	1,241	3,102	4.5	6.8
Financial	320	766	569	340	-	5,240	-	-	-	-	-	-	16	21	905	6,367	3.2	13.8
Housing	-	-	-	275	1,812	679	1,329	1,540	484	684	1,463	1,911	5	152	5,093	5,241	18.3	11.4
Redemption of Debt	-	-	-	-	-	59	17	17	-	-	-	-	2	19	19	95	0.1	0.2
Other Loans	314	728	3,276	1,177	3,808	3,286	-	19	-	-	-	-	161	478	7,559	5,688	27.2	12.4
Total (Approved)	6,631	8,478	11,646	21,902	5,620	9,264	1,359	1,590	484	684	1,463	1,911	617	2,089	27,820	45,918	100	100
Loans Granted (c)	3,684	4,277	4,674	14,536	5,167	7,960	1,359	1,248	362	530	670	887	449	2,081	16,365	31,519		
Loans Granted as a percentage of total loans approved	56	50	40	66	92	86	100	78	75	77	46	46	73	100	59	69		

- (a) Including refinance and equity investments
 (b) PSDB-Private Savings and Development Banks.
 (c) Includes loans approved in previous years and disbursed during the period under review.

Sources: DFCC Bank Ltd.
 National Development Bank Ltd. (NDB)
 National Savings Bank (NSB)
 State Mortgage and Investment Bank (SMIB)
 Sarnasa Development Bank Ltd.
 Pramuka Savings and Development Bank Ltd.
 Housing Development Finance Corporation (HDFC)
 National Housing Development Authority (NHDA)

been granted against property mortgages. The lending rates of DFCC Bank came down slightly from a range of 13.50-21.00 per cent at the beginning of the year to a range of 13.00-20.50 per cent at the end of the year. Of the total disbursements, 52 per cent had interest rates in the range of 14.00-19.00 per cent. The main sources of funds of the DFCC Bank were borrowings from the International Development Association (IDA) and the Asian Development Bank (ADB) (36 per cent), repayment of loans by customers (29 per cent) and issue of debentures (11 per cent).

The National Development Bank (NDB), which raised foreign loans in 1997 to fund its credit activity, approved loans to the value of Rs.21,902 million in 1998 compared to the total approvals of Rs.11,646 million in the previous year. The total number of loans also increased substantially from 733 to 1,224 in 1998. Of the total approvals Rs.14,536 million has been granted during the year. Total loans outstanding stood at Rs.21,883 million at end 1988. The bulk of loan approvals (69 per cent) by the NDB was for the industrial sector. Approvals to the industrial sector more than

doubled during the year. Loan approvals to the agriculture sector, which stood at 13 per cent of total approvals, increased significantly from Rs.815 million to Rs.2,864 million at end 1998. The NDB concentrated on lending to the commercial sector, including financing for foreign trade, and the housing sector. The commercial sector received 7 per cent of total approvals in 1998, while loan approvals for housing purposes was Rs.275 million. Loans received by the tourism sector more than doubled in 1998 compared to the previous year. Loan facilities enjoyed by the financial sector and other sectors, which includes property development, decreased by 40 per cent and 64 per cent, respectively, during the year. The majority of loans granted by the NDB were over Rs.25 million in value, were for a period of 1-5 years and carried an interest rate of 14-19 per cent. The main sources of funds of the NDB in 1998 were repayments of loans by customers, issue of debentures, issue of commercial paper and borrowings from the National Savings Bank.

The State Mortgage and Investment Bank (SMIB) approved 8,913 loans to the value of Rs.1,590 million, an

TABLE 10.13
Assets and Liabilities of Licensed Finance Companies

Item	Rs. Million				
	As at 31 December 1997	As at 31 March 1998	As at 30 June 1998	As at 30 September 1998(a)	As at 31 December 1998(a)
Assets					
1.Loans and Advances	14,544	15,385	14,921	16,399	17,175
1.1 Hire Purchase	2,619	2,741	2,345	2,445	2,355
1.2 Leasing	7,772	8,140	8,339	8,977	9,807
1.3 Real Estate	1,605	1,666	1,681	2,082	2,151
2.Equity Investments	1,697	2,227	1,936	1,905	1,875
3.Treasury Bills	1,534	1,159	1,848	1,688	1,949
4.Fixed Assets	1,664	2,126	2,196	2,209	2,288
5.Other Assets	2,856	2,736	2,576	2,827	2,802
Total	22,295	23,633	23,477	25,028	26,089
Liabilities					
1.Capital Account	3,124	3,585	3,629	3,620	3,769
2.Fixed Deposits	13,495	14,046	14,186	14,733	15,195
3.Certificate of Deposits	542	736	792	846	881
4.Borrowings	558	480	643	1,312	1,910
5.Provisions	1,385	1,471	1,054	1,263	1,059
6.Other Liabilities	3,191	3,315	3,173	3,254	3,275
Total	22,295	23,633	23,477	25,028	26,089
No. of Finance Companies reporting to the Central Bank	25	25	25	25	25

(a) Provisional

Source: Central Bank of Sri Lanka

increase of approximately 17 per cent during the year. As it is primarily a provider of funds for housing purposes, 97 per cent of total loan approvals in 1998 were for housing, while the balance was for the purchase of land for agricultural purposes, for the transport sector and for community and social services. The total value of loans disbursed during 1998 was Rs.1,248 million, a decrease of 8 per cent over the previous year. The term structure of loans indicates that 87 per cent of total loan approvals were long-term, while 12 per cent were medium-term. Most loan approvals (85 per cent) were for loans above Rs.100,000 and were secured by property or EPF balances. Total deposits mobilised by the SMIB decreased by 5 per cent during the year. Total assets of the SMIB increased by 4 per cent and reached Rs.6,627 million at end 1998. The main sources of funds were repayments of loans by customers and borrowings under a USAID credit line.

The SMIB revised its deposit rates several times during the year following competition in the market. Although deposit rates were decreased by 1 percentage point in January, the revision was reversed subsequently in September. Lending rates, which were in a range of 17.00 - 20.00 per cent at end 1997, were revised downward to a range of 15.00 - 18.00 per cent in January 1998.

Loans approved by the two private savings and development banks (PSDBs) increased substantially from Rs.617 million at end 1997, to Rs.2,088 million at end 1998. Credit was granted mainly to the commercial sector (52 per cent), industrial sector (14 per cent), housing sector (7 per cent) and agriculture sector (2 per cent). More than 77 per

cent of the loans were over Rs.1.0 million, while 81 per cent of loans carried an interest rate exceeding 20 per cent. Of the total loans outstanding, 64 per cent were medium-term, 22 per cent were short-term and 14 per cent were long-term loans. The main sources of funds of the PSDBs were deposits and repayments of loans by customers.

The Housing Development Finance Corporation (HDFC) and National Housing Development Authority (NHDA) increased their lending for housing purposes. The HDFC approved Rs.684 million in respect of 4,908 loans during the year. This was an increase of 41 per cent over the previous year's approvals. Total loans disbursed rose from Rs.362 million to Rs.530 million. The majority of loans were long-term and secured by mortgages over property. All these loans were below Rs.1 million and the majority of loans carried an interest rate of 16.00-19.00 per cent. The main sources of funds of the HDFC were repayments of loans by customers and borrowings from international financial agencies.

The NHDA generally granted small size loans for housing. In 1998, Rs.1,911 million was approved for 65,318 borrowers, compared to Rs.1,463 million in respect of 32,520 borrowers in 1997. Of the total approvals, Rs.887 million has been granted during the year. This is an increase of 32 per cent over 1997. All the loans granted were less than Rs.25,000. They carried a rate of interest in the range 11.0-16.0 per cent per annum.

Finance Companies

The total number of Finance Companies (FCs) operating remained unchanged at 25, while the number of branches

was 46 at end December 1998. Their total assets/liabilities increased by 17 per cent in comparison to a 24 per cent growth recorded in 1997 and reached Rs.26,089 million by end December 1998. This is equal to 6 per cent of the assets of the domestic units of commercial banks. In comparison, total assets of commercial banks moved up by 13 per cent in 1998 and 14 per cent in 1997. Total credit granted by FCs grew relatively slowly as was the case with commercial banks. Meanwhile, the deposit growth of FCs was relatively higher than the deposit growth of commercial banks in 1998.

Loans and advances continued to be the major category of assets of FCs, accounting for almost two thirds of total assets. The growth rate of loans and advances, however, slowed down slightly to 18 per cent in 1998, from 20 per cent in 1997. In comparison, loans and advances of commercial banks grew by 15 per cent in 1998 and 14 per cent in 1997. Within loans and advances, leasing (57 per cent), hire purchase (14 per cent) and real estate (13 per cent) were the main components. Advances to the real estate sector showed the fastest growth, at 34 per cent in 1998. In view of potential asset price bubbles, it may be advisable to view this with some caution. Credit for leasing activity increased by 26 per cent, while credit for hire purchase activity actually declined by 10 per cent.

The investment component of FC assets amounted to 15 per cent, with one half of the investments being in government securities, primarily Treasury bills. Amongst other assets, the holdings of cash and bank balances fell by 22 per cent, while fixed assets rose by 38 per cent.

From the perspective of liabilities, the major component was deposits, accounting for 62 per cent of total liabilities (fixed deposits - 58 per cent, certificates of deposit (CDs) - 4 per cent). Total deposits of FCs increased by 15 per cent in 1998 (38 per cent in 1997), in comparison to an increase of 7 per cent in rupee deposits of commercial banks (14 per cent in 1997). A noteworthy development was that CDs grew by 62 per cent.

The dependence of FCs on borrowings as a source of funds increased, with a three fold growth in the outstanding borrowings in 1998 compared to a decline of 62 per cent in 1997. This increased dependence on borrowings may be due to the slower growth of deposits of FCs in 1998. The drop in provision for bad and doubtful debt in 1998 was mainly the result of the writing off of approximately Rs.480 million of bad loans by one FC in June 1998. Other liabilities of FCs fell by 5 per cent in 1998, in comparison to an increase of 23 per cent in 1997.

A further reduction in deposit rates as well as lending rates was seen in 1998. Interest rates on fixed deposits maturing in one year came down to a range of 10.00 - 20.00 per cent per annum in 1998 from a range of 14.00 - 21.00 per cent in 1997, while lending rates on hire purchase financing were reduced to a range of 10.00-27.00 per cent per annum in 1998 from a range of 11.00-30.00 per cent per

annum in 1997. Similarly, the interest rates on leasing were reduced to a range of 10.00-27.00 per cent per annum in 1998 in comparison to a range of 13.00-30.00 per cent per annum in 1997.

10.10 Specialised Financial Institutions

Merchant Banking

The total number of merchant banks operating in Sri Lanka remained at 10 in 1998. Total assets of merchant banks decreased slightly by 2 per cent in 1998. Total pre-tax profits were negative in 1998 too, though the loss has come down significantly compared to 1997. The total income of merchant banks increased by 3 per cent to reach Rs.2,008 million at end 1998. Major income sources were leasing (23 per cent), loans (14 per cent) and discounting trade bills (13 per cent). Profits on investment in shares and income from financial and marketing consultancy services decreased significantly.

TABLE 10.14
Progress of Activities of Merchant Banks
1997-1998

	Rs. Million	
	1997	1998(a)
1. Earned Income on Leasing	473.8	471.1
2. Interest on Discounting Trade Bills	332.8	256.0
3. Financial and Marketing Consultancy Services	203.9	111.3
4. Underwriting Commissions	0.8	-
5. Insurance Commissions	2.0	2.5
6. Interest on Margin Trading	30.9	24.0
7. Profit on Investment in Shares	229.8	25.0
8. Interest on Treasury Bills	91.8	94.7
9. Interest on Loans	305.1	272.4
10. Dividends	61.6	179.6
11. Other Income	224.9	571.0
12. Total Income	1,957.4	2,007.6
13. Pre Tax Profit	-135.1	-58.6
14. Total Assets	19,802.4	19,388.2
No. of Merchant banks reporting	10	10

(a) Provisional

Source: Central Bank of Sri Lanka

Leasing Companies

There were 5 specialised leasing companies, of which 3 were subsidiaries of commercial banks operating in Sri Lanka, in 1998. In addition, a number of other financial institutions such as commercial banks, development banks, finance companies and merchant banks engaged in leasing business in Sri Lanka. In the midst of intense competition,

the activities of these companies increased during the year. The total assets of the 5 leasing companies increased from Rs.7,538 million at end 1997 to Rs. 10,013 million at end 1998. The total value of new lease finance provided by these companies increased by 60 per cent in 1998 compared to 63 per cent in the previous year. As in the previous year, lease finance was mainly for commercial vehicles (55 per cent), passenger vehicles (15 per cent), plant and machinery (12 per cent) and office equipment (11 per cent). In terms of sectors, the trading sector received 32 per cent of the total lease finance, while the services sector and the transportation sector received 22 per cent and 21 per cent, respectively. In addition, the industrial sector (16 per cent), the construction sector (4 per cent) and the agriculture sector (3 per cent) also received significant levels of finance. Leasing companies indicated that they were affected by competition from other financial institutions and by the GST imposed on leases. Another constraint faced by most leasing companies was the difficulty in obtaining long-term funds for financing leases.

Venture Capital Companies

Venture Capital Companies (VCCs) continued to provide long-term capital for commencement of new business, expansion of existing ventures, acquisitions and buyouts, in addition to investing in listed shares and other financial instruments. Of the total investment in equity, the majority (64 per cent) was for commencement of operations, though financing for this purpose was lower than in 1997. Financing for expansion of ventures stood at Rs. 313 million, an increase of 4 per cent over the previous year. Meanwhile, provision of funds for acquisitions, buyouts and investment in quoted companies dropped during the year. VCCs invested in 135 projects in 1998, compared to 161 projects in the previous year. In terms of the sectors that received funds, the services sector was the largest recipient of funds (60 per cent), absorbing Rs. 1,390 million, an increase of 17 per cent over the previous year. The VCCs provided 34 per cent and 6 per cent of total equity financing to the manufacturing sector and the agriculture sector, respectively. Total assets of the VCCs grew by 1 per cent during the year.

Insurance Companies

The insurance industry has grown in 1998, in terms of both the total asset base and profits. Total assets of 7 insurance companies reached Rs.23,805 million, an increase of 5 per cent during the year. Net profit before tax also increased by 10 per cent in 1998. This growth was accompanied by an increase in employment in the insurance sector from 6,244 to 6,511. The total branch network increased to 268 at end 1998 from 262 at end 1997.

The growth in the insurance industry was seen in both life insurance and general insurance activities. The total value of life assurance fund was Rs.16,107 million, an increase of 19 per cent over the previous year. The total premium collected with respect to business in force increased by 18

per cent during the year, while the total sum insured rose by 11 per cent compared to the previous year. The total number of policies in force also increased by 5 per cent in 1998. Total benefit payments on maturity, death and disability and surrender increased by 17 per cent during the year.

General insurance activities, except marine insurance, showed an improvement during the year. Net premia for policies in force increased by 10 per cent and stood at Rs.4,607 million at end 1998. Net premia in the motor insurance sector, which is the biggest in the general insurance category, increased by 18 per cent during the year. Net premia in fire insurance and general accident insurance increased by 9 per cent and 5 per cent, respectively. Meanwhile, net premia in marine insurance dropped marginally during the year.

10.11 Money Market

Overall Trends

In view of continued uncertainty in the external environment and somewhat high domestic inflation early in 1998, policy measures were focussed on making progress towards monetary and price stability. This resulted in a relatively stable money market with less volatile call market interest rates, and slightly higher repo rates and Treasury bill rates. The market was generally liquid, partly due to the slower growth in credit and the inflow of foreign funds in the second half of 1998. Reflecting this availability of liquidity, most primary Treasury bill auctions were over-subscribed by the public. The resumption of the Central Bank's reverse repurchase facility in November also helped to stabilise the market and arrest any undue rise in interest rates. Open market operations continued to be the mechanism for liquidity management, with the repo rate and the rediscount rates being used as the main means of influencing the market. Although the Central Bank's own Securities, with a maturity of seven days, were available, use of the facility by commercial banks was minimal. In the domestic foreign exchange market, the Central Bank's middle rate for transactions with commercial banks depreciated by about 10 per cent. The slightly higher repo rates in 1998 than in 1997, served to contain the demand for funds from the call market for the purchase of foreign exchange.

Inter Bank Call Money Market

Activity in the call money market was somewhat less in 1998 than in 1997, with the total turnover falling from Rs.1,015,457 million to Rs.880,566 million. There was also less volatility in call market rates. The slight tightening of the monetary policy stance, effected through increases in the repo rate, led to an increase in the lower end of the call market interest rates. Reflecting higher liquidity in the market in the early part of the year, call market rates declined to a

TABLE 10.15
Money Market Operations 1996-1998

Period		Rs. Million										
		Call Money Market			Primary Treasury Bill Market					Secondary Treasury Bill Market (Central Bank)		
		Total Lending/ Borrowings	Outstand- ing at end period	Total Outstand- ing	Amount Accepted (Purchases)				Total	Total Sales	Total Purchases	
Amount Issued	Central Bank				Commer- cial Banks	Others						
1996												
1st	Quarter	217,697	2,390	120,021	52,025	3,560	27,170	21,295	52,025	9,384	795	
2nd	Quarter	191,406	4,792	122,821	50,009	8,586	27,285	14,138	50,009	1,710	3,871	
3rd	Quarter	233,790	3,977	124,521	58,819	9,502	33,021	16,296	58,819	1,975	5,854	
4th	Quarter	301,921	6,862	124,996	66,027	2,753	42,362	20,912	66,027	3,043	6,301	
1997												
1st	Quarter	303,208	4,811	124,996	56,629	9,304	30,179	17,146	56,629	7,222	4,027	
2nd	Quarter	275,508	5,830	124,996	38,609	7,863	22,452	8,294	38,609	4,373	4,433	
3rd	Quarter	224,566	1,853	114,996	46,676	3,886	25,776	17,014	46,676	5,936	1,563	
4th	Quarter	212,175	3,599	114,996	68,973	4,245	44,906	19,822	68,973	1,289	7,197	
1998												
1st	Quarter	210,509	4,141	112,996	56,717	7,175	32,321	17,221	56,717	2,218	10,491	
2nd	Quarter	196,668	2,734	114,996	50,086	6,398	28,254	15,434	50,086	4,062	4,143	
3rd	Quarter	241,206	5,759	117,996	53,542	6,924	32,825	13,793	53,542	3,373	123	
4th	Quarter	232,184	4,272	119,996	70,338	5,502	44,740	20,096	70,338	1,738	105	

Source: Central Bank of Sri Lanka

lower and narrower range of 11.00-16.50 per cent in the first two months of 1998 compared to a range of 12.00-20.00 per cent at end December 1997, and stood at a level of 12.0-12.75 per cent by end March 1998. In the second quarter, call money rates fluctuated within a narrow range with slight fluctuations and were in a range of 12.13-12.75 per cent at end June 1998. A temporary shortage of liquidity in the market in July saw the rates move to a peak of 28.00 per cent on 30 July, which was the highest recorded in 1998. Thereafter, the rates declined to a range of 12.25-17.25 per cent during September. The inflow of foreign funds into the market in the latter part of 1998 caused the rates to decline to a range of 11.25-16.50 per cent in December. The end year rates remained in a very narrow range of 13.00-14.00 per cent.

Primary Treasury Bill Market

In contrast to the declining trend observed in Treasury bill yield rates, particularly in the second half of 1997, yield rates tended to rise slightly in 1998. However, as the market was generally liquid, most primary Treasury bill auctions were oversubscribed. The yield rates on 3-month and 12-month Treasury bills, which stood at 9.97 per cent and 10.21 per cent, respectively, at the last auction in 1997, rose gradually to 11.75 per cent and 12.09 per cent, respectively, by end June. The yield rates increased further to stand at 12.01 per cent and 12.59 per cent, respectively, at the last auction in 1998. The rise in yield rates can be partly attributed to the maintenance of a higher overnight repo rate. In addition, the

increase in inflation in the early part of the year would have contributed to the increase in yield rates. The difference between the yields on shorter maturity Treasury bills and the longer maturity Treasury bills was small, resulting in a flat yield curve throughout most of the year. Following the retirement of Rs.10,000 million worth of Treasury bills in 1997 using the proceeds from privatisation, a further Rs.2,000 million worth of Treasury bills were retired in March 1998. However, government expenditure increased and revenues were less than budgeted, partly due to the GST rate being lower than the revenue neutral rate. This led to an additional financing requirement. Hence, the government reissued this Rs.2,000 million of Treasury bills and a further Rs.5,000 million, from the bills retired in 1997. In order to avoid disrupting the market through these issues, they were taken up by the Central Bank. These developments in the primary Treasury bill market led to the rise in the total outstanding level of Treasury bills from Rs.114,996 million at end 1997 to Rs.119,996 million at end 1998.

With a view to maintaining stability in the money market rates, the Central Bank purchased bills amounting to Rs.25,999 million in the primary market, including Rs.11,660 million worth of Treasury bills reserved for the Central Bank from the reissues of Treasury bills prior to the Primary Treasury bill auctions. These purchases were, however, almost entirely divested to the market subsequently, and the book value of the Central Bank's holdings of Treasury bills stood at Rs.8,233 million at end 1998, compared to Rs.6,691 million at end 1997. The total value of Treasury bills offered

in the primary market in 1998 was Rs.217,022 million as against the Rs.194,866 million in the previous year.

Central Bank Secondary Market for Treasury Bills

The sales (discounting) of Treasury bills from the secondary window of the Central Bank amounted to Rs.11,390 million in 1998, in comparison to Rs.18,821 million in the previous year (a decline of 39.5 per cent). Meanwhile, purchases (re-discounting) of Treasury bills also fell from Rs.17,220 million in 1997 to Rs.14,862 million in 1998.

As in the past, the Central Bank's discount and rediscount rates were important signalling instruments on short-term interest rates. In addition, the spread between the Central Bank's 3-month discount and rediscount rates for Treasury bills was also adjusted to influence the liquidity conditions in the market. The margin was raised in two steps, from 3.25 to 4.25 percentage points, in January, to tighten monetary conditions and discourage commercial banks from selling Treasury bills to the Central Bank to obtain low cost liquidity for speculative activity in a volatile foreign exchange market. Some improvement in stability in the foreign exchange market was seen in February. Commercial banks stopped buying foreign currency from the Central Bank and the inter-bank exchange rate for the dollar appreciated in the first few weeks in February. The margin between the discount rate and rediscount rate was therefore reduced to 4.00 percentage points on 20 February. The margin was adjusted several times during the year and stood at 3.15 percentage points from mid August to end December 1998. When the year is considered as a whole, the general increase in interest rates of about 2 percentage points can be seen in the Central Bank's secondary window too. The discount and rediscount rates for 3-month bills rose to 11.86 per cent and 15.01 per cent, respectively, at end 1998 from 9.72 per cent and 12.97 per cent, respectively, at end 1997.

Central Bank Repurchase (Repo) Market for Treasury Bills

The overnight repo rate continued to be one of the major instruments used by the Central Bank for liquidity management in 1998. The Central Bank engaged in repurchase transactions, to stabilise call market rates, particularly the lower end of the rates. The considerable uncertainty created in the foreign exchange market due to the crisis in East Asia in the latter half of 1997, continued into 1998, leading to speculative activity in the Sri Lanka foreign exchange markets. In order to discourage this, and in view of the increase in inflation early in 1998, the overnight repo rate was raised from 11.0 per cent at end 1997 to 12.00 per cent in January and kept at a relatively high level throughout most of the year, to avoid portfolio shifts from domestic assets to foreign assets. Towards the end of the year, a reduction of pressure on the exchange rate

and a decline in domestic inflationary pressure permitted a lowering of the repo rate. The Central Bank was able to reduce the overnight repo rate in several steps to 11.25 per cent by end December. Repo sales by the Central Bank rose to Rs.728,335 million in 1998 from Rs.446,423 million in 1997.

Central Bank Reverse Repurchase (Reverse Repo) Market for Treasury Bills

With a view to creating stability at the upper end of the call market interest rate range, the Central Bank introduced a reverse repurchase facility in November 1995. Structural weaknesses in the market and limits on the amount of liquidity provided made this facility less effective than envisaged. Its use was gradually abandoned and the facility was not offered in 1996 or in 1997. In fact, the availability of liquidity in the market in 1997 obviated the need for such a facility. The Central Bank reintroduced the reverse repurchase facility with effect from 09 November 1998, in order to stabilise the short-term rates in the money market. All commercial banks and non commercial bank Primary Dealers for government securities are eligible to make use of this facility. At present, only overnight funds are provided under this facility. There is no limit on the amount of liquidity that can be obtained, but such funds are provided only against the collateral of Treasury bills or Treasury bonds. The reverse repo rate is determined by the Bank on a daily basis and is announced to the market. Currently, this rate is equivalent to the rediscount rate at the Bank's secondary window. There were only two reverse repurchase transactions recorded, i.e., on 27 November and 01 December, amounting to Rs.731 million and Rs.334 million, respectively, at the rate of 15.45 per cent.

Domestic Foreign Exchange Market

The US dollar continued to be the intervention currency, and the Central Bank announced daily spot buying and selling rates for the dollar for transactions with commercial banks. The spread between the spot buying and selling rate has stood at 2 per cent from 1995. The Central Bank's middle rate was Rs.67.7800 per US dollars at end 1998 as against Rs.61.2850 per US dollars at end 1997, a depreciation of 9.6 per cent.

Purchases of US dollars by the Central Bank from commercial banks fell from US dollars 137 million in 1997 to US dollars 61 million in 1998. Meanwhile, sales of US dollars by the Central Bank to commercial banks in 1998 amounted to US dollars 215 million, as against US dollars 155 million in 1997. Accordingly, the net purchases of foreign exchange from the Central Bank by commercial banks in 1998 amounted to US dollars 154 million, as against net purchases of US dollars 18 million in 1997. Total inter-bank turnover, which stood at US dollars 3,881 million in 1997, rose to US dollars 4,409 million in 1998. However,

the forward transactions decreased from US dollars 1,606 million in 1997 to US dollars 696 million in 1998.

The scheme to permit commercial banks to grant foreign currency loans to non-BOI exporters either from their domestic units or from their FCBUs, introduced in January 1997, continued in 1998. However, due to the continuing volatility in foreign exchange markets and the comparatively low domestic interest rates that prevailed, non-BOI exporters made less use of this facility than in 1997. A sum of US dollars 177 million (approximately Rs.11,425 million) was granted as credit under this scheme in 1998, as against US dollars 254 million (approximately Rs.15,017 million) in 1997. Thus, under this scheme, a gross sum of US dollars 431 million had been granted upto end December 1998. The outstanding level of credit at end December 1998 was US dollars 44 million.

Central Bank Securities

Central Bank Securities were available on tap to commercial banks and Primary Dealers throughout the year. The securities offered were short-term, with maturities of 7 days. However, there was very little demand for these securities and the total issues amounted only to Rs.40 million in 1998, as against Rs.7,835 million issued in 1997. The securities were sold at par with an interest rate equal to the prevailing rate for 7 day repos. The interest rates were in the range of 11.93 - 12.06 per cent per annum in 1998.

Commercial Paper (CP)

Commercial paper has become a popular instrument in the corporate sector in Sri Lanka, since their first issue in 1993. The popularity is attributed to their ability to meet the short-term liquidity requirements of corporate entities at attractive rates of interest. Listed companies as well as merchant banks issue commercial papers with maturity periods of 3-6 months. Such paper can be supported by commercial banks, subject to the guidelines issued by the Central Bank.

The gross issues of commercial paper, including reissues, in 1998 stood at Rs.16,457 million. (This value relates only to CP issued with the involvement of either commercial banks or merchant banks.) During 1998 merchant banks made their own issues amounting to Rs.1,702 million, while they supported companies to issue commercial paper totalling Rs.2,446 million. However, the bulk of commercial paper, amounting to Rs.12,309 million, was issued with the support of the commercial banks. The outstanding value of commercial paper at end 1998 was Rs.4,286 million. During the year, the yield on commercial paper varied within a range of 11.00-18.02 per cent per annum.

10.12 Capital Market

Although the Colombo share market recovered somewhat in the first few months of 1998, the year as a whole saw a

continuation of the downward trend in market activity and share prices. This was mainly attributed to the continuation of adverse economic and financial conditions, particularly in the Asian region. The impact of the East Asian crisis, which started in July 1997, continued during 1998 and had a dampening effect on the regional stock markets including Colombo, as foreign investors reduced their exposure to the entire region. Secondly, the nuclear tests carried out by India and Pakistan in May 1998 led to negative foreign investor sentiment, with a resulting pullout of investments from South Asian markets. In addition, the Russian financial crisis which started in August 1998, resulted in a moratorium on debt repayments by Russia and reduced tea imports from Sri Lanka, adversely affected prices in the plantation companies. The All Share Price Index (ASPI) fell by 15 per cent, while the Sensitive Price Index (SPI) declined by 13 per cent in

TABLE 10.16
Share Market Indicators

	1996	1997	1998
1. Market Capitalisation (Rs.Mn.)	104,197	129,428	116,660
2. Number of New Issues (No.)	8	5	6
3. Total Number of Shares Issued (Mn.)	64	50	28
4. Value of New Shares Issued (Rs.Mn.)	2,178	456	349
5. Number of Shares Traded (Mn.)	227	515	634
6. Value of Shares Traded (Rs.Mn.)	7,403	18,315	18,130
7. Price Indices - CSE All Share (as at 31st Dec.)	603.0	702.2	597.3
- CSE Sensitive (as at 31st Dec.)	897.7	1,068.0	923.0

Source : Colombo Stock Exchange

1998, in contrast to the increases of 16 per cent and 19 per cent, respectively, in 1997. Foreign investors were net sellers with net outflows amounting to approximately US dollars 24 million. Market capitalisation also decreased by 10 per cent. The total number of companies listed on the Colombo Stock Exchange (CSE) had a net increase of one in 1998. Five plantation companies offered shares for sale to the public and a company in the hotel sector had an Initial Public Offer (IPO) during the year. Indicating the continued interest of the public in investing in plantation company shares, all the offers for sale were over-subscribed. The IPO of the company in the hotel sector was also over-subscribed.

An additional encouraging feature was the gradual development of the corporate debt market. Three commercial banks and three private companies together made seven debenture issues to the public and those were listed on the CSE. By end 1998, the total value of listed corporate debt amounted to Rs.3,703 million. In many well developed financial markets, the value of debt instruments exceeds the value of equity. The development in the Colombo market is

Chart 10.6
Share Market Indicators

Chart 10.6.1
Share Price Indices
(1985 = 100)

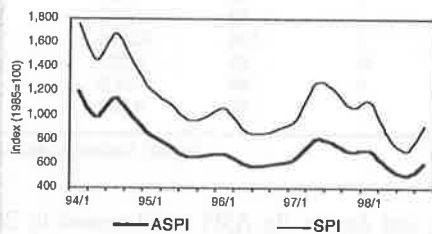


Chart 10.6.2
Stock Market Transactions

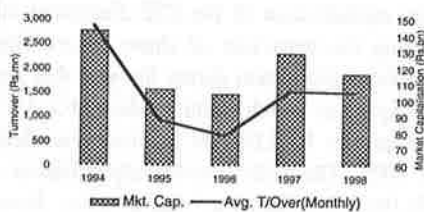
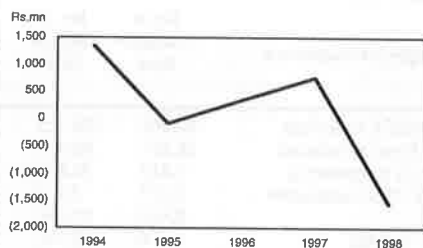


Chart 10.6.3
Non-National Participation



A third positive feature was the continued expansion in market based government bonds. The issue of market oriented Treasury bonds commenced in 1997, in which year the total issue amounted to Rs.10,000 million. In 1998, the total value of Treasury bonds issued rose to Rs.38,915 million. These bonds, which carry a coupon rate and are sold by auction, had maturities of 2, 3 and 4 years.

Internationally, one Sri Lankan company made a global placement of shares, while another had a Floating Rate Note issue. Both offers were over-subscribed.

Primary Market

An IPO was made by a hotel sector company, i.e., Royal Palm Beach Hotel Ltd., during 1998. Five offers for sale of shares were made by plantation companies, viz., Hapugastenna Plantations Ltd., Udapussellawa Plantations Ltd., Balangoda Plantations Ltd., Madulsima Plantations Ltd. and Kahawatta Plantations Ltd. during the year. The total market value of all these share issues (inclusive of share premium) was Rs.349 million, compared with the market value of Rs.583 million of five share issues made in 1997. The total value of rights issues made during 1998 was Rs.1,960 million compared with Rs.1,078 million during 1997.

Two international placements viz., the Floating Rate Notes (FRN) issue of DFCC Bank and a global placement of shares by Aitken Spence Company Ltd. were made during the year. Both issues were over-subscribed despite the regional decline, indicating the confidence placed by international investors in these institutions. The FRN issue

TABLE 10.17
Number of New Share Issues by Type of Investment

Type of Investments	1996	1997	1998
Banks Finance & Insurance	-	1	-
Beverages Food & Tobacco	1	-	-
Chemicals & Pharmaceuticals	1	-	-
Constructions & Engineering	-	-	-
Diversified	-	-	-
Footwear & Textile	-	-	-
Hotels & Travels	1	2	1
Investment Trusts	-	-	-
Land & Property	-	-	-
Manufacturing	-	-	-
Motors	-	-	-
Oil Palm	-	-	-
Plantations	5	2	5
Services	-	-	-
Store & Supplies	-	-	-
Trading	-	-	-
Total	8	5	6
Number of shares offered (Mn.)	64	50	28
Value of shares offered (Rs. Mn)	2,178	583	349

Source: Colombo Stock Exchange

a healthy sign as this broadens the financial market and provides new avenues of investments to savers and new means of raising funds to companies.

TABLE 10.18
New Share Issues of Companies during 1998

Name of Company	Date of Opening List	No. of Shares (Thousands)	Par Value (Rs.)	Premium (Rs.)	Value of Shares on Offer (Rs. Mn.)	No. of Shares Applied for by Public (Thousands)	No. of Shares Taken up by Underwriters (Thousands)
1. Hapugastenne Plantations Ltd.	22.01.98	4,000	10	—	40	4,000	Nil
2. Udapussaellawa Plantations Ltd.	13.02.98	1,900	10	—	19	1,900	Nil
3. Royal Palm Beach Hotels Ltd	26.03.98	10,000	10	1	110	10,000	Nil
4. Balangoda Plantations Ltd.	26.03.98	4,000	10	10	80	4,000	Nil
5. Madulsima Plantations Ltd.	29.04.98	4,000	10	5	60	4,000	Nil
6. Kahawatte Plantations Ltd.	08.10.98	4,000	10	—	40	4,000	Nil

Source: Colombo Stock Exchange

of DFCC Bank amounted to US dollars 65 million (about Rs.4.3 billion). These were 10 year bonds with a floating rate equivalent to 6-month US dollar LIBOR plus 2 per cent. The capital repayment of the FRN is guaranteed by the Asian Development Bank (ADB) while the interest payment is guaranteed by the Government of Sri Lanka. These bonds are listed on the Luxembourg Stock Exchange. Aitken Spence Company Ltd. made a global placement of 7 million shares at Rs.105 per share each. The Commonwealth Development Corporation and the International Finance Corporation were major institutional investors. A notable development in the debt securities market was seen during the year. There were seven debenture issues by 6 companies viz., Ceylinco Securities and Financial Services Ltd., Hatton National Bank Ltd., Commercial Bank of Ceylon Ltd. (two issues), Ceylon Glass Co. Ltd., Seylan Bank Ltd. and Vanik Incorporation Ltd. The maturity period of these issues varied from 3-5 years, while they carried interest rates ranging from 13.5 per cent to 17.5 per cent. Although most issues had fixed rates of interest, two were offered with floating rates. However, interest rate variability has been limited by prescribing a minimum interest rate of 12.74 per cent per annum and a maximum interest rate of 16 per cent per annum. All the issues were over-subscribed and the total amount raised through these issues was Rs.2,668 million. The issues have been listed on the Colombo Stock Exchange. Meanwhile, the National Savings Bank (NSB) and Bank of Ceylon (BoC) entered into an agreement during December 1998 under which BoC issued ten-year debentures worth Rs.1 billion to the NSB.

Secondary Market

The declining trend seen in the All Share Price Index and the Sensitive Price Index since July 1997 continued into January 1998. Although some improvement in prices was seen from February to April, prices fell substantially thereafter, and in August, reached their lowest recorded since May 1991. An increase in economic volatility in East Asia, aggravated by the impact of the nuclear tests conducted by India and Pakistan, contributed significantly to this drop in

prices. By end August, the ASPI had decreased by 206 index points (34 per cent) and SPI decreased by 367 index points (34 per cent), reaching 496 and 701 respectively. From September to December, some positive movements in prices were seen, though they remained below the levels at end December 1997. The year ended with an overall decline in the ASPI by 105 index points (15 per cent) and the SPI by 145 index points (13 per cent), which reached 597 and 923, respectively, at the end of 1998.

Market capitalisation of the CSE fluctuated during the year reflecting the behaviour of share prices. The highest level of market capitalisation during the year was Rs.147,900 million in April, at which point it showed a 14 per cent increase over the Rs.129,400 million recorded at end December 1997. Thereafter, market capitalisation fell to a low of Rs.96,100 million at end August. However, it improved gradually during the last four months of the year. When the year is considered as a whole, market capitalisation declined by 10 per cent and stood at

TABLE 10.19
Category-wise Distribution of Shares Traded in the Secondary Share Market in 1998

Category of Investment	No of Transactions	No. of Shares ('000)	Value (Rs. Mn.)
Banks, Finance & Insurance	52,407	136,122	4,572
Beverages, Food & Tobacco	18,971	65,432	1,347
Construction & Engineering	7,810	20,847	343
Chemicals & Pharmaceuticals	3,071	3,011	85
Diversified	8,641	21,686	3,638
Footwear & Textiles	4,170	14,197	32
Hotels & Travels	11,127	160,007	1,122
Investment Trusts	1,015	3,107	210
Land & Property	3,685	14,065	86
Manufacturing	39,089	100,610	2,846
Motors	1,613	3,993	142
Oil Palms	14	3	1
Plantations	173,518	85,829	3,301
Services	1,584	1,195	43
Stores & Supplies	290	790	29
Trading	2,063	3,240	98

Source : Colombo Stock Exchange

Rs.116,700 million at the end of December 1998. Nearly forty per cent of the total value of market capitalisation in Sri Lanka comes from 10 institutions. John Keells Holdings, HNB, DFCC Bank, NDB, Hayleys, Ceylon Tobacco, Commercial Bank, Nestle Lanka, Aitken Spence and Pure Beverages are the top ten institutions by market capitalisation. Four of these are financial institutions, including two development banks.

The total turnover decreased by 1 per cent from Rs.18,315 million in 1997 to Rs.18,130 million in 1998. The average daily turnover decreased from Rs.76.0 million to Rs.75.5 million between the two years. The highest turnover amounting to Rs.2,800 million was recorded in May 1998 while the lowest turnover of Rs.688 million was recorded in December 1998. The largest share of the total turnover was from the Banks, Finance and Insurance sector while NDB, DFCC Bank and Sampath Bank accounted for 59 per cent of the share of this sector.

The market price earning ratio (PER) moved with the price indices, rising from 12.5 at the end of 1997 to 14.3 at the end of April 1998. Thereafter, it declined gradually to reach a level of 8.2 at end August 1998, but improved to 9.0 at end December 1998.

Foreign investor participation at the Colombo stock market continued to be adversely affected during the year, as in the entire Asian region. Overall, foreign transactions during the year recorded a net outflow of Rs.1,560 million (US dollars 24 million) against Rs.716 million of net foreign inflows recorded in 1997. During the period under review, foreign participation accounted for 35 per cent of the total turnover compared to 43 per cent in the previous year.

Sectoral Performance

Price movements in most sectors were not attractive in 1998. Of the 16 sectors, price decreases were recorded in 12. The Plantation sector was the biggest loser as prices decreased by 45.6 per cent. This was mainly attributed to the Russian crisis. Among the other sectors which had significant decreases in prices were Footwear and Textiles, Investment Trusts, Banks, Finance and Insurance, Chemical and Pharmaceuticals, Motors and Manufacturing. The Stores and Supplies sector achieved the highest growth in prices, recording an increase of 31.7 per cent. The Oil Palms, Services and Beverage, Food and Tobacco sectors also recorded decreases in prices during the year.

TABLE 10.20
Listed Debenture Issues During 1998

Issuer	Date	Maturity Period	Type of Debenture	No. of Debentures	Price per Debenture	Amount Rs. (Mn.)	Interest Rate	Over subscribed/ Under subscribed
1 Ceylinco Securities & Financial Services Ltd	19.03.98	4 yr	Unsecured redeemable (Put option at the end of 3rd year)	1,000,000 182,550	100 100	100 18	17.5 p.a. (payable half yearly)	Over subscribed
2 Hatton National Bank Ltd	24.06.98	5 yr	Unsecured, subordinated redeemable.	10,000,000	100	1000	13.5 p.a. (payable quarterly)	Over subscribed
3 Commercial Bank Of Ceylon Ltd.	06.07.98	5 yr	Unsecured, subordinated redeemable.	250,000	1000	250	13.5 p.a. (payable quarterly)	Over subscribed
4 Ceylon Glass Company Ltd.	10.07.98	3 yr	Redeemable guaranteed by DFCC Bank	500,000	100	50	13.5 p.a. (payable half yearly)	Over subscribed
5 Commercial Bank Of Ceylon Ltd.	28.09.98	5 yr	Unsecured, subordinated redeemable.	250,000	1000	250	Floating rate (payable quarterly) linked to 3 month TB rate+1%	Over subscribed
6 Seylan Bank Ltd	30.09.98	5 yr	Unsecured, subordinated redeemable.	3,000,000 3,000,000	100 100	300 300	13.5 p.a., (payable monthly) or 14.37 p.a. (payable annually) or floating rate .Linked to 1 year TB rate + 1%	Over subscribed
7 Vanik Incorporation Ltd	11.12.98	5 yr	Capital guaranteed redeemable.	4,000,000	100	400	15 p.a (payable annually) 14.2 p.a (payable quarterly)	Over subscribed
Total				22,182,550		2,668		

Source: Colombo Stock Exchange

Regional and Major International Stock Markets

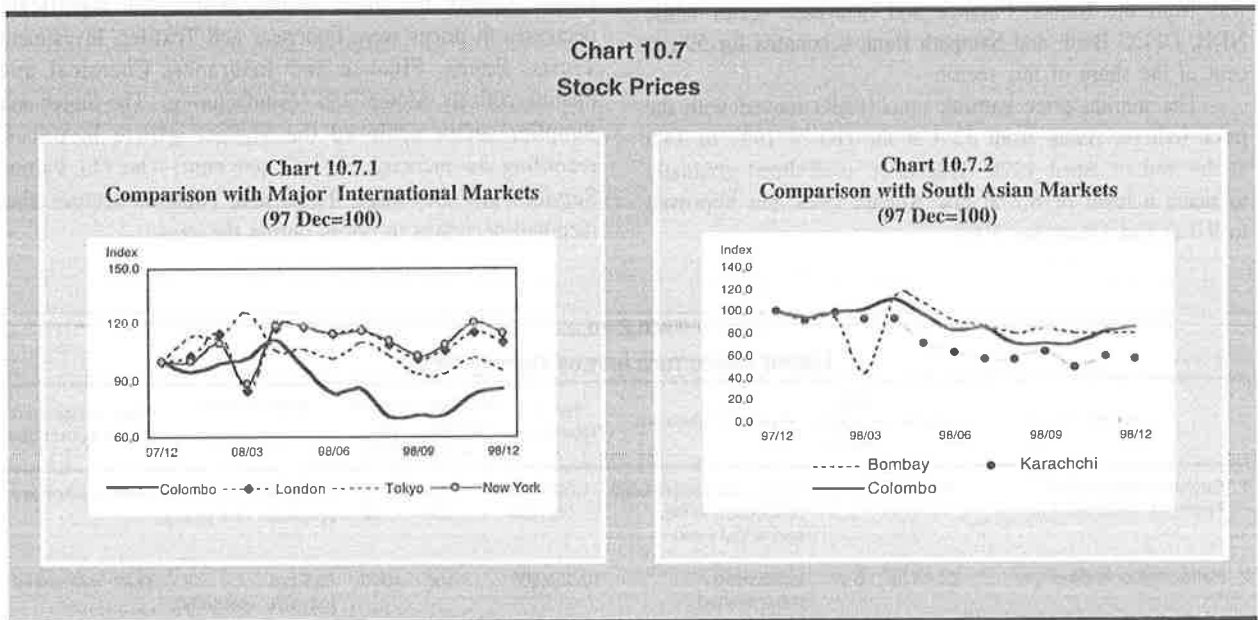
Most Asian and emerging markets performed poorly, although the well developed Western stock markets performed relatively well. In the region, the worst affected market was Karachchi which had a 44 per cent decline in prices in 1998. Among other markets, Colombo (15 per cent), Bombay (18 per cent), Taipei (13 per cent), Singapore (12 per cent), Tokyo (5 per cent), Hong Kong (4 per cent), Kuala Lumpur (3 per cent), Manila (3 per cent) and Bangkok (2 per cent) recorded decreases in prices during the year. Meanwhile, increases in prices were recorded in Seoul (54 per cent), Sydney (5 per cent) and Jakarta (1 per cent). A welcome feature was that South East Asian markets achieved

The fully automated trading system introduced in 1997 at the CSE has established a wide area network which connects all brokers' offices via a radio link to the stock exchange. This system has assisted brokering firms to open branches outside Colombo and to have access to a wider range of market information.

The CSE and the Securities and Exchange Commission (SEC) expect to introduce short selling and stock lending in a move to increase the sophistication of Colombo's equity market. A study in this regard will be carried out examining the practices and conventions followed in Malaysia. The United States Agency for International Development (USAID) is expected to fund the study.

Several steps were taken in the 1998 Budget to encourage the listing of companies on the CSE and widen

Chart 10.7
Stock Prices



some stability by the end of the year. This was mainly attributed to their efforts to stabilise their economies through necessary policy actions, including exchange rate stability.

In the Western markets, the Dow Jones Industrial Average for the New York Stock Exchange recorded a 15 per cent growth, while the Financial Times Stock Exchange Index for London grew by 11 per cent.

Developments in the Market

The Colombo Stock Exchange (CSE) became the 52nd member of the International Federation of Stock Exchanges (FIBV) on 26 October 1998. The objective of the FIBV is to contribute to the development, support and promotion of organised and regulated securities markets to meet the needs of the world's capital markets in the best interests of their users. The FIBV has 52 full members, which include the world's leading and developed stock exchanges, 14 affiliate members and 32 emerging markets.

the investor base. A waiver of the tax on capital gains of unquoted companies was granted in the 1998 Budget proposals, provided that such a company seeks a listing on the CSE on or before 31 March 1999. In the 1999 Budget proposals, this concession was extended until 31 March 2000. With the objective of developing the debt market, the 1998 Budget exempted from income tax, the capital gains and profits on the sale of listed debentures. Proposals were made in the 1999 Budget to develop the secondary market for debt in order to give both listed companies and investors sufficient manoeuvrability to hedge their positions and encourage market development. Proposals were made to remove the withholding tax of 10 per cent levied on interest paid on listed debentures and debt securities and the stamp duty on the issue of listed debt instruments such as debentures and promissory notes. The removal of capital gains tax on share warrants and derivative instruments has also been proposed.

As proposed in the 1998 Budget, the SEC, in collaboration with the CSE, established a Settlement Guarantee Fund to further enhance investor confidence and stabilise the Colombo stock market. The Fund would guarantee the settlement of share trades between the clearing members (stock brokers) of the Central Depository System of the CSE. According to current SEC regulations, the buyer is required to make payment before the sixth day after the transaction and the seller's dues will be settled before seven days. In case a broker fails to pay the dues, the Fund will clear the defaulted trade. The defaulting broker will be suspended from business until he clears the amount paid by the Fund, together with any penalties. The government has allocated Rs.150 million as initial capital for the Fund while technical assistance has been provided by the USAID.

The CSE advanced the forced sale date from trading day plus 15 market days to trading day plus 8 days, with effect from 8 June 1998. According to the previous rules, when a client purchased securities through a broker, his dues were to be settled by trading day plus 5 days while a further grace period of 10 days was allowed, during which period an interest charge of 0.1 per cent per day was imposed. Therefore, the settlement period was effectively trading day plus 15 market days. According to the new directives, the grace period has been reduced to 3 days and the settlement period is equal to the trading day plus 8 days. If the buyer had not paid for his shares by the eighth day, the brokers are required to sell these shares compulsorily at whatever price they could obtain.

Medium and Long-Term Government Securities

Treasury Bonds

The issue of medium-term Treasury bonds, begun in March 1997, was expanded in 1998. These Treasury bonds have now become popular in the market and provide the private sector with medium-term benchmark interest rates and a risk free yield curve beyond one year. The acceptance of these bonds increased with the decision made by the Central Bank

on 18 May 1998 to consider all Treasury bonds issued in terms of the Registered Stock and Securities Ordinance as part of liquid assets of commercial banks and licensed specialised banks.

With a view to increasing the liquidity of these bonds and promoting the market in Treasury bonds, the Central Bank also decided to make them eligible for transactions at the secondary window of the Central Bank as in the case of Treasury bills. Accordingly, the Central Bank permitted the use of Treasury bonds for repurchase agreements (repos) and outright buying and outright selling at its secondary window from 21 May 1998.

At several Treasury bond auctions in 1998, blocks of Treasury bonds with different maturities were offered, to provide a greater choice to the market. Another major development in the Treasury bond market was the introduction of "Jumbo" issues at the Treasury bond auctions with a view to building up a large securities reserve, creating a highly liquid secondary market and lowering the government's borrowing cost. In these 'Jumbo' issues, a decision is taken to issue a large block of bonds of a specific series; smaller portions of this block are offered to the market at various auctions, subject to the government's borrowing requirements and liquidity situation in the market. There were 17 series of bonds, comprising 11 series for 2-year bonds (29 issues), 4 series for 3-year bonds (14 issues) and 2 series for 4-year bonds (9 issues) during the year. The coupon rates for maturities of 2-year, 3-year and 4-year Treasury bonds were 11.00 per cent per annum, 11.50 per cent per annum and 12.00 per cent per annum, respectively. All auctions were fully subscribed. As with other interest rates, an upward movement was also seen in Treasury bond yields.

The last auction in December 1997, at which Rs.1,000 million 2-year Treasury bonds with a coupon rate of 11 per cent were offered, was heavily oversubscribed with bids received at a premium, resulting in the weighted average yield falling to 10.81 per cent. With the gradual increase in short-term rates, some uncertainty was generated in the market, leading to a decline in the degree of over-subscription and a rise in yield rates. Investors showed some caution in investing in medium-term bonds, despite there being liquidity in the market. However, all auctions were fully subscribed. The degree of over-subscription increased towards the end of the year, particularly in the last two months of 1998, reflecting improved liquidity during the period.

The weighted average yields for 2-year, 3-year and 4-year Treasury bonds were in the ranges of 10.81-13.94 per cent, 12.44-13.93 per cent and 12.93-13.94 per cent, respectively, during the year.

TABLE 10.21
Treasury Bond Issues during 1998

Maturity Period	Coupon Rate (% per year)	Weighted Average Yield to Maturity	Outstanding Amount at end Year (Rs. Million)
2 Years	11.00	10.81-13.94	25,065
3 Years	11.50	12.44-13.93	9,450
4 Years	12.00	12.93-13.94	4,400
Total			38,915

Source: Central Bank of Sri Lanka

Rupee Loans

With a view to obtaining medium and long-term funds to finance the government expenditure, borrowing through the Rupee Loans Programme continued in 1998. These loans are sold at par and carry a fixed rate of interest. Subscriptions of Rs.52,299 million were received in 1998 as against receipts of Rs.48,500 million in 1997. These loans carried interest rates ranging from 11.00 to 12.25 per cent while the maturity period varied in the range of 4-10 years. The major subscribers to the Rupee Loans Programme were the Employees' Provident Fund (EPF), the National Savings Bank (NSB) and the Employees' Trust Fund Board.

TABLE 10.22
Rupee Loans Floated during 1998

Maturities (Years)	Volume (Rs. Million)	Interest Rates
4-5 years	5,500	11.50
5 years	10,000	11.00
5-6 years	6,000	12.00
6-7 years	29,300	11.25-12.25
9-10 years	1,500	11.50
Total	52,300	11.00-12.25

Source: Central Bank of Sri Lanka

Unit Trusts

The total number of (Unit Trusts) UTs remained unchanged at ten in 1998. A downturn was recorded in the activities of UTs in 1998, in contrast to the upsurge in 1997. A decline was seen in the total Net Asset Value (NAV) of most UTs, except income funds and a few growth funds. However, the number of Unit holders and the number of Units in issue increased.

The downturn in the activities of UTs was mainly due to the setback in the stock market. A setback in the stock market strongly affects the activities of UTs, since two thirds of the investment portfolios of UTs are in equities, although a decline was seen investments in equities in 1998.

The combined NAV of UTs dropped by 13 per cent in 1998 compared to an increase of 17 per cent in 1997. Investments in equities declined by 21 per cent in 1998, compared to an increase of 40 per cent in 1997.

TABLE 10.23
Unit Trusts (a)

	1995	1996	1997	1998(b)
1. Total Assets - Rs. Mn.	2,881	2,652	3,097	2,687
2. Net Assets Value - Rs. Mn.	2,855	2,637	3,072	2,675
3. Investments in Equities - Rs. Mn.	1,762	1,599	2,244	1,773
4. (3) as a percentage of (2)	61.7	60.6	73	66.3
5. Total Unit Holders	22,251	25,240	26,441	27,709
6. No. of Unit Trusts	4	5	10	10

(a) Values are as at 31 December

(b) Provisional

Source : Unit Trusts

In the case of UTs that specialised in certain areas of investment, the performance was different. Growth funds, whose main areas of investment were Banking and Finance, Manufacturing, Diversified holdings and the Plantation sector, faced a decline in their NAV as these sectors did not perform well. However, income funds, who had a mixture of fixed income securities such as government paper, debentures and commercial paper, saw their NAV increase.

Despite the declining trend in stock market activities, the number of unit holders increased by 5 per cent in 1998, as was the case in 1997, while the number of units in issue rose by 4 per cent during 1998. Meanwhile, the combined Net Asset Value per unit was in the range of Rs.5.18-11.14 at end December 1998, in comparison to a range of Rs.6.03-10.52 at end December 1997.

PART II

படிப்பகம்

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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ACCOUNTS AND BANKING OPERATIONS

Accounts

The total assets/liabilities of the Central Bank as at the end of 1998, stood at Rs.188,673 million registering an increase of 2.6 per cent over the previous year. As in the previous years, the total volume of international reserves has become the largest single asset category amounting to Rs.127,174 million and accounting for 67.4 per cent of the total assets as at the end of 1998, compared to Rs.118,965 million or 64.7 per cent of the total assets at the end of 1997. This was an increase of 6.9 per cent over the previous year. The main contributory factors for this increase were the receipt of privatisation proceeds on account of Air Lanka Ltd. (US dollars 45 million) and Orient Lanka (US dollars 11.5 million) and the sale of foreign exchange by the Development Finance Corporation of Ceylon (DFCC) and the government (US dollars 65 million and US dollars 100 million, respectively). The depreciation of the Sri Lanka rupee by 9.6 percent during the year also contributed to the increase in assets in rupee terms. The domestic assets of the Central Bank also showed an increase of 6.1 per cent during the year, from Rs.38,134 million as at end of 1997 to Rs.40,465 million as at end of 1998, due to increases in the Treasury bills held by the Bank and the volume of loans and advances (mainly revolving credit facility) granted to the government. Meanwhile, medium and long term credit facilities granted to commercial banks and other credit institutions declined by 33.7 per cent mainly due to repayments and provisions on account of non-performing loans. Short term advances to commercial banks also declined by 34.5 per cent in 1998¹.

On the liabilities side, currency in circulation increased by 13.1 per cent from Rs.53,135 million to Rs.60,087 million. The deposits constituted the largest category of liabilities and accounted for 35.1 per cent of the total liabilities of the Bank during the year. Within this category, the deposits held by the government decreased by 52.0 per cent, while the deposits of commercial banks maintained with the Central Bank against their deposit liabilities, under statutory reserve requirement, increased by 7.2 per cent. The deposits of international organisations, foreign governments and foreign banking institutions declined by 6.4 per cent. A comparison of major components of assets and liabilities of the Bank is shown in Table II-2.

The total gross income of the Bank for the year 1998 was Rs.17,897 million compared with Rs.19,498 million in 1997, while the total gross expenditure in 1998 was Rs.14,897 million compared with Rs.16,848 million during the previous year. Around 78 per cent of the income of the Bank was generated from investments of foreign reserves of

the Bank, while interest earned from domestic sources accounted for about 22 per cent. After making allowances for expenditure and allocations to reserves, provisions for depreciation and bad debts, etc., the balance net profit of the Bank amounting to Rs.3,000 million, was earmarked to be applied in liquidation of any outstanding government obligations to the Central Bank or be paid and credited to the Consolidated Fund of the government in terms of Section 39 (c) of the Monetary Law Act.

Accounting Policies

General

The accompanying Balance Sheet and Profit and Loss Account have been prepared on the historical cost basis and in conformity with generally accepted accounting principles.

Foreign Currency Conversion

Assets and liabilities denominated in foreign currencies have been converted at the middle rate of exchange prevailing on the date of the Balance Sheet.

Investments

All investments are valued at cost.

Advances

Advances shown in the Balance Sheet are net of provisions made on the following basis against non-performing loans due from finance companies :

Loans overdue	Percentage of the outstanding amount
a. 6 - 12 months	20
b. 12 - 18 months	50
c. over 18 months	100

Fixed Assets

Fixed assets are shown at cost less depreciation. Depreciation is charged on the reducing balance method, at the following rates:

Items	Percentages
Buildings	2
Fixtures and Fittings	10
Office Furniture and Equipment	10
Motor Vehicles	10
Automated Equipment	20
AS/400 Main-Frame Computers	20
Personal Computers	25
Library Books	33 1/3

Depreciation is provided on fixed assets for the full year in which such assets are purchased and no depreciation is provided for the year in which the fixed assets are sold or disposed of.

¹ The Balance Sheet of the Central Bank as at 31 December, 1998 together with the Profit and Loss Account of the Bank for the year ended 31 December 1998 is presented in Table II-1.

**CENTRAL BANK
BALANCE SHEET AS AT**

31 December, 1997		LIABILITIES	31 December, 1998	
15,000,000		Capital Accounts	15,000,000	
985,000,000	1,000,000,000	Capital	985,000,000	1,000,000,000
		Surplus		
		Currency in Circulation		
51,071,578,291		Notes	57,770,936,107	
2,063,145,589	53,134,723,880	Coins	2,315,883,092	60,086,819,199
		Deposits		
6,475,579,334		Government	3,108,459,238	
63,721,050		Government Agencies and Institutions	31,180,173	
30,537,080,462		Commercial Banks	32,747,901,779	
31,708,112,019		International Organisations, Foreign Government and Foreign Banking Institutions	29,678,306,986	
767,052		Compulsory Savings Fund excluding Rs. 55,625,200/= invested in Treasury Bills	1,836,362	
787,446,444	69,572,706,361	Others	601,826,176	66,169,510,714
	4,925,000,000	Medium and Long Term Credit Fund		4,925,000,000
	560,125,000	Capital Contribution Account		560,112,500
	10,000,000	Central Bank Securities		0
	54,692,899,756	Other Liabilities and Accounts		55,931,648,947
	183,895,454,997			188,673,091,360

PROFIT AND LOSS ACCOUNT FOR THE

1997		1998
16,848,361,963	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings, Office Furniture etc.) and Allocations made in terms of Section 38 of the Monetary Law Act.	14,897,153,928
	Net Profit for the Year	
2,650,000,000	To be paid and credited to the consolidated fund in terms of Section 39(c) of the Monetary Law Act.	3,000,000,000
19,498,361,963		17,897,153,928

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1998, were audited under my direction in pursuance of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 42(1) of the Monetary Law Act, No. 58 of 1949.

My report to the Minister of Finance required in terms of Section 42(2) of the Monetary Law Act, will be submitted in due course.

Auditor General's Department,

Colombo 7.

15 April 1999.

S. M. Sabry
Auditor-General

OF SRI LANKA
31ST DECEMBER, 1998.

Table II-1

31 December, 1997		ASSETS	31 December, 1998	
51,879,914,247	118,965,129,821		International Reserve	59,381,277,514	127,174,001,278
67,060,376,347 *		Cash and Balances Abroad	67,716,713,296 *	
24,839,227		Foreign Securities and Treasury Bills	76,010,468	
		Holdings of Special Drawing Rights		
		Domestic Assets		
28,660,199,947	38,134,102,033	Loans and Advances to Government	30,545,099,947	40,465,083,355
1,656,483,253		Others – Medium and Long Term	1,098,294,677 **	
35,429,989		Short Term	23,200,000	
7,221,863,844		Government and Government Guaranteed Securities	8,238,376,231	
560,125,000		Contributions to Financial and Other Institutions	560,112,500	
	26,796,223,143	Other Assets and Accounts		21,034,006,727
		* Including Securities acquired from Government Institutions on 1st February, 1964 at a face value of Rs. 5,527,675/= and on 24th May, 1965, at a face value of Rs. 57,450/= (the estimated market value of these Securities were Rs. 2,933,697/= and Rs. 34,340/=, respectively, as on these dates).		
		** The amount outstanding is net of Rs. 1,923,409,224/= being provisions for loan losses.		
	183,895,454,997			188,673,091,360

YEAR ENDED 31ST DECEMBER, 1998

1997		1998
19,498,361,963	By Interest, etc. earned	17,897,153,928
19,498,361,963		17,897,153,928

A. S. Jayawardena
Governor

M. B. Dissanayake
Chief Accountant

TABLE II-2
Comparison of the Major Components of Assets and Liabilities of the Central Bank

L I A B I L I T I E S					A S S E T S				
I T E M	At end 1997		At end 1998		I T E M	At end 1997		At end 1998	
	Rs. Mn.	%	Rs. Mn.	%		Rs. Mn.	%	Rs. Mn.	%
Capital and Surplus	1,000	0.5	1,000	0.5	International Reserve	118,965	64.7	127,174	67.4
Currency in Circulation	53,135	28.9	60,087	31.9	Domestic Assets	38,134	20.7	40,465	21.4
Deposits	69,572	37.8	66,169	35.1	Other Assets	26,796	14.6	21,034	11.2
Medium & Long Term Credit Fund	4,925	2.7	4,925	2.6	Liability of Constituents for Guarantees issued	13,050	7.1	3,502	1.9
Capital Contribution Account	560	0.3	560	0.3	Foreign Currency Deposit A/cs of Commercial Banks	2,471	1.3	3,993	2.1
Central Bank Securities	10	—	0	—	Adjusting Account (Amounts Receivable)	2,027	1.1	2,137	1.1
Other Liabilities	54,693	29.8	55,932	29.6	Cash Items in process of collection	660	0.4	—	—
Guarantees issued on account of Constituents	13,050	7.1	3,502	1.8	Other	8,588	4.7	11,402	6.1
Control Accounts Reserve	18,553	10.1	22,559	12.0					
Allocation of Special Drawing Rights	5,680	3.1	6,051	3.2					
International Reserve Revaluation Account	723	0.4	7,262	3.8					
Profit & Loss Account	6,171	3.3	5,102	2.7					
Asian Clearing Union Account	6,543	3.6	6,247	3.3					
Other	3,973	2.2	5,209	2.8					
Total	183,895	100.0	188,673	100.0		183,895	100.0	188,673	100.0

Source : Central Bank of Sri Lanka

Stocks

The total cost incurred during the year on stationery and engineering stores has been charged to Profit and Loss Account and no adjustments have been made in respect of closing stocks.

Income Recognition

Interest and other income are recognized in the books on accrual basis, except in the case of interest on non-performing loans which is recognized on a cash basis.

Net Profit

The net profit disclosed in the Profit and Loss Account is after charging all expenses and making the following provisions:

- provisions for non-performing loans,
- provision for depreciation of fixed assets, and
- other necessary provisions and allocations to reserves in terms of Section 38 of the Monetary Law Act.

Banking Operations

Foreign Exchange Operations

Investment of Foreign Reserves

The Central Bank of Sri Lanka continued to engage in foreign exchange operations with commercial banks by way of spot purchases and sales of US dollars against Sri Lanka rupees.

The total rupee value of foreign currency purchased by the Central Bank from commercial banks in Sri Lanka amounted

to Rs.3,845 million and foreign currency sales to commercial banks amounted to Rs.13,695 million in 1998 (Table II-3). This compares with purchases of Rs.8,118 million and sales of Rs.9,163 million in 1997.

The Central Bank also continued to invest its foreign exchange reserves in international money and capital markets. The foreign exchange reserves were invested in fixed income assets in the capital markets denominated in six major currencies, and in short-term money markets in nine currencies including SDR and in gold.

By the end of 1998, about 53.2 per cent of the reserves were in capital markets, 42.3 per cent in money markets and

TABLE II-3
**Foreign Exchange Transactions with
Commercial Banks -1998**

Month	Spot Purchases		Spot Sales	
	USD	Rs.	USD	Rs.
	in '000			
January	-	-	75,380	4,635,083
February	75	4,625	14,225	877,256
March	31,000	1,930,830	-	-
April	23,000	1,448,373	-	-
May	-	-	49,185	3,148,664
June	-	-	12,650	819,151
July	-	-	14,475	940,535
August	-	-	5,400	355,682
September	-	-	-	-
October	7,000	462,994	-	-
November	-	-	29,590	1,982,199
December	-	-	13,875	936,854
Total	61,075	3,846,822	214,780	13,695,424

Source : Central Bank of Sri Lanka

the balance in gold and SDR.

Open Market Operations

Secondary Treasury Bill Market

The sale (discounting) of Treasury bills in the secondary window of the Central Bank amounted to Rs.11,934 million in 1998 compared with Rs.19,442 million in the preceding year. The increased investments under overnight repurchase agreements with the Bank, which accounted for Rs.728, 757 million was the main reason for the drop in discounting. The purchases (re-discounting) of Treasury bills also decreased significantly from Rs.17, 337 million in 1997 to Rs.14, 969 million in 1998 due to the high level of rupee liquidity available during the year.

The Central Bank's secondary market yield rates moved in line with the trends witnessed in the primary Treasury bills market yield rates during 1998. The yield rates on 3-month Treasury bills in the secondary window of the Central Bank increased from 9.72 per cent at the beginning of the year to 11.86 per cent at the end of the year. Similarly, the rates on 6 month and 12 month Treasury bills increased from 9.70 and 9.99 percent to 12.19 and 12.39 respectively, during the year.

Secondary Market for Treasury Bonds

The Central Bank made the Treasury bonds eligible for Repurchase Agreements (Repos) and outright buying and selling at its secondary window with effect from 21 May 1998. However, there were no outright purchases and sales of Treasury bonds at the secondary window of the Bank during the year under review.

Repurchase Market

The sale of Treasury bills under Repurchase Agreements (Repos) which was introduced by the Central Bank in October, 1993 continued to be in operation during 1998. The repurchase rate is determined daily by the Central Bank taking into consideration factors such as primary and secondary Treasury bills market rates, call market rates and rupee liquidity, general economic conditions and monetary policy considerations.

The overnight repo rate which was 11 percent at the beginning of the year was gradually increased to reach 12.25 per cent by the beginning of June to discourage speculative purchases of foreign exchange. However, the Repo rate was gradually reduced to 11.25 per cent towards the end of the year following a greater stability in the exchange market, a continued decline in the rate of inflation and a drop in the international interest rates.

The total volume of Treasury bills sold under Repurchase Agreements during the year showed a sharp increase of 62 per cent from Rs.449,589 million in 1997 to Rs.728,757 million during 1998. This was mainly due to increased purchases made by commercial banks resulting from a relatively higher level of excess rupee liquidity

created in the market particularly during the last quarter of the year. The increase in the level of liquidity was partly due to the Central Bank's net purchases of foreign exchange which amounted to approximately US dollars 165 million.

Reverse Repurchase Agreements

The reverse repurchase (Reverse Repo) facility was re-activated by the Central Bank in November, 1998 as a part of its open market operations, to stabilize the short term interest rates at a desirable level by injecting funds at times of tight liquidity in the market. Treasury bills and Treasury bonds are accepted as eligible instruments for Reverse Repo transactions with the Bank.

Under this facility, the Central Bank purchases Treasury bills and Treasury bonds from commercial banks and non-bank primary dealers at a price determined by the Bank, with an agreement to sell back the same at an agreed upon sell back price and date. Initially, under the Reverse Repo facility only overnight funds were to be provided while no maximum limit was imposed on the amount to be transacted.

With the introduction of this facility and the existing Repo facility, the call money rates recorded a greater degree of stability.

In December 1998, the Central Bank carried out reverse repo transactions in Treasury bonds on two occasions and released overnight funds amounting to Rs.1,065 million to the market at 15.45 per cent.

Bank Rate

The Central Bank's rate of interest (Bank Rate) on short term advances to commercial banks stipulated under Section 87 of the Monetary Law Act remained unchanged at 17 per cent per annum.

Short Term Credit

Commercial banks and Regional Rural Development Banks (RRDB) which provided the roll over facility to farmer borrowers prior to the termination of the New Comprehensive Rural Credit Scheme (NCRCS) with effect from April, 1994, were granted a refinance facility only on the roll-over amount. The outstanding amount under this facility as at the end of 1998 amounted to Rs. 23.2 million as compared with Rs. 35.4 million at the end of 1997.

Medium and Long Term Credit

The Medium and Long Term Credit Fund (MLCF) remained unchanged at Rs. 4,925 million during 1998. The amount repaid during the year amounted to Rs. 181.8 million while there were no loan disbursements.

Accommodation to Finance Companies

During 1998, no disbursements were made under the Finance Companies Act No. 78 of 1988. The total amount outstanding under the facility before provisions for bad debts was Rs. 2,583.9 million at the end of 1998.

Reserve Requirements

The Statutory Reserve Requirement (SRR) against deposit liabilities of commercial banks remained unchanged during the year 1998. The SRR on commercial banks' rupee deposits continued to remain at 12 per cent. The commercial banks' foreign currency deposits invested outside Sri Lanka were not subject to the SRR while all other deposits of commercial banks denominated in foreign currencies were subject to the SRR at 12 per cent throughout the year.

Foreign Currency Loan Facility to Non-BOI Exporters

The scheme introduced in January 1997 to provide foreign currency loans to non-BOI exporters continued to operate during 1998. Under this scheme, commercial banks have been authorized to grant credit facilities in foreign currency through their Domestic Banking Units (DBUs) as well as their Foreign Currency Banking Units (FCBUs). At the commencement of the scheme, commercial banks were advised to provide US dollars 100 million through their FCBUs and this amount was allocated among the banks on the basis of their capital funds. During 1998, this amount was enhanced to US dollars 104 million.

The total loans granted during the year 1998 through DBUs and FCBUs under the scheme amounted to US dollars 177 million compared with US dollars 253 million granted in 1997, which is a drop of 30 per cent. Lending through DBUs dropped from US dollars 244 million in 1997 to US dollars 166 million in 1998, while loans granted through FCBUs marginally increased from US dollars 8.8 million in 1997 to US dollars 11.5 million in 1998. At the end of 1998, the outstanding amount of loans granted under the scheme was US dollars 44 million. During the year 1998, loans were provided at an interest rate of 6.2 per cent to 10.5 per cent with a maturity period of approximately one year. Details are given in Table II-4.

Subsidy and Ex-gratia Payments to Indian Repatriates

Total subsidy payments made on behalf of the government to repatriated estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964, amounted to Rs.148,231 in 1998 compared to Rs.48,191 in 1997. Ex-gratia payments amounted to Rs.15,675 in 1998 compared to Rs.2,475 in 1997.

Import Duty Rebate to Exporters

On behalf of the government, the Bank reimbursed a total sum of Rs. 768 million to commercial banks in 1998 in respect of import duty rebates paid to exporters, compared with Rs. 1,028 million in 1997.

Asian Clearing Union

The total rupee value of the transactions routed through the Asian Clearing Union (ACU) in 1998 amounted to Rs.44,240 million compared with Rs.37,236 million during the previous year. The rupee value of the net settlements made in foreign currency in 1998 amounted to Rs.34,257 million, compared with Rs.26,879 million in 1997. Sri Lanka's contribution to the swap facility provided under the ACU arrangement during the period under review was Rs.494 million.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies collected under the Compulsory Savings Act No. 6 of 1971 and the Ceiling on Income and Compulsory Savings Law No. 15 of 1972 and continued to administer the Compulsory Savings Fund on behalf of the government. As at 31 December 1998, there was a balance of Rs.55.6 million in the fund maintained with the Bank.

Government Accounts

As Banker to the government, the Central Bank continued to maintain accounts of government departments, government agencies and institutions and certain statutory boards. The total number of accounts maintained by the Bank stood at 159 at the end of 1998 compared to 165 in 1997. While seven accounts of government departments and agencies were closed, a new government account was opened during the year 1998.

Foreign Finance

During the year under review, the Bank continued to receive disbursements made available under various foreign loans and grants, while repayments of foreign loans and interest thereon were effected on behalf of government.

CURRENCY ISSUE

The Central Bank of Sri Lanka as the sole currency issuing authority continued to perform the function of issuing legal tender currency for the use of domestic transactions during the year 1998. The volume of currency in circulation as at end of

TABLE II-4
Foreign Currency Loans Granted to Non-BOI Exporters

Period	Lending below One Year		Lending above One Year		Total		Grand Total	Average Interest Rate Range (%)		Total amount Outstanding as at year- end
	DBUs	FCBUs	DBUs	FCBUs	DBUs	FCBUs		Min.	Max.	
1997	241.61	8.70	2.83	0.10	244.44	8.80	253.25	6.50	10.50	70.66
1998	163.18	11.43	2.70	0.03	165.88	11.46	177.34	6.20	10.50	44.10

1998 stood at Rs.60,086.8 million as against Rs.53,134.7 million at the end of 1997.

During the year, the Central Bank issued its first commemorative note to mark the 50th Anniversary of Sri Lanka regaining Independence. The note in the denomination of Rupees Two Hundred has been printed on polymer, depicting pictorial themes relevant to the history and socio economic development of Sri Lanka. An attractive commemorative note folder and an acrylic block were issued for numismatists. The Bank also issued three commemorative coins to celebrate the occasion, viz. a gold proof coin in the denomination of Rs.5,000, a silver proof coin in the denomination of Rs.1,000 and a circulation standard Rs.10 bimetal coin.

Sections 52 and 55 of the Monetary Law Act were amended by Monetary Law (Amendment) Act No.6 of 1998 providing for the issue of commemorative coins and notes at prices above the legal tender value.

The currency operational sections which were shifted in December 1997 continued operations at the Secretariat Building, Colombo 1, during the year 1998. The cash exchange counters continued to operate at the Moors' Islamic Cultural Home (MICH) Building, Bristol Street, Colombo 1.

BANKING DEVELOPMENT

The principal functions of the Banking Development Department include policy formulation relating to banking, implementation of the Banking Act in relation to the establishment of commercial banks and specialised banks, branches of commercial banks and specialised banks, and the evaluation of proposals for the introduction of financial instruments. The Department also co-ordinates the work of the Regional Offices of the Central Bank and monitors their performance. Further, the Department monitors the performance of Regional Rural Development Banks (RRDBs) and attends to policy formulation for the RRDBs. The Department also attended to the work with regard to the establishment of Regional Development Banks.

A significant development in the year 1998 was the establishment of specialised banks at the regional level in terms of the provisions of the Regional Development Banks Act No. 6 of 1997. Six Regional Development Banks (RDBs) viz the Ruhuna Development Bank, the Kandurata Development Bank, the Rajarata Development Bank, the Sabaragamuwa Development Bank, the Wayamba Development Bank and the

TABLE II-5
Composition of Banking Institutions and Distribution of Bank Branches

Category	1993	1994	1995	1996	1997	1998(a)
1. No. of Institutions	44	44	47	48	49	44
1.1 Commercial Banks	23	23	26	27	26	26
1.1.1 Domestic Commercial Banks	6	6	8	8	8	8
1.1.2 Foreign Banks	17	17	18	19	18	18
1.2 RRDBs (b)	17	17	17	17	17	9
1.3 Specialised Banks (c)	4	4	4	4	6	9
1.3.1 Savings Banks	1	1	1	1	1	1
1.3.2 Developments Banks	3	3	3	3	5	5
1.3.3 Regional Development Banks (d)	-	-	-	-	-	3
2. No. of Bank Branches (e)	1,108	1,156	1,209	1,339	1,461	1,526
2.1 Commercial Bank Branches	854	890	936	1,058	1,169	1,221
2.1.1 Branches of Domestic Banks	820	853	897	1,019	1,127	1,177
(i) Main Branches	734	761	795	826	857	889
(ii) ASC Branches	29	28	19	17	14	12
(iii) Kachcheri Branches	24	23	23	23	23	23
(iv) Extension / Pay Offices	27	32	41	47	56	58
(v) Pawning Centres & Savings Centres	4	7	15	101	172	190
(vi) Overseas Branches (f)	2	2	4	4	4	4
(vii) Overseas Extension Offices	-	-	-	1	1	1
2.1.2 Foreign Bank Branches	34	37	39	39	42	44
(i) Main Branches	33	36	37	37	38	40
(ii) Extension Offices	1	1	2	2	4	4
2.2 RRDB Branches	163	169	171	175	176	96
2.3 No. of Specialised Bank Branches	91	97	102	106	116	209
2.3.1 Savings Bank Branches	85	90	95	97	99	100
2.3.2 Development Bank Branches	6	7	7	9	17	29
2.3.3 Regional Development Bank Branches	-	-	-	-	-	80

Source : Central Bank of Sri Lanka

(a) Provisional

(b) Regional Rural Development Banks established under the RRDB Act No. 15 of 1985.

(c) Banks requiring a license as Specialised Banks in terms of the Banking Act No.30 of 1988 as amended by the Banking (Amendment) Act No.33 of 1995.

(d) Regional Development Banks established under the Regional Development Bank Act No 6 of 1997.

(e) Excluding Co-operative Rural Banks.

(f) Four overseas branches of the Bank of Ceylon (London, Male, Madras and Karachi).

Uva Development Bank were incorporated during the year. Of these, the Ruhuna, the Kandurata and the Rajarata Development Banks commenced operations during the year, while the Sabaragamuwa, the Wayamba and the Uva Regional Development Banks were scheduled to commence operations in early 1999. During 1998, licences (as specialised banks) were also issued to the DFCC Bank, the National Savings Bank, the State Mortgage and Investment Bank and the National Development Bank of Sri Lanka as required in terms of Section 76A(3) of the Banking Act.

Some particulars relating to commercial banks, specialised banks and RRDBs at end 1998 are given in Table II-5. The number of domestic and foreign commercial banks remained at the same level as in the previous year. With the commencement of business of the Ruhuna, the Kandurata and the Rajarata Development Banks, the number of specialised banks increased from 6 to 9 in 1998. Since the business of 8 Regional Rural Development Banks (RRDBs) was vested in the three Regional Development Banks which commenced business, the total number of RRDBs declined from 17 to 9 during the year. With these changes, the number of banking institutions dropped by 5 to 44 during the year.

Branch Expansion

During 1998, approvals were granted for the opening of 39 branches of commercial banks. The number of new commercial bank branches that were opened during the year by both domestic and foreign commercial banks was 32, of which domestic commercial banks opened 30 branches and foreign commercial banks opened 2 branches. In addition, 3 extension offices and 18 pawning centres were also opened and one extension office was closed by the commercial banks during the year. Approvals were also granted for the specialised banks to open 19 branches. The number of branches opened by the specialised banks was 13. The branch network inclusive of extension offices, pawning centres etc. of the commercial banks, RRDBs and specialised banks expanded by 65 to 1,526 branches at the end of 1998.

The commercial banks and specialised banks changed the location of some of their branches due to the inadequacy of space, the need for technological improvements in the branches and the need for better customer convenience. During the year, approvals were granted to change the location of 69 branches of commercial banks and one branch of a specialised bank.

REGIONAL OFFICES

During the year 1998, the three Regional Offices of the Central Bank at Matara, Anuradhapura and Matale continued to carry out their development activities in addition to carrying out the traditional central banking functions assigned to them. The main activities of the Regional Offices included currency operations (at Matara and Anuradhapura), cheque clearing activities, socio economic data collection, conducting beneficiary training programmes, conducting research and

carrying out surveys, inspection of the activities of the RRDBs, conducting educational seminars, sale of Central Bank publications and co-ordination with government departments, agencies and organisations involved in development work in the respective regions. The Regional Offices played an important role during 1998 in assisting with the establishment and commencement of operations of Regional Development Banks. Regional Managers were appointed to represent the Central Bank on the Boards of Directors of the Ruhuna Development Bank, the Kandurata Development Bank and the Rajarata Development Bank which commenced operations in July, October and November, respectively.

Matara

The Matara Regional Office continued to handle the activities relating to the implementation of the Small Holder Tea Development Project (SHTDP), Perennial Crops Development Project (PCDP), Surathura Diriya Credit Scheme, the Small Farmers and Landless Credit Project, Kirindi Oya Development Project Credit Scheme and the Arunalu Credit Scheme. The Regional Office assisted in the recovery of loans granted under the SHTDP which was concluded at the end of the previous year after the project funds were fully utilized. Workshops were conducted for officers of the SHTDP and commercial banks in two districts for this purpose with the assistance of the Rural Credit Department. Under the Southern Province Rural Development Project Credit Scheme, the Regional Office carried out field investigations to recommend large loans. This resulted in the recommendation of loans amounting to Rs. 68 million in respect of 208 applications. Five workshops were conducted for the staff of the Ruhuna Development Bank on the implementation of this project. The Regional Office was associated with government departments, other agencies and the commercial banks in the region in educational, development and research activities. Educational seminars were conducted for around 700 students in the district of Galle by the Regional Office. The Regional Office also carried out the islandwide data collection programme of the Central Bank in the region and the inspection of RRDB branches. The Regional Office rendered considerable assistance towards the establishment of the Ruhuna Development Bank and its operations. The Currency Unit of the Regional Office continued to provide currency exchange facilities to the public as well as deposit and withdrawal facilities to commercial banks in the region. During 1998, 222,468 cheques amounting to Rs. 3,903 million were cleared at the Regional Cheque Clearing House at Matara.

Anuradhapura

The Anuradhapura Regional Office conducted 24 training programmes during the year. These programmes were conducted with the assistance and/or in association with government departments and agencies involved in development activities. The programmes were in the fields of self employment, entrepreneurship development, marketing,

livestock, agriculture and managerial development. A workshop was also conducted for unemployed graduates. Altogether, 1,023 persons participated in these programmes. Additionally, 5 educational seminars were organised by the Regional Office for GCE Advanced Level students in Anuradhapura, Polonnaruwa, Kurunegala and Medirigiriya and 1,500 students participated in these seminars. The Regional Office also continued to monitor two special projects, namely the North Central Province Participatory Rural Development Project (NCP-PRDP) and the North Central Province Rural Development Project (NCP-RDP). Under the NCP-PRDP, the Regional Office carried out an inspection of loans disbursed to low income families. The Regional Office conducted a survey of the progress made by 200 farmer families in the Anuradhapura district who had received finance for wells (with pumps) under the village adoption and self employment refinance credit scheme. This was conducted with the assistance of students of the Rajarata University. Another survey was conducted by these students under the guidance of the Regional Office to study the progress of the "Surathura" loan beneficiaries in the districts of Anuradhapura and Polonnaruwa. A special survey was conducted by the Regional Office on the marketing problems encountered by farmers with a view to studying the establishment of a wholesale trading centre in Anuradhapura. The Regional Office also continued to collect data on prices under the islandwide data collection scheme and to sell Central Bank publications. The Regional Office continued to inspect the branches of RRDBs. The Regional Office also accepted deposits and issued currency to commercial banks and provided currency exchange facilities to the public. The Regional Clearing House cleared 229,931 cheques valued at Rs. 2,332 million during the year.

Matale

During the year, the Matale Regional Office conducted 17 seminars, training programmes, workshops and exhibitions in which 10,495 persons participated. Among these programmes, a special training programme on finance leasing was conducted for the managers of the RRDBs of Kandy, Matale, Kegalle and Nuwara Eliya. Another programme on investing in the share market was attended by more than 100 investors and businessmen. The Regional Office established a mobile sales unit to sell Central Bank publications in response to numerous requests received from the Education Department, universities and schools. 21 schools were visited for this purpose. The Regional Office also organized two exhibitions and sales of Central Bank publications as well as notes and coins. The Regional Office also continued the identification of micro enterprises in the area and obtained finance for several viable projects from commercial banks. The Regional Office organized an association of plant and foliage nursery holders in the Central Province. The association was assisted by the Regional Office in holding 4 exhibitions and sales. The Regional Office also initiated the establishment of a bankers'

association in Matale. The Regional Office conducted surveys of farm machinery and the use of three wheel vehicles. The Regional Office also conducted a study of marketing of agricultural products and had discussions with government authorities on developing the Dambulla market. The Regional Office continued to collect and update socio economic data relating to the districts of Kandy, Nuwara Eliya, Kegalle and Matale. The data collected is used by government departments, local government authorities, universities, research students and others. The Regional Office continued to collect price data for the islandwide data collection scheme. Further, the Regional Office carried out the inspection of RRDBs in the region and assisted in the establishment of the Kandurata Development Bank. The two regional clearing houses at Matale and Kandy cleared 135,645 cheques valued at Rs. 2,506 million and 763,814 cheques amounting to Rs. 23,845 million, respectively. The Sampath Bank, Kandy branch and the Hatton National Bank, Katugastota branch were accommodated by the Kandy Clearing House during the year 1998.

REGIONAL RURAL DEVELOPMENT BANKS AND REGIONAL DEVELOPMENT BANKS

The year 1998 marked a departure from the developments during the last 13 years in respect of Regional Rural Development Banks (RRDBs). The Regional Development Banks Act was enacted in 1997 for the establishment of Regional Development Banks (RDBs) in specified regions by vesting in each RDB the business of RRDBs operating in the region.

Six RDBs were incorporated during the course of the year 1998. The manner in which the businesses of the 17 RRDBs in operation are to be vested in the RDBs and the share capital of each RDB are set out in the Table II-6.

The authorised capital of each RDB is Rs. 500 million divided into shares of Rs. 10. The capital of the established RDBs has been initially contributed by the Central Bank of Sri Lanka, the Bank of Ceylon, the People's Bank, the National Savings Bank and the Employees' Provident Fund. The initial issued capital of each bank has been determined having regard to the net asset value of the RRDBs in the region. The issued capital of each of these RDBs has been fixed at Rs.100 million or Rs.150 million (Table II – 6).

Of the six Regional Development Banks which were incorporated during the year, three RDBs, namely, the Ruhuna Development Bank, the Kandurata Development Bank and the Rajarata Development Bank commenced operations in 1998. The Head Offices of these banks were situated in Matara, Kandy and Anuradhapura, respectively. The Sabaragamuwa, Wayamba and Uva Development Banks were scheduled to commence operations in early 1999.

Licences to operate as specialised banks have been issued to the RDBs which commenced operations in 1998, as well as to the Wayamba and Sabaragamuwa Development Banks.

Hence, these Banks have been brought within the ambit of supervision and regulation by the Central Bank.

The RDBs have commenced mobilising deposits from within the region as well as from outside the region and lending to viable development projects within the region, bearing in mind the need to assist the weakest segments of the population. In addition to financing development oriented enterprises, these banks will play an active role in development projects undertaken by Provincial Councils, Pradeshiya Sabhas and other local authorities.

TABLE II - 6

R.R.D.B.	R.D.B.	Total Share Capital (Rs. Mn.)
Mahanuwara Matale Nuwara Eliya	Kandurata	150
Anuradhapura Polonnaruwa	Rajarata	100
Kurunegala Puttalam Gampaha	Wayamba	150
Kegalle Ratnapura Kalutara	Sabaragamuwa	150
Galle Hambantota Matara	Ruhuna	150
Badulla Moneragala Ampara	Uva	100

The RDBs perform the functions specified in Schedule IV of the Banking Act, subject to such functions being authorized by the Regional Development Banks Act. They are also permitted to carry on such other business activities that are authorized by the Regional Development Banks Act.

The RRDBs and RDBs had mobilized deposits totalling Rs. 3,057 million at the end of 1998, an increase of 17 per cent above the level of deposits of all RRDBs at the end of 1997. The total number of accounts relating to these deposits numbered over one million. During the year 1998, RRDBs and RDBs had disbursed loans and advances estimated at Rs. 2,185 million in respect of borrowers numbering over 360,000. The value of loans and advances disbursed during the year recorded a decline of 16 per cent when compared with the previous year. This was due to the restructuring of most of the RRDBs during the course of the year, the greater degree of financial discipline exercised as well as the weak financial position of a few RRDBs.

BANK SUPERVISION

The Bank Supervision Department (BSD) is responsible for the regulatory and supervisory functions of the Central Bank which are executed through periodic on-site examinations and off-site

surveillance of all Licensed Commercial Banks (LCBs), Regional Rural Development Banks (RRDBs) and Licensed Specialised Banks (LSBs). The basic objective of supervision is to ensure the safety and soundness of the banking system in Sri Lanka and thereby safeguard the interests of depositors.

Scope of Examination

Hitherto, the nature and scope of on-site examinations was primarily confined to an appraisal of the quality of the assets of the bank to arrive at an overall assessment of the financial condition of the bank, which includes such key aspects as capital adequacy, earnings, liquidity, management quality, internal controls and systems and procedures. The banks' compliance with statutory requirements, applicable laws and regulations, were also carefully examined.

World-wide attention has now turned to the need to implement the Core Principles for Effective Banking Supervision issued by the Basle Committee in September 1997. The events in East Asia have served to underline the relevance of the Core Principles in modern financial markets. Accordingly, a risk based supervisory approach has been adopted in keeping with the internationally accepted practice of banking supervision. The risk based supervision focuses on risks that are associated with banking operations such as capital risk, liquidity risk, credit risk and operational risk. This focus on identification of risks enables remedial action to be taken to mitigate the risks. Action is being taken to develop further the risk based supervisory approach under the on-going project to upgrade the supervisory capabilities of the department which is funded by the Swedish Government.

In addition to risk based supervision, increased emphasis is now being placed on good internal governance, effective internal audit control procedures and more disclosure requirements.

Supervision of LCBs and LSBs

During the year under review the Department commenced 12 on-site examinations in respect of 6 LCBs, 3 RRDBs and 3 LSBs and concluded the examination of the three RRDBs. In addition, on-site examinations of 6 LCBs which commenced in the previous year were concluded in 1998. Spot examinations of one RRDB and 2 LSBs were also conducted by the Department. In addition, the Department conducted special investigations relating to due diligence exercises, violations of Exchange Control regulations, and imprudent lending.

Under the off-site surveillance system, the Department continued to monitor the financial conditions of the LCBs and RRDBs. In 1998 the Department also undertook the monitoring of LSBs on the basis of returns submitted to the Department. The returns that are to be submitted by these banks include monthly statements of assets and liabilities and liquid assets and quarterly statements of capital adequacy, income and expenses and non-performing advances, while the audited financial accounts are submitted annually. The information given in the

returns is reviewed to ascertain the quality of assets, profitability and financial strength of each bank in relation to its own peer group and the industry. The scrutiny of returns also helps to identify significant changes or symptoms of weaknesses that could have an adverse impact on a bank, on the basis of which prompt remedial action could be taken. The upgrading of the off-site surveillance system through the Diskette Submission System implemented under an USAID technical assistance programme has been completed with the installation of the Electronic Reporting System in all the 26 LCBs and the development of an in-house Report Generating System. It is proposed to expand this reporting system to LSBs and Regional Development Banks (RDBs) as well.

The Department is also engaged in the monitoring of Foreign Currency Banking Units of Commercial Banks which is undertaken on the basis of periodic statements relating to assets and liabilities, income and expenses and the maturity profile of assets and liabilities submitted to the Department.

The number of Licensed Specialised Banks that came under the regulatory authority of the Central Bank in terms of Part IX A of the Banking Amendment Act No. 33 of 1995 increased with the establishment of 3 Development Banks under the provisions of the Regional Development Banks Act No. 6 of 1997 namely, Ruhuna Development Bank, Kandurata Development Bank and Rajarata Development Bank. The operations of the Matara, Galle and Hambantota RRDBs were vested in the Ruhuna Development Bank. The operations of the Nuwara Eliya, Kandy and Matale RRDBs were vested in the Kandurata Development Bank, while the operations of the RRDBs of Anuradhapura and Polonnaruwa were vested in the Rajarata Development Bank. With a view to monitoring and supervising the operations of LSBs, the Department, during the year under review, issued the following Reporting Formats to the LSBs:

- i. Monthly statement of assets and liabilities
- ii. Monthly statement of liquid assets
- iii. Quarterly statement of non-performing advances
- iv. Quarterly statement of share ownership in the bank
- v. Quarterly statement of accommodation granted to a director or a close relation
- vi. Quarterly statement of accommodation granted to concerns where the director has a substantial interest
- vii. Quarterly statement of investment in equity
- viii. Quarterly statement of income/expenditure and distribution of profits
- ix. Quarterly statement of large accommodation granted

While issuing to LSBs the above monthly and quarterly returns, the coverage of returns of LCBs was also further expanded with the inclusion of the following returns:

- i. Monthly statement of post-dated cheques purchased/taken as security and cheques returned
- ii. Quarterly statement of classified advances

Regulatory Requirements

During the year under review, the Department continued to monitor compliance with the regulatory requirements under the provisions of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995. These included the implementation of the directions on minimum Capital Adequacy Ratio in relation to risk weighted assets, minimum Liquid Assets Ratio, the adherence to the Single Borrower Limit, directions on non-performing advances and the adequacy of provisions for bad and doubtful debts, restrictions on accommodation to directors/their close relations and their interests and submission of annual audited financial statements within the statutory period. During the year under review, three LCBs failed to maintain the capital adequacy standards enforced by the Central Bank which are based on the Basle Capital Accord of the Banking Regulations and Supervisory Practices Committee. Of these, two banks have taken corrective action to meet the required capital adequacy ratio of 8 per cent while the other LCB failed to reach the minimum standard specified. Proposals submitted by the Bank to restore its capital adequacy ratio are being examined. The minimum level of liquid assets of 20 per cent stipulated in terms of the Banking Act was maintained by all the LCBs and LSBs and ranged between 20 per cent (minimum) and 42 per cent of total liabilities. However a few RRDBs that failed to reach the minimum liquidity level stipulated, were subjected to the payment of a penalty in terms of the Banking Act.

Consequent to the Amendment to the Banking Act permitting banks to undertake pawn broking business, the Department issued rules and regulations governing the conduct of pawn broking activities of LCBs including the 2 State Banks and the RRDBs.

Disclosure Requirements

The Core Principles for Effective Banking Supervision recognise that sound accounts and transparent financial information are fundamental pillars of strong banking and indeed of a financial system. The Department has taken steps to introduce a disclosure regime which would improve the market's ability to make informed decisions as a means of promoting a sound banking system. Accordingly, a revised prescribed format has been introduced incorporating Sri Lanka Accounting Standards No. 23 under Section 38(1) of Part V of the Banking Act. In terms of the revised prescribed format, banks would be required to disclose, inter alia, the following:

- i. an analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
- ii. significant concentrations of assets, liabilities, off balance sheet items and other risks in terms of customer or industry groups

- iii. the amount of significant net currency exposures
- iv. accounting policy based on which uncollectable loans, advances and finance leases are recognised as an expense or written off, details of the movements in the provision for losses on loans, advances and finance leases during the period and the aggregate amount of provision for such losses
- v. information on the bank's risk profile, its profitability and the capital available to support it
- vi. the aggregate amount of secured liabilities and the nature and the amount of the assets pledged as security
- vii. trust activities
- viii. exposure to all related parties and connected concerns in whatever manner related

In addition, the BSD has compiled a Panel of Auditors in terms of Section 38A of the Banking Act. On the basis of approved criteria, ten audit firms, some with affiliations to international audit firms, have been selected. Banks are required to select their auditors from this panel. Further, in terms of Section 39 of the Banking Act, operational guidelines have been issued to external auditors in order to assist them to address various issues connected with such audits which are supplementary to the Sri Lanka Accounting Standards No. 23 and 30 and other relevant standards pertaining to such audits.

The Department has further strengthened the disclosure requirements by requiring the LCBs to publish in daily newspapers, half yearly financial accounts and audited annual accounts.

Y2K Issue

The Central Bank has set up a Task Force in 1998 to raise awareness of the issue relating to the century date change, to promote appropriate action within the banking industry and to monitor Y2K compliance by the banking sector. The monitoring is jointly conducted by officers released from the BSD and the Department of Information Technology. During the year under review, the BSD was actively involved in assessing the adequacy of the preparations the banks are taking to be Y2K compliant.

Directions Issued in 1998

The Department issued a new direction relating to share capital ownership in a LCB under Section 46(1)(d) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 during the year under review. This direction while retaining the existing maximum shareholding limit of 15 percent of the issued share capital in a LCB in the name of any company, incorporated body or an individual as per Section 46(1)(d)(i) of the Banking Act, revised the aggregate maximum shareholding limit by a company and one or more of its subsidiaries, its holding company, a subsidiary of its holding company in terms of Section 46(1)(d)(ii)(a), to 20 percent of the issued share capital of a LCB.

It also revised the aggregate maximum shareholding limit by an individual and one or more of his close relations and a company in which such individual or close relations has a substantial interest, to 20 percent of the issued share capital of a LCB in terms of Section 46(1)(d)(ii)(b) of the Banking Act.

In addition, this direction allowed a promoter, whose integrity and financial standing in the business community is beyond doubt and who in the opinion of the Monetary Board is predominantly responsible in promoting the establishment of a company as a bank, to hold as a company, incorporated body, or an individual in the aggregate, a maximum share ownership not exceeding 25 percent of the issued share capital of the Bank.

The Department also issued a new direction to all LSBs in respect of time and savings deposits under Section 76 J(1) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995. This direction restricts the payment of interest on savings accounts, where withdrawals exceed four per month, and 7 days call deposits which are prematurely withdrawn. These restrictions are comparable with those imposed on Licensed Commercial Banks.

The Department was also engaged in revising directions in respect of the Single Borrower Limit (SBL) of LCBs during the year under review.

Deposit Insurance Scheme

The Department continued to administer the Deposit Insurance Scheme which commenced operations in 1987. The number of institutions registered under this Scheme is 7, consisting of 3 RRDBs and 4 Multi-purpose Co-operative Societies (MPCSs). The premium payable is 3.75 cents per quarter for every Rs. 100 and the amount collected to the fund by way of premia in 1998 was Rs. 1.64 million. The total of the Deposit Insurance Fund stood at Rs. 79.58 million as at 31 December 1998, which included Rs. 50 Mn. allocated to the fund by the Central Bank.

SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions continued to carry out its regulatory and supervisory functions in respect of registered finance companies (FCs) with the objective of ensuring that FCs are adequately capitalised, prudently managed and financially sound. The Department strived to achieve the above objectives mainly through off-site surveillance and on-site examinations.

Brief Overview of FCs

The consolidated balance sheet of the 25 registered FCs as at 31 March 1997 and 31 March 1998 is given in Table II-7. Total assets of registered FCs have increased by Rs.3.7 billion or 19.7 per cent over the year. The increase in assets was reflected mostly in liquid assets which increased by Rs.684.7 million or 32.7 per cent and advances which increased by Rs.1.5 billion or 11.6 per cent. The distribution of the major asset categories

had not changed substantially. However, the increasing trend towards lease financing which was observed in the previous year continued in 1998. The growth in assets has been funded by a growth in deposits of Rs.3.6 billion or 33.2 per cent and a growth in capital funds of Rs.720.0 million or 27.2 per cent. The decline in provision for bad and doubtful debts by Rs.343 million or 26.8 per cent was due to writing off of unrecoverable loans by FCs.

Regulation and Supervision of Registered FCs

During the period under review, the Department continued its off-site surveillance of the 25 registered FCs by analysing periodical statements submitted by these companies to ascertain compliance with Directions and Rules issued under provisions of the Finance Companies Act No.78 of 1988. For the above purpose, the Department continued to obtain weekly statements of liquid assets, monthly statements of large advances granted, monthly statements of assets and liabilities, quarterly statements of non-performing advances and annual audited balance sheets. From these financial statements the Department was able to monitor the compliance of Directions and Rules issued by the Board. These included minimum capital requirement, liquidity ratio, single borrower limits, adequacy of provisions for bad and doubtful debts, etc. The profit and growth trends of registered FCs were also monitored closely during the period under review to identify and arrest any adverse developments.

The Department also conducted on-site examinations of three FCs during the year. The books of accounts and other records were scrutinised and discussions were held with officers of the companies in order to make an appraisal of the adequacy of capital, quality of assets, capability of management, volume and quality of earnings and liquidity position. The efficacy of internal systems and controls to provide timely and accurate management information was also assessed.

In addition to comprehensive on-site examinations, FCs were also subjected to spot examinations where critical areas were covered. The area of examination depended on the information revealed in the off-site examination. Spot examinations were also conducted prior to the issue of annual licences.

Failed FCs

The administration and management of five FCs, vested in the Monetary Board under the provisions of the Finance Companies Act, continued to be performed by the Department. Relief payments were made to depositors of two of these FCs under the "Relief Scheme for Depositors of Registered FCs in Distress". These relief payments were made from funds obtained through loan recoveries and sale of assets of these companies.

The Department continued to make part refunds of deposits of a failed FC through a Trust Fund set up to channel

the sale proceeds of its Head Office Building. A sum of Rs.72.04 million has been paid to 1,963 depositors through this Trust Fund up to 31 December 1998. The Department was successful in prosecuting the directors of the company for violating the Directions issued by the Department. The fines collected from these directors amounted to Rs.2.4 million as at 31 December 1998.

Policy Initiatives

The Department had discussions with the Finance Houses Association seeking their views on amendments to existing Directions and new Directions under consideration. These included introduction of minimum capital ratio based on risk weighted assets, more stringent income recognition standards, more stringent guidelines on provisioning for bad and doubtful debts, and limiting the types of activities that may be undertaken by FCs.

FINANCIAL MARKETS

The broad objective of the Financial Markets Department is to assist in creating a conducive policy environment for the development of financial markets in Sri Lanka, with special emphasis on the debt market. This involves identifying appropriate incentives, institutional support requirements and improving operating and regulatory structures for the proper and efficient functioning of the financial markets. The department is also responsible for coordinating the implementation of the on going financial sector reform program and monitoring the progress on behalf of the Financial Sector Reform Committee. The functions of the department also include liaising with external donor agencies on technical assistance projects relating to the Central Bank and the financial sector.

During the year under review, the department was engaged in coordinating a number of activities.

Credit Rating Agency

Arrangements were made to set up a credit rating agency. A Letter of Intent was signed with Duff and Phelps Credit Rating Company (DCR), a leading US credit rating firm, in July 1998 for this purpose. The credit rating agency will be established as a public limited liability company under the Companies Act, with DCR as the major shareholder and technical partner. The other shareholders will be the Central Bank of Sri Lanka, the Rating Agency of Malaysia Berhad, the International Finance Corporation, and several local financial institutions (banks, provident funds, insurance and finance companies). Duff and Phelps Credit Rating Lanka Limited (DCR Lanka) is scheduled to be incorporated in early 1999. The company is expected to commence operations in the second quarter of 1999. The DCR Lanka will initially provide ratings for issues of fixed income securities and other related services.

TABLE II-7
Consolidated Balance Sheet of Operational Finance Companies

Category	At end March 1997		At end March 1998		Change
	Rs. '000	%	Rs. '000	%	%
LIABILITIES					
1. Capital Funds					Is
sued Share Capital	495,094		620,882		
Share Premium	205,373		190,546		
Capital Reserve	527,275		843,104		
General Reserve	768,470		1,094,003		
Reserve Fund	378,945		474,114		
Other Reserve	219,700		58,145		
Profit & Loss A/C	63,746		96,099		
Gross Capital Fund	2,658,603		3,376,893		
Less: Deferred Expenditure	10,428		8,664		
Net Capital Fund	2,648,175	13.76	3,368,229	14.63	27.19
2. Provision for Bad & Doubtful Debts	1,280,979	6.66	937,940	4.07	-26.78
3. Public Deposits	11,088,338	57.62	14,773,980	64.15	33.24
4. Borrowings					
Bank Overdrafts	314,760		389,766		
Others	888,446		386,249		
Total Borrowings	1,203,206	6.25	776,015	3.37	-35.50
5. Other Liabilities	3,022,086	15.71	3,173,670	13.78	5.02
GRAND TOTAL	19,242,784	100.00	23,029,834	100.00	19.68
ASSETS					
1. Liquid Assets					
Cash & Due from Banks	305,035		331,431		
Fixed Deposits	488,403		613,589		
Short term Investments	14,816		32,350		
Treasury Bills	1,284,528		1,800,127		
Total Liquid Assets	2,092,782	10.88	2,777,497	12.06	32.72
2. Investments					
Share in Subsidiaries & Associated Companies	309,241		382,560		
Shares in Related Companies	167,999		256,653		
Shares in Other Companies	600,183		705,663		
Share Trading	52,183		224,915		
Total Investments	1,129,606	5.87	1,569,791	6.82	38.97
3. Advances					
Loans	822,634		872,845		
Hire Purchase	2,374,695		3,421,408		
Leasing	7,326,206		7,783,084		
Real Estate	932,161		1,110,212		
Other Advances	1,510,810		1,282,104		
Total Advances	12,966,506	67.38	14,469,653	62.83	11.59
4. Fixed Assets					
Freehold Land & Buildings	935,058		1,565,737		
Furniture, Fittings & Other Equipment	235,568		200,217		
Motor Vehicles	96,446		177,048		
Machinery	8,413		5,567		
Leased Assets	55,870		47,025		
Other Assets	24,271		21,802		
Total Fixed Assets	1,355,626	7.04	2,017,396	8.76	48.82
5. Other Assets	1,698,264	8.83	2,195,497	9.53	29.28
GRAND TOTAL	19,242,784	100.00	23,029,834	100.00	19.68
No. of Reporting Companies	25		25		

Source : Central Bank of Sri Lanka

Fiscal Incentives for the Development of a Debt Market

The Central Bank made a number of proposals relating to taxes and stamp duties applicable to transactions in Treasury and corporate debt securities which were implemented in 1997 and 1998. The measures included the removal of capital gains and withholding tax on Treasury Bonds, the exemption from stamp duty for the transfer of listed debentures and the reduction of stamp duty on commercial paper and repurchase agreements relating to Treasury Bills. In 1998, the Central Bank recommended that the stamp duty on the issuance of listed debentures, commercial paper transactions and repurchase agreements relating to Treasury Bills and Treasury Bonds should be removed.

The Budget for 1999 made the following changes for implementation:

- i. Removal of stamp duty which was Rs.10 per Rs.1000, or part thereof, on the issue of listed debt instruments such as debentures and promissory notes.
- ii. Removal of stamp duty of Rs. 10 on Re-purchase Agreements relating to Treasury Bills.
- iii. Removal of withholding tax of 10 per cent levied on interest paid on listed debentures and debt securities.
- iv. Removal of capital gains tax on share warrants and derivative instruments

The Agreements between the Government of Sri Lanka (GOSL) and the State Commercial Banks

The Agreements between the GOSL and the Bank of Ceylon and People's Bank, were signed on 16 July 1998. The objectives of the Agreements are to improve the banks' profitability, efficiency and financial soundness by commercialising and consolidating operations, increasing productivity, reducing costs, rationalising staff levels and branch network, conserving assets, increasing loan recoveries and improving risk management.

The main features of the Agreements are as follows:

- i. Granting operational autonomy to the bank management
- ii. Stipulation of qualifications for the appointment of Directors and the General Manager
- iii. Appointment of an Internal Audit Committee consisting of members of the Board of Directors
- iv. Quantitative targets for profits, administrative costs, loan recoveries and non-performing loans
- v. Freeze on staffing levels
- vi. Rationalization of loss making branches
- vii. Restrictions on credit facilities to defaulters
- viii. Payment for non-commercial services undertaken by the bank on behalf of the GOSL

- ix. Stipulation of terms, conditions and procedures for granting credit facilities at the request of the GOSL
- x. Requirement for the Minister of Finance to present a statement to Parliament on all GOSL guarantees provided to the bank

The Agreements seek to improve the banks' internal governance and financial performance by providing the management with operating autonomy and by specifying annual quantitative performance targets. These include profitability targets such as return on assets and return on capital, efficiency targets such as staff cost and overhead costs to average assets and financial soundness targets such as for loan recovery and non-performing loans. The Agreements are also aimed at reducing administrative and intermediation costs through branch rationalisation and restrictions on staffing levels. The banks are required to submit quarterly performance reports to the GOSL and the Central Bank on the achievement of targets and other requirements. The Central Bank monitors compliance with the Agreements on behalf of the GOSL.

Steps were also taken to introduce a standard branch accounting system for the state commercial banks, in order to assess the profitability and viability of their branch network. A working group consisting of officers from the Central Bank, Bank of Ceylon, People's Bank and a firm of Chartered Accountants made recommendations for a uniform system of transfer pricing and cost allocation for branches. The banks will implement the new branch accounting system in 1999.

Arrangements were made for a special audit of the current loan and investment portfolios of the Bank of Ceylon and People's Bank. The main objective of the audit is to determine the overall quality of the banks' loan and investment portfolio and the required level of provisioning. The portfolio audit will be conducted by a private audit firm in accordance with international accounting and auditing standards. The portfolio audits are scheduled to commence in March 1999 and be completed in three months.

Legislative Enactments

Several draft Bills were being prepared during the year, for submission to Parliament in 1999.

- (a) **Amendments to the Monetary Law Act** - The objectives of the Central Bank will be amended to emphasise maintenance of price stability as the main objective. The other proposed amendments relate to broadening the definition of money supply and the maintenance of the statutory reserve ratio.
- (b) **Amendments to the Banking Act** - The proposed amendments are aimed at strengthening the regulatory and supervisory framework relating to Licensed Commercial and Specialised Banks.
- (c) **Finance Leasing Bill** - This new legislation will provide a regulatory and supervisory framework for the leasing industry. It is proposed that the Central Bank will license and supervise companies engaged

in leasing. The law will also define finance leasing transactions and specify the rights and obligations of lessors, lessees and suppliers of leased equipment.

- (d) **Amendments to the National Savings Bank Act**
The proposed amendments remove the impediments to the creation of a capital base for the bank, by capitalising the dormant accounts. The amendments also specify the range of activities NSB could engage in as a specialised savings bank.
- (e) **Bill for the Regulation of the Insurance Industry**
The proposed Insurance law provides for the establishment of a statutory Insurance Board of Sri Lanka, with powers to register insurance companies and brokers for the purpose of developing, supervising and regulating the industry. This legislation will replace the Control of Insurance Act No. 25 of 1962.

Technical Assistance Projects

- (a) **Legal Framework for the Regulation and Supervision of Merchant /Investment Banks**
Merchant (Investment) banks undertake a variety of fund and fee based activities, but are not licensed by any regulatory authority. Some activities, such as those related to share trading, come under the purview of the Securities and Exchange Commission, while other activities are not supervised. In this context, the Central Bank initiated action to study the role and impact of merchant banks on the economy, with a view to identifying a suitable regulatory and surveillance framework. The study will be financed by a World Bank Japanese Grant and will commence in early 1999.
- (b) **Scriptless Securities Trading System and a Real Time Gross Settlement System**
The Central Bank proposes to introduce a scripless trading and real time gross settlement system for Treasury Bills and Treasury Bonds. Preliminary work on procedures and system design was completed during the year. A team of consultants, funded by the World Bank, assisted the Central Bank in preparing the technical specifications of the computer software and hardware requirements for the system.
- (c) **Surveillance System for Primary Dealers**
The Central Bank proposes to establish a supervisory framework for primary dealers. Work is in progress on the preparation of the legal framework.
- (d) **Developing the Portfolio Management Capacity of the Employees' Provident Fund (EPF)**
The project includes the preparation of investment

guidelines for the EPF and staff training in portfolio management techniques. A firm of consultants was selected in December 1998 and the assignment was scheduled to commence in January 1999.

The project will be funded by the World Bank under the Private Finance Development Project.

- (e) **Institutional Development of the Bank Supervision Department**
The project consists of upgrading the on site and off site supervisory mechanisms, making proposals for strengthening the legal framework, skills development and staff training. The project is financed by a grant from the Swedish International Development Agency. The consultants were selected and the project commenced in December 1998.
- (f) **Computerising the Off Site Surveillance of Banks**
The Department of Bank Supervision is developing a software package for the off site surveillance of banks. The project involves the preparation of formats for obtaining bank financial data on diskette. The system would also have an early warning mechanism. The system was designed and tested in 1998 and will become operational in January 1999.

DEVELOPMENT FINANCE

The activities of the Development Finance Department further expanded in 1998. The operations of the new credit guarantee scheme for the Small and Medium Enterprise Assistance Project (SMAP), which became effective in the second half of 1997, expanded rapidly during the year. The disbursements of loans approved under the Low Income Shelter Programme were by and large concluded during the year. Loan negotiations with the Asian Development Bank for a new line of credit for financing housing activities of urban and semi-urban dwellers were successfully concluded in the last quarter of 1998. The loan operations under the Plantation Reform Project also expanded rapidly during the year. The Department also continued to conduct inspection of projects for which credit guarantees have been provided by the Central Bank.

Current Credit Schemes

Plantation Reform Project (PRP)

The total loan approvals under the PRP increased by nearly three times in 1998 to reach Rs. 2563.7 million from the end 1997 level of Rs.672.7 million, while the total fund disbursements increased by about 91 per cent to reach Rs.990.6 million. For replanting and crop development purposes, 26 loans worth Rs.1072.1 million were approved in 1998, while the disbursements of funds for the same purpose amounted to Rs 550.2 million. For tea processing improvements, 27 loans amounting to Rs.1005.3 million were approved in 1998 while the disbursement of funds amounted to Rs. 259.1 million.

Further, in 1998, 21 loans worth Rs.486.3 million were approved for purpose of purchasing vehicles, while disbursements for the same purpose amounted to Rs.181.3 million. Details of loan approvals and disbursements are given in Table II-8.

TABLE II-8
Plantation Reform Project
Loan Approvals and Disbursements by Purpose

Purpose	Rs.Mn.					
	1997		1998		1996-98	
	A(a)	D(b)	A	D	A	D
Tree Crop Development	217.0	188.7	1072.1	550.2	1452.4	796.6
Processing, Improvement & Pollution Control	313.5	196.9	1005.3	259.1	1470.4	456.0
Service Vehicles & Equipment	142.2	132.6	486.3	181.3	739.6	315.0
TOTAL	672.7	518.2	2563.7	990.6	3662.4	1567.6

Source: Central Bank of Sri Lanka.

Note: (a) = Approvals
(b) = Disbursements

In 1998, DFCC Bank (DFCCB) disbursed the largest amount of funds to Regional Plantation Companies (RPCs) under the PRP loan scheme amounting to Rs. 418.8 million, while the National Development Bank (NDB) disbursed Rs.406.6 million. Bank of Ceylon (BOC) disbursed Rs.85.4 million to RPCs while Commercial Bank of Ceylon (CBC) disbursed Rs. 79.8 million. Sampath Bank which approved a loan worth Rs. 98.4 million to RPC in the last quarter of 1998 did not disburse any funds. Progress of the PRP loan scheme according to participating credit institutions is given in Table 11-9.

The liability of the Central Bank's credit guarantee scheme on the PRP loan scheme which was Rs.297.3 million in 1997 increased to Rs.605.3 million in 1998. The total guarantee liability for the three years 1996 to 1998, amounted to Rs.943.1 million. Details of progress of the Central Bank's credit guarantee scheme on the PRP loan scheme are also given in Table II-9.

TABLE II-9
Plantation Reform Project Loan Approvals, Disbursements and
Central Bank's Credit Guarantee Liability

PCI	Rs.Mn.											
	1997				1998				1996-1998			
	A(a)	D(b)	GL(c)	PC(d)	A(a)	D(b)	GL(c)	PC(d)	A(a)	D(b)	GL(c)	PC(d)
NDB	120.6	299.0	168.8	3.4	1147.2	406.6	251.3	7.0	1693.8	763.4	460.6	10.4
DFCCB	269.4	94.2	56.4	0.3	993.6	418.8	256.5	3.4	1263.0	513.0	312.9	3.7
BOC	120.6	75.5	40.8	0.9	286.0	85.4	47.3	1.6	406.6	160.9	88.1	2.5
CBC	162.1	50.5	31.3	0.4	38.5	79.8	50.2	1.3	200.6	130.3	81.5	1.7
Sampath Bank	-	-	-	-	98.4	-	-	-	98.4	-	-	-
TOTAL	672.7	519.2	297.3	5.0	2563.7	990.6	605.3	13.3	3662.4	1567.6	943.1	18.3

(a) Approvals
(b) Disbursements
(c) Central Bank's Credit Guarantee Liability
(d) Premia Collections

Source: Central Bank of Sri Lanka

Small and Medium Enterprise Assistance Project (SMAP)

The SMAP credit line which is being refinanced by NDB with the rupee proceeds of loans amounting to US dollars 55 million jointly raised from foreign commercial sources and the ADB was launched in May 1997. The approval of loans as well as disbursements under the SMAP credit line to small and medium scale enterprises has accelerated in 1998. In 1997, only eight credit guarantees for loans amounting to Rs.4.9 million were issued by the Central Bank. On the other hand in 1998, 695 credit guarantees for loans worth Rs.857.9 million were issued. As three guarantees were withdrawn, the Central Bank's credit guarantee liability which was only Rs.3.9 million in 1997 increased to Rs. 498.8 million in 1998. More details on the SMAP loan scheme are given in Table II-10.

TABLE II-10
SMAP Credit Guarantee Scheme
Industry-wise Classification of Loans
As at 31 December 1998

Industry Category	Value in Rs. Mn.			
	Loans Granted		Loan Amount	
	No.	%	Value	%
Food Beverages & Tobacco	112	15.9	186.4	21.6
Textile Wearing Apparel & Leather Products	63	9.0	87.0	10.1
Wood & Wood Products	23	3.3	17.6	2.1
Paper & Paper Products	13	1.8	25.4	3.0
Chemical, Petroleum				
Rubber & Plastic Products	16	2.3	23.3	2.7
Basic Metal Products	8	1.1	12.4	1.4
Non-Metallic Mineral Products	47	6.7	51.9	6.0
Fabricated Metal Products, Machinery & Transport Equipment	28	4.0	21.9	2.5
Agro-Industries	70	10.0	79.7	9.2
Other (a)	323	45.9	357.2	41.4
TOTAL	703	100	862.8	100

Source: Central Bank of Sri Lanka

(a) Includes passenger and commercial transport, service and filling stations, restaurants, electronic and other services

An industry-wise classification of SMAP loans, which is also given in Table II-10, indicates that the majority of loans amounting to about 41 per cent has been granted for service industries such as passenger and freight transport and vehicle servicing, while about 22 per cent of loans have been granted for food processing industries.

Housing Guarantee Low Income Shelter Programme (HGLISP) – Phase IV

The Central Bank which functions as the Apex Lender of the HGLISP, on behalf of the government, for funds borrowed under the United States Government's Housing Loan Guarantee Programme - Phase IV, by and large, concluded the disbursement of funds for approved loans by the end of 1998.

TABLE II-11
Housing Guarantee Low Income Shelter Programme – Phase IV
Loan Approvals and Disbursements

Sub-Apex Lender	Approvals			Disbursements		
	1997	1998	1992-98	1997	1998	1992-98
	Rs. Mn.					
BOC	-	-	313.8	1.3	-	313.8
CBC	-	-	1.4	0.3	-	1.4
HNB	-	-	4.7	-	-	4.7
HDFC	138.5	246.7	595.9	68.6	442.1	595.9
PB	-	1.0	251.9	71.6	1.0	251.9
RRDB	-	1.0	74.0	26.0	14.1	73.0
SEYLAN	-	-	4.2	1.7	-	4.2
SMIB	7.9	63.5	117.0	25.4	72.1	116.6
TOTAL	146.4	312.2	1,362.9	194.9	529.3	1,361.5

Source: Central Bank of Sri Lanka

TABLE II-12
Housing Guarantee Low Income Shelter Programme – Phase IV
Loan Approvals by Purpose and Maturity

Category	1997			1998		
	Urban	Rural	Total	Urban	Rural	Total
	Rs. Mn.					
Purpose						
Construction	0.2	-	0.2	2.6	92.7	95.3
Improvements	-	-	-	-	5.7	5.7
Land Acquisition	6.8	139.4	146.2	10.3	200.9	211.2
Infrastructure	-	-	-	-	-	-
Total	7.0	139.4	146.4	12.9	299.3	312.2
Maturity						
Less than 5 years	-	0.6	0.6	0.4	5.1	5.5
6 to 10 years	0.5	4.0	4.5	1.0	18.7	19.7
11 to 15 years	6.5	134.8	141.3	11.5	275.3	286.8
16 to 20 years	-	-	-	-	0.2	0.2
Total	7.0	139.4	146.4	12.9	299.3	312.2

Source: Central Bank of Sri Lanka

The cumulative loan approvals from 1992 to 1997 amounted to Rs.1050.7 million, while the cumulative loan disbursements amounted to Rs.832.2 at end 1997. In 1998, loan approvals amounted to Rs.312.2 million, while the disbursement of funds for loans approved in 1998 as well as

for previously approved loans amounted to Rs.529.3 million. More details of the HGLISP loan scheme are given in Table II- 11.

About 68 per cent of loans approved in 1998 have been for financing land acquisitions, while 30.5 per cent of loans have been for financing construction. (Table II – 12)

A New Housing Loan Scheme for Urban and Semi-urban Areas

In November 1998, the Monetary Board approved the participation of the Central Bank in a new housing loan scheme targeted to low income households dwelling in urban and semi-urban areas of the country. This loan scheme, which is the housing finance component of the Urban Development and Low Income Housing Sector Project (UDLIHSP) which is being financed by the ADB through its loan no. 1632-Sri (SF), will provide the rupee proceeds of US dollars 20 million as housing loans to households whose monthly income does not exceed Rs.8,500 per month. The maximum size of an individual loan will be Rs.100,000, while the loans will be granted for purposes such as infrastructure improvement and repair, land acquisition, extensions to present housing and construction of new houses.

Investment of Credit Guarantee Funds

The total value of investments in Government of Sri Lanka Treasury Bills amounted to Rs.1,652 million. The total value of interest income from the investments amounted to Rs.169.53 million. The funds for these investments came from SMI, BPL and PRP guarantee funds advanced by the Central Bank and the premium collections.

TABLE II – 13
SMI-II, SMI-III and SMI-IV Credit Guarantee Schemes
Industry-wise Classification of Loans(a)– End 1998

Industry Category	Value in Rs. Mn.					
	SMI-II, III and IV (1982 – 1998)					
	Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Value	%	Value	%
Food Processing	3,247	22.0	2,173.9	19.7	1,257.8	18.4
Other Agro Industries	311	2.1	153.4	1.4	99.8	1.5
Rubber Products	304	2.1	314.7	2.9	174.1	2.6
Metal Products	1,394	9.4	740.9	6.7	459.5	6.7
Construction Materials	914	6.2	556.0	5.0	367.4	5.4
Construction Contracting	546	3.7	766.5	7.0	370.4	5.5
Wood Products	895	6.1	450.4	4.1	294.3	4.3
Garments	904	6.2	790.5	7.2	438.9	6.5
Textiles	325	2.2	319.5	2.9	181.6	2.7
Repair Workshop	558	3.8	331.0	3.0	215.3	3.2
Others (b)	5,335	36.2	4,417.7	40.1	2,939.2	43.2
TOTAL	14,733	100	11,014.5	100	6,798.3	100

Source: Central Bank of Sri Lanka

Notes: (a) A detailed breakdown of industry-wise classification of SMI-1 loans is not available

(b) Includes passenger and commercial transport, leather, animal husbandry, fishing, restaurants, fibre glass, electronic, ceramics, polythene and services

TABLE II-14

Summary of Performance of the Central Bank's SMI Credit Guarantee Schemes-As at 31 December 1998

Value in Rs. Million

ITEMS	SCHEMES		SMI – I (a)		SMI – II (b)		SMI – III (c)		SMI – IV (d)		BPL(e)		SMAP(f)	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans Granted	1670	286.1	2531	1,392.5	3130	1955.6	9072	7666.4	1932	1098.6	703	862.8		
1.2 Loans Guaranteed	1670	157.5	2531	713.6	3130	1312.6	9072	4772.1	1932	871.2	703	508.7		
2.1 Loans Fully Repaid	1235	184.0	1963	1057.5	1915	1108.6	3877	1386.1	1711	965.4	1	10.0		
1.2 Guarantee Withdrawn or Lapsed	113	31.4	456	232.2	890	590.5	337	245.0	104	60.5	3	6.0		
3.1 Total Claims Received	338	75.9	227	70.0	168	96.2	197	143.4	-	-	-	-		
3.2 Central Bank Liability on Claims Received	-	33.9	-	58.6	-	65.2	-	96.5	-	-	-	-		
3.3 Settlement of Claims –														
Fully Settled	232	19.3	126	31.7	88	23.4	60	21.2	-	-	-	-		
Partly Settled	27	2.1	5	0.7	-	-	-	-	-	-	-	-		
Claims Rejected	32	6.9	46	12.7	45	17.7	50	19.2	-	-	-	-		
Loans fully paid after submission of claims	36	2.0	4	1.4	5	3.3	21	9.9	-	-	-	-		
Claims Deferred	8	2.1	21	7.6	4	4.2	10	6.7	-	-	-	-		
Claims Pending	2	-	13	3.8	20	9.6	49	24.0	-	-	-	-		
Claims Withdrawn	3	0.5	12	4.1	6	3.3	7	6.8	-	-	-	-		
4.1 Loans Outstanding	35	4.5	99	31.3	290	94.3	4765	2826.2	112	23.5	700(g)	820(g)		
4.2 Central Bank Liability on Guarantees Outstanding	35	2.7	99	18.5	290	62.9	4765	1881.2	112	18.8	-	-483.5(g)		
5. Premia Collected	-	12.2	-	29.9	-	44.9	-	153.4	-	21.9	-	3.0		
6. Post Claim Recoveries	-	10.4	-	18.5	-	17.2	-	3.18	-	1.8	-	-		

(a) SMI - I - Operated from 1979-81

(c) SMI - III - Operated from 1988-91

(e) Bus Purchase Loan Scheme

(g) Provisional

(b) SMI - II - Operated from 1982-89

(d) SMI - IV - Operated from 1992-97

(f) SMAP - Commenced in 1997

Source : Central Bank of Sri Lanka

Concluded Credit Schemes

An industry-wise classification of loans given under the concluded SMI credit schemes is given in Table II-13. A summary of performance of credit guarantee operations in respect of concluded credit schemes is given in Tables II-14.

RURAL CREDIT

During the year under review, the Central Bank continued to function as the executing agency for both donor-funded projects and its own credit schemes. As the executing agency, the Central Bank is responsible for implementing the credit schemes which involves admitting Participating Credit Institutions (PCIs), issuing Operating Instructions to PCIs, disbursing refinance to PCIs in respect of loans eligible under projects, monitoring and co-ordinating of loan schemes, maintaining loan records and giving publicity to loan schemes with the assistance of the relevant project offices and other local agencies.

The projects implemented by the Bank during 1998 were as follows:

(a) ADB^{1/} Funded Projects:

- i. Small Holder Tea Development Project;
- ii. Perennial Crops Development Project;
- iii. Southern Province Rural Development Project;
- iv. North Western Province Water Resources Development Project;
- v. North Central Province Rural Development Project;

(b) IFAD^{2/}/CIDA^{3/}/SIDA^{4/}/Japanese Govt.^{5/} WFP^{6/} Funded Projects:

- vi. Small Farmers and the Landless Credit Project (IFAD, CIDA);
- vii. North Central Province Participatory Rural Development Project (IFAD, SIDA & WFP);
- viii. Food and Nutrition Promotion Credit Scheme (Japanese Govt.);

(c) Government Funded Projects:

- ix. Kegalle District Integrated Rural Development (Revolving Fund) Project;
- x. Surathura Programme.

Small Holder Tea Development Project (SHTDP)

The SHTDP was completed in December 1998. This project was originally scheduled to be completed in December 1997, but a further extension of one year was allowed by ADB for the credit component to enable PCIs to complete the disbursement of already approved loans.

This Project which commenced in 1989, aimed at increasing production and export of tea by small holders,

1. Asian Development Bank
2. International Fund for Agricultural Development
3. Canadian International Development Agency
4. Swedish International Development Agency
5. Japanese Food Production Grant
6. World Food Programme

improving the quality and the productivity of small holder-grown tea and tea factories, increasing income and employment opportunities in rural areas and improving the effectiveness of the institutional mechanism of supporting tea small holders. The ADB allocated originally a sum of US dollars 19 million for the credit component for the provision of refinance to PCIs to enable them to on-lend to small holders and private tea factory owners to undertake activities in new planting and re-planting, nursery development and factory development. The funds allocated did not move at the expected rate in the initial few years due to a slack in the demand for loans from tea small holders. This slow progress led to a review of the credit allocation by both the ADB and the government in 1994. Accordingly, a downward revision of the credit component by US dollars 10 million was effected with the concurrence of the government. Since then, the project recorded a gradual improvement in the performance and PCIs were able to meet the total loan target well ahead of the closing date of the Project. However, the total amount could not be fully disbursed as loan disbursements are spread over a number of years. At the time of loan closure in December 1998, a total sum of US dollars 11.83 million or 94 per cent had been utilised out of the revised allocation of US dollars 12.6 million.

As at the end of 1998, a total of Rs.641 million had been disbursed by the Central Bank by way of refinance in respect of new planting (Rs.107 million), re-planting (Rs.118 million), nursery development (Rs.41 million) and factory development (Rs.374 million). The DFCC Bank (Rs.239 million), People's Bank (Rs.130 million) and Bank of Ceylon (Rs.100 million) were the largest disbursers of credit under the project. A total of 7,692 ha. had been planted with tea under the project representing 4,338 ha. for new planting and 3,354 ha. for replanting, thereby achieving the original target of the Project. Under the factory rehabilitation component, 84 factories had been granted loans under the Project. The Credit Scheme maintained a satisfactory overall recovery rate of 91 per cent, recovering Rs.229 million out of a total amount of Rs.253 million due to be recovered by all PCIs as at the end of December 1998.

In view of the successful completion of the SHTDP, the ADB approved a new project named the Tea Development Project (TDP). A loan of SDR 26.3 million will be made available by the ADB to the government for credit and infrastructural development purposes in the Tea Small Holder sector. Out of the loan, a sum of SDR 15.4 million will be made available to the Central Bank for the credit component to enable it to lend to the Participating Financial Institutions (PFIs) for financing of sub-loans in the tea sector.

In order to ensure the continuity of project activities during the interim period of closing the SHTDP and the introduction of the TDP, an interest subsidy scheme was launched in 1998 to facilitate PCIs to grant loans at 14 per cent per annum to small holders out of their own funds. Accordingly, a subsidy

of 4 percentage points was paid by the Tea Small Holder Development Authority (TSHDA) out of its cess funds. During the year under review, loan approvals and disbursements by PCIs under the subsidy scheme amounted to Rs.85.3 million and Rs.78.0 million, respectively.

First Perennial Crops Development Project (FPCDP)

The Credit Component of the FPCDP was closed in December, 1997 but the Central Bank continued to monitor recoveries, attend to field problems and claim funds from ADB in respect of disbursements effected in the last quarter of 1997.

The CBSL has provided a sum of Rs.586.3 million (US dollars 10.964 million.) by way of refinance to PCIs during the entire project period. This reflects a utilisation rate of 84 per cent from the enhanced allocation of US dollars 13.053 million. for the credit component. The amount financed out of ADB proceeds amounted approximately to 90.48 per cent of the disbursements by PCIs to sub-borrowers. Upto the end of 1998, a sum of Rs.693.0 million had been disbursed by PCIs for field development, nursery development and on-farm post-harvest handling and processing. As at end-December 1998, a sum of Rs.274.5 million had been recovered by the Central Bank from PCIs. However, on account of the medium term nature of lending, some loan instalments continue to be released to farmers by PCIs. In order to facilitate PCIs with refinance on such loan instalments, action has been taken to establish a Revolving Fund Credit Scheme out of the loan recoveries of the FPCDP.

Second Perennial Crops Development Project (SPCDP)

The SPCDP, a continuation of the FPCDP, came into operation in August, 1998 subsequent to a loan agreement which the government signed with the ADB in April, 1998. The new project, which covers the entire island except the Northern and Eastern Provinces, is scheduled to be completed by 2004. The Project consists of five major components, viz., (a) Credit, (b) Farm Advisory, Marketing and Technical Services, (c) Research, (d) Seed and Planting Materials, and (e) Institutional Strengthening. The Central Bank handles the credit part, while the Ministry of Agriculture and Lands handles the other components.

The objectives of the Project are to support the development of the Perennial Crop Sector by providing credit facilities and extension services. The project is also expected to increase the profitability of enterprises that process or market perennial crops and the income of farmers considerably. It will also help to broaden the agricultural export base of the country, while encouraging a greater private sector participation in commercial agriculture.

A sum of SDR 11.562 million has been allocated for the credit component to provide medium and long term credit for cultivation of perennial crops through PFIs.

The maximum individual sub-loan size has been set at US dollars 150,000 or equivalent in Sri Lanka rupees. The PFIs are allowed to approve loans upto US dollars 50,000 or its Sri Lanka rupee equivalent, while loans exceeding that amount should receive ADB approval. Sub-loans under the Project can be granted with a maximum maturity of 12 years, including a grace period of upto 6 years. In deciding the repayment period, lending banks are expected to take into account the economic life of the assets financed, the gestation period of the crops and the sub-borrower's repayment capacity as reflected in the cash flow projections.

Credit will be provided through the DFCC Bank, National Development Bank, Hatton National Bank, Commercial Bank and the Sampath Bank. Both the lending rate and the refinance rate reflect market rates as they are linked to the AWDR (Average Weighted Deposit Rate of commercial banks) : lending rates at 2 percentage points higher than AWDR and the refinance rate from the Central Bank at 6 percentage points below the AWDR.

Southern Province Rural Development Project (SPRDP)

The SPRDP which commenced in 1992, will close in December, 1999. The main objective of the project is to raise the income and the quality of life of the people in the Southern Province through the creation of opportunities for employment and income generating activities and the strengthening of the economic and social infrastructure in the area.

Of the credit component of Rs.466 million (SDR6.4 million), Rs.378.5 million or 81 per cent has been allocated to the Central Bank to refinance PCIs in respect of rural micro credit provided for small and medium scale industries. The balance Rs.87.5 million has been allocated to the Thrift and Credit Co-operative Societies (TCCS) to provide self-employment credit. Three RRDBs in Galle, Matara and Hambantota (amalgamated into the Ruhuna Development Bank or RDB in July, 1998), the DFCC Bank and the National Development Bank are the PCIs of the Central Bank's credit component.

The on-lending rate and the refinance rate under the project remained unchanged at 14 per cent and 6 per cent per annum, respectively, during 1998. The total amount of refinance released by the Central Bank during the year under review amounted to Rs.86 million, bringing the cumulative amount to Rs.303.7 million as at the end of 1998. The three RRDBs and the DFCC Bank disbursed 757 loans to a value of Rs.96 million during 1998. Accordingly, the total number of loans financed under the Project upto the end of 1998 stood at 6,656 with a cumulative disbursement of Rs.342.5 million.

During the year under review, several steps were taken to improve the quality of loans. A Committee was set up for the assessment of loans over Rs.100,000. Three workshops were conducted by the Central Bank in the three project districts for branch managers of the RDB to create awareness and enhance

motivation among them in the disbursement of loans for viable projects. In addition, the RDB in collaboration with the Project Management Office, conducted a training programme for branch managers on project appraisal.

A survey was conducted in 1998 by the Project Office to evaluate the impact of the credit component and the preparation of the survey report is presently in progress.

NWP-Water Resources Development Project (NWP-WRDP)

The ADB funded North Western Province Water Resources Development Project Credit Scheme completed its 5th year in 1998. The credit component of the project, amounting to SDR1.6 million (approximately Rs.100 million), consists of three main sub-components, viz., Agro-wells Construction, Lift Irrigation Sub-projects and Income Generating Self-employment Projects for Rural Women in the North Western Province. The Puttalam and Kurunegala Regional Rural Development Banks and the Hatton National Bank participated in the credit scheme from its inception. In 1996, the People's Bank and the Bank of Ceylon too joined the credit scheme.

Upon a request made by the government for an extension of the project period by another year, the ADB has granted approval to extend the period by six months. Accordingly, the credit component of the Project is scheduled to be terminated on 30 June 1999.

During the year under review, the Central Bank took several steps to improve the performance of the credit scheme, including the increase of the quota allocated for self-employment loans for rural women and allow PCIs to identify suitable borrowers under this component. Further, the Central Bank conducted a number of orientation programmes/workshops for PCI staff as well as the beneficiaries in order to make them aware of the project objectives and procedures.

Upto the end of the year 1998, PCIs had disbursed Rs.28.3 million for the construction of 847 agro-wells and Rs.48.6 million for 2,261 self-employment sub-projects for women in the North Western Province. Under the Lift Irrigation component, which commenced operations in late 1996, only 94 Projects to a value of Rs.2.7 million were financed. However, the cumulative refinance claimed by PCIs from the Central Bank upto the end of 1998 amounted only to Rs.59.3 million.

North Central Province – ADB Funded Rural Development Project and IFAD Funded Participatory Rural Development Project

The ADB funded North Central Province Rural Development Project (NCP-RDP) and the IFAD Funded North Central Province Participatory Rural Development Project (NCP-PRDP) commenced operations in 1996 and 1997, respectively. Both these projects aim at poverty alleviation through the improvement of productivity of farmers and the development

of infrastructure facilities in the Anuradhapura and Polonnaruwa districts.

The Central Bank is the apex co-ordinating agency for the credit component of both projects. The total credit component, amounting to Rs.196 million is to be funded by PCIs, viz., the People's Bank, Bank of Ceylon, Hatton National Bank and the Seylan Bank, out of their own funds. Under the original project plan, it was scheduled to be funded by the National Development Trust Fund (NDTF). However, with the closing of NDTF activities, the Central Bank entered into agreements with the above four commercial banks to operate the scheme without refinance from outside.

In 1998, the initial year of the implementation of the credit component under the new PCIs, a major emphasis was given to train the staff involved in credit activities. Two workshops were conducted by the Central Bank for Branch Managers of PCIs to create an awareness of project objectives and operating instructions etc., in the two project districts. Further, the Anuradhapura Regional Office of the Central Bank conducted a series of workshops for the same purpose at the divisional secretariat level for the officials involved in project activities. About 60 social mobilizers and Samurudhi animators who are involved in field activities in the two districts were exposed to the experience gained by the Small Farmers and the Landless Credit (SFLC) Project in the Puttalam District through two training programmes conducted by the Central Bank.

Small Farmers and the Landless Credit Project (SFLCP)

The SFLCP, inaugurated in 1990 and jointly funded by IFAD (a loan of US dollars 6.7 million), CIDA (a grant of US dollars 6.6 million) and the Government of Sri Lanka (a contribution amounting to US dollars 4.1 million by the Central Bank), aims at establishing a cost effective credit delivery system for the alleviation of poverty among the poorest of the poor in the Galle, Matara, Kandy and Puttalam districts. The Project relies on the linkage banking system strengthened by the group lending strategy to achieve its objectives. The Central Bank functions as the Executing Agency of the Project on behalf of the government. Although foreign funding for the Project closed in December 1997 as originally scheduled after achieving the targets set for the Project at the design stage, the Project activities continued to be carried out during 1998 by recycling the loan recoveries as provided for in the Loan Agreement signed with IFAD.

As at the end of 1998, the Project had covered 2,312 villages in the four districts under reference, forming 8,722 self-help groups as the vehicle for providing assistance to the Project beneficiaries. The beneficiaries reached through these groups numbered 52,993 and was well above the target of 32,000 set in the Project design. A noteworthy feature in the Project has been the active and predominant

participation of women in project activities; 35,711 women accounting for 67 percent of the total beneficiaries. As at the end of year, a sum of Rs.416 million had been advanced as microloans to 45,034 borrowers to enable them to undertake income generating self-employment activities. The average size of a loan amounted to Rs.9,000, while the Project had consistently maintained a recovery rate of over 94 per cent. In addition, the beneficiaries have saved Rs.61.38 million as their group savings upto the end of 1998 under the Savings Mobilisation Scheme of the Project.

In 1998, the loan recoveries that were collected to a Revolving Fund were utilized to provide refinance to the RRDBs, while the interest income earned by investing excess funds was used to meet the administration and beneficiary training expenditure of the Project.

The small self-help groups that had been formed as the vehicle for delivering credit and other support services to Project beneficiaries had come of age by the end of the year. Hence, there was a necessity for the formation of these groups into large voluntary associations with proper legal status to function as the link between the beneficiaries and the RRDBs. Hence, several groups operating in a village were formed into SFLC Development Societies, (Isuru Sanwardana Samithi), which were registered with the Registrar of Companies as corporate bodies with limited liability under the Societies Ordinance. As at the end of 1998, 160 such limited liability societies had been formed. Action was also taken to form four district federations in the Project Districts of Matara, Galle, Puttalam and Kandy. The members of the federations were elected by the society members from among themselves (three members from each society). The federations were registered under Section 21 of the Company Ordinance as non-governmental organizations. The issued share capital, savings and the loans granted from their own funds by the SFLC Development Societies amounted to Rs.2.87 million, Rs.2.25 million and Rs.13.81 million, respectively, as at the end of 1998.

The Overseas Economic Co-operation Fund (OECF) of Japan has agreed to examine the possibility of funding a replication of the SFLC Project activities in the six districts of Kalutara, Hambantota, Badulla, Nuwara Eliya, Matale and Kurunegala. During 1998, OECF commenced the initial work in this connection on a request by the government and, if approved, the replication project would come into effect in 1999.

Food and Nutrition Promotion Credit Scheme

The Food and Nutrition Promotion Credit Scheme which was inaugurated by the Central Bank at the request of the Ministry of Agriculture and Lands, provides funds to lending institutions to disburse credit for crop production, storage, processing and marketing of agricultural produce, and dairy and livestock development. The sub-projects to be funded under the credit

scheme have been specifically agreed to by the Japanese Government, the funding agency of the Credit Scheme.

The Scheme aims at improving the country's food production and encouraging lending institutions to channel credit through farmer organisations, co-operatives and rural organisations for effecting a cost effective credit delivery mechanism to the sector.

The total allocation by the government for implementing the credit scheme amounted to Rs.284 million. Of this, Rs.100 million was provided to the Central Bank in 1997/98 to finance approved sub-projects.

At end 1998, loans to a value of Rs.97.5 million had been approved by PCIs in respect of dairy development (Rs.34 million), vegetable and fruit processing (Rs.34 million), rice

TABLE II-15
Details of Credit Schemes Operated by the Rural Credit Department

Name of the Project	Funding Agency	Broad Mission	Original Allocation	Interest Rate to the borrowers %	Credit Disbursement upto 31.12.98 (Rs.Mn.)	Recovery Rate where applicable %
1. Small Holder Tea Development Project (1989-1997)	ADB	Increase production and export of tea by tea small holders, improve the institutional mechanism of the tea sector and expand employment opportunities.	US\$12.6Mn.	14.0	724.3	91.0
2. Perennial Crops Development Project (1989-1997)	- do -	Increase the production and commercialisation of perennial crops.	US\$13.2Mn.	14.0	693	60.0
3. Second Perennial Crops Development Project (1998-2004)	- do -	Increase the production and commercialisation of perennial crops, development of nurseries, post-harvest handling and processing activities and marketing.	US\$15.685Mn.	Average Weighted Deposit Rate + 2 (Present rate : 12)	-	-
4. Southern Province Rural Development Project (1992-1999)	- do -	To improve the quality of life of the people in the Southern Province.	US\$8.1Mn.	14.0	342.5	-
5. North-Western Province Water Resources Development Project (1993-1999)	- do -	Improve economic, social and nutritional well-being of the people living in the project area.	US\$2.7Mn.	14.0	79.6	90.0
6. North-Central Province Participatory Rural Development Project (1996-2002) & North-Central Province Rural Development Project (1997-2003)	ADB, IFAD, SIDA and WFP	Poverty alleviation, improve food security and nutrition and increase employment opportunities for low-income families.	SLRs.43Mn. SLRs.153Mn	Existing market rate.	-	-
7. Small Farmers and Landless Credit Project (1990-1997)	IFAD, CIDA GOSL	To establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	SDR 4.85Mn.	16.0(Agri.) 20.0 (Other Pur- poses)	367.0	94.0
8. Food & Nutrition Promotion Credit Scheme (Year Commenced - 1997)	Japa- nese Govern- ment	Increase food production and food processing techniques in the country.	SLRs.284Mn	10.0	2.6	n.a.
9. New Comprehensive Rural Credit Scheme (1986 onwards)	PCIs with govt. interest subsidy	Upliftment of rural farmers who cultivate short-term food crops.	-	12.0	Rs.422 Mn.97/ 98 Maha & 98 Yala	70 (Over- all)
10. Kegalle District Integrated Rural Development (Revolving Fund) Project (1997-2007)	Govern- ment of Sri Lanka	Uplift the standard of living of the people in the project area by promoting income-generating activities.	SLRs.100Mn	10.0	50	n.a.
11. Surathura Programme Phase II (1998 onwards)	PCIs with govt. interest subsidy	Increasing income and improving living standards of unemployed educated youth by promoting self-employment among them.	SLRs.1,000Mn (target)	10.0	575.2	59.0 (as at 30-06- 98)

Source: Central Bank of Sri Lanka.

milling (Rs.22 million), banana cultivation (Rs.5.8 million), storage of onions (Rs.1.4 million) and grinding mills (Rs.0.3 million).

Kegalle District Integrated Rural Development (Revolving Fund) Project

This Project was started in mid 1997. Under this scheme, credit facilities have been provided for farmers and entrepreneurs in the Kegalle District to enhance their income through micro credit projects.

During the year under review, loans to a value of Rs.50 million were disbursed by PCIs in respect of 1,029 sub-projects. Refinance amounting to Rs.45 million was granted by the Central Bank for these loans.

In order to assess the status of loan utilization under the Project, the Central Bank conducted a field survey in March 1998. The preliminary results of the survey revealed that more than 90 per cent of the borrowers had effectively utilized the funds for the projects for which they had obtained loans.

The Surathura Programme - Self Employment Promotion through Micro Enterprise Credit

The Surathura Program Phase II that was inaugurated with a new design in 1997, was continued during 1998 by the three PCIs, viz., the Bank of Ceylon, People's Bank and the Hatton National Bank. The first Surathura Programme was introduced in 1996 with refinance received from the government to provide micro-credit to the unemployed, especially, the educated youth, to enable them to undertake income generating self-employment activities. Under Phase II of the programme, PCIs provided micro loans out of their own resources. The government paid an interest subsidy of 10 percentage points to PCIs to facilitate the maintenance of a concessionary interest rate of 10 per cent per annum to final borrowers.

In view of the high demand for micro enterprise development loans, the initial targets under Phase II were revised upward by raising the number of loans from 10,000 to 20,000 and the value of loan from Rs.500 million to Rs.1,000 million. The three PCIs under reference had offered 25,095 loans to a value of Rs.1,310 million. Of this, a sum of Rs.575 million in respect of 15,116 loans had been disbursed at end 1998. The overall recovery rate maintained by the 3 PCIs in Phase I of the loan scheme amounted to 69 per cent by the Bank of Ceylon, 59 per cent by the People's Bank and 89 per cent by the Hatton National Bank.

The Bank conducted a Performance Evaluation Survey of the Surathura Phase I in July, 1998. The survey was intended to assess credit utilisation progress of the projects undertaken, status of loan recoveries and the issues involved in the delivery of credit to the target groups.

The findings of the survey revealed mixed results. Although the educated unemployed youth constituted the target

group, those funded under the Scheme had been drawn basically from relatively well-off individuals outside the target group. The extent of financing new projects accounted for only 42 per cent of the total number of projects. Lending banks had financed 79 per cent of the loans for small trading activities, while the balance was for agriculture and services. Only 39 per cent of the projects that were funded under the Scheme had recorded a satisfactory performance in loan re-payments. The implementation system of the credit scheme was modified during 1998 in the light of the findings of the Performance Evaluation Survey.

THE CENTRE FOR BANKING STUDIES

The name of the former Rural Banking and Staff Training College (RB&STC) was changed to the Centre for Banking Studies (CBS) with effect from 21 December 1998. In 1998, the Centre for Banking Studies (CBS) conducted 47 training programmes, running into 1,875 training hours, with 926 participants. Among these, 263 were from the Central Bank and 247 from Regional Development Banks (RDBs) and Regional Rural Development Banks (RRDBs) and 200 participants from commercial banks. The rest were from development banks, finance companies and other institutions. All programmes were conducted at the CBS premises.

For the first time, in 1998, the CBS offered relatively long-term courses in core subjects leading to the award of a diploma or a certificate to successful candidates. There were three diploma courses covering central banking, commercial banking and management development and one certificate course in advanced accountancy. These courses were conducted on a part time basis. Of the 47 training programmes, 9 were exclusively for RDB and RRDB employees. These programmes covered subject areas of lending on pledge of jewellery, collateral and related legal procedures, accounting, management and project appraisal. There were 10 computer training courses designed to train mainly Central Bank employees on personal computer applications. Training programmes were also conducted to train Central Bank officers in the English language, report writing and accounting. Other training programmes covered areas such as forex operations, fund management, recent developments in the financial sector, strategic planning in banking, effective loan management, Colombo stock market operations, hire purchase and lease financing, the government debt securities market, foreign exchange liberalisation, managing for excellence-leadership, team work for quality and life after retirement.

In addition to the above training programmes, the CBS conducted 17 special programmes. Twelve of these programmes were exclusively for Central Bank employees. Risk management in foreign exchange, liquidity management, bank supervision techniques, information systems audit and assurance for banks, plastic card operations, letters of guarantee bonds and World Bank procurement rules were the areas covered by these special programmes. Further, orientation programmes for new recruits to the Central Bank were also conducted.

In 1998, the CBS inaugurated a series of Central Bank Public Seminars and Commemoration Lectures. Public Seminars were aimed at enhancing awareness among the general public on current economic policies and issues, while commemoration lectures were designed to disseminate new ideas and to provide a forum for professionals and academics in the relevant fields to exchange views and share experiences on issues pertaining to economic and financial sector developments. Four commemoration lectures namely, Independence Commemoration Lecture, Republic Commemoration Lecture, Central Bank Anniversary Lecture and the RB & STC Anniversary Lecture were held in 1998.

The Independence Commemoration Lecture was delivered by former Secretary General of UNCTAD, Dr. Gamani Corea on “50 Years of Economic Development in Sri Lanka” and the Republic Commemoration Lecture was delivered by Dr. W.M. Tilakaratna, Chairman, Vanik Incorporation Ltd, on “Economic Priorities for the Next Decade”. Mr. Charles A. Freeland, Deputy Secretary General, Basle Committee on Banking Supervision, Switzerland, delivered the 48th Anniversary Lecture of the Central Bank on “Banking Supervision and Regulation”. Dr. N.E.H. Sanderatne, Chairman, National Development Bank, delivered the Anniversary Lecture of the RB & STC on “The Demographic Transition: Opportunities and Challenges”. The lectures were published under the occasional paper series of the Central Bank.

A total of nine public seminars were conducted in 1998. At each seminar, a paper was presented by a main speaker and there were at least two discussants. A list of seminar topics and key speakers is given below :

- i. “East Asian Economic Crisis: Lessons for Sri Lanka” by Mr. Nimal Ratnayake, Accountant, Central Bank
- ii. “Emerging Role of the IMF and World Bank in the World Economy” by Mr. Anton Op-de-Beke, IMF Resident Representative in Sri Lanka
- iii. “Recent Developments in East Asia” by Dr. H.N. Thenuwara, Senior Economist, Central Bank.
- iv. “State of the Economy in 1997 and Prospects for 1998” (Highlights of the Central Bank Annual Report) by Mr. R.A. Jayatissa, Director of Economic Research, Central Bank
- v. “Recent Trends in Monetary Policy in Sri Lanka” by Dr. P.W.R.B.A.U. Herat, Senior Economist, Central Bank
- vi. “World Trade and Protectionism: Issues for Sri Lanka” by Dr. H.N. Thenuwara, Senior Economist, Central Bank
- vii. “The Euro and its Implications for Sri Lanka” by Mr. Gordon O.Nelson, Regional Co-ordinator, Central Banks (Asia), Morgan Guaranty Trust Co. New York, Singapore.
- viii. “Highlights of the Budget” by Mr. R.A. Jayatissa, Director of Economic Research, Central Bank.

- ix. “Socio-Economic Developments in Sri Lanka: Major Findings of the Consumer Finances and Socio-Economic Survey-1996/97” by Dr. S.S. Colombage, Director of Statistics, Central Bank

During the year under review, 150 officers of the Central Bank availed themselves of the facilities in the Self Access Centre (SAC) for English Language at the CBS. To supplement the SAC facilities, classes were held to improve skills in oral communication and writing reports.

The CBS library continued to provide data and information to the Central Bank staff and also to researchers from outside universities and institutions. The CBS library added 350 books to its collection and subscribed to 52 periodical titles.

EMPLOYEES' PROVIDENT FUND

The Employees' Provident Fund (EPF) Act has vested the Monetary Board of the Central Bank with the responsibility of receiving contributions, surcharges and income from investments, maintaining proper accounts of registered employers and individual members of the Fund and also effecting refunds of benefits to its members. These activities were carried out by the Board in close co-operation with the EPF Division of the Department of Labour which attends to the administration and enforcement of the provisions of the EPF Act.

Since the destruction of the computer data-base and a bulk of the documents in the bomb blast in 1996, the reconstruction and updating of the database relating to EPF member accounts were completed by using newly developed computer software on a new IBM AS 400.

The annual statements of all the member accounts in respect of the years 1994 and 1995, the preparation of which was hampered consequent on the bomb blast, were issued in 1997. Members' annual statements for 1996 and 1997 were also issued during the year under review by implementing a special project.

Contributions

According to provisional data, the contributions received by the Fund during 1998 amounted to Rs.12.2 billion as against Rs.10.8 billion in 1997. This represents an increase of 13 per cent over the level of contributions received during the previous year.

The EPF contributions were collected by the EPF Department centrally in Colombo since its inception. Since April 1997, the two state banks, viz, the Bank of Ceylon and the People's Bank, at which the EPF accounts were opened, commenced collecting EPF contributions from employers. This arrangement was made to enable the employers to pay their contributions conveniently through a bank branch of their choice. However, this decentralised system of collecting EPF contributions through bank branches was discontinued since

June 1998 due to some administrative difficulties that were encountered by the Fund. Consequently the centralised system of collecting contributions that prevailed prior to 1997 was reintroduced with certain modifications to suit current requirements.

Members' Balances

Members' balances as at 31 December 1998 before allocation of interest for the year under review have been estimated at approximately Rs.156 billion, which is an increase of about Rs.28 billion or 21.8 per cent over the level of 1997.

Investments

During the year under review, the Fund invested its excess monies in government securities, Treasury bills, Treasury bonds, shares in quoted public companies and Regional Development Banks and debentures of Regional Plantation Companies. The total investments held by the Fund as at 31 December 1998 amounted to Rs.162 billion, which is an increase of Rs.25 billion or 18.2 per cent over the level of 1997.

Income Received from Investments and Taxes Paid

With the withdrawal in 1989 of the exemption from income tax granted to the EPF, the liability for income tax on its investment income for the year 1998 amounted to Rs.2 billion.

In 1998 the income received from investments amounted to Rs.20 billion, as against Rs 18.2 billion in 1997.

Refunds

The total sum paid out by way of refund of EPF benefits to members during 1998 amounted to Rs.6.1 billion as against Rs 4.6 billion in 1997. This is an increase of 32 per cent over the previous year. During the period under review, 68,928 claims for refund of benefits were paid out as against 61,196 claims disposed of in 1997. The payment of refunds continued to be made through the Sri Lanka Inter Bank Payments System (SLIPS).

EPF Housing Loan Scheme

During the period under review, the EPF Department had processed and dispatched a total of 6,674 applications for certification of balances to the respective labour officers.

Other Activities

For the first time in the history of the Fund, facilities were provided to the members to obtain their balances off-site through an on-line terminal facility installed at the 50th Independence Anniversary Exhibition at the BMICH in February, 1998. Subsequently, the same terminal facility was also provided to the Labour Secretariat at Narahenpita, and the District Labour Offices at Kandy and Kegalle.

The Fund also participated in all Presidential Mobile Services that were held in various parts of the country during the year under review. At these meetings, members were afforded an opportunity to have their problems sorted out and queries answered by the Fund staff.

In 1998, the Fund also commenced its first educational campaign aiming at creating an awareness of the Fund's services among the members. Two such sessions were held in the Nuwara-Eliya District for the member estate workers.

EXCHANGE CONTROL

There were no major legislative changes during the year 1998, except for the amendments introduced in April 1998 to the Special Import Licence Regulations No.1 of 1977, which were made to further liberalise payment terms for imports, i.e. advance payments, consignment account terms and gifts and trade samples, and the liberalisation of the trade in gold, other precious metals and gems, with a view to promoting the gem and jewellery industry in Sri Lanka. The Exchange Control Department continued to concentrate its activities in the areas of capital transactions, monitoring of current international transactions and granting of licences to freight forwarders and renewing licences issued to money changers, hoteliers, jewellery shops and others who are permitted to accept foreign currency against the services provided by them to foreigners, in addition to monitoring of their activities.

Investments Abroad

Applications for investments abroad by Sri Lankan companies were permitted on a case by case basis. During the year 1998, nine applications for investments abroad, in India, the Maldives, Poland, USA, the Netherlands and Bangladesh, amounting to US dollars 13.3 million were approved with the concurrence of the Minister of Finance and Planning. In addition, permission was granted to the National Development Bank to invest an amount of US dollars 500,000 in the South Asian Regional Fund.

Foreign Currency Loans to Exporters

The foreign currency loan facilities granted to exporters and indirect exporters were further enhanced by providing them with access to bank account facilities in Foreign Currency Banking Units. The restrictions that prevailed earlier in respect of the purpose of the loan and the duration of repayment were relaxed.

Foreign Loans

During 1998, five applications to obtain foreign currency loans by resident companies from reputed international financial institutions were approved.

Capital Transfers on Migration

During the year, 136 applications for capital transfers by Sri Lankans who have obtained emigrant visas/permanent resident

status in other countries were approved. In addition, approvals were granted to release funds from the estates of the deceased and to remit funds from blocked accounts within the limits specified.

Imports

The Department engaged in clearing import applications referred by the Sri Lanka Customs in terms of Government Gazette Notification No.1022/6 of 8 April 1998 in respect of the following:

- i. Import of goods on no exchange involved basis where the value in aggregate exceeds US dollars 1,000.
- ii. Motor vehicles imported against earnings abroad.
- iii. Machinery and equipment received from foreign collaborators against equity.
- iv. Project related cargo.
- v. Imports by armed forces.
- vi. Amendments to Letters of Credit.
- vii. Clearance of gold imports on consignment basis by commercial banks for sale at the duty free shop.

Monitoring

With the liberalisation of current international transactions, the Department strengthened its monitoring scheme relating to release of foreign exchange by authorised dealers and approved travel agents with a view to avoiding any abuses, indiscriminate release of foreign exchange or use of foreign exchange for unauthorised purposes. Under this scheme, all commercial banks are required to submit information on the purchase of foreign currency exceeding US dollars 5,000 on a daily basis and in respect of sales and purchases of foreign currency amounting to less than US dollars 5,000 on a weekly basis.

In terms of the Gazette Extra-ordinary No.1022/6 dated 8 April 1998, the Exchange Control Department commenced monitoring payments made in advance in order to ensure that the goods and services were received in Sri Lanka against such advance payments. Credits and debits made to rupee current accounts maintained by shipping and airline agents as well as freight forwarders on behalf of approximately 100 foreign principals were also monitored examining cargo manifests, debit notes, inward remittance memos, etc.

Investigation

In addition to the investigations carried out regarding the irregularities identified as a result of the scrutiny of the release of foreign exchange in respect of current international transactions, violations of the provisions of the Exchange Control Act relating to transfer/sale/purchase of shares, investments abroad, without obtaining the permission of the Exchange Control Department, were investigated and action has been taken in terms of the Exchange Control Act. Several investigations are in progress.

PUBLIC DEBT

In terms of Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka (CBSL) is entrusted with the issuance, management and servicing of domestic debt and the servicing of foreign debt of the Government of Sri Lanka (GOSL). These activities are handled by the Public Debt Department (PDD) of the CBSL. In fulfilling its responsibilities the PDD continued to issue domestic debt instruments, namely Rupee loans, Treasury bills and Treasury bonds in 1998.

The PDD also handled the service payments on Tax Reserve Certificates (TRCs) and debenture issues on behalf of the State Mortgage and Investment Bank (SMIB), the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA).

Development Activities

The PDD took several initiatives with a view to further developing the domestic debt securities market. One such development activity relates to the steps taken to strengthen the Primary Dealer System (PDS). Regular meetings with Primary Dealers (PDs) were held by the PDD in order to maintain a continuous rapport between the CBSL and PDs on current developments in the debt securities market. At these meetings it was possible to discuss and understand several important issues relating to the development of the government debt securities market.

Information relating to trading activities of the PDs on Treasury bills and Treasury bonds was collected and analysed regularly by the PDD. Steps were taken by the PDD to publish such information through the electronic media such as Reuters, Internet etc. In order to improve public awareness on investment in government debt securities, information was released regularly to the market in the form of press releases through news papers, Reuters and other computer net works. A data base was established using information collected from PDs. The data were used to compute performance indicators on individual PDs as well as total market activities. Information in summary form was released to PDs at one-to-one meetings that were held on a weekly basis enabling PDs to evaluate their positions in relation to the total market. The database was also used to prepare the Annual Review of the PDs.

During the year under review, the PDD engaged in developing the modalities to improve the primary issue and trading of debt instruments in the secondary market. Computer software to facilitate the issue of Treasury bonds were further developed in-house by the PDD during 1998. As a promotional activity, the PDD also conducted several seminars and workshops for PDs and institutional investors in order to enhance their awareness in government securities.

The Primary Dealer Association (PDA) which was established in June, 1997 formed several sub-committees to address different issues concerning the development of the debt securities market. Some of these issues related to the proposed systems of electronic bidding and scripless securities,

appointment of a screen broker, creation of separate legal entities for PD activities and compiling supplemental terms for the Global Master Re-purchase Agreement and preparation of a Repo Code of Best Practice.

A number of steps were taken by the PDD in order to activate the government securities market. Those included the introduction of the electronic bidding system in June, 1998 on a trial basis. This system was operated parallel to the existing paper based bidding system.

The CBSL and PDA felt the need for establishing an electronic trade matching system for rapid growth of the secondary market. With a view to selecting a suitable screen broker, the PDA and officials of the CBSL had a series of meetings with three vendors namely, Reuters, Sasianet and Lanka Online. The system developed by Sasianet was operated on a trial basis.

The PDD retired 7 Rupee loans amounting to Rs.16,000 million which were due to mature in 1998/99. These included 3 loans amounting to Rs.6,000 million carrying a rate of interest of 15 per cent and 4 loans amounting to Rs.10,000 million carrying a rate of interest of 16 per cent. In addition, Rs. 2,000 million of Treasury bills from holdings of the CBSL were retired on 31 March 1998 using the proceeds realised from the divestiture of 26 per cent of share holdings in Air Lanka Ltd. Treasury bills issued at higher interest rates were chosen for retirement, thus maximising the saving of direct interest cost to the government.

The PDD obtained technical assistance from a foreign consultant during the year. He conducted several training sessions for CBSL officers, PDs and institutional investors.

New security features were introduced to Treasury bills with effect from 4 September, 1998. These security features include the use of a special security paper with exclusive watermark, security fibres woven in the paper which becomes visible under ultra violet light and intaglio printing of background designs and borders. The Treasury bills were printed in 3 different colours for easy identification i.e., 3 month bills were in orange, 6 month bills were in light green and 12 month bills were in light blue.

Operational Activities

Total outstanding gross public debt serviced by the PDD as at end 1998 amounted to Rs.887,234 million. This indicated an increase of Rs.146,249 million or 19.7 per cent as compared with that of 1997. The public debt outstanding as at end 1998 consisted of Rs.419,500 million (47.3 percent) of domestic debt and Rs.467,734 million (52.7 percent) of foreign debt. The domestic component of public debt increased by Rs. 54,939 million or by 15.1 per cent, whilst the foreign debt component rose by Rs.91,309 million or 24.3 per cent over that of 1997. Table II-16 shows the composition of public debt serviced by the PDD.

TABLE II -16
Composition of Public Debt

Category	At end 1997		At end 1998	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	364,561	49.2	419,500	47.3
Treasury Bills	114,996		119,996	
Rupee Loans	239,475		250,570	
Treasury Bonds	10,000		48,915	
Treasury Certificates of Deposit	83		12	
Tax Reserve Certificates	7		7	
Foreign Debt	376,425	50.8	467,734(a)	52.7
Total	740,986	100.0	887,234	100.0

(a) Provisional

Source : Central Bank of Sri Lanka

Treasury Bills

Primary Market

Total Treasury bills outstanding as at end 1998 was Rs. 119,996 million as compared with Rs. 114,996 million as at end 1997. This increase of Rs. 5,000 million was the net effect of new issues amounting to Rs.7,000 million and the retirement of Treasury bills worth Rs.2,000 million held by the CBSL during 1998. The authorised limit of Treasury bills remained unchanged at Rs. 125,000 million during 1998.

The retirement of Rs. 2,000 million of Treasury bills in March 1998 was made possible due to privatisation proceeds from the divestiture of 26 per cent of the share holdings of Air Lanka Ltd. The amount retired included Rs.1,100 million of Treasury bills due to mature during 1998 and Rs.900 million of Treasury bills due to mature during 1999. The direct total interest savings from this retirement amounted to Rs. 114.4 million of which Rs. 31.7 million was in respect of the Treasury bills maturing in 1998 and Rs. 82.7 million in respect of the Treasury bills maturing in 1999.

The Monetary Operations Unit (MOU) serviced by the Public Debt, Banking and Economic Research departments continued to determine the amounts of Treasury bills to be offered in the weekly primary auctions and their maturity distribution and any advance reservation of Treasury bills for the CBSL. The MOU also determined the maturity structure of Treasury bills purchased by the CBSL at primary auctions.

The total number of PDs at 18, constituting 11 commercial banks and 7 non-commercial banks, remained unchanged during 1998. Weekly one-to-one meetings with PDs were conducted regularly by the PDD with a view to evaluating the money and debt markets on a continuous basis. In addition, the PDD organised meetings on a fortnightly basis with all PDs in order to exchange views on current issues and economic developments.

Access to primary auctions of Treasury bills was confined to the PDs and institutional investors authorised by the CBSL. Total sales of Treasury bills at primary auctions amounted to Rs.230,683 million during 1998. The largest single category of

TABLE II - 17
Bids Accepted at Treasury Bill Auctions - 1998

Source	Maturity period (months)				Rs. Million	
	3	6	12	Other	Total	%
1. Domestic Commercial Banks	58,010	26,773	29,855	-	114,638	49.70
State Banks	43,382	23,964	23,129	-	90,475	39.2
Private Banks	14,628	2,809	6,726	-	24,163	10.5
2. Foreign Banks	15,502	2,280	5,720	-	23,502	10.2
3. Non-banks (a)	17,616	13,358	20,907	-	51,881	22.5
4. Institutional Investors (b)	5,552	5,245	3,866	-	14,663	6.3
6. Central Bank Purchases	-	-	-	25,999	25,999	11.3
Total	96,680	47,656	60,348	25,999	230,683	100.00

(a) Includes NSB

(b) Funds managed by the CBSL

Source : Central Bank of Sri Lanka.

TABLE II-18
Annualised Weighted Average Yield Rates

Year	Maturity Period (Months)			Overall Average
	3	6	12	
	per cent per annum			
1994	14.32	14.75	15.90	14.89
1995	16.31	17.43	17.63	16.84
1996	16.04	16.46	17.17	16.46
1997	11.03	11.95	12.29	11.60
1998	11.77	12.13	12.20	11.98

Source : Central Bank of Sri Lanka

buyers of Treasury bills at the primary market was commercial bank PDs who purchased Rs. 138,140 million or 59.9 per cent of total sales, followed by non-bank PDs who purchased 22.5 per cent of the total. The balance 6.3 per cent was purchased by the funds managed by the CBSL. Table II - 17 shows the source wise distribution of bids accepted for the year 1998.

Of the total bids received amounting to Rs.294,487 million, commercial bank PDs, non-bank PDs and institutional investors accounted for 69.2 per cent, 25.8 per cent and 5.0 per cent, respectively.

Of the Treasury bills outstanding as at end 1998, 12 month maturities amounted to Rs. 58,134 million (48 per cent) while 6 month maturities were in the region of Rs. 26,478 million (22 per cent). The balance Rs. 35,384 million or 30 per cent was accounted for by 3 month maturities (17 per cent) and other maturities (13 per cent). The number of physical scrips of Treasury bills issued during 1998 was 74,480 for all maturities.

The weighted average yield rates for 3, 6 and 12 month Treasury bills issued during the year fluctuated between 9.97 - 12.65, 9.95 - 12.92 and 10.24 - 13.06 per cent, respectively. The annualised weighted average yield rates of Treasury bills by maturity are given in Table II- 18. Total interest commitment on account of Treasury bills issued during 1998 was Rs. 13,851 million when compared with Rs. 12,661 million during the previous year.

The minimum and maximum weighted average yield rates of bids received during the year 1998 were 9.84 and 12.72 per cent for 3 month maturities, 9.89 and 12.98 per cent for 6 month maturities and 10.18 and 13.09 per cent for 12 month maturities.

Secondary Market

The secondary market for Treasury bills expanded considerably during 1998. A substantial amount of outright buying and selling as well as repurchase and reverse repurchase transactions took place among the PDs and between PDs and their customers. The total volume of outright sales and purchases by the PDs amounted to Rs.144 billion and Rs. 28 billion, respectively, during 1998. Trading volumes by PDs in respect of repurchases and reverse repurchases amounted to Rs.1,059 billion and Rs. 643 billion, respectively. The total stock of outright holdings of Treasury bills by the PDs as at end 1998 amounted to Rs. 19 billion.

Rupee Loans

A total of 15 Rupee loans amounting to Rs. 52,300 million was floated during 1998. The Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the two major subscribers to the Rupee loan Programme in 1998 and these two institutions together subscribed Rs. 48,200 million accounting for 92.2 per cent of total subscriptions in 1998.

Loans issued during 1998 carried interest rates ranging from 11.00 per cent to 12.25 per cent per annum and maturities ranging from 4/5 to 9/10 years. Of these, 3 loans were floated with fixed maturity of 5 years while the other 12 loans carried optional maturity periods of 4/5, 5/6, 6/7, 7/8 and 9/10 years. Data relating to floatation of loans are summarised in Table II - 19.

A total of 19 loans amounting to Rs.41,205 million were repaid during 1998. Accordingly, net subscriptions to Rupee loans amounting to Rs. 11,095 million resulted in an increase in the outstanding stock from Rs. 239,475 million as

TABLE II-19
Flotation of Rupee Loans - 1998

Interest Rate % p.a.	Maturity Years	No. of Loans	Amount Floated Rs. Mn
11.00	5	3	10,000
11.50	4-5	1	5,500
12.00	5-6	1	6,000
11.25	6-7	5	16,800
12.25	7-8	4	12,500
11.50	9-10	1	1,500
Total		15	52,300

Source : Central Bank of Sri Lanka

TABLE II-20
Maturity Profile of Rupee Loans - end 1998

Maturity Years	Amount Rs. Million	Percentage
2	5,500.00	2.19
3	15,000.00	5.99
4	5,000.00	2.00
5	16,000.00	6.39
6	5,500.00	2.19
10	5,979.86	2.39
30	24,088.00	9.61
4-5	5,500.00	2.19
4-6	10,316.68	4.12
4-8	3,500.00	1.40
5-6	20,877.77	8.33
5-7	53,715.01	21.44
6-7	38,800.00	15.48
6-8	1,000.00	0.40
7-8	17,900.00	7.14
8-10	1,000.00	0.40
9-10	1,500.00	0.60
1-10	19,392.62	7.74
Total	250,569.94	100

Source : Central Bank of Sri Lanka

at end 1997 to Rs. 250,570 million as at end 1998. The maturity profile of outstanding Rupee loans is presented in Table II - 20.

Total interest payments at Rs. 33,086 million on account of Rupee loans during 1998 was an increase of Rs. 3,065 million (or 10.2 per cent) as compared with that of the previous year.

Treasury Bonds

A marketable and coupon bearing medium and long term government debt instrument in the form of Treasury Bonds was issued by the CBSL on behalf of the Government of Sri Lanka commencing from March, 1997. Treasury bonds are issued under the provisions of the Registered Stock and Securities Ordinance (RSSO) as amended by Act No. 32 of 1995.

The important policy decisions taken by the CBSL regarding Treasury bonds during 1998 included (a) accepting non-competitive bids from the Central Bank managed funds in primary auctions of Treasury bonds at the weighted average price of the respective auctions and (b) admitting Treasury bonds as a liquid asset under Section 86 of the Banking Act. In addition, the PDD resorted to jumbo issues of Treasury Bonds in 1998. Under a jumbo series, successive Treasury Bond issues are considered to be a part of a single series with a maturity date, coupon rate and an interest payment schedule in common, irrespective of the auction date. This measure increased active trading in the secondary Treasury bond market.

During the year of 1998, Rs. 38,915 million of Treasury bonds were issued. This included Treasury bonds with 2, 3 and 4 year maturities. During 1998, 52 auctions of which 29 of 2 year maturity, 14 of 3 year maturity and 9 of 4 year maturity were held. Of the Rs.38,915 million of Treasury bonds issued,

TABLE II-21
Selected information on Treasury Bonds - 1998

Series	Maturity (Years)	Bids Received (Rs. Mn.)	Bids Accepted (Rs. Mn.)	W.A.Y.R. to Maturity (% p.a.)	Coupon Rate (% p.a.)
11.00% 2000A	2	4,142	2,000	10.81-10.87	11.00
11.00% 2000B	2	2,260	1,815	11.33-12.07	11.00
11.00% 2000C	2	4,495	2,000	11.94-11.98	11.00
11.00% 2000D	2	2,560	2,000	11.95-12.23	11.00
11.50% 2001C	3	3,120	2,250	12.44-12.59	11.50
11.00% 2000E	2	7,483	3,000	12.63-12.82	11.00
11.00% 2000F	2	5,430	2,250	12.79-12.83	11.00
11.50% 2001D	3	5,885	2,500	13.01-13.90	11.50
12.00% 2002A	4	4,490	2,000	12.93-13.94	12.00
11.00% 2000G	2	4,357	3,000	13.07-13.34	11.00
11.00% 2000H	2	7,269	3,500	13.76-13.94	11.00
11.00% 2000J	2	5,312	2,500	13.92-13.94	11.00
11.00% 2000K	2	6,917	2,000	13.56-13.93	11.00
11.50% 2001E	3	6,594	3,500	13.91-13.93	11.50
12.00% 2002B	4	5,395	2,400	13.83-13.94	12.00
11.50% 2001F	3	4,051	1,200	13.09-13.81	11.50
11.00% 2000L	2	6,462	1,000	12.99-13.50	11.00
Total		86,222	38,915		

Source : Central Bank of Sri Lanka

Rs. 25,065 million or 64.4 per cent was in respect of 2 year maturity, Rs. 9,450 million or 24.3 per cent was in respect of 3 year maturity and Rs. 4,400 million or 11.3 per cent was in respect of 4 year maturity. Prior to each auction, the CBSL announced the coupon rate. The coupon rates on 2, 3 and 4 year maturities were 11.00, 11.50 and 12.00 per cent per annum, respectively, at the end of 1998. All 52 auctions held during 1998 were over-subscribed with bids amounting to Rs.86,222 million being received of which Rs.2,025 million were received at a premium, Rs. 125 million were at par and Rs. 83,810 million were at a discount. Bids received from institutional investors(CBSL managed funds) who were allowed to receive weighted average yield, amounted to Rs. 262 million. Table II-21 presents information pertaining to primary issues of Treasury bonds.

There were two special issues totalling Rs. 1,000 million in October, 1998. These issues were made in order to regularise the borrowings by the Road Construction and Development Company, the liabilities of which were taken over by the Treasury. These issues comprised of 2 year Treasury bonds amounting to Rs. 500 million at the rate of interest of 11.00 per cent per annum and 3 year Treasury bonds amounting to Rs. 500 million at the rate of interest of 11.50 per cent per annum.

Interest payments were made bi-annually on surrender of coupons to the PDD by the bond holders through PDs. The total interest payments on account of Treasury bonds amounted to Rs. 2,101 million in 1998.

The number of Treasury bond scrips issued during 1998 totalling 5,304 included 3,728 of 2 year maturity, 1,167 of 3 year maturity and 409 of 4 year maturity. The number of coupons received by the PDD for bi-annual coupon payments totalled 7,906.

During 1998, the PDD took several steps to further develop the secondary market for Treasury bonds. PDs were required to quote buying and selling prices in respect of Treasury bonds and these prices were published for the information of the general public. On the basis of two-way prices quoted by the PDs, weighted average prices and rates were computed for the purpose of publication. In July and September, 1998, seminars on government securities were held with a view to increase awareness of investors and the general public on Treasury bonds.

PDs engaged in secondary market trading in Treasury bonds by way of outright buying and selling and repos involving substantial volumes during the year. As at end 1998, total Treasury bonds held by PDs in their portfolios amounted to Rs. 21,474 million, or 44 per cent of the total outstanding, as compared with Rs. 4,023 million or 40 per cent at end 1997.

Treasury Certificates of Deposit

There were no issues of Treasury Certificates of Deposit (TCDs) during 1998. Total repayments of TCDs during 1998 amounted to Rs.70.3 million of which Rs.59.5 million was in

respect of capital repayments and Rs.10.8 million constituted interest payments. The TCDs outstanding as at end 1998 amounted to Rs.12.4 million.

Other Domestic Government Debt Instruments

There were no new issues or repayments in respect of debentures of SMIB, NHDA and UDA. The amount outstanding of SMIB, NHDA and UDA debentures were Rs.500 million, Rs.109 million and Rs.83 million, respectively, at end 1998.

There were no capital repayments or interest payments on Tax Reserve Certificates (TRCs) during the year. The outstanding TRCs remained at Rs.7 million as at end 1998 the same as at end 1997.

External Debt

The total external government debt outstanding as at end 1998 amounted to Rs.467,734 million, showing an increase of Rs.91,309 million (24.3 percent) as compared with that of end 1997. Of the total outstanding debt as at end 1998, bilateral loans amounted to Rs.234,284 million (50 per cent) while multilateral and commercial loans amounted to Rs.211,715 million (45 per cent) and Rs.21,735 million (5 per cent), respectively. Major creditors in the bilateral category were Japan, USA and Germany. These sources accounted for Rs.214,483 million or 92 per cent of total bilateral loans. The International Development Association (IDA), which is the largest creditor in the multilateral category, accounted for Rs.111,711 million or 53 per cent of the total multilateral debt.

When classified according to the use of funds, project, programme and commodity loans accounted for Rs.357,078 million (76 per cent), Rs.45,698 million (10 per cent) and Rs.30,661 million (7 per cent) respectively, of the total government external debt. Table II-22 shows the composition of outstanding external government debt as at end 1998 by donor category and use of funds.

Total principal repayments and interest and other charges on external government debt in 1998 were Rs.11,601 million

TABLE II- 22
Gross External Debt Outstanding - end 1998

Category	Rs. Million	%
1. Donor	467,734	100
Bilateral	234,284	50
Multilateral	211,715	45
Commercial	21,735	5
2. Use of Funds	467,734	100
Cash	5,052	1
Commodity	30,661	7
Food	29,079	6
Programme	45,698	10
Project	357,078	76
Technical Assistance	166	-

Source : Central Bank of Sri Lanka

and Rs.7,513 million, respectively. Total disbursements during 1998 amounted to Rs. 37,725 million.

In 1998, 21 new foreign loans were contracted and the number of operative loans increased to 476 at the end of the year. These loans carried grace periods ranging from 1 to 17 years and repayment periods of up to 42 years. Interest rates ranged from 0 to 10.85 per cent per annum. The grant element of the loans ranged between 2 and 91 per cent. Table II- 23 shows the ranges of grace period, maturity period, interest rate and grant element of the external government debt by donor category as at end 1998.

TABLE II-23
Maturity, Interest Rates and Grant Element
of External Debt

Donor Category	Maturity Period (Years)		Interest Rate/ Service Charge (% p.a.)	Grant Element (%)
	Grace Period	Repayment Period		
Bilateral	1-17	5-42	0.00-7.39	4-91
Multilateral	5-11	6-40	0.75-8.25	2-87
Commercial	1-10	0-20	5.95-10.85	2-61

Source : Central Bank of Sri Lanka

Central Bank Securities

In addition to the issuance and servicing of public debt, the PDD handled the activities relating to issuance and servicing of Central Bank Securities (CBSs). The issue of CBSs which commenced on 27 February 1998 was available till end December, 1998. An open-ended amount for the issue of CBSs was available for subscription by the PDs and commercial banks.

All issues of CBSs during the year had a maturity of 7 days. The interest rate applied to CBSs was the equivalent of the annualised daily interest rates used in CBSL repo transactions. These rates ranged from 11.93 - 12.06 per cent per annum. Total CBSs issues amounting to Rs. 40 million in 1998 were repaid in full during the year and there were no outstanding CBSs as at end December, 1998. The total interest cost of CBSs in 1998 amounted to Rs.0.092 million.

SECRETARIAT

The Secretariat Department continued to provide all administrative services of the Bank in the fields of finance, legal services, supplies, travel and other services.

In 1998, a comprehensive budgetary system was introduced to ensure strict financial controls over expenditure, within the framework of the comprehensive corporate plan of the Bank with a view to monitoring the expenditure in order to increase efficiency and cost effectiveness.

For this purpose, departmental detailed proposals and projects for the current year were thoroughly scrutinised in order to identify whether these were within the objectives to achieve certain goals specified under the comprehensive

corporate plan. An income and expenditure (both capital and administrative) budget was prepared for the Bank. Any request for expenditure (both capital and administrative) outside the budget was reviewed and supplementary approval obtained. To make the budget more flexible. The previous year's performance was reviewed at the Budget Review Committee level and revised budget figures were incorporated in the budget.

Total administrative expenditure in 1998 amounted to Rs.2,372 million, including note and coin issue expenses and other administrative expenditure amounting to Rs.1,618 million. Of this amount, expenditure on personnel, which includes salaries, allowances, overtime payments and medical benefits, amounted to Rs.1,211 million or 74.8 percent, while administrative costs and establishment costs amounted to 12.8 percent and 12.4 percent, respectively.

The total staff strength of the Bank at the end of 1998 was 2,102 which included 511 Staff Officers. There were 69 retirees from the Bank service during the year.

There was a marked escalation in some items of administrative expenditure in 1998. The relocation of certain Bank offices at the Renuka Building and the Equity Two Building in Janadhipathi Mawatha raised the rent and rates and other charges such as electricity.

Two buildings namely the old building and the new extension building, owned by the Bank were insured for terrorist cover during the second half of 1998. As a result, the cost of insurance premia increased markedly.

Capital expenditure in 1998 was Rs.2,766 million compared with Rs.938 million in 1997. The bulk of this expenditure, amounting to Rs.2,626 million, was for construction of the new Central Bank building and rehabilitation of the old building at Jandhipathi Mawatha. The amounts spent on the new building and the old building were Rs.2,287 million and Rs.337 million, respectively. A total of 22 new vehicles costing approximately Rs.56 million were purchased in 1998 to strengthen the vehicle fleet of the Central Bank. Computers purchased under German Aid numbering 125 were distributed among the departments after studying the requirements of each department based on their requests.

Apart from attending to the routine legal work of the Central Bank, the Legal Division was associated in the drafting of preliminary draft amendments to the Banking Act No.30 of 1988 to further strengthen the provisions relating to the regulating and monitoring of licensed banks. The Legal Division has also prepared draft regulations under the Registered Stock and Securities Ordinance and the Treasury Bills Ordinance for the regulation of Primary Dealers.

INFORMATION

The Department was responsible for building and strengthening its role as a collector, storer and disseminator of information to the Bank personnel and the public, through the multi-media.

In the dissemination of information within the Bank, the department published its Internal News Letter regularly with eighteen such letters being issued during the year. The Library, with its trained staff, upgraded its services and facilities to provide a better service to Bank personnel by its reader services: Selective Dissemination of Information (SDI) system; the circulation of periodicals and magazines and Inter Library Loan Scheme, while creating awareness of the current material available in the Library by circulating accession lists for Books and CD ROMs, content pages of periodicals, country study series, current technical literature series and compiling information on topics of current interest. At present the Library has a total collection of 8,590 books, 354 periodicals, 4,870 reports and over 104 CD-ROMs. The Sri Lankan collection too has been built up gradually to around 2,000 books. All the collections can be accessed through a computerised catalogue. In its project for capacity building and modernisation, the expertise of a primary consultant from the World Bank was made available to the Library during the period, July/August 1998.

Disseminating information to the outside world, the department released on a regular basis the daily exchange rates, economic indicators, consumer price indices, information on Treasury bills, Treasury bonds and Rupee loans to the print and electronic media along with press releases and other advertisements being placed regularly. Four press conferences were held by the Department in the latter half of 1998 on the World Economic Outlook, Release of Quarterly National Accounts Data, IMF's Article IV Consultations with Sri Lanka and Recent Economic Developments. The Annual Report, State of the Economy, Sri Lanka Socio-Economic Data, monthly Bulletin, Staff Studies Vol:23 and Economic and Social Statistics were released to the public through the Department along with the Satahana and News Survey - the Department's own monthly and bi-monthly publications. The Satahana, being very popular among the student population, registered record sales, with 180,000 copies being sold in 1998. As a result of its ever increasing demand, the number of copies printed each month was increased from 10,000 to 25,000. Comparatively, the News Survey which is restricted by its limited readership in English, recorded a moderate sale of 3,500 copies for 1998, displaying a better response than in the previous year.

The educational programmes undertaken by the department with the student population in mind, which commenced in a modest way in 1996 after the bomb blast, continued through the year 1998 as well. Five such programmes were held during the year. Three programmes were held for students in Advanced Level classes, and two were held for teachers and police inspectors. The first of the Educational Series in Sinhala, titled *Artikayak Handunaganimu* (Introduction of an Economy) was also published by the Department in 1998. The Sinhala and Tamil editions of the book entitled Economic Progress of Independent Sri Lanka 1948 - 1998, Annual Report 1997 and Sri Lanka

Socio-Economic Data were sent free of charge to schools which conduct Advanced Level classes in Commerce and Arts subjects.

1998 being Independent Sri Lanka's Golden Jubilee year, the Department actively participated in the Swarna Jayanthi Exhibition held at the BMICH from 5 - 25 February 1998. The overall organisation of the Central Bank's pavillion at the Exhibition was handled by the Department. At the pavillion the Department successfully ran a sales outlet for the Bank's publications, with special emphasis on "Economic Progress of Independent Sri Lanka, 1948 - 1998", the commemorative volume published by the Bank, wall plaques of *Avalokiteshwara* and national flag tie pins. The Department once again took part in the Industrial and Trade Exhibition - *Jana Nipayuma* held from 1 - 5 July 1998 to commemorate the People's Bank's 37th anniversary by running a counter for the Bank's publications, reaching a wider spectrum of readers.

The second of the Isuru documentary series, titled *Isuru Magama* on the Empowerment of women was undertaken by the Department on behalf of the Rural Credit Department. The outdoor shooting for this documentary was done at Ambilipitiya, Deniyaya, Matara and Kandy.

Photographic services were provided for the activities of the Bank which were disseminated to the print and electronic media for publicity. The visual art work for the coin to commemorate the World Cup cricket, 1999, was undertaken by the Department, along with the designing and drawing of the Logos for four Regional Development Banks viz Wayamba, Rajarata, Sabaragamuwa and Uva. The artwork for the Bank's wrapping paper, book covers for Satahana and Selected Economic Indicators, designing of the invitation cards for the opening of the Bank's new building and the art work for many advertisements were also handled by the Department.

Internationally, the department continued to contribute its mite by way of member news to the SEACEN Quarterly and undertook the updating of information to other international organisations on request.

The Central Bank Printing Press continued to meet all the printing requirements of the Bank, undertaking 260 such assignments for the year. Apart from printing the regular Central Bank publications, the Press also undertook special assignments by printing the commemorative volume - Economic Progress of Independent Sri Lanka 1948 - 1998; Budget at a Glance, Budget Speech and the Six Year Development Programme for the Ministry of Finance. The press continued to print the New Year greeting cards and pocket diaries for 1999.

RESEARCH ACTIVITIES

The Economic Research Department continued to collect and analyse economic and financial statistics to conduct economic research for the guidance of the Governor and the Monetary Board in policy formulation, and to provide information to the public. The Department also continued to provide data to the

International Monetary Fund (IMF) on a regular basis and co-ordinated the government's routine annual consultations with the IMF in May 1998. Provision of data to other international organisations and co-ordination of work with such institutions were also continued. The provision of weekly financial statistics to the public through the print media was continued and the Selected Monthly Economic Indicators were prepared for the information of policy makers. In addition to the Annual Report, the September 15th Report, a report provided under Section 116 of the Monetary Law Act, to be used in the preparation of the Budget, was prepared and submitted by the Department as usual. The Department published the monthly Bulletins and State of the Economy in 1998. The State of the Economy, an expanded version of the usual Economic Survey of the First of Half of the Year, presented macro-economic projections for 1998 and 1999. In February 1998, the Department published a book entitled "Economic Progress of Independent Sri Lanka" to mark the 50th Anniversary of Sri Lanka's independence. The Department also published Staff Studies Volume 23 No.1 and 2 in May 1998. A number of Board Papers were submitted to the Monetary Board advising on the monetary implications of various loan agreements entered into by the government and the decisions of the Monetary Board were conveyed to the Ministry of Finance.

The Department compiled data on monetary aggregates, balance of payments statistics, international commodity prices and monthly external trade statistics. Preparation of weekly and monthly reports on tea and rubber auctions in international markets and reports containing observations and recommendations on various economic issues for the Monetary Board, and at the request of ministries and other institutions and organisations, continued. During the year, the Department conducted surveys on industrial production (half yearly and annually), small scale industries, Greater Colombo housing approvals, real estate development and financing, the Goods and Services Tax (GST) and rubber smallholders in the Ratnapura and Kalutara districts. The Department prepared a new index, the Greater Colombo Housing Approvals Index (GCHAI) to measure the trends in the construction of houses in the Greater Colombo area. The Department also commenced computation of a new monthly trade indices series.

In March 1998, the Department conducted two comprehensive seminars namely "South Asia beyond 2000, Policies for Sustained Catch-up Growth" and "Independent Sri Lanka: Economic Development and Prospects 1948-98". The former was arranged in collaboration with the Economic Development Institute (EDI) of the World Bank. In addition, the Department conducted a workshop on Macro-Economic Management and Policy Analysis in May 1998 which was funded by the EDI of the World Bank. Also, a seminar on "WTO Agreements and Procedures" organised by the Department in collaboration with the Department of Commerce of the Ministry of Internal and International Commerce and Food, was held in August 1998. The Department arranged several internal seminars by Staff Officers who were posted to

the Department after post-graduate studies abroad. Officers in the Department also presented papers on economic issues at several seminars held locally and abroad.

Officers of the Department undertook a number of research studies both on their initiative and also to meet the demand made by other organisations. They included policy oriented research as well as studies which are largely of academic interest, covering macro and micro-economic analysis and policy issues. Some of these were published in the May 1998 issue of Staff Studies. The results of the surveys on the Goods and Services Tax and the utilisation of residential and commercial buildings in the Greater Colombo area were submitted to the Monetary Board as Information Series Board Papers. Officers from the Department continued to serve as country researchers on research projects conducted by the South East Asian Centre for Central Banks (SEACEN) Research and Training Centre. One collaborative research study with the SEACEN Centre was completed on "Securitization and Its Impact on Banking Business".

During the year, officers of the Department served on many internal committees with regard to policy matters such as the Monetary Operations Unit, the Treasury Bills Tender Committee, Balance of Payments Committee, Financial Sector Reform Committee and the Tariff Commission and on committees of regional organisations such as the Indo-Lanka Joint Sub Commission on Trade Finance and Investment, South Asia Association for Regional Co-operation (SAARC) and Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation (BIMSTEC). The Department also established a cell to co-ordinate activities of the "Network of SAARC Central Bank Governors and Finance Secretaries".

STATISTICS AND FIELD SURVEYS

The Statistics Department continued to carry out its functions of compilation, analysis and dissemination of (a) macro level socio-economic data, including national accounts and prices and wages, and (b) micro level data on the household and corporate sectors.

The major tasks accomplished by the Department were the completion of the report containing the analysis and data of the Consumer Finances and Socio Economic Survey 1996/97, compilation and publication of quarterly GDP statistics and compilation of new consumer price indices for the Colombo District and other selected districts. The Department also commenced collection of data at regional level with a view to compiling regional production indicators. The daily publication of wholesale and retail price data of food commodities in key market centres continued.

Consumer Finances and Socio Economic Survey - 1996/97

The Report containing the findings of the Consumer Finances and Socio Economic Survey 1996/97 was finalised during the year. The findings of the survey will be published in two parts.

Part I of the survey report contains a detailed analysis of the data, while Part II will present the statistical tables. This report is being printed and will be released in April, 1999. With the publication of this report, the Central Bank has been able to develop a rich socio economic data base for the country covering a period of nearly five decades.

As in the previous surveys, the 1996/97 survey provides comprehensive data on socio economic conditions including demographic features, education, housing, health, labour force, income, expenditure, consumption, savings, investments and borrowings. Another new feature of this survey is that the data were collected and cross tabulated on a province-wise basis, in addition to presenting data by sectors, urban, rural and estate and geographical zones. The provincial data are expected to strengthen the socio economic database at the provincial level. Such data would be very useful for provincial planning in devolving socio economic development programmes to the provincial governments.

The entire data processing functions of the survey which consisted of (1) developing the necessary software for data entry and data verification (2) computerised data entry (3) data verification (4) developing necessary software for data processing and (5) data processing and tabulation were carried out in the Statistics Department for the first time.

With a view to disseminating timely micro level information on the household sector, the processing of data of this survey was carried out on a round-wise basis, and, as such, it was possible to publish the preliminary results early. These results were published in the Central Bank Annual Report – 1997, Sri Lanka Socio Economic Data Folder – 1998 and the “Economic Progress of Independent Sri Lanka”. The major findings of the Consumer Finances and Socio Economic Survey 1996/97 were presented at a public seminar of the Central Bank. These survey data are also available in the Central Bank web site in 1998.

The Central Bank has used the statistical results derived from this survey to strengthen its data base on national accounts, as well as in the computation of the Colombo District Consumer Price Index and regional consumer price indices.

Computation of District-wise Consumer Price Indices

The Central Bank introduced a new Consumer Price Index to supplement the existing consumer price indices computed by the Department of Census and Statistics. The new Index, the Colombo District Consumer Price Index, was published in 1998. The commodity weights of the new index are based on the expenditure patterns derived from the Consumer Finances and Socio-Economic Survey 1996/97 conducted by the Central Bank. The target population used to construct the weights of the Index consisted of the lowest 40 per cent of households in the Colombo District ranked by income. The base period for the Index is from October 1996 to September 1997. Price data for the Index were obtained from selected markets in the

Colombo District. Initially, prices for the computation of this Index were obtained through the statistical investigators of the Country Wide Data Collection System in the 5 centres established in the Colombo District namely Hanwell, Homagama, Moratuwa, Avissawella and the Pettah market. From January 1999, price collection is to be extended to a further 6 suburban and semi-rural markets within the Colombo District, namely, Kolonnawa, Nugegoda, Dehiwala, Piliyandala, Maharagama and Padukka. Price collection in these markets will be undertaken by the staff of the Statistics Department.

Country Wide Data Collection System

The Country Wide Data Collection system which was commenced by the Statistics Department in 1978 completed 20 years of operation in 1998. Under this programme, information on retail prices of consumer goods, producer prices of agricultural commodities and wage rates pertaining to the informal sector continued to be collected regularly. The scheme is also used to monitor the performance of agriculture in major producing areas. Data collection is accomplished by an island-wide net work of school teachers who function as statistical investigators. The sub-sectors of paddy, tea, rubber, coconut cultivation and small scale construction sector are covered by the scheme. Information collected is published regularly through the print and electronic media. In order to improve the quality of data collected through the investigators and with the specific objective of using these data for the computation of regional consumer price indices seminars were conducted in Anuradhapura, Kandy and Matara regions in 1998 to provide training for the data collectors.

The Department continues with its scheme of collecting wholesale prices of major food items from the Pettah market on a daily basis and from other major producing centres. In 1998, the collection of retail prices of major food items from the Pettah market was also undertaken on a daily basis. Information so collected is published daily in the media with a view to disseminating the information to farmers, traders and consumers. The data are also provided to government and private sector agencies.

National Accounts

The Department continued with the task of estimating National Accounts. These included the collection and compilation of primary and secondary data. The base year used in the GDP computations was shifted to 1996 from the base period 1982 used earlier, to capture a more current structure of output and value-addition. The details in information sought from primary and secondary sources in selected sectors were expanded in order to progress from the production accounts to the generation of income accounts. This is in view of incorporating the revisions suggested in the System of National Accounts (SNA) 1993.

The Statistics Department completed the exercise of compiling National Accounts on a quarterly basis during the

year. The GDP statistics for the first, second and third quarters of 1998 along with the comparable data for 1996 and 1997 were disseminated to the public regularly through the print and electronic media and the Central Bank monthly Bulletin within 3 months of the end of each quarter, giving emphasis to timely release in information of macro-economic importance. Earlier, the national income data compiled by the Central Bank and the Department of Census and Statistics were limited to annual estimates. The quarterly GDP statistics provides a better understanding of the current situation in the economy unlike earlier when information on the previous year's performance was available only in the second quarter of the following year. Being better informed of the current developments would enable the private sector and the government to respond to emerging developments and possibly take quick remedial measures.

Publications

The Department released its two annual publications titled "Sri Lanka Socio-Economic Data" and "Economic and Social Statistics of Sri Lanka" which provide comprehensive time-series and cross-sectional data on socio-economic variables including demography, labour force and employment, national income and expenditure, agriculture, industry, external trade and finance, prices and wages, money, banking, capital market, government finance and socio economic services. The data in these publications also include comparative statistics for regional economic groups. In addition, the Department contributed to several other publications of the Central Bank.

INFORMATION TECHNOLOGY

In April 1998, the Data Processing Department was renamed as the Information Technology Department (ITD) to better reflect its present activities. During the year under review, the ITD completed shifting all its old applications to the new AS400 environment.

Following the bomb blast of January 1996 the department used the computer system at the Department of Census and Statistics to run its payroll and other applications and also installed a system at the Institute of Computer Technology (ICT), University of Colombo, for the Employees' Provident Fund (EPF) application. These applications were migrated fully to the new AS400 environment and functions at the two temporary installations were terminated in 1998.

The EPF application was completely rewritten in the AS400 environment enhancing the functionalities and also using a four-digit year field to ensure Year 2000 compliance. The new system links up different divisions of the EPF Department through terminals located in these divisions. Query facilities have also been made available to the Labour Department and also tested at a few district Labour Offices using telecommunication links. The new system has succeeded in improving the productivity of the EPF Department and it is expected that the member statements will be issued even earlier

next year. Sub-systems have also been developed for collecting contributions from employers using diskettes instead of the manual methods used so far. At the fiftieth independence anniversary exhibitions held at the BMICH, employees were provided with the facility of obtaining their 1996 annual statements at the exhibition grounds.

The Department has developed applications where commercial banks and Primary Dealers have been successfully linked to the Central Bank through dial-up telephone lines. All banks use this system to provide their liquidity positions to the Central Bank each morning to enable the Central Bank to ascertain the liquidity position in the Banking Sector. This link is also used for transmitting bids for the Primary Auctions of Treasury bills. A new system was also developed for automating the activities of the Banking Department.

A major modernisation project for office automation commenced during the year under review. 125 personal computers and 10 servers were installed in the WTC building and linked up to form 10 Local Area Networks (LANs) under Phase I of this project. Phase II will commence when the Bank shifts to the new extension building and the renovated old building where the LANs will be interconnected through a fibre optic backbone to form one large LAN.

The Bank is also involved in a major project to develop a Real Time Gross Settlement (RTGS) Payments System. As the first step, a Study on the Automation of Banking Activities and the Government Debt Securities Market was carried out by PricewaterhouseCoopers of Australia under financial assistance from the World Bank. This project will enable a modern payment system to be introduced for the Sri Lankan banks. It is expected to be implemented towards the latter part of the year 2000.

The Department is also responsible for achieving full Year 2000 compliance in the Central Bank and the banking and financial sector. All critical applications of the Central Bank including the Clearing and Settlement System have already been remedied and tested. The Department is just completing the task of testing small applications running in various departments. Monitoring of the Year 2000 projects in the 32 banks is being carried out by the Department together with the Bank Supervision Department.

Sri Lanka Automated Clearing House (SLACH)

The SLACH continued its operations uninterrupted. The cheque volumes processed keep on increasing every year in spite of the introduction of other payment instruments, such as credit and debit cards. In 1998 the number of cheques processed increased by 7 per cent to reach 31,356,490 items. Average items processed per day is 131,750.

The Sri Lanka Interbank Payment System (SLIPS) is also being used more extensively. The number of transactions processed through this interbank payment system ranges between 1,000 to 12,000 per day. The Central Bank also

commenced using this system to pay salaries and other payments to their employees.

The Cabinet of Ministers approved the tender for setting up of a backup site for the SLACH. The installation will be set up in 1999.

TRAINING

The Central Bank continued its policy of training officers in academic as well as non-academic fields during the year under review. Academic training was related to postgraduate studies in Economics and allied fields at recognised universities abroad. During the year 6 officers proceeded abroad to follow Masters Degree courses in Economics. In addition, one Officer followed a Diploma Course in Statistics at the International Statistical Education Centre, India.

As at 31 December 1998, 16 officers were pursuing postgraduate studies abroad. Four officers were in Ph.D. programs and twelve officers were in Masters programs. During the year, 9 officers returned after postgraduate studies.

TABLE II - 24

Training of Officers: Postgraduate Studies 1997/1998

Year	No. of Officers Sent for Postgraduate Studies	No. of Officers who returned after Postgraduate Studies	No. of Officers pursuing Postgraduate Studies as at 31 December 1998	
			Ph.D.	M.Sc./M.A.
1997	06	07	05	12
1998	06	09	04	12

Officers were sent for non-academic training comprising short-term courses, seminars and workshops, both local and foreign, in specific fields relevant to the Bank. During 1998 a total of 90 officers proceeded abroad on short-term training programs. A total of 322 officers participated in 42 training courses conducted by the Rural Banking and Staff Training College (now Centre for Banking Studies) while 108 officers participated in 33 Courses and seminars held at other local institutions.

The Training Department also conducted classes in Economics and Mathematics for those officers intending to proceed abroad for postgraduate studies. The Department continued its usual functions of holding promotional examinations for certain categories of employees, and the postgraduate scholarship qualifying examination for Staff Officers.

MANAGEMENT AUDIT

During 1998 the Department of Management Audit carried out its functions under the Annual Audit Programme for the Central Bank and undertook a number of special studies as required by the Management.

Pre-auditing was carried out on all payments relating to the construction of the extension building and rehabilitation of

the Head Office building of the Bank, all refunds of the Employees' Provident Fund and payments made to employees on retirement or on terminating Bank service. Monthly and annual accounts of the Sri Lanka Automated Clearing House, accounts and activities of the Central Bank Regional Office at Matale and expenditure of other Regional Offices and the Centre for Banking Studies were post-audited. Further, welfare payments and financial statements relating to employee benefit schemes were also post-audited.

The verification of stocks of gold, currency notes and coins in the vaults of the Currency Department, vehicles maintained by the Premises Department, the Currency Museum, and furniture and equipment of the holiday bungalows was undertaken during the year in order to ensure security of Bank assets. Surprise audits were carried out from time to time on the counters of the Currency Department and petty cash balances maintained by departments.

In addition to the above, audits were also carried out under the Audit Programme on the accounts and activities of other departments of the Bank to ensure efficient utilisation of the Bank's resources and effectiveness of its rules, regulations and internal control systems.

Studies on the work performance of English stenographers and minor employees of the Bank were undertaken and completed during the year. The objective of these studies was to ensure efficient allocation of present staff in these categories after identifying excesses and deficiencies in different departments and to assess whether recruitment of additional staff was necessary. As required by the Management Committee a scheme of promotions for telephone operators was also prepared.

PREMISES

During the year 1998 the Premises Department was mainly engaged in routine maintenance work and upkeep of the offices in premises taken on lease to relocate the Bank's Head Office until the completion of the extension project and rehabilitation of the old Head Office building. In addition, the Department with the agreement of the Colombo Municipal Council, undertook the maintenance of the Chatham Street Clock Tower which stands right in front of the Central Bank building complex.

NEW BUILDINGS

The New Buildings Department established on 18 November 1997 is entrusted with the special task of attending to the work connected with the construction of the Central Bank Extension Building Project and the Head Office Rehabilitation Project.

Extension to the Central Bank Head Office Building

The construction work in respect of this project commenced in August 1994 and continued during 1998. The progress of

the work was affected considerably due to unforeseen sub-soil conditions, stoppage of work due to security reasons, design changes, restriction of heavy vehicular traffic in the Fort area and interruption of work consequent to the bomb blast that took place on 31 January 1996. During the years 1997 and 1998 construction work of the building continued without interruptions and by the end of 1998 structural work of the building was fully completed while about 60 per cent of the architectural work and finishes, 65 per cent of the mechanical and electrical work and 80 per cent of the overall work of the project have been completed.

The building project is expected to be completed by end April 1999. With the completion of the building, the Bank would be able to accommodate many of its Departments which are now housed in rented premises.

Damaged Head Office Building

The rehabilitation work of the damaged Central Bank Head Office building commenced in December 1997 and continued without interruptions in 1998. However, the progress of work has been considerably delayed due to:

- i. attending to extensive repair and alterations which became necessary due to detection of corrosion damage and structural weaknesses revealed while removing finishes carried out under the contract. These damages were not foreseen at the time of tender.
- ii. design changes required to be carried out subsequently, in the course of co-ordinating the fire and security systems and services provided in the two buildings.

At the end of 1998, the progress in respect of major areas of work were as follows :

Area	Extent of Completion (%)
a. Demolition works	100
b. Repair works	95
c. New Concrete works	85
d. Finishes	65
e. Overall	30

In addition, installation of windows, internal/external plasters and mechanical and electrical works are in progress.

The rehabilitation work in the building is expected to be completed by end August 1999.

WELFARE

The Welfare Department continued to provide several welfare facilities to the Bank employees in 1998. These include concessional loan schemes, such as housing, staff benefit, vehicle and provident fund loan schemes, reimbursement of medical expenses and in-house clinic service, the subsidised canteen service and subsidised railway and bus season tickets. In addition, the facilities provided to the staff affected by the

bomb explosion in 1996 continued during the year. However, the provision of canteen facilities remained limited during the year as the departments of the Central Bank have been located in several places.

The amalgamation and rescheduling of welfare loans introduced in the previous year continued during the year, and, in keeping with the rising cost of land and building materials, the size of the housing loan granted to employees was increased from Rs.750,000 to Rs.1.5 million and in order to simplify the work of the housing loan scheme a flat rate of interest of 3.8 per cent was introduced during the year. The payments under the medical benefit scheme were computerised and in order to expedite the payments, the payments were routed through the Sri Lanka Interbank Payment System (SLIPS).

The introduction of computerised accounting systems and simplification of payments systems has paved the way to improve the productivity of employees to a great extent and to reduce the cost of overtime.

SECURITY SERVICES

Duties Performed

Security Officers were detailed at the following places:

1. World Trade Centre Building, West Tower in floors 26 to 35.
2. Currency Department at Chartered Bank, Treasury building and at the basement of the Old Head Office building.
3. Renuka and Equity Two building.
4. Bank Supervision Department at Hemachandra building.
5. People's Bank car park at Lotus Road.
6. Regional Offices at Matara and Anuradhapura.
7. Stalls sponsored by the Central Bank at the exhibition held at BMICH to commemorate 50 years of Independence in Sri Lanka.

Security Officers provided armed escorts to transport cash to Regional Offices, the cash counter at Bristol Street and the currency counters at the Treasury building.

Training

Security Officers were trained in the following areas:

1. Functions and responsibilities of Security Officers.
2. Handling of Fire Fighting Equipment.
3. First Aid.
4. Weapon Handling.
5. Live Firing.

In addition to the above, additional security measures were taken in liaison with government security and intelligence agencies. As there was a threat to the new extension building, a new scheme was adopted to transport building materials and water to this work site under stringent security measures.

PERSONNEL

The Establishments Department continued to perform its functions with regard to recruitments, appointments, promotions, retirements and other related matters during 1998 in keeping with its vision of “maintaining a competent and capable work force developed to its true potential, with an ability to clearly understand the role responsibilities and discharge them efficiently and effectively and meet unhesitatingly the emerging needs and challenges”.

During 1998, sixteen staff officers and twenty three clerks including a court clerk were appointed to the Bank service. An investigating officer (on contract) was appointed to the Exchange Control Department to undertake special investigations into cases involving violations of Exchange Control regulations.

The Bank widened the panel of consultants during 1998 by appointing four more consultants in the fields of Labour, Economics and Public Finance to the existing panel of consultants in Legal, Accounting, Banking and Financial Services, increasing the total number of consultants to eight. These consultants continued to undertake specific assignments in their respective areas.

During the year the Data Processing Department was renamed the “Information Technology Department” with effect from 7 April 1998 and the Rural Banking and Staff Training College was renamed “The Centre for Banking Studies” with effect from 21 December 1998.

The Department for the first time organised two workshops for Heads of Departments and Additional Heads of Departments during the year. The first workshop was held on 8 and 9 August 1998 at Rural Banking and Staff Training College and the second workshop was held at the Blue Water Hotel, Wadduwa on 17 and 18 October 1998. These two workshops enabled the Heads of Departments and Additional Heads of Departments to discuss the activities and work programmes of their respective departments and to formulate policy guidelines for the future.

During the year, the Department introduced a new Performance Evaluation Scheme which will replace the Confidential Report Marking Scheme now in existence. The new scheme that has been introduced on a trial basis from 1998 is a major deviation from the earlier reporting scheme. The new scheme is growth oriented and lays emphasis on evaluation of an employee on the basis of activities identified and targets given and the extent to which such activities are completed and targets achieved.

Selection of an outstanding employee of the Bank is yet another novel idea introduced by this Department during the year 1998 to increase productivity among employees of the Bank.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 1998.

1. G-24 Extraordinary Ministerial Meeting held in Caracas, Venezuela from 7 to 9 February, 1998 and 33rd SEACEN Governors’ Annual Conference, held in Bali, Indonesia from 13 to 15 February 1998.
2. IMF World Bank 1998 Spring Meetings held in Washington DC, USA from 13 to 17 April, 1998; Sri Lanka Seminar and other meetings held in London, U.K. from 21 to 27 April, 1998, 31st Annual Meeting of the Board of Governors of the Asian Development Bank held in Geneva, Switzerland, from 29 April to 01 May 1998 and IMF Singapore Regional Training Institute Seminar held in Singapore on 04 May 1998.
3. 27th Meeting of the Board of Directors of the Asian Clearing Union held in Karachchi, Pakistan from 21 to 22 May, 1998 and Sri Lanka Aid Group Meeting, held in Paris, France from 26 to 27 May 1998.
4. Commonwealth Symposium on Banking and Financial Services held in London, UK on 03 June 1998; Central Bank Governors’ Symposium held in London, U.K. from 4 to 5 June 1998; Annual General Meeting of the Bank for International Settlements held in Basle, Switzerland from 6 to 8 June 1998 and Meeting with Bankers in Zurich, Switzerland on 9 June 1998.
5. South Asian Forex Dealers’ Conference held in Hyderabad, India, on 30 September 1998 and IMF/World Bank Annual Meetings held in Washington D.C., USA, from 2 to 8 October 1998.
6. SEANZA Central Bank Governors’ Symposium held in Wellington, New Zealand from 19 to 22 November 1998.

Appointments

1. Dr. U. Vidanapathirana, Additional Chief Accountant, was appointed as Superintendent of Currency with effect from 21 May 1998 and subsequently appointed as Additional Superintendent of Public Debt with effect from 20 August 1998.
2. Mr. J. M. T. B. Jayasundara, Additional Superintendent of Public Debt, was appointed as Superintendent of Currency with effect from 20 August 1998.
3. Mr. M. I. F. Hamid, Director, New Buildings Department, was appointed as Director, Supervision of Non-Bank Financial Institutions Department with effect from 1 October 1998.
4. Mr. T. H. D. Peiris, Director, Training Department, and Director, Premises Department, was appointed as Director, Premises Department and Director, New Buildings Department with effect from 1 October 1998.

5. Mr. K. C. M. Gunasekera, Special Officer, was appointed as Director, Training Department with effect from 1 October 1998.
6. Mrs. P. T. Perera, Additional Director, Supervision of Non-Bank Financial Institutions Department, was appointed as Acting Secretary with effect from 9 October 1998.

Retirements

1. Mr. R. G. Jayaratne, Superintendent of Currency retired from Central Bank service with effect from 21 May 1998.
2. Mr. J. E. D. Karunaratne, Director, Department of Supervision of Non-Bank Financial Institutions retired from Central Bank service with effect from 1 October 1998.
3. Mr. N. A. Dharmabandu, Executive Director, retired from Central Bank service with effect from 15 November 1998.

Officers on Release

1. Dr. D. J. G. Fernando to the Ministry of Finance and Planning as the Chairman and Director of People's Bank.
2. Dr. P. B. Jayasundara to the Ministry of Finance and Planning as Deputy Secretary to the Treasury.
3. Dr. A. G. Karunasena to the International Monetary Fund as Alternate Executive Director.
4. Dr. U. Vidanapathirana to the Ministry of Public Administration, Home Affairs and Plantation Industries as the Director General (Development).
5. Mr. M. J. S. Abeysinghe to the Ministry of Finance and Planning.
6. Mr. A. Abayaratna to the Ministry of Finance and Planning.
7. Dr. (Mrs.) Ranee Jayamaha to the Commonwealth Secretariat, London.

PART III

MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 1998

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Circular No. : BD / 01 / 98

Open Market Operations Division
Banking Department
Level 30, West Tower
World Trade Centre
Echelon Square
Colombo 1.

20 May, 1998

To : All Primary Dealers and Commercial Banks

**USE OF TREASURY BONDS FOR TRANSACTIONS AT
THE SECONDARY WINDOW
OF THE CENTRAL BANK**

Primary Dealers and commercial banks are hereby informed that Treasury bonds will be accepted for transactions at the secondary window of the Central Bank of Sri Lanka (CBSL).

Accordingly, the CBSL will use Treasury bonds for Repurchase Agreements (Repos), outright buying and outright selling at its secondary window with effect from 21 May 1998. Operating guidelines with regard to these transactions are attached. Outright selling or repos of bonds will be subject to availability of such bonds in the CBSL portfolio.

The existing guidelines with regard to the discounting, rediscounting and repos of Treasury bills will continue to apply.

Y. M. W. B. Weerasekara
Actg. Chief Accountant

Operating Instructions No. BD / 02 / 98

Foreign Finance Division
Banking Department
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.
Telephone : 346287

10 June 1998.

To : All Commercial Banks

**JAPAN / SRI LANKA SPECIAL GRANT OF YEN 49,997,000/-
(24TH DEBT RELIEF GRANT)**

1. Commercial Banks are hereby requested to follow the procedure set out in these instructions in dealing with imports under a grant extended by the Government of Japan to the Government of the Democratic Socialist Republic of Sri Lanka for financing imports from selected countries. Allocations for imports under this grant will be issued by the Director General of External Resources.
2. A commercial bank may establish an irrevocable Letter of Credit under this facility in favour of a supplier through its correspondents in the Supplier's Country, when a holder of an allocation, makes an application with a copy of his contract with his supplier and a letter of authority issued by the Director General of External Resources for this purpose. Every such Letter of Credit should carry immediately after the opening bank's identification number, a serial number prefixed with "1st Yen Grant 1998".
3. Each Letter of Credit should specify that the negotiating bank should obtain reimbursement from Bank of Tokyo – Mitsubishi Ltd., Global Service Banking Division, Tokyo, Japan, by Debit to Yen Ordinary Deposit Account No. 3076706 of the Government of the Democratic Socialist Republic of Sri Lanka. The request for reimbursement should accompany a certificate from the negotiating bank indicating that the documents conform to the terms of the Letter of Credit and that the documents have been forwarded to the credit opening bank. The credit opening bank should forward two copies of each Letter of Credit immediately after such credit is established, to the Chief Accountant, Central Bank of Sri Lanka, who will then issue the reimbursement authorization in respect of the credit to Bank of Tokyo – Mitsubishi Ltd., Tokyo, Japan without which, the negotiating bank would not be reimbursed.
4. On receipt of documents from negotiating banks, credit opening banks should release them to the importer only after collection of the Sri Lanka Rupee equivalent of the value of the documents. Commercial banks should ensure that the full value of the documents is received before releasing such documents to the importer. Payments should be made by the importer within 10 days of advice of the receipt of documents by the bank concerned.
5. Failure to pay the value of documents within the stipulated period of 10 days by the importer would result in his having to pay interest at 3% p.a. above the Bank Rate from the date of advice of the receipt of documents by the bank up to the date of retirement of the bill by the importer.
6. When making payments to the Central Bank of Sri Lanka of the Rupee value of documents collected from the importer, the commercial bank should give the following information, quoting reference to this operating instructions:
 - (a) Name and Address of the Importer
 - (b) Letter of Credit Number
 - (c) The name of the Exporter

- (d) Yen equivalent (should be indicated if the value of documents is expressed in any other convertible currency)
 - (e) Exchange Rate applied (including the Japanese Yen Rate *vis-a-vis* the currency in which the L/C has been opened)
 - (f) Date of Receipt of documents
 - (g) Date of Advice to the Importer
 - (h) Date of payment by the Importer
7. Commercial banks also should ensure when making payments to the Central Bank of Sri Lanka that they attach a copy of each of the following documents relating to the shipment in respect of which the payment is made:-
- (i) Invoice
 - (ii) Bill of Lading / Airway Bill
 - (iii) Documents evidencing the date and amount of payment made to the supplier.

Y. M. W. B. Weerasekara
Actg. Chief Accountant

- cc: 1. Director General of External Resources
Department of External Resources
Secretariat Building,
Colombo 1.
2. Controller of Exchange

Circular No. : BD / FF / PAK / 830

Foreign Finance Division
Banking Department
Central Bank of Sri Lanka
P. O. Box 590
Colombo 1.

18 June, 1998.

*To: people's Bank
International Division*

**PAKISTAN LINE OF CREDIT FOR US\$ 5 MILLION LOAN AGREEMENT
DATED 26. 2. 1991 WITH THE ISLAMIC REPUBLIC OF PAKISTAN**

1. Reference : Our Operating Instructions No. BD/15/91 dated 19th December 1991 on the above subject.
2. We wish to inform you that the Government of Pakistan has extended the validity period of the above credit upto 15th January, 2000. Further, the list of imports eligible for payment under the credit (listed in Annex 1 to the Operating Instructions referred to above) will, also include 40 BCGS wagons for the Sri Lanka Government railways.
3. Other terms and conditions of our Operating Instructions No. BD/15/91 dated 19.12.1991 remain unchanged.

M. B. Dissanayake
Chief Accountant

- CC: 1. Controller of Exchange
2. Director General
Dept. of External Resources

Circular No. : BD / 04 / 98

Banking Department
Central Bank of Sri Lanka
Level 30, World Trade Centre, West Tower
Echelon Square
Colombo 1.

6th November, 1998

To: All Commercial Banks and Primary Dealers

**REVERSE REPURCHASE TRANSACTIONS WITH
THE CENTRAL BANK OF SRI LANKA
OPERATING PROCEDURES AND GUIDELINES**

1. Commercial Banks and Primary Dealers are hereby informed that the Central bank of Sri Lanka (CBSL) will re-introduce Reverse Repurchase Transactions in Treasury bills and Treasury bonds with effect from 9 November, 1998. Operating procedures and guidelines with regard to the transactions under the proposed Reverse Repurchase Facility are attached hereto.
2. Commercial Banks and primary Dealers are requested to inform the Open market Operations Division of the Banking Department of the CBSL, the names and designations of officers in their respective organizations, together with their telephone and fax numbers, who are authorized to engage in reverse repurchase transactions with CBSL on behalf of their institutions.
3. Further details of this Facility can be obtained from Mr. Y. M. W. B. Weerasekera, Additional Chief Accountant on Tel: 346311 or Mr. A. Kamalasiri, Deputy Chief Accountant on Tel: 346298.
4. The existing guidelines on repurchase agreements, discounting and rediscounting of Treasury bills and Treasury bonds at the secondary window of the Central Bank will continue to apply.
5. The Central Bank of Sri Lanka reserves the right to vary operating procedures, guidelines or conditions or to withdraw the facility altogether without assigning any reasons.

Y.M.W.B. Weerasekera
Actg. Chief Accountant

A.S. Jayawardena
Governor

**REVERSE REPURCHASE FACILITY (RRF) OF THE CENTRAL BANK OF SRI LANKA
OPERATING PROCEDURES AND GUIDELINES**

In these Operating Procedures and Guidelines unless the context otherwise requires:

“Banking Act” means the Banking Act No. 30 of 1988 as amended from time to time.

“Business day” means any day other than a bank holiday.

“central Bank” means the Central Bank of Sri Lanka established by the Monetary Law Act.

“Licensed Commercial Bank” has the same meaning as in the Banking Act.

“Monetary Law Act” means the Monetary Law Act (CAP 422 of the CLE) as amended from time to time.

“Outright Purchase” means an unconditional purchase of Securities by the Central Bank.

“Participating Institution” means a Licensed Commercial Bank or a Primary Dealer.

“Primary Dealer” means a primary dealer as defined in the Monetary Law Act.

“Purchase Value” means the total of the Purchase Prices of all securities.

forming the subject matter of a Reverse Repurchase Transaction.

“Reverse Repurchase Transaction” means the purchase of Securities from a Participating Institution by the Central Bank subject to an agreement by the Central Bank to sell back such Securities at a price or yield and on a date agreed at the time of such purchase.

“Security” means a Treasury Bill or a Treasury Bond.

“Sell Back Value” means the total of the Sell Back Prices of all securities forming the subject matter of a Reverse Repurchase Transaction.

“Treasury Bill” means a Treasury Bill issued under the Local Treasury Bills Ordinance (CAP 319 of the CLE).

“Treasury Bond” means a Treasury Bond issued under the registered Stock & Securities Ordinance (CAP 320 of the CLE).

“Working Hours” means any time between 800 hrs and 1615 hrs on a Business Day.

Words in the singular number shall include the plural and vice versa.

1. A participating Institution may avail itself of the Reverse repurchase Facility provided by the Central Bank of Sri Lanka by engaging in Reverse Repurchase Transactions in accordance with these Operating Procedures and Guidelines.
2. A participating Institution which wishes to avail itself of the Reverse Repurchase Facility of the Central Bank by engaging in Reverse Repurchase Transactions shall intimate in writing to the central Bank its acceptance of these Operating Procedures and Guidelines, and shall submit to the central Bank in schedule I attached the names of officers of such Participating Institution who are authorized to act on its behalf and to sign on its behalf in respect of Reverse Repurchase Transactions, the address and the telephone, telex and fax numbers of the participating Institution.
3. The interest rate applicable to a Reverse Repurchase Transaction shall be determined by the Central Bank and will be announced on the Reuters Screen from time to time.
4. The tenure of a Reverse Repurchase Transaction shall be one day (overnight) unless otherwise intimated in writing to Participating Institutions.
5. The purchase price of a security in a Reverse Repurchase Transaction shall be the price for Outright Purchase of such a security as determined by the Central Bank from time to time.
6. The Sell Back price of a security in a Reverse Repurchase Transaction shall be the purchase price of such security as referred to at paragraph 5 plus interest on the purchase price for the tenure of the Reverse Repurchase Transaction at the rate determined by the Central bank as set out in paragraph 3.
7. A participating Institution which wishes to engage in a Reverse Repurchase Transaction on any day shall contact the Open market Operation (OMO) Division of the Banking Department of the central Bank on telephone Nos. 423914, 422094 and 421 191 or on such other number as may be intimated by the Central Bank

from time to time between 900 hours and 1400 hours on such day and shall make an offer for a Reverse Repurchase Transaction providing the following information:-

- (a) the amount required to be borrowed by the Participating Institution on the Reverse Repurchase Transaction;
- (b) the face value, serial number and maturity date of the security offered for the Reverse Repurchase Transaction; and
- (c) the coupon rate in the event the security is a Treasury Bond.

The confirmation of the offer should be made in writing by fax or telex within 30 minutes of intimation by telephone on the following fax and telex numbers:-

Fax: 421192, 421194, 421195, 421198

Telex: 23505, 23506

In the event that the participating Institution is unable to confirm the offer by telex or fax, it shall do so by delivery of the written confirmation to the OMO Division of the Banking Department of the Central Bank within the time specified. In any event, it shall be the responsibility of the Participating Institution to confirm the offer in writing within the specified period.

8. The central Bank shall not be bound to accept an offer made by a participating Institution and may accept or reject such an offer or a part thereof.
9. A participating Institution shall be informed by the Central Bank by telephone, fax or telex on the respective number provided by the Participating Institution under paragraph 2 of the acceptance of the offer made by the participating Institution or a part thereof by 1400 hours on the same day a Reverse Repurchase Agreement in respect of the accepted offer in the format at Schedule 1 shall be sent by fax to the Participating Institution.
10. A participating Institution whose offer is accepted by the Central Bank shall duly endorse the security in favour of the Central Bank and shall deliver such security to the Central Bank before 1500 hours on the same day together with the Reverse Repurchase Agreement duly signed by the authorized officers of the Participating Institution.
11. A Participating Institution which offers a security for a Reverse Repurchase Transaction shall be deemed to have full and unqualified right to transfer the security offered for the Reverse Repurchase Transaction. A signature purported to have been placed by any one of the persons whose names have been submitted by the Participating Institution under paragraph 2 to the Central Bank shall be deemed to have been duly placed by such person on behalf of the Participating Institution.
12. The account of the Participating Institution with the Central Bank shall be credited with the Purchase Value of the security on receipt by the Central Bank of the duly endorsed security and the duly executed Reverse Repurchase Agreement.
13. On the Sell Back Date stipulated in the Reverse Repurchase Agreement, the account of the Participating Institution with the Central Bank shall be debited with the Sell Back Value stipulated in the Reverse Repurchase Agreement.
14. On termination of the Reverse Repurchase Agreement and on debiting of the Participating Institution's account with the Sell Back Value on the Sell Back Date, the Central Bank shall endorse the security in favour of the Participating Institution and the Participating Institution may collect such security from the Central Bank during a business hour after such termination.
15. An obligation arising on a Reverse Repurchase Transaction which has to be discharged on a bank holiday shall be discharged on the next immediately succeeding business day.

16. The Central Bank shall have authority to make debits and credits to the account of a Participating Institution with the central bank in respect of a Reverse Repurchase Transaction.
17. A Participating Institution shall ensure the availability of funds in its account with the Central Bank to enable the central Bank to debit its account with the Sell Back Value on the Sell Back Date of a Reverse Repurchase Transaction. In the event of a Participating Institution failing to maintain sufficient funds as herein required, the Central Bank shall be entitled to treat the Reverse Repurchase Transaction as an Outright Purchase and to recover from the Participating Institution the liquidated damages suffered by it by the non completion of the Reverse Repurchase Transaction by debiting the Participating Institution account with such amount in addition to taking action as set out in paragraph 18 below.
18. The Central Bank may suspend a Participating Institution from engaging in Reverse Repurchase Transactions in the event of the failure of such Participating Institution to comply with any of the Operating Instructions and Guidelines contained herein. A Participating Institution which is a Primary Dealer shall, in such event, be also liable to have his Primary Dealership suspended or cancelled.
19. The Central Bank shall have the right to add to, delete from or vary these Operating Procedures and Guidelines from time to time. Such addition, deletion or variation shall take effect from the date the Participating Institution is given notice of such addition, deletion or variation unless another date is indicated in such notice.

Schedule I

AUTHORITY TO OPERATE REVERSE REPURCHASE TRANSACTIONS
OF THE CENTRAL BANK OF SRI LANKA
UNDER OPERATING INSTRUCTIONS NO. BD/04/98

Name of Institution :	Address : Phone No. : Fax No. :		
Name of Officer Authorised	Designation	Phone / Fax No.	Signature
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

I certify that the above officers are authorised on behalf of the
(Name of Institution)
to participate in the Reverse Repurchase Transactions of the central Bank of Sri Lanka. We undertake to notify of any changes promptly.

Date :

.....
General Manager

Tel Nos. 422094, 423914, 421191
 Fax Nos. 421192, 421194, 421195, 421198
 Telex Nos. 23505, 23506

Open Market Operations Division
 Banking Department
 Central Bank of Sri Lanka
 Level 30, World Trade Centre,
 West Tower, Echelon Square
 Colombo 1

Date :

Name & Address of Primay Dealer/ Commercial Bank

.....

REVERSE RE-PURCHASE AGREEMENT
AGREEMENT NO

We hereby confirm having purchased from you, Government of Sri Lanka Treasury bill (s)/bond(s) under an agreement to sell back as per details given below:

1. T Bill/Bond No.	Bond Series*	Maturity	Purchase Price	Quantum Offered for sale (Face Value) Rs.	Purchase Value Rs.
.....
.....
.....
Total			

2. Sell Back Date (Maturity date) :
3. Tenor (No. of days) :
4. Interest Rate (%) :
5. Sell Back Value :
6. Settlement

We will credit (total Purchase Value) your A/c No. with us with Rs..... on the date of purchase on delivery of Treasury bill (s) bond (s) and debit (Sell Back Value) the said A/c with Rs..... on the date of sell back of the bill (s) bond(s). The above Treasury bill (s) bond (s) duly endorsed in our favour should be delivered to the CBSL on the date of purchase. The same will be endorsed and delivered to you on the sell back date.

AUTHORISED SIGNATURE
 (CENTRAL BANK)

AUTHORISED SIGNATURE
 (CENTRAL BANK)

We agree

AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL :

Please conform by fax today before 1400 Hours.

* Where applicable

Operating Instructions No. BD / 05 / 98

Banking Department
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1.

11 November, 1998.

The Manager
People's Bank
Imports Unit 3
International Division
ANCL (Lake House) Bldg.
Colombo 10.

Dear Sir,

IDA 2938CE – ENERGY SERVICES DELIVERY PROJECT

The following procedure may be observed in respect of imports under the captioned loan granted to Sri Lanka by the International Development Association (IDA) and the Global Environment Facility (GEF) of the World Bank.

1. Imports shall be against confirmed irrevocable without recourse Letters of Credit established by your Bank on behalf of project Coordinator, Ceylon Electricity Board (CEB), 50, Sir Chittampalam A. Gardiner Mawatha, Colombo 2.
2. Your authority for opening Letters of Credit will be the letters of allocation issued by the Director General of External Resources under the title "IDA 2938 CE – Energy Services Delivery Project."
3. Every Letter of Credit opened by your Bank unless otherwise advised by me, should provide that the negotiating Bank will be reimbursed by IDA and that the Letter of Credit will become operative only when IDA issues its special commitment in favour of the negotiating bank.
4. Applications for special commitment to IDA should be made by your customer on Form 1931 (Extract attached) supported by the following documents :-
 - (a) A copy of the Contract or Purchase Order related to the payment to be made; and
 - (b) Two copies of the Letter of Credit your Bank proposes to issue.
5. The negotiating Bank should be advised to furnish copies of all amendments made to each Letter of Credit to IDA which will provide its written approval for amendments involving :-
 - (a) the value of the Letter of Credit;
 - (b) the description or quantity of goods;
 - (c) the beneficiary; and
 - (d) any extension of the expiry date of the Letter of Credit more than six months beyond the original date or beyond the date quoted in the special commitment issued by IDA.

No other amendments require IDA's prior approval.

6. Since the captioned line of credit is denominated in Special Drawing Rights (SDR) the IDA will specify the SDR commitment in its Special Commitment Letter to the negotiating bank in respect of Letters of

Credit expressed in another currency. If due to this limitation of its commitment, IDA does not reimburse the full amount of the foreign currency to your correspondent abroad as specified in the Letter of Credit you may remit the balance due to the negotiating bank in accordance with the instructions issued to you in this regard by the Controller of Exchange.

7. Importers under this credit are not required to pay the rupee value of the shipping documents involved to the Government's Counterpart Fund account. You may therefore, release such documents to your customers no sooner they are received by you after recovering commissions, charges *etc.*, if any, due to you or to the negotiating bank.
8. Copies of Letter of Credit and amendments, if any, should be forwarded to the Chief Accountant, Central Bank of Sri Lanka, Colombo, for information.
9. Controller of Exchange will advise you separately of his requirements in this connection.

Yours faithfully,

A. Shanmugasamy

Addl. Chief Accountant for Chief Accountant

- c.c. 1. Controller of Exchange
2. Project Co-ordinator,
IDA/WB Energy Services Delivery Project,
Ceylon Electricity Board,
50, Sir Chittampalam A. Gardiner Mawatha,
Colombo 2.

Operating Instructions No. BD / 03 / 98

Ref. No: BD/FCBS/1/98
Banking Department
Central Bank of Sri Lanka
P.O. Box 590
Colombo.

Ref. No: EC/03/98(D)
Exchange Control Department
Central Bank of Sri Lanka
P.O. Box 883
Colombo.

12 November, 1998.

Operating Instructions to Commercial Banks

INTRODUCTION OF THE EUROPEAN SINGLE CURRENCY - THE "EURO"

The European Union decided to introduce a single currency called the "euro" for its member countries with effect from 1.1.1999, on which date the conversion rates of participating countries' national currencies are expected to be locked irrevocably against the new currency. Eleven European countries, namely, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain have agreed to accept the proposed single currency against their national currencies. During the transition period from 1.1.1999 to 31.12.2001, the euro will co-exist with the national currencies of the above participating member countries. From 1.1.2002, such national currencies will cease to exist.

2. On the eve of the introduction of the euro, we would like to draw your attention to the need for commercial banks to examine their business processes in order to ensure they are ready to conduct normal business operations in the new currency from 1st January, 1999. Some important implications that need to be examined include those on deal conversion, re-denomination, payment system, price sources and continuity of contracts. In this connection, a copy of policy statement issued by the International Chamber of Commerce (ICC) is attached herewith. You are requested to closely follow the instructions contained in it as well as other statements issued by the ICC from time to time, with regard to the international practices arising from the introduction of the euro.

3. In this connection, the Central Bank of Sri Lanka wishes to inform all commercial banks that it has no objection to—

- (a) the opening and maintenance of Nostro Accounts in euro currency by commercial banks operating in Sri Lanka to effect payments or receipts beginning from 1.1.1999; and
- (b) the designation of the euro as a foreign currency for Foreign Currency Banking Units (FCBU), Non-Resident Foreign Currency (NRFC) Accounts, Resident Non-National Foreign Currency (RNNFC) Accounts, Resident Foreign Currency (RFC) Accounts, Exporter's Foreign Currency (EFC) Accounts with effect from 1.1.1999 for the purposes mentioned in our Circular Nos. FCBS 1/79 of 2nd May, 1979, BC/F-922/77 of 1.3.1978 and Operating Instructions Nos. EC/08/88(D) of 5.5.1988, EC/22/90(D) of 30.3.1990, EC/19/80 (D) of 14.5.1980, EC/52/91 (D) of 1.8.1991 and EC/41/93(D) of 29.3.1993.

4. Commercial banks should take the full responsibility for maintenance, operation of relevant accounts and honouring of such contracts entered into with their customers in euro, or in national currencies of the participating member countries referred to above, and are required to provide details to the Central Bank of Sri Lanka on the current reporting schedules with regard to any operation in euro or national currencies of the participating member countries carried out by them.

Chief Accountant

Controller of Exchange

The World Business Organisation

Policy Statement

The impact of the european economic and monetary union on monetary obligations related to transactions involving ICC Rules

Prepared by the Commission on Banking Technique and Practice

The International Chamber of Commerce (ICC) is the world business organization, based in Paris. The ICC Commissions on Banking Technique & Practice, International Commercial Practice, and Insurance, develop and maintain uniform rules for international trade, including the Uniform Rules for Contract Guarantees (URCG 325), Uniform Rules for Demand Guarantees (URDG 458), Uniform Customs and Practice for Documentary Credits (UCP 500), Uniform Rules for Collections (URC 522), Uniform Rules for Contract Bonds (URCB 524), Uniform Rules for Bank to Bank Reimbursements (URR 525) (hereinafter referred to collectively as "ICC Rules").

The Introduction of the EURO, the European single currency, shall not have the effect of altering, discharging or excusing performance under any instrument subject to ICC Rules. This "Policy Statement" emphasized the need to correctly interpret and apply ICC Rules. Consequently, ICC National Committees and associated organizations are strongly urged to distribute this Policy Statement as widely as possible to help ensure the future smooth running of the instruments issued under ICC Rules. This Policy Statement does not amend any articles of ICC Rules in any way, but merely indicates the correct interpretation thereof.

1. General

- 1.1 As of 1 January 1999, the EURO will be substituted for the national currencies of those European Union member states participating in European Economic and Monetary Union (hereinafter, "EMU-Participating States") which are to be designated in May 1998. During the transitional period running from 1 January 1999 to 31 December 2001, the EURO (1 EURO - 100 Cents) will also be divided into the national currency units of the EMU-Participating States according to conversion rates which are to be irrevocably fixed by the Council of the European Union as of 1 January 1999 ("conversion rates"). The term "national denomination" as used below refers to the currency of any EMU-Participating State before 1 January 1999.

During the transition period persons are free to use either the EURO or the national denomination, but will not (unless otherwise agreed) be obliged to receive or make payment in EURO. However, any amount denominated either in EURO or in a national denomination of a given EMU-Participating State and payable within *that* state by crediting an account of the creditor, may be paid by the debtor either in EURO or in that national denomination, with any necessary conversion being affected at the conversion rate.

As of 1 January 1999 the ECU will be replaced by the EURO at the rate of one EURO to one ECU.

- 1.2 As from 1 January 2002 the national denominations will cease to exist and the EURO will be the only legal currency in the EMU-Participating States; all payments must be in EURO.
- 1.3 Continuity of contract will not be affected by the introduction of the EURO.
- 1.4 The above principles affecting national denominations are legally binding in all member states of the European Union, and apply equally to payment to be made in a national denomination by persons located outside the European Union, due to the generally accepted legal principle that the definition of what constitutes legal tender is governed by the law of the country whose currency is involved (sometimes referred to as the *lex monesae* principle).

2. Consequences of the introduction of the EURO on practice under various ICC rules :

- 2.1 UCP 500 for Documentary Credits (including standby letters of credit)
Below are the different possible cases and the relevant rules of interpretation.

- 2.1.1. Documentary credits issued and payable before 1 January 1999 in a national denomination – Payment must be made and documents denominated in the currency of the credit.
 - 2.1.2 Documentary credits issued before 1 January 1999 and payable before 1 January 2002 in a national denomination – Payment must be made in the currency of the credit, but documents may be presented either in the currency of the credit or in the EURO equivalent; however, where payment is to be made in the currency of an EMU–Participating State *and* by crediting an account located in such member state, payment may at the debtor’s (e.g., issuing bank’s) option be effected in the EURO equivalent.
 - 2.1.3 Documentary credits issued in an national denomination before 1 January 1999 and payable on or after 1 January 2002 – Payment must be made in EURO, but documents may be presented either in the currency of the credit or in the EURO equivalent (for documents issued on or after 1 January 1999); Documents issued on or after 1 January 2002 must be denominated in the EURO.
 - 2.1.4 Documentary Credits issued and payable on or before 1 January 1999 and before 1 January 2002 in a national denomination or in EURO – Payment must be made in the currency of the credit but documents may be presented in the currency of the credit *or* in the EURO equivalent *or* in the equivalent cross value in the national denomination at the beneficiary’s place of business; however, where the currency of the credit is a national denomination *and* payment is to be made in the currency of a particular EMU – Participating State by crediting an account located in such member state, payment may at the debtor’s (e.g., issuing bank’s) option be effected in EURO.
 - 2.1.5 Documentary credits issued on or after 1 January 1999 but before 1 January 2002 in a national denomination or in EURO and payable on or after 1 January 2002 – Payment must be made in EURO, but documents may be presented either in the currency of the credit or, as the case may be, in EURO or in the currency of the beneficiary’s place of business, provided always that documents issued on or after 1 January 2002 must be denominated in EURO.
 - 2.1.6 For purposes of examples 2, 3, 4 and 5 above, documents (including insurance documents) mentioned in UCP Art. 34 f) are not considered as being inconsistent with one another, if, within a single presentation of documents, any documents are denominated in the currency of the credit and/or in EURO and/or the currency of the place of business of the beneficiary.
 - 2.1.7 Documentary credits issued and payable on or after 1 January 2002 – Credits cannot be issued in a national denomination and must be issued in EURO and payment must be made and documents (issued on or after 1 January 2002) denominated in EURO.
 - 2.1.8 The guidelines set forth in this Policy Statement apply equally to transferable credits. Transferable credits issued in a national denomination and to be transferred during the transitional period – The transferring bank may convert the currency and amount of the credit into the EURO equivalent.
- 2.2 URCG 325 / URDG 458 / URCB 524 – Guarantees and bonds
The principles set forth above also apply to guarantees and bonds.
- 2.3 URC 522 Collections
Collections must be made in the currency stipulated in the collection instructions. However, if a collection instruction stipulates a national denomination of an EMU – Participating State, as of 1 January 1999 payment may be made in the EURO equivalent and as of 1 January 2002, payment must be made and accepted in the EURO equivalent.
- 2.4 URR 525 Bank to Bank Reimbursements
Reimbursement claims must be made and honoured in the currency of the reimbursement authorization or reimbursement undertaking. However, if such currency is the national denomination of an EMU–Participating State, as from 1 January 1999 they may be made and honoured in the EURO equivalent, and as from 1 January 2002 they must be made and honoured in the EURO equivalent.

Central Bank Rates for the Purchase of Foreign Currency Notes from Commercial Banks

Effective Date	Circular No.	Australian Dollar (per \$)	Austrian Schilling (per 10 Sch.)	Bahrain Dinar (per Dinar)	Belgian Franc (per 10 Fr.)	Canadian Dollar (per \$)	Danish Kroner (per 10 Kr.)	Deutch Mark (per DM)	Finland Markka (per 10 Markka)	French Franc (per 10 Ffr.)	Hong Kong Dollar (per 10 HK \$)	Italian Lira (per 1,000 Lira)	Japanese Yen (per 100 Yen)	Kuwait Dinar (per Dinar)	Malaysian Ringgit (a) (per Ringgit)	Netherland Guilder (per Guilder)	Norwegian Kroner (per 10 Kr.)	Omani Riyal (per Riyal)	Saudi Arabian Riyal (per Riyal)	Singapore Dollar (per \$)	Swedish Kroner (per 10 Kr.)	Swiss Franc (per Sw. Fr.)	U. A. E. Dirham (per Dirham)	U. K. Pound (per £)	Sri Lanka Rupees (per US \$)
06.10.98	4398	38.55	47.80	157.35	16.00	41.60	86.65	33.00	105.65	98.60	76.55	33.45	44.80	189.15	14.75	29.25	80.65	149.95	15.80	34.80	74.55	40.60	16.15	97.50	59.85
15.01.98	4367	38.00	47.90	157.60	15.85	41.40	85.65	32.70	105.25	97.65	76.70	33.20	44.70	188.70	12.80	29.00	78.95	150.15	15.85	33.15	73.85	40.30	16.20	96.55	59.95
20.01.98	4369	39.60	47.90	157.60	15.70	41.35	85.10	32.40	104.40	96.75	76.75	33.00	46.40	188.70	14.20	28.75	78.60	150.15	15.85	34.25	73.85	39.70	16.20	97.25	59.95
27.01.98	4371	39.95	47.85	157.50	16.30	40.90	88.15	33.70	106.40	100.70	76.65	33.80	47.30	189.20	13.30	29.90	78.35	150.05	15.85	33.85	75.90	41.60	16.15	99.80	59.90
03.02.98	4373	40.75	48.00	158.05	15.75	41.00	85.30	32.50	104.65	96.95	77.00	33.00	47.05	189.90	14.35	28.80	78.35	150.60	15.90	34.75	73.10	40.20	16.20	97.20	60.10
11.02.98	4375	40.05	48.05	158.20	15.95	41.65	86.35	32.90	106.75	98.15	77.05	33.20	47.75	190.20	15.55	29.20	79.00	150.75	15.90	35.65	69.35	40.80	16.25	97.85	60.20
17.02.98	4377	40.00	48.10	158.40	15.90	41.35	86.15	32.80	105.20	97.90	77.10	33.20	47.50	190.55	15.05	29.10	78.90	150.95	15.90	35.55	73.75	40.80	16.25	97.95	60.20
24.02.98	4379	39.85	48.25	158.75	15.95	42.10	86.05	32.80	105.60	97.85	77.25	33.30	46.55	191.00	15.65	29.10	78.95	151.30	15.95	36.10	73.90	40.55	16.30	97.85	60.25
03.03.98	4381	40.60	48.45	159.95	16.10	42.05	86.90	33.10	106.05	98.75	77.35	33.35	47.55	191.20	16.45	29.40	79.30	151.45	15.95	36.95	75.10	40.95	16.30	98.75	60.45
10.03.98	4383	40.00	48.45	159.40	15.95	42.35	86.20	32.80	105.20	97.80	77.65	33.60	46.85	191.75	14.85	29.10	79.05	151.90	16.00	36.20	74.75	40.30	16.35	98.35	60.65
24.03.98	4387	40.00	48.45	159.50	16.00	42.55	86.95	33.05	105.40	98.00	77.65	33.60	46.75	191.45	16.05	29.25	79.45	151.95	16.05	37.55	75.90	40.65	16.35	100.40	60.70
31.03.98	4389	40.45	46.90	160.05	16.00	42.60	86.40	33.10	105.50	98.00	77.85	33.45	46.20	192.10	16.70	29.50	79.45	152.50	16.10	37.60	75.80	40.45	16.45	100.65	60.90
07.04.98	4391	40.10	46.85	161.40	16.00	42.60	86.40	33.10	105.50	98.30	77.85	33.45	46.20	192.10	16.70	29.50	79.45	152.50	16.10	37.60	75.80	40.40	16.45	101.65	61.00
15.04.98	4393	40.10	47.60	161.40	16.00	42.90	86.45	33.05	105.50	98.40	78.05	33.55	46.30	192.50	16.30	29.35	79.60	153.80	16.20	37.50	76.10	40.00	16.55	100.85	61.40
21.04.98	4395	39.50	47.95	161.85	16.25	42.70	87.85	33.50	106.40	99.65	78.50	33.80	46.25	193.65	16.60	29.75	80.75	153.75	16.20	38.10	77.30	40.25	16.55	100.85	61.40
28.04.98	4397	39.55	48.40	162.15	16.55	42.70	88.40	33.75	108.60	100.95	78.75	34.10	46.25	194.25	16.05	29.95	81.15	154.20	16.25	38.00	78.50	40.70	16.60	102.75	61.60
05.05.98	4399	39.60	48.95	162.70	16.65	42.65	89.10	34.15	109.25	101.85	78.95	34.45	46.00	194.90	16.20	30.35	81.70	154.50	16.30	38.35	78.15	40.95	16.65	102.75	61.70
13.05.98	4401	39.15	49.55	163.10	16.85	42.80	91.20	34.75	111.45	103.70	79.90	35.35	46.15	196.00	16.70	30.50	82.65	155.00	16.35	39.60	79.35	41.10	16.70	102.10	61.90
19.05.98	4403	38.55	49.10	163.75	16.80	42.55	90.30	34.60	110.05	103.25	79.65	35.70	45.75	196.00	15.90	30.85	83.15	155.35	16.40	37.75	80.60	41.10	16.75	101.30	62.05
26.05.98	4405	38.75	50.05	164.10	17.05	42.60	92.45	35.20	112.50	104.90	79.85	35.40	45.30	196.60	16.30	31.20	82.50	156.05	16.45	37.30	79.80	41.55	16.80	100.10	62.30
02.06.98	4407	38.75	49.80	165.00	16.95	42.60	91.90	34.80	111.55	103.80	80.20	35.40	44.80	197.80	16.10	30.90	82.35	157.15	16.55	36.90	79.20	41.85	16.95	101.00	62.45
10.06.98	4409	37.20	49.80	165.00	16.70	42.45	90.60	34.50	110.40	102.90	80.60	35.05	43.00	197.90	15.45	31.05	83.30	157.30	16.60	36.25	79.30	42.05	16.95	101.50	62.80
16.06.98	4411	36.65	49.60	165.40	16.85	42.40	91.40	34.80	111.90	103.65	80.55	35.45	43.40	197.40	15.45	30.60	81.35	157.65	16.60	35.65	77.80	41.55	17.00	101.75	62.90
23.06.98	4413	37.95	49.60	165.40	16.85	42.40	91.40	34.80	111.90	103.65	80.55	35.45	43.40	197.40	15.45	30.60	81.35	157.65	16.60	35.65	77.80	41.55	17.00	101.75	62.90
30.06.98	4415	37.75	49.05	166.05	16.80	42.60	90.65	34.60	111.40	103.30	80.75	35.05	43.00	197.90	15.45	30.60	81.35	157.65	16.60	35.65	77.80	41.55	17.00	101.75	62.90
08.07.98	4417	38.60	49.15	166.65	16.75	42.75	90.60	34.55	110.80	103.05	81.05	35.05	44.00	198.15	15.45	30.70	81.40	158.25	16.70	37.25	76.65	41.65	17.00	103.65	63.15
14.07.98	4419	38.20	49.20	167.00	16.90	42.60	91.15	34.80	110.45	103.80	81.25	35.10	44.15	199.30	14.75	30.85	81.90	159.15	16.80	36.75	77.55	41.00	17.10	103.30	63.40
21.07.98	4421	38.55	50.15	167.15	17.20	42.35	92.90	35.45	112.95	105.70	81.30	35.70	45.25	199.70	15.20	31.45	83.90	159.30	16.80	36.95	79.70	42.00	17.15	103.70	63.60
27.07.98	4423	38.90	50.60	167.75	17.25	42.10	93.30	35.55	113.55	106.05	81.60	36.05	44.60	200.35	15.25	31.55	83.95	159.85	16.85	36.95	80.20	42.30	17.25	104.80	63.80
04.08.98	4425	38.65	50.95	168.55	17.35	41.95	93.85	35.75	114.15	106.75	82.00	36.10	43.90	201.30	15.30	31.70	84.25	160.60	16.95	36.75	80.05	42.65	17.30	105.80	64.10
11.08.98	4427	38.20	51.10	169.00	17.35	41.90	94.30	35.80	114.15	106.75	82.00	36.10	43.90	201.30	15.30	31.70	84.25	160.60	16.95	36.75	80.05	42.65	17.30	105.80	64.10
18.08.98	4429	37.80	50.85	169.45	17.20	42.10	93.80	35.50	114.30	106.95	82.40	36.45	43.60	202.15	15.15	31.40	82.60	161.45	17.05	36.45	78.20	42.40	17.40	103.25	64.30
25.08.98	4431	37.00	50.50	169.40	17.20	42.10	93.80	35.50	114.30	106.95	82.40	36.45	43.60	202.15	15.15	31.40	82.60	161.45	17.05	36.45	78.20	42.40	17.40	103.25	64.30
01.09.98	4433	38.20	51.70	169.25	17.45	41.35	93.00	35.40	113.75	105.75	82.40	36.45	43.60	202.15	15.15	31.40	82.60	161.45	17.05	36.45	78.20	42.40	17.40	103.25	64.30
08.09.98	4435	37.60	52.45	169.05	17.90	41.90	93.05	35.60	114.00	106.80	82.40	36.45	43.60	202.15	15.15	31.40	82.60	161.45	17.05	36.45	78.20	42.40	17.40	103.25	64.30
15.09.98	4437	38.10	52.45	169.05	17.90	41.90	93.05	35.60	114.00	106.80	82.40	36.45	43.60	202.15	15.15	31.40	82.60	161.45	17.05	36.45	78.20	42.40	17.40	103.25	64.30
22.09.98	4439	37.45	53.65	169.40	18.20	42.05	96.75	36.90	117.00	109.90	82.25	37.25	48.10	202.45	15.15	31.50	83.50	161.45	17.05	36.30	79.70	42.55	17.30	104.80	64.50
29.09.98	4441	37.60	54.05	169.55	18.55	42.25	96.55	37.75	120.65	112.55	82.40	38.20	47.95	204.15	15.15	31.70	84.10	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
07.10.98	4443	37.60	55.50	169.55	18.95	41.00	103.00	39.15	124.60	116.10	82.95	39.25	48.20	205.45	15.15	32.35	84.95	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
13.10.98	4445	39.90	56.50	169.30	18.95	41.50	102.30	39.15	124.60	116.10	82.95	39.25	48.20	205.45	15.15	32.35	84.95	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
21.10.98	4447	40.50	56.50	169.30	18.95	41.50	102.30	39.15	124.60	116.10	82.95	39.25	48.20	205.45	15.15	32.35	84.95	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
27.10.98	4449	39.70	56.85	170.30	18.85	41.55	102.75	39.10	125.25	116.80	82.50	39.70	55.65	204.75	15.15	32.35	84.95	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
04.11.98	4451	40.25	56.90	170.45	18.85	41.65	102.30	39.10	125.25	116.80	82.50	39.70	55.65	204.75	15.15	32.35	84.95	161.05	17.05	36.30	79.70	42.55	17.30	104.80	64.50
10.11.98	4453	40.90	57.10	171.05	18.80	41.70	101.20	38.50	124.20	114.65	83.25	39.20	56.0												

PART IV

MAJOR LEGISLATIVE ENACTMENTS OF 1998 RELATING TO THE FUNCTIONS AND OPERATIONS OF THE CENTRAL BANK AND BANKING INSTITUTIONS IN SRI LANKA

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MONETARY LAW (AMENDMENT) ACT, NO. 6 OF 1998

[Certified on 27th March, 1998]

AN ACT TO AMEND THE MONETARY LAW ACT

1. This Act may be cited as the Monetary Law (Amendment) Act, No. 6 of 1998.
2. The following new section is hereby inserted immediately after section 52 of the Monetary Law Act, (hereinafter referred to as the "principal enactment") and shall have effect as section 52A of that Act :—

"Issue of commemorative currency notes or coins.

52A. (1) (a) The Central Bank may, with the approval of the Minister in charge of the subject of Finance and subject to section 53, issue commemorative currency notes or coins.

(b) Commemorative currency notes or coins issued under paragraph (a) of this subsection may be sold at a price higher than the denomination specified in such note or coin and as may be determined by the Minister in charge of the subject of Finance.

(2) The sale of a commemorative currency note or coin issued under subsection (1) at a price higher than the denomination specified in such currency note or coin shall be deemed not to be a contravention of section 58A.

(3) In this section "commemorative currency note or coin" means a currency note or coin issued to commemorate any person or a special event."

3. Section 55 of the principal enactment is hereby amended as follows :—

- (1) by the renumbering of that section as subsection (1) of that section ;
- (2) in the renumbered subsection (1) of that section by the substitution for the words "upon surrender by any person", of the words "Subject to the provisions of subsection (2), upon surrender by any person";
- (3) by the addition immediately after the renumbered subsection (1) of that section of the following subsection :—

"(2) Nothing in subsection (1) shall be read and construed as imposing an obligation on the Central Bank to deliver on demand under subsection (1), any commemorative currency note or coin issued under section 52A, where the required currency note or coin is of a denomination specified in such currency note or coin."

4. The amendments made to the principal enactment by sections 2 and 3 of this Act, shall be deemed for all purposes to have come into force on February 4, 1998, and accordingly, any commemorative currency note or coin issued or sold on or after February 4, 1998 and before the commencement of this Act shall be deemed, for all purposes to have been, and to be, lawfully issued or sold.
5. In the event of any inconsistency between the Sinhala and Tamil text of this Act, the Sinhala text shall prevail.

GOODS AND SERVICES TAX (AMENDMENT) ACT, NO. 11 OF 1998

[Certified on 31st March, 1998]

AN ACT TO AMEND THE GOODS AND SERVICES TAX ACT, NO. 34 OF 1996

1. This Act may be cited as the Goods and Services Tax (Amendment) Act, No. 11 of 1998, and shall come into operation on such date as the Minister may appoint by Order published in the *Gazette*.
2. Section 2 of the Goods and Services Tax Act, No. 34 of 1996 (hereinafter referred to as the "principal enactment") is hereby amended by the repeal of subsection (3) of that section and the substitution thereof of the following subsection:—

"(3) The tax on importation of goods shall be charged, levied and collected as if it were a customs duty and as if all goods imported into Sri Lanka are dutiable and liable to customs duty. These provisions shall not be applicable to any goods entered into customs bonded area in terms of the Customs Ordinance :

Provided however, that the Director-General of Customs may defer the payment of the tax due on any goods imported by a registered person who imports goods to be used for the purposes of manufacture and exports the goods so manufactured, or any other person referred to in subsection (6) of section 22, for a period not exceeding forty-five days or such other period not exceeding ninety days as may be determined by the Minister by notification published in the *Gazette*, from the date of importation of such goods, subject to the furnishing of a bank guarantee or a corporate guarantee which covers the amount of the tax due on the goods so imported."

3. Section 4 of the principal enactment is amended as follows :—

(1) by the insertion immediately after subsection (1) of that section of the following subsection :—

"(1A) Notwithstanding the provisions of paragraph (d) of subsection (1), where an invoice is issued in respect of goods supplied within ten days from the date of delivery of such goods, the time of supply of such goods shall be deemed to be the time at which the invoice was issued." ;

(2) by the insertion immediately after subsection (2) of that section of the following subsection:—

"(2A) Notwithstanding the provisions of paragraph (a) of subsection (2), when an invoice is issued in respect of services supplied within ten days from the date of performance of such service, the time of supply of such service shall be deemed to be the time at which the invoice was issued." ;

(3) in paragraph (a) of subsection (3) of that section by the substitution for the words "under an agreement" of the words "under an agreement entered into on or after the appointed date" ;

(4) by the addition at the end of that section of the following subsection : —

"(4) Where the Commissioner-General has directed any registered person to account for tax on a payment basis under section 23, the time of supply of goods and services supplied by such person shall be the time at which the payment in respect of such supply is received."

4. Section 5 of the principal enactment is hereby amended as follows :—

(1) in subsection (1) of that section by the substitution for the words and figures "any tax chargeable under this Act, and any excise duty payable under the Excise (Special Provisions) Act, No. 13 of 1989", of the words "any tax chargeable under this Act," ;

(2) in paragraph (i) of subsection (5) of that section by the substitution for the words "by a person after the time" of the words "by a person at the time" ;

(3) in subsection (10) of that section by the substitution for the words “shall be the amount paid for such ticket or the amount deposited”, of the words “shall be the amount paid for such ticket less the tax payable under this Act or the amount deposited less the tax payable under this Act” ; and

(4) by the addition at the end of that section of the following subsections:—

“(11) Where goods or services are supplied under an agreement entered into on or before 23rd December, 1996 not being a hire purchase agreement and which is not reviewable the value of such supply shall be the consideration for such supply as stipulated in such agreement less the tax determined by the Commissioner-General as being attributable to such consideration.

(12) Where any goods supplied under a lease agreement is subsequently transferred to the lessee at the expiry of the period of the lease, for a consideration not exceeding ten *per centum* of the total consideration of the lease agreement, such consideration shall be considered a part of the consideration of the lease agreement.”.

5. Section 6 of the principal enactment is hereby amended as follows:—

(1) in paragraph (b) of subsection (1) of that section by the substitution, for the words “and any cess”, of the words and figures “any cess and any excise duty payable under the Excise (Special Provisions) Act, No. 13 of 1989” ;

(2) by the repeal of subsection (2) of that section.

6. Section 7 of the principal enactment is hereby amended in paragraph (b) of subsection (1) of that section as follows:—

(1) in sub-paragraph (iii) of that paragraph by the substitution for the words “for use outside Sri Lanka”, of the words “for use outside Sri Lanka ; and” ;

(2) by the addition immediately after sub-paragraph (iii) of that paragraph, of the following new paragraph :—

“(iv) international transportation (including transshipment) of goods or passengers.”.

7. Section 10 of the principal enactment is hereby amended in subsection (1) of that section by the repeal of paragraphs (a), (b) and (c) of that subsection and the substitution therefor of the following paragraphs :—

“(a) at the end of any taxable period of one month or three months, as the case may be, the total value of his taxable supplies of goods or services or goods and services made in Sri Lanka in that taxable period of one month or three months, as the case may be, has exceeded five hundred thousand rupees ; or

(b) in the twelve months period then ending, the total value of his taxable supplies of goods or services or goods and services made in Sri Lanka has exceeded one million and eight hundred thousand rupees ; or

(c) at any time there are reasonable grounds to believe that the total value of his taxable supplies in Sri Lanka of goods or services or goods and services in the succeeding one month or three months taxable period, as the case may be, is likely to exceed five hundred thousand rupees or in the succeeding twelve months period is likely to exceed one million and eight hundred thousand rupees :

Provided however that where the Commissioner-General is of opinion that the supply of goods relate to an isolated transaction, the value of such supply may be excluded in calculating the total value of taxable supplies for the purposes of this section.”.

8. Section 11 of the principal enactment is hereby amended in the proviso to subsection (1) of that section by the substitution for the words and figures “section 10 or section 12” of the words and figures “section 10 or section 12 or is deemed to be a registered person under subsection (1) of section 75”.

9. Section 13 of the principal enactment is hereby amended in paragraph (a) of that section by the substitution for the words and figures "section 10 or section 12", of the words and figures "section 10 or section 12 or is deemed to be a registered person under subsection (1) of section 75".
10. Section 15 of the principal enactment is hereby amended in subsection (3) of that section by the substitution for the words "certificate at conspicuous place" of the words "certificate at a conspicuous place."
11. Section 16 of the principal enactment is hereby amended as follows:—
- (1) in subsection (1) of that section by the repeal of all the words from "eight successive taxable periods following the date of registration" to the end of that subsection and the substitution therefor of the following :—
"a period of twenty-four months following the date of registration where such registered person has ceased to carry on or carry out a taxable activity or the total value of his supplies during any taxable period within such period does not exceed the value set out in section 10.;"
 - (2) in subsection (3) of that section by the substitution for the words and figures "any person registered under section 10 or section 12 where the Commissioner-General is of the opinion", of the words "any person, where he is of the opinion".
12. Section 20 of the principal enactment is hereby amended as follows:—
- (1) in subsection (1) of that section by the substitution for the words "shall issue to another registered person to whom a supply is made", of the words "shall issue to the person to whom such supply is made";
 - (2) in subsection (2) of that section—
 - (a) by the repeal of paragraph (b) of that subsection and the substitution therefor of the following paragraph:—
"(b) the name and address of the person to whom the supply was made ;"; and
 - (b) in paragraph (f) of that subsection, by the substitution for the words and figures "the amount of any excise duty payable under the Excise (Special Provisions) Act, No. 13 of 1989 any national" of the words "the amount of any national";
 - (3) by the repeal of subsection (6) of that section and the substitution therefor of the following:—
"(6) Notwithstanding the provisions of section 2, where a registered person makes a taxable supply, the value of which does not exceed two thousand rupees such registered person may issue a tax invoice setting out the following:—
 - (a) the name, address and the registration number of the supplier;
 - (b) the date on which the tax invoice was issued and its serial number;
 - (c) the date of supply and the description of goods or services supplied;
 - (d) the quantity or volume of the supply;
 - (e) the consideration inclusive of the tax for the supply and the relevant rate of tax."
13. Section 21 of the principal enactment is hereby amended as follows:—
- (1) in subsection (1) of that section by the substitution for the words "fifteen days", of the words "last day of the month";
 - (2) by the repeal of subsection (2) of that section;
 - (3) by the repeal of subsection (12) of that section and the substitution therefor of the following subsection:—

“(12) Except where the Commissioner-General, imposes a penalty under subsection (10), every person who contravenes the provisions of subsection (1) or subsection (3) shall be guilty of an offence under this Act and shall be liable on conviction after summary trial before a Magistrate to a fine not exceeding fifty thousand rupees or to an imprisonment of either description for a term not exceeding six months or to both such fine and imprisonment.”.

14. Section 22 of the principal enactment is hereby amended as follows:—

- (1) in subsection (2) of that section by the substitution for the words “any output tax that is due to him”, of the words “any output tax that is due to him:

Provided however, any person adopting a payment basis of accounting, is entitled to claim credit on so much of his input tax as is allowable under this Act, only in respect of a supply for which the payment has been made by such person.”;

- (2) in subsection (4) of that section by the substitution for the words “the expiration of one month”, of the words “ the expiration of two months”;

- (3) by the repeal of the proviso to subsection (4) of that section and the substitution therefor of the following proviso :—

“Provided however, that where in a taxable period—

- (a) the value of zero rated supplies was not less than fifty *per centum* of the total taxable supplies for that taxable period, such part of the excess of the input tax (inclusive of any excess brought forward from a preceding taxable period) as is equivalent to the proportion that the zero rated supplies bear to the total taxable supplies ; or
- (b) there is an excess of input tax, in the case of a person who has entered into an agreement with the Board of Investment of Sri Lanka during the period referred to in item (XXVII) or (XXVIII) of the Schedule to this Act ; or
- (c) there is an excess of input tax, in the case of a person referred to in subsection (6),

such part of the excess or such excess, as the case may be, shall be refunded, subject to the provisions of section 58, not later than one month after the end of the taxable period or from the date of the receipt of the return for such taxable period, in which the excess arose, whichever is later. In the event of a failure to pay such refund within such period, interest on such refund shall be payable from the date on which the refund becomes due to the date of payment thereof at such rate as may be prescribed under section 59.”;

- (4) in paragraph (1) of subsection (5) of that section by the substitution for the words “for the transportation of any goods;”, of the words “for the transportation of any goods or motor vehicle forming part of any stock in trade of any taxable activity”;

- (5) by the addition immediately after subsection (5) of that section of the following subsections:—

“(6) Where any registered person has proved to the satisfaction of the Commissioner-General that such person has commenced any business in Sri Lanka, and undertakes to make the taxable supplies in respect of such business within a period of thirty months from the date of such commencement, the Commissioner-General may allow credit for input tax in respect of such business subject to such conditions as may be specified by him.

- (7) Notwithstanding the provisions of section 33, any refund in excess of the amount due, or any excess amount of input tax claimed shall be assessed by an Assessor on the registered person to whom the refund has been made or making such claim, as the case may be, and such amount shall be deemed to be tax in default on the first day of the taxable period in which the excess of input tax first arose resulting in such refund or excessive claim in excess as the case may be.”.

15. Section 25 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section by the substitution, for the words “a supply made to a registered person”, of the words “a supply made to another person”; and
- (2) in paragraph (b) of subsection (2) of that section by the substitution, for the words “the supply was made shall pay”, of the words “the supply was made shall if such person is a registered person pay”.

16. Section 26 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section by the substitution for the words “not later than the fifteenth day of”, of the words “not later than the last day of” ;
- (2) by the repeal of both the provisos to that section.

17. Section 27 of the principal enactment is hereby amended in paragraph (b) of subsection (1) of that section, by the substitution for the words “fifteenth day”, wherever those words appear in that paragraph, of the words “last day”.

18. Section 30 of the principal enactment is hereby amended by the substitution for the words “avoid the payment of tax he shall”, of the words “avoid the payment of tax or where the supply relates to a transaction between associated persons he shall”.

19. Section 33 of the principal enactment is hereby amended by the substitution for the words “has furnished a return in respect of that period”, of the words “has furnished a return as provided in section 21 in respect of that period”.

20. Section 48 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section by the substitution for the words “whether such officer is responsible or not for such default”, of the words “as if such officer is responsible for such default unless he proves the contrary to the satisfaction of Commissioner-General” ;
- (2) by the repeal of subsection (2) of that section and the substitution therefor of the following subsection :—

“(2) Where an unincorporated body of persons has not paid any tax on or before the due date, it shall be lawful to proceed under all or any of the provisions of this Chapter against any partner or office-bearer of such unincorporated body of persons as if he is responsible for such default unless he proves the contrary to the satisfaction of the Commissioner-General, notwithstanding anything in any other written law.”.

21. Section 57 of the principal enactment is hereby amended as follows :—

- (1) by renumbering of that section as subsection (1) of that section ;
- (2) by the addition immediately after the renumbered subsection (1) of the following subsection :—

“(2) Where an unincorporated body of persons is dissolved and where any tax to which such unincorporated body is liable, cannot be recovered then every person who was a partner or office - bearer of that unincorporated body at any time during the period in respect of which such tax is payable shall be jointly and severally liable for the payment of such tax unless he proves that the default in payment of the tax cannot be attributed to any gross neglect, malfeasance or breach of duty on his part in relation to the affairs of such unincorporated body and the provisions of this Act relating to collection and recovery of tax shall apply accordingly.”.

22. Section 58 of the principal enactment is hereby amended as follows :—

- (1) in the proviso to subsection (1) of that section by the repeal of paragraphs (i) and (ii) of that proviso

and the substitution therefor of the following paragraphs—

- “ (i) a registered person who makes zero rated supplies ; or
- (ii) any registered person referred to in paragraph (b) of the proviso to subsection (4) of section 22 ;
- (iii) any registered person referred to in subsection (6) of section 22”;

(2) in subsection (3) of that section—

- (a) by the substitution in paragraph (a) thereof for the words “any taxable period or a month in a taxable period”, of the words “any taxable period” ;
- (b) by the substitution in paragraph (b) thereof for the words “any taxable period or in a month in a taxable period has not furnished a return for any taxable period or a month in a taxable period”, of the words “any taxable period has not furnished a return”.

23. Section 59 of the principal enactment is hereby amended in subsection (1) of that section by the substitution for the words “by the Minister from time to time.” of the words “by the Minister from time to time :

Provided however, no such interest shall be payable where there was a delay on the part of the registered person in complying with any requirement made by the Assessor in respect of any records of the registered person.”.

24. Chapter XI of the principal enactment is hereby repealed.

25. Section 68 of the principal enactment is hereby amended by the repeal of paragraph (f) of that section.

26. Section 71 of the principal enactment is hereby amended in subsection (4) of the section by the substitution for the words “ a Deputy Commissioner of Inland Revenue” of the words “a Deputy Commissioner of Inland Revenue or a Senior Assessor of Inland Revenue.”.

27. The following new sections are hereby inserted immediately after section 71 and shall have effect as sections 71A and 71B respectively of the principal enactment.

“Goods and Services Tax Refund Fund. 71A. (1) There shall be established a Fund called the Goods and Services Tax Refund Fund (hereinafter referred to as “the Fund”).

(2) There shall be credited to the Fund—

(a) a sum of Rupees one hundred million which shall be paid out of the Consolidated Fund to the Fund ;

(b) twenty five *per centum* of the Goods and Services Tax collected every month commencing from the appointed date, on or before the fifteenth day of the month immediately succeeding that month.

(3) There shall be paid out of the Fund all refunds required to be paid in accordance with the provisions of this Act.

(4) (i) The Commissioner-General or any other officer of the Department of Inland Revenue authorised by him in that behalf in writing shall administer the Fund.

(ii) Regulations may be made as regards the manner and mode in which the refunds may be made.

“Rewards to informants. 71B. The Commissioner-General may pay, from sums appropriated for that purpose by Parliament, such sums of money as he considers reasonable in the circumstances of the case,

to any individual who provides information which results in the assessment of the tax payable by any other person and the collection of tax from such person”.

28. Section 75 of the principal enactment is hereby amended as follows :—

- (1) in subsection (1) of that section by the substitution for the words “exceeds two hundred thousand rupees”, of the words “exceeds five hundred thousand rupees”;
- (2) in subsection (2) of that section by the substitution for the words “for the period specified in subsection (1)” of the words “for any taxable period after the appointed date”;
- (3) by the addition immediately after subsection (3) of that section of the following subsection:—

“(4) Where it is proved to the satisfaction of the Commissioner-General that any registered person has paid turnover tax under section 12 of the Turnover Tax Act, No. 69 of 1981 in respect of goods imported into Sri Lanka by such person before the appointed date and such goods are supplied by such person in the course of making taxable supplies which are not within section 3, on or after the appointed date, such turnover tax paid or part thereof attributable to such taxable supply shall be deemed to be input tax credit for the purposes of section 22, if such turnover tax or a part thereof is not given credit for or refundable under sections 47, 48, 48A, and 48B of the Turnover Tax Act, No. 69 of 1981 or not refunded under section 49 of the said Act”.

29. Section 76 of the principal enactment is hereby amended as follows :—

- (1) by the insertion immediately after the definition of “Assessor” of the following definition :—

“associated persons” means—

- (a) any two or more companies which consist of the same shareholders or are managed and controlled by the same Directors; or
 - (b) any company and any shareholder, where such shareholder or the spouse or child of such shareholder or any trustee of such shareholder or any trustee of the spouse or the child of such shareholder hold jointly or severally twenty five *per centum* or more of the paid up capital or twenty five *per centum* or more of the nominal value of the allotted shares of that company; or
 - (c) any two individuals one of whom is the spouse or child of the other or is a trustee for such spouse or child; or
 - (d) a partnership and an individual where such individual is related to any partner of such partnership;
 - (e) a joint venture and any person who is related to a member of such joint venture; or
 - (f) any two persons one of whom is a trustee for the other;
 - (g) any two individuals related to each other;
- (2) by the repeal of the definitions respectively of “open market value” and “taxable period” and the substitution therefor, of the following definitions :—

“open market value” in relation to the value of a supply of goods or services at any date means the consideration in money less any tax charged under this Act, excluding the national security levy payable under the National Security Levy Act, No. 52 of 1991, which a similar supply would generally fetch, if supplied in similar circumstances at that date in Sri Lanka, being a supply freely offered and made between persons who are not associated persons;

“taxable period” means—

- (a) a period of one month—
 - (i) where the value of taxable supplies of any person has exceeded rupees thirty million during the preceding twelve months; or
 - (ii) where the value of taxable supplies of any person for the period of the succeeding twelve months is estimated to exceed rupees thirty million; or
 - (iii) where the total turn over of any person under the Turn Over Tax Act, No. 69 of 1981 has exceeded rupees thirty million during four consecutive quarters ending six months immediately preceding the appointed date;
 - (iv) where any person makes zero rated supplies;
 - (v) where any person has entered into an agreement with the Board of Investment of Sri Lanka referred to in items (XXVII) or (XXVIII) of the Schedule;
 - (vi) where any person has commenced a business and undertakes to comply with the requirements of subsection (6) of section 22;
- (b) a period of three months commencing respectively on the first day of January, the first day of April, the first day of July and the first day of October of each year in respect of a registered person who is not referred to in paragraph (a) or a person who makes zero rated supplies and who opts to submit quarterly return on approval by the Commissioner-General;”.

30. The Schedule to the principal enactment is hereby amended as follows :—

- (1) in item (i) of that Schedule, by the substitution for the words “supply of coconuts, desiccated coconuts, coconut fibre, coconut poonac, copra, rubber” of the words “supply or import of coconuts, desiccated coconuts, coconut poonac, unprocessed forestry products”;
- (2) in item (ii) of that Schedule by the substitution for the words “The import” of the words “the supply or import”;
- (3) by the repeal of item (iv) of that Schedule and the substitution therefor of the following item :—
“(iv) The supply or import of bread of any description”;
- (4) in item (vi) of that Schedule, by the substitution for the words “The supply” of the words “The supply or import”;
- (5) in item (xii) of that Schedule, by the substitution for the words “and liquid petroleum gas” of the words “liquid petroleum, gas and petrol” , ;
- (6) in item (xv) of that Schedule, by the substitution for the words “The import” of the words “The supply or import” , ;
- (7) in item (xix) of that Schedule, by the substitution for the words “Republic of Sri Lanka” of the words “Republic of Sri Lanka or of a Provincial Council;”;
- (8) in item (xxii) of that Schedule, by the substitution for the words “The import” of the words “The supply or import” ;
- (9) by the repeal of item (xxv) of that Schedule;

(10) in item (xxvi) of that Schedule, by the substitution for the words and figures “upto 75 kwh. per consumer” of the words and figures “upto 90 kwh. per consumer”;

(11) by the repeal of item (xxix) of that Schedule;

(12) by the repeal of item (xxx) of that Schedule, and by the substitution therefor of the following item :—

(xxx) The supply, in Sri Lanka, of architectural, engineering, quantity surveying or construction management services by a non resident person within the meaning of the Inland Revenue Act, No. 28 of 1979, to a company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, on or before the appointed date, if the total cost of the project to which such agreement relates is not less than US \$ 50 million or its equivalent;

(13) by the addition at the end of that Schedule of the following items :—

(xxxii) The supply, lease or rent of residential accommodation;

(xxxiii) The supply or import of timber;

(xxxiv) The supply of all health care services provided by medical institutions or professionally qualified persons providing such care;

(xxxv) The supply of hotel accommodation to tourists during the period of two years commencing from the appointed date;

(xxxvi) the supply of inbound services to tourists by travel agents registered with the Tourist Board established by Ceylon Tourist Board, Act, No. 10 of 1966 during the period of two years commencing from the appointed date ;

(xxxvii) The supply and import of pearls, diamonds, natural or synthetic precious or semi-precious stones, diamond and other powder, precious metals or metals clad with precious metal, and gold coins;

(xxxviii) The supply and import of machinery, Medical and Surgical instrument, apparatus and accessories including medical and dental equipment and ambulances for the provision of Health Services.

31. In the event of any inconsistency between the Sinhala and Tamil texts of this Act the Sinhala Text shall prevail.

NATIONAL SECURITY LEVY (AMENDMENT) ACT, NO. 17 OF 1998

[Certified on 9th April, 1998]

AN ACT TO AMEND THE NATIONAL SECURITY LEVY ACT, NO. 52 OF 1991

1. This Act may be cited as the National Security Levy (Amendment) Act, No. 17 of 1998, and shall come into operation on April 1, 1998.
2. Section 2 of the National Security Levy Act, No. 52 of 1991 is hereby amended in subsection (1) of that section as follows :—
 - (1) in paragraph (c) of that subsection, by the substitution, for the words “ insurance or banking or finance. ” , of the words “ insurance or banking or finance ; or ” ; and
 - (2) by the addition, at the end of that subsection of the following paragraph :—

“ (d) carries on the business of providing telecommunication services. ” .
3. In the event of any inconsistency between the Sinhala and Tamil text of this Act, the Sinhala text shall prevail.

FINANCE (AMENDMENT) ACT, NO. 22 OF 1998

[Certified on 15th May, 1998]

AN ACT TO AMEND THE FINANCE ACT, NO. 11 OF 1963

1. This Act may be cited as the Finance (Amendment) Act, No. 22 of 1998.
2. Section 11 of the Finance Act, No. 11 of 1963 (hereinafter referred to as the "principal enactment") is hereby repealed and the following section substituted therefor :—

"Audit of Accounts. 11. Article 154 of the Constitution relating to the audit of the accounts of public corporations shall apply to the audit of the accounts of the Fund of the Board."
3. Section 14 of the principal enactment is hereby repealed and the following section substituted therefor :—

"National lotteries. 14. (1) The Board may conduct lotteries for the purposes of this Part of this Act.
(2) The Board may enter into agreements with any other person, for the conduct by such other person, of lotteries for the purposes of this Part of this Act, on behalf of the Board.
(3) The Board may by licence issued in that behalf, authorize the conduct by any other person, of lotteries for the purposes of this Part of this Act,
(4) Every lottery conducted by the Board under subsection (1) or conducted on behalf of the Board under an agreement entered into under subsection (2) or conducted under the authority of a licence issued under subsection (3) is in this Part of this Act referred to as a "national lottery".
4. The following new section is hereby inserted after section 14 and shall have effect as section 14A of the principal enactment :—

"Terms and conditions &c. of licence issued under section 14. 14A. (1) Every licence issued by the Board under subsection (3) of section 14 shall be subject to such terms and conditions as may be determined by the Board and approved by the Minister.
(2) There shall be paid in respect of every licence issued under subsection (3) of section 14, a fee of such amount as may be prescribed. The fee shall be paid to the Board by the person to whom the licence is issued and shall be credited by the Board to the Consolidated Fund.
(3) It shall be lawful for the Board to cancel a licence issued by it under subsection (3) of section 14, if the holder of the licence fails to comply with, any term or condition to which the licence is subject or any provision of this Act."
5. Section 15 of the principal enactment is hereby amended by the substitution, for the words "conducted in", of the words "conducted or authorized to be conducted in".
6. Section 16 of the principal enactment is hereby amended as follows :—
 - (1) by the repeal of subsection (1) of that section, and the substitution of the following subsection therefor :—

"(1) The number of prizes to be awarded in a national lottery and the value of each such prize shall—
(a) in the case of a lottery conducted by the Board, be as prescribed ;
(b) in the case of a lottery conducted on behalf of the Board under an agreement entered into under subsection (2) of section 14, be as specified in such agreement ;
(c) in the case of a lottery conducted under the authority of a licence issued under subsection (3) of section 14 be as specified in the terms and conditions of such licence."
 - (2) by the repeal of subsection (3) of that section and the substitution of the following subsection therefor :—

“(3) The prize winners in every national lottery shall be determined—

- (a) in the case of a lottery conducted by the Board, in such manner as may be prescribed ;
- (b) in the case of a lottery conducted on behalf of the Board, under an agreement entered into under subsection (2) of section 14, in such manner as may be specified in such agreement ; and
- (c) in the case of a lottery conducted under the authority of a licence issued under subsection (3) of section 14, in such manner as may be specified in the terms and conditions of such licence.”.

(3) in subsection (4) of that section :—

- (a) by the substitution, for the words “the date of the drawing of lots for the prizes in”, of the words “the date of the determination of the winners of ;”;
- (b) by the substitution, for the words “the Board shall grant such prize”, of the words “the Board or the person conducting such national lottery on behalf of the Board or the person conducting such national lottery under the authority of a licence issued under subsection (3) of section 14, as the case may be, shall grant such prize”.

7. Section 17 of the principal enactment is hereby amended as follows :—

(1) in subsection (1) of that section, by the substitution, for the words “every national lottery shall”, of the words “every national lottery conducted by the Board shall”.

(2) by the substitution immediately after subsection (1) of that section of the following subsection :—

“(1A) Where the prize consisting of money in a national lottery conducted by the Board, is not won by any person, such prize money shall notwithstanding anything to the contrary in this section, be credited to a Prize Reserve Account and the monies accumulated in such account shall be used for the award of prizes at subsequent national lotteries conducted by the Board.”.

(3) in subsection (2) of that section, by the substitution for the words “approved by the Permanent Secretary”, of the words “approved by the Secretary to the Ministry of the Minister.”.

(4) by the addition, at the end of that section of the following subsections :—

“(3) The Board shall pay to the Consolidated Fund through the Secretary to the Ministry of the Minister, the proceeds of every national lottery conducted on behalf of the Board under an agreement entered into under subsection (2) of section 14, after a deduction from such proceeds, the value of the prizes awarded in such national lottery and of any management fees payable, under the terms of that agreement, to the person conducting such national lottery and of an amount approved by the Secretary as being an amount necessary for the purposes of meeting any payments and liabilities referred to in paragraphs (b), (c), (d) and (e) of subsection (2).

(4) All prizes in a national lottery which have been forfeited and paid to the Fund of the Board, under section 16, shall be credited by the Board to the Consolidated Fund.”.

8. Section 18 of the principal enactment is hereby repealed.

9. Section 23 of the principal enactment is hereby amended as follows :—

(1) by the repeal of the definition of “financial year”, and the substitution, of the following definition therefor :—

“financial year” means the period commencing on January 1 in any year and ending on December 31 of that year; and

(2) by the repeal of the definition of “Minister” and the substitution, of the following definition therefor :—

“Minister” means the Minister to whom the subject of Finance has been assigned.

10. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

TURNOVER TAX (AMENDMENT) ACT, NO. 46 OF 1998

[Certified on 31st August, 1998]

AN ACT TO AMEND THE TURNOVER TAX ACT, NO. 69 OF 1981.

1. This Act may be cited as the Turnover Tax (Amendment) Act, No 46 of 1998.
2. Section 2 of the Turnover Tax Act, No. 69 of 1981 (hereinafter referred to as “the principal enactment”) is hereby amended in paragraph (b) of that section as follows:—
 - (a) by the repeal of sub-paragraph (iii) of that paragraph; and
 - (b) by the re-numbering of sub-paragraph (iv) of that paragraph as sub-paragraph (iii) of that paragraph.
3. Section 5 of the principal enactment is hereby amended as follows:—
 - (1) in sub-paragraph (i) of paragraph (d) of subsection (1) of that section, by the substitution, for the words, “increased by twenty-five *per centum*”, of the words “increased by ten *per centum*”; and
 - (2) by the addition, at the end of that section, of the following subsection:—

“(6) In ascertaining the turnover, for any quarter, of any business of exhibiting cinematograph films, there shall be deducted an amount equivalent to any “increase” within the meaning of regulation 2 of the regulations made under section 5 and section 61 of the National Film Corporation of Sri Lanka Act, No. 47 of 1971 and published in *Gazette* Extraordinary No. 946/9 of October 24, 1996, collected in that quarter, in respect of that business.”.
4. Section 12 of the principal enactment is hereby amended in subsection (1) of that section, by the substitution for the words, “every person who imports any article”, of the words “every person who imports, prior to the date on which the Goods and Services Tax Act, No. 34 of 1996 comes into operation, any article”.
5. Section 47 of the principal enactment is hereby amended as follows:—
 - (1) by the re-numbering of that section as subsection (1) of that section;
 - (2) by the addition, immediately after the re-numbered subsection (1) of the following subsections:—

“(2) Notwithstanding the preceding provisions of this section, where there remains any residue of the turnover tax which is deductible in accordance with the provisions of subsection (1), for each of the quarters preceding the last quarter, such residue shall be deducted, to the extent it can be so deducted, from the turnover tax payable by any person, in respect of the turnover referred to in subsection (1) for the last quarter, and any balance of the residue after such deduction shall, subject to the provisions of section 49, be refunded after the expiry of six months reckoned from the date on which the Goods and Services Tax Act, No. 34 of 1996 comes into operation.

For the purposes of this subsection “last quarter” means the quarter ending on the day immediately preceding the date on which the Goods and Services Tax Act, No. 34 of 1996 comes into operation.
 - (3) The provisions of subsection (2) shall not apply to any business referred to in paragraph (b) of section 2.”.
6. Section 48 of the principal enactment is hereby amended as follows:—
 - (1) by the re-numbering of that section as subsection (1) of that section;
 - (2) by the addition, immediately after the re-numbered subsection (1) of the following subsections :—

“(2) Notwithstanding the preceding provisions of this section, where there remains any residue of the turnover tax which is deductible in accordance with the provisions of subsection (1), for each of the

quarters preceding the last quarter, such residue shall be deducted, to the extent it can be so deducted, from the turnover tax payable by any person, in respect of the turnover referred to in subsection (1) for the last quarter, and any balance of the residue after such deduction shall, subject to the provisions of section 49, be refunded after the expiry of six months reckoned from the date on which the Goods and Services Tax Act, No. 34 of 1996 comes into operation.

For the purposes of this subsection "last quarter" means the quarter ending on the day immediately preceding then date on which the Goods and Services Tax Act, No. 34 of 1996 comes into operation.

- (3) The provisions of subsection (2) shall not apply to any business referred to in paragraph (b) of section 2".
7. The rate of turnover tax payable in respect of the turnover of any person who carried on business as a manufacturer or importer of any article falling within the description in the entry specified in column 3 of Part I of the Order made under section 7 of the principal enactment and published in *Gazette Extraordinary* No. 869/2 of May 1, 1995, and corresponding to the entry relating to Harmonized System Code No. 8424.81 under Heading No. 84 specified in Column 2 of that Part of that Order, shall, notwithstanding anything to the contrary in the Order made under that section of that Act and published in the *Gazette Extraordinary* No. 751/20 of January 29, 1993, be—
- (i) five per centum for the period commencing on January 29, 1993 and ending on February 7, 1995; and
- (ii) six per centum for the period commencing on February 8, 1995 and ending on April 30, 1995.
8. Every business for the supply of the services for—
- (i) converting grey fabric into finished fabric; or
- (ii) improving the quality and character of garments by chemical washing or dyeing, or by embroidery, smocking or screen printing,
- to any business engaged in the export of garments shall, notwithstanding anything to the contrary in an Order made under section 4 of the principal enactment, be deemed to be and to have been exempt from turnover tax for every quarter commencing on or after January 1, 1992 but prior to October 1, 1995 and for the period commencing on October 1, 1995 and ending on November 8, 1995.
9. The amendment made to section 5 of the principal enactment—
- (a) by section 3(1) of this Act, shall be deemed, for all purposes, to have come into force on November 6, 1997; and
- (b) by section 3(2) of this Act, shall be deemed, for all purposes, to have come into force on July 1, 1997.
10. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

TAX AND FOREIGN EXCHANGE AMNESTY ACT, NO. 47 OF 1998

[Certified on 14th September, 1998]

AN ACT TO ENABLE THE INVESTMENT IN CERTAIN COMPANIES APPROVED BY THE BOARD OF INVESTMENT OF SRI LANKA, OR THE DEPOSIT IN ANY BANK, OF MONEYS REPRESENTING ACCUMULATED PROFITS AND INCOME, RETAINED IN OR OUTSIDE SRI LANKA, AND IN RESPECT OF WHICH A PERSON HAS NOT FURNISHED A RETURN OF INCOME OR WHICH HAVE NOT BEEN DISCLOSED IN A RETURN FURNISHED BY SUCH PERSON UNDER THE LAW RELATING TO THE IMPOSITION OF INCOME TAX, OR OF RELEVANT FOREIGN CURRENCY HELD BY ANY PERSON OUTSIDE SRI LANKA ; TO REDUCE THE LIABILITY OF PERSONS TO PAY TAX ON SUCH DEPOSITS ; TO INDEMNIFY PERSONS AGAINST LIABILITY TO PAY CERTAIN TAXES AND AGAINST PROSECUTIONS OR PENALTIES FOR OFFENCES IN RELATION TO SUCH TAX LAWS OR EXCHANGE CONTROL LAW, WITH A VIEW TO SECURING FULL COMPLIANCE, IN THE FUTURE, BY SUCH PERSONS, WITH TAX LAWS, AND THE LAW RELATING TO EXCHANGE CONTROL ; AND FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO

1. This Act may be cited as the Tax and Foreign Exchange Amnesty Act, No. 47 of 1998.
2. (1) This Act shall, subject to the provisions of subsection (2), apply to any person who—
 - (a) under law for the time being applicable to the imposition of income tax or surcharge on income tax, was liable to pay income tax for any year of assessment ending on or before March 31, 1996, in respect of any profits or income which arose, or accrued, on or before March 31, 1996, and who has not furnished a return of income under the provisions of such law for any such year of assessment or who has not disclosed such profits or income in any return furnished by him under the provisions of such law for any such year of assessment ; or
 - (b) holds any relevant foreign currency outside Sri Lanka.
- (2) This Act shall not apply to any person in relation to whom any investigation was pending on November 6, 1997, for—
 - (a) any alleged or suspected evasion of any tax payable under, the law for the time being applicable to the imposition of income tax or the Finance Act, No. 11 of 1963 or the Turnover Tax Act, No. 69 of 1981, or the National Security Levy Act, No. 52 of 1991, in respect of any profits and income or turnover, as the case may be, which arose or accrued to, or was derived by, such person on or before March 31, 1996 ; or
 - (b) any alleged or suspected violation, of any provision of the Exchange Control Act or the Prevention of Terrorism (Temporary Provisions) Act, No. 48 of 1979.
- (3) Every person referred to in subsection (1), not being a person referred to in subsection (2), shall, hereafter in this Act, be referred to as “a person to whom this Act applies”.
3. (1) Any person to whom this Act applies and who—
 - (a) has any relevant moneys ; or
 - (b) holds any relevant foreign currency may—
 - (i) invest, after November 5, 1997 but on or before June 30, 1999, such relevant moneys or moneys obtained by the conversion of such relevant foreign currency, in the purchase of any share, other than any existing share, in any company which is engaged only in any specified undertaking ;
 - (ii) deposit, after November 5, 1997 but on or before December 31, 1998, such relevant moneys or moneys obtained by the conversion of such relevant foreign currency in any Bank, and pay to the Commissioner General and amount (hereinafter in this Act referred to as the ‘amnesty tax’) equivalent to fifteen *per centum* of the moneys so deposited.

(2) For the purposes of this section “specified undertaking” means any undertaking for—

- (i) the manufacture or assembly of electronic products or components for such products ;
- (ii) the manufacture of ceramic products or glassware ;
- (iii) the manufacture of rubber products using rubber produced in Sri Lanka ;
- (iv) the manufacture of jewellery ;
- (v) the cutting and polishing of gems or diamonds ;
- (vi) light or heavy engineering ;
- (vii) the construction and sale of houses ; or
- (viii) the manufacture of any articles or goods or the provision of any service, being in either case an industry or a service designated by the Board of Investment of Sri Lanka, as being of a pioneering nature,

carried on by a company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978.

4. Any person to whom this Act applies and who has—

- (a) made any investment in accordance with the provisions of section 3(1)(b)(i) ; or
- (b) made any deposit in accordance with the provisions of section 3(1)(b)(ii) and paid the amnesty tax, thereon ;

and made the appropriate declaration referred to in section 5, shall not be liable—

(a) to pay—

- (i) any income tax or surcharge on income tax payable respectively, under the law for the time being applicable to the imposition of income tax or the law for the time being applicable to the imposition of surcharge on income tax, as the case may be, in respect of such part of his profits and income for any year of assessment ending on or before March 31, 1996, as is represented by the moneys invested in accordance with the provisions of section 3(1)(b)(i) or deposited in accordance with the provisions of section 3(1)(b)(ii) and in relation to which the amnesty tax has been paid ;
- (ii) any wealth tax or surcharge on wealth tax payable respectively, under the law for the time being applicable to the imposition of wealth tax or the law for the time being applicable to the imposition of surcharge on wealth tax, as the case may be, in respect of such part of his net wealth for any year of assessment ending on or before March 31, 1992, as had been acquired by the utilization of such part of his profits and income as is referred to in sub-paragraph (i) ; or
- (iii) any business turnover tax under the Finance Act, No. 11 of 1963 or any turnover tax under the Turnover Tax Act, No. 69 of 1981 or any National Security levy under the National Security Levy Act, No. 52 of 1991, in respect of the turnover from which such part of the profits and income as is referred to in sub-paragraph (i) arose or was derived ; or

(b) to a prosecution or to a penalty for any offence under—

- (i) the law for the time being applicable to the imposition of income tax or surcharge on income tax or wealth tax or the surcharge on wealth tax in relation to any year of assessment ending on or before March 31, 1996, in respect of, or in connection with, such part of his profits and income as is referred to in sub-paragraph (i) of paragraph (a) or such part of his net wealth as is referred to in sub-paragraph (ii) of paragraph (a) ;
- (ii) the Finance Act, No. 11 of 1963 or the Turnover Tax Act, No. 69 of 1981 or the National Security levy Act, No. 52 of 1991 in respect of, or in connection with, such part of his turnover as is referred to in sub-paragraph (iii) of paragraph (a) ;

- (iii) the Exchange Control Act, in respect of such part of the moneys so invested or so deposited as consists of moneys obtained by the conversion of any relevant foreign currency.
5. (1) Every person who invests moneys in accordance with the provisions of section 3(1)(b)(i) or deposits moneys in accordance with the provisions of section 3(1)(b)(ii) and pays the amnesty tax thereon may make a declaration in the appropriate form set out in the Schedule to this Act, to the Commissioner-General.
- (2) Where any declaration made under subsection (1) discloses that such investment or deposit consists wholly or partly, of moneys obtained by the conversion of any relevant foreign currency, the Commissioner-General shall cause a copy of such declaration to be transmitted to the Controller of Exchange.
6. Nothing in the preceding provisions of this Act shall be read and construed as authorizing the revision of—
- (a) any assessment made under the provisions of—
- (i) the laws for the time being in force relating to the imposition of, income tax or surcharge on income tax or wealth tax or surcharge on wealth tax ; or
- (ii) the Finance Act, No. 11 of 1963, the Turnover Tax Act, No. 69 of 1981, or the National Security Levy Act, No. 52 of 1991.
- (b) any requirement imposed before march 31, 1996, on any person to whom this Act applies and in relation to any violation by him of any provision of the Exchange Control Act; or
- (c) any other matter,
- which has become final and conclusive under the provisions of any such law.
7. Notwithstanding anything to the contrary in any other law, no deductions shall, for the purposes of section 30 of the Inland Revenue Act, No. 28 of 1979, be allowed to any person to whom this Act applies in respect of any investment made by him in accordance with the provisions of section 3 (1)(b)(i).
8. (1) Except in the performance of his duties under this Act and subject to the provisions of subsection (2), every officer or employee of, the Department of Inland Revenue, the Department of Exchange Control and every Bank shall preserve, and aid in preserving, secrecy with regard to all matters that may come to his knowledge in the administration of this Act and shall not give, divulge or reveal, any information whatsoever regarding any such investment or deposit as is referred to in section 3, to any individual, corporation, bank, court, institution, entity, department, official , agent, representative of the Government of Sri Lanka or to any other legal or natural person.
- (2) Notwithstanding the provisions of subsection (1), the Commissioner-General, the Controller of Exchange, or any Bank, as the case may be, shall, if required to do so—
- (i) by the person to whom such matter or information relates;
- (ii) by any provision of any law giving effect to an international convention on narcotics or hijacking, in any criminal proceedings instituted under that law in any court ;
- (iii) by the competent authority of any country with which Sri Lanka has, under the law for the time being applicable to the imposition of income tax, entered into any agreement for the avoidance of double taxation on income, in accordance with that agreement; or
- (iv) by an order of the Supreme Court, made on application therefor, on the ground that moneys represented by any investment or deposit referred to in section 3 have been, or are being used, in furtherance of an act which constituted an offence under the Prevention of Terrorism (Temporary Provisions) Act, No. 48 of 1979,

communicate to such person or court in so far as such communication is strictly necessary for the purposes of complying with such requirement or order of court, any matter or information which has come to his knowledge in the administration of this Act.

- (3) Any officer or employee of, the Department of Inland Revenue, or the Department of Exchange Control or any Bank who acts in contravention of the provisions of subsection (1) shall be guilty of an offence under this Act and shall, on conviction after summary trial before a Magistrate, be liable to a fine not exceeding one hundred thousand rupees or to imprisonment for a term not exceeding one year or to both such fine and imprisonment.

9. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

10. In this Act, unless the context otherwise requires—

“Bank” means any commercial bank licensed or deemed to be licensed under the Banking Act, No. 30 of 1988 or the National Savings Bank, established by the National Savings Bank Act, No. 30 of 1971;

“Commissioner-General”, “net wealth”, “profits and income” and “year of assessment” shall have the respective meanings assigned to them by the Inland Revenue Act, No. 28 of 1979;

“Board of Investment of Sri Lanka” means the Board of Investment of Sri Lanka established by the Board of Investment of Sri Lanka Law, No. 4 of 1978;

“Controller of Exchange” means the officer designated as the Head of the Department of Exchange Control of the Central Bank and includes an officer designated as assistant to him;

“Exchange Control Act” means the Exchange Control Act (Chapter 423);

“Foreign currency” means any currency other than Sri Lankan currency and includes any currency payable by a foreign government or institution to a person in, or resident in, Sri Lanka in respect of his pension or like payment due to him and all deposits, credits and balances payable in any currency other than Sri Lankan currency and any such drafts, travellers’ cheques, letters of credit and bills of exchange as are expressed or drawn in Sri Lankan currency but payable in any currency other than Sri Lankan currency;

“Gem” means a gem within the meaning of the National Gem and Jewellery Authority Act, No. 50 of 1993.

“Jewellery” means Jewellery within the meaning of the National Gem and Jewellery Authority Act, No. 50 of 1993.

“person” includes a company, a body of persons or a partnership;

“relevant foreign currency” in relation to a person means foreign currency held on March 31, 1996 by such person outside Sri Lanka in violation of the provisions of the Exchange Control Act, being or being attributable to, profits and income or not being or not being attributable to profits and income, and which was acquired by him outside Sri Lanka by way of gift, donation, inheritance or any other manner whatsoever;

“relevant money” in relation to a person means any moneys (not being relevant foreign currency), held by such person on March 31, 1996 in or out side Sri Lanka, and which represent accumulated profits or income which arose or accrued to or was derived by such person in any year of assessment ending on or before March 31, 1996, and in respect of which such person has not made a return of income, or which such person has not disclosed in any return of income made by him, under the law for the time being applicable to the imposition of, income tax;

“the law for the time being applicable to the Imposition of income tax” means the Inland Revenue Act, No. 28 of 1979;

“the law for the time being applicable to the imposition of surcharge on income tax” means the Surcharge on Income Tax Act, No. 26 of 1982, the Surcharge on Income Tax Act, No. 12 of 1984, the Surcharge on Income Tax Act, No. 7 of 1989;

“the law for the time being applicable to the imposition of wealth tax or surcharge on wealth tax” means the Inland Revenue Act, No. 28 of 1979, the Surcharge on Wealth Tax Act, No. 25 of 1982 and the Surcharge on Wealth Tax Act, No. 8 of 1989;

“turnover” and “quarter” shall have the respective meanings assigned to them by the Turnover Tax Act, No. 69 of 1981.

SCHEDULE

[section 5]

Part I – to be furnished by persons investing in shares Tax and Foreign Exchange Amnesty Act, No.....of 1998.

DECLARATION UNDER SECTION 5

Income Tax File No. (if any)
 Turnover Tax File No. (if any)
 National Identity Card Number (if Individual)
 Company/Partnership Registration Number
 I, Mr./Mrs./Miss./We (full name/names)
 of being (address)
 of (designation) (name of company or partnership)
 declare that I/We have in terms of the Tax and Foreign Exchange Amnesty Act, No. of 1998, invested a sum of Rupees
 (Rs.)
 consisting entirely of—

- (i) Rs. being other moneys held by me/ by the company/partnership in Sri Lanka;
 (ii) Rs. obtained by the conversion of relevant foreign currency

in the purchase, on.....of.....shares (other than existing shares) of.....being a company identified by the Board of Investment of Sri Lanka as a specified undertaking and which has on.....entered into Agreement No.....with the Board of Investment of Sri Lanka established under the Board of Investment of Sri Lanka Law, No. 4 of 1978.

.....
Signature/Signatures of Declarant/Declarants

Designation if declaration is other than as an individual

Date:

**Part II — to be furnished by persons depositing in banks.
 Tax and Foreign Exchange Amnesty Act, No. of 1998.**

DECLARATION UNDER SECTION 5

Income Tax File No. (if any)
 Turnover Tax File No. (if any)
 National Identity Card Number (if Individual)
 Company/Partnership Registration Number
 I, Mr./Mrs./Miss./We (full name/names)
 of being (address)
 of (designation) (name of company or partnership)
 declare that I/We have in terms of the Tax and Foreign Exchange Amnesty Act, No. of 1998, deposited a sum of Rupees
 (Rs.)
 consisting entirely of—

- (i) Rs. being other moneys held by me/ by the company/partnership in Sri Lanka;
 (ii) Rs. obtained by the conversion of relevant foreign currency

in my/our/company's.....Account bearing No.....at thebranch of....., and that I/we have paid the tax thereon, in terms of section 3 of that Act.

.....
Signature/Signatures of Depositor/Depositors

Designation if declaration is other than as an individual

Date:

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INLAND REVENUE (AMENDMENT) ACT, NO. 52 OF 1998

[Certified on 24th November, 1998]

AN ACT TO AMEND THE INLAND REVENUE ACT, NO. 28 OF 1979

1. This Act may be cited as the Inland Revenue (Amendment) Act, No. 52 of 1998.
2. Section 8 of the Inland Revenue Act, No. 28 of 1979 (hereinafter referred to as the “principal enactment”) as amended by Act, No. 24 of 1997, is hereby further amended as follows:—
 - (1) in paragraph (a) of that section—
 - (a) by the substitution in subparagraph (XXIVA) of that paragraph for the words and figures “year of assessment commencing on or after April 1, 1989, as consist of”, of the words and figures “year of assessment commencing on or after April 1, 1989 but prior to April 1, 1997 and for the period commencing on April 1, 1997 and ending on December 31, 1997, as consists of” ;
 - (b) in subparagraph (LXXIII) of that paragraph by the substitution for the words and figures “the Securities and Exchange Commission of Sri Lanka, Act, No. 36 of 1987”, of the words and figures “the Securities and Exchange Commission of Sri Lanka, Act, No. 36 of 1987” ;
 - (c) by the addition immediately after sub-paragraph (LXXIII) of that paragraph, of the following sub-paragraphs :—
 - “(Lxxiv) the Bandaranaike Museum Committee incorporated under the Bandaranaike Museum Committee (Incorporation) Act, No. 28 of 1997.” ;
 - (LXXV) the Geological Survey and Mines Bureau established under the Mines and Minerals Act, No. 33 of 1992 ;
 - (2) in paragraph (e) of that section, by the substitution for the words, “(ii) approved by the Minister”, of the words, “(ii) approved by the Minister ;” ; and
 - (3) by the addition at the end of that section of the following paragraph :—
 - “(f) the profits and income—
 - (i) for any year of assessment, of any unit trust or mutual fund incorporated on or after December 01, 1996, if not less than seventy per centum of such profits and income are distributed to its unit holders before the expiry of one year from the end of that year of assessment ;
 - (ii) for any year of assessment commencing on or after the day immediately succeeding the last day of the year of assessment at the end of which the period of seven years referred to in section 22 DDDD expires, of any unit trust or mutual fund referred to in that section, if not less than seventy per centum of such profits and income are distributed to its unit holders before the expiry of one year from the end of the first mentioned year of assessment.”.
3. Section 9 of the principal enactment as amended by Act, No. 24 of 1997 is hereby amended in subsection (1) of that section as follows :—
 - (1) in sub-paragraph (viii) of paragraph (f) of that subsection, by the substitution for the words “Overseas Economic Co-operation Fund of Japan ;”, of the words “Overseas Economic Co-operation Fund of Japan or the Commonwealth Secretariat in any of its programmes for technical Co-operation with Sri Lanka ;” ;
 - (2) in paragraph (o) of that subsection, by the substitution for the words “as the case may be ; and”, of the words “as the case may be ;” ;

- (3) in paragraph (p) of that subsection, by the substitution for the words and figures “prior to April 1, 1997 in such public corporation”, of the words and figures “prior to April 1, 1997 in such public corporation ; and ” ; and
- (4) by the addition, immediately after paragraph (p) of that subsection, of the following paragraph :—
- “(q) any sum paid to any employee by the employer of such employee, being a sum paid as compensation for loss of any office or employment consequent to —
- (i) the voluntary retirement by such employee on or after November, 6, 1997, in accordance with a scheme, which in the opinion of the Commissioner-General is uniformly applicable to all employees employed by such employer ;
- (ii) the retrenchment of such employee on or after November 6, 1977 by such employer in accordance with a scheme approved by the Commissioner of Labour.
4. Section 10 of the principal enactment as amended by Act, No. 24 of 1997, is hereby further amended as follows :—
- (1) by the substitution in paragraph (g) of that section, for the words “any foreign currency banking unit.”, of the words “any foreign currency banking unit ; and” ;
- (2) by the addition, immediately after paragraph (g) of that section, of the following paragraph :—
- “(h) interest accruing to any financial institution from any loan granted by it to any venture capital company established for the implementation of any entrepreneur development programme of the Government, if the proceeds of such loan are utilized by such company for the implementation of such programme.
- For the purpose of this paragraph “financial institution” means any company whose business or part of whose business consists of the acceptance of money by way of deposits or loan in the form of debenture or bond or in any other form, and the payment of interest thereon.”.
5. Section 11 of the principal enactment as amended by Act, No. 24 of 1997, is hereby further amended as follows :—
- (1) by the insertion, immediately after paragraph (aaa) of that section, of the following new paragraphs :—
- “(aaaa) any dividend out of the profits of any company with which an agreement has been entered into by the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978 from the operation by such company of a hospital with facilities for paying and non-paying patients for indoor and outdoor treatment, paid during the period of five years reckoned from the commencement of the year of assessment in which such hospital commences operations ;
- (aaaaa) any dividend out of the profits within the meaning of section 3(a) of a company
- (i) with which an agreement has been entered into by the Board of Investment of Sri Lanka, under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, and
- (ii) to which a mining license issued under the Mines and Mineral Act, No. 33 of 1992, has been assigned
- paid to any shareholder of such company, during the period for which the profits and income of that company are chargeable with income tax at such rate as is determined in accordance with subparagraph (a) of the further proviso to paragraph (iv) of regulation 2 of Regulations No. 1 of 1995 made under section 24 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, as last amended by Regulation published in *Gazette* No. 1019/13 of March 19, 1998 and specified in such agreement or within one year thereafter.

- (2) in paragraph (b) of that section, by the substitution for the figures and letters “17KK, 18”, of the figures and letters “17KK, 17L, 17M, 18”.
6. Section 14 of the principal enactment as amended by Act, No. 24 of 1997, is hereby further amended in paragraph (a) of subsection (1) of that section by the insertion, immediately after sub-paragraph (xxi), of that paragraph of the following sub-paragraphs :—
- “(xxii) the sale, on or after November 6, 1997, but on or before April 1, 1999 by any person, of any share held by him in any company, being a company the shares of which are quoted on or before March 31st 1999 in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka ;
- (xxiii) the sale, on or after November 6, 1997, by any person, of any bond, debenture or other debt instrument issued by any company and held by such person, being a bond, debenture or other debt instrument which, at the time of such sale is quoted in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka ;”.
7. Section 15 of the principal enactment as amended by Act, No. 16 of 1996 is hereby further amended as follows :—
- (1) by the insertion, immediately after paragraph (mm) of that section, of the following paragraph :—
- “(mmm) the profits and income within the meaning of paragraph (a) of section 3 arising to any person from the sale, on or after April 1, 1998, of gold, gems or jewellery ;” ;
- (2) by the insertion immediately after paragraph (w) of that section, of the following paragraph—
- “(ww) any profits and income within the meaning of paragraph (a) of section 3 derived by, or arising or accruing to any person from the sale on or after November 6, 1997, of any bond, debenture or other debt instrument issued by a company and held by him being a bond, debenture or other debt instrument which at the time of such sale is quoted in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka ;” ;
- (3) in paragraph (y) of that section by the substitution for the words “conducted by the National Lotteries Board.”, of the words “conducted by the National Lotteries Board ; and” ;
- (4) by the addition, at the end of paragraph (y) of that section of the following paragraphs :—
- ‘(z) any interest or discount accruing to the “Sudu Nelum Movement” established by the Government and registered under section 114 of the Trust Ordinance being interest or discount on any sum of money deposited by the Sudu Nelum Movement with any commercial bank ;
- (zz) the relevant part of the profits and income within the meaning of paragraph (a) of section 3, arising or accruing to any primary dealer on or after April 1, 1998.
- For the purposes of this paragraph—
- (i) the expression “relevant part” in relation to the profits and income and to any primary dealer means the profits and income of such primary dealer from dealing, in the secondary market, in any treasury bill, treasury bond, registered stock or other security issued under the Registered Stocks and Securities Ordinance and held by such primary dealer, after deducting from such profits and income such part of the interest or discount which would have accrued in respect of such bill, bond, stock or other security had such bill, bond, stock or other security been held by such primary dealer until such bill, bond, stock or other security matured, as is attributable to the period during which such bill, bond, stock or other security is held by such primary dealer ;
- (ii) the expression “primary dealer” means any financier or bank appointed by the Monetary Board of the Central Bank of Sri Lanka under the Local Treasury Bills Ordinance or the Registered

Stocks and Securities Ordinance and functioning as a primary dealer in treasury bills, treasury bond, registered stock or other security.’

8. Section 17JJ of the principal enactment inserted by Act, No. 24 of 1997, is hereby amended in subsection (2) of that section as follows :—

(1) by the substitution for paragraph (b) of that subsection, of the following paragraph :—

“(b) is approved by the Minister, to be a company to which this section applies, by Order published in the Gazette,—

(i) on or before March 31, 1998, on an application in writing in that behalf made on or before December 31, 1997 ;

(ii) on or before March 31, 2000, on an application in writing in that behalf made after December 31, 1997, but on or before December 31, 1999 ;”;

(2) by the substitution, for paragraph (d) of that subsection, of the following paragraph :—

“(d) has invested—

(i) before December 31, 1998, in the case of a company referred to in subparagraph (i) of paragraph (b) ; and

(ii) before December 31, 2000 in the case of a company referred to in subparagraph (ii) of paragraph (b),

not less than four million rupees, in the purchase, for the use of the undertaking carried on by that company, of any plant, machinery, fixtures or equipment. ”.

9. Section 17KK of the principal enactment inserted by Act, No. 24 of 1997, is hereby amended as follows :—

(1) in subsection (2) of that section by the substitution for paragraph (b) of that subsection of the following paragraph :—

“(b) is approved by the Minister by Notice published in the Gazette on or before—

(i) March 31, 1998, on an application in writing in that behalf made on or before December 31, 1997 ; or

(ii) March 31, 2000, on an application in writing in that behalf made after December 31, 1997 but before December 31, 1999,

to be an undertaking to which this section applies ; and ”;

(2) in subsection (3) of that section by the substitution for paragraph (b) of that subsection of the following paragraph :—

“(b) the expression “relevant date ” in relation to any undertaking which is approved in accordance with—

(i) sub-paragraph (i) of paragraph (b) of subsection (2), means the first day of any calendar month not earlier than November 1996 but not later than April 1998 ;

(ii) sub-paragraph (ii) of paragraph (b) of subsection (2), means the first day of any calendar month not earlier than November 1997 but not later than April 2000—

and which is selected by that undertaking, and notified to the Commissioner-General, in writing, not later than thirty days from the last date of that month :

Provided that where the relevant date is not so notified to the Commissioner-General, the relevant date in relation to any undertaking which is approved in accordance with—

- (i) sub-paragraph (i) of paragraph (b) of subsection (2), shall be deemed to be April 1, 1997 ;
- (ii) sub-paragraph (ii) of paragraph (b) of subsection (2), shall be deemed to be April 1, 1999.”.

10. The following new sections are hereby inserted, immediately after section 17KK, and shall have effect as section 17L, and section 17M respectively, of the principal enactment :—

“Exemption from income tax of the profits and income of any undertaking which provide for certain services.

17L. The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of capital assets), of any person or partnership from any undertaking for the provision of services of refrigerated transport or cold-room-storage or other services ancillary thereto, shall be exempt from income tax for a period of five years reckoned from—

- (a) April 1, 1998 ; or
 - (b) the commencement of the year of assessment in which such undertaking commences to carry on business,
- whichever is later.

“Exemption from income tax of the profits and income of any company engaged in non-plantation agricultural activities.

17M. (1) The profits and income within the meaning of paragraph (a) of section 3 (other than any profits and income from the sale of capital assets), of any company from any specified undertaking referred to in subsection (2) shall notwithstanding the provisions of section 32DDDD be exempt from income tax for a period of ten years reckoned from—

- (a) April 1, 1998 ; or
- (b) the commencement of the year of assessment in which such company commences to carry on business,

whichever is later.

(2) For the purposes of subsection (1) “specified undertaking” in relation to any company is an undertaking carried on by such company and which is engaged in—

- (a) cultivating land with plants of whatever description other than tea, rubber and coconut ; or
- (b) the production of planting materials certified by the Department of Agriculture as being of high quality, for cultivation referred to in paragraph (a) ; or
- (c) carrying out research work for improving the quality and character of planting materials for cultivation of land referred to in paragraph (a)’.

11. The following new section is hereby inserted immediately after section 20C, and shall have the effect as section 20D of the principal enactment :—

“Exemption of profits and income of a company which exports fresh or processed vegetables or fruits and

20D. (1) The profits and income, within the meaning of paragraph (a) of section 3, (other than any profits from the sale of capital assets), of any company from any specified undertaking referred to in subsection (2) shall, notwithstanding anything to the contrary in Chapter VIII, be exempt from income tax for a period of ten years reckoned from—

- (a) April 1, 1998 ; or
- (b) the commencement of the year of assessment in which such undertaking commences to carry on business,

whichever is later.

cultivates
vegetables
or fruits.

- (2) For the purpose of subsection (1), "specified undertaking" in relation to any company and to any year of assessment means an undertaking carried on by that company and which is engaged in—
- (i) the export of any fresh or processed vegetables or fruits ; and
 - (ii) cultivation in that year of assessment, of land not less than five acres in extent with vegetables or fruits.

In this section, vegetables include betel leaves.?

12. Section 23 of the principal enactment as amended by Act, No. 24 of 1997, is hereby further amended as follows :—

(1) in subsection (1) of that section—

(a) in paragraph (eee) of that subsection—

- (i) by the substitution, in sub-paragraph (i a) of that paragraph, for the words and figure "(other than plant, machinery or fixtures referred to in sub-paragraph (ii))", of the words and figures "(other than plant, machinery or fixtures referred to in sub-paragraph (ii) or (iia))";
- (ii) by the substitution in sub paragraph (ii) of that paragraph, for the words and figures "any motor vehicle, lorry, bus, tractor, trailer or office furniture acquired by such person on or after April 1, 1987," of the words and figures "any motor vehicle, lorry, bus, tractor, trailer or office furniture (other than any motor coach, referred to in sub- paragraph (iia)) acquired by such person on or after April 1, 1987;";
- (iii) by the insertion, immediately after subparagraph (ii), of that paragraph of the following sub-paragraph :—

"(ii a) any motor coach acquired by such person on or after April 1, 1998, and used for transporting employees of such person to, or from, their place of work, at the rate of one hundred per centum on its cost of acquisition";

(b) by the substitution in paragraph (t) of that subsection, for the words "a special levy, to the Government.", of the word "a special levy to the Government ; and ;";

(c) by the addition, at the end of paragraph (t) of that subsection, of the following paragraph :—

"(u) any expenses incurred on or after November 6, 1997, but on or before March 31, 1999 by any company in obtaining quotation of the shares of such company, in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka, if such quotation is so obtained, on or before March 31, 1999."

(2) in subsection (7) of that section—

(a) by the substitution in sub-paragraph (ii) of paragraph (c), of that subsection for the words "is other wise than by sale," of the following words :—

"is otherwise than by sale, after deducting from such sale price or market value, as the case may be, the amount of goods and services tax chargeable under the Goods and Services Tax Act, No. 34 of 1996, on the disposal of such capital asset if such tax is included in such sale price or market value as the case may be ;"

(b) in sub-paragraph (iii) of paragraph (f) of that subsection, by the substitution for the words "by such individual or partnership", of the words "by such individual or partnership ;";

(c) by the addition at the end of sub-paragraph (iii) of paragraph (f) of that subsection of the following paragraph :—

“(iv) where any person is entitled, under the Goods and Services tax Act, No. 34 of 1996, to claim credit for input tax paid in relation to the acquisition or the construction of any capital asset, the cost of acquisition or the cost of construction, as the case may be, of such capital asset shall not include such input tax.”.

13. Section 24 of the principal enactment as amended by Act, No. 24 of 1997, is hereby amended in subsection (1) of that section as follows :—

- (1) in subparagraph (iii) of paragraph (1) of that subsection by the substitution, for the words “prescribed tax or levy.”, of the words “prescribed tax or levy.” ; and”;
- (2) by the addition at the end of sub-paragraph (iii) of that paragraph, of the following paragraph :—

“(iv) input tax under the Goods and Services Tax Act No. 34 of 1996, for the period for which the profits and income are being ascertained in respect of any taxable activity, within the meaning of that Act, carried on by such person, if such person is entitled under that Act, to claim credit for such input tax”.

14. Section 29 of the principal enactment as amended by Act, No. 24 of 1997 is hereby further amended as follows :—

(1) in paragraph (b) of subsection (2) of that section—

(a) in item (ii) (a) of that paragraph by the substitution for the words and figures “subsection (7A), a loss referred to in paragraph (b) of”, of the words and figures “subsection (7A), subsection (7B), a loss referred to in paragraph (b) of”; and

(b) in item (iv) of the proviso to paragraph (b) of that section by the substitution, for the words and figures “subsection (7) or in subsection (7A), incurred”, of the words and figures “subsection (7), subsection (7A) or subsection (7B) incurred”;

(2) in subsection (3) of that section by the substitution in paragraph (b), of that subsection, for all the words and figures from “such entirety or portion shall be” to “the manner provided for in paragraph (b) of subsection (2)”, of the following :—

“such entirety or portion shall be deducted from his total statutory income for the next succeeding year of assessment and so on :

Provided that where such first year of assessment is any year of assessment—

(i) ending on or before March 31, 1997, the residue, if any, of such entirety or of such portion after its deduction from the total statutory income of such person for each of the years of assessment succeeding the year of assessment in which such loss was incurred but prior to the year of assessment commencing on April 1, 1997, shall be deemed to be a loss incurred by such person in such undertaking in the year of assessment ending on March 31, 1998 and may accordingly ;

(ii) commencing on or after April 1, 1997, the residue, if any, of such entirety or of such portion, after, its deduction from the total statutory income of such person for that year of assessment, shall be deemed to be a loss incurred by such person in that undertaking in the year of assessment immediately succeeding that year of assessment and may accordingly,

be deducted in the manner provided in paragraph (b) of subsection (2)” ; and

(3) by the insertion immediately after subsection (7A) of that section of the following subsection :—

“(7B) There shall be deducted from the total statutory income of a person for any year of assessment commencing on or after April 1, 1997, where such income includes profits and income from any business of leasing, any loss for any year of assessment commencing on or after April 1, 1997

incurred from the business of leasing which if it had been a profit would have been assessable under this Act, and which has not been so deducted from his total statutory income of a previous year :

Provided that such deduction shall in no case exceed the amount of the profits and income of such business included in such total statutory income ; and shall be made as far as possible, from the total statutory income of such person for the first year of assessment after that in which the loss was incurred and so far as it cannot be so made, then from the total statutory income of the next succeeding year of assessment and so on.”.

15. Section 30 of the principal enactment is hereby amended in the third proviso to subsection (2) of that section by the substitution, for the words and figures “any year of assessment commencing on or after April 1, 1989”, of the words and figures “any year of assessment commencing on or after April 1, 1989, but prior to March 31, 1997 and for the period commencing from March 31, 1997 to December 31, 1997”.

16. Section 31 of the principal enactment as amended by Act, No. 16 of 1996, is hereby further amended as follows :—

(1) in subsection (2) of that section—

(a) in paragraph (q) of that subsection, by the substitution, for the words and figures “Tax Amnesty Act, No. 5 of 1978.”, of the words and figures “Tax Amnesty Act, No. 5 of 1978 ;” ;

(b) by the addition immediately after paragraph (q) of that subsection of the following paragraphs :—

“(r) any sum invested by any individual, on or after November 6, 1997 but on or before March 31, 1999, in the purchase of any ordinary share, other than any existing share in any company, the shares of which are quoted as at March 31, 1999 in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka ;

(s) any sum invested by any person on or after November 6, 1997 but before April 1, 2000, in the purchase of any ordinary share other than any existing share, in any company—

(A) which,

(i) is incorporated on or after November 6, 1997 ;

(ii) has entered into an agreement with the Board of Investment of Sri Lanka under section 17 of the Board of Investment of Sri Lanka Law No. 4 of 1978,

and is engaged in accordance with that agreement in any undertaking for the development of infrastructure facilities in Sri Lanka ; and

(B) (i) of which the issued share capital as at March 31, 2000 is not less than three hundred million Rupees : and

(ii) which has, as at March 31, 2000 invested not less than five hundred million Rupees

(a) in the purchase or construction of any building or in the purchase of any land, plant, machinery or furniture ; and

(b) in the acquisition of any other asset not included in paragraph (a)

for the use of the undertaking carried on by the company ;

(t) any sum invested, on or after April 1, 1998, but prior to March 31, 2000 by any person in the purchase of any ordinary share, other than any existing share, in any company referred to in—

(i) section 11 (aaaa)” ; or

- (ii) section 17M, where the sum invested is not less than ten million Rupees and it is proved to the satisfaction of the Assessor that such sum is utilised by such company in carrying on any specified undertaking referred to in that section.

(2) in subsection (5E) of that section—

(i) in paragraph (a)—

(a) by the substitution in paragraph (i), for the words and figure and letters “paragraphs (b), (c), (m), (n) and (q) of subsection (2),”, of the words and figure and letters “paragraphs (b), (c), (m), (n), (q), (r), (s) and (t) of subsection (2) ;” ;

(b) by the substitution in sub-paragraph (iii), for the words “such assessable income ; and”, of the words “such assessable income ;” ;

(c) by the insertion, immediately after sub-paragraph (iii) of that subsection of the following sub-paragraphs :—

“(iii a) in respect of all qualifying payments referred to in paragraph (r) of subsection (2), made by him or deemed to have been made by him, shall not exceed one-third of such assessable income ;

(iii b) in respect of all qualifying payments referred to in paragraph (s) of subsection (2) made by him or deemed to have been made by him, shall not exceed one-third of such assessable income ; and

(ii) in paragraph (b), by the substitution for the words and letters “paragraphs (b), (c), (m) and (n) of”, of the words and letters “paragraphs (b), (c), (m), (n) and (t) of”.

(3) in subsection (6) of that section—

(a) by the substitution, in paragraph (i) of that subsection for the words “in any year of assessment ; or”, of the words “in any year of assessment ;

(b) by the substitution, in paragraph (ii) of that subsection for the words and letters “in paragraph (q) of”, of the words and letters “in paragraph (q) or (s) of” ;

(4) by the insertion, immediately after subsection (7A) of that section of the following subsection :—

“(7AA) Where any person who is entitled to a deduction from his assessable income of an allowance under subsection (1) in respect of the purchase of any share in any company, sells such share or withdraws, realizes or receives any money in respect of such share, and purchase other ordinary shares in respect of which he is entitled to a deduction from his assessable income under that subsection, the deduction from income tax to which he is entitled to in respect of the second-mentioned purchase of shares shall be reduced by the amount of the deduction from income tax to which he was entitled in consequence of the first-mentioned purchase of shares.”.

17. Section 31A of the principal enactment inserted by Act, No. 24 of 1997 is hereby amended as follows :—

(1) in subsection (2) of that section, by the substitution for sub paragraph (i) of paragraph (a) of that subsection of the following paragraph :—

“(i) on or after November 6, 1996 but prior to April 1, 2000 ;”

(2) in subsection (4) of that section, by the substitution, for the words “the entirety of such investment whichever is less” wherever those words occur in that subsection, of the words “the entirety of such investment tax allowance whichever is less” ;

- (3) in subsection (6) of that section, by the substitution in paragraph (ii) of that subsection, for the words and figures “commencing on November 6, 1996 and ending on March 31, 1999, is entitled”, of the words and figures :—

“commencing on—

- (a) November 6, 1996 and ending on March 31, 1999, where such asset was acquired or deemed to have been acquired before April 1, 1998 ; or
- (b) April 1, 1998, and ending on March 31, 2001, where such asset is acquired or deemed to have been acquired on or after April 1, 1998,

is entitled.”.

18. Section 32CCC of the principal enactment inserted by Act, No. 16 of 1996 is hereby amended by the addition, at the end of that section of the following subsection :—

“(3) Where an individual who is employed in a company referred to in paragraph (aaaaa) of section 11, and who is deemed under subsection (7) of section 67 to be non-resident for a period of five years, continues to be employed in such company in Sri Lanka after the expiry of such period of five years, the profits from employment in that company of such individual for the period commencing from the end of such period of five years and ending on the last date of the period during which the dividends paid by such company are exempt from income tax, shall, notwithstanding anything to the contrary in Chapter VIII of this Act, be chargeable with income tax at the rate of fifteen per centum.”.

19. Section 32D of the principal enactment inserted by Act, No. 11 of 1989, is hereby amended in subsection (1) of that section by the substitution, for the words “held by the Central Bank of Sri Lanka” of the words “held prior to January 1, 1998, by the Central Bank of Sri Lanka.”.

20. The following new sections are hereby inserted, immediately after section 32DD and shall have effect as sections 32DDD, 32DDDD and 32DDDDD respectively of the principal enactment :—

“Rate of income tax on profits from certain undertakings carried on by a person other than a company.

32DDD (1) Where the taxable income of any person (other than a company) for any year of assessment commencing on or after April 1, 1998, includes any profits and income from any agricultural undertaking or any undertaking for the promotion of tourism (hereinafter in this section referred to as “specified profits”) and the rate of income tax payable on a part of such income (hereinafter in this section referred to as “the relevant part of the income”) exceeds fifteen per centum, then in regard to the relevant part of the income, the tax shall be computed as follows :—

- (a) if the relevant part of the income exceeds the amount of such “specified profits”—
- (i) the tax payable on such portion of the relevant part of the income as is equal to the amount of such specified profits, shall be at the rate of fifteen per centum ; and
- (ii) the tax payable on the balance of the relevant part of the income shall be computed according to the rates of tax above fifteen per centum as are applicable thereto under this Act;
- (b) if the relevant part of the income does not exceed the amount of such specified profits, the tax payable on the entirety of the relevant part of the income shall be at the rate of fifteen per centum, notwithstanding anything to the contrary, to the other provisions of this Chapter or Chapter VIIIA.

- (2) For the purposes of subsection (1)

- (a) “agricultural undertaking” includes any undertaking for—

- (i) fishing ;
- (ii) cultivating land with plants of whatever description ; and
- (iii) provision of the services of management to any undertaking for cultivating land with plants of whatever description ;

(b) “any undertaking for the promotion of tourism” means an undertaking for the operation of—

- (i) any hotel or guest house approved by the Ceylon Tourist Board ; or
- (ii) any restaurant graded by the Ceylon Tourist Board as being in “Class A” or “Class B”;
- (iii) any business of a travel agent ;
- (iv) any business of transporting tourists ;
- (v) any business approved by the Ceylon Tourist Board for providing facilities to tourists for recreation or sports.

(c) “profits and income from any agricultural undertaking” means—

- (i) in the case of an undertaking referred to in sub-paragraph (iii) of paragraph (a), the profits and income from fees for providing the services of management; and
- (ii) in any other case, the profits and income from the sale of produce of such undertaking without subjecting such produce to any process of production or manufacture:

Provided that where any person carries on any undertaking for subjecting the produce of any agricultural undertaking to any process of production or manufacture, the produce of the agricultural undertaking shall for the purpose of this sub-paragraph be deemed to have been sold to such undertaking for production or manufacture at the open market price prevailing at the time of the deemed sale and the profit from the sale of the produce of such agricultural undertaking shall be the profits arising from such deemed sale.

“Rate of income tax on profits from certain undertakings carried on by a company. 32DDDD. (1) Where the taxable income of any company for any year of assessment commencing on or after April 1, 1998, includes any profits and income from any agricultural undertaking or from any undertaking for the promotion of tourism, such part of such taxable income as consists of such profits and income shall, notwithstanding anything to the contrary in any provisions of this Chapter or Chapter VIIIa or Chapter IX be chargeable with income tax at the rate of fifteen per centum.

(2) For the purposes of subsection (1) the expressions “agricultural undertaking”, “any undertaking for the promotion of tourism” and “the profits and income from any agricultural undertaking”, shall have the respective meanings assigned to them in section 32DDD.

Rate of income tax on dividends paid out of profits taxed in accordance with section 32 DDDD. 32DDDDD.(1) Where the taxable income of any person (other than a company) for any year of assessment includes any dividend-

- (a) being a dividend out of profits and income referred to in section 32DDDD; or
- (b) being a dividend paid out of any such dividend as is referred to in paragraph (a) received by any company directly from a company referred to in section 32DDDD or through one or more intermediary companies, if the first mentioned dividend is paid during the year of assessment in which the profits and income

referred to in section 32DDDD arose or accrued or within two years from the end of that year of assessment, and the rate of income tax payable on a part of such income (hereinafter in this section referred to as the relevant part of the income) exceeds fifteen per centum, then in regard to the relevant part of the income tax shall be computed as follows :—

(i) if the relevant part of the income exceeds the amount of such dividends—

the tax payable on such part of the relevant part of the income as is equal to the amount of such dividends, shall be at the rate of fifteen per centum : and

the tax payable on the balance of the relevant part of the income shall be computed according to such of the rates of the tax above fifteen per centum as are applicable thereto under this Act;

(ii) if the relevant part of the income does not exceed the amount of such dividend, tax payable on the entirety of the relevant part of the income shall be at the rate of fifteen per centum, notwithstanding anything to the contrary in the other provisions of this Chapter or of Chapter VIII.

(2) Where the taxable income of any company includes any dividend referred to in subsection (1), the rate of income tax applicable to such part of such taxable income as consists of such dividend shall, subject to the provisions of section 35 be fifteen per centum”.

21. The following new sections are hereby inserted, immediately after section 32EEEE, and shall have effect as sections 32EEEE and 32EEEE respectively of the principal enactment :—

“Deduction from tax payable by any quoted public company under certain conditions.

32EEEE. (1) Where for any year of assessment commencing on or after April 1, 1998 the taxable income of any company referred to in subsection (2), includes any profits and income, within the meaning of section 3(a), there shall be deducted from the tax payable by that company for that year of assessment, an amount equal to five per centum of such part of such taxable income as consists of such profits and income :

Provided that where the amount so deductible exceeds such tax payable by such company for that year of assessment the excess shall not be refunded.

(2) The provisions of subsection (1) shall, in relation to the year of assessment referred to in subsection (1), apply to any company—

(a) which is a quoted public company for that year of assessment, and

(b) in respect of which the Assessor is satisfied that, the number of persons registered in the share register of such company as shareholders is, at no time during that year of assessment, less than three hundred.

(3) Where in relation to any company—

(a) which is a quoted public company for the year of assessment commencing on April 1, 1997, and

(b) in respect of which the Assessor is satisfied that as at March 31, 1998, the number of persons registered in the share register of such company as shareholders is not less than three hundred,

the deduction referred to in subsection (1) shall apply to that company for the year of assessment commencing on April 1, 1997.

Deduction from tax payable by any company which obtains a quotation of the shares and satisfies certain conditions. 32EEEE. (1) Where for any year of assessment commencing on or after April 1, 1998, the taxable income of any company referred to in subsection (2) includes any profits and income, within the meaning of section 3(a), there shall be deducted from the tax payable by that company for that year of assessment, an amount equal to five per centum of such part of such taxable income as consists of such profits and income :

Provided that where the amount so deductible exceeds the tax payable by such company for that year of assessment, the excess shall not be refunded.

(2) The provisions of subsection (1) shall, in relation to the year of assessment referred to in subsection (1), apply to any company—

(a) the shares of which are as at March 31 of that year of assessment, quoted in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka consequent to an application made in that year of assessment , and

(b) in respect of which the Assessor is satisfied that as at March 31 of that year of assessment the number of persons registered in the share register of such company as shareholders is not less than three hundred.

(3) Where in relation to any company—

(a) the shares of which are quoted, as at March 31, 1999, in any official list published by any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka consequent to an application made in that behalf on or before March 31, 1998, and

(b) in respect of which the Assessor is satisfied that as at March 31, 1998 the number of persons registered in the share register of such company as shareholders is not less than three hundred, and the deduction referred to in subsection (1), shall apply to that company for the year of assessment commencing on April 1, 1997, as an amount equal to two and one half *per centum* of such part.

22. Section 33A of the principal enactment amended by Act No. 24 of 1997 is hereby further amended in paragraph (ii) in subsection (2) of that section by the substitution for the words and figures “section 32F or section 32H”, of the words and figures” section 32DDDD or section 32F or section 32H.

23. Section 33C of the principal enactment as last amended by Act No. 16 of 1996, is hereby further amended as follows :—

(1) in sub-paragraph (c) of paragraph (1) of that section—

(a) by the insertion, immediately after item (i) of that sub-paragraph of the following item :—

“(ia) dividends in relation to which advance company tax has been paid at fifty four *per centum* ; and

(b) by the repeal of items (iva) and (ivb) of that sub-paragraph and the substitution of the following items therefor:—

“(v) dividends in relation to which advance company tax has been paid at seventeen *per centum* ;

(vi) dividends in relation to which advance company tax has been paid at eleven *per centum* ;

(vii) dividends in relation to which advance company tax has been paid at eight *per centum* ; and

(viii) dividends in relation to which advance company tax has been paid at five *per centum* ; ” ;

(2) in sub-paragraph (b) of paragraph (2) of that section, by the insertion, immediately after item (iii) of that sub-paragraph, of the following item :—

“(iia) under section 32DDDD”.

24. Section 38 of the principal enactment as amended by Act, No. 16 of 1996, is hereby further amended in paragraph (d) of subsection (2) of that section as follows :—

(1) by the insertion, immediately after item (i) of that paragraph, of the following item :—

“(ia) dividends received, in relation to which advance company tax has been paid at fifty four *per centum* ;”;

(2) by the repeal of items (iva) and (ivb) of that paragraph, and the substitution, of the following items therefor :—

“(iva) dividends received, in relation to which advance company tax has been paid at seventeen *per centum* ;

(ivb) dividends received in relation to which advance company tax has been paid at eleven *per centum* ;

(ivc) dividends received in relation to which advance company tax has been paid at five *per centum* .”.

(ivd) dividends received, in relation to which advance company tax has been paid at five *per centum* .”.

25. Section 92 of the principal enactment is hereby amended by the addition at the end of that section of the following subsection :—

“(9) For the purpose of this section the expression ‘document’ includes any diskette, tape, compact disc or any other thing in which any computer programme or data is stored or recorded in codified form or electronic, magnetic or other medium.”.

26. Section 108 of the principal enactment is hereby amended in subsection (2) of that section by the substitution, for the words “amount as may be due under section 110.”, of the following :—

“amount as may be due under section 110 :

Provided that where in the opinion of the Assessor any fraud, evasion or wilful default has been committed by or on behalf of any employer in relation to any income tax deductible by such employer in any year of assessment, it shall be lawful for the Assessor to make an assessment or an additional assessment on such employer at any time after the end of that year of assessment .”.

27. Section 113F of the principal enactment is hereby amended by the substitution for all the words from “income tax which such bank” to the end of that section, of the following :—

“income tax which, in the opinion of the Assessor, such bank or financial institution should have deducted and paid to the Commissioner-General for such year of assessment, and shall by notice in writing, require such bank or financial institution to pay such amount forthwith together with such amount as may be due under section 113H :

Provided that, where in the opinion of the Assessor any fraud, evasion or wilful default, has been committed by or on behalf of any such bank or financial institution, in relation to any such income tax deductible by such bank or financial institution, it shall be lawful for the Assessor to make an assessment or an additional assessment on such bank or financial institution at any time after the end of such year of assessment. ”.

28. Section 118 of the principal enactment is hereby amended by the repeal of subsection (3) of that section and the substitution therefor of the following subsection :—

“(3) There shall be a panel of not more than three legal advisors to the Board who shall be appointed by the Board. ”.

29. Section 161 of the principal enactment is hereby amended in subsection (7) of that section by the insertion, immediately after the definition of “article”, of the following definition :—

“document ” includes any diskette, tape, compact disc or any other thing in which any computer programme or data is stored or recorded in codified form or in electronic, magnetic or other medium; ”.

30. Section 161A of the principal enactment is hereby amended as follows :—

(1) in subsection (1) of that section by the insertion immediately after paragraph (c) of that subsection of the following paragraph —

“(cc) operate any computer found in any such building and take print outs of the whole or part of any entries recorded or stored therein ;”;

(2) subsection (4) of that section is hereby amended by the substitution for the definition of “article” of the following :- “Article” and “document” shall have the respective meanings assigned to them by section 161. ”.

31. Section 163 of the principal enactment as amended by the Act, No. 27 of 1995, is hereby further amended in paragraph (B) of the definition of “qualifying distribution” as follows :—

(1) in item (b) of sub paragraph (i) of that paragraph by the substitution for the words and figures “Board under section 17 of such law, or” of the words and figures “Board under section 17 of such law, being a rate which is either ten *per centum* or fifteen *per centum*, or thirty five *per centum*”. ;

(2) in sub-paragraph (ii) of that paragraph by the substitution for all the words and figures from “(ii) are taxed in accordance with the provisions of section 32F” to the end of that definition of the following words and figures :—

“(ii) are taxed in accordance with the provisions of section 32F or of section 32H or of section 32k or of section 32M or of section 32N, or of section 32DDDD,

but does not include any dividend —

(a) distributed out of —

(i) profits or income which accrued or arose to such company prior to April 1, 1988 ;

(ii) its exempt profits or income ;

(iii) any income from dividend received by such company ;

(iv) profits and income which arose or accrued to or was derived by such company from any territory outside Sri Lanka, if such company under any agreement referred to in section 82, is entitled to credit against any income tax in respect of such profits and income payable by such company under section 33(1)(a) of this Act, for any income tax payable in such other territory in respect of such profits and income ;

(v) profits and income of a company referred to in section 11(aaaaa) during the period in which dividends paid out of such profits and income, are exempt from tax ;

(b) paid to any person whose profits and income are exempt from tax under paragraph (a) of section 8 ;

(c) paid, on or after April 1, 1998, to any person who is a non-resident ; and ” .

32. Sixth Schedule to the principal enactment is hereby amended by the substitution, for the words and figures “person or partnership out of Sri Lanka 33 1/3 *per centum*”, of the following words and figures :—

“person or partnership out of Sri Lanka—

For any year of assessment ending before April 1, 1998

33 1/3 *per centum*

For any year of assessment commencing on or after April 1, 1998

20 *per centum* ” .

33. Seventh Schedule to the principal enactment amended by Act, No. 24 of 1997 is hereby further amended as follows :—

- (1) by the substitution for the words and figures “for every year of assessment commencing on or after April 1, 1997, shall be as follows : of the words and figures “for every year of assessment commencing on or after April 1, 1997, but prior to April 1, 1998, shall be as follows :—” ;
- (2) by the addition at the end of that Schedule, of the following :—

“The rates of advance company tax for every year of assessment commencing on or after April 1, 1998 shall be as follows :—

- (i) on the amount equal to the amount of every qualifying distribution, made by a quoted public company—
- (a) out of the profits (other than the profits which are taxed, in accordance with the provisions, of section 32F or section 32H or section 32K or section 32M or section 32N or section 32DDDD or at a rate specified in any regulation made under the Board of Investment of Sri Lanka Law, No. 4 of 1978). 54 per centum
- (b) out of the profits which are taxed in accordance with the provisions of section 32H or section 32K or section 32M or section 32N or section 32DDDD or at the rate of fifteen per centum specified in any regulation made under the Board of Investment of Sri Lanka Law, No. 4 of 1978 and applicable to that company. 17 per centum
- (c) out of profits which are taxed in accordance with the provisions of section 32F or at the rate of ten per centum specified in any regulation made under the Board of Investment of Sri Lanka Law, No. 4 of 1978 and applicable to that company. 11 per centum
- (ii) on the amount equal to the amount of every qualifying distribution made by a unit trust or a mutual fund or any other company other than a quoted public company—
- (a) out of profits (other than profits which are taxed in accordance with the provisions of section 32F or section 32H or section 32K or section 32M or section 32N or section 32DDDD or at the rate specified in any regulation made under the Board of Investment of Sri Lanka, Law, No. 4 of 1978). 27 per centum
- (b) out of profits which are taxed in accordance with the provisions of section 32H or section 32K or section 32M or section 32N or section 32DDDD or at the rate of fifteen per centum specified in any regulations made under the Board of Investment of Sri Lanka Law, No. 4 of 1978 and applicable to that company. 8 per centum
- (c) out of profits which are taxed in accordance with the provisions of section 32F or at the rate of ten per centum specified in any regulation made under the Board of Investment of Sri Lanka Law, No. 4 of 1978 and applicable to that company. 5 per centum.”.

34. (1) The amendment to section 8 of the principal enactment made by section 2(2) and 2(3) of this Act, shall be deemed for all purposes to have come into force on December 1, 1996 .
- (2) The amendment to section 31A of the principal enactment made by section 17(2) of this Act, shall be deemed for all purposes to have come into force on November 6, 1996.
- (3) The amendment to section 29, of the principal enactment made by section 14 of this Act, shall be deemed for all purposes to have come into force on April 1, 1997 ;
- (4) The provisions of section 21 of this Act shall be deemed for all purposes to have come into force on April 1, 1997.
- (5) The amendment to—
- (i) section 9 of the principal enactment made by section 3(2) to 3(4) of this Act ;
- (ii) section 14 of the principal enactment made by section 6 of this Act ;

- (iii) section 17JJ of the principal enactment made by section 8 of this Act ;
- (iv) section 17KK of the principal enactment made by section 9 of this Act ;
- (v) section 23 of the principal enactment made by section 12(1) of this Act ;
- (vi) section 31 of the principal enactment made by section 16 of this Act, other than the insertion of paragraph (t) in subsection (2) of section 31,

shall be deemed for all purposes to have come into force on November 6, 1997.

- (6) The amendments to sections 8, 30 and 32D of the principal enactment made by sections 2(1), 15 and 19 respectively of this Act shall be deemed for all purposes to have come into force on January 1, 1998.

(7) The amendment to—

- (i) section 10 of the principal enactment made by section 4 of this Act ;
- (ii) section 15 of the principal enactment made by section 7 of this Act ;
- (iii) section 20D of the principal enactment made by section 11 of this Act ;
- (iv) section 23 of the principal enactment made by section 12 (other than by paragraphs (b) and (c) of subsection (1), of this Act.
- (v) section 24 of the principal enactment made by section 13 of this Act ;
- (vi) section 31A of the principal enactment made by section 17(1) and 17 (3) of this Act ;
- (vii) section 163 of the principal enactment made by section 31 of this Act ;
- (viii) the Sixth Schedule and the Seventh Schedule made by section 32 and section 33 respectively of this Act.

shall be deemed for all purposes to have come into force on April 1, 1998.

- (8) The provisions of section 20 of the Act shall be deemed for all purposes to have come into force on April 1, 1998.

35. In the event of any inconsistency between the Sinhala and the Tamil texts of this Act, the Sinhala text shall prevail.

APPROPRIATION ACT, NO. 61 OF 1998

[Certified on 22nd December, 1998]

AN ACT TO PROVIDE FOR THE SERVICE OF THE FINANCIAL YEAR, 1999, TO AUTHORISE THE RAISING OF LOANS IN OR OUTSIDE SRI LANKA, FOR THE PURPOSE OF SUCH SERVICE, TO MAKE FINANCIAL PROVISION IN RESPECT OF CERTAIN ACTIVITIES OF THE GOVERNMENT DURING THAT FINANCIAL YEAR, TO ENABLE THE PAYMENT, BY WAY OF ADVANCES OUT OF THE CONSOLIDATED FUND OR ANY OTHER FUND OR MONEYS OF, OR AT THE DISPOSAL OF, THE GOVERNMENT, OF MONEYS REQUIRED DURING THAT FINANCIAL YEAR FOR EXPENDITURE ON SUCH ACTIVITIES, TO PROVIDE FOR THE REFUND OF SUCH MONEYS TO THE CONSOLIDATED FUND, AND TO MAKE PROVISION FOR MATTERS CONNECTED WITH OR INCIDENTAL TO THE AFORESAID MATTERS.

1. This Act may be cited as the Appropriation Act, No. 61 of 1998.
2. (1) Without prejudice to any other law authorising any expenditure, the expenditure of the Government which it is estimated will be rupees two hundred and forty two thousand six hundred and eighty nine million two hundred and eleven thousand for the service of the period beginning on January 1, 1999, and ending on December 31, 1999, in this Act referred to as the "financial year 1999", shall be met—
 - (a) from payments which are hereby authorised to be made out of the Consolidated Fund or any other fund or moneys of, or at the disposal of, the Government ; and
 - (b) from the proceeds of loans which are hereby authorised to be raised, whether in or outside Sri Lanka, for and on behalf of the Government, so however, that the aggregate of such proceeds does not exceed rupees ninety seven thousand twenty seven million. The sum of rupees two hundred and forty two thousand six hundred and eighty nine million two hundred and eleven thousand herein before referred to may be expended as specified in the First Schedule to this Act.
- (2) The provision of subsection (1) of this section shall have effect without prejudice to the provisions of any other written law authorising the raising of loans for and on behalf of the Government.
3. (1) The receipts of the Government during the financial year, 1999, from each activity specified in column I of the Second Schedule to this Act shall be credited to the account of such activity, but the aggregate of receipts so credited shall be not less than the minimum limit specified in the corresponding entry in column III of that Schedule. The net surplus, if any of such activity, shall be paid to the Consolidated Fund before the expiry of six months after the close of the financial year, 1999.
- (2) For the purpose of determining the net surplus under subsection (1), the following charges shall be set off against the revenue of each activity :—
 - (a) the working, establishment and other expenses of the activity whether paid or accrued, properly chargeable to the revenue of the activity ; and
 - (b) provision to cover the depreciation of the movable and immovable property of the activity.
- (3) The expenditure incurred by the Government, during the financial year, 1999 on each activity specified in column I of the Second Schedule to this Act shall be paid out of the receipts of the Government from such activity during that financial year but such expenditure shall not be exceed the maximum limit specified in the corresponding entry in column II of that Schedule.
- (4) The debit balance, outstanding at the end of the financial year, 1999, of any activity specified in column I of the Second Schedule to this Act shall not exceed the maximum limit specified in the corresponding entry in column IV of that Schedule and the total liabilities of that activity at the end of that financial year shall not exceed the maximum limit specified in the corresponding, entry in column V of that Schedule.

4. Whenever, at any time during the financial year, 1999 the receipts of the Government from any activity specified in column I of the Second Schedule to this Act are insufficient to meet the expenditure incurred by the Government on such activity, the Minister may, from time to time, by Order direct that such sums as he may deem necessary to meet such expenditure shall be payable, by way of advances, out of the Consolidated Fund or any other fund or moneys of, or at the disposal of, the Government, so however, that the aggregate of the sums so advanced shall not exceed the maximum limit of expenditure specified in the corresponding entry in column II of that Schedule. Any sums so advanced in respect of such activity shall be refunded to the Consolidated Fund in such manner as the Minister may by Order direct.
5. (1) Any moneys which, by virtue of the provisions of the First Schedule to this Act, have been allocated to Recurrent Expenditure under any Programme appearing under any Head specified in that Schedule, but have not been expended or are not likely to be expended, may be transferred to the allocation of Capital Expenditure within that Programme, or to the allocation of Recurrent Expenditure or Capital Expenditure under any other Programme within that Head by order of the Secretary to the Treasury or any other officer authorised by him.
- (2) No moneys allocated to Capital Expenditure under any Programme appearing under any Head specified in the First Schedule to this Act shall be transferred out of that allocation.
6. Where the Minister is satisfied—
- (a) that receipts from taxes and other sources will be less than the amounts anticipated to finance authorised expenditure ; or
- (b) that amounts originally appropriated for a particular purpose or purposes are no longer required,
- he may, with the approval of the Government, withdraw in whole or in part, any amounts previously released for expenditure under the authority of a warrant issued by him from the Consolidated Fund or from any other fund or moneys of, or at the disposal of, the Government.
7. (1) The Minister with the approval of the Government may on or before May 31, 2000 by Order, vary or alter—
- (a) any of the maximum limits specified in column II, column IV and column V of the Second Schedule to this act ;
- (b) the minimum limits specified in column III of the Second Schedule to this Act.
- (2) No Order made under subsection (1) of this section shall have effect unless it has been approved by Parliament, by resolution.
- (3) Any Order made under subsection (1) of this section shall, if so expressed therein, be deemed to have had effect from such date prior to the date of making such Order as may be specified therein.
8. Parliament may, by resolution, amend the Second Schedule to this Act, by adding to the appropriate columns of that Schedule, any activity and—
- (a) all or any of the maximum limits relating to such activity ;
- (b) the minimum limit relating to such activity.
9. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

APPROPRIATION (AMENDMENT) ACT, NO. 63 OF 1998

[Certified on 28th December, 1998]

AN ACT TO AMEND THE APPROPRIATION ACT, NO. 36 OF 1997

1. This Act may be cited as the Appropriation (Amendment) Act, No. 63 of 1998.
2. Section 2 of the Appropriation Act, No. 36 of 1997, is hereby amended in paragraph (b) of subsection (1) of that section, by the substitution for the words "rupees one hundred and thirteen thousand eighty nine million", of the words "rupees one hundred and twenty six thousand million".
3. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

STATISTICAL APPENDIX

Definitions and Explanatory Notes

The following general notes supplement the footnotes given below the individual tables:

1. In an attempt to bring the material up-to-date provisional figures are included in some tables.
2. Figures in some tables have been rounded off to the nearest final digit. Hence there may be a slight discrepancy between the total as shown and the sum of its components.
3. Differences as compared with previously published figures are due to subsequent revisions.
4. Values indicated within parenthesis are negative values.
5. The following symbols have been used throughout:-

n.a. = not available

— = nil

... = negligible

WEIGHTS AND MEASURES**Conversion Factors****British to Metric Units**

1 acre	=	0.405 hectares (ha)
1 pound (lb)	=	0.454 kilogrammes (kg.)
1 long ton (2240 lbs)	=	1.016 metric tons (Mt. Ton)
1 hundred weight (cwt)	=	50.802 kg.
1 mile	=	1.609 kilometres (km.)
1 long ton mile	=	1.635 Mt. Ton km.
1 lb/acre	=	1.121 kg./ha
1 cwt/acre	=	125.536 kg./ha
1 pint	=	0.75 litres
1 imperial gallon	=	4.55 litres

Metric to British Units

1 hectare	=	2.471 acres
1 kilogramme	=	2.205 lbs
1 Mt. Ton (1,000 kg.)	=	0.984 long ton
1 metre	=	3.281 feet
1 kilometre	=	0.621 mile
1 Mt. Ton kilometre	=	0.612 long ton mile
1 litre	=	1.76 pints = 0.219 imp. gallons
1 kg./ha	=	0.892 lb/acre

Paddy/Rice Conversions

1 bushel of paddy (46 lbs)	=	20.87 kg.
1 Mt. Ton paddy	=	47.92 bushels paddy
	=	0.7 Mt. Ton rice
1 Mt. Ton rice	=	68.46 bushels paddy
	=	1.43 Mt. Ton paddy
1 bushel paddy/acre	=	51.55 kg. paddy/ha

NATIONAL PRODUCT AND EXPENDITURE

TABLE 1

Gross National Product at Current Factor Cost Prices

Sector	Rs. Million		
	1996 (a)	1997 (a)	1998 (a)
1. Agriculture, Forestry and Fishing	156,108	175,774	192,665
1.1 Agriculture	122,594	138,999	153,335
Tea	10,332	12,685	14,448
Rubber	4,011	3,132	2,462
Coconut	12,838	14,960	15,573
Paddy	19,892	24,469	26,842
Other	75,521	83,753	94,010
1.2 Forestry	14,751	15,362	15,669
1.3 Fishing	18,763	21,413	23,661
2. Mining and Quarrying	13,927	16,587	17,433
3. Manufacturing	112,724	131,876	151,007
3.1 Processing of Tea, Rubber & Coconut Kernel Products	16,203	19,476	23,176
3.2 Factory Industry	87,771	102,253	116,568
3.3 Small Industry	8,750	10,147	11,263
4. Construction	48,234	56,434	69,301
5. Electricity, Gas, Water and Sanitary Services	9,171	11,280	13,660
6. Transport, Storage and Communication	73,784	86,327	101,620
7. Wholesale and Retail Trade	155,316	177,123	196,262
7.1 Imports	64,629	74,129	81,468
7.2 Exports	16,365	19,753	22,064
7.3 Domestic	74,322	83,241	92,730
8. Banking, Insurance and Real Estate	49,675	59,610	69,267
9. Ownership of Dwellings	14,232	15,769	17,346
10. Public Administration and Defence	35,215	40,990	48,040
11. Services (n.e.s.)	27,548	31,928	36,238
12. G. D. P.	695,934	803,698	912,839
13. Net Factor Income from Abroad	-11,258	-9,409	-11,529
14. G. N. P.	684,676	794,289	901,310

(a) Provisional

Source : Central Bank of Sri Lanka

NATIONAL PRODUCT AND EXPENDITURE

TABLE 2

Gross National Product at Constant (1996) Factor Cost Prices (a)

Rs. Million			
Sector	1996 (b)	1997 (b)	1998 (b)
1. Agriculture, Forestry and Fishing	156,108	160,753	164,804
1.1 Agriculture	122,594	126,107	128,337
Tea	10,332	11,069	11,195
Rubber	4,011	3,795	3,452
Coconut	12,838	13,258	12,829
Paddy	19,892	22,122	26,165
Other	75,521	75,863	74,696
1.2 Forestry	14,751	14,942	15,122
1.3 Fishing	18,763	19,704	21,345
2. Mining and Quarrying	13,927	14,460	13,677
3. Manufacturing	112,724	122,929	130,702
3.1 Processing of Tea, Rubber & Coconut Kernel Products	16,203	16,771	16,575
3.2 Factory Industry	87,771	96,795	104,151
3.3 Small Industry	8,750	9,363	9,976
4. Construction	48,234	50,842	54,461
5. Electricity, Gas, Water and Sanitary Services	9,171	9,918	10,921
6. Transport, Storage and Communication	73,784	80,268	86,442
7. Wholesale and Retail Trade	155,316	165,132	172,486
7.1 Imports	64,629	70,833	76,609
7.2 Exports	16,365	18,323	18,346
7.3 Domestic	74,322	75,976	77,531
8. Banking, Insurance and Real Estate	49,675	54,767	58,247
9. Ownership of Dwellings	14,232	14,416	14,592
10. Public Administration and Defence	35,215	37,055	38,170
11. Services (n.e.s.)	27,548	29,223	30,294
12. G. D. P.	695,934	739,763	774,796
13. Net Factor Income from Abroad	-11,258	-8,816	-9,865
14. G. N. P.	684,676	730,947	764,931

(a) This new series of GNP computations has 1996 as the base year. The previous series used 1982 as the base year. Please refer Box 4 of the Annual Report 1998.

(b) Provisional

Source : Central Bank of Sri Lanka

NATIONAL PRODUCT AND EXPENDITURE

TABLE 3

Real National Income (a)

Item	Rs. Million		
	1996 (b)	1997 (b)	1998 (b)
1. Gross National Product at constant (1996) factor cost prices	684,676	730,947	764,931
2. Terms of Trade effect (c) due to export of:			
2.1 Tea	-	2,330	5,272
2.2 Rubber	-	-459	-331
2.3 Three Major Coconut Products	-	-112	261
2.4 Other Products	-	8,574	19,447
Total	-	10,333	24,649
3. Real National Income at constant (1996) factor cost prices (1+2)	684,676	741,280	789,580
4. Percentage change over previous year	-	8.3	6.5

(a) This new series of GNP computations has 1996 as the base year. The previous series used 1982 as the base year. Please refer Box 4 of the Annual Report 1998.

Source : Central Bank of Sri Lanka

(b) Provisional

(c) Based on Export and Import Price Indices (1997 = 100).

NATIONAL PRODUCT AND EXPENDITURE

TABLE 4

Resources and Their Utilisation (a)

Item	Rs. Million					
	At Current Market Prices			At Constant (1996) Prices		
	1996 (b)	1997 (b)	1998 (b)	1996 (b)	1997 (b)	1998 (b)
A. Resources						
Gross Domestic Product	768,128	890,272	1,014,504	768,128	817,288	855,701
Imports of Goods and Non-Factor Services	337,213	388,154	430,234	337,213	372,452	415,284
Total	1,105,341	1,278,426	1,444,738	1,105,341	1,189,740	1,270,985
B. Utilisation						
Consumption	650,437	736,035	822,615	650,437	696,822	745,621
Gross Domestic Fixed Capital Formation	183,509	216,873	257,163	183,509	192,852	222,363
Government	23,328	29,923	35,409	23,328	26,687	30,895
Private Sector and Public Corporations	160,181	186,950	221,754	160,181	166,165	191,468
Changes in Stocks	2,755	230	175	2,755	210	146
Exports of Goods and Non-Factor Services	268,640	325,289	364,785	268,640	299,856	302,855
Total	1,105,341	1,278,427	1,444,738	1,105,341	1,189,740	1,270,985

(a) This new series of GNP computations has 1996 as the base year. The previous series used 1982 as the base year. Please refer Box 4 of the Annual Report 1998.

Source : Central Bank of Sri Lanka

(b) Provisional

NATIONAL PRODUCT AND EXPENDITURE

TABLE 5

Item	Gross National Expenditure at Current Market Prices											1998 (a)
	1989	1990	1991	1992	1993	1994	1995 (a)	1996 (a)	1997 (a)	1998 (a)		
1. Private Consumption	194,680	244,288	288,214	320,466	373,785	434,933	489,057	569,416	643,839	723,506		
1.1 Imports of goods and non-factor services	49,728	63,253	82,020	82,733	98,573	122,202	137,564	152,851	176,715	203,159		
1.2 Locally produced goods and services	144,952	181,035	206,194	237,733	275,212	312,731	351,493	416,565	467,124	520,347		
2. Public Consumption	26,410	31,405	36,633	40,972	45,791	56,002	76,604	81,021	92,196	99,109		
2.1 Current expenditure on goods and services: Central Government	25,508	30,168	35,583	39,861	44,895	54,695	75,447	79,429	90,255	97,585		
2.2 Current expenditure on goods and services: Local Government	902	1,237	1,050	1,111	896	1,307	1,157	1,592	1,941	1,524		
3. Gross Domestic Fixed Capital Formation	54,249	70,417	84,206	100,039	125,875	154,260	170,875	183,509	216,873	257,163		
3.1 Government and Public Enterprises	14,306	12,507	15,838	13,632	20,570	17,611	23,595	23,328	29,923	35,409		
3.2 Public Corporations and Private Sector	39,943	57,910	68,368	86,407	105,305	136,649	147,280	160,181	186,950	221,754		
4. Changes in Stocks	473	1,038	950	3,200	1,800	2,250	950	2,755	230	175		
4.1 Government and Public Enterprises	85	158	45	50	185	50	50	175	30	50		
4.2 Public Corporations and Private Sector	388	880	905	3,150	1,615	2,200	900	2,580	200	125		
5. Gross Domestic Expenditure (1+2+3+4)	275,812	347,148	410,003	464,677	547,251	647,445	737,486	836,701	953,138	1,079,953		
6. Net Investment Abroad (b)	-11,069	-10,390	-19,994	-18,935	-18,826	-37,614	-32,956	-37,517	-23,213	-18,828		
7. Net Expenditure on International Gifts and Transfers	-18,591	-21,659	-25,030	-28,280	-34,839	-39,057	-43,716	-42,309	-49,097	-58,157		
8. Gross National Expenditure (5+6+7)	246,152	315,099	364,979	417,462	493,586	570,774	660,814	756,875	880,828	1,002,968		

Source : Central Bank of Sri Lanka

(a) Provisional
(b) Net Investment Abroad = The surplus to the nation on current account.

Gross Domestic Capital Formation at Current Market Prices

Item	1989	1990	1991	1992	1993	1994	1995 (a)	1996 (a)	1997 (a)	1998 (a)
Gross Domestic Fixed Capital Formation	54,249	70,417	84,206	100,039	125,875	154,260	170,875	183,509	216,873	257,163
1. Private Sector & Public Corporations	39,943	57,910	68,368	86,407	105,305	136,649	147,280	160,181	186,950	221,754
1.1 Planting, Replanting & Land Development	1,365	1,448	1,493	1,162	1,355	1,071	982	787	537	450
1.2 Building & Other Construction	22,521	35,239	38,270	48,005	59,223	69,297	78,385	85,977	99,389	116,357
1.3 Plant & Machinery	9,152	12,309	15,143	22,229	26,101	34,981	31,728	44,990	54,168	61,125
1.4 Transport Equipment	2,730	5,730	9,208	9,725	13,801	24,370	29,366	20,762	25,475	34,437
1.5 Other Capital Goods	4,175	3,184	4,254	5,286	4,825	6,930	6,819	7,665	7,381	9,385
2. Government & Public Enterprises	14,306	12,507	15,838	13,632	20,570	17,611	23,595	23,328	29,923	35,409
Changes in Stocks	473	1,038	950	3,200	1,800	2,250	950	2,755	230	175
1. Government & Public Enterprises	85	158	45	50	185	50	50	175	30	50
2. Private Sector & Public Corporations	388	880	905	3,150	1,615	2,200	900	2,580	200	125
Gross Domestic Capital Formation	54,722	71,455	85,156	103,239	127,675	156,510	171,825	186,264	217,103	257,338
1. Private Sector	27,955	45,310	69,273	89,557	106,920	138,849	148,180	162,761	187,150	221,879
2. Public Corporations	12,376	13,480	15,883	13,682	20,755	17,661	23,645	23,503	29,953	35,459
3. Government & Public Enterprises	14,391	12,665	15,883	13,682	20,755	17,661	23,645	23,503	29,953	35,459

(a) Provisional

Source: Central Bank of Sri Lanka

NATIONAL PRODUCT AND EXPENDITURE

TABLE 7

Composition of Private Consumption Expenditure at Current Market Prices

Item	1989	1990	1991	1992	1993	1994	1995 (a)	1996 (a)	1997 (a)	1998 (a)
1. Imports of Goods and Non-Factor Services	49,728	63,253	82,020	82,733	98,573	122,202	137,564	152,851	176,715	203,159
1.1 Rice, Wheat Flour and Sugar	9,969	11,040	12,111	11,772	12,376	13,933	15,571	23,419	20,625	16,294
1.2 Other Personal Consumption Goods	28,843	38,359	52,398	51,874	66,227	82,967	88,658	93,899	115,227	142,610
1.3 Non-Factor Services	10,916	13,854	17,511	19,087	19,970	25,302	33,335	35,533	40,863	44,255
2. Locally Produced Goods and Services	144,952	181,035	206,194	237,733	275,212	312,731	351,493	416,565	467,124	520,347
2.1 Locally Produced Goods	127,117	159,038	182,186	210,458	243,648	276,795	312,028	368,942	412,590	458,629
Rice	17,991	23,430	22,094	23,945	26,940	29,866	29,923	27,823	32,361	37,703
Coconut Products	6,931	7,203	8,651	12,052	14,717	14,400	14,424	18,320	21,317	23,936
Tea	1,907	2,006	2,130	2,262	2,401	2,442	2,570	3,084	3,615	4,631
Other Food Crops	20,098	26,015	29,527	28,867	32,856	37,572	41,453	48,500	55,619	58,720
Tobacco	332	380	412	502	546	585	642	681	783	842
Betel and Arecanuts	891	984	1,528	2,753	2,869	2,266	2,695	2,804	3,354	3,907
Firewood	3,208	3,757	3,900	3,781	4,453	5,300	6,219	6,470	7,846	8,048
Livestock Products	3,312	3,819	3,819	5,003	5,406	6,078	7,054	8,378	8,997	10,087
Fish	5,824	6,900	10,109	12,887	14,381	17,797	20,466	24,506	26,345	29,129
Industrial Products	66,623	84,544	100,016	118,406	139,079	160,489	186,582	228,376	252,353	281,626
2.2 Rents of Dwellings	3,901	4,838	5,510	6,267	7,165	8,130	9,260	10,467	12,529	13,784
2.3 Transport and Communication	9,509	11,793	13,833	17,386	19,736	26,729	30,070	36,836	40,410	45,876
2.4 Services n.i.e. (b)	15,720	22,245	26,338	29,716	34,364	37,791	41,759	47,605	55,943	62,495
Less: Government Local Purchases	-	-	-	-	-	-	-	-	-	-
Less: Goods & Services Purchased by Non-Residents	11,295	16,879	21,673	26,094	29,701	36,714	41,824	47,285	54,348	60,435
Total Private Consumption	194,680	244,288	288,214	320,466	373,785	434,933	489,057	569,416	643,839	723,508

(a) Provisional

Source : Central Bank of Sri Lanka

(b) Includes: (1) Financial services to persons, i.e., the value of services rendered by banks, insurance companies and other financial institutions to households as distinct from enterprises.

(2) Professional and industrial services, including private, health and educational services.

(3) Domestic and utility services, recreation and entertainment services, hotel and restaurant services, personal services, etc.

NATIONAL PRODUCT AND EXPENDITURE

TABLE 8

Expenditure on Gross National Product at Current Market Prices

Item	Rs. Million		
	1996 (a)	1997 (a)	1998 (a)
1. Gross National Product at Factor Cost Prices	684,676	794,289	901,310
2. Indirect Taxes less Subsidies	72,622	85,694	96,406
3. Gross National Product at Market Prices (1+2)	757,298	879,983	997,716
4. Consumption Expenditure	650,437	736,035	822,615
4.1 Private	569,416	643,839	723,506
4.2 Government	81,021	92,196	99,109
5. Gross Domestic Capital Formation	186,264	217,103	257,338
5.1 Private Sector and Public Corporations	162,761	187,150	221,879
5.2 Government	23,503	29,953	35,459
6. Gross Domestic Expenditure (4+5)	836,701	953,138	1,079,953
7. Exports of Goods and Non-Factor Services	268,640	325,289	364,785
8. Imports of Goods and Non-Factor Services	337,213	388,154	430,234
9. Expenditure on Gross Domestic Product (6+7-8)	768,128	890,272	1,014,504
10. Net Factor Income from Abroad	-11,258	-9,409	-11,529
11. Statistical Discrepancy	428	-880	-5,259
12. Expenditure on Gross National Product at Market Prices (9+10+11)	757,298	879,983	997,716

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 9

NATIONAL PRODUCT AND EXPENDITURE

Gross Domestic Expenditure and Availability of Resources

Item	1989		1990		1991		1992		1993		1994		1995		1996 (a)		1997 (a)		1998 (a)	
	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP	Rs. Mn.	% of GNP
1. Consumption Expenditure Private	194,680	79.1	244,288	77.5	288,214	79.0	320,466	76.8	373,785	75.7	434,933	76.2	489,057	74.0	569,416	75.2	643,839	73.1	723,506	72.1
2. Consumption Expenditure Government	26,410	10.7	31,405	10.0	36,633	10.0	40,972	9.8	45,791	9.3	56,002	9.8	76,604	11.6	81,021	10.7	92,196	10.5	99,109	9.9
3. Gross Domestic Capital Formation Private Sector and Public Corporations	40,331	16.4	58,790	18.7	69,273	19.0	89,557	21.5	106,920	21.7	136,849	24.3	148,180	22.4	162,761	21.5	187,150	21.2	221,879	22.1
4. Gross Domestic Capital Formation Government and Public Enterprises	14,391	5.8	12,665	4.0	15,883	4.4	13,682	3.3	20,755	4.2	17,661	3.1	23,645	3.6	23,503	3.1	29,953	3.4	35,459	3.5
5. Gross Domestic Expenditure	275,812	112.0	347,148	110.2	410,003	112.3	464,677	111.3	547,251	110.9	647,445	113.4	737,486	111.6	836,701	110.5	953,138	108.2	1,079,953	107.7
6. Gross National Product	246,152	100.0	315,099	100.0	364,979	100.0	417,462	100.0	493,586	100.0	570,774	100.0	660,814	100.0	756,875	100.0	880,828	100.0	1,002,368	100.0
7. Excess, of (5) over (6) met by	29,660	-	32,049	-	45,024	-	47,215	-	53,665	-	76,671	-	76,672	-	79,826	-	72,310	-	76,985	-
(i) Net Disinvestment Abroad	11,069	-	10,390	-	19,994	-	18,935	-	18,826	-	37,614	-	32,956	-	37,517	-	23,213	-	18,828	-
(ii) Net Receipts of International Gifts and Transfers	18,591	-	21,659	-	25,030	-	28,280	-	34,839	-	39,057	-	43,716	-	42,309	-	49,097	-	58,157	-

Source : Central Bank of Sri Lanka

(a) Provisional

NATIONAL PRODUCT AND EXPENDITURE

TABLE 10

National Savings

Item	National Savings										Rs. Million	
	1989	1990	1991	1992	1993	1994	1995 (a)	1996 (a)	1997 (a)	1998 (a)		
1. Gross Domestic Product at Market Prices	251,891	321,784	372,345	425,283	499,565	579,084	667,772	768,128	890,272	1,014,504		
2. Net Imports of Goods and Non-factor Services	23,921	25,364	37,658	39,394	47,686	68,361	69,714	68,573	62,866	65,449		
3. Investment	54,722	71,455	85,156	103,299	127,675	156,510	171,825	186,264	217,103	257,338		
4. Domestic Savings (3-2)	30,801	46,091	47,498	63,845	79,989	88,149	102,111	117,691	154,237	191,889		
5. Net Factor Income from Abroad	-5,739	-6,685	-7,367	-7,821	-5,979	-8,310	-6,958	-11,258	-9,409	-11,529		
6. Net Private Transfers	11,840	14,518	16,623	20,253	27,090	30,989	34,820	39,242	46,472	54,785		
7. National Savings (4+5+6)	36,902	53,924	56,754	76,277	101,100	110,828	129,973	145,674	191,301	235,145		
8. Domestic Savings Ratio (4 as a % of 1)	12.2	14.3	12.8	15.0	16.0	15.2	15.3	15.3	17.3	18.9		
9. National Savings Ratio (7 as a % of 1)	14.6	16.8	15.2	17.9	20.2	19.1	19.5	19.0	21.5	23.2		

(a) Provisional

Source : Central Bank of Sri Lanka

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TABLE 11

Trends in Principal Agricultural Crops

Category	Unit	1989	1990	1991	1992	1993	1994	1995	1996	1997(a)	1998(b)
1. Tea											
1.1 Production	Kg Mn	207.0	233.2	240.7	178.9	231.9	242.2	245.9	258.4	276.9	280.1
1.2 Extent under tea (c)	Hectares	221,110	221,758	221,691	221,836	192,730	187,426	188,970	189,354	193,676	194,736
1.3 Fertiliser used	MT '000	127.9	134.1	118.9	110.2	147.2	126.4	120.3	153.9	161.8	181.7
1.4 Cost of production (d)	Rs/kg	49.70	60.51	60.68	72.26	75.81	75.67	76.74	87.04	93.47	106.72
1.5 Average price											
- Colombo (net)	Rs/kg	52.16	65.72	57.13	60.51	68.88	65.12	72.21	103.88	119.40	134.35
- Export (f.o.b.)	Rs/kg	66.91	91.78	84.12	81.98	91.16	91.32	102.31	139.56	158.39	184.94
1.6 Replanted - annual	Hectares	1,551	1,586	1,773	1,417	1,311	1,225	1,215	937	931	1,239
1.7 Replanted - cumulative	Hectares	51,346	54,932	54,705	56,122	57,433	58,658	59,873	60,810	61,741	62,980
2. Rubber											
2.1 Production	Kg Mn	110.7	113.1	103.9	106.1	104.2	105.3	105.7	112.5	105.8	95.7
2.2 Extent under rubber	Hectares	199,648	199,048	198,451	194,550	161,477	160,909	161,600	162,000	158,200	158,140
2.3 Area under tapping	Hectares	147,285	146,325	147,048	147,265	119,353	120,883	123,948	122,252	123,493	124,608
2.4 Fertiliser used	MT '000	22.6	22.2	13.7	13.1	17.9	17.2	14.9	16.6	12.3	15.7
2.5 Yield	Kg/Hectare	752	773	706	725	873	870	853	927	868	832
2.6 Cost of production	Rs/kg	19.35	21.39	22.92	24.50	30.22	30.85	33.37	36.70	40.37	44.41
2.7 Average price											
- Colombo (RSS 1)	Rs/kg	22.63	22.93	23.59	29.28	35.48	50.36	72.04	67.85	56.71	49.76
- Export (f.o.b.)	Rs/kg	36.18	35.50	34.55	37.65	44.34	51.81	83.69	79.78	75.42	67.72
2.8 Replanted - annual	Hectares	6,147	5,202	5,361	3,918	2,419	1,623	3,239	3,443	2,774	2,543
3. Coconut											
3.1 Production	Nuts Mn	2,484	2,532	2,184	2,296	2,164	2,622	2,755	2,546	2,631	2,547
3.2 Fertiliser used	MT '000	38.5	27.8	28.8	34.3	35.1	31.2	33.6	39.1	33.8	38.0
3.3 Cost of production	Rs/Nut	0.85	1.11	1.70	1.97	2.03	1.84	2.02	2.18	2.26	2.40
3.4 Average export price (f.o.b.) (e)	Rs/Nut	3.36	3.63	4.82	6.47	6.31	5.67	6.08	9.42	9.63	9.73
4. Paddy											
4.1 Production (f)	MT '000	2,063	2,538	2,389	2,340	2,570	2,684	2,810	2,061	2,239	2,692
4.2 Area-sown (f)	Hectares '000	727	857	817	803	835	930	915	749	730	848
- Harvested (f)	Hectares '000	690	828	791	766	820	897	890	660	690	829
- Under improved varieties (f)	Hectares '000	707	689	744	627	n.a.	n.a.	888	734	662	784
4.3 Fertiliser used (f)	MT '000	156.2	143.6	179.3	207.8	248.0	269.7	256.8	237.5	224.5	227.8
4.4 Yield (f)	Kg/Hectare	3,374	3,453	3,398	3,428	3,511	3,363	3,535	3,513	3,619	3,678
4.5 Guaranteed Price	Rs/Bushel (g)	80.00	110.00	136.00	136.00	155.00	155.00	155.00	155.00	155.00	155.00
4.6 Purchases under Guaranteed Price Scheme (h)	MT '000	5	31	44	7	46	120	282	1	-	-

(a) Revised.

(b) Provisional.

(c) Upto 1992 registered extent. Tea Commissioner's Division (T.C.D.) had terminated the registration of new extents under tea from 1 January, 1993. Data for 1993 are based on Department of Census and Statistics Survey on Agricultural Crops and Livestock 1993. Since 1994, data are based on a Tea Land Survey conducted in 1994/95 by the T.C.D. (Excluding extents in abandoned tea lands).

(d) Since 1992, weighted average cost of production of public sector estates and private plantation companies.

(e) Three major coconut kernel products only.

(f) On a cultivation year basis.

(g) 20.9 kg. of paddy = 1 bushel of paddy.

(h) Includes paddy purchased by the PMB above the Guaranteed Price in 1990 and 1996.

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

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TABLE 12

Production of Tea, Rubber and Coconut

Crop	Unit	1989	1990	1991	1992	1993	1994	1995	1996	1997(a)	1998(b)
1. Tea											
High grown (c)	Kg Mn	74.1	76.1	73.2	53.7	72.6	76.7	73.5	72.2	83.8	75.9
Medium grown (c)	Kg Mn	50.0	51.9	51.3	37.9	47.2	47.4	50.6	48.0	57.1	53.9
Low grown (c)	Kg Mn	82.9	105.1	116.2	87.3	112.1	118.1	121.8	138.2	136.0	150.3
Total	Kg Mn	207.0	233.2	240.7	178.9	231.9	242.2	245.9	258.4	276.9	280.1
2. Rubber											
Sheet rubber	Kg Mn	54.3	58.7	51.3	44.9	43.8	40.9	42.2	53.2	46.1	26.9
Crepe rubber	Kg Mn	37.5	37.8	38.6	33.5	33.3	38.4	34.9	41.5	40.9	58.3
Others	Kg Mn	18.9	16.6	14.0	27.7	27.1	26.0	28.6	17.8	18.8	10.5
Total	Kg Mn	110.7	113.1	103.9	106.1	104.2	105.3	105.7	112.5	105.8	95.7
3. Coconut											
Desiccated coconut	Nuts Mn (d)	319	376	335	365	269	380	465	425	524	362
Coconut oil	Nuts Mn (d)	597	598	260	242	176	480	516	328	289	334
Copra (e)	Nuts Mn (d)	41	36	38	29	24	32	50	39	42	52
Fresh nut exports	Nuts Mn	16	22	24	25	22	25	27	17	18	18
Domestic nut Consumption (f)	Nuts Mn	1,477	1,530	1,552	1,635	1,668	1,687	1,716	1,720	1,744	1,762
Total (g)	Nuts Mn	2,484	2,532	2,184	2,296	2,164	2,622	2,755	2,546	2,631	2,547

(a) Revised.

(b) Provisional.

(c) Elevational categories – Low grown : 0 to 610 metres above Mean Sea Level (MSL)
 – Medium grown : 610 to 1,220 metres above MSL.
 – High grown : over 1,220 metres above MSL.

(d) In nut equivalent, converted from 1998 at 1 MT D.C. = 8,000 nuts
 1 MT Oil = 8,800 nuts and
 1 MT Copra = 5,775 nuts.

Note : Conversion rates have been revised in 1998 based on a study conducted by the CDA in 1996/97. Conversion rates prior to 1998 are given in the 1997 Annual Report.

(e) Exports only.

(f) Estimated on the basis of per capita consumption of 90 nuts per year. From 1991 onwards, estimated at 94.8 nuts per head per annum. Excludes industrial use.

(g) Estimate (breakdown does not add upto total production due to adjustment for changes in copra stocks).

Sources: Sri Lanka Tea Board
 Rubber Development Department
 Coconut Development Authority
 Central Bank of Sri Lanka

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TABLE 13

Annual Rainfall and Rainy Days

Meteorological Stations	1961-90 Annual Average		1994		1995		1996		1997		1998	
	Rainfall mm (a)	No. of Rainy days	Rainfall mm	No. of Rainy Days	Rainfall mm	No. of Rainy Days	Rainfall mm	No. of Rainy Days	Rainfall mm	No. of Rainy Days	Rainfall mm	No. of Rainy Days
Anuradhapura	1,285	89	1,405	108	849	83	979	81	1,330	114	1,207	89
Bandarawela	1,572(b)	129	1,815	174	1,388	142	1,314	120	2,010	162	1,198	128
Colombo	2,424	146	2,483	171	2,399	168	1,992	137	2,530	159	2,388	153
Hambantota	1,050	87	1,056	119	963	105	870	86	1,377	104	885	84
Kandy	1,840 (c)	148	1,832	193	1,835	170	1,551	136	1,912	170	1,596	158
Nuwara Eliya	1,905	163	2,303	225	2,083	194	2,115	179	2,028	199	1,784	176
Ratnapura	3,749	205	3,246	241	4,116	221	3,537	201	4,163	215	4,558	227
Trincomalee	1,580	86	1,974	101	1,379	100	1,340	80	1,618	92	1,129	67

(a) Millimetres

(b) Diyatalawa

(c) Katugastota

Source : Department of Meteorology

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TABLE 14

Districtwise Performance of the Paddy Sector (a)

Zone and District	Gross Extent Sown (Hectares)		Gross Extent Harvested (Hectares)		Production (MT)		Yield per Hectare (Kg)		Paddy Purchases under the Guaranteed Price Scheme (MT)
	Maha 1997/98	Yala 1998	Maha 1997/98	Yala 1998	Maha 1997/98	Yala 1998	Maha 1997/98	Yala 1998	
Wet Zone									
Colombo	5,354	439	5,337	411	14,607	885	3,220	2,531	-
Gampaha	12,033	1,470	11,802	1,381	26,045	2,364	2,596	2,014	-
Kalutara	15,995	9,636	15,355	8,994	36,076	22,367	2,547	2,696	-
Galle	17,526	1,603	17,176	1,491	42,390	2,685	3,154	2,301	-
Matara	17,348	12,056	17,175	11,416	44,104	28,976	3,253	3,215	-
Kegalle	10,218	5,680	10,193	5,306	32,812	12,334	3,436	2,481	-
Ratnapura	15,930	11,829	15,667	11,219	37,336	25,802	2,804	2,706	-
Kandy	16,461	7,864	16,235	7,546	40,455	19,263	3,151	3,228	-
Nuwara Eliya	6,603	2,697	6,470	2,581	14,097	3,075	3,867	2,114	-
Badulla	21,914	11,055	21,770	10,737	53,054	36,826	2,867	4,035	-
Dry Zone									
Kurunegala	73,853	26,547	72,376	25,294	250,413	83,308	3,460	3,294	-
Puttalam	13,885	4,958	13,609	4,826	35,610	14,785	3,078	3,604	-
Matale	16,277	6,058	15,952	5,838	56,031	18,659	3,906	3,554	-
Moneragala	14,502	3,869	14,319	3,741	47,677	11,501	3,398	3,137	-
Jaffna (b)	6,762	-	6,424	-	11,030	-	1,935	-	-
Killinochchi (b)	-	-	-	-	-	-	-	-	-
Mannar (b)	5,842	741	5,550	724	13,659	1,925	2,578	2,784	-
Mullaitivu (b)	7,446	1,619	7,074	1,577	17,205	3,911	2,578	2,629	-
Vavuniya	4,136	1,022	3,929	999	9,939	2,721	2,887	2,887	-
Anuradhapura	68,330	14,139	66,963	13,781	229,575	42,875	4,264	3,869	-
Polonnaruwa	48,188	43,636	47,981	42,732	174,621	163,833	4,114	4,334	-
Ampara	58,110	52,574	56,947	51,499	205,223	223,806	3,771	4,547	-
Batticaloa	35,151	11,334	34,983	11,074	86,691	34,589	2,808	3,539	-
Trincomalee (b)	22,333	11,922	20,171	11,680	50,236	29,089	2,681	2,681	-
Hambantota	24,648	18,788	24,573	18,336	80,744	69,942	3,761	4,366	-
Mahaweli 'H' Area	25,236	5,672	25,236	5,672	124,835	20,711	5,516	4,071	-
Uda Walawe	9,766	7,210	9,766	7,210	46,583	33,821	5,021	4,786	-
Sri Lanka	573,845	274,418	563,033	266,064	1,781,048	910,053	3,555	3,802	-

(a) The cultivation year comprises Maha (September/October - March/April) and Yala (April/May - August/September).

(b) Estimates

Sources: Department of Census and Statistics
Department of Agriculture
Ministry of Agriculture and Lands
Paddy Marketing Board.

AGRICULTURE

TABLE 15

Performance of Other Field Crops (a)

Crop	Extent Cultivated (Hectares)					Production (MT '000)					Estimated Average Yield (MT / Hectare)				
	1994	1995	1996	1997 (b)	1998 (c)	1994	1995	1996	1997 (b)	1998 (c)	1994	1995	1996	1997 (b)	1998 (c)
Big Onions	7,806	3,687	2,662	2,956	1,413	81.4	29.7	19.4	29.1	17.4	10.4	8.1	7.3	9.8	12.3
Blackgram	17,340	11,453	9,065	8,785	10,171	14.5	7.9	7.4	6.3	8.2	0.8	0.7	0.8	0.7	0.8
Chillies	36,453	30,597	26,098	24,146	21,632	31.9	21.3	18.4	17.9	15.6	0.9	0.7	0.7	0.7	0.7
Cowpea	21,348	18,105	18,884	16,216	14,827	18.0	16.1	17.0	12.8	13.4	0.8	0.9	0.9	0.8	0.9
Gingelly (Sesame)	5,320	8,560	7,567	11,754	10,355	3.5	4.5	3.8	6.8	5.7	0.7	0.5	0.5	0.6	0.6
Greengram	28,897	18,097	18,261	16,641	17,509	22.9	16.0	16.6	13.8	15.6	0.8	0.9	0.9	0.8	0.9
Ground nuts	14,046	9,896	8,793	9,178	10,106	16.3	5.9	5.1	8.9	6.3	1.2	0.6	0.6	1.0	0.6
Kurakkan (Finger Millet)	7,171	7,439	6,129	5,564	6,042	5.1	4.9	3.9	3.3	4.4	0.7	0.7	0.6	0.6	0.7
Maize	54,541	35,938	30,895	25,805	29,790	67.2	34.8	33.0	22.8	33.9	1.2	1.0	1.1	0.9	1.1
Potatoes	8,480	7,428	7,925	6,469	2,328	70.6	81.7	100.8	65.8	25.9	8.3	11.0	12.7	10.2	11.1
Red Onions	7,537	6,993	6,584	6,453	5,661	82.3	48.4	43.9	44.4	38.0	10.9	6.9	6.7	6.9	6.7
Soyabbeans	2,456	2,359	849	497	641	3.2	2.4	0.7	0.4	0.6	1.3	1.0	0.8	0.8	0.9

(a) Up to 1994, Ministry of Agriculture and Lands data, 1995 onwards Department of Census and Statistics data.

(b) Revised.

(c) Provisional.

Sources: Ministry of Agriculture and Lands
Department of Census and Statistics

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TABLE 16

Value of Industrial Production
(Current Prices)

Rs. Million

Categories	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
1. Food, beverage and tobacco products	18,458	21,955	30,003	34,157	39,709	45,054	54,927	68,209	75,713	86,994
2. Textile, wearing apparel and leather products	22,073	27,930	33,854	53,929	70,057	80,845	99,602	112,539	142,249	160,443
3. Wood and wood products	667	721	802	1,005	1,230	1,601	1,929	2,171	2,299	2,511
4. Paper and paper products	1,456	1,880	2,214	2,586	3,438	4,066	4,595	5,069	5,462	5,593
5. Chemical, petroleum, rubber and plastic products	12,041	21,215	20,140	23,817	28,876	34,017	38,321	46,936	50,682	59,724
6. Non-metallic mineral products	6,007	7,554	8,181	10,582	12,351	14,580	16,740	18,997	21,403	23,830
7. Basic metal products	792	1,006	1,264	1,424	1,497	1,909	1,736	2,248	2,439	2,841
8. Fabricated metal products, machinery and transport equipment	3,182	4,199	5,093	5,948	5,915	7,122	7,977	8,807	11,327	13,241
9. Manufactured products (n.e.s.)	231	296	2,373	2,658	3,402	4,083	5,271	6,183	7,324	8,137
Total	64,907	86,756	103,924	136,106	166,475	193,277	231,098	271,159	318,898	363,314

(a) Provisional

Sources : Board of Investment of Sri Lanka
Central Bank of Sri Lanka

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TABLE 17

Investment Approvals in Industry by the Board of Investment of Sri Lanka

Categories	Number of Units				Foreign Investment (Rs. Mn.)				Total Investment Potential (Rs. Mn.)				Employment Potential (No.)			
	Approvals		Contracted		Approvals		Contracted		Approvals		Contracted		Approvals		Contracted	
	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)	1997 (a)	1998 (b)
1. Food, beverage and tobacco products	34	34	20	20	1,365	1,601	689	1,860	4,071	5,004	3,232	4,270	4,858	3,861	2,637	3,272
2. Textile, wearing apparel and leather products	67	131	46	79	3,851	3,978	2,586	1,203	5,298	9,013	3,251	4,171	30,453	51,534	20,337	31,102
3. Wood and wood products	6	1	5	1	150	25	120	30	923	60	598	325	1,051	85	754	297
4. Paper and paper products	3	3	3	2	7	40	7	40	50	79	40	64	272	322	277	203
5. Chemical, petroleum, rubber and plastic products	26	25	11	18	2,199	439	100,203	317	3,333	930	100,364	1,011	4,775	4,496	4,084	2,299
6. Non-metallic mineral products	15	22	8	12	11,311	559	330	1,126	13,114	3,669	534	3,741	2,799	1,878	1,144	1,740
7. Basic metal products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Fabricated metal products, machinery and transport equipment	11	14	7	9	1,735	4,082	615	1,977	2,563	5,611	688	2,191	1,603	3,793	791	2,243
9. Manufactured products (n.e.s.)	40	28	24	20	2,587	515	542	330	3,750	1,273	1,751	752	9,594	3,836	2,386	2,330
10. Services	126	142	62	68	24,315	102,746	23,068	18,965	40,505	132,469	29,362	29,109	12,989	22,207	6,304	9,514
Total	328	400	186	229	47,520	113,985	128,160	25,848	73,607	158,108	139,820	45,634	68,394	92,012	38,714	53,000

(a) Revised

(b) Provisional

Source : Board of Investment of Sri Lanka

INDUSTRY

TABLE 18

Realised Investments in the Board of Investment (BOI) Enterprises (a)

Categories	Number of Enterprises					Foreign Investment (Rs. Mn.)					Total Investment Potential (Rs. Mn.)				
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)
1. Food, beverage and tobacco products	43	53	77	92	149	667	1,290	2,274	4,253	5,199	1,183	1,974	4,437	7,923	11,392
2. Textile, wearing apparel and leather products	265	269	267	287	386	11,585	11,064	12,351	15,456	16,819	12,675	12,821	15,045	21,843	25,021
3. Wood and wood products	15	17	19	21	26	449	488	474	515	671	479	551	564	689	935
4. Paper and paper products	7	9	12	14	22	167	167	326	438	461	270	362	550	688	649
5. Chemical, petroleum, rubber and plastic products	50	52	66	76	101	4,687	4,945	5,762	5,921	7,121	5,193	5,633	6,877	7,173	9,370
6. Non-metallic mineral products	38	39	42	48	66	652	774	972	1,035	3,044	2,189	2,345	2,783	1,985	4,842
7. Basic Metal Products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Fabricated metal products, machinery and transport equipment	16	19	20	25	35	472	615	605	1,186	2,832	621	978	1,180	1,817	3,616
9. Manufactured products (n.e.s.)	79	91	102	122	171	2,981	2,919	3,499	4,207	5,646	3,635	4,068	4,647	6,179	8,853
10. Services	165	217	255	300	402	20,221	28,108	34,694	45,680	58,438	33,564	43,487	55,539	70,700	86,529
Total	678	766	860	985	1,358	41,881	50,370	60,957	78,691	100,231	59,809	72,219	91,622	118,997	151,207

(a) Cumulative figures as at end of the year

(b) Provisional

Source : Board of Investment of Sri Lanka

INDUSTRY

TABLE 19

Relative Composition of Private and Public Sector Industries

Percentages

Categories	1994		1995		1996		1997		1998(a)	
	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public
1. Food, beverage and tobacco products	99	1	99	1	99	1	99	1	99	1
2. Textile, wearing apparel and leather products	100	-	100	-	100	-	100	-	100	-
3. Wood and wood products	81	19	81	19	77	23	82	18	78	22
4. Paper and paper products	73	27	79	21	82	18	83	17	87	13
5. Chemical, petroleum, rubber and plastic products	47	53	57	43	51	49	65	35	64	36
6. Non-metallic mineral products	99	1	99	1	99	1	99	1	99	1
7. Basic metal products	36	64	51	49	50	50	100	-	100	-
8. Fabricated metal products, machinery and transport equipment	100	-	100	-	100	-	100	-	100	-
9. Manufactured products (n.e.s.)	100	-	100	-	100	-	100	-	100	-
Average	89	11	91	9	90	10	93	7	93	7

(a) Provisional

Source : Central Bank of Sri Lanka

INDUSTRY

TABLE 20

Value Added in Industry (Current Prices)

Rs. Million

Categories	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (a)
1. Food, beverage and tobacco products	10,168	12,065	15,070	18,668	21,704	24,373	29,507	32,891	35,515	40,452
2. Textile, wearing apparel and leather products	5,746	7,167	8,542	14,630	18,994	20,660	24,859	31,184	40,514	47,494
3. Wood and wood products	496	485	571	677	831	1,081	1,177	1,250	1,257	1,312
4. Paper and paper products	745	1,019	1,167	1,397	1,912	2,301	2,458	2,580	2,633	2,578
5. Chemical, petroleum, rubber and plastic products	3,531	2,428	3,199	3,989	4,723	5,758	6,898	8,957	10,745	14,274
6. Non-metallic mineral products	1,218	4,742	4,905	5,918	7,163	9,272	9,726	10,537	11,600	12,463
7. Basic metal products	77	194	248	263	279	356	347	450	598	710
8. Fabricated metal products, machinery and transport equipment	1,969	2,746	3,247	3,629	3,608	4,344	4,547	4,809	5,924	6,779
9. Manufactured products (n.e.s.)	117	138	1,092	1,196	1,532	1,838	2,319	2,763	3,157	3,426
Total	24,067	30,984	38,041	50,367	60,746	69,983	81,838	95,421	111,943	129,488

(a) Provisional.

Source : Central Bank of Sri Lanka

INDUSTRY

TABLE 21

Capacity Utilisation in Industry (a)

Categories	Percentage Utilisation of Capacity						
	1992	1993	1994	1995	1996	1997	1998 (b)
1. Food, beverage and tobacco products	91	92	93	93	90	89	90
2. Textile, wearing apparel and leather products	90	85	83	85	82	86	85
3. Wood and wood products	80	80	80	80	79	76	77
4. Paper and paper products	94	90	92	90	88	88	88
5. Chemical, petroleum, rubber and plastic products	60	65	67	67	66	68	70
6. Non-metallic mineral products	84	87	87	87	87	86	84
7. Basic metal products	45	45	45	45	47	47	48
8. Fabricated metal products, machinery and transport equipment	90	90	91	90	88	90	87
9. Manufactured products (n.e.s.)	93	95	94	93	90	90	90
Average	82	83	83	84	83	84	84

(a) Excluding BOI Enterprises

(b) Provisional

Source : Central Bank of Sri Lanka

INDUSTRY

TABLE 22

Annual Capacity, Production and Sales (Quantity) of State Industries (a)

Corporation / Enterprise and Product	Unit	1994			1995			1996			1997			1998 (b)			
		Capacity	Production	Sales	Capacity	Production	Sales	Capacity	Production	Sales	Capacity	Production	Sales	Capacity	Production	Sales	
1. Sevanagala Sugar Ind. Ltd. Sugar	MT	19,396	18,534	18,515	23,485	18,654	18,291	22,297	16,024	16,126	15,687	14,774	14,956	17,194	17,139	16,865	
2. Lanka Salt Ltd. Common Salt	MT	70,000	44,229	60,097	90,000	70,825	54,875	90,000	82,123	66,999	90,000	88,000	68,300	90,000	66,670	52,400	
3. British Ceylon Corp. Ltd. Soap Coconut Oil Steel Drums	MT " " Nos. '000	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	n.a. n.a. n.a.	2,336 820 -	n.a. n.a. n.a.	7,350 6,915 67	2,484 637 57	n.a. n.a. n.a.	n.a. n.a. n.a.	7,400 6,915 127	1,727 689 101	n.a. n.a. n.a.	7,400 6,826 250	2,254 709 182	n.a. n.a. n.a.
4. State Timber Corporation Sawn Timber Logs Sleepers	Cu.Metres '000 " " Nos. '000	4 44 235	4 46 77	6 41 81	10 46 166	6 56 54	5 42 59	15 46 112	5 59 50	6 51 46	13 50 75	6 70 65	5 64 84	13 66 67	7 87 77	6 71 81	
5. National Paper Co. Ltd. Paper and Paper Products	MT	37,500	31,124	32,518	37,500	27,731	27,480	37,500	24,865	20,245	37,500	22,080	20,156	37,500	16,375	15,493	
6. Sri Lanka Ayurvedic Drugs Corporation Syrup and Oil Other Ayurvedic Drugs	Lt. MT	- -	203,250 29	193,500 30	292,500 56	222,000 38	226,500 36	292,500 56	251,250 41	240,000 41	287,250 56	227,600 42	250,044 38	287,250 56	307,710 29	308,286 28	
7. Ceylon Petroleum Corporation Super Petrol/Gasoline Kerosene Naphtha Diesel Avtur Fuel Oil	MT " " " " " "	186,151 192,004 113,659 2,029,300 60,960 602,502	186,680 206,929 107,217 867,162 146,898 602,374	189,793 222,501 112,101 859,686 90,543 625,493	153,751 192,273 119,795 2,029,300 67,223 581,755	189,793 222,501 112,101 859,686 90,543 625,493	189,314 200,484 103,553 584,906 68,584 748,955	197,529 227,703 98,505 1,085,352 109,678 735,253	161,002 146,962 98,776 531,989 73,477 663,966	193,529 225,145 93,296 1,343,753 204,250 677,267	186,749 203,933 119,137 2,029,300 680,218 53,909 715,639	204,354 235,734 128,467 1,299,979 203,005 766,868	193,529 225,145 93,296 1,343,753 204,250 677,267	186,749 203,933 119,137 2,029,300 680,218 53,909 715,639	204,354 235,734 128,467 1,299,979 203,005 766,868		
8. Sri Lanka Rubber Manufacturing and Export Corporation Ltd. Crepe Rubber Centrifuged Latex	MT " "	1,275 1,644	708 1,193	701 1,161	1,634 1,656	811 1,359	808 1,305	1,195 1,620	775 1,569	778 1,539	1,195 1,620	718 1,258	629 1,322	1,195 1,620	794 1,269	886 1,292	
9. Lanka Mineral Sands Ltd. Ilmenite and H.T. Ilmenite Rutile Crude Zircon	MT " " "	80,000 3,740 23,670	60,445 2,410 22,310	52,122 4,384 237	126,000 12,000 20,000	50,250 2,884 21,971	69,441 4,420 60	65,145 3,680 24,400	67,602 3,532 15,863	63,302 1,112 28,596	66,188 3,094 14,518	23,681 3,532 15,863	- 108 20	60,277 3,251 20,422	37,148 1,930 8,814	120 30 80	
10. Lanka Phosphate Ltd. Phosphate	MT	29,636	32,313	26,476	35,000	32,114	28,928	35,000	34,043	31,630	38,000	29,634	34,545	38,000	36,598	34,637	

(a) Under the privatisation programme of the government, the following state owned industrial enterprises were privatised with effect from the dates given in parenthesis: Thuhiriya Textile Mills (Feb. 1990), Pugoda Textile Mills (June 1990), G.O.B.U. of Ceylon Oxygen (Nov. 1990), Dankotuwa Porcelain Ltd. (Dec. 1990), Ceylon Leather Products (July 1991), Lanka Milk Food Ltd. (Oct. 1991), State Hardware (Oct. 1991), Ceylon Oils & Fats (Jan. 1992), Nylon 6 Plant of the Ceylon Petroleum Corp. (Feb. 1992), Kelani Tyres Ltd. (Feb. 1992), Bogala Mine of State Mining & Mineral Development (Feb. 1992), Veyangoda Textile Mills Ltd. (March 1992), Distilleries Company of Sri Lanka Ltd. (March 1992), Mahaweli Marine Cement Co. Ltd. (June 1992), Lanka Ceramic Ltd. (June 1992), Kahatagaha Graphite Lanka Ltd. (Sept. 1992), Lanka Porcelain Pvt. Ltd. (Sept. 1992), Hingurana Sugar Industries Ltd. (March 1993), Ruhunu Cement Ltd. (June 1993), Mattegama Textile Mills Ltd. (Oct. 1993), Lanka Camerries Ltd. (Nov. 1993), Puttalam Cement Co. Ltd. (Dec. 1993), Wayamba Agro-Fertilizer Co. (May 1994), Ruhunu Agro-Fertilizer Co. (May 1994), Lanka Lubricants Ltd. (July 1994), Kantalai Sugar Industries Ltd. (July 1994), C.C.C. (Fertilizer) Ltd. (July 1994), Lanka Plywood (Gintoria) (May 1995), Statcon Rubber Co. Ltd. (Sept. 1995), Colombo Gas Co. Ltd. (Dec. 1995), Rajarata Agro-Fertilizer Co. (July 1996), Ceylon Steel Corp. Ltd. (Oct. 1996) and Puttalam Salt Ltd. (Feb. 1997).

(b) Provisional

Source : Respective Enterprises

INDUSTRY

TABLE 23

Employment in State Industries

Corporation / Enterprise	Numbers				
	1994	1995	1996	1997	1998 (a)
1. Sevanagala Sugar Industries Ltd.	1,397	1,858	1,697	1,894	1,713
2. Lanka Salt Ltd.	700	720	360	343	404
3. British Ceylon Corporation Ltd.	318	414	425	531	546
4. State Timber Corporation	2,109	1,971	1,894	1,885	1,846
5. National Paper Company Ltd.	3,068	3,019	3,019	2,664	2,628
6. State Printing Corporation	586	606	613	605	601
7. Sri Lanka Ayurvedic Drugs Corporation	300	306	307	226	230
8. Ceylon Petroleum Corporation	4,654	6,018	7,017	7,099	7,046
9. Sri Lanka Rubber Manufacturing and Export Corporation Ltd.	271	299	353	449	477
10. Lanka Mineral Sands Ltd.	485	461	532	566	567
11. Lanka Phosphate Ltd.	218	215	247	250	264
12. Privatised Enterprises (b)	26,069	24,549	23,711	22,292	21,450
Total	40,175	40,436	40,175	38,804	37,772

Source : Respective Institutions

(a) Provisional

(b) Under the privatisation programme of the government, the following state owned industrial enterprises were privatised with effect from the dates given in parenthesis: Thulhiriya Textile Mills (Feb. 1990), Pugoda Textile Mills (June 1990), G.O.B.U. of Ceylon Oxygen (Nov. 1990), Dankotuwa Porcelain Ltd. (Dec. 1990), Ceylon Leather Products (July 1991), Lanka Milk Food Ltd. (Oct. 1991), State Hardware (Oct. 1991), Ceylon Oils & Fats (Jan. 1992), Nylon 6 Plant of the Ceylon Petroleum Corpn. (Feb. 1992), Kelani Tyres Ltd. (Feb. 1992), Bogala Mine of State Mining & Mineral Development (Feb. 1992), Veyangoda Textile Mills Ltd. (March 1992), Distilleries Company of Sri Lanka (March 1992), Mahaweli Marine Cement Co. Ltd. (June 1992), Lanka Ceramic Ltd. (June 1992), Kahatagaha Graphite Lanka Ltd. (Sept. 1992), Lanka Porcelain Pvt. Ltd. (Sept. 1992), Hingurana Sugar Industries Ltd. (March 1993), Ruhunu Cement Ltd. (June 1993), Mattegama Textile Mills Ltd. (Oct. 1993), Lanka Canneries Ltd. (Nov. 1993), Puttalam Cement Co. Ltd. (Dec. 1993), Wayamba Agro-Fertilizer Co. (March 1994), Ruhunu Agro-Fertilizer Co. (May 1994), Lanka Lubricants Ltd. (July 1994), Kantalai Sugar Industries Ltd. (July 1994), C.C.C. (Fertilizer) Ltd. (July 1994), Lanka Plywood (Gintota) (May 1995), Statcon Rubber Co. Ltd. (Sept. 1995), Colombo Gas Co. Ltd. (Dec. 1995), Rajarata Agro-Fertilizer Co. (July 1996), Ceylon Steel Corpn. Ltd. (Oct. 1996) and Puttalam Salt Ltd. (Feb. 1997).

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TABLE 24

Availability and Utilisation of Quota

Description	Unit	Quota Availability			Utilisation			Utilisation Rate (%)		
		1996	1997(a)	1998(b)	1996	1997(a)	1998(b)	1996	1997(a)	1998(b)
USA Quota										
Play Suits etc.	doz	311,749	348,201	378,494	163,145	266,364	233,723	52.3	76.5	61.8
Fabric Poplin / Broadcloth	sme	4,790,948	5,198,149	5,410,964	3,415,937	4,664,032	3,579,348	71.3	89.7	66.1
Gloves	doz	3,154,241	3,413,769	3,712,108	2,921,809	2,624,880	2,322,391	92.6	76.9	62.6
Suit-type coats, M & B	doz	14,396	6,789	13,359	208	436	6	1.4	6.4	0.0
Coats, non-suit, M & B	doz	748,539	930,823	904,825	639,349	1,027,106	953,281	85.4	110.3	105.4
Coats, W & G	doz	342,747	236,415	204,058	154,512	206,289	206,184	45.1	87.3	101.0
Dresses	doz	500,864	411,094	555,855	495,652	404,486	587,199	99.0	98.4	105.6
Knit Shirts & Blouses	doz	1,497,079	1,593,341	1,597,383	1,497,079	1,651,245	1,621,873	100.0	103.6	101.5
Shirts & Blouses, not-knit, W & G	doz	1,579,647	1,605,982	2,220,364	685,675	1,095,819	1,249,072	43.4	68.2	56.3
Shirts, not-knit, M & B	doz	1,349,483	1,582,463	1,569,583	981,917	1,347,373	1,813,245	72.8	85.1	115.5
Shirts & Blouses, not-knit, W & G	doz	2,276,912	2,408,975	1,554,375	992,545	623,581	698,132	43.6	25.9	44.9
Skirts	doz	746,835	674,134	727,286	724,485	518,920	698,450	97.0	77.0	96.0
Sweaters	doz	86,409	156,107	194,098	39,589	64,977	118,192	45.8	41.6	60.9
Trousers, etc.	doz	1,627,871	1,883,722	1,800,291	1,627,871	1,839,885	1,833,028	100.0	97.7	101.8
Dressing gowns, etc.	doz	126,095	134,871	128,097	100,012	123,036	128,567	79.3	91.2	100.4
Nightwear	doz	402,744	373,215	433,652	394,229	405,307	422,476	97.9	108.6	97.4
Underwear	doz	1,497,620	1,366,230	1,412,105	1,497,620	1,363,152	1,147,105	100.0	99.8	81.2
Coveralls & Overalls	kgs	1,019,959	1,077,651	1,181,402	1,019,959	1,091,683	618,490	100.0	101.3	52.4
Pillowcases	nos	1,523,867	366,089	1,771,732	372,225	11,523	246,000	24.4	3.1	13.9
Terry & Other Pile Towels	nos	6,677,066	10,648,762	13,515,567	6,677,066	9,418,702	13,344,425	100.0	88.4	98.7
Dish Towels	kgs	609,887	523,786	136,707	132,680	20,794	40,034	21.8	4.0	29.3
Shop Towels	kgs	644,686	889,698	1,005,426	577,757	749,362	993,873	89.6	84.2	98.9
Coats, non-suit, M & B	doz	8,309	7,036	8,160	951	285	1,250	11.4	4.1	15.3
Coats, W & G	doz	17,807	18,012	17,486	9,830	13,732	3,396	55.2	76.2	19.4
Shirts & Blouses, not-knit	doz	11,871	12,009	11,657	3,810	1,165	265	32.1	9.7	2.3
Fabric: Spun Cell, Woven	sme	5,309,390	2,419,785	6,820,144	1,628,101	1,291,879	2,462,461	30.7	53.4	36.1
Coats, W & G	doz	456,996	507,896	491,479	299,945	556,714	520,043	65.6	109.6	105.8
Knit Shirts	doz	902,112	969,631	1,053,988	376,344	628,219	696,763	41.7	64.8	66.1
Shirts & Blouses, not-knit, W & G	doz	1,456,237	1,605,982	1,554,376	306,870	472,238	550,940	21.1	29.4	35.4
Suits, W & G	nos	540,409	326,622	361,696	46,168	88,079	364,557	8.5	27.0	100.8
Sweaters	doz	112,922	141,375	118,096	6,902	46,566	38,246	6.1	32.9	32.4
Trousers, etc.	doz	1,063,414	1,095,301	1,191,177	773,731	1,229,306	1,154,949	72.8	112.2	97.0
Shirts & Blouses, not-knit	doz	208,065	148,203	212,977	112,346	57,032	157,430	54.0	38.5	73.9
Apparel Sub-Total	doz	20,500,964	21,631,576	22,065,329	14,806,426	16,568,113	17,156,206	72.2	76.6	77.8
Fabrics Sub-Total	sme	10,100,338	7,617,934	12,231,108	5,044,038	5,955,911	6,041,809	49.9	78.2	49.4
Other Items Sub-Total	kgs	2,274,352	2,491,135	2,323,535	1,730,396	1,861,839	1,652,397	76.1	74.7	71.1
U.S.A. Sub-Total in Pcs (c)	Pcs	287,075,491	303,503,850	313,147,501	202,842,953	228,398,890	243,962,781	70.7	75.3	77.9
EU Quota										
Trousers, M & B and Shorts & Breeches, M	Pcs	8,014,406	9,022,045	10,460,640	6691372	7,389,983	7938357	83.5	81.9	75.9
Woven & Knitted Blouses, W & G	Pcs	12,031,944	14,477,401	16,167,819	12,184,870	14,357,347	14080370	101.3	99.2	87.1
Woven Shirts, M & B	Pcs	10,187,140	10,178,095	11,372,255	7,421,198	5,581,347	3888530	72.8	54.8	34.2
Parkas, Anoraks, Windchatters & the like woven	Pcs	9,070,980	10,123,920	11,615,040	2,617,978	2,676,613	2592409	28.9	26.4	22.3
EU Sub-Total	Pcs	39,304,470	43,801,461	49,615,754	28,915,418	30,005,290	28,499,666	73.6	68.5	57.4
Canadian Quota										
Coats, Jackets and Rainwear	Pcs	953,861	964,572	1,055,049	356,906	357,965	450331	37.4	37.1	42.7
Of which Coats	Pcs	130,091	131,553	143,893	9,866	12,451	37882	7.6	9.5	26.3
Winter Outerwear	Pcs	268,519	309,154	284,242	180,899	293,381	211726	67.4	94.9	74.5
Male and Female Casual and Finewear	Pcs	860,785	925,343	1,012,140	292,518	355,531	354896	34.0	38.4	35.1
Fine Suits	Pcs	27,194	29,233	31,975	0	1,787	7808	0.0	6.1	24.4
Trousers, Overalls and Shorts	Pcs	905,334	973,235	959,462	541,510	679,899	1017968	59.8	69.9	106.1
Tailored Collar Shirts MBC	Pcs	756,876	0	0	381,974	286,091	0	50.5	0.0	0.0
T - Shirts, Sweat Shirts Athletic Wear	Pcs	1,016,134	977,560	1,016,252	206,455	981,471	303980	20.3	100.4	29.9
Shirts and Blouses, Knitted & Woven	Pcs	781,877	955,301	965,515	430,875	306,158	885083	55.1	32.0	91.7
Underwear	Pcs	1,214,999	1,306,125	1,428,639	468,080	93,868	65124	38.5	7.2	4.6
Sleepwear & Bathrobes	Pcs	485,520	635,399	799,396	64,570	15,103	147800	13.3	2.4	18.5
Sweaters	Pcs	211,612	306,130	380,587	74,016	165,825	16804	35.0	54.2	4.4
Swimwear	Pcs	627,842	730,843	799,396	201,083	217,447	131769	32.0	29.8	16.5
Babies' Garments	Pcs	339,928	365,422	399,699	181,730	175,522	317018	53.5	48.0	79.3
Bedsheets	Pcs	707,753	760,834	832,200	121,588	250,848	36482	17.2	33.0	4.4
Canadian Sub-Total	Pcs	9,288,325	9,370,704	10,108,445	3,512,070	4,193,347	3,984,671	37.8	44.7	39.4
Total	Pcs	335,668,286	356,676,015	372,871,700	235,270,441	262,597,527	276,447,118	70.1	73.6	74.1

(a) Revised

(b) Provisional

(c) Conversion estimated as follows: Fabric 1 SME = 1pc; Other Items - Coveralls & Overalls 1kg = 1pc and dish towels, shop towels 1kg = 16.9pcs

Source: Ministry of Industrial Development

INDUSTRY

TABLE 25

Regional Distribution of Industrial Enterprises (a)

District	Industries Registered under Ministry of Industrial Development				Industries under BOI								Total			
	Ministry of Industrial Development				Section 17				200 Garment Factory Programme				Section 16			
					1996		1997		1998 (b)		1996		1997		1998 (b)	
	1996	1997	1998 (b)	1998 (b)	1996	1997	1998 (b)	1998 (b)	1996	1997	1998 (b)	1996	1997	1998 (b)	1996	1997	1998 (b)
1. Colombo	1,247	1,275	1,311	208	235	277	15	15	15	215	217	239	1,685	1,742	1,842	
2. Gampaha	180	186	200	262	289	341	7	7	7	79	81	82	528	563	630	
3. Kalutara	50	54	60	30	38	53	9	9	10	15	17	17	104	118	140	
4. Galle	27	27	27	22	20	28	4	7	5	16	15	16	69	69	76	
5. Puttalam	21	21	21	25	34	58	12	12	12	10	10	11	68	77	102	
6. Kandy	28	29	30	16	19	30	11	12	12	9	9	10	64	69	82	
7. Kurunegala	9	10	11	18	21	29	11	11	11	8	8	7	46	50	58	
8. Matara	23	26	28	2	3	4	4	4	4	1	1	1	30	34	37	
9. Hambantota	19	19	19	1	1	2	5	7	7	2	1	1	27	28	29	
10. Nuwara Eliya	3	3	3	8	10	15	11	12	9	3	3	3	25	28	30	
11. Ratnapura	2	3	3	6	7	9	15	16	15	2	2	2	25	28	29	
12. Anuradhapura	6	6	6	2	2	4	13	14	15	1	1	1	22	23	26	
13. Badulla	10	11	11	2	2	4	7	9	7	3	3	3	22	25	26	
14. Kegalle	3	3	5	4	5	10	8	8	8	0	0	2	15	16	25	
15. Matara	4	4	5	3	3	5	5	5	5	0	0	0	12	12	15	
16. Moneragala	1	1	1	0	0	0	5	5	4	2	2	2	8	8	7	
17. Polonnaruwa	0	0	0	1	2	2	5	5	4	1	1	0	7	8	6	
18. Ampara	4	6	6	0	0	1	3	3	5	0	0	0	7	9	12	
19. Trincomalee	0	0	0	0	0	1	1	1	1	1	1	1	2	2	3	
20. Batticaloa	0	0	0	0	0	2	1	1	1	1	1	1	2	2	4	
21. Vavuniya	0	0	0	0	0	0	2	2	2	0	0	0	2	2	2	
22. Jaffna	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	
23. Mannar	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	1,637	1,684	1,747	610	691	876	154	165	160	369	373	399	2,770	2,913	3,182	

(a) As at end year
(b) ProvisionalSources: Ministry of Industrial Development
Board of Investment of Sri Lanka

INDUSTRY

TABLE 26

Private Sector Monthly Industrial Volume Index in 1998 (a)

1997 = 100

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Quarters			
													1st	2nd	3rd	4th
1. Food beverage & tobacco products	102.4	101.9	109.2	104.8	108.5	108.1	107.4	105.6	113.3	114.5	118.2	117.6	104.5	107.1	108.8	116.8
Food	103.1	99.9	106.2	104.2	106.2	106.5	103.2	112.5	117.5	112.8	117.3	119.2	103.0	105.6	111.1	116.4
Liquor	114.1	110.0	117.9	105.2	115.0	109.5	112.8	113.0	126.2	119.4	123.2	118.2	114.0	109.9	117.3	120.3
Beverage	95.1	114.7	122.2	106.8	112.7	110.1	123.4	92.1	100.2	116.9	105.1	112.3	110.7	109.9	105.2	111.4
Tobacco	94.2	99.5	112.2	103.9	113.1	102.0	94.1	94.9	96.6	94.8	96.6	98.3	102.0	106.4	95.2	96.6
2. Textile, wearing apparel & leather products	108.0	107.2	112.0	106.4	111.8	108.2	106.1	101.2	104.6	92.3	102.6	102.5	109.1	108.8	104.0	99.1
Apparel	108.7	108.8	113.3	105.9	113.4	106.1	108.1	102.2	103.2	95.2	102.3	102.1	110.3	108.5	104.5	99.9
Textile	110.7	104.8	107.4	102.3	108.2	112.5	93.3	98.8	106.2	88.5	103.1	104.2	107.6	107.6	99.4	98.6
Leather	90.1	95.3	116.0	114.2	108.2	112.1	94.9	101.6	105.6	90.4	104.0	106.2	100.5	111.5	100.7	100.2
3. Wood and wood products	101.0	73.5	94.0	98.1	88.7	92.2	104.7	105.1	102.3	106.2	105.8	104.2	89.5	93.0	104.0	105.4
4. Paper and paper products	103.9	108.4	96.9	95.9	90.8	98.0	99.9	104.0	100.2	100.1	101.7	104.5	103.0	94.9	101.4	102.1
5. Chemicals, rubber and plastic products	103.7	104.8	110.2	110.1	106.5	118.2	117.6	108.5	106.5	114.2	109.5	113.1	106.2	111.6	110.9	112.3
Chemical and fertilizer	118.3	94.4	103.1	104.7	112.0	122.3	118.7	115.2	108.3	115.2	117.9	116.2	105.3	113.0	114.1	116.4
Rubber	97.6	102.7	117.1	110.8	110.7	106.0	125.7	106.3	106.2	106.3	103.3	105.2	105.8	109.2	112.7	104.9
Plastic & PVC	96.5	93.3	99.0	109.1	103.8	99.1	117.3	110.0	103.3	119.0	113.2	112.2	96.2	104.0	110.2	114.8
Pharmaceuticals and detergent	104.1	109.5	110.9	113.5	92.0	120.0	108.2	109.1	105.2	125.3	108.7	118.2	108.2	108.5	107.5	117.4
6. Non metallic minerals products	98.5	102.7	105.0	85.5	96.1	82.5	117.0	118.9	106.1	103.2	122.9	114.2	102.1	88.0	114.0	113.4
Diamond processing	94.2	94.3	90.8	63.4	70.4	78.2	114.3	116.5	90.7	94.3	102.7	103.2	93.1	70.7	107.2	100.1
Ceramic products	106.3	104.8	119.1	99.6	84.1	108.0	115.1	110.0	93.1	93.8	103.5	104.2	110.1	97.2	106.1	100.5
Cement	99.8	111.3	117.9	106.2	113.7	112.5	124.8	126.5	125.6	106.5	154.7	119.2	109.6	110.8	125.6	126.8
Building material	116.9	100.4	127.2	98.7	105.6	106.5	104.8	110.9	98.1	105.4	124.5	117.2	114.8	103.6	104.6	115.7
7. Basic metal products	106.5	115.6	113.4	107.1	107.9	101.0	121.9	106.9	103.4	121.7	116.9	112.2	111.8	105.3	110.7	116.9
8. Fabricated metal products	106.5	104.3	113.8	111.3	107.1	105.0	105.4	116.7	104.4	115.2	114.2	109.5	108.2	107.8	108.8	113.0
9. Manufactured products (not elsewhere specified)	108.8	95.2	99.0	102.5	108.0	102.0	105.5	111.4	100.3	103.9	95.6	110.3	101.0	104.2	105.7	103.3
Total	105.2	104.8	109.9	104.9	108.2	107.3	108.2	105.4	106.7	103.0	108.9	108.9	106.6	106.8	106.8	106.9

(a) The Private Sector Monthly Industrial Volume Index is estimated on the basis of information received from 100 major industrial firms in the BOI and Non-BOI Sectors.

Source : Central Bank of Sri Lanka

INDUSTRY

TABLE 27

Private Sector Cumulative Monthly Industrial Volume Index in 1998 (a)

1997 = 100

	Jan-Feb	Jan-Mar	Jan-Apr	Jan-May	Jan-Jun	Jan-Jul	Jan-Aug	Jan-Sep	Jan-Oct	Jan-Nov	Jan-Dec
1. Food beverage & tobacco products	102.1	104.5	103.8	103.9	104.3	106.0	106.0	106.8	107.6	108.5	109.3
Food	101.5	103.0	102.1	102.2	102.4	104.2	105.2	106.6	107.2	108.1	109.0
Liquor	110.1	112.7	110.9	108.4	108.6	112.1	112.2	113.7	114.3	115.1	115.4
Beverage	104.9	110.7	109.7	110.3	110.3	112.2	109.6	108.6	109.4	109.0	109.3
Tobacco	96.9	102.0	102.5	104.6	104.2	102.7	101.7	101.2	100.5	100.2	100.0
2. Textile, wearing apparel & leather products	107.6	109.1	108.4	109.1	110.0	108.5	107.6	107.3	105.8	105.5	105.2
Apparel	108.7	110.3	109.2	110.0	110.8	109.2	108.3	107.7	106.5	106.1	105.8
Textile	107.7	107.6	106.3	106.7	107.6	105.6	104.7	104.9	103.3	103.2	103.3
Leather	92.7	100.5	103.9	104.8	104.6	104.4	104.1	104.2	102.8	103.0	103.2
3. Wood and wood products	87.2	89.5	91.6	91.1	91.2	93.2	94.7	95.5	96.6	97.4	98.0
4. Paper and paper products	106.1	103.0	101.3	99.2	99.0	99.1	99.7	99.8	99.8	100.0	100.4
5. Chemicals, rubber and plastic products	104.3	106.2	107.2	107.1	108.9	110.2	110.0	109.6	110.0	110.0	110.2
Chemical and fertilizer	106.3	105.3	105.1	106.5	109.1	110.5	111.1	110.8	111.2	111.8	112.2
Rubber	100.2	105.8	107.1	107.8	107.5	110.1	109.6	109.2	108.9	108.4	108.2
Plastic & PVC	94.9	96.2	99.5	100.3	100.1	102.6	103.5	103.5	105.0	105.8	106.3
Pharmaceuticals and detergent	106.8	108.2	109.5	106.0	108.3	108.3	108.4	108.0	109.8	109.7	110.4
6. Non metallic minerals products	100.6	102.1	97.9	97.5	95.0	98.2	100.8	101.4	101.5	103.5	104.4
Diamond processing	94.3	93.1	85.7	82.6	81.9	86.5	90.3	90.3	90.7	91.8	92.8
Ceramic products	105.6	110.1	107.4	102.8	103.7	105.3	105.9	104.5	103.4	103.4	103.5
Cement	105.5	109.6	108.8	109.8	110.2	112.3	114.1	115.4	114.5	118.1	118.2
Building material	108.7	114.8	110.8	109.8	109.2	108.6	108.9	107.7	107.5	109.0	109.7
7. Basic metal products	111.0	111.8	110.6	110.1	108.6	110.5	110.0	109.3	110.5	111.1	111.2
8. Fabricated metal products	105.4	108.2	109.0	108.6	108.0	107.6	108.8	108.3	109.0	109.4	109.5
9. Manufactured products (not elsewhere specified)	102.0	101.0	101.3	102.7	102.6	103.0	104.0	103.6	103.7	102.9	103.5
Total	105.0	106.6	106.0	106.3	106.6	106.9	106.8	106.7	106.4	106.6	106.8

(a) The Private Sector Cumulative Monthly Industrial Volume Index is estimated on the basis of information received from 100 major industrial firms in the BOI and Non-BOI Sectors.

Source : Central Bank of Sri Lanka

ECONOMIC AND SOCIAL OVERHEADS

TABLE 28

Public Health Services

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
1. Hospitals (Practising Western Medicine) (No.)	502	502	504	506	504	510	535	540	548	550
2. Beds (No.)	46,620	42,079 (b)	42,437 (b)	48,061	48,949	50,091	52,528	52,613	52,635	53,737
3. Central Dispensaries (No.)	361	278 (b)	275 (b)	350	365	370	386	377	371	389
4. Doctors (No.)	2,456	2,440	2,934	3,345	3,713	3,496	3,986	4,391	4,956	5,611
5. Asst. Medical Practitioners (No.)	1,193	1,074	1,201	1,253	1,305	1,357	1,324	1,464	1,380	1,370
6. Ayurvedic Physicians (No.)	13,076	13,284	12,852	13,131	13,454	13,624	14,874	14,808	15,078	15,359
7. Nurses (No.)	9,486	8,957	9,934	11,214	11,818	13,060	13,310	13,846	14,399	14,463
8. Attendants (No.)	6,030	5,707	5,697	5,710	5,772	5,469	5,579	5,758	6,650	6,717
9. In - Patients (No. '000)	2,525	2,533 (b)	2,629 (b)	3,023	3,174	3,204	2,953 (c)	3,339	3,453	n.a.
10. Out - Patients (No. '000)	31,781	28,401 (b)	28,575 (b)	36,827	36,892	35,276	32,084 (c)	35,348	39,503	n.a.
11. Total Health Expenditure (Rs. Mn.)	4,639	4,964	5,229	6,541	7,064	9,185	10,952	11,913	12,135	14,379
Current Expenditure (Rs. Mn.)	3,381	3,685	4,110	4,518	5,711	7,666	8,818	9,260	9,581	10,049
Capital Expenditure (Rs. Mn.)	1,258	1,279	1,119	2,023	1,353	1,519	2,134	2,653	2,554	4,330

(a) Provisional

(b) Excludes Northern and Eastern provinces

(c) Excludes Jaffna, Kilinochchi, Mullaitivu and Ampara districts

Sources: Ministry of Health and Indigenous Medicine
Central Bank of Sri Lanka

TABLE 29

ECONOMIC AND SOCIAL OVERHEADS

General and University Education

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (a)
General Education										
1. Schools (No.)										
1.1 Government Schools	10,296	10,382	10,520	10,588	10,710	10,779	10,832	10,936	10,983	11,002
National Schools	9,805	9,864	9,998	10,042	10,160	10,191	10,239	10,312	10,358	10,373
Other Schools	25	28	35	39	93	164	198	238	249	270
1.2 Other Schools	491	518	522	541	553	588	593	624	625	629
Private	61	61	63	63	66	79	79	79	75	79
Pirivenas	430	457	459	478	487	509	514	545	550	550
2. Pupils (No.)	4,179,520	4,232,356	4,258,697	4,285,286	4,303,493	4,327,959	4,351,022	4,265,076	4,260,989	n.a.
2.1 Government Schools	4,057,815	4,111,272	4,135,115	4,155,035	4,172,897	4,193,971	4,216,571	4,132,749	4,124,105	4,143,442
2.2 Other Schools	121,705	121,084	123,583	130,251	130,596	133,988	134,451	132,327	136,881	n.a.
Private	83,816	82,593	83,568	87,004	83,887	87,674	87,674	86,707	85,896	n.a.
Pirivenas	37,889	38,491	40,015	43,247	46,709	46,314	46,777	45,620	50,991	n.a.
3. New Admissions (No.)	396,748	387,314	388,315	359,003	354,390	339,006	342,386	322,686	353,639 (a)	353,047
4. Teachers (No.)	153,243	184,822	177,231	182,756	193,924	195,182	195,210	193,720	187,539	n.a.
4.1 Government Teachers	146,997	178,333	170,735	175,813	186,926	187,586	187,574	185,842	179,589	188,200
4.2 Others	6,246	6,489	6,496	6,943	6,998	7,596	7,636	7,878	7,950	n.a.
5. Pupil/Teacher Ratio (Government Schools)	28	23	24	24	22	22	22	22	23	22
6. Expenditure on Education (Rs. Mn.) (b)	8,141	9,571	9,129	12,541	14,070	17,713	18,908	20,402	22,349	26,666
6.1 Current	6,612	8,529	7,951	10,533	11,225	14,836	15,784	16,018	17,757	20,554
6.2 Capital	1,529	1,042	1,178	2,008	2,845	2,877	3,124	4,384	4,592	6,112
University Education										
1. Universities (No.)	9	9	9	9	9	9	10	12	12	12
2. Students (No.) (c)	24,640	29,471	28,260	31,447	30,637	30,764	32,004	32,800	34,139	38,192
3. Lecturers (No.) (d)	1,811	2,040	1,811	1,828	1,955	2,122	2,524	2,808	2,927	3,050
4. Graduates (No.)	4,637	4,522	5,386	4,564	5,056	5,493	5,342	5,216	6,738	n.a.
4.1 Arts and Oriental Studies	1,776	1,759	1,983	1,603	1,661	2,077	1,999	1,999	2,513	n.a.
4.2 Commerce and Management Studies	820	772	1,086	769	1,169	1,044	982	999	1,219	n.a.
4.3 Law	88	88	98	89	112	183	140	160	182	n.a.
4.4 Science	934	814	1,169	1,051	913	829	958	844	882	n.a.
4.5 Engineering	400	454	355	379	382	652	458	403	496	n.a.
4.6 Medicine	375	360	339	334	444	385	442	505	1,022	n.a.
4.7 Dental Surgery	n.a.	27	42	48	69	41	66	58	201	n.a.
4.8 Agriculture	165	175	217	188	191	183	210	165	36	n.a.
4.9 Veterinary Science	40	34	31	32	29	31	31	27	36	n.a.
4.10 Architecture	39	39	76	71	86	47	23	23	58	n.a.
4.11 Quantity Surveying	-	-	-	-	-	-	-	33	72	n.a.
5. New Admissions for Basic Degrees (No.)	6,463	6,043	6,463	8,970	8,900	7,849	8,015	8,663	9,787	10,450

Sources: Ministry of Education and Higher Education
University Grants Commission
Central Bank of Sri Lanka

(a) Provisional
(b) Government expenditure on General and Higher Education
(c) Excluding the Open University of Sri Lanka
(d) At the beginning of the year

ECONOMIC AND SOCIAL OVERHEADS

TABLE 30

Growth of Postal and Telecommunication Services

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
Postal Services										
1. Delivery Areas (No.)	6,630	6,636	6,729	6,729	6,729	6,729	6,729	6,729	6,729	6,729
2. Post Offices (No.)	3,908	3,945	3,982	4,018	4,042	4,105	4,148	4,252	4,313	4,362
Public	3,841	3,864	3,884	3,891	3,895	3,932	3,966	4,032	4,034	4,036
Private	67	81	98	127	147	173	182	203	216	250
Rural Agency Post Offices	-	-	-	-	-	-	-	17	63	76
3. Area served by a Post Office (Sq. Km.)	17	17	17	16	16	16	17	16	15	15
4. Population served by a Post Office (No.)	4,406	4,398	4,331	4,331	4,359	4,365	4,393	4,339	4,326	4,304
5. Letters per inhabitant (No.)	28	31	29	27	28	29	29	27	24	23
Telecommunication Services										
1. Inland Telephone Services										
No. of Telephone Lines in Service	105,007	121,388	125,834	135,504	157,774	180,724	204,350	254,500	315,241	455,598
New Telephone Lines Given (No.)	6,087	10,241	6,579	10,607	22,270	25,322	24,556	50,170	72,457	143,075
Applicants on Waiting List (No.)	48,400	47,945	61,313	96,207	124,066	186,245	237,800	270,800	284,876	224,411
Demand for Telephones (No.)	153,407	169,333	187,147	231,711	281,840	366,969	442,150	525,300	600,117	765,598
Telephone Density (Telephones per 100 persons)	0.62	0.71	0.73	0.78	0.90	1.01	1.12	1.39	1.69	2.43
2. Overseas Telecommunication Services										
Outgoing Traffic										
Overseas Telephone Traffic (b)	8,038	9,006	15,600	17,775	19,900	23,800	27,000	30,230	33,125	40,040
Overseas Telegrams (c)	3,023	2,720	2,466	2,483	2,220	2,201	1,949	1,712	1,467	1,230
Overseas Telex Traffic (b)	4,777	4,472	4,346	4,231	3,300	2,625	1,932	1,091	817	641

(a) Provisional

(b) Figures are given in thousands of minutes.

(c) Figures are given in thousands of words.

Sources: Department of Posts
Sri Lanka Telecom Ltd.
Telecommunications Regulatory
Commission of Sri Lanka

ECONOMIC AND SOCIAL OVERHEADS

TABLE 31

Salient Features of the Energy Sector

Category	Unit	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
1. Electricity											
Available Capacity	MW	1,240	1,289	1,289	1,409	1,409	1,409	1,409	1,453	1,595	1,636
Installed Capacity	MW	1,240	1,289	1,289	1,409	1,409	1,409	1,409	1,409	1,575	1,636
CEB - Hydro	MW	968	1,017	1,017	1,137	1,137	1,137	1,137	1,137	1,137	1,137
Thermal	MW	272	272	272	272	272	272	272	272	405	405
Private - Hydro	MW	-	-	-	-	-	-	-	-	2	2
Thermal	MW	-	-	-	-	-	-	-	-	31	92
Hired Private Power	MW	-	-	-	-	-	-	-	44	20	-
Units Generated	GWh	2,858	3,150	3,376	3,540	3,979	4,364	4,783	4,375	5,145	5,673
CEB - Hydro	GWh	2,802	3,145	3,116	2,900	3,796	4,089	4,514	3,249	3,443	3,908
Thermal	GWh	56	5	260	640	183	275	269	974	1,052	1,246
Private - Hydro	GWh	-	-	-	-	-	-	-	3	4	5
Thermal	GWh	-	-	-	-	-	-	-	-	13	388
Hired Private Power	GWh	-	-	-	-	-	-	-	152	398	18
Self Generation	GWh	-	-	-	-	-	-	-	152	235	108
Total Sales	GWh	2,358	2,608	2,742	2,916	3,270	3,565	3,915	3,740	4,039	4,509
Domestic	GWh	415	514	644	704	826	928	1,034	1,046	1,213	1,368
Industrial (b)	GWh	872	910	958	1,058	1,224	1,413	1,527	1,513	1,430	1,612
Commercial	GWh	420	509	547	581	641	575	631	592	689	757
Local Authorities/LECO	GWh	634	657	572	544	536	609	683	542	657	722
Street Lighting	GWh	17	18	21	29	43	40	40	47	50	50
2. Petroleum Products											
Quantity Imported											
Crude Oil	MT '000	1,283	1,791	1,626	1,297	1,800	1,898	1,860	2,033	1,814	2,034
Refined Products	MT '000	374	125	219	662	294	288	562	729	1,087	692
L.P. Gas	MT '000	14	17	18	31	38	50	66	71	87	98
Value of Imports (C&F)											
Crude Oil	Rs. Mn.	5,912	12,425	9,667	7,667	11,222	11,407	12,360	16,809	15,584	13,240
	US \$ Mn.	164	310	234	175	233	231	241	304	263	205
Refined Products	Rs. Mn.	2,445	1,150	2,567	5,526	2,554	2,442	4,812	8,465	12,512	5,966
	US \$ Mn.	69	29	62	126	53	49	62	153	212	92
L.P. Gas	Rs. Mn.	n.a.	210	239	495	545	704	1,121	1,237	1,635	1,568
	US \$ Mn.	n.a.	5	6	11	11	14	22	22	28	24
Average Price of Crude Oil (C&F)	Rs./Barrel	628	943	807	803	843	805	903	1,116	1,167	884
	US \$/Barrel	17.43	23.53	19.5	18.32	17.47	16.22	17.59	20.19	19.42	13.63
Quantity of Exports	MT '000	161	176	523	410	590	612	616	661	547	468
Value of Exports	Rs. Mn.	2,241	3,974	3,289	2,771	3,801	3,959	4,349	5,740	6,131	4,665
	US \$ Mn.	62	99	80	63	79	80	85	104	95	72
Local Sales	MT '000	1,091	1,114	1,240	1,487	1,418	1,568	1,721	2,120	2,321	2,436
Super Petrol	MT '000	173	179	160	165	173	184	190	197	193	203
Auto Diesel	MT '000	487	511	540	606	666	728	796	1,048	1,295	1,181
Heavy Diesel (b)	MT '000	23	20	33	125	18	54	80	87	-	-
Super Diesel	MT '000	17	17	20	23	23	24	27	26	33	38
Kerosene	MT '000	160	167	173	189	192	207	222	228	225	235
Furnace Oil	MT '000	153	158	204	252	220	228	238	336	372	551
Avtur	MT '000	49	62	73	82	73	79	91	110	104	111
L.P. Gas	MT '000	29	34	37	45	53	64	77	88	99	117
Local Price											
Super Petrol	Rs./Litre	20.00	30.00	30.00	33.00	35.00	35.00	40.00	50.00	50.00	50.00
Auto Diesel	Rs./Litre	9.60	11.00	11.00	11.65	12.20	11.40	12.40	13.20	13.20	13.20
Heavy Diesel	Rs./Litre	9.20	10.60	10.60	11.15	11.60	10.70	11.70	-	-	-
Super Diesel	Rs./Litre	10.90	13.00	13.00	14.55	15.00	14.20	15.20	18.50	18.50	18.50
Kerosene	Rs./Litre	6.580	8.80	8.80	8.80	11.80	9.50	9.50	10.40	10.40	10.40
Furnace Oil											
500 Seconds	Rs./Litre	5.00	6.60	6.55	7.10	7.10	7.10	7.10	7.80	7.80	7.80
800 Seconds	Rs./Litre	4.70	6.30	6.25	6.80	6.80	6.80	6.80	7.50	7.50	7.50
1,000 Seconds	Rs./Litre	4.55	6.00	5.95	6.50	6.50	6.50	6.50	7.20	7.20	7.20
L.P. Gas	Rs./kg.	n.a.	n.a.	16.54	16.54	20.00	19.23	19.23	22.30	23.07	23.07

- (a) Provisional
(b) From February 1994 onwards electricity sales to hotels are also included.
(c) From June 1996 onwards heavy diesel sales are classified under auto diesel.

Sources : Ceylon Petroleum Corporation
Ceylon Electricity Board
Shell Gas Lanka Ltd.
Lanka Marine Services (Pvt) Ltd.

Salient Features of the Transport Sector

Item	Unit	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (a)
1. New Registrations of Motor Vehicles											
1.1 Buses	Nos.	260	1,149	2,987	2,479	1,835	3,347	1,653	1,364	1,999	3,190
1.2 Private Cars	"	8,394	9,919	6,620	9,346	7,829	12,719	18,867	17,671	31,338	41,151
1.3 Dual Purpose Vehicles	"	3,149	5,225	8,456	10,831	8,973	9,798	11,179	14,250	16,293	18,455
1.4 Motor Cycles	"	66,696	84,424	58,643	65,834	53,934	36,791	34,207	31,955	36,755	42,089
1.5 Goods Transport Vehicles	"	3,149	2,776	3,200	4,146	4,948	5,213	7,293	5,660	5,561	8,703
1.6 Land Vehicles	"	2,457	2,672	4,003	5,487	6,646	7,160	9,294	8,340	7,652	8,405
1.7 Coaches	"	444	88	272	425	295	476	47	115	60	158
1.8 Others	"	14	59	76	134	8	34	30	65	16	62
2. Sri Lanka Railways (SLR)											
2.1 Operated Kilometers	'000	5,739	7,395	7,600	7,599	8,194	8,050	8,541	7,705	7,787	8,467
2.2 Passenger Kilometers	Mn.	1,677	2,781	2,653	2,613	2,822	3,202	3,321	3,241	3,290	3,538
2.3 Freight ton Kilometers	"	178	164	169	177	159	154	136	107	96	102
2.4 Total Revenue	Rs. Mn.	458	583	734	885	772	916	947	938	1,030	1,190
2.5 Current Expenditure	"	883	859	1,350	1,239	1,237	1,675	1,735	1,826	1,742	2,256
2.6 Operating Loss	"	425	276	616	354	465	759	788	887	712	1,066
2.7 Capital Expenditure	"	1,431	765	2,079	1,998	3,185	2,584	3,117	4,624	4,187	3,457
3. Regional Bus Companies											
3.1 Operated Kilometers	Mn.	261	245	247	268	272	307	353	348	332	313
3.2 Passenger Kilometers	"	12,980	13,327	11,454	12,840	13,608	15,613	19,390	20,259	19,154	17,716
3.3 Total Revenue	Rs. Mn.	2,242	2,618	2,761	2,737	3,044	3,944	4,702	5,170	4,892	4,742

(a) Provisional

Sources: Department of Motor Traffic
Sri Lanka Railways
Sri Lanka Transport Board
National Transport Commission

ECONOMIC AND SOCIAL OVERHEADS

TABLE 33

Performance of the Port Services

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
1. Vessels Arrived (No.)	2,801	3,089	3,415	3,961	4,345	4,294	3,612	3,857	4,087	4,233
Colombo	2,548	2,847	3,076	3,624	3,887	3,790	3,277	3,467	3,627	3,879
Galle	78	59	142	74	210	223	69	84	56	104
Trincomalee	175	183	197	263	248	281	266	306	404	250
2. Total Cargo Handled (MT '000)	11,827	13,052	13,691	13,331	16,498	18,097	19,517	22,722	26,832	26,847
Colombo	10,429	11,718	12,283	11,957	14,712	16,143	17,414	20,885	25,117	24,793
Galle	214	190	219	236	255	303	237	236	182	402
Trincomalee	1,184	1,144	1,189	1,139	1,531	1,651	1,866	1,601	1,533	1,652
3. Total Container Traffic (TEUs '000) (b)	552	595	669	676	858	973	1,049	1,356	1,687	1,714
4. Transshipment Containers (TEUs '000) (b)(c)	385	411	470	451	591	666	700	980	1,233	1,191
5. Revenue (Rs. Mn.)	2,685	3,382	3,752	4,031	4,931	5,197	6,820	9,007	10,974	13,638
Colombo	2,557	3,258	3,609	3,872	4,737	4,964	6,582	8,775	10,731	13,221
Galle	45	42	51	50	64	90	75	81	81	218
Trincomalee	83	82	92	109	130	143	163	151	162	199
6. Expenditure (Rs. Mn.)	2,046	2,352	2,715	3,093	3,982	4,670	5,461	6,551	8,194	8,590
Colombo	1,913	2,204	2,529	2,888	3,717	4,394	5,129	6,188	7,807	8,163
Galle	47	53	67	73	93	107	128	150	152	186
Trincomalee	86	95	118	131	171	169	204	213	235	241
7. Net Profit before Tax (Rs. Mn.)	639	1,030	1,037	938	949	527	1,359	2,456	2,780	5,048
Colombo	644	1,054	1,080	984	1,020	570	1,453	2,587	2,924	5,058
Galle	-2	-11	-16	-23	-29	-17	-53	-69	-71	32
Trincomalee	-3	-13	-26	-22	-41	-26	-41	-62	-73	-42
8. Employment (No.)	19,773	19,792	18,312	17,893	17,345	16,910	16,492	17,476	19,033	18,957
Colombo	17,582	17,611	16,486	16,181	15,844	15,409	14,851	15,589	17,101	17,181
Galle	837	805	701	656	634	634	779	841	831	759
Trincomalee	1,354	1,376	1,125	1,056	867	867	862	1,046	1,101	1,017

Source: Sri Lanka Ports Authority

- (a) Provisional
(b) Containers are handled only in the Port of Colombo
TEUs = Twenty-foot Equivalent Container Units
(c) Exclusive of re-stowing

ECONOMIC AND SOCIAL OVERHEADS

TABLE 34

Land Cultivated under the Mahaweli Development Programme

Item	Hectares								
	Maha 1995/96	Yala 1996	Total 1996	Maha 1996/97	Yala 1997	Total 1997	Maha 1997/98(a)	Yala 1998 (a)	Total 1998 (a)
System 'H'	34,007	6,159	40,166	27,155	8,240	35,395	26,135	11,296	37,431
Paddy	31,214	1,592	32,806	24,723	3,700	28,423	25,237	7,333	32,570
Other Crops	2,793	4,567	7,360	2,432	4,540	6,972	898	3,963	4,861
System 'C'	24,416	20,250	44,666	23,975	20,874	44,849	23,134	20,535	43,669
Paddy	20,935	19,049	39,984	20,459	19,730	40,189	20,792	19,691	40,483
Other Crops	3,481	1,201	4,682	3,516	1,144	4,660	2,342	844	3,186
System 'B'	13,597	12,391	25,988	13,903	14,144	28,047	14,871	14,809	29,680
Paddy	11,463	11,992	23,455	12,431	13,698	26,129	14,505	14,592	29,097
Other Crops	2,134	399	2,533	1,472	446	1,918	366	217	583
System 'G'	5,435	2,223	7,658	5,456	3,736	9,192	5,366	3,324	8,690
Paddy	5,094	706	5,800	5,118	2,322	7,440	5,293	2,714	8,007
Other Crops	341	1,517	1,858	338	1,414	1,752	73	610	683
System 'L'	572	51	623	859	29	888	96	8	104
Paddy	396	-	396	519	-	519	-	-	0
Other Crops	176	51	227	340	29	369	96	8	104
Total	78,027	41,074	119,101	71,348	47,023	118,371	69,602	49,972	119,574

(a) Provisional

Source : Mahaweli Authority of Sri Lanka

ECONOMIC AND SOCIAL OVERHEADS

TABLE 35

Settlement under the Mahaweli Development Programme

Year	System					Total
	'H'	'C'	'B'	'G'	'L'	
1976	2,383	-	-	-	-	2,383
1977	3,141	-	-	-	-	3,141
1978	2,754	-	-	-	-	2,754
1979	5,290	-	-	-	-	5,290
1980	7,407	-	-	-	-	7,407
1981	2,389	2,777	-	-	-	5,166
1982	1,449	2,683	1,918	-	-	6,050
1983	1,077	1,988	1,938	1,319	-	6,322
1984	1,956	1,992	1,381	446	-	5,775
1985	44	823	3,423	1,045	-	5,335
1986	780	2,151	1,260	583	-	4,774
1987	182	1,407	857	274	-	2,720
1988	14	1,081	656	85	3,270	5,106
1989	9	1,008	324	1,305	94	2,740
1990	1,680	3,427	3,492	366	-	8,965
1991	1,151	3,240	1,468	126	-	5,985
1992	754	2,005	1,716	6	-	4,481
1993	283	1,500	3,190	-	-	4,973
1994	30	332	841	-	-	1,203
1995	-	68	132	-	-	200
1996	-	-	752	-	-	752
1997	-	392	157	-	-	549
1998(a)	-	-	-	-	-	-
Total	32,773	26,874	23,505	5,555	3,364	92,071

(a) Provisional

Source : Mahaweli Authority of Sri Lanka

TABLE 36

ECONOMIC AND SOCIAL OVERHEADS

Expenditure on the Integrated Rural Development Programme by District

Rs. Million

Districts/Projects (a)	Source of Foreign Aid (b)	Estimated Investment Cost			Cumulative Expenditure		Expenditure	
		Foreign Aid Commitments	Local	Total	At end 1997(c)	At end 1998 (d)	During 1997 (c)	During 1998 (d)
1. Matara (1979)	SIDA	599	73	672	625	664	48	39
2. Hambantota (1979)	NORAD	1,330	50	1,380	1,112	1,170	75	59
3. Nuwara Eliya (1979)	NETHERLANDS	826	26	852	657	722	55	65
4. Badulla (1981)	IFAD/SIDA/UNDP	1,116	297	1,413	757	882	78	126
5. Ratnapura (1984)	NETHERLANDS	627	64	691	425	463	35	38
6. Monaragala (1984)	NORAD	1,156	57	1,213	767	853	89	86
7. Kegalle (1986)	IFAD	408	228	636	609	610	1	1
8. Kalutara (1987)	FINNIDA	397	85	482	476	480	2	4
9. Kandy (1987)	GTZ	494	41	535	186	211	24	25
10. Gampaha (1989)	JICA	1,971	204	2,175	1,721	1,782	34	27
11. Southern Province Rural Development Project (1991)	ADB	2,042	537	2,579	1,661	2,192	601	531
12. Integrated Basic Services Project - Puttalam (1992)	UNICEF	106	53	159	117	118	7	1
13. Human Resources and Institutional Development Project (1992)	SIDA/NORAD	113	3	115	68	91	19	24
14. North Western Province Dry Zone Participatory Development Project (1993)	IFAD/GTZ	629	235	864	253	317	70	64
15. Irrigation and Community Development Project (1994)	EC	376	81	457	41	85	20	44
16. North Central Province Participatory Rural Development Project (1996)	IFAD/SIDA/WFP	948	395	1,344	59	133	37	74
17. North Central Province Rural Development Project (1997)	ADB	1,060	584	1,644	166	405	166	238
18. Regional Economic Advancement Programme (1997)	NORAD	-	13	13	13	13	13	-
19. Batticaloa Development & Rehabilitation Project (1998)	UNDP	520	52	572	-	58	-	58
20. Area Based Growth with Equity Programme (Uva) (1998)	UNDP	317	11	328	-	3	-	3
Total		15,035	3,089	18,123	9,746	11,254	1,375	1,507

(a) Year of implementation is shown within parenthesis

(b) SIDA - Swedish International Development Agency.
 NORAD - Norwegian Development Programme.
 IFAD - International Fund for Agricultural Development.
 UNDP - United Nations Development Programme.
 FINNIDA - Finland International Development Association.
 GTZ - German Agency for Technical Co-operation.

(c) Revised

(d) Provisional

Source: Ministry of Plan Implementation and Parliamentary Affairs

JICA - Japanese International Co-operation Agency.

ADB - Asian Development Bank.

UNICEF - United Nations Children's Fund.

EC - European Community.

WFP - World Food Programme.

PRICES AND WAGES

TABLE 37

Colombo District Consumer Price Index (a)

Oct. 1996 - Sep. 1997 = 100

Period	All Items	Food & Drinks	Housing	Fuel & Light	Clothing & Foot Wear	Liquor Tobacco & Betel and Arecanuts	Personal Care & Health	Transport	Recreation & Education	Miscellaneous
1996 Index (b)	95.0	95.1	97.4	95.7	92.5	90.4	90.1	98.8	96.7	95.0
1997 "	102.0	102.0	101.7	104.3	101.8	103.2	103.1	100.1	101.1	101.7
1998 "	109.5	111.1	105.0	118.7	104.2	111.0	109.1	100.3	102.3	111.3
1997 1st Quarter	99.8	100.0	100.0	97.7	98.8	102.1	99.9	99.8	98.9	99.8
2nd Quarter	99.6	98.8	100.0	98.0	102.4	101.6	102.8	100.1	101.8	101.6
3rd Quarter	101.1	100.0	101.2	105.1	103.3	104.1	103.8	100.3	101.8	102.5
4th Quarter	107.6	109.1	105.4	116.3	102.8	104.8	105.8	100.3	101.8	102.8
1998 1st Quarter	109.9	112.4	106.5	117.9	103.5	105.1	106.6	100.3	101.8	106.0
2nd Quarter	108.8	110.7	103.4	118.4	103.9	107.6	107.0	100.3	101.8	110.1
3rd Quarter	107.4	107.6	103.4	119.2	104.7	111.4	110.0	100.3	102.2	112.3
4th Quarter	111.8	113.5	106.6	119.2	104.7	119.9	112.8	100.3	103.2	116.9
1997 January	101.6	103.6	100.0	98.0	97.1	100.4	97.8	99.8	97.5	99.3
February	100.0	100.5	100.0	97.6	97.1	101.9	99.2	99.8	97.5	100.0
March	97.9	95.8	100.0	97.6	102.1	103.9	102.7	99.8	101.8	100.2
April	99.1	97.9	100.0	98.0	102.2	102.9	102.8	99.8	101.8	100.1
May	99.4	98.5	100.0	98.0	102.3	100.6	102.8	100.3	101.8	102.2
June	100.4	100.1	100.0	98.0	102.6	101.3	102.9	100.3	101.8	102.5
July	100.8	100.2	101.2	99.2	102.6	102.7	102.9	100.3	101.8	102.7
August	100.6	99.6	101.2	99.2	104.3	104.5	102.9	100.3	101.8	102.7
September	101.9	100.3	101.2	116.8	103.0	105.2	105.6	100.3	101.8	102.2
October	105.9	106.1	105.4	116.8	102.8	105.5	105.7	100.3	101.8	102.6
November	107.5	109.0	105.4	115.8	102.8	104.9	105.7	100.3	101.8	102.8
December	109.4	112.2	105.4	116.3	102.8	104.0	106.0	100.3	101.8	102.9
1998 January	112.1	116.2	106.5	117.8	103.5	104.0	106.4	100.3	101.8	105.2
February	109.7	112.2	106.5	118.0	103.5	104.5	106.5	100.3	101.8	105.7
March	108.0	108.9	106.5	118.0	103.5	106.9	106.8	100.3	101.8	107.2
April	108.0	109.2	103.4	118.0	103.5	110.5	106.8	100.3	101.8	109.1
May	108.5	110.3	103.4	118.0	103.6	107.4	106.9	100.3	101.8	109.4
June	110.0	112.7	103.4	119.2	104.7	104.9	107.2	100.3	101.9	111.7
July	108.9	110.7	103.4	119.2	104.7	107.4	108.9	100.3	101.9	111.0
August	106.7	106.6	103.4	119.2	104.7	111.5	108.9	100.3	101.9	111.0
September	106.5	105.6	103.4	119.2	104.7	115.2	112.2	100.3	102.7	114.9
October	109.1	109.3	106.5	119.2	104.7	114.4	112.6	100.3	102.7	116.3
November	112.6	114.7	106.6	119.2	104.7	120.6	112.7	100.3	102.7	117.2
December	113.8	116.4	106.6	119.2	104.7	124.6	113.0	100.3	104.2	117.2

Source: Central Bank of Sri Lanka

- (a) The Colombo District Consumer Price Index has a base October 1996 - September 1997 = 100 with following percentage weights. Food 58.7, Housing 13.2, Fuel & Light 4.9, Clothing 6.2, Liquor Tobacco Betel & Arecanut 4.4, Personal Care & Health 3.8, Transport 3.7, Recreation & Education 2.8, Miscellaneous 2.3. Weights are based on the Consumer Finances and Socio Economic Survey 1996/97. The total basket value (at October 1996 - September 1997 prices) was Rs. 5,387.24.
- (b) Annual figures shown are averages of monthly figures.

PRICES AND WAGES

TABLE 38

Colombo Consumers' Price Index

Period	Nov. '38 – Apr. '39 = 100 (a)	1952 = 100 (b)						
		All Items (1)	All Items (2)	Commodity-wise				Miscel- -laneous (7)
				Food (3)	Clothing (4)	Fuel & Light (5)	Rent (6)	
1989 Index (c)	2,332.8	830.2	884.6	490.0	1,718.9	109.8	860.2	
1990 "	2,834.3	1,008.6	1,090.9	610.2	1,934.2	109.8	1,021.0	
1991 "	3,179.6	1,131.5	1,220.3	678.4	2,252.2	109.8	1,146.0	
1992 "	3,541.6	1,260.4	1,366.0	723.6	2,334.3	109.8	1,318.7	
1993 "	3,957.6	1,408.4	1,519.4	782.7	2,730.0	109.8	1,490.4	
1994 "	4,292.0	1,527.4	1,654.1	795.5	3,131.6	109.8	1,578.7	
1995 "	4,621.3	1,644.6	1,768.1	803.9	3,322.4	109.8	1,800.6	
1996 "	5,357.8	1,906.7	2,107.6	821.8	3,591.6	109.8	1,994.7	
1997 "	5,870.4	2,089.1	2,336.9	844.0	3,752.8	109.8	2,157.8	
1998 "	6,420.5	2,284.9	2,592.1	852.3	3,872.7	109.8	2,319.9	
1998 1st Quarter	6395.9	2276.1	2602.5	845.4	3871.2	109.8	2226.3	
2nd Quarter	6432.6	2289.2	2607.4	848.0	3871.2	109.8	2287.3	
3rd Quarter	6375.0	2268.7	2561.3	856.7	3871.2	109.8	2340.6	
4th Quarter	6478.4	2305.5	2597.2	859.0	3877.4	109.8	2425.4	
1997 January	5,740.0	2,042.7	2,283.9	834.1	3,696.0	109.8	2,100.7	
February	5,708.0	2,031.3	2,263.6	834.1	3,696.0	109.8	2,111.8	
March	5,647.0	2,009.6	2,224.7	840.7	3,696.0	109.8	2,129.4	
April	5,665.0	2,016.0	2,229.1	840.7	3,696.0	109.8	2,151.9	
May	5,753.2	2,047.4	2,278.2	843.0	3,696.0	109.8	2,149.6	
June	5,783.0	2,058.0	2,295.7	843.0	3,696.0	109.8	2,144.6	
July	5,907.2	2,102.2	2,358.8	843.0	3,696.0	109.8	2,167.4	
August	5,919.0	2,106.4	2,361.0	849.8	3,696.0	109.8	2,181.0	
September	5,926.6	2,109.1	2,353.4	849.8	3,852.3	109.8	2,186.7	
October	5,936.1	2,112.5	2,355.5	851.7	3,871.2	109.8	2,192.8	
November	6,129.7	2,181.4	2,462.7	851.7	3,871.2	109.8	2,192.4	
December	6,330.1	2,252.7	2,576.0	845.9	3,871.2	109.8	2,185.6	
1998 January	6,496.4	2,311.9	2,667.2	845.4	3,871.2	109.8	2,189.3	
February	6,400.3	2,277.7	2,605.3	845.4	3,871.2	109.8	2,224.5	
March	6,291.0	2,238.8	2,535.0	845.4	3,871.2	109.8	2,265.2	
April	6,250.0	2,224.2	2,504.8	844.5	3,871.2	109.8	2,296.1	
May	6,451.2	2,295.8	2,617.0	844.5	3,871.2	109.8	2,292.4	
June	6,596.5	2,347.5	2,700.5	855.0	3,871.2	109.8	2,273.4	
July	6,529.9	2,323.8	2,655.9	855.0	3,871.2	109.8	2,304.7	
August	6,322.2	2,249.9	2,529.0	856.5	3,871.2	109.8	2,353.6	
September	6,273.0	2,232.4	2,499.1	858.6	3,871.2	109.8	2,363.5	
October	6,384.0	2,271.9	2,558.4	858.6	3,877.4	109.8	2,370.6	
November	6,485.5	2,308.0	2,596.7	859.2	3,877.4	109.8	2,443.3	
December	6,565.8	2,336.6	2,636.5	859.2	3,877.4	109.8	2,462.2	

Source : Department of Census and Statistics

- (a) The all items Index with base November 1938-April, 1939 = 100 was as follows: August–December 1939=108; 1948=260; 1950=272; 1951=283; 1952=281.
- (b) Colombo Consumers' Price Index-from January 1956, onwards: index numbers on base 1952=100 with the following percentage weights for the groups based on an average total expenditure of Rs.202.24 in 1949 – 1950. Food 61.9; clothing 9.4; fuel & light 4.3; rent 5.7; miscellaneous 18.7.
- (c) Annual figures shown are averages of monthly figures.

PRICES AND WAGES

TABLE 39

Greater Colombo Consumers' Price Index (a)

Jan. - Jun. 1989 = 100

Period	All Items	Food & Drinks	Liquor Tobacco & Betel and Arecanuts	Housing	Fuel & Light	Clothing & Foot Wear	Personal Care & Health Services, Household Goods & Services	Transport & Communication	Miscellaneous
Weights	100	69.3	3.8	8.9	5.4	2.8	4.9	2.8	2.1
1989 Index (b)	103.8	104.5	105.7	100.1	102.2	106.7	102.0	100.3	102.7
1990 "	124.6	129.2	123.8	100.4	115.3	140.9	111.7	116.6	118.5
1991 "	138.9	144.4	137.9	103.3	129.9	168.2	127.1	145.3	128.1
1992 "	152.0	158.4	158.9	109.1	135.0	175.8	143.0	161.7	130.6
1993 "	164.8	172.2	180.1	109.3	157.9	190.3	154.9	163.5	134.3
1994 "	172.6	179.0	194.9	109.5	184.8	197.8	165.3	164.3	149.9
1995 "	179.3	183.2	228.7	109.7	200.5	210.5	182.7	167.6	162.9
1996 "	205.5	216.0	250.7	109.8	215.9	218.3	202.8	181.8	173.8
1997 "	220.1	232.2	273.4	109.9	227.1	227.1	227.0	195.0	179.2
1998 "	235.2	250.1	295.8	110.0	241.6	231.4	242.7	196.0	183.5
1998 1st Quarter	236.9	254.0	279.7	110.0	241.3	228.7	238.0	195.5	180.7
2nd Quarter	233.1	248.3	281.8	110.0	241.5	228.7	240.1	195.6	180.7
3rd Quarter	231.2	244.3	299.2	110.0	241.5	231.2	243.6	196.4	180.7
4th Quarter	239.5	253.9	322.6	110.0	242.0	236.9	248.9	196.6	191.9
1997 January	219.3	233.1	266.8	109.8	220.4	223.0	214.1	194.9	178.1
February	216.0	228.1	267.7	109.9	220.4	224.0	215.0	194.9	178.1
March	211.5	220.9	268.7	109.9	220.4	224.6	223.5	194.9	178.1
April	212.5	222.3	269.0	109.9	220.4	225.1	223.6	194.9	178.1
May	215.4	226.6	267.7	109.9	220.4	225.1	223.6	194.9	178.1
June	216.3	227.7	268.5	109.9	220.4	228.2	224.2	194.9	178.1
July	220.2	232.7	278.5	109.9	220.4	228.6	225.0	194.9	178.1
August	220.0	232.1	278.3	110.0	220.4	228.8	227.8	194.9	180.7
September	221.6	232.2	278.8	110.0	240.0	229.6	236.7	194.9	180.7
October	221.8	232.3	279.5	110.0	240.6	230.1	236.8	194.9	180.7
November	230.2	244.5	278.7	110.0	240.6	229.7	236.8	194.9	180.7
December	236.4	253.5	278.3	110.0	240.6	228.4	236.8	195.5	180.7
1998 January	241.5	260.8	278.7	110.0	240.9	228.7	236.8	195.5	180.7
February	238.7	256.6	279.6	110.0	241.5	228.7	237.9	195.5	180.7
March	230.6	244.7	280.8	110.0	241.5	228.7	239.2	195.5	180.7
April	228.2	241.2	282.7	110.0	241.5	228.2	239.7	195.5	180.7
May	233.0	248.2	282.0	110.0	241.5	228.5	240.3	195.5	180.7
June	238.1	255.5	280.7	110.0	241.5	229.3	240.3	195.7	180.7
July	236.2	252.1	291.6	110.0	241.5	229.3	241.9	196.4	180.7
August	229.0	240.8	303.1	110.0	241.5	230.9	244.1	196.4	180.7
September	228.5	239.9	303.0	110.0	241.5	233.3	244.9	196.4	180.7
October	232.8	246.0	303.3	110.0	242.0	233.3	245.4	196.4	180.7
November	241.1	255.9	326.5	110.0	242.0	233.6	250.7	196.4	193.9
December	244.6	259.7	337.9	110.0	242.0	243.9	250.7	197.1	201.2

Source: Department of Census and Statistics

(a) The Greater Colombo Consumers' Price Index has a base January to June 1989 = 100 with the following percentage weights: Food & Drinks 69.3; Liquor, Tobacco & Betel and Arecanut 3.8; Housing 8.9; Fuel & Light 5.4; Clothing & Footwear 2.8; Personal Care & Health Services, Household Goods & Services 4.9; Transport & Communication 2.8; Miscellaneous 2.1. Weights are based on the Labour Force and Socio Economic Survey 1985/86 revalued at January - June 1989 prices. The total basket value (at January - June 1989 prices) was Rs. 2,347.71.

(b) Annual figures shown are averages of monthly figures.

TABLE 40

1974 = 100

PRICES AND WAGES

Wholesale Price Index

Period	COMMODITY - WISE											SECTOR - WISE								
	All Items (1)	Food (2)	Alcoholic Drinks (3)	Textile & Footwear (4)	Paper Products (5)	Chemicals & Products (6)	Petroleum Products (7)	Non-metallic Products (8)	Metal Products (9)	Transport Equipment (10)	Electrical Appli- ances & Supplies (11)	Machinery (12)	Fuel & Light (13)	Miscellaneous (14)	No. I			No. II		
															Domestic (15)	Imports (16)	Exports (17)	Consumer (18)	Intermediate (19)	Investment (20)
Weights	100.0	67.8	2.9	4.0	1.4	5.2	6.4	1.8	0.9	0.8	1.0	1.3	1.8	4.8	50.3	27.2	22.5	75.3	20.5	4.2
1989 Index	532.9	493.3	573.0	343.6	550.1	291.9	762.3	735.9	469.6	395.9	427.8	285.7	1,002.9	1,051.2	466.0	456.7	772.1	519.5	588.4	503.6
1990	651.1	599.2	668.9	404.7	722.5	423.8	938.4	1,131.4	568.6	505.4	532.7	375.1	1,233.7	1,167.5	590.3	578.8	874.2	631.3	714.1	700.4
1991	710.8	649.1	776.4	426.3	747.4	495.4	1,105.1	1,262.1	566.5	568.4	600.3	409.7	1,289.4	1,214.8	660.5	614.3	939.8	688.5	781.1	769.3
1992	773.0	720.0	886.6	418.7	704.9	531.0	1,135.7	1,356.8	588.4	623.2	603.3	430.4	1,290.5	1,232.2	697.3	634.4	1,109.2	760.7	807.4	824.9
1993	831.8	770.4	956.2	452.1	745.2	542.2	1,240.8	1,566.8	659.1	660.0	635.4	492.7	1,307.5	1,480.0	737.6	671.6	1,235.5	814.3	874.5	938.3
1994	873.4	760.4	969.2	483.9	761.6	550.4	1,295.0	1,896.1	698.2	682.2	691.8	547.0	1,739.3	2,050.5	833.6	702.0	1,169.1	818.8	1,029.1	1,094.8
1995	950.3	800.0	1,095.4	580.4	960.4	637.0	1,314.8	2,120.4	706.4	846.7	753.0	583.9	2,131.6	2,481.0	901.6	786.3	1,297.8	871.6	1,187.2	1,205.6
1996	1,145.0	1,040.7	1,176.0	626.5	1,063.4	660.9	1,374.9	2,238.3	784.4	908.6	767.7	604.3	2,410.1	2,729.7	994.6	862.8	1,822.4	1,093.1	1,302.2	1,273.0
1997	1,224.3	1,132.2	1,361.3	633.8	902.9	717.3	1,528.2	2,387.6	806.1	937.3	800.6	596.1	2,694.8	2,582.5	1,059.1	933.5	1,944.5	1,190.4	1,324.5	1,342.7
1998(a)	1,298.7	1,223.2	1,398.3	634.5	915.0	772.0	1,528.2	2,655.8	816.3	933.9	837.9	651.3	2,824.7	2,587.5	1,111.6	934.1	2,156.7	1,280.8	1,328.7	1,473.5
1998(a) 1st Quarter	1,331.1	1,274.9	1,361.3	633.8	906.1	744.8	1,528.2	2,735.4	814.0	940.3	837.4	631.9	3,005.4	2,495.4	1,127.3	931.6	2,268.7	1,326.8	1,312.0	1,501.0
2nd Quarter	1,290.5	1,218.9	1,361.3	634.5	918.0	755.3	1,528.2	2,421.4	816.6	941.3	839.1	642.0	2,838.6	2,600.5	1,104.5	928.7	2,142.8	1,275.2	1,330.3	1,370.8
3rd Quarter	1,271.3	1,179.5	1,361.3	634.9	918.0	790.2	1,528.2	2,590.7	817.2	942.6	835.4	663.9	2,783.0	2,670.5	1,088.3	939.0	2,080.8	1,241.2	1,345.1	1,449.9
4th Quarter	1,301.8	1,219.5	1,361.3	634.9	918.0	797.9	1,528.2	2,875.5	817.2	911.6	839.8	667.4	2,671.8	2,583.8	1,126.1	937.1	2,134.6	1,279.8	1,327.2	1,572.2
1997	1,222.6	1,131.7	1,361.3	633.8	906.8	679.2	1,528.2	2,316.8	805.4	928.8	792.3	594.5	2,565.8	2,671.7	1,062.3	925.4	1,939.6	1,187.9	1,331.3	1,311.5
January	1,177.0	1,064.3	1,361.3	633.8	906.8	679.7	1,528.2	2,347.3	805.4	928.8	792.3	594.5	2,545.2	2,670.3	1,016.7	897.4	1,872.8	1,129.6	1,320.7	1,324.9
February	1,175.3	1,061.9	1,361.3	633.8	906.8	679.7	1,528.2	2,302.7	805.4	928.8	792.3	594.5	2,545.2	2,683.4	996.3	951.7	1,844.8	1,127.6	1,323.5	1,305.8
March	1,190.6	1,089.4	1,361.3	633.8	906.8	685.2	1,528.2	2,302.7	805.4	940.1	792.3	594.5	2,545.2	2,606.6	1,018.9	940.7	1,875.7	1,148.3	1,322.1	1,305.8
April	1,178.8	1,069.7	1,361.3	633.8	906.8	784.5	1,528.2	2,281.0	805.4	940.1	792.3	594.5	2,545.2	2,593.5	1,017.2	928.1	1,842.4	1,128.4	1,339.5	1,296.5
May	1,226.9	1,135.0	1,361.3	633.8	900.1	734.7	1,528.2	2,251.0	805.4	940.1	792.3	594.5	2,611.9	2,661.3	1,056.5	961.5	1,927.9	1,191.1	1,346.5	1,283.8
June	1,230.2	1,144.4	1,361.3	633.8	900.1	735.2	1,528.2	2,260.7	805.4	940.1	792.3	597.4	2,611.9	2,593.0	1,075.5	975.1	1,883.9	1,200.5	1,327.4	1,288.8
July	1,235.6	1,152.9	1,361.3	633.8	900.1	737.0	1,528.2	2,299.3	805.4	940.1	792.3	597.4	2,738.5	2,480.6	1,082.5	925.2	1,952.4	1,209.0	1,319.1	1,305.2
August	1,245.4	1,155.8	1,361.3	633.8	900.1	738.2	1,528.2	2,336.9	805.4	940.1	792.3	598.1	3,005.4	2,499.1	1,073.5	933.4	1,965.7	1,210.4	1,313.9	1,322.6
September	1,245.4	1,157.2	1,361.3	633.8	900.1	734.7	1,528.2	2,463.9	805.4	940.1	825.2	598.1	3,005.4	2,499.1	1,073.5	915.8	2,027.2	1,217.4	1,321.1	1,376.9
October	1,271.0	1,193.0	1,361.3	633.8	900.1	734.7	1,528.2	2,651.8	805.4	940.1	825.2	598.1	3,005.4	2,458.1	1,106.9	919.0	2,062.8	1,249.3	1,312.8	1,456.8
November	1,302.3	1,230.8	1,361.3	633.8	900.1	735.8	1,528.2	2,836.8	814.0	940.1	826.4	598.1	3,005.4	2,503.5	1,129.5	929.0	2,138.8	1,285.4	1,316.9	1,533.4
December	1,336.9	1,281.9	1,361.3	633.8	900.1	741.2	1,528.2	2,836.5	814.0	940.1	826.4	631.9	3,005.4	2,489.3	1,164.1	932.4	2,211.6	1,334.0	1,305.5	1,544.0
1998(a) January	1,350.9	1,301.9	1,361.3	633.8	900.1	741.2	1,528.2	2,684.9	814.0	940.1	842.9	631.9	3,005.4	2,549.6	1,125.5	929.0	2,363.8	1,353.4	1,315.4	1,479.5
February	1,305.4	1,240.9	1,361.3	633.8	918.0	752.0	1,528.2	2,684.9	814.0	940.6	842.9	631.9	3,005.4	2,447.2	1,092.3	933.5	2,230.6	1,293.1	1,315.2	1,479.5
March	1,285.3	1,216.7	1,361.3	633.8	918.0	752.0	1,528.2	2,410.0	815.5	941.3	846.6	631.9	3,005.4	2,531.5	1,062.2	912.1	2,135.7	1,273.4	1,312.8	1,362.9
April	1,301.4	1,234.4	1,361.3	634.9	918.0	752.0	1,528.2	2,409.6	817.2	941.3	835.4	631.9	2,838.6	2,619.5	1,091.8	964.6	2,176.1	1,290.6	1,328.3	1,362.7
May	1,284.9	1,205.7	1,361.3	634.9	918.0	761.8	1,528.2	2,443.5	817.2	941.3	835.4	662.1	2,838.6	2,650.4	1,115.5	909.4	2,116.7	1,261.5	1,349.8	1,386.7
June	1,273.9	1,185.9	1,361.3	634.9	918.0	777.9	1,528.2	2,486.9	817.2	941.3	835.4	662.1	2,838.6	2,666.6	1,110.0	928.4	2,056.9	1,245.6	1,350.8	1,405.2
July	1,278.9	1,182.5	1,361.3	634.9	918.0	796.4	1,528.2	2,553.9	817.2	945.3	835.4	662.1	2,838.6	2,774.3	1,085.7	933.1	2,127.6	1,249.8	1,354.0	1,433.7
August	1,251.0	1,170.2	1,361.3	634.9	918.0	796.4	1,528.2	2,731.2	817.2	941.1	835.4	667.4	2,671.8	2,570.5	1,069.3	955.6	2,057.8	1,228.2	1,330.4	1,510.9
September	1,274.3	1,162.9	1,361.3	634.9	918.0	797.9	1,528.2	2,796.7	817.2	941.1	842.3	667.4	2,671.8	2,642.5	1,085.5	940.7	2,098.9	1,241.8	1,340.0	1,537.4
October	1,317.1	1,242.7	1,518.8	634.9	918.0	797.9	1,528.2	2,812.7	817.2	896.9	838.6	667.4	2,671.8	2,596.7	1,131.8	940.5	2,185.8	1,301.0	1,329.6	1,545.5
November	1,313.9	1,233.0	1,648.0	634.9	918.0	797.9	1,528.2	3,020.2	817.2	896.9	838.6	667.4	2,671.8	2,512.1	1,161.0	930.0	2,119.0	1,296.6	1,312.0	1,633.8
December	1,313.9	1,233.0	1,648.0	634.9	918.0	797.9	1,528.2	3,020.2	817.2	896.9	838.6	667.4	2,671.8	2,512.1	1,161.0	930.0	2,119.0	1,296.6	1,312.0	1,633.8
Percentage change 1998 over 1997	6.1	8.0	2.7	0.1	1.3	7.6	0.0	11.2	1.3	-0.4	4.7	9.3	4.8	0.2	5.0	0.1	10.9	7.6	0.3	9.7

Source: Central Bank of Sri Lanka

PRICES AND WAGES

TABLE 41

Wholesale Prices of Selected Commodities

Item	Unit	Average Wholesale Price		% Change	Item	Unit	Average Wholesale Price		% Change
		1997 Rs. Cts.	1998 (a) Rs. Cts.				1997 Rs. Cts.	1998 (a) Rs. Cts.	
1. Food					6. Petroleum Products				
Imported Rice	1 MT	17,426.80	15,877.50	-8.9	Petro	1 Gallon	225.00	225.00	-
Paddy G.P.S.	1 Bushel	155.00	155.00	-	Auto Diesel	1 Gallon	59.40	59.40	-
Paddy Open Market	1 Bushel	231.10	216.94	-6.1	Kerosene Oil	1 Gallon	46.80	46.80	-
Wheat Grain	1 MT	10,302.00	9,247.00	-10.2	7. Non-metallic Products				
Wheat Flour	1 MT	17,333.30	18,500.00	6.7	Ceramic Plates	Each	17.85	17.85	-
Eggs	Each	4.00	3.70	-7.5	Ceramic Cups & Saucers	Each	23.16	25.50	10.1
Fish (G. M. of 5 varieties)	1 kg	95.60	94.13	-1.5	Ceramic Low Level Commodes	Each	1,232.50	1,245.11	1.0
Potatoes	1 kg	22.00	34.15	55.2	Ceramic Wash Basins	Each	722.50	728.52	0.8
Non-Seasonal Vegetables					Cement	1 Bag (50 kg)	308.80	307.08	-0.6
(G.M. of 3 varieties)	1 kg	13.80	17.52	27.0	Asbestos-Sheet - Corrugated	1 Sheet (8 ft.)	640.00	640.00	-
Seasonal Vegetables					Asbestos-Sheet - Flat	1 Sheet	210.00	205.84	-2.0
(G.M. of 3 varieties)	1 kg	11.40	12.64	10.9	8. Metal Products				
Coconut	Each	6.50	6.98	7.4	Tor-Steel	1 MT	33,889.80	34,261.00	1.1
Coconut Oil	1 MT	55,667.90	66,366.50	19.2	Wire Nails	50 kg	1,502.10	1,518.00	1.1
Dried Chillies	1 kg	77.10	97.79	26.8	Mammoties	Each	280.00	298.75	6.7
Mustard	1 kg	71.10	77.57	9.1	9. Transport Equipment				
Red Onions	1 kg	31.70	41.75	31.7	Bicycles	Each	2,900.00	3,200.00	10.3
High Grown Tea	1 kg	110.10	128.30	16.5	Bicycle Tyres	Each	137.40	152.35	10.9
Mid Grown Tea	1 kg	108.10	121.67	12.6	Lorry Tyres 8.25 X 20	Each	7,825.00	7,668.43	-2.0
Low Grown Tea	1 kg	129.10	141.73	9.8	Automotive Batteries	Each	1,942.50	1,990.00	2.4
Sugar	1 MT	20,201.70	19,340.55	-4.3	10. Electrical Appliances & Supplies				
2. Alcoholic Drinks					Insulated Wires	100 Mtrs.	491.00	471.00	-4.1
Toddy	1 Bottle	5.00	5.00	-	Bulbs 40 W	Each	19.52	20.19	3.4
Beer	1 Bottle	37.50	38.25	2.0	Switches	1 Doz.	640.80	653.60	2.0
Arrack Special	1 Bottle	166.20	171.00	2.9	Wall Plug Sockets	1 Doz.	228.00	228.00	-
Arrack Coconut	1 Bottle	197.30	201.92	2.3	Ceiling Fans	Each	2,630.00	2,630.00	-
3. Textiles and Footwear					11. Machinery				
Dress Materials	1 Metre	40.30	40.30	-	Water Pumps (Domestic)	Each	11,000.30	11,455.88	4.1
Shoes	Pair	484.50	484.50	-	Water Pumps (Agricultural)	Each	23,750.00	24,450.00	2.9
4. Paper Products					Water Pumps (Industrial)	Each	20,701.00	21,327.50	3.0
Wood Pulp	1 MT	35,247.40	37,223.67	5.6	12. Fuel and Light				
Printing Paper	1 MT	55,000.00	55,000.00	-	Electricity	Unit	1.50	2.20	46.7
Box Board	100 Sheets	839.00	839.00	-	Candles	1,000	1,000.00	1,000.00	-
5. Chemicals and Chemical Products					13. Miscellaneous				
Urea	1 MT	10,333.30	7,000.00	-32.3	Rubber (RSS - 1)	1 kg	56.62	49.76	-12.1
Sulphate of Ammonia	1 MT	9,704.20	11,750.00	21.1	Cinnamon Quills	1 kg	244.80	345.14	41.0
Triple Super Phosphate	1 MT	13,954.20	17,150.00	22.9					
Toilet Soap	288 Tablets	2,928.80	3,152.75	7.6					
Washing Soap	288 Tablets	2,567.70	2,948.45	14.8					
Talcum Powder	1 Doz.	344.40	355.16	3.1					

(a) Provisional

Source: Central Bank of Sri Lanka

PRICES AND WAGES

TABLE 42

Wage Rate Index Numbers

December 1978 = 100

Period	Workers in Wages Boards Traders (a)						Government Employees (b)									
	Workers in Agriculture (c)		Workers in Industry & Commerce (d)		Workers in Services (e)		Workers in Wages Boards Trades (f)		All Non-Executive Officers		All Minor Employees		All Central Govt. Employees (g)		Govt. School Teachers	
	NWRI (h)	RWRI (h)	NWRI	RWRI	NWRI	RWRI	NWRI	RWRI	NWRI	RWRI	NWRI	RWRI	NWRI	RWRI	NWRI	RWRI
1989	435.9	125.7	334.9	96.6	245.9	71.0	388.1	112.0	396.0	114.4	444.6	128.4	421.8	121.9	367.8	106.3
1990	517.2	122.7	379.5	89.9	267.8	63.5	453.5	107.6	439.6	104.3	513.5	121.8	476.8	113.2	404.5	96.0
1991	577.7	122.2	459.6	97.1	336.5	71.1	518.8	109.7	486.2	103.3	582.3	123.3	534.6	113.2	444.8	94.2
1992	664.1	126.1	510.8	97.1	365.9	69.6	590.0	112.0	507.2	96.4	609.9	115.9	557.6	106.0	461.8	87.8
1993	803.7	136.6	528.7	89.8	365.9	62.2	685.8	116.6	622.1	105.6	728.3	123.8	675.5	114.8	567.1	96.3
1994	821.5	128.8	555.8	87.2	431.4	67.6	712.4	111.7	692.7	108.7	727.3	121.1	735.5	115.4	595.6	93.4
1995	830.9	121.1	651.6	94.8	456.7	66.5	740.3	107.8	749.4	109.2	828.1	120.6	792.5	115.4	760.5	110.8
1996	839.9	112.7	696.8	83.7	487.2	58.5	825.4	99.0	800.0	95.1	922.8	110.7	862.4	103.5	769.5	92.5
1997	971.8	111.4	710.8	81.4	487.2	55.9	849.1	97.3	842.9	94.9	966.7	110.8	906.5	104.0	778.5	89.3
1998 (i)	1,097.7	115.0	807.7	84.6	506.2	53.0	953.3	99.9	959.6	100.5	1,029.1	107.8	1,001.4	104.9	805.5	84.4
1997	969.4	114.4	683.2	80.6	487.2	57.5	842.5	99.4	842.9	99.5	966.7	114.1	906.5	107.0	778.5	91.9
2nd Quarter	968.5	113.6	683.2	80.1	487.2	57.1	841.9	98.7	842.9	98.9	966.7	113.4	906.5	106.3	778.5	91.3
3rd Quarter	973.6	110.6	695.3	79.0	487.2	55.4	847.5	96.3	842.9	95.8	966.7	109.8	906.5	103.0	778.5	88.4
4th Quarter	975.5	107.0	781.3	85.7	487.2	53.5	864.4	94.9	842.9	92.5	966.7	106.1	906.5	99.5	778.5	85.4
1998 (i)	1,091.6	114.8	781.3	82.2	487.2	51.2	941.5	99.0	959.6	100.9	1,029.1	108.2	1,001.4	105.3	805.5	84.7
1st Quarter	1,091.3	114.1	808.6	84.6	487.2	51.0	946.4	99.0	959.6	100.3	1,029.1	107.6	1,001.4	104.7	805.5	84.3
2nd Quarter	1,091.2	115.3	813.6	85.8	491.0	51.8	948.9	100.1	959.6	101.3	1,029.1	108.6	1,001.4	105.6	805.5	85.0
3rd Quarter	1,114.8	115.7	827.3	85.9	559.7	58.1	976.4	101.4	959.6	99.6	1,029.1	106.8	1,001.4	104.0	805.5	83.6
4th Quarter	1,091.3	113.0	781.3	80.9	487.2	50.4	941.3	97.4	959.6	99.3	1,029.1	106.5	1,001.4	103.6	805.5	83.4
January	1,092.0	114.7	781.3	82.1	487.2	51.2	941.7	98.9	959.6	100.8	1,029.1	108.1	1,001.4	105.2	805.5	84.6
February	1,091.6	116.7	781.3	83.5	487.2	52.1	941.5	100.6	959.6	102.6	1,029.1	110.0	1,001.4	107.0	805.5	86.1
March	1,091.2	117.4	801.7	86.3	487.2	52.4	945.0	101.7	959.6	103.2	1,029.1	110.7	1,001.4	107.7	805.5	86.7
April	1,091.0	113.7	812.1	84.6	487.2	50.8	946.8	98.7	959.6	100.0	1,029.1	107.3	1,001.4	104.4	805.5	84.0
May	1,091.8	111.3	812.1	82.8	487.2	49.7	947.4	96.6	959.6	97.8	1,029.1	104.9	1,001.4	102.1	805.5	82.1
June	1,092.9	112.5	813.6	83.8	487.2	50.2	948.4	97.7	959.6	98.8	1,029.1	106.0	1,001.4	103.1	805.5	82.9
July	1,092.9	116.2	813.6	86.5	492.7	52.4	949.2	101.0	959.6	102.1	1,029.1	109.5	1,001.4	106.5	805.5	85.7
August	1,092.9	117.2	813.6	87.2	492.7	52.8	949.1	101.7	959.6	102.9	1,029.1	110.3	1,001.4	107.3	805.5	86.3
September	1,112.5	117.2	826.6	87.1	559.7	59.0	974.8	102.7	959.6	101.1	1,029.1	108.4	1,001.4	105.5	805.5	84.8
October	1,115.9	115.7	826.9	85.7	559.7	58.0	977.1	101.3	959.6	99.5	1,029.1	106.7	1,001.4	103.8	805.5	83.5
November	1,115.9	114.3	828.3	84.8	559.7	57.3	977.4	100.1	959.6	98.3	1,029.1	105.4	1,001.4	102.6	805.5	82.5
December	1,115.9	114.3	828.3	84.8	559.7	57.3	977.4	100.1	959.6	98.3	1,029.1	105.4	1,001.4	102.6	805.5	82.5

(a) The index numbers are calculated on fixed weights based on the numbers employed as at 31 December 1978. The wage rates used in the calculation of Index Numbers are minimum wages for different trades fixed by the Wages Boards.

(b) The Index for Central Government employees has been revised based on the number of employees and total salaries as at 1 January 1986. The Index Numbers from January, 1986 have been spliced. The wage rates used in the calculation of Index Numbers are the initial salaries and wages in each respective scale.

(c) The Index refers to wage rates of tea growing and manufacturing, rubber growing and manufacturing, coconut, cocoa, cardamoms, and pepper growing trades only.

(d) Including baking, brick and tile manufacturing, garment manufacturing, printing, textile, tyre and tube manufacturing, coir mattresses and bristle export, hosiery manufacturing, engineering, motor transport and nursing home trades only.

(e) This includes cinema, motor transport and confectionary, biscuit manufacturing, match manufacturing, tea export and rubber export trades only.

(f) Combined index for workers in agriculture, workers in industry & commerce and services.

(g) A combined index for Non-Executive Officers and Minor Employees.

(h) NWRI = Nominal Wage Rate Index RWRI = Real Wage Rate Index

(i) Provisional

Sources : Labour Department
Central Bank of Sri Lanka

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 43

Demography

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
Population, '000 (Mid Year)	16,825	16,993	17,247	17,405	17,619	17,865	18,136	18,315	18,552	18,774
0 - 14 Years	5,923	5,982	6,070	6,126	6,203	6,290	6,384	6,447	6,531	6,609
15 - 54 Years	9,310	9,403	9,545	9,633	9,751	9,887	10,036	10,137	10,267	10,390
55 Years and Over	1,592	1,608	1,632	1,646	1,665	1,668	1,716	1,731	1,754	1,775
Annual Change of Population, %	1.3	1.0	1.5	0.9	1.2	1.4	1.5	1.0	1.3	1.2
Crude Birth Rate, per '000	21.3	20.0	20.6	20.1	19.9	19.9	18.9	18.6	17.9	n.a.
Crude Death Rate, per '000	6.2	5.8	5.5	5.6	5.3	5.6	5.8	6.5	6.1	n.a.
Rate of Natural Increase, per '000	15.1	14.2	15.1	14.5	14.6	14.3	13.1	12.1	11.8	n.a.
Infant Mortality Rate, per '000 Live Births	17.6	19.3	17.2	18.2	16.3	16.8	16.5	16.9	n.a.	n.a.
Density of Population, Persons per Sq. km.	270	273	277	279	283	287	289	292	296	299

(a) Provisional

Source : Registrar General's Office

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 44

Population by Districts

District	1981	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(a)
Colombo	1,698	1,915	1,935	1,965	1,994	2,026	2,062	2,097	2,128	2,164	2,199
Gampaha	1,389	1,506	1,518	1,532	1,543	1,555	1,568	1,587	1,595	1,608	1,621
Kalutara	827	925	934	945	952	961	969	978	988	997	1,008
Galle	815	922	932	946	958	971	983	999	1,007	1,019	1,030
Matara	644	757	765	776	786	797	810	826	832	842	852
Hambantota	424	502	510	517	524	531	537	549	549	554	558
Badulla	643	698	701	718	716	724	735	748	756	770	780
Moneragala	280	340	344	351	356	361	367	379	379	384	389
Kandy	1,126	1,227	1,236	1,258	1,257	1,269	1,286	1,298	1,319	1,340	1,359
Matale	357	410	414	421	423	429	434	440	445	451	457
Nuwara Eliya	522	531	530	541	533	535	541	544	552	561	568
Kegalle	682	739	743	751	752	758	763	769	773	778	784
Ratnapura	796	913	923	941	948	960	972	988	994	1,006	1,017
Kurunegala	1,212	1,391	1,410	1,428	1,445	1,462	1,481	1,500	1,513	1,528	1,541
Puttalam	493	580	589	598	607	617	626	638	645	655	664
Ampara	389	470	474	482	492	501	512	527	531	540	550
Batticaloa	331	401	409	417	425	433	443	453	461	471	480
Trincomalee	257	307	311	315	319	323	327	336	336	343	349
Anuradhapura	588	694	705	716	728	741	750	767	772	783	793
Polonnaruwa	263	310	314	319	325	329	336	340	344	347	351
Jaffna	831	856	863	871	875	879	896	905	911	916	921
Kilinochchi		101	99	101	104	107	110	116	115	119	120
Mannar	107	127	129	132	134	137	140	134	143	144	146
Mulaitivu	78	91	91	92	94	96	98	102	103	106	109
Vavuniya	96	112	114	114	115	117	119	121	124	126	128
Total	14,848	16,825	16,993	17,247	17,405	17,619	17,865	18,136	18,315	18,552	18,774

(a) Provisional

Source : Registrar General's Office

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 45

Labour Force Participation Rate (a)

Fourth Quarter

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)
By Age Groups									
10 - 14 Years	3.5	3.0	1.6	3.0	3.7	1.7	1.4	1.2	4.0
15 - 19 Years	31.6	26.6	25.5	28.1	30.1	26.8	26.3	27.0	26.3
20 - 24 Years	75.5	71.3	74.3	67.4	66.7	63.7	67.6	68.5	68.2
25 - 29 Years	73.9	74.6	77.0	72.2	70.7	73.7	69.3	69.1	73.6
30 - 34 Years	73.7	71.7	72.6	70.9	69.6	69.6	71.2	68.9	71.0
35 - 39 Years	68.6	69.5	71.5	76.6	68.0	72.9	70.1	67.3	73.7
40 - 44 Years	70.1	72.9	71.4	71.6	71.2	68.3	69.2	73.2	74.4
45 - 49 Years	66.6	73.2	67.6	62.2	68.1	71.3	65.9	65.9	67.6
50 - 54 Years	69.1	56.2	52.4	61.8	65.4	57.1	58.4	62.8	63.5
55 - 59 Years	54.1	49.4	44.7	45.1	46.5	57.7	53.6	49.1	35.6
60 Years & above	30.5	24.0	22.2	26.0	24.0	26.1	25.9	24.7	26.9
By Sex									
Male	67.2	64.8	66.5	66.1	65.3	64.1	66.1	64.8	67.7
Female	34.7	34.8	31.7	33.3	30.8	32.7	30.7	32.3	34.8
By Sector									
Urban	46.6	44.7	45.3	45.3	44.7	45.9	42.7	43.9	46.2
Rural	51.6	50.6	49.9	50.7	49.1	48.9	49.5	49.2	51.8
Overall Rate	50.7	49.3	48.9	49.5	48.1	48.3	48.5	48.4	51.0
Labour Force, '000	6,001.1	5,877.2	5,808.1	6,032.4	6,078.9	6,106.1	6,227.0	6,235.8	6,573.8

(a) Labour Force as a percentage of household population aged 10 years and above.

(b) Second Quarter

Source : Sri Lanka Labour Force Survey,
Department of Census and Statistics

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 46

Employment Statistics – Central Government,
Provincial Councils and Local Authorities

Numbers

Occupational Category	1994	1995	1996	1997	1998 (a)
Professional, Technical and Related Workers	261,568	266,315	272,715	267,064	278,050
Staff	18,327	18,770	18,740	18,282	18,654
Non-Staff	18,329	18,975	23,280	23,066	23,297
Teachers	187,649	188,950	189,395	179,589	188,200
Health – Doctors	6,232	6,732	7,290	7,764	7,883
Other	31,031	32,888	34,010	38,363	40,017
Administrative and Managerial Workers	11,379	12,725	13,582	14,261	14,375
Clerical and Related Workers	104,245	127,476	128,541	135,407	142,280
Clerical	93,752	94,426	97,663	101,374	102,185
Other	10,493	30,050	30,878	34,033	40,095
Sales Workers	1,079	1,085	1,028	927	920
Service Workers	237,921	245,921	248,599	256,057	268,767
Agriculture, Livestock, Forestry and Fishing	4,265	4,406	4,428	3,556	3,550
Production and Related Workers	16,622	15,570	15,911	16,286	15,880
Drivers and Transport Equipment Operators	8,523	8,667	9,040	8,628	8,200
Manual Workers and Workers (n.e.s.)	54,296	55,339	58,350	59,881	58,470
Total	699,898	737,504	752,194	762,067	790,492

(a) Provisional

Source : Central Bank of Sri Lanka

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 47

Employment Statistics – Semi-Government Institutions (a)

Numbers

Occupational Category	1994	1995	1996	1997	1998 (b)
Professional, Technical and Related Workers	16,792	16,350	18,355	19,845	20,154
Administrative and Managerial Workers	19,420	18,765	21,322	22,230	22,100
Clerical and Related Workers	108,400	106,195	107,318	105,950	102,772
Sales Workers	2,890	2,775	2,703	2,386	2,152
Service Workers	15,782	15,980	23,108	20,289	21,912
Agriculture, Livestock, Forestry and Fishing	3,644	3,690	3,596	3,403	3,100
Production and Related Workers	12,516	12,200	12,727	12,777	11,755
Drivers and Transport Equipment Operators	19,447	19,670	21,004	21,213	21,637
Manual Workers and Workers (n.e.s.)	426,375	373,856	199,145	101,540	95,072
Total	625,266	569,481	409,278	309,633	300,654

(a) Public corporations, universities, boards, banks etc.

(b) Provisional

Source : Central Bank of Sri Lanka

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 48

Employees' Provident Fund

Year	Total Member Accounts (a) ('000)	No. of Active Accounts (b) ('000)	Number of Employers	Contributions (Rs. Mn.)	Refunds (Rs. Mn.)	Outstanding Balances (Rs.Mn.)
1988	4,473	1,175	25,463	2,680	600	24,758
1989	4,665	1,189	25,698	3,022	633	30,358
1990	4,893	1,268	27,870	3,910	1,209	36,298
1991	5,186	1,341	29,579	4,421	1,344	43,768
1992	5,485	1,406	31,275	5,295	2,265	45,791
1993	5,825	1,490	33,018	6,568	2,377	62,425
1994	6,173	1,538	34,033	7,406	2,630	75,731
1995	6,505	1,553	34,853	8,154	2,700	81,500
1996	6,876	1,549	35,487	9,301	3,512	108,553
1997	7,285	1,699	36,531	10,851	4,775	127,798
1998 (c)	7,400	1,800	37,000	12,300	6,000	144,000

(a) Data have not been adjusted to take into account persons registered more than once.

Source : Central Bank of Sri Lanka.

(b) Accounts in respect of which contributions were received for the current year.

(c) Provisional.

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 49

Employees' Trust Fund

Year	No. of Member Accounts (Mn.)	No. of Active Accounts (Mn.)	Number of Contributing Employers	Contributions Received (Rs. Mn.)	Refunds Paid (Rs. Mn.)	Other Benefits Paid (Rs. Mn.)	Outstanding Balances (Rs. Mn.)	Investments of the Fund (Rs. Mn.)
1988	n.a.	n.a.	23,740	491	113	5	3,146	2,852
1989	n.a.	n.a.	23,819	598	126	7	3,950	3,523
1990	n.a.	n.a.	23,909	682	290	14	4,858	4,465
1991	n.a.	n.a.	24,268	808	407	21	5,961	5,485
1992	n.a.	n.a.	24,506	967	497	22	7,293	6,664
1993	n.a.	n.a.	25,193	1,183	487	19	9,320	8,461
1994	n.a.	n.a.	26,017	1,457	499	26	11,757	10,950
1995	n.a.	n.a.	26,823	1,503	619	49	14,182	13,228
1996	2.2	1.7	27,280	1,720	792	46	16,921	15,785
1997	2.2	1.7	26,427	1,983	936	134	17,853	18,698
1998(a)	3.1	1.5	25,860	2,234	1,217	81	n.a.	21,940

(a) Provisional

Source : Employees' Trust Fund Board

POPULATION, LABOUR FORCE AND EMPLOYMENT

TABLE 50

Strikes in Private Sector Industries

Year	Plantation			Other		
	No. of strikes	Workers involved	No. of man days lost	No. of strikes	Workers involved	No. of man days lost
1989	45	15,072	25,619	7	27,771	813,269
1990	108	63,751	183,612	8	2,186	10,054
1991	111	56,856	99,237	19	6,906	9,841
1992	86	47,712	244,703	17	2,301	26,608
1993	26	4,559	8,007	23	3,321	13,389
1994	89	27,575	38,387	144	44,312	141,088
1995	94	29,518	82,484	89	33,855	211,035
1996	137	50,982	220,131	87	24,215	168,786
1997	78	27,383	100,406	78	30,249	255,071
1998 (a)	63	15,468	88,319	59	27,875	181,826

(a) Provisional

Source : Department of Labour

TABLE 51

FISCAL SECTOR

Summary of Government Fiscal Operations (a)

Fis. Million

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999 Approved Estimates
										Approved Estimates	Provi- sional	
1. Revenue	56,747	70,849	80,173	99,520	104,302	118,756	147,575	157,513	195,335	205,640	189,216	231,962
2. Expenditure	-94,470	-114,909	-143,062	-153,506	-172,892	-200,195	-251,370	-261,492	-272,813	-327,749	-340,390	-336,989
2.1 Recurrent	-58,486	-72,374	-87,264	-90,365	-104,314	-129,347	-144,449	-168,128	-180,153	-186,035	-200,309	-200,043
2.2 Capital	-36,977	-40,836	-53,979	-63,291	-68,168	-68,386	-108,501	-92,734	-91,434	-140,514	-137,297	-136,446
2.3 Advance Accounts	993	-1,699	-1,819	150	-410	-2,462	1,580	-630	-1,226	-500	-2,784	-500
3. Budget Deficit	-37,723	-44,060	-62,889	-59,986	-68,590	-81,439	-103,795	-103,979	-77,478	-122,109	-151,174	-105,027
4. Amortization Payments (b)	9,538	12,210	17,782	26,078	27,290	22,671	36,546	33,240	28,483	57,349	59,968	36,949
4.1 Domestic	3,796	7,304	12,901	18,123	20,327	15,065	28,069	22,749	15,232	42,275	41,617	19,514
4.2 Foreign	5,742	4,906	4,881	7,955	6,963	7,606	8,477	10,491	13,251	15,074	18,351	17,435
5. Net Cash Deficit	-28,185	-31,850	-45,107	-33,908	-41,300	-58,768	-67,249	-70,739	-48,995	-64,760	-91,206	-68,078
6. Financing of Budget Deficit	37,723	44,060	62,889	59,987	68,590	81,439	103,795	103,979	77,478	122,109	151,174	105,027
6.1 Domestic Market Borrowings	16,998	20,507	28,359	36,879	40,317	53,396	61,493	62,140	54,876	75,495	113,909	60,174
Non-bank	17,531	20,250	28,324	39,202	46,395	52,240	54,428	49,050	57,048	75,495	94,955	60,174
Bank	-533	257	35	-2,323	-6,078	1,156	7,065	13,090	-2,172	-	18,954	-
6.2 Domestic Other Borrowings	2,650	305	691	-3,203	2,012	-666	548	10,363	-9,369	-	-930	-
6.3 Foreign Loans and Grants	18,075	23,247	33,839	26,311	26,261	28,709	41,754	31,476	31,971	46,614	38,196	44,853
Loans (c)	11,668	16,550	25,969	18,031	18,236	20,452	32,726	23,737	24,642	37,614	30,986	36,853
Grants	6,407	6,697	7,870	8,280	8,025	8,257	9,028	7,739	7,329	9,000	7,200	8,000
7. Financing of Net Cash Deficit	28,186	31,850	45,107	33,908	41,300	58,768	67,249	70,739	48,995	64,760	91,206	68,078
7.1 Domestic Market Borrowings	13,202	13,203	15,458	18,756	19,990	38,331	33,424	39,391	36,929	33,220	72,291	40,660
Non-bank	13,735	12,946	15,423	21,079	26,068	37,175	26,359	26,301	39,101	33,220	53,337	40,660
Bank	-533	257	35	-2,323	-6,078	1,156	7,065	13,090	-2,172	-	18,954	-
7.2 Domestic Other Borrowings	2,650	305	665	-3,203	2,012	-666	548	10,363	-6,654	-	-930	-
7.3 Foreign Loans and Grants	12,334	18,341	28,784	18,355	19,298	21,103	33,277	20,985	18,720	31,540	19,845	27,418
Loans (c)	5,926	11,644	20,914	10,075	11,273	12,846	24,249	13,246	11,391	22,540	12,645	19,418
Grants	6,407	6,697	7,870	8,280	8,025	8,257	9,028	7,739	7,329	9,000	7,200	8,000
8. Expansionary Impact of Fiscal Operations	-533	257	35	-2,323	-6,078	1,156	7,065	13,090	-2,172	-	18,954	-
9. Public Debt Outstanding (d)	270,609	308,414	365,475	404,920	483,909	550,930	632,045	708,397	766,078	-	907,426	-
9.1 Domestic	114,311	131,531	150,896	169,382	213,685	249,118	285,759	349,007	382,962	-	446,547	-
9.2 Foreign	156,298	176,883	214,579	235,538	270,224	301,812	346,286	359,390	383,116	-	460,879	-

Sources : General Treasury
Central Bank of Sri Lanka

- (a) As given in the Government Accounts.
(b) Includes direct repayments of government debt.
(c) Includes industrial loans (SMI) of Rs. 1,759 million for 1991, Rs. 2,715 million for 1992, Rs. 1,391 million for 1993, Rs. 1,068 million for 1994, Rs. 3,025 million for 1995, Rs. 3,086 million for 1996, Rs. 1,433 million for 1997, Rs. 2,448 million for 1998 (approved estimates of Rs. 6,114 million for 1998) and estimated Rs. 7,315 million for 1999.
(d) Net of Sinking Fund.

FISCAL SECTOR

Government Revenue (a)

TABLE 52

Source	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
1. Current												
1.1 Taxes on Income	56,010	69,935	77,994	87,870	100,689	112,713	139,369	149,565	168,249	192,633	178,542	218,969
Personal	5,148	7,335	9,722	10,965	13,298	15,277	17,161	20,751	21,548	24,064	20,429	24,192
Corporate (b)	2,207	2,957	3,539	4,067	5,235	5,621	7,358	7,315	8,163	8,639	8,099	8,934
Save the Nation Contributions	2,941	4,379	6,183	6,889	8,003	9,656	9,803	13,311	13,039	14,850	11,788	13,544
1.2 Taxes on Production and Expenditure and Services Tax (GST)	42,817	54,410	59,805	65,883	74,098	85,060	102,305	110,507	121,995	142,541	157,542	171,002
(a) Turnover Tax and GST	14,658	20,291	21,430	27,859	36,252	41,989	50,837	54,072	60,850	69,186	76,702	84,811
(b) National Security Levy	14,658	20,291	21,430	24,095	29,663	32,300	36,429	37,631	43,492	48,666	53,343	58,111
Selective Sales Taxes	6,168	9,481	10,895	10,458	11,655	14,832	19,433	16,441	17,338	20,500	21,079	26,700
(a) Tobacco Tax and Cigarette Tax	3,855	5,461	6,884	5,573	6,866	7,888	8,785	12,883	14,775	16,295	30,293	34,544
(b) Tea Tax	355	1,311	298	526	686	788	878	1,283	1,415	1,811	1,501	1,700
(c) Liquor	1,956	2,857	3,126	3,454	4,063	4,886	6,298	5,639	6,181	8,369	7,665	9,192
(d) Other	2	52	587	1,225	726	2,058	4,350	3,395	4,455	6,800	7,577	8,350
Import duties	15,708	17,512	19,160	21,494	21,548	23,512	25,300	26,519	27,769	31,961	28,924	32,127
(a) Vegetable Products	1,308	969	628	1,746	1,762	2,300	1,509	1,588	2,108	1,811	2,578	2,350
(b) Prepared Food-stuffs, Beverages, Tobacco etc.	2,083	1,718	2,775	3,947	3,698	3,100	2,840	2,838	2,983	3,238	3,317	3,325
(c) Mineral Products	4,485	4,384	5,078	5,062	6,165	6,100	6,840	8,049	6,224	9,181	4,340	6,940
(d) Products of Chemical and Allied Industries	1,025	1,320	1,291	726	793	922	1,089	1,039	1,208	1,185	1,210	1,350
(e) Artificial Resins, Plastic materials, Rubber, etc.	562	887	639	789	881	1,075	1,148	1,165	1,381	1,329	1,417	1,540
(f) Paper-making materials	366	618	429	595	572	710	888	692	617	789	645	685
(g) Textiles and Textile articles	544	928	785	1,169	1,233	852	1,185	1,415	1,526	1,614	360	1,700
(h) Base metal and articles of metal	833	739	1,246	1,254	1,145	1,350	1,538	1,587	1,664	1,811	1,951	1,870
(i) Machinery and Mechanical Appliances, Electrical Equipment etc.	1,572	1,868	2,199	2,022	1,981	2,150	2,429	2,457	3,995	2,802	3,006	4,450
(j) Vehicles, Aircrafts, Vessels etc.	1,166	1,553	1,780	2,033	2,026	2,350	3,565	3,337	3,423	3,807	3,810	4,107
(k) Other	1,742	2,510	2,310	2,151	1,292	2,603	2,269	2,353	2,640	4,394	6,173	4,107
Export duties	1,217	1,298	899	595	57	-	8	-	4	-	-	-
Licence Taxes	358	310	60	67	59	60	524	966	1,145	1,874	991	1,443
Property Transfer Tax	2,365	2,960	3,368	3,419	3,454	4,386	5,150	5,279	6,392	8,056	7,079	9,293
Taxes on Treasury Bills	2,345	2,619	3,033	1,991	1,073	471	1,050	1,604	1,080	-	-	-
1.3 Interest and Dividends	1,573	1,353	2,336	5,063	7,604	7,245	11,576	7,743	12,384	11,436	13,886	14,860
Profits and Dividends from State Corporations	57	34	148	159	2,069	1,299	4,618	2,521	4,382	4,328	6,200	7,810
Other	1,516	1,319	2,788	4,904	5,535	5,946	6,958	5,222	8,002	7,108	7,786	7,050
1.4 Gross Receipts of Trading Enterprises	2,336	3,893	1,307	2,748	1,536	1,756	2,871	2,264	2,439	3,350	2,807	3,664
Railway	458	583	734	885	772	916	947	938	1,030	1,300	1,190	1,300
Postal	457	673	573	684	764	840	1,325	1,326	1,409	1,900	1,617	2,364
Other	1,417	2,607	-	-	-	-	399	-	-	-	-	-
1.5 Other Current Receipts	4	31	-	1,179	-	-	-	-	-	150	-	-
National Lottery	4,135	2,944	5,224	3,211	4,213	3,375	5,656	8,299	9,883	11,242	13,611	14,035
Other	4,134	2,944	3	56	4,075	120	125	169	290	432	416	450
2. Capital	737	914	2,179	5,650	3,630	6,043	8,206	7,948	27,086	13,007	10,674	12,993
2.1 Transfers from Capital A/cs of Domestic Sector	392	181	173	178	-	-	-	-	-	5	4	-
Estate Duty	11	17	13	15	-	-	-	-	-	1	-	-
Wealth Tax	94	139	158	158	-	-	-	-	-	1	-	-
Other	227	26	2	5	-	-	-	-	-	4	-	-
2.2 Other Capital Receipts	405	733	2,006	5,472	3,630	6,043	8,194	7,944	27,086	13,002	10,670	12,993
Privatisation Proceeds	-	-	841	2,850	1,200	2,996	3,001	4,728	22,499	8,000	4,389	8,000
Loan Repayments	-	404	1,132	2,610	2,430	2,197	5,097	3,182	4,331	5,002	6,218	4,978
Other	405	329	33	12	-	71	96	34	257	-	63	15
Total	56,747	70,849	80,173	93,520	104,319	118,756	147,575	157,513	195,335	205,640	189,216	231,962

(a) As given in the Government Accounts.

(b) Exclusive of the withholding tax on Treasury bill holdings of the Central Bank.

Sources: General Treasury
Central Bank of Sri Lanka

TABLE 53

FISCAL SECTOR

Payments of the Government of Sri Lanka (a)

Rs. Million

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999
										Approved Estimates	Provisional	
1. Current Expenditure	58,486	72,375	87,264	90,365	104,314	129,347	144,449	168,128	180,153	186,735	200,309	200,043
1.1 Expenditure on Goods and Services	27,466	31,069	40,093	41,039	47,646	55,241	63,854	74,214	80,204	86,094	100,368	94,052
Salaries and Wages	15,884	17,337	19,509	22,350	27,844	31,140	38,514	40,521	46,912	50,386	57,107	57,674
Other Goods and Services	11,582	13,732	20,584	18,689	19,802	24,101	25,340	33,693	33,292	35,708	43,261	36,378
1.2 Interest Payments	14,666	20,802	22,244	25,976	30,214	40,927	41,129	48,923	55,246	55,368	54,898	59,780
Foreign	3,337	3,678	4,113	4,739	5,102	5,511	6,162	6,739	6,692	7,418	7,300	8,060
Domestic	11,329	17,124	18,131	21,237	25,112	35,416	34,967	42,184	48,554	47,950	47,598	51,720
1.3 Transfer Payments	16,354	20,504	24,927	23,350	26,454	33,179	39,466	44,991	44,704	44,573	45,043	46,512
Transfers to Public Enterprises	3,309	4,018	2,240	2,420	2,866	3,436	9,002	9,284	4,384	6,909	5,346	7,282
Transfers to Other Levels of Government	902	1,237	1,050	1,111	896	1,307	1,157	1,592	1,941	1,524	1,977	2,103
Local Government	862	1,185	1,000	1,086	843	978	1,097	1,537	1,941	1,463	1,977	2,053
Intra-governmental	40	52	50	25	53	329	60	55	-	61	-	50
Transfers to Households	12,046	15,057	21,471	19,623	22,557	28,274	29,153	33,943	38,178	35,906	37,503	36,877
Transfers to Abroad	97	192	166	191	135	162	154	171	201	234	217	250
1.4 Under Expenditure (-) / Contingency (+)	-	-	-	-	-	-	-	-	-	700	-	-300
2. Capital Expenditure	36,977	40,836	53,980	63,292	68,168	68,352	108,501	92,734	91,434	140,514	137,297	136,446
2.1 Amortization Payments	9,538	12,210	17,782	26,078	27,290	22,671	36,546	33,240	28,483	57,348	59,968	36,949
Foreign	5,742	4,906	4,881	7,955	6,963	7,606	8,477	10,491	13,251	15,074	18,351	17,435
Domestic	3,796	7,304	12,901	18,123	20,327	15,065	28,069	22,749	15,232	42,274	41,617	19,514
2.2 Acquisition of Financial Assets	5,901	7,219	7,286	6,246	6,265	10,064	11,087	8,335	7,278	13,658	14,118	15,820
2.3 Acquisition of Fixed Assets	13,857	13,903	17,679	18,623	20,957	22,007	41,734	34,459	37,158	47,355	41,296	52,675
2.4 Capital Transfers	7,681	7,504	11,233	12,345	13,656	13,644	19,134	16,700	18,515	22,153	21,915	33,597
Public Enterprises	1,499	1,249	2,993	4,610	4,311	4,246	7,614	6,017	5,880	6,396	6,801	9,828
Other Levels of Government	6,153	6,146	7,940	7,691	9,300	9,347	11,503	10,645	12,552	15,725	15,049	21,236
Local Government	799	843	950	1,028	749	914	921	1,042	1,511	1,745	1,764	1,975
Institutions	5,354	5,303	6,990	6,663	8,551	8,433	10,446	9,603	11,041	13,980	13,285	19,261
Abroad	29	109	300	44	45	51	17	39	83	32	65	2,533
2.5 Under Expenditure	-	-	-	-	-	-34	-	-	-	-	-	-2,595
3. Advance Account Operations	-993	1,699	1,819	-150	410	2,462	-1,580	630	1,226	500	2,784	500
Total	94,470	114,910	143,063	153,507	172,892	200,161	251,370	261,492	272,813	327,749	340,390	336,989

Sources: General Treasury
Central Bank of Sri Lanka

(a) As recorded in the Government Accounts.

FISCAL SECTOR

TABLE 54

Voted Expenditure of the Government of Sri Lanka - 1998

Ministry	Rs. Million									
	Recurrent			Capital						
	Approved Estimates	Supplementary Provisions	Total Provisions	Actual Expenditure	% of Under/Over Expenditure	Approved Estimates	Supplementary Provisions	Total Provisions	Actual Expenditure	% of Under/Over Expenditure
1. President, Prime Minister, Supreme Court Judges etc.	3,703	-	3,703	2,793	-25	1,310	-	1,310	1,243	-5
2. Buddha Sasana	70	-	70	62	-12	24	-	24	10	-60
3. Defence	35,690	9,646	45,336	45,314	-	9,310	2,562	11,872	11,832	-
4. Vocational Training and Rural Industries	434	-	434	389	-10	409	-	409	389	-5
5. Foreign Affairs	1,667	-	1,667	1,602	-4	287	-	287	290	1
6. Co-operative Development	41	-	41	36	-13	11	-	11	10	-9
7. Internal and International Trade, Commerce and Food	123	-	123	111	-10	345	-	345	194	-44
8. Tourism and Civil Aviation	276	-	276	253	-8	194	70	264	247	-7
9. Education and Higher Education	9,066	592	9,658	9,937	3	5,200	688	5,888	5,776	-2
10. Forestry and the Environment	241	-	241	220	-9	649	60	709	528	-25
11. Irrigation and Power	703	5	708	666	-6	10,341	52	10,393	9,743	-6
12. Labour	240	-	240	218	-9	118	-	118	56	-53
13. Housing and Urban Development	253	35	288	227	-24	6,949	1,156	8,105	6,497	-20
14. Industrial Development	502	-	502	450	-10	1,848	730	2,578	2,216	-14
15. Finance and Planning (a)	62,900	-	62,900	65,576	4	65,779	9	65,788	62,222	-5
16. Plan Implementation and Parliamentary Affairs	661	-	661	596	-10	1,702	-	1,702	1,600	-6
17. Transport and Highways	3,094	1,511	4,605	2,933	-54	13,092	856	13,947	11,655	-16
18. Justice, Constitutional Affairs, Ethnic Affairs and National Integration	1,152	68	1,220	1,185	-3	311	21	332	288	-13
19. Social Services	2,022	-	2,022	1,945	-4	145	-	145	115	-21
20. Fisheries and Aquatic Resources Development	197	-	197	188	-5	899	24	923	751	-19
21. Samurdhi, Youth Affairs and Sports	9,170	92	9,262	9,181	-1	1,378	-	1,378	1,170	-15
22. Posts, Telecommunication and Media	2,381	80	2,461	2,243	-9	4,485	62	4,547	3,686	-19
23. Health and Indigenous Medicine	6,889	25	6,914	7,120	3	4,351	1,461	5,812	4,418	-24
24. Agriculture and Lands	3,188	772	3,960	3,759	-6	1,854	-	1,854	1,632	-12
25. Mahaweli Development	1,004	-	1,004	942	-6	1,266	-	1,266	1,050	-17
26. Port Development, Rehabilitation and Reconstruction	162	-	162	141	-13	3,599	1,239	4,838	4,368	-10
27. Livestock Development and Estate Infrastructure	99	-	99	88	-11	298	-	298	276	-8
28. Women's Affairs	42	-	42	38	-11	4	-	4	3	-20
29. Provincial Councils and Local Government	19,632	698	20,330	20,158	-1	1,848	-	1,848	1,726	-7
30. Cultural and Religious Affairs	238	-	238	216	-9	171	-	171	164	-4
31. Science and Technology	453	-	453	430	-5	353	-	353	206	-42
32. Public Administration, Home Affairs and Plantation Industries	20,442	884	21,326	21,292	-	1,984	1,080	3,064	2,937	-4
Total	186,735	14,408	201,143	200,309	-	140,511	10,070	150,582	137,297	-9

(a) Includes debt repayments.

Sources : General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 55

Voted Expenditure of the Government of Sri Lanka - 1999 (a)

Rs. Million

Ministry	1999 Approved Estimates	
	Recurrent	Capital
1. President, Prime Minister, Supreme Court Judges <i>etc.</i>	3,909	1,580
2. Buddha Sasana	74	48
3. Defence	39,045	8,307
4. Vocational Training and Rural Industries	610	481
5. Foreign Affairs	1,749	214
6. Co-operative Development	46	15
7. Internal and International Trade, Commerce and Food	142	331
8. Tourism and Civil Aviation	297	878
9. Education and Higher Education	9,535	6,724
10. Forestry and the Environment	288	794
11. Irrigation and Power	690	10,460
12. Labour	301	98
13. Housing and Urban Development	301	8,383
14. Industrial Development	265	883
15. Finance and Planning (b)	67,994	50,646
16. Plan Implementation and Parliamentary Affairs	967	2,506
17. Transport and Highways	3,069	14,524
18. Justice, Constitutional Affairs, Ethnic Affairs and National Integration	1,452	428
19. Social Services	2,221	150
20. Fisheries and Aquatic Resources Development	250	1,534
21. Samurdhi, Youth Affairs and Sports	9,745	1,143
22. Posts, Telecommunication and Media	3,052	4,555
23. Health and Indigenous Medicine	7,744	4,854
24. Agriculture and Lands	3,568	5,176
25. Mahaweli Development	907	2,216
26. Port Development, Rehabilitation and Reconstruction	201	3,819
27. Livestock Development and Estate Infrastructure	114	496
28. Women's Affairs	78	12
29. Provincial Councils and Local Government	20,830	2,657
30. Cultural and Religious Affairs	256	464
31. Science and Technology	470	860
32. Public Administration, Home Affairs and Plantation Industries	20,672	3,156
Total	200,843	138,391

- (a) Draft estimates. Budget Proposals are not included.
(b) Includes debt repayments.

Source: General Treasury

FISCAL SECTOR

TABLE 56

Current Transfers to Public Corporations and Institutions

Government Corporations and Institutions	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999
										Approved Estimates	Provisional	Approved Estimates
AGRICULTURE AND IRRIGATION	153.1	170.4	186.0	466.1	442.4	639.2	506.5	400.7	230.4	1,520.9	1,283.2	1,368.0
Agrarian Research and Training Institute	9.2	9.3	12.0	14.0	16.4	23.0	23.6	23.4	26.5	41.1	9.1	37.0
Agricultural Development Authority	32.9	33.2	40.0	45.0	49.6	57.0	55.9	52.4	52.0	80.0	58.0	97.0
Agro Insurance Board	17.0	12.7	3.6	11.1	23.8	20.0	11.2	8.6	-	15.0	14.6	30.0
Agro Service Centre	3.1	-	-	7.8	7.6	8.0	13.1	-	-	-	-	-
Ceylon Coconut Development Authority	13.0	16.9	17.0	19.1	12.2	11.2	21.4	20.9	10.7	44.0	32.9	40.0
Coconut Cultivation Board	35.6	44.8	52.8	55.0	66.2	67.5	46.6	61.7	76.9	102.8	87.5	100.0
Coconut Research Board	22.5	27.8	29.0	31.6	32.1	46.5	35.9	37.0	38.8	69.7	54.7	67.0
Janawasama (JEDB)	-	-	-	160.0	120.0	202.0	176.8	97.4	-	-	-	-
Mahaweli Development Programme	-	-	-	-	-	-	-	-	-	1,125.2	992.9	885.0
National Agricultural Diversification and Settlement Authority	3.2	3.1	4.6	5.4	6.5	6.0	7.2	6.5	7.0	11.1	7.1	12.0
National Institution of Plantation Management	3.9	4.9	3.3	6.1	3.5	8.0	7.9	5.3	9.2	16.0	10.8	15.0
Rubber Research Advisory Institution	12.7	13.9	16.0	18.5	18.8	-	-	-	-	-	-	65.0
Sri Lanka Cashew Corporation	-	-	3.5	3.5	2.8	-	-	7.7	9.3	16.0	15.6	20.0
State Plantations Corporation (SPC)	-	-	-	84.0	80.0	190.0	106.9	79.8	-	-	-	-
Sugar Cane Research Institute	-	3.8	4.2	5.0	3.0	-	-	-	-	-	-	-
ENERGY AND WATER SUPPLY	416.1	345.0	658.9	133.1	93.3	518.2	990.0	590.4	485.6	874.0	757.2	876.1
Atomic Energy Authority	3.1	3.1	3.5	3.9	4.8	6.2	8.0	7.4	9.6	14.6	11.2	13.1
Ceylon Electricity Board (C.E.B.)	375.2	305.0	610.4	80.0	35.0	452.0	902.0	503.8	328.0	690.0	604.0	697.0
National Water Supply and Drainage Board	36.9	36.9	45.0	49.0	53.5	60.0	80.0	79.2	88.0	78.0	70.0	70.0
Other	0.9	-	-	0.2	-	-	-	-	60.0	91.4	72.0	96.0
FISHERIES	14.6	10.0	23.1	22.4	28.9	30.3	32.3	35.9	80.6	63.8	55.5	66.0
Ceylon Fishery Harbours Corporation	-	-	10.7	5.4	6.4	-	8.0	6.8	14.6	9.0	9.4	10.0
National Aquatic Research and Development Agency	14.6	10.0	12.4	17.0	22.5	30.3	24.3	29.1	66.0	54.8	46.1	56.0
MANUFACTURING AND MINING	306.7	37.4	59.1	175.0	122.0	107.2	116.8	118.6	130.8	158.5	130.1	144.3
Industrial Development Board	26.3	26.0	38.6	40.0	41.0	70.0	77.7	78.0	79.5	93.7	82.0	82.0
Silk and Allied Product Development Authority	8.0	9.2	14.4	12.5	12.0	18.0	19.6	22.1	25.1	30.5	20.2	31.0
Sri Lanka Handicraft Board	6.8	2.2	2.0	13.9	21.0	19.2	19.5	18.5	26.2	34.3	27.9	31.3
Other	285.6	-	4.1	108.6	48.0	-	-	-	-	-	-	-

(Contd.)

FISCAL SECTOR

TABLE 56 (Contd.)

Current Transfers to Public Corporations and Institutions

Rs. Million

Government Corporations and Institutions	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999 Approved Estimates
										Approved Estimates	Provi- sional	
TRADE AND COMMERCE												
Co-operative Wholesale Establishment (C.W.E.)	803.6	6.2	10.1	95.8	149.8	3.9	5,007.6	5,506.8	1,021.5	13.3	17.9	180.4
Fair Trading Commission	700.0	-	-	-	-	-	5,000.0	5,500.0	1,000.0	-	-	-
Paddy Marketing Board (P.M.B.)	2.8	3.4	3.5	2.6	2.9	3.9	2.5	3.6	4.8	6.3	5.4	7.0
Other	2.5	2.8	2.6	2.6	146.5	-	3.6	2.8	6.0	7.0	6.2	8.5
	98.3	-	4.0	90.6	0.4	-	1.5	0.4	10.7	-	6.3	164.9
TRANSPORT AND COMMUNICATIONS												
Airports and Aviation Services (S.L.) Co. Ltd.	467.7	2,030.0	279.4	422.1	488.5	665.1	714.9	937.3	528.7	989.4	822.6	639.3
Road Development Authority	-	-	-	33.9	-	-	12.0	-	12.0	-	-	-
Sri Lanka Central Transport Board	260.0	190.0	175.4	182.9	188.5	159.8	204.4	243.7	276.0	318.3	250.6	315.3
Other	152.7	1,840.0	-	205.3	300.0	500.0	490.0	518.4	231.2	651.0	566.4	312.0
	55.0	-	104.0	-	-	5.3	8.5	175.2	9.5	20.1	5.6	12.0
OTHER												
Buddhist and Pali University	1,147.2	1,418.4	1,023.4	1,105.5	1,539.8	1,472.1	1,634.2	1,694.9	1,906.5	3,288.6	2,577.3	4,007.9
Central Environmental Authority	-	4.5	7.1	8.0	10.2	12.0	12.0	10.8	11.6	22.8	13.0	20.0
Ceylon Institute of Scientific and Industrial Research	6.7	17.7	14.0	14.7	17.6	19.8	25.0	13.8	36.4	86.3	71.4	96.0
Ceylon Tourist Board	19.1	283.0	28.3	24.0	25.1	28.8	32.2	36.3	10.0	51.4	50.6	46.0
Institute of Fundamental Studies	55.4	60.0	71.5	83.0	87.5	93.2	97.0	99.0	116.7	171.4	137.8	155.0
Land Reform Commission	116.0	-	20.0	21.3	20.5	17.6	19.6	21.2	26.1	51.4	29.5	69.8
National Apprenticeship Board	2.4	3.5	-	7.5	-	-	-	6.3	-	16.6	-	15.0
National Institute of Education	74.0	95.8	134.8	139.0	138.0	155.0	174.1	177.0	188.6	221.6	224.0	195.0
National Engineering Research Centre	50.4	75.4	104.0	134.2	123.7	176.9	182.9	141.6	151.0	303.9	181.5	222.2
National Library Services	10.0	138.6	7.0	18.5	21.5	27.3	31.7	35.4	37.5	45.7	39.4	40.5
National Youth Services Council	22.2	13.7	12.0	12.8	11.7	15.5	16.8	20.3	26.1	37.1	29.0	32.5
Natural Resources, Energy and Scientific Authority	75.0	85.1	104.8	116.0	87.3	138.9	183.8	144.0	175.1	225.1	203.4	286.7
North Colombo Medical College	5.9	76.3	8.0	8.6	10.4	10.3	14.6	15.1	17.4	23.4	26.5	20.7
Palmyrah Development Board	-	156.1	16.5	16.5	18.5	18.0	16.5	3.2	-	-	-	-
Rehabilitation of Persons, Property and Industries Authority (REPIA)	-	-	-	5.5	6.0	-	10.0	8.7	12.5	18.0	17.6	20.0
Samurdhi Authority	-	-	1.5	4.0	4.0	10.7	9.3	60.7	16.5	11.4	5.9	10.0
Sir John Kotelawala Defence Academy	-	37.8	51.3	61.5	63.8	95.1	77.5	224.0	167.0	205.6	366.7	847.0
Sri Jayawardenapura Hospital	-	-	-	170.0	186.3	198.1	184.5	183.6	86.0	104.5	91.5	113.8
Sri Lanka Foundation Institute	13.2	29.9	22.3	14.0	18.3	21.0	19.9	22.9	22.0	285.6	290.0	330.0
Sri Lanka Institute of Development Administration (SLIDA)	-	12.2	11.0	20.0	13.0	20.3	12.4	16.3	19.8	28.0	36.3	42.0
Sri Lanka Standards Institution	21.6	31.4	28.3	35.0	38.6	39.7	43.3	42.3	45.6	57.1	50.0	50.5
Urban Development Authority	-	90.2	137.1	74.8	304.1	193.2	199.9	18.5	77.9	-	-	-
Other	675.3	207.2	243.9	116.6	333.7	180.7	271.2	324.2	438.3	1,242.0	689.8	1,369.2
Total	3,309.0	4,017.4	2,240.0	2,420.0	2,864.8	3,436.0	9,002.3	9,284.6	4,384.1	6,908.5	5,643.8	7,282.0

Sources : General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 57

Capital Transfers to Public Corporations and Institutions

Government Corporations and Institutions	Rs. Million										
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 Approved Estimates	1999 Approved Estimates
AGRICULTURE AND IRRIGATION											
Agrarian Research and Training Institute	2,619.8	2,090.0	2,782.3	2,790.3	2,924.0	2,699.7	3,194.6	2,078.5	1,727.7	1,633.0	2,361.7
Agricultural Development Authority	2.0	1.5	3.0	3.0	5.0	5.2	6.3	7.5	7.9	10.0	9.0
Agro Insurance Board	-	5.2	4.6	48.0	10.3	3.0	5.0	1.8	-	-	1.5
Ceylon Coconut Development Authority	41.7	7.1	8.4	5.6	8.0	0.7	-	2.7	3.0	2.0	2.0
Coconut Cultivation Board	-	3.5	6.0	-	2.5	2.6	3.8	4.9	1.3	8.0	8.0
Coconut Research Board	30.5	73.4	5.0	-	-	3.2	1.7	6.8	4.1	6.0	36.2
Janawasama (JEDB)	2.2	11.8	11.4	-	9.3	8.9	10.7	11.5	11.8	29.0	10.0
Mahaweli Development Programme	3.0	-	-	-	14.6	19.0	21.7	-	-	-	-
National Agricultural Diversification and Settlement Authority	2,474.9	1,809.7	2,410.0	2,670.0	2,810.0	2,597.9	3,090.0	1,939.8	1,626.0	1,265.0	2,126.7
National Institution of Plantation Management	9.0	30.9	11.0	27.7	11.3	12.0	12.0	9.0	10.0	10.0	10.0
National Livestock Development Authority	2.5	4.0	8.0	7.5	4.6	6.4	1.3	9.6	7.8	25.0	23.0
Rubber Research Advisory Institution	6.0	1.0	-	-	5.0	2.0	4.0	1.8	-	7.0	7.0
Sri Lanka Cashew Corporation	-	-	-	-	2.0	-	6.0	10.0	12.8	13.0	13.0
Sri Lanka Council for Agricultural Research	12.2	14.8	17.5	12.0	8.0	5.9	8.1	9.0	12.0	16.0	15.8
Slate Plantations Corporation (SPC)	-	3.0	3.5	3.5	3.2	4.2	4.0	4.5	17.0	24.0	25.0
Water Resources Board	-	-	-	-	15.3	20.0	11.0	2.6	-	-	-
Other	7.8	9.0	10.0	9.0	7.6	8.7	9.0	9.0	14.0	17.0	23.0
	28.0	115.1	283.9	4.0	7.3	-	-	48.0	-	201.0	-
ENERGY AND WATER SUPPLY											
Atomic Energy Authority	761.3	745.9	1,750.3	3,243.9	2,707.0	3,045.4	3,505.6	3,314.1	3,330.6	3,947.2	5,650.3
Ceylon Electricity Board	0.4	0.5	1.3	3.7	0.5	14.4	11.7	1.0	1.5	23.2	3.5
Energy Conservation Fund	7.3	-	20.0	232.5	349.5	710.0	338.0	-	811.2	1,000.0	1,500.0
Lanka Electric Company	-	4.0	-	5.7	23.7	18.4	-	-	5.0	5.0	5.0
National Water Supply and Drainage Board	-	83.3	150.0	150.0	-	-	-	-	-	-	-
	753.6	658.1	1,579.0	2,852.0	2,333.3	2,302.6	3,155.9	3,313.1	2,512.9	2,919.0	4,125.0
FISHERIES											
Ceylon Fisheries Corporation	30.2	17.4	41.0	56.0	16.4	21.3	26.4	46.8	67.0	86.0	165.0
Ceylon Fishery Harbours Corporation	0.3	5.0	0.2	4.5	-	-	-	-	-	-	-
National Aquatic Resources and Development Agency	0.9	3.6	6.3	11.0	3.9	8.3	11.7	19.7	27.0	38.0	100.0
	29.0	8.8	34.5	40.5	12.5	13.0	14.7	27.1	40.0	48.0	65.0
MANUFACTURING AND MINING											
Industrial Development Board	84.2	93.4	111.8	169.7	56.6	14.7	20.5	40.0	145.7	130.9	136.5
Silk and Allied Product Development Authority	-	2.1	6.0	5.1	6.3	6.0	12.0	26.5	139.4	114.0	115.5
Sri Lanka Handicraft Board	5.2	5.9	10.0	10.0	6.8	5.6	7.3	6.6	1.8	12.0	10.0
Other	-	0.5	0.8	2.8	1.5	3.1	1.2	2.4	4.5	4.9	6.0
	79.0	84.9	95.0	151.8	42.0	-	-	4.5	-	-	5.0

(Contd.)

TABLE 57 (Contd.)

FISCAL SECTOR

Capital Transfers to Public Corporations and Institutions

Government Corporations and Institutions	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999
										Approved Estimates	Provisional	Approved Estimates
TRADE AND COMMERCE												
Export Development Board	2.7	200.2	203.7	354.7	352.5	175.4	1.1	3.2	163.2	303.0	190.4	354.5
Fair Trading Commission	-	200.0	200.0	352.0	352.4	175.0	1.0	-	156.0	300.0	187.5	350.0
Paddy Marketing Board (PMB)	-	-	0.2	0.2	0.1	0.4	0.1	1.2	1.0	1.0	0.9	1.0
Other	2.7	0.2	3.5	2.5	-	-	-	2.0	6.2	2.0	2.0	3.5
TRANSPORT AND COMMUNICATIONS												
Air Lanka	2,358.3	2,183.0	3,405.6	3,043.2	4,099.7	3,978.8	7,374.2	4,444.2	6,175.5	8,014.5	9,068.7	10,176.9
Airports and Aviation Services (Sri Lanka) Co., Ltd.	-	-	-	-	350.0	-	-	-	-	-	-	-
Ceylon Shipping Corporation	916.7	110.2	150.0	21.0	115.7	271.0	15.2	16.0	41.0	77.0	94.0	652.0
National Transport Commission	-	-	-	-	1.0	-	2,394.7	6.8	213.0	-	-	-
Road Development Authority	1,203.6	1,869.6	2,373.0	2,220.0	3,604.7	3,587.1	4,926.8	4,403.9	5,825.6	7,511.3	7,479.3	7,688.0
Sri Lanka Broadcasting Corporation	-	-	858.6	797.6	-	-	-	-	75.5	100.0	63.7	261.0
Sri Lanka Central Transport Board	238.0	196.2	-	-	-	-	33.6	-	17.1	-	599.5	1,565.0
Sri Lanka Rupavahini Corporation	-	-	-	-	-	-	-	-	-	300.0	831.0	-
Transport Planning Centre	-	7.0	24.0	4.6	28.3	120.7	3.9	-	-	15.0	-	-
OTHER												
Central Environmental Authority	996.5	1,218.1	1,687.8	1,614.6	2,706.3	2,743.8	3,335.0	5,692.4	5,911.3	6,261.0	6,411.9	10,244.1
Ceylon Institute of Scientific and Industrial Research (CISIR)	5.4	25.0	25.9	35.0	39.7	11.8	28.0	9.6	13.9	15.0	13.1	23.0
Ceylon Tourist Board	10.1	32.4	11.6	16.4	9.0	9.6	18.0	18.0	20.0	3.0	30.0	30.0
Greater Colombo Economic Commission	56.5	50.0	200.0	240.0	190.0	300.0	285.0	106.6	33.0	23.0	68.0	100.0
Land Reform Commission	-	5.0	123.5	75.0	25.0	35.0	-	10.0	108.7	365.0	326.1	1,530.0
National Apprenticeship Board	19.0	4.7	30.0	68.8	19.4	10.0	13.7	16.8	41.0	36.0	28.0	46.7
National Housing Development Authority	352.0	242.1	323.0	289.1	245.5	161.8	495.0	223.1	454.0	860.0	867.2	932.0
National Institute of Business Management	1.0	1.0	1.9	8.0	5.4	2.4	7.0	6.0	6.0	15.0	13.3	-
National Youth Services Council	13.8	102.0	22.0	6.6	19.3	16.4	25.1	73.0	38.4	102.5	50.6	150.0
Natural Resources, Energy and Scientific Authority	14.2	7.6	22.0	14.9	19.0	13.8	30.2	25.8	18.3	60.0	20.0	52.9
Palmirah Development Board	5.7	5.9	6.0	31.6	3.0	4.0	4.0	4.7	4.0	6.0	1.6	6.0
Public Enterprise Reform Commission	-	-	-	-	-	-	-	82.6	90.6	189.0	78.9	186.0
RRAN	-	-	-	-	-	-	-	-	318.8	750.0	995.9	1,241.0
Samurdhi Authority	-	-	-	-	-	-	-	241.7	936.0	830.0	780.0	650.0
Southern Development Authority	-	-	-	-	-	-	-	334.0	55.3	165.0	149.8	282.0
Sri Lanka Construction Industry Training Centre	100.3	55.3	64.2	86.8	97.3	126.7	85.0	198.7	38.2	44.0	44.0	34.0
Sri Lanka Land Reclamation and Development Corporation	-	38.0	124.0	241.1	929.4	1,010.0	1,133.0	2,413.9	1,745.9	1,140.0	1,552.1	1,226.0
Sri Lanka Standards Institution	13.0	-	9.8	15.0	9.6	7.5	22.1	95.8	13.0	25.0	4.8	30.0
Urban Development Authority	-	375.9	372.0	223.9	151.0	192.5	300.7	776.2	511.4	589.0	491.6	841.0
Other	405.4	273.0	350.4	253.5	940.7	838.8	862.9	1,026.0	864.8	1,028.5	890.9	2,873.5
Total	6,853.0	6,548.0	9,982.5	11,272.4	12,862.5	12,679.1	17,457.4	15,619.2	16,921.0	20,375.6	20,085.9	29,089.0

Sources : General Treasury
Central Bank of Sri Lanka

Advance Account Operations

Item	Rs. Million									
	Advance Accounts					Outstanding Advances (Debit Balances)				
	In Payments (-) / Out Payments (+)					As at end of year				
	1994	1995	1996	1997	1998 (a)	1994	1995	1996	1997	1998 (a)
1. Advances to Government Departments	-136.5	-25.5	-1,696.2	-1,004.2	293.9	7,592.0	7,566.5	5,870.3	4,866.1	5,160.0
of which:										
Bank of Ceylon Suspense A/c	64.2	-251.6	-	-	-	251.6	1,743.7	-	-	-
Food Purchase and Distribution A/c	-18.1	28.0	-653.2	-603.4	182.9	1,715.7	1,760.4	1,090.5	487.1	670.0
Sri Lanka Railways	-370.1	910.3	-787.6	327.2	-61.6	1,750.1	2,660.4	1,872.8	2,200.0	2,138.4
Cheques Returned Uncashed by Banks	-8.3	-9.6	-0.3	-0.3	-1.4	65.2	55.6	55.3	55.0	53.6
Director General of Customs	-381.6	519.2	-426.8	-129.0	-302.3	1,747.6	2,266.8	1,840.0	1,711.0	1,408.7
Treasury Currency Branch Suspense A/c	-104.1	-122.6	172.2	-599.4	711.9	726.7	604.1	776.3	176.9	888.8
Credit Council Members Contribution A/c	-0.6	-	-0.5	0.5	-235.4	235.9	235.9	235.4	235.9	0.5
2. Advances for Stores and Materials	-869.0	309.5	-110.6	-1,056.3	-160.0	2,899.3	3,208.8	3,098.2	2,041.9	1,881.9
of which:										
Civil Medical Stores	-394.8	706.2	312.9	-450.5	-159.3	1,503.0	2,209.2	2,522.1	2,071.6	1,912.3
Telecommunications Dept. Stores	-	-	-	-	-	340.9	340.9	340.9	340.9	340.9
General Stores	-472.9	-292.2	-423.5	-605.8	-0.7	950.9	658.7	235.2	-370.6	-371.3
3. Loans from Advance A/cs and Surplus Balances	-1,474.4	-100.4	2,856.3	3,719.1	-298.6	6,722.2	6,621.8	9,478.1	13,197.2	12,898.6
of which:										
Ceylon Cement Corporation	100.0	-	-	-	-25.0	537.2	537.2	537.2	537.2	512.2
National Textiles Corporation	43.0	-1.0	-50.6	0.1	-	151.8	150.8	100.2	100.3	100.3
Sri Lanka Central Transport Board	-236.8	-200.0	-	-	-	534.3	334.3	334.3	334.3	334.3
Air Lanka Company Ltd.	-10.0	-	-	-	-	295.0	295.0	295.0	295.0	295.0
State Engineering Corporation	-	-	-2.4	7.3	-	26.0	26.0	23.6	30.9	30.9
Dept. of Credit Councils A/c	-	1,435.3	987.6	2,661.5	-102.5	90.3	90.3	90.3	90.3	-12.2
Public Officers' Ip' A/c	-1,266.6	1.2	-28.5	-0.6	2,803.2	3,750.2	5,185.5	6,173.1	8,834.6	11,637.8
Lanka Ceramic Industries Corporation	-0.1	-	-	-	-0.3	28.5	29.7	1.2	0.6	0.3
4. Other Accounts	17.7	1,396.8	843.0	-432.2	2,949.1	1,932.6	3,329.4	4,172.4	3,740.2	6,689.3
of which:										
ADB Loan No. 519	-	-	-	-	-133.2	133.2	133.2	133.2	133.2	-
ADB Loan No. 451 DFCC A/c	-	-	-	-	-	86.6	86.6	86.6	86.6	86.6
IDA Loan No. 818	17.7	-15.3	-9.9	-5.4	-	-9.8	-25.1	-35.0	-40.4	-40.4
IDA Loan No. 742 DFCC A/c	-	-	-	-	-	20.4	20.4	20.4	20.4	20.4
ADB Loan No. 288 DFCC A/c	-	-	-	-	-0.4	0.4	0.4	0.4	0.4	-
IDA Loan No. 942	-	-	-	-	-83.4	83.4	83.4	83.4	83.4	-
IDA Loan No. 1,240	-	-1.7	-0.1	-	-	-	-1.7	-1.8	-1.8	-1.8
IDA Loan No. 504	-	-	-	-	-	31.2	31.2	31.2	31.2	31.2
IDA Loan No. 566	-	-	-	-	-5.3	5.3	5.3	5.3	5.3	-
Pelwatte Sugar Company Ltd.	-	-	-	-	-	98.8	98.8	98.8	98.8	98.8
Investment A/c	-	-	-	-	-	1.3	1.3	1.3	1.3	1.3
Educational Publications	-	-	689.9	-260.5	-4.6	-	-	689.9	429.4	424.8
Medical Stores	-	-	37.3	-0.1	905.1	-	-	37.3	37.2	942.3
Miscellaneous Advances	-	-	157.9	1,048.5	17.8	-	-	157.9	1,206.4	1,224.2
Other	-	1,413.8	-32.1	-1,214.7	2,253.1	1,481.8	2,895.6	2,863.5	1,648.8	3,901.9
Grand Total	-2,462.2	1,580.4	1,892.5	1,226.4	2,784.4	19,146.1	20,726.5	22,619.0	23,845.4	26,629.8

(a) Provisional

Sources : General Treasury
Central Bank of Sri Lanka

TABLE 59

FISCAL SECTOR

Acquisition of Financial Assets (Loans Outlay)

	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999 Approved Estimates
										Approved Estimates	Provi- sional	
Government Corporations and Institutions												
1. Ceylon Electricity Board (CEB)	3,774	5,042	3,886	2,112	1,470	2,473	1,482	2,721	3,479	6,029	5,648	6,867
2. Industrial Development Board (IDB)	-	-	-	-	1,405	-	-	-	-	-	-	-
3. Janatha Estate Development Board (JEDB)	317	450	722	413	-	-	-	-	-	-	-	-
4. Lanka Electric Company (LECO)	111	344	545	171	541	-	15	-	6	227	326	50
5. Local Loans and Development Fund	9	10	10	245	-	-	-	-	-	-	-	-
6. Sri Lanka Ports Authority (SLPA)	630	98	925	848	2,185	4,318	5,943	2,776	984	2,682	3,356	2,862
7. Sri Lanka State Plantations Corporation (SLSPC)	224	675	450	134	-	-	-	-	-	-	-	-
8. Sri Lanka Telecom	-	-	748	1,572	654	2,811	2,360	2,406	1,367	3,425	2,426	3,369
9. Other	836	600	87	100	10	462	1,278	432	1,442	1,295	2,362	2,672
Total	5,901	7,219	7,373	5,594	6,265	10,064	11,078	8,335	7,278	13,658	14,118	15,820

Sources: General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 60

Financing of the Government Net Cash Deficit

Item	Rs. Million									
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 Provisional
1. NET CASH SURPLUS (+) / DEFICIT (-)	-28,185	-31,850	-44,933	-33,908	-41,300	-58,768	-67,249	-70,739	-48,995	-91,206
1.1 Revenue	56,747	70,849	80,173	93,520	104,302	118,756	147,575	157,513	195,335	189,216
1.2 Expenditure (a)	-84,932	-102,699	-125,106	-127,428	-145,602	-177,524	-214,824	-228,252	-244,330	-280,422
2. FINANCING OF THE DEFICIT	28,185	31,850	44,933	33,908	41,300	58,768	67,249	70,739	48,995	91,206
2.1 Domestic Market Borrowings	13,202	13,203	15,458	18,756	19,989	38,331	33,424	39,391	39,644	72,291
Rupee Loans	8,672	8,314	26,004	20,921	28,205	46,878	46,715	46,716	48,500	52,296
Less: Direct Repayments	3,796	7,289	12,901	18,123	15,472	14,956	26,329	22,543	15,000	41,558
Net	4,876	1,025	13,103	2,798	12,733	31,922	20,386	24,173	33,500	10,738
Treasury Bills	9,087	10,437	3,700	11,191	5,877	7,052	9,755	10,741	-4,676	3,578
Treasury Bonds	-	-	-	-	-	-	-	-	10,000	37,741
Central Bank Advances	974	508	1,036	1,484	1,574	1,864	1,394	3,992	612	1,885
National Defence Bonds	-	4,532	-	-	-4,532	-	-	-	-	-
Treasury Certificates of Deposits	-	109	37	-50	5	28	53	12	-151	-59
Other borrowings from banks (b)	-1,360	1,295	1,921	-2,591	697	1,462	2,317	1,968	4,152	13,308
Use of cash balances	-375	-4,705	-4,339	-5,924	3,635	-3,997	-421	-1,495	-3,793	5,101
2.2 Domestic Other Borrowings	2,650	305	691	-3,203	2,012	-666	548	10,363	-9,369	-930
2.3 Foreign Finance	12,333	18,342	28,784	18,355	19,299	21,103	33,277	20,985	18,720	19,845
Project Loans	9,535	14,529	24,764	14,258	12,669	19,312	22,793	23,360	23,815	30,354
Less: Repayments	1,889	2,385	3,028	4,108	4,730	5,047	5,552	5,986	7,131	8,430
Net	7,646	12,144	21,736	10,150	7,939	14,265	17,241	17,374	16,684	21,924
Non-project (Commodity) Loans	2,133	2,022	690	859	815	619	1,530	377	591	642
Less: Repayments	1,413	1,572	1,885	1,929	2,143	2,356	2,781	2,747	2,784	3,132
Net	720	450	-1,195	-1,070	-1,328	-1,737	-1,251	-2,970	-2,193	-2,490
Other Loans (c)	-	-	515	2,914	4,752	521	8,404	-	-	-
Less: Repayments	2,440	949	142	1,919	89	203	145	1,758	3,100	6,789
Net	-2,440	-949	373	995	4,663	318	8,259	-1,758	-3,100	-6,789
Grants	6,407	6,697	7,870	8,280	8,025	8,257	9,028	7,739	7,329	7,200

(a) Consists of government expenditure excluding contributions to sinking funds, direct repayment of public debt and subscriptions to international financial organisations. Also excludes book adjustments arising from losses on "Advance Accounts" operations incurred and financed in previous financial years. Hence, the figures may not tally with the figures published in the Accounts of the Government of Sri Lanka.

(b) Includes cash items in process of collection in the Central Bank and commercial banks, government import bills and overdrafts to the government by the banking sector.

(c) Includes cash loans received from the I.M.F., Iraq, China, OPEC, Japan, security equipment loans from the U.K., India and the U.S.S.R., and Euro currency commercial loans.

Sources: General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 61

Economic Classification of Government Revenue

Item	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
										Approved Estimates	Provisional	Approved Estimates
1. Tax Revenue	47,513	61,206	68,157	76,352	85,891	99,417	118,543	130,203	142,512	164,049	147,368	185,410
1.1 Taxes on Foreign Trade	16,495	19,341	19,754	21,640	20,819	22,598	24,373	25,464	26,743	30,961	28,154	31,127
Exports	1,572	2,549	1,137	821	57	22,598	24,365	25,459	26,739	30,961	28,154	31,127
Imports	14,923	16,792	18,617	20,819	20,762	23,512	25,300	26,519	27,769	31,961	28,924	32,127
Treasury Format	15,708	17,512	19,160	21,494	21,548	23,512	25,300	26,519	27,769	31,961	28,924	32,127
Less: Duty Rebate	-785	-720	-543	-675	-786	-914	-935	-1,060	-1,030	-1,000	-770	-1,000
1.2 Taxes on Domestic Goods and Services	20,828	28,770	32,107	38,158	47,963	56,685	70,797	77,105	86,750	100,968	91,706	120,798
Turnover Taxes/GST	14,658	20,291	21,430	24,095	29,663	32,300	36,429	37,631	43,492	47,130	39,343	58,111
(a) Manufacturing	4,496	6,788	7,945	8,282	9,231	9,171	9,906	9,711	9,475	10,255	9,121	11,998
(b) Trade, Services and Professions	3,004	3,726	2,974	3,546	4,825	6,445	7,074	9,711	13,328	12,900	12,690	17,740
(c) Imports	7,158	9,767	10,511	12,287	15,607	16,684	19,449	19,046	20,689	23,975	17,532	28,378
Excise Tax	5,812	8,170	10,597	10,232	11,655	14,632	19,436	22,067	24,775	31,464	30,293	34,544
(a) Liquor	1,955	2,657	3,126	3,434	4,063	4,686	6,298	5,839	6,181	8,369	7,665	9,192
(b) Tobacco	3,855	5,461	6,884	5,773	6,866	7,888	8,788	12,833	14,139	16,295	15,051	17,002
(c) Other	2	52	587	1,225	726	2,058	4,350	3,395	4,455	6,800	7,577	8,350
Defence Levy	-	-	-	3,764	6,589	9,683	14,408	16,441	17,338	20,500	21,079	26,700
Treasury Format	-	-	-	3,764	6,589	9,683	14,408	16,441	17,338	20,500	21,079	26,700
Less: Duty Rebate	-	-	-	-	-	-6	524	966	1,145	1,874	991	1,443
Licence Fees	358	309	80	67	56	60	167	960	1,065	1,600	952	1,380
(c/w Motor Vehicles)	309	264	-	-	-	-	-	-	-	-	-	-
1.3 Taxes on Net Income and Profits	5,148	7,337	9,722	10,967	12,543	15,277	17,161	20,751	21,547	24,064	20,429	24,192
Corporate	2,941	4,380	6,183	6,900	7,308	9,656	9,803	13,311	13,038	14,850	11,788	13,544
Non-Corporate	2,207	2,957	3,539	4,067	5,235	5,621	7,358	7,315	8,183	8,639	8,099	9,934
Save the Nation Contributions	-	-	-	-	-	-	-	125	326	575	542	714
1.4 Taxes on Property	2,697	3,140	3,541	3,597	3,493	4,386	5,162	5,279	6,392	8,056	7,079	9,293
Property Transfers	2,365	2,960	3,368	3,419	3,493	4,386	5,150	5,279	6,392	8,056	7,079	9,293
Capital Transfers	332	180	173	178	-	-	12	-	-	-	-	-
(a) Estate Duty	11	17	13	15	-	-	1	-	-	-	-	-
(b) Wealth Tax	94	138	158	158	-	-	11	-	-	-	-	-
(c) Gift Tax	3	3	-	-	-	-	-	-	-	-	-	-
(d) Other	224	22	2	5	-	-	-	-	-	-	-	-
1.5 Tax on Treasury Bills (Central Bank)	2,345	2,618	3,033	1,991	1,073	471	1,050	1,604	1,080	-	-	-
2. Non-Tax Revenue	6,466	6,758	8,022	8,778	12,448	10,521	17,715	16,077	22,524	24,389	27,664	28,910
2.1 Current Revenue	6,439	6,429	7,989	8,767	12,376	10,521	17,619	16,042	22,267	24,379	27,597	28,895
Property Income	4,387	4,192	5,964	5,612	7,742	6,960	12,857	10,059	15,022	15,178	18,462	18,845
(a) Surplus of Government Trading Enterprises	1,041	2,235	2,612	1,176	-	-	-	-	-	-	-	-
(b) Rent	87	84	84	122	145	81	217	447	848	660	1,410	1,035
(c) Interest	1,512	1,277	2,788	3,632	4,401	4,565	6,958	5,222	8,002	7,108	7,786	7,050
Less: Public Debt Interest paid to JIF	-314	-134	-171	-36	-11	-5	-12	-	-	-	-	-
(d) Profits and Dividends	220	76	148	159	2,069	1,299	4,618	2,521	4,382	4,328	6,200	7,810
Less: Petroleum Special Levy	-159	-	-	-	-	-300	-250	-	-	-	-	-500
(e) National Lottery	-	-	3	56	138	120	125	169	290	432	416	450
(f) Central Bank Profit Transfers	2,000	500	500	500	1,000	1,200	1,200	1,700	1,500	2,650	2,650	3,000
Social Security Contributions	422	381	391	453	625	719	825	1,232	1,797	3,200	2,837	3,445
Non-Industrial Sales	621	788	717	937	1,540	974	798	797	1,732	1,916	2,192	2,031
Fees and Administration Charges	627	885	917	1,225	1,303	998	1,751	2,827	2,800	2,858	2,640	3,329
Fines and Forfeitures	136	181	281	281	382	332	585	585	543	420	1,249	445
Current Transfers	246	52	-	259	779	548	803	543	373	807	217	800
(a) Net Profit from Advance Accounts	4	31	-	233	205	-	101	-	7	-	-	150
(b) Petroleum Special Levy	159	21	-	26	574	300	452	543	366	807	107	500
(c) Other	83	21	-	11	72	-	96	35	257	10	67	15
2.2 Capital Revenue	27	329	33	11	72	-	96	35	257	10	67	15
Sales of Capital Goods	27	329	33	11	72	-	96	35	257	10	67	15
Total	53,979	67,964	76,179	85,130	98,339	109,938	138,258	146,280	165,036	188,438	175,032	214,320

Source : Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 62

Economic Classification of Government Expenditure and Lending Minus Repayments

Rs. Million

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		1999 Approved Estimates
										Approved Estimates	Provi- sional	
1. Current Expenditure	56,884	71,771	83,756	89,638	102,288	127,084	154,159	175,148	184,749	187,091	199,648	199,205
1.1 Expenditure on Goods and Services	25,508	30,167	35,848	39,691	44,895	54,700	75,447	80,003	83,833	85,604	97,768	91,976
Salaries and Wages	14,446	15,748	17,985	20,793	26,392	29,309	34,909	38,332	44,676	47,855	53,880	54,292
Civil Administration	12,723	13,341	13,387	15,719	16,639	18,705	22,811	24,955	27,353	35,757	30,875	32,120
Defence	1,723	2,407	4,598	5,074	9,693	10,604	12,098	13,337	17,323	12,098	23,004	22,173
Other Purchases of Goods and Services	11,062	14,419	17,863	18,898	18,563	25,391	40,538	41,671	39,158	37,749	43,888	37,684
Civil Administration	8,666	9,920	11,852	10,741	7,793	9,551	9,496	10,074	11,510	5,476	15,930	16,509
Defence	2,396	4,499	6,011	8,157	10,770	15,840	31,041	31,596	27,648	32,273	27,958	21,176
1.2 Interest Payments	14,352	20,668	22,073	25,940	30,203	38,031	38,225	48,923	55,246	55,367	54,897	59,780
Foreign	3,337	3,678	4,113	4,739	5,102	5,511	6,162	6,739	6,692	7,418	7,300	8,060
Domestic	11,015	16,990	17,960	21,201	25,101	32,520	32,064	42,184	48,554	47,949	47,598	51,720
1.3 Transfer Payments	17,024	20,936	25,835	24,007	27,190	34,353	40,487	46,223	45,670	45,419	46,984	47,749
Transfers to Households	12,143	15,249	21,637	19,819	22,335	28,263	29,307	34,114	38,379	36,140	37,719	37,127
Transfers to Local Authorities	902	1,237	1,050	1,111	896	1,307	1,157	1,592	1,941	1,524	1,977	2,103
Transfers to Non-Financial Public Enterprises	2,283	2,639	1,743	1,428	1,571	2,634	7,841	8,232	2,693	2,374	2,967	2,486
Transfers to Institutions and Other	1,696	1,811	1,405	1,649	2,388	2,149	2,182	2,284	2,657	5,381	4,320	6,033
1.4 Under Expenditure Provision / Contingency	-	-	-	-	-	-	-	-	-	700	-	-300
2. Capital Expenditure	20,750	19,529	25,305	24,949	33,662	30,391	41,723	37,639	43,982	57,338	54,160	68,736
2.1 Acquisition of Fixed Capital Assets	13,069	12,025	14,072	12,604	19,719	16,747	22,589	20,938	25,468	35,185	32,246	37,734
2.2 Capital Transfers	7,681	7,504	11,233	12,345	13,943	13,644	19,134	16,701	18,515	22,153	21,915	33,597
Transfers to Local Authorities	799	843	950	1,028	1,036	914	1,057	1,042	1,511	1,745	1,764	1,975
Transfers to Non-Financial Public Enterprises	1,499	1,249	2,993	4,610	4,311	4,246	7,614	6,017	5,880	6,396	6,801	9,828
Transfers to Institutions	5,354	5,303	6,990	6,663	8,551	8,433	10,446	9,603	11,041	13,980	13,285	19,261
Transfers to Abroad	29	109	300	44	45	51	17	39	83	32	65	2,533
2.3 Under Expenditure Provision / Contingency	-	-	-	-	-	-	-	-	-	-	-	-2,595
3. Lending Minus Repayments	4,530	8,514	11,308	5,236	5,710	13,289	7,602	5,873	6,366	10,656	14,371	15,322
3.1 Net Lending through Advance Accounts	-993	1,699	1,819	-150	410	2,462	-1,580	630	1,226	500	2,784	500
3.2 Lending to Public Enterprises	5,901	7,219	7,286	6,246	6,265	10,064	11,087	8,335	7,278	13,658	14,118	15,820
3.3 Repayments	-378	-404	-1,132	-2,610	-2,430	-2,976	-5,097	-3,182	-4,331	-5,002	-6,218	-4,978
3.4 Restructuring Expenditure	-	-	3,335	1,750	1,465	3,739	3,191	90	2,193	1,500	3,688	3,980
Total	82,164	99,814	120,369	119,823	141,660	170,764	203,484	218,660	235,097	255,085	266,179	283,263

Sources : General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 63

Economic Classification of Government Fiscal Operations

Item	Rs. Million											
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
1. Total Revenue and Grants	60,386	74,661	84,049	94,061	106,364	118,295	145,286	154,018	172,365	197,438	182,232	222,320
1.1 Total Revenue	53,979	67,964	76,179	85,781	98,339	110,038	136,258	146,279	165,036	188,438	175,032	214,320
Tax	47,513	61,206	68,157	76,353	85,891	99,417	118,543	130,202	142,512	164,049	147,368	185,410
Non-Tax	6,466	6,758	8,022	9,428	12,448	10,621	17,715	16,077	22,524	24,389	27,664	28,910
1.2 Grants	6,407	6,697	7,870	8,280	8,025	8,257	9,028	7,739	7,329	9,000	7,200	8,000
2. Expenditure and Lending minus Repayments	-82,164	-99,814	-120,368	-119,823	-141,660	-170,764	-203,484	-218,660	-235,097	-255,085	-268,178	-283,263
2.1 Recurrent	-56,884	-71,771	-83,756	-89,639	-102,288	-127,084	-154,159	-175,149	-184,749	-187,091	-199,648	-199,205
2.2 Capital	-20,750	-19,529	-25,304	-24,948	-33,662	-30,391	-41,723	-37,638	-43,982	-57,338	-54,159	-68,736
2.3 Lending minus Repayments	-4,530	-8,514	-11,308	-5,236	-5,710	-13,289	-7,602	-5,873	-6,366	-10,656	-14,371	-15,322
3. Current Account Surplus / Deficit (-)	-2,905	-3,807	-7,577	-3,858	-3,949	-17,046	-17,901	-28,870	-19,713	1,347	-24,616	15,115
4. Budget Deficit (before grants)	-28,185	-31,850	-44,189	-34,042	-43,321	-60,726	-67,226	-72,381	-70,061	-66,647	-93,146	-68,943
5. Budget Deficit (after grants)	-21,778	-25,153	-36,319	-25,762	-35,296	-52,469	-58,198	-64,642	-62,732	-57,647	-85,946	-60,943
6. Financing of Budget Deficit	21,778	25,153	36,319	25,762	35,296	52,469	58,198	64,642	62,732	57,647	85,946	60,943
6.1 Foreign Financing (Net)	5,926	11,644	19,329	7,361	9,855	11,778	21,224	10,160	9,958	16,427	10,197	12,283
Gross Borrowings	11,668	16,550	24,384	15,316	16,839	19,384	29,701	20,651	23,209	31,501	28,548	29,718
Repayments	-5,742	-4,906	-5,055	-7,955	-6,984	-7,606	-8,477	-10,491	-13,251	-15,074	-18,351	-17,435
6.2 Domestic Financing (Net)	15,852	13,508	16,149	15,551	24,241	37,696	33,972	49,754	30,275	33,220	71,361	40,660
Market Borrowings	13,202	13,203	15,458	18,756	22,229	38,362	33,424	39,391	39,644	33,220	72,291	40,660
Non-Bank	13,735	12,946	15,423	21,079	28,308	37,205	26,359	26,301	41,816	33,220	53,337	40,660
Gross Borrowings	17,531	20,233	28,324	39,202	48,407	52,051	54,428	49,050	57,048	75,495	94,954	60,174
Repayments	-3,796	-7,287	-12,901	-18,123	-20,099	-14,846	-28,069	-22,749	-15,232	-42,275	-41,617	-19,514
Bank	-533	257	35	-2,323	-6,079	1,157	7,065	13,090	-2,172	-	18,954	-
Gross Borrowings	-158	4,962	4,374	-8,247	-9,714	5,154	7,501	13,090	-2,172	-	18,954	-
Use of Cash Balances	-375	-4,705	-4,339	5,924	3,635	-3,997	-436	-	-	-	-	-
Other Borrowings (a)	2,650	305	691	-3,205	2,012	-666	548	10,363	-9,369	-	-930	-
6.3 Privatisation Proceeds	-	-	841	2,850	1,200	2,995	3,001	4,728	22,499	8,000	4,389	8,000

(a) Adjusted for an increase in arrears of Rs. 3,478 million for expenditure in 1989, a decrease in arrears of Rs. 2,107 million for expenditure in 1990, an increase in arrears of Rs. 2,715 million for expenditure in 1996 and a decrease in arrears of Rs. 2,715 million in 1997.

Sources : General Treasury
Central Bank of Sri Lanka

Composition of Outstanding Government Debt (a)

Source	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)
1. Foreign Debt	156,298	176,883	214,579	235,538	270,224	301,812	346,286	359,390	383,116	460,879
1.1 Project Loans (c)	113,120	132,338	166,149	185,003	216,355	246,075	286,848	302,666	321,122	399,890
1.2 Non-Project Loans	43,178	44,545	48,430	50,535	53,869	55,737	59,438	56,724	61,994	60,989
Commodity (d)	41,117	43,393	46,037	48,550	52,120	54,147	57,730	55,243	53,816	59,626
Other (e)	2,061	1,152	2,393	1,986	1,749	1,590	1,708	1,481	8,178	1,363
2. Domestic Debt	117,561	133,897	152,119	170,020	213,685	249,118	285,759	349,007	382,962	446,547
2.1 Rupee Loans	54,217	54,676	66,823	69,180	105,707	137,554	157,928	205,975	239,475	250,570
of which Sinking Funds (f)	3,251	2,368	1,263	638	320	137	100	100	100	100
2.2 Treasury Bills	57,246	67,968	72,968	87,096	97,196	98,896	113,771	124,996	114,996	119,996
2.3 Treasury Bonds	-	-	-	-	-	-	-	-	10,000	48,915
2.4 Treasury Certificates of Deposits	-	109	153	102	114	145	200	212	83	12
2.5 Tax Reserve Certificates	9	8	9	8	8	7	7	7	7	7
2.6 National Defence Bonds	-	4,532	4,532	4,532	-	-	-	-	-	-
2.7 Central Bank Advances (g)	5,900	6,408	7,444	8,928	10,502	12,366	13,700	17,693	18,307	20,192
2.8 Other (h)	190	196	190	174	158	151	153	124	94	6,855
Total	273,858	310,780	366,698	405,558	483,909	550,930	632,045	708,397	766,078	907,426

Source: Central Bank of Sri Lanka

(a) This excludes borrowings of public corporations and private sector with government guarantee at Rs. 49,052 million, short-term IMF drawings at Rs. 24,896 million and other short-term debt at Rs. 33,001 million as at end December 1998. National Housing Development Authority debentures at Rs. 109 million, State Mortgage Bank debentures at Rs. 500 million and Urban Development Authority debentures at Rs. 83 million are also excluded.

(b) Provisional

(c) Represents the amounts withdrawn and outstanding on the loans contracted with the IBRD, USA, Canada, Denmark, People's Republic of China, Germany, U.K., India, IDA, ADB, the Netherlands, Kuwait, OPEC, Japan, UAE, IFAD, Skandinaviska Enskilda Bankens - Sweden, Salomon Brother's Incorporated - New York, Bank Indosuez, BFCE - France and Citibank International of USA.

(d) Represents the amounts withdrawn and outstanding on the loans contracted with the USA, Canada, Germany, Japan, France, India, Italy, the Netherlands and Switzerland.

(e) Includes cash loans received from the ADB, USA and OPEC.

(f) Represents the market value of investments held by the Joint Investment Fund on behalf of the sinking funds.

(g) Excludes contributions to international financial organisations.

(h) Includes administrative borrowings arising from foreign loans channelled through government or semi-government agencies and outstanding National Development Bonds. Borrowings from FCBUs at US \$ 100 million in 1998 also included.

TABLE 65

FISCAL SECTOR

Ownership of Government Debt (as at end of year) (a)

Owner	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)
1. Domestic Debt	117,562	133,897	152,120	170,020	213,685	249,119	285,759	349,007	382,962	446,547
1.1 Banking Sector	46,874	48,254	52,146	58,111	90,135	100,044	113,355	103,553	101,966	100,903
Central Bank	40,025	37,080	42,486	34,931	16,480	21,346	28,684	34,807	24,999	29,150
Commercial Banks (c)	6,849	11,174	9,659	23,180	73,655	78,698	84,671	68,746	76,967	71,753
1.2 Non-Bank Sector	70,688	85,643	99,974	111,909	123,550	149,075	172,404	245,454	280,996	345,644
Market Borrowings	70,498	85,448	99,784	111,736	123,392	148,924	172,251	245,330	280,902	345,562
Savings Institutions (d)	18,964	24,194	26,663	30,886	38,752	46,657	49,671	52,698	63,028	67,260
Sinking Funds (e)	2,289	1,662	840	359	239	137	100	100	100	100
Insurance Funds	2,388	1,742	4,074	4,035	244	312	303	9,000	9,292	13,052
Provident and Pension Funds (f)	40,146	49,065	58,095	67,917	75,768	91,041	104,139	120,063	144,406	163,534
Official Funds (g)	6,205	8,084	6,988	3,883	464	568	672	15,840	15,438	15,522
Private Business and Individuals (h)	506	701	3,123	4,657	7,925	10,209	17,366	47,629	48,638	86,094
Non-Market Borrowings (Foreign Administrative)	190	195	190	173	158	151	153	124	94	82
2. Foreign Debt	156,298	176,883	214,579	235,538	270,224	301,812	346,286	359,390	383,116	460,879
Total	273,860	310,780	366,699	405,557	483,909	550,931	632,045	708,397	776,078	907,426

Source: Central Bank of Sri Lanka

(a) Treasury bills outstanding, based on primary market sales until 1995, and adjusted for secondary market transactions from 1996 onward. Treasury Bonds, which were introduced in March 1997, are also adjusted for secondary market transactions.

(b) Provisional

(c) Includes the value of long-term bonds of Rs 24,088 million and Rs. 19,393 million issued by the government in connection with the restructuring of the two state banks in 1993 and 1996, respectively.

(d) Includes the value of long-term bonds of Rs. 4,480 million issued by the government to recapitalise the liabilities of the NSB in 1995.

(e) The Public Debt Sinking Funds (the Investment Fund w.e.f. September, 1971) and National Housing Sinking Fund.

(f) Trusts, Benevolent, Pension and Provident Funds and the Employees' Provident Fund.

(g) The Central Government, Local Authorities, State Corporations, Departmental and other official funds.

(h) These include the value of Treasury Certificates of Deposits of Rs. 109 million in 1990, Rs. 153 million in 1991, Rs. 102 million in 1992, Rs. 114 million in 1993, Rs. 145 million in 1994, Rs. 200 million in 1995, Rs. 212 million in 1996, Rs. 83 million in 1997 and Rs. 12 million in 1998, and Treasury bill holdings other than the captive sources, Employees' Provident Fund, Employees' Trust Fund and National Savings Bank.

FISCAL SECTOR

TABLE 66

Ownership of Treasury Bills and Treasury Bonds (a)

Owner	Treasury Bills										Treasury Bonds	
											1997	1998
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		
1. Bank Sector	40,380	41,258	44,272	48,758	55,544	62,837	74,726	41,538	37,549	23,808	1,788	5,808
1.1 Central Bank	34,098	30,654	35,032	25,998	5,978	8,979	14,984	17,114	6,692	8,958	-	-
1.2 Commercial Banks	6,282	10,604	9,240	22,760	49,566	53,858	59,742	24,424	30,857	14,850	1,788	5,808
2. Non-Bank Sector	16,865	26,710	28,697	38,338	41,652	36,059	39,044	83,458	77,447	96,188	8,212	43,107
2.1 Employees' Provident Funds	-	-	1,000	1,100	1,250	2,159	1,424	3,005	3,949	2,978	3,100	11,912
2.2 Other Provident Funds	6,611	9,684	8,838	10,271	6,668	7,445	7,052	544	84	209	-	83
2.3 Savings Institutions	2,301	7,776	7,287	16,645	25,498	15,901	14,766	8,395	6,435	6,600	1,609	10,372
2.4 Insurance and Finance Companies	3,821	3,848	5,630	6,467	5,863	5,911	8,389	16,959	16,029	11,470	1,876	6,849
2.5 Departmental and Other Official Funds	3,603	4,748	5,209	2,398	442	547	654	15,321	14,114	10,054	65	571
2.6 Private and Other	529	655	732	1,457	1,931	4,096	6,759	39,234	36,836	64,877	1,562	13,320
Total	57,245	67,968	72,969	87,096	97,196	98,896	113,770	124,996	114,996	119,996	10,000	48,915

(a) Treasury bills outstanding based on primary market sales until 1995 and adjusted for secondary market transactions from 1996 onward. Treasury Bonds adjusted for secondary market transactions.

Source: Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 67

Ownership of Rupee Loans

Owner	Rs. Million									
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1. Bank Sector	593	582	425	419	24,089	24,840	24,928	44,321	44,321	44,321
1.1 Central Bank	27	18	11	6	-	-	-	-	-	-
1.2 Commercial Banks (a)	566	564	414	413	24,089	24,840	24,928	44,321	44,321	44,321
2. Non-Bank Sector	53,624	54,094	66,399	68,762	81,619	112,714	133,000	161,654	195,154	206,249
2.1 Savings Institutions (b)(c)	16,659	15,082	18,040	12,905	13,254	30,756	34,905	44,303	54,950	50,288
2.2 Sinking Funds	2,289	1,662	840	359	239	137	100	100	100	100
2.3 Departmental and Other Official Funds (d)	37	44	1,507	1,382	11	213	212	509	503	4,897
2.4 Employees' Provident Fund	31,648	34,597	42,607	51,208	64,395	77,586	93,576	110,231	127,818	142,821
2.5 Other Provident Funds	1,887	1,920	2,785	2,472	3,455	3,647	3,846	6,283	9,455	5,531
2.6 Insurance Corporations	801	538	525	354	244	312	303	158	1,508	1,793
2.7 Insurance Companies	51	22	15	15	-	-	-	-	-	-
2.8 Other State Corporations	147	135	1	1	10	12	10	10	756	755
2.9 Other (e)	105	96	79	67	11	51	48	60	64	64
Total	54,217	54,676	66,824	69,181	105,708	137,554	157,928	205,975	239,475	250,570

(a) Includes the value of long-term bonds of Rs. 24,088 million and Rs. 19,393 million issued by the Government in connection with the restructuring of the two state banks in 1993 and 1996, respectively.

Source: Central Bank of Sri Lanka

(b) Includes the value of long-term bonds of Rs. 4,480 million issued by the government to recapitalise the liabilities of the NSB in 1996.

(c) With effect from 1 April 1972, the National Savings Bank took over the assets and liabilities of the Post Office Savings Bank, the Ceylon Savings Bank and the Savings Certificates Fund.

(d) From 1997, the Employees' Trust Fund is included.

(e) Comprising co-operative banks, other companies, clubs, institutions and individuals.

FISCAL SECTOR

TABLE 68

Valuation and Yields of Selected Government Securities (a)

End of Month	Rupee Loans				Treasury Bonds (c)			
	15% Loan 1998 F (b)		14% Loan 2000-2002		14% 1999 A Treasury Bond		12.25% 2001 A Treasury Bond	
	Value (Rs.)	Redemption Yields Latest Date (%)	Value (Rs.)	Redemption Yields Latest Date (%)	Value (Rs.)	Redemption Yields Latest Date (%)	Value (Rs.)	Redemption Yields Latest Date (%)
1997								
January	95.87	16.00	93.08	16.00	-	-	-	-
February	95.89	16.00	93.18	16.00	-	-	-	-
March	95.93	16.00	93.29	16.00	-	-	-	-
April	95.98	16.00	93.33	16.00	-	-	-	-
May	96.05	16.00	93.38	16.00	101.30	13.11	99.14	12.53
June	96.04	16.00	93.45	16.00	100.85	13.38	99.07	12.56
July	96.04	16.00	93.53	16.00	102.53	12.18	99.53	12.45
August	96.07	16.00	93.64	16.00	103.48	11.42	100.29	12.14
September	96.10	16.00	93.75	16.00	103.82	11.00	100.09	12.21
October	96.10	16.00	93.80	16.00	104.60	10.20	103.10	11.17
November	96.23	16.00	93.86	16.00	104.28	10.26	103.08	11.15
December	96.22	16.00	93.93	16.00	103.83	10.40	103.25	11.07
1998								
January	96.23	16.00	94.02	16.00	102.92	11.05	101.82	11.56
February	96.26	16.00	94.13	16.00	102.44	11.39	100.79	11.94
March	96.30	16.00	94.25	16.00	102.37	11.19	101.04	11.83
April	96.36	16.00	94.30	16.00	101.65	11.83	100.37	12.10
May	96.43	16.00	94.37	16.00	101.42	11.92	99.86	12.30
June	96.43	16.00	94.45	16.00	101.26	11.93	99.85	12.30
July	96.44	16.00	94.55	16.00	100.60	12.86	98.71	12.80
August	96.46	16.00	94.66	16.00	100.53	12.89	96.87	13.66
September	96.51	16.00	94.79	16.00	100.43	12.78	96.74	13.76
October	96.57	16.00	94.85	16.00	100.34	12.67	96.76	13.80
November	96.64	16.00	94.93	16.00	100.12	13.06	96.88	13.79
December	96.64	16.00	95.01	16.00	100.09	12.87	97.32	13.59

- (a) The values quoted here are for shares of Rs.100 each exclusive of accrued interest.
They are based on the monthly valuation lists prepared by the Public Debt Department of the Central Bank.
- (b) 15% Loan 1998 'F' was repaid in December 1998.
- (c) Though issuance of Treasury Bonds commenced from March 1997, collection of data on Treasury Bond secondary market transactions began in May 1997.

Source : Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 69

Ownership of Outstanding Foreign Debt

Rs. Million

Source	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (a)
1. Multilateral	48,698	59,526	78,084	91,067	109,283	123,016	144,594	160,402	173,428	211,716
ADB	15,978	20,665	28,704	35,943	44,688	51,318	60,748	69,772	76,186	94,652
EEC	269	267	278	465	316	315	336	348	371	406
IBRD	1,303	1,277	1,238	1,214	1,185	1,048	970	840	730	600
IDA	28,193	34,532	44,907	50,457	60,097	67,220	79,112	85,925	92,481	111,711
IFAD	1,531	1,645	1,860	2,062	2,294	2,503	2,876	3,054	3,188	3,742
IMF	479	325	321	348	-	-	-	-	-	-
OPEC	945	816	776	578	704	610	551	463	382	298
Nordic Development Fund	-	-	-	-	-	-	-	-	90	307
2. Bilateral	97,446	106,677	124,470	134,065	151,273	169,446	191,063	188,534	195,361	234,200
Canada	5,615	5,496	5,674	5,461	5,427	5,064	5,492	5,548	5,541	5,482
France (b)	3,183	3,767	4,035	4,926	4,888	5,235	6,187	6,024	5,664	6,354
Germany	20,078	22,810	24,439	19,966	23,707	24,858	28,961	27,188	25,652	30,049
India	282	176	75	18	35	27	111	184	784	1,135
Japan	33,558	38,463	52,485	59,304	73,815	89,291	101,557	99,868	98,738	132,371
Kuwait	1,486	1,503	1,421	1,385	1,359	1,605	1,661	1,686	1,761	2,085
Netherlands	3,864	4,093	4,139	3,989	3,824	3,899	3,928	3,525	3,085	3,295
People's Republic of China	1,088	957	1,006	1,011	987	699	717	689	1,112	1,670
Saudi Arabian Fund	1,071	939	898	837	788	685	665	580	492	371
Switzerland	366	442	455	457	496	557	693	626	634	734
USA	25,895	27,073	28,667	33,338	34,180	34,747	37,817	39,260	41,927	45,789
Other	959	959	1,176	3,374	1,767	2,779	3,274	3,356	9,971	4,865
3. Financial Markets	10,154	10,680	12,024	10,406	9,668	9,350	10,630	10,454	14,327	14,963
American Express Bank	600	603	638	689	742	750	811	850	873	917
Indo-Suez Bank (France and Stockholm)	521	504	463	434	336	285	265	187	242	231
Bankers' Trust Co.	560	563	595	643	693	700	757	794	814	853
C. Itoh & Co., Ltd.	417	352	298	219	132	-	-	-	-	-
Eurocurrency	571	-	-	-	-	-	-	-	-	-
France	1,757	1,982	1,748	1,780	1,789	1,702	1,712	1,355	1,133	1,102
Manufacturers Hanover Trust Co.	1,487	1,394	1,133	710	497	243	64	-	-	-
Skandinaviska Enskilda Bankens Sweden	412	386	353	237	164	124	76	-	-	-
Salomon Bros. Inc. New York	777	773	808	846	865	827	843	830	839	864
Other (c)	3,051	4,125	5,989	4,849	4,450	4,719	6,102	6,438	10,426	10,996
Total	156,298	176,883	214,579	235,538	270,224	301,812	346,286	359,390	383,116	460,879

- (a) Provisional
- (b) Includes loans from financial institutions.
- (c) Includes Overseas Private Investment Corporation (USA) of Rs. 1,230 million in 1997 and Rs. 1,212 million in 1998.

Source: Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 70

Foreign Loans – 1998

Rs. Million

Type and Source	Gross Receipts	Repayments	Net Change in the Liability	Liability as at end of December 1997
1. Project Loans	30,354	8,430	78,770	399,890
Asian Development Bank	7,841	924	18,456	94,583
Australia	–	47	-21	244
Canada	–	123	-35	3,712
Citibank International	–	–	325	3,386
Denmark	–	46	97	933
European Union	–	5	35	406
Finland	19	101	10	888
France	104	559	599	7,025
Germany	1,264	1,012	3,838	25,126
IBRD	–	196	-130	600
IFAD	168	88	554	3,742
India	284	–	379	1,016
International Development Association	6,245	830	19,627	111,711
Japan	11,960	2,552	31,370	113,180
Korea	938	28	1,266	1,585
Kuwait	224	125	409	2,085
Netherlands	259	200	431	2,641
Nordic Development Fund	183	–	-17	307
Norway	223	23	222	448
OPEC	–	91	-67	216
People's Republic of China	519	112	812	1,670
Saudi Arabian Fund	77	244	-90	371
Sweden	46	–	68	190
UK	–	551	-300	2,593
USA	–	573	1,504	21,232
Liability due to variations in exchange rates			56,846	
2. Non-Project Loans	642	3,132	-1,005	60,989
2.1 Commodity Loans	642	2,965	5,810	59,626
Canada	–	66	-23	1,771
France	–	56	16	471
Germany	–	166	559	4,923
India	1	33	-28	119
Italy	–	–	116	766
Japan	–	1,628	2,262	19,191
Netherlands	–	182	132	2,104
Switzerland	–	4	96	735
USA (a)	641	830	2,680	29,546
Liability due to variations in exchange rates			8,132	
2.2 Other Loans	–	167	-6,815	1,363
Asian Development Bank	–	–	9	68
OPEC	–	26	-17	82
USA	–	141	-17	1,213
Other	–	6,789	-6,789	–
Liability due to variations in exchange rates			141	
Total	30,996	18,351	77,763	460,879

(a) Comprises P.L. 480 loans, loans from International Co-operation Administration and Agency for International Development.

Source : Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 71

Net Receipts of Foreign Assistance

Rs. Million

Type and Source	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (a)
1. Loans (b)	7,279	12,082	21,074	7,432	10,872	11,798	15,882	15,053	14,638	19,434
ADB	2,789	3,988	5,824	5,311	5,521	4,179	4,202	7,756	4,499	6,917
Australia	86	41	55	8	-31	47	33	-39	-16	-47
Bank Indosuez & B.F.C.E.- France	-	-69	-	-48	-19	-10	-	-	-377	-334
Canada	-63	-136	-142	-142	-153	-153	-157	-171	-182	-189
China	131	-37	22	-73	-99	-51	-31	-63	146	407
Citibank International	-	-	-	-	-	-	-	-	2,901	-
C. Itoh & Co. Ltd.	-	-83	-	-102	-205	-146	-	-	-	-
Denmark	54	-26	-26	-31	-32	-22	-29	-54	-41	-46
France	-103	217	-413	337	-288	-446	-439	-476	52	-177
Germany	912	378	176	-581	-793	-862	-570	-837	-208	86
IBRD	217	-33	-118	-131	-132	-151	-177	-173	-180	-196
IDA	1,832	4,972	7,399	2,994	5,533	3,533	5,056	5,218	3,986	5,415
IFAD	127	35	80	71	80	80	118	123	51	80
IMF	-443	-157	-20	-	-	-	-	-	-	-
India	-82	-90	-66	-37	20	-8	87	64	584	284
Iraq	-12	-6	-	-35	-15	-86	-	-	-	-32
Italy	-	-	-	134	292	140	15	-	-	-
Japan	3,165	2,259	7,740	690	2,501	6,384	7,395	4,879	3,629	7,780
Korea	-	-	-	89	118	271	38	-7	-43	910
Kuwait	-10	3	-180	-146	-153	165	-76	-63	-20	99
Manufacturers Hanover Trust Company Ltd.	-	-295	-	-308	-253	-266	-	-	-	-
Netherlands	-160	-211	-209	-239	-251	-123	442	-214	-114	-123
OPEC	-118	-134	-83	-88	-97	-100	-102	-111	-112	-117
Russia (U.S.S.R.)	-40	-28	-45	-	-	-	-	-	-	-
Saudi Arabian Fund	-77	-139	-92	-	-116	-117	-73	-113	-148	-167
Skandinaviska Enskilda Bankens-Sweden	-402	-63	-63	-65	-58	-60	-70	-76	-	-
Salomon Brother's Incorporated - New York	-	-8	-73	-26	-46	-47	-49	-53	-57	-62
Switzerland	-38	-55	-60	-63	-55	-27	-20	-6	-4	-4
UAE	-63	-74	-11	-	-54	87	-	-	-	-
UK	-1,071	804	87	-438	-436	-464	72	-54	-426	-551
USA	564	1,032	1,283	349	94	-309	143	-590	293	-841
Other	85	-3	9	-	-	360	74	113	425	342
2. Grants	6,407	6,698	7,870	8,280	8,025	8,257	9,028	7,739	7,329	7,200
ADB	-	-	-	-	-	166	121	79	160	116
Australia	36	85	97	138	70	67	101	134	105	-
Canada	228	92	426	337	298	78	77	23	148	67
Denmark	59	40	60	13	-	11	-	-	-	-
EEC	283	-	27	-	-	147	103	66	220	41
Finland	532	539	393	388	254	231	22	-	-	-
Germany	-	-	32	10	-	19	227	251	299	54
Japan	2,585	3,065	1,941	2,100	3,567	2,599	4,181	2,880	2,428	3,280
Netherlands	516	131	117	671	-	621	559	336	428	308
Norway	229	834	204	477	371	314	344	2,424	1,393	173
Sweden	150	288	407	350	288	-	-	333	465	117
Switzerland	72	40	-	-	-	322	355	4	-	-
UK	511	363	128	189	46	596	578	183	308	36
United Nations	449	252	203	174	-	549	466	318	361	88
USA	492	908	2,868	2,347	2,945	2,166	1,590	474	663	291
Other	265	61	967	1,086	186	370	304	234	351	2,629
Total	13,686	18,780	28,944	15,712	18,897	20,055	24,910	22,792	21,967	26,634

(a) Provisional

(b) These figures may differ from those appearing in Appendix Table 51 of this Report due to differences in classification and sources of information.

Sources: General Treasury
Central Bank of Sri Lanka

FISCAL SECTOR

TABLE 72

Outstanding Central Government Debt (as at end of year) (a)

Rs. Million

Source	1994	1995	1996	1997	1998 Provisional
Total Domestic Debt	249,119	285,759	349,007	382,962	446,547
Short-Term	108,726	127,471	142,689	133,303	146,961
Treasury Bills	96,360	113,771	124,996	114,996	119,996
Rupee Securities	-	-	-	-	-
Provisional Advances	12,366	13,700	17,693	18,307	20,192
Other (c)	-	-	-	-	6,773
Medium and Long-Term	140,393	158,289	206,318	249,659	299,586
Rupee Securities (b)	137,554	157,928	205,975	239,475	250,570
Treasury Bills	2,536	-	-	-	-
Treasury Bonds	-	-	-	10,000	48,915
Treasury Certificates of Deposit	145	200	212	83	12
Tax Reserve Certificates	7	7	7	7	7
Other	151	153	124	94	82
By Debt Instruments	249,119	285,759	349,007	382,962	446,547
Rupee Securities	137,554	157,928	205,975	239,475	250,570
Treasury Bills	98,896	113,771	124,996	114,996	119,996
Treasury Bonds	-	-	-	10,000	48,915
Treasury Certificates of Deposit	145	200	212	83	12
Tax Reserve Certificates	7	7	7	7	7
Provisional Advances	12,366	13,700	17,693	18,307	20,192
Other (c)	151	153	124	94	6,855
By Institutions	249,119	285,759	349,007	382,962	446,547
Banks	100,043	113,355	103,553	101,966	100,903
Central Bank					
By Debt Instruments	21,345	28,684	34,807	24,999	29,150
Rupee Loans	-	-	-	-	-
Treasury Bills	8,979	14,984	17,114	6,692	8,958
Provisional Advances	12,366	13,700	17,693	18,307	20,192
Commercial Banks					
By Debt Instruments	78,699	84,671	68,746	76,967	71,753
Rupee Loans	24,840	24,928	44,321	44,321	44,321
Treasury Bills	53,858	59,742	24,424	30,857	14,850
Treasury Bonds	-	-	-	1,788	5,808
Other (c)	1	1	1	1	6,774
By Institutions	78,699	84,671	68,746	76,967	71,753
State Banks (c)	57,832	60,100	53,177	62,369	63,443
Other	20,867	24,571	15,569	14,598	8,310
Sinking Fund	137	100	100	100	100
Rupee Loans	137	100	100	100	100
Non-Bank Sector					
By Debt Instruments	148,939	172,304	245,354	280,896	345,544
Rupee Loans	112,577	132,900	161,554	195,054	206,149
Treasury Bills	36,059	39,044	83,458	77,447	96,188
Treasury Bonds	-	-	-	8,212	43,107
Treasury Certificates of Deposit	145	200	212	83	12
Tax Reserve Certificates	7	7	6	6	6
Other	151	153	124	94	82
By Institutions	148,939	172,304	245,354	280,896	345,544
National Savings Bank	46,407	48,406	47,794	62,498	67,260
Savings Institutions & Individuals	15,811	19,349	44,416	40,201	84,102
Employees' Provident Fund	79,745	95,000	113,236	134,867	157,711
Insurance Institutions	312	303	9,000	9,292	13,052
Finance Companies	5,942	8,420	8,117	8,967	7,060
Other	722	826	22,791	25,071	16,359
Foreign Administrative Borrowings	151	153	124	94	82
Departments, Official Funds and Other	571	673	22,667	24,977	16,277
Total Foreign Debt	301,812	346,286	359,390	383,116	460,879
By Type	301,812	346,286	359,390	383,116	460,879
Project Loans	246,075	286,848	302,666	321,122	399,890
Non-Project Loans	55,737	59,438	56,724	61,994	60,989
Commodity	54,147	57,730	55,243	53,816	59,626
Other	1,590	1,708	1,481	8,178	1,363
By Institutions	301,812	346,286	359,390	383,116	460,879
Concessional Loans	293,556	336,795	350,024	362,435	445,938
Multilateral	124,210	145,900	161,652	175,315	213,356
Bilateral	169,346	190,895	188,372	187,120	232,582
Non-Concessional Loans	8,256	9,491	9,366	20,681	14,941
Multilateral	778	723	656	598	544
Bilateral	101	168	162	7,834	1,618
Commercial Loans	7,377	8,600	8,548	12,249	12,779
External Supplier's Credit	950	1,020	923	499	575
Total Outstanding Government Debt	550,931	632,045	708,397	776,078	907,426
Total Outstanding Govt. Debt Net of Sinking Fund	550,794	631,945	708,297	765,978	907,326

- (a) Treasury bills outstanding, based on primary market sales until 1995, and adjusted for secondary market transactions from 1996 onward. From 1997, includes Treasury Bonds, which were introduced in March, 1997 adjusted for secondary market transactions.
- (b) Inclusive of Rs. 24,088 million and Rs. 23,873 million of long-term bonds issued in 1993 and 1996, respectively.
- (c) Inclusive of borrowing from FCBUs of US \$ 100 million in 1998.

Source : Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 73

1997 = 100

Central Bank Trade Indices - Value (a) (b)

Period	Exports										Total Exports		
	Industrial					Agricultural						Mineral	
	Textile and Garments	Petroleum Products	Other	Total	Tea	Rubber	Coconut Products	Other Agri. Products	Total	Gems		Other	Total
1994 (c)	57.0	68.2	57.5	57.4	49.3	77.2	54.2	70.2	54.8	79.9	100.9	81.5	57.9
1995 (c)	70.6	75.7	72.0	72.4	57.9	123.1	76.0	73.1	66.9	81.1	127.5	84.3	71.3
1996	78.3	99.9	88.2	82.0	80.1	124.0	87.8	85.3	84.9	97.4	139.8	100.4	82.7
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1998	118.5	81.2	104.1	113.0	118.2	60.5	88.0	128.9	112.1	73.0	76.7	73.3	111.7
1996	69.0	105.8	67.9	69.7	70.2	151.7	74.1	66.4	76.1	116.8	83.0	114.4	71.7
2nd Quarter	65.9	96.3	82.6	72.0	71.6	127.5	65.1	65.3	74.2	71.4	74.1	71.6	72.5
3rd Quarter	84.5	90.9	93.5	87.4	90.9	100.2	103.2	107.1	95.2	107.1	337.1	117.6	89.5
4th Quarter	93.9	106.8	108.7	98.9	87.7	109.1	108.7	102.3	93.6	100.4	64.9	97.9	97.1
1997	83.2	74.3	86.2	83.9	81.5	142.7	94.6	79.8	87.2	121.3	58.4	116.9	84.8
2nd Quarter	87.8	91.6	93.3	89.6	85.4	104.1	96.4	82.3	87.6	96.2	64.0	94.0	88.8
3rd Quarter	112.9	109.3	101.3	109.2	116.1	73.9	109.0	116.0	112.2	119.4	193.3	124.6	111.4
4th Quarter	116.2	124.8	119.2	117.4	116.9	79.3	100.0	122.0	113.0	63.1	84.3	64.6	115.0
1998	103.0	101.0	84.7	97.3	121.3	71.5	73.1	98.8	109.2	84.5	68.3	84.9	99.1
2nd Quarter	105.0	74.3	103.8	103.8	119.6	71.5	74.8	135.2	113.2	50.1	68.3	51.4	104.5
3rd Quarter	135.9	75.0	112.9	127.1	121.5	53.9	108.3	147.7	118.6	91.3	66.1	89.6	124.7
4th Quarter	130.0	74.4	114.7	123.7	110.5	45.1	96.0	134.0	107.3	66.2	82.4	67.3	118.6
1997	74.5	62.8	82.4	76.7	78.8	146.6	94.6	82.0	86.0	150.8	64.8	144.7	79.8
January	93.2	84.6	94.8	93.4	74.6	87.6	97.6	82.1	83.6	71.5	43.5	69.5	90.1
February	81.8	75.4	81.4	81.5	91.1	134.0	91.5	91.4	92.1	141.7	66.9	136.4	84.5
March	88.3	108.5	99.9	92.4	75.7	111.5	92.5	78.5	80.6	127.3	48.7	121.8	90.0
April	90.9	103.3	102.4	94.8	85.2	113.1	108.2	83.1	89.6	84.7	81.0	84.4	92.9
May	84.1	63.2	77.7	81.5	95.2	87.7	88.7	85.2	89.6	76.7	62.2	75.7	83.5
June	126.2	70.4	118.3	122.2	123.3	70.9	100.4	109.3	115.0	83.7	79.9	83.4	121.9
July	107.8	131.6	97.1	105.1	110.0	72.4	113.7	123.8	109.5	186.9	83.7	201.1	109.0
August	104.7	125.9	88.5	100.3	115.1	78.3	113.1	114.8	112.1	87.5	112.1	89.2	103.2
September	120.1	107.1	119.3	119.5	120.3	77.4	115.3	131.3	118.1	97.2	104.4	97.7	117.7
October	99.7	128.7	124.1	108.1	105.6	62.3	99.3	127.0	104.6	45.3	69.1	47.0	106.8
November	128.6	138.6	114.3	124.5	124.9	98.2	85.3	107.7	116.2	46.7	79.5	49.0	120.5
December	89.2	114.8	67.9	83.3	115.1	63.4	66.6	87.6	102.2	120.1	40.6	114.5	87.8
1998	108.3	107.6	91.1	103.0	123.2	83.0	66.6	87.6	112.0	51.5	70.0	52.8	103.3
January	111.4	80.7	95.1	105.5	125.5	68.2	82.6	102.9	113.5	61.9	159.7	87.4	106.3
February	92.0	86.6	85.7	89.9	112.4	71.1	64.4	104.9	103.0	60.5	79.2	61.8	92.1
March	117.3	83.6	120.2	117.2	117.0	74.9	71.9	140.0	112.0	44.9	58.4	45.8	114.1
April	105.7	52.7	106.0	104.3	129.3	68.4	88.1	160.6	124.5	44.9	67.3	46.5	107.4
May	170.4	80.2	126.2	154.1	115.8	51.5	100.7	153.0	122.9	57.0	59.2	57.2	146.0
June	112.7	76.4	86.2	103.5	115.8	49.9	108.1	133.6	112.5	60.4	72.3	72.3	105.0
July	124.7	68.2	126.2	123.6	120.4	60.3	116.0	156.5	120.4	156.7	66.9	150.3	123.0
August	121.8	55.5	114.0	117.5	121.7	37.7	101.5	136.8	115.3	94.5	74.3	116.2	115.2
September	120.9	85.7	122.9	120.5	108.0	39.9	98.6	147.9	107.4	60.1	101.1	63.0	116.5
October	147.4	81.9	107.3	133.1	101.8	57.8	88.0	117.2	99.1	42.4	72.0	44.5	123.9

Source: Central Bank of Sri Lanka

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Pasche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

EXTERNAL SECTOR

TABLE 73 (Contd.)

1997 = 100

Central Bank Trade Indices - Value (a) (b)

Period	Imports										Total				
	Consumer Goods			Intermediate Goods				Investment Goods			Total	Imports			
	Food & Drinks	Other Cons. Goods	Total	Crude Oil	Refined Petro. Products	Fertiliser	Chemicals	Wheat	Textiles	Total			Machinery & Equipment	Transport Equipment	Building Materials	Total
1994 (c)	63.1	84.7	71.9	73.2	19.9	97.5	74.5	71.7	62.7	63.0	63.0	91.0	74.2	71.9	65.0
1995 (c)	70.6	90.6	78.8	79.3	46.0	138.8	91.1	124.9	72.6	78.2	78.2	84.0	87.1	77.3	77.3
1996	87.4	92.1	89.3	107.9	59.8	107.0	92.2	138.6	79.0	86.1	86.1	80.5	90.7	85.2	87.0
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1998	101.4	132.0	113.9	89.2	51.5	101.9	115.2	100.1	110.1	105.0	105.0	139.3	122.2	121.8	109.9
1996 1st Quarter	69.3	81.3	74.2	106.8	21.8	124.8	85.3	122.1	70.9	77.2	77.2	66.0	97.8	74.2	76.4
2nd Quarter	74.1	76.5	75.1	97.1	68.0	75.2	94.6	183.0	79.5	85.5	85.5	76.3	75.3	75.3	81.5
3rd Quarter	84.2	86.9	85.3	101.4	109.9	63.4	94.4	107.0	76.1	85.6	85.6	83.8	106.2	92.7	88.1
4th Quarter	122.1	123.6	122.7	126.1	39.6	164.6	94.7	142.4	89.3	96.1	96.1	96.1	83.5	98.1	102.0
1997 1st Quarter	111.9	94.5	104.8	68.5	133.9	55.7	94.1	147.0	88.9	95.6	95.6	105.1	97.2	96.7	97.6
2nd Quarter	93.4	95.4	94.2	84.5	102.8	99.7	98.2	92.8	110.9	102.8	102.8	91.0	83.2	95.1	99.2
3rd Quarter	77.2	102.5	87.5	127.6	106.5	97.9	101.6	85.8	95.5	100.7	100.7	104.4	97.3	96.2	97.4
4th Quarter	117.5	107.5	113.4	119.4	56.7	146.7	106.0	74.4	104.7	100.9	100.9	99.5	122.3	112.1	105.8
1998 1st Quarter	112.5	117.3	114.4	98.4	39.9	99.9	104.2	163.7	110.9	104.5	104.5	118.6	120.9	128.7	111.3
2nd Quarter	100.1	128.7	111.8	68.9	46.5	88.1	115.4	75.0	118.1	103.7	103.7	145.5	117.9	112.8	106.7
3rd Quarter	86.8	136.5	107.0	109.9	72.1	73.2	119.0	54.3	103.8	104.9	104.9	135.8	127.4	119.3	108.1
4th Quarter	106.4	145.5	122.3	79.6	47.7	146.2	122.0	107.2	107.7	106.7	106.7	157.1	122.6	126.5	113.5
1997 January	156.8	96.7	132.3	0.0	22.7	59.0	94.0	155.0	95.0	86.2	86.2	90.3	105.4	93.2	96.7
February	96.0	88.6	93.0	63.1	16.3	58.9	87.0	143.3	92.5	85.0	85.0	78.1	78.1	89.0	87.8
March	83.0	98.2	89.2	142.3	362.8	49.2	101.4	142.6	107.9	115.5	115.5	147.0	107.9	107.7	108.3
April	97.3	93.5	95.7	111.8	145.3	57.0	102.2	85.7	105.6	106.0	106.0	80.6	90.2	83.0	98.7
May	100.9	101.0	100.9	42.2	36.4	78.7	104.6	104.6	123.2	97.9	97.9	96.2	77.2	88.2	96.3
June	82.0	91.9	86.0	99.5	126.8	163.6	95.7	88.1	103.9	104.6	104.6	96.1	82.2	114.1	102.8
July	76.1	106.2	88.4	135.5	106.7	219.6	94.8	85.4	108.8	112.6	112.6	97.3	102.0	95.3	104.0
August	66.4	100.5	80.3	112.9	46.3	3.2	106.5	172.1	84.9	87.3	87.3	122.4	87.6	95.4	88.5
September	88.9	100.9	93.8	134.5	166.5	70.8	103.7	0.0	92.9	102.3	102.3	93.3	102.3	97.7	99.7
October	99.3	100.0	99.5	124.1	75.2	8.9	108.4	76.1	99.2	96.1	96.1	99.3	124.4	110.3	100.1
November	97.7	103.2	99.9	101.6	51.6	168.6	97.6	78.1	99.6	95.3	95.3	103.0	109.7	99.3	97.4
December	155.6	119.4	140.8	132.5	43.4	262.6	112.1	68.9	115.2	111.2	111.2	96.3	132.8	126.6	119.8
1998 January	138.8	121.7	131.8	92.7	21.4	165.2	89.3	204.9	114.8	104.1	104.1	107.6	119.7	137.3	116.2
February	96.2	105.2	100.2	100.1	56.1	78.0	89.6	78.7	98.8	96.7	96.7	111.3	116.2	117.1	101.7
March	102.4	124.0	111.2	102.5	42.1	56.6	133.8	207.7	119.0	112.7	112.7	137.0	126.8	131.6	115.8
April	81.6	124.6	99.1	66.5	59.6	58.3	114.3	51.0	110.4	99.9	99.9	182.1	90.6	106.3	100.9
May	99.6	133.7	113.5	97.1	42.5	102.9	115.0	18.8	138.4	113.8	113.8	107.7	90.6	106.3	100.9
June	119.2	128.0	122.8	43.1	37.4	103.0	116.9	155.2	105.5	97.4	97.4	146.8	144.5	113.0	105.4
July	90.3	135.2	108.6	134.5	71.3	70.3	104.9	71.2	110.6	111.9	111.9	156.2	128.1	123.4	113.1
August	103.4	139.8	118.2	77.6	17.4	96.2	125.9	91.7	100.3	97.5	97.5	156.9	156.2	108.1	108.1
September	66.6	134.6	94.3	117.6	127.7	53.1	126.4	0.0	100.4	105.4	105.4	123.3	98.1	106.4	103.0
October	80.9	140.8	105.3	64.4	14.0	118.3	111.3	166.0	103.0	100.0	100.0	170.7	115.6	123.6	106.2
November	99.5	143.6	117.5	124.0	87.2	169.0	125.2	110.9	104.6	114.9	114.9	136.1	135.9	125.4	116.7
December	138.7	152.2	144.2	50.5	41.9	151.5	129.6	44.7	115.6	105.4	105.4	164.7	116.4	130.6	117.7

Source: Central Bank of Sri Lanka

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Passche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

EXTERNAL SECTOR

TABLE 74

Central Bank Trade Indices - Volume (a) (b)

1997 = 100

Period	Exports										Total Exports		
	Industrial					Agricultural						Mineral	
	Textile and Garments	Petroleum Products	Other	Total	Tea	Rubber	Coconut Products	Other Agri. Products	Total	Gems		Other	Total
1994 (c)	78.9	113.3	70.8	76.7	83.3	107.6	83.7	120.6	89.5	96.2	155.5	101.0	
1995	85.6	111.5	85.0	86.0	89.1	106.9	111.6	84.7	89.9	83.5	162.2	89.2	
1996	89.8	125.0	84.2	89.1	90.8	114.3	91.5	100.6	94.0	99.3	124.2	101.0	
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1998	103.0	94.9	97.1	100.9	100.9	71.1	84.6	115.8	98.9	81.3	66.4	80.2	
1996	88.4	136.9	85.3	88.8	87.2	130.8	82.0	84.5	89.5	70.6	86.5	71.8	
1st Quarter	75.8	84.1	84.1	79.8	115.7	71.9	71.9	90.5	84.9	155.3	68.6	149.2	
2nd Quarter	88.8	124.5	88.3	89.7	101.4	99.7	105.5	115.1	103.6	91.7	197.6	82.4	
3rd Quarter	106.2	111.9	111.2	107.9	92.2	111.2	99.9	112.3	97.2	87.5	70.8	86.3	
4th Quarter	99.1	61.9	85.0	93.7	89.2	142.7	89.7	88.0	93.0	99.3	49.7	95.8	
1997	89.3	89.2	96.9	91.7	90.2	102.3	97.6	83.0	90.9	63.6	69.0	64.0	
1st Quarter	98.8	113.4	99.2	99.3	115.0	73.7	114.1	114.4	111.8	116.9	202.8	123.0	
2nd Quarter	112.8	135.5	118.9	115.4	105.6	81.3	98.6	114.7	104.3	120.1	78.5	117.2	
3rd Quarter	99.4	144.0	86.6	96.7	101.6	77.5	70.1	89.6	94.7	67.5	94.5	69.4	
4th Quarter	90.8	76.5	99.7	93.2	98.3	83.6	74.5	74.5	96.5	95.7	53.6	92.8	
1998	105.1	80.7	96.8	101.8	103.7	59.7	106.9	131.6	104.9	78.7	46.0	76.4	
1st Quarter	116.7	78.3	105.5	112.1	100.0	59.7	86.8	129.7	99.6	81.7	71.3	81.0	
2nd Quarter	88.2	50.0	79.2	84.3	86.2	147.6	89.0	89.6	91.5	81.2	53.2	79.2	
3rd Quarter	100.6	68.4	94.5	103.0	81.5	147.3	94.9	89.6	90.2	71.8	37.3	69.4	
4th Quarter	108.5	67.2	81.3	93.7	99.8	133.3	90.9	75.4	98.0	144.9	58.4	138.8	
1997	97.1	99.4	103.8	99.2	81.5	110.4	93.1	80.4	84.8	41.2	34.3	40.7	
January	92.1	103.4	106.4	96.9	89.7	110.1	113.2	84.7	93.2	69.2	113.7	72.4	
February	78.8	65.0	80.4	78.9	99.4	86.3	96.7	83.9	96.0	80.5	59.0	78.9	
March	113.3	72.3	112.9	112.0	128.1	67.8	111.5	113.6	119.9	67.9	80.9	68.8	
April	92.4	133.9	98.3	95.4	107.5	73.4	127.8	127.6	110.0	236.0	409.9	248.3	
May	90.6	133.9	86.2	90.5	109.5	79.9	120.9	102.0	107.5	47.0	117.7	52.0	
June	110.4	113.1	117.9	112.8	109.5	82.4	120.9	122.2	110.5	171.9	98.8	165.8	
July	98.2	144.1	119.7	106.1	96.0	64.4	99.9	112.2	96.3	94.5	61.9	103.6	
August	129.9	149.3	119.1	127.1	111.2	97.1	85.1	109.6	107.1	93.9	74.8	92.5	
September	86.5	155.7	70.9	83.6	99.5	63.1	64.8	79.7	90.3	71.3	41.6	69.2	
October	103.4	179.4	93.1	102.4	103.5	92.6	83.1	96.8	98.1	71.9	59.0	71.0	
November	101.2	96.9	95.9	99.4	101.7	76.9	83.3	92.3	96.6	59.3	182.9	68.0	
December	82.0	93.4	85.4	83.4	93.4	79.3	67.3	94.1	89.6	38.8	59.1	40.2	
1998	101.1	88.7	111.6	104.0	95.3	87.3	75.1	110.0	94.5	36.8	51.8	40.3	
January	89.3	47.4	101.9	92.0	106.2	84.2	90.4	106.5	106.5	140.2	50.0	101.8	
February	132.3	80.4	109.1	123.7	108.8	59.0	103.6	143.4	109.2	73.3	35.7	70.7	
March	87.2	86.6	77.0	84.0	99.0	58.7	113.5	109.0	99.0	49.9	51.5	50.0	
April	95.7	75.1	104.3	97.8	103.3	73.1	119.5	142.1	108.1	113.0	50.7	108.6	
May	101.1	53.7	98.0	98.8	108.2	47.3	100.5	119.7	104.4	69.5	50.1	100.4	
June	110.3	90.0	123.1	113.7	95.7	52.3	93.8	140.8	98.4	53.8	113.7	58.0	
July	138.7	91.2	95.2	123.9	96.0	79.5	83.1	128.4	97.8	121.8	50.3	116.8	

Source: Central Bank of Sri Lanka

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Paasche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

EXTERNAL SECTOR

TABLE 74 (Contd.)

Central Bank Trade Indices - Volume (a) (b)

1997 = 100

Period	Imports											Total Imports			
	Consumer Goods				Intermediate Goods				Investment Goods				Total		
	Food & Drinks	Other Cons. Goods	Total	Crude Oil	Refined Petro. Products	Fertiliser	Chemicals	Wheat	Textiles	Total	Machinery & Equipment			Transport Equipment	Building Materials
1994 (c)	89.8	103.6	94.2	104.6	8.9	125.9	90.9	104.7	74.7	78.7	94.6	112.8	94.3	102.0	86.4
1995 (c)	68.7	104.0	83.4	101.8	675.4	136.2	96.3	134.1	81.7	88.4	72.3	103.3	98.6	85.8	88.7
1996	83.2	94.5	87.8	112.2	66.3	92.3	92.8	115.7	82.0	92.2	100.0	90.7	85.7	82.3	89.0
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1998	97.8	127.8	110.0	118.8	90.7	112.7	115.2	111.5	109.8	110.1	119.6	119.5	118.7	120.0	112.4
1996 1st Quarter	66.4	82.5	73.0	125.8	22.5	106.2	77.7	101.7	76.6	82.4	70.2	113.5	91.3	83.8	80.9
2nd Quarter	70.6	86.4	77.0	108.5	66.7	61.1	98.2	153.8	88.5	97.4	63.6	105.7	75.3	88.3	89.2
3rd Quarter	79.8	86.4	82.5	102.6	139.0	54.2	94.8	79.6	75.3	91.5	74.2	107.6	110.0	89.0	88.2
4th Quarter	116.1	122.5	118.7	112.0	36.9	147.8	100.3	127.8	87.5	97.4	92.4	100.9	70.0	91.8	100.2
1997 1st Quarter	113.8	98.9	107.7	65.8	119.3	57.2	99.4	153.2	90.5	95.9	104.6	112.5	107.9	108.4	101.1
2nd Quarter	93.0	90.9	92.1	85.8	103.4	89.5	96.4	87.0	116.4	103.8	123.6	111.2	75.5	108.9	102.8
3rd Quarter	76.7	103.2	87.5	133.7	118.5	88.5	94.9	85.4	91.7	100.4	88.2	140.9	92.2	97.1	97.8
4th Quarter	116.5	107.1	112.7	114.6	58.8	164.8	109.3	74.5	101.4	99.7	83.6	107.0	124.4	96.9	101.5
1998 1st Quarter	111.0	119.6	114.5	124.9	52.4	111.8	107.5	172.6	108.1	106.5	118.5	104.4	113.5	114.8	110.0
2nd Quarter	97.3	131.9	111.4	95.0	160.4	100.4	113.7	78.3	136.7	126.9	114.3	146.4	100.5	117.7	121.8
3rd Quarter	80.3	129.7	100.4	146.0	118.5	83.8	112.3	63.9	98.2	101.2	124.3	126.9	119.3	123.9	108.6
4th Quarter	102.7	129.8	113.7	109.4	49.0	154.9	127.4	131.0	96.2	101.7	124.3	155.9	141.6	132.4	111.2
1997 January	156.7	105.5	135.8	0.0	12.5	65.1	95.3	153.9	84.2	81.1	128.2	93.9	135.8	124.8	101.9
February	97.2	94.0	95.9	61.6	12.7	58.5	84.5	152.8	101.4	86.9	94.6	74.1	64.7	87.9	88.8
March	87.6	97.1	91.5	135.9	332.6	47.9	118.6	152.8	86.0	119.6	91.0	118.2	123.2	104.4	110.6
April	95.9	92.4	94.5	122.2	142.7	60.2	114.4	78.4	114.0	109.5	101.7	88.5	90.7	92.3	102.6
May	102.6	92.3	98.4	38.0	34.6	73.2	86.4	103.0	126.2	88.4	183.8	103.2	61.0	138.1	107.7
June	80.6	87.9	83.5	97.4	132.9	135.1	88.4	79.6	108.9	103.5	85.4	91.2	74.8	88.2	96.1
July	75.9	100.7	86.0	143.3	123.8	191.1	76.2	78.3	109.2	113.1	98.3	97.7	81.3	94.8	103.6
August	66.8	105.8	82.7	119.3	48.3	1.3	109.3	177.8	81.4	88.4	72.4	162.4	83.1	89.0	87.5
September	87.3	103.1	93.7	138.3	183.4	73.1	99.0	0.0	84.6	99.8	93.8	98.6	112.2	97.2	98.0
October	99.3	102.7	100.7	121.5	80.4	6.8	114.2	79.7	103.8	99.5	83.2	92.2	123.2	91.2	97.8
November	97.4	104.8	100.5	98.5	46.8	186.2	93.2	81.3	92.3	91.5	69.0	93.0	119.1	82.5	91.1
December	152.8	113.7	136.9	123.9	49.3	301.4	120.6	62.5	108.2	108.1	98.5	87.1	131.0	109.3	113.9
1998 January	136.4	124.5	131.5	104.7	24.2	196.3	89.8	207.2	112.5	104.4	118.2	92.9	113.9	116.0	112.4
February	95.1	101.9	97.9	124.1	77.3	77.1	89.4	79.3	93.4	97.5	106.6	77.4	105.3	100.0	98.1
March	101.4	132.5	114.0	146.0	55.7	62.0	143.3	231.2	118.3	117.5	130.8	95.3	121.3	120.9	117.6
April	80.4	118.2	95.8	98.3	79.5	66.5	120.1	57.9	127.9	125.2	85.2	174.0	61.3	98.2	113.2
May	98.0	143.7	116.6	125.2	357.0	114.9	111.0	21.4	160.3	151.4	166.9	93.2	110.0	139.2	141.8
June	113.5	133.8	121.8	61.6	44.6	119.8	110.1	155.6	121.9	104.1	90.8	105.4	130.1	105.2	107.8
July	83.1	129.6	102.0	180.7	106.4	74.0	93.2	79.8	102.6	110.0	151.2	96.4	130.1	137.6	114.9
August	95.4	137.0	112.3	109.1	19.1	101.7	110.1	112.0	94.4	96.1	109.5	114.5	144.5	112.9	103.1
September	62.5	122.5	87.0	148.3	178.0	75.6	133.7	0.0	109.0	109.0	109.5	112.0	93.5	112.0	105.5
October	79.5	128.9	99.6	83.5	7.8	130.6	119.4	208.0	97.2	94.1	133.2	150.3	119.3	127.7	103.0
November	95.5	125.2	107.6	164.2	103.8	173.0	140.5	139.5	89.1	114.8	106.4	115.6	185.3	134.2	118.0
December	133.0	137.7	134.9	80.6	35.4	161.2	122.3	45.6	102.5	96.1	133.4	130.9	120.1	124.2	110.2

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Passche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

Source: Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 75

Central Bank Trade Indices - Unit Value (a) (b)

1997 = 100

Period	Exports										Total Exports		
	Industrial					Agricultural						Mineral	
	Textile and Garments	Petroleum Products	Other	Total	Tea	Rubber	Coconut Products	Other Agri. Products	Total	Gems		Other	Total
1994 (c)	72.3	59.8	81.2	75.0	59.2	71.8	64.7	58.2	61.2	83.1	64.8	80.6	
1995 (c)	82.5	67.9	89.3	84.2	65.0	115.2	68.1	86.4	74.3	97.0	78.7	94.6	
1996	87.2	79.9	104.7	92.0	88.2	108.4	95.9	84.8	90.3	98.1	112.5	99.3	
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1998	115.0	85.6	107.1	111.9	117.2	85.1	104.1	111.3	113.3	89.8	115.7	91.4	
1996	78.1	77.3	79.6	78.5	80.5	116.0	90.4	78.6	85.1	165.4	95.9	159.5	
1st Quarter	86.9	75.9	98.3	90.1	86.8	110.2	90.5	72.1	87.4	46.0	108.1	48.0	
2nd Quarter	95.1	73.0	105.9	97.5	89.6	100.6	97.8	93.0	91.9	120.7	170.5	128.3	
3rd Quarter	88.5	95.4	97.7	91.7	95.1	98.1	108.8	91.1	96.3	114.8	91.8	113.5	
4th Quarter	83.9	120.1	101.4	89.5	91.4	100.0	105.4	90.6	93.8	122.1	117.6	122.0	
1997	98.3	102.7	96.3	97.7	94.7	101.8	98.8	99.2	96.3	151.3	92.8	146.8	
1st Quarter	114.3	96.4	102.1	110.0	100.9	102.2	95.6	101.3	100.4	102.1	108.5	101.3	
2nd Quarter	103.0	92.1	100.3	101.7	110.8	97.6	101.4	106.3	108.4	52.5	107.3	55.1	
3rd Quarter	103.6	70.2	97.8	100.6	119.4	92.3	104.2	110.2	115.3	125.2	95.4	122.3	
4th Quarter	115.6	97.1	104.3	111.4	121.7	85.5	100.4	120.2	117.3	52.3	127.3	55.4	
1998	129.4	92.9	116.6	124.8	117.1	84.8	101.3	117.3	113.1	116.0	143.8	117.2	
1st Quarter	111.4	95.0	108.8	110.3	110.5	75.6	110.6	103.3	107.7	81.0	115.6	83.1	
2nd Quarter	84.6	125.6	104.0	90.9	91.4	99.3	106.3	91.5	94.0	185.6	121.8	182.6	
3rd Quarter	85.9	123.8	100.3	90.7	91.5	100.2	102.8	99.5	92.6	99.6	116.6	90.6	
4th Quarter	81.3	112.2	100.2	87.0	91.3	100.6	100.6	99.5	94.0	97.7	114.5	98.2	
1997	90.9	109.2	96.2	93.1	92.8	101.0	99.4	97.7	95.0	309.3	142.1	299.3	
January	106.8	99.9	96.2	97.9	95.1	102.8	95.5	98.2	96.2	122.4	71.3	116.7	
February	111.4	97.2	96.7	103.4	95.9	101.6	91.7	101.7	96.5	95.4	105.5	95.9	
March	116.7	97.4	104.8	109.1	96.2	104.5	90.0	96.2	95.9	123.3	98.8	107.9	
April	115.5	88.3	98.7	110.2	102.3	98.6	89.0	97.0	99.6	79.2	94.6	81.0	
May	108.8	94.0	102.6	110.8	105.1	97.9	94.2	112.6	104.3	186.2	95.3	171.6	
June	101.6	89.3	101.2	105.9	109.8	94.0	95.4	107.4	106.9	56.5	105.6	58.6	
July	99.0	92.8	95.9	101.8	110.0	96.7	100.2	113.2	108.7	48.0	111.5	51.0	
August	103.1	73.7	95.8	97.9	115.7	101.1	100.2	98.2	108.5	49.7	106.2	53.0	
September	104.7	60.0	97.9	99.6	112.3	100.5	102.8	109.9	113.2	168.5	97.7	165.5	
October	110.2	83.3	99.2	106.6	119.0	89.6	100.4	109.4	114.2	71.6	116.7	74.4	
November	112.2	92.7	100.3	107.8	123.4	88.7	99.1	111.5	117.5	138.1	87.3	128.5	
December	115.9	94.3	107.6	112.7	120.4	85.8	95.7	111.4	115.0	155.9	133.9	153.6	
1998	118.4	111.2	104.0	113.4	122.8	81.3	97.5	120.7	118.6	41.4	112.8	43.9	
January	128.8	99.8	115.7	124.6	117.9	81.3	97.5	120.7	117.0	32.0	134.6	30.7	
February	129.3	88.2	112.0	123.2	116.9	87.4	97.3	106.7	112.5	77.7	165.6	80.9	
March	130.3	90.9	121.0	126.4	116.6	85.0	95.3	122.6	113.6	121.0	140.5	122.4	
April	103.4	103.4	116.3	119.0	116.9	79.6	101.0	110.1	111.3	138.7	131.9	136.4	
May	109.6	95.2	99.9	106.0	112.5	76.3	105.1	105.1	104.4	111.7	148.4	138.7	
June	106.2	89.8	112.6	107.4	105.0	72.7	106.0	91.2	109.1	34.8	88.9	105.9	
July													
August													
September													
October													
November													
December													

Source: Central Bank of Sri Lanka

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Passche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

EXTERNAL SECTOR

TABLE 75 (Contd.)

1997 = 100

Period	Imports														Total Imports	Terms of Trade
	Consumer Goods				Intermediate Goods				Investment Goods							
	Food & Drinks	Other Cons. Goods	Total	Crude Oil	Refined Petro. Products	Fertiliser	Chemicals	Wheat	Textiles	Total	Machinery & Equipment	Transport Equipment	Building Materials	Total		
1994 (c)	70.3	81.8	76.3	69.9	224.9	77.5	82.0	66.4	83.9	78.4	66.6	80.6	78.7	70.5	75.4	95.0
1995 (c)	102.8	87.0	94.5	77.9	68.3	102.0	94.6	93.2	88.8	86.7	81.3	81.4	88.3	83.0	87.2	94.1
1996	105.0	97.5	101.7	96.1	90.3	115.9	99.5	119.8	96.3	93.4	109.3	88.8	105.8	103.6	97.7	93.6
1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1998	103.7	103.3	103.5	75.1	56.8	90.4	99.9	89.8	100.3	95.4	96.5	116.6	103.0	101.5	97.8	114.2
1996 1st Qtr	104.3	88.4	101.6	84.9	96.7	123.0	109.8	120.1	92.6	93.7	92.9	58.1	107.1	88.5	94.4	85.7
2nd Qtr	105.1	88.5	101.7	89.5	101.8	117.0	96.3	119.0	89.8	87.9	115.2	72.2	99.9	104.5	92.3	95.4
3rd Qtr	105.4	100.6	103.4	98.8	79.1	116.9	99.6	134.5	101.1	93.6	119.5	77.8	96.5	105.2	98.8	97.6
4th Qtr	105.2	100.9	103.4	112.6	107.4	111.4	94.4	111.4	102.0	98.7	109.5	95.2	119.3	106.8	101.8	90.8
1997 1st Qtr	98.3	95.6	97.3	104.0	112.3	97.4	94.7	95.9	98.2	99.7	87.3	93.5	90.0	89.2	96.6	93.8
2nd Qtr	100.4	105.0	102.3	98.4	99.4	111.4	101.9	106.7	95.3	99.0	81.4	81.8	110.3	87.4	96.6	101.1
3rd Qtr	100.6	99.4	100.0	95.5	89.9	110.6	107.2	100.5	104.2	100.3	106.9	74.0	105.5	99.1	100.2	108.3
4th Qtr	100.9	100.4	100.7	104.1	96.4	89.0	97.0	99.9	103.2	101.2	136.2	93.0	98.3	115.6	104.2	97.8
1998 1st Qtr	101.4	98.1	100.0	78.8	76.0	89.4	97.0	94.9	82.6	81.2	115.1	113.6	106.5	112.1	101.2	102.4
2nd Qtr	102.9	97.6	100.3	72.5	29.0	87.7	101.5	95.7	85.4	98.7	88.5	99.4	117.3	95.9	87.2	127.0
3rd Qtr	108.0	105.3	106.6	75.3	71.3	87.4	106.0	84.9	105.7	99.9	88.1	107.0	106.9	96.4	99.5	122.7
4th Qtr	103.6	112.1	107.6	72.8	97.3	94.4	95.8	81.8	111.9	105.0	94.1	100.8	86.6	95.5	102.1	106.9
1997 January	100.1	91.7	97.4	0.0	181.3	90.7	98.7	100.7	112.8	106.3	65.3	96.2	77.6	74.7	94.9	97.8
February	98.8	94.3	97.0	102.5	128.5	100.6	100.6	93.8	91.2	97.8	99.4	105.4	120.8	101.3	98.9	91.6
March	94.7	101.1	97.5	104.7	109.1	102.6	85.5	93.3	92.0	96.6	105.6	124.4	87.6	103.2	97.8	90.4
April	101.4	101.2	101.3	91.5	101.8	94.7	89.4	109.3	92.7	96.8	82.7	91.0	99.5	89.9	96.2	98.7
May	98.4	109.3	102.6	111.1	105.2	107.4	111.8	101.6	97.7	99.5	82.7	93.2	126.6	63.8	89.3	108.9
June	101.8	104.5	103.0	102.2	95.4	121.1	108.3	110.7	95.4	101.0	152.6	105.4	110.0	129.4	106.9	94.3
July	100.3	105.5	102.8	104.5	86.2	114.9	124.4	109.1	99.7	99.5	93.0	99.6	125.4	100.5	100.4	107.5
August	99.4	95.0	97.1	94.6	90.8	242.8	97.4	96.8	104.3	98.7	129.4	75.4	105.5	107.2	101.1	106.5
September	101.9	97.9	100.1	97.2	90.8	96.8	104.7	0.0	109.8	102.5	104.0	94.7	91.1	101.7	101.7	108.4
October	100.0	97.4	98.9	102.1	93.5	129.7	95.0	95.5	95.6	96.6	136.0	107.7	101.0	100.5	102.4	101.5
November	100.3	98.4	99.5	103.1	110.2	90.6	104.7	96.1	108.0	104.2	138.2	110.8	92.2	120.9	106.9	96.4
December	101.8	105.0	102.9	106.9	87.9	87.1	93.0	110.3	106.4	102.9	135.0	110.6	101.4	115.8	105.2	94.1
1998 January	101.8	97.7	100.2	88.5	88.5	84.2	99.4	98.9	102.0	99.7	129.4	115.7	105.1	118.3	103.4	100.0
February	101.1	104.2	102.4	80.7	72.5	101.1	100.2	99.2	105.9	99.2	116.2	143.8	110.3	117.1	103.6	99.0
March	101.0	93.6	97.5	70.2	75.0	91.3	93.4	89.8	100.6	95.9	101.4	143.6	104.6	108.9	98.5	107.5
April	101.5	105.4	103.5	67.7	75.0	87.7	95.1	88.0	86.3	79.8	106.7	104.7	147.9	108.2	89.1	123.1
May	101.6	93.0	97.3	77.6	11.9	89.6	103.6	88.0	86.3	75.2	72.9	115.6	107.7	85.6	80.4	139.4
June	105.0	100.8	100.8	70.0	84.0	86.0	106.2	99.7	86.5	93.5	100.2	139.3	111.0	107.5	97.8	114.2
July	108.7	104.3	106.5	74.4	67.0	94.9	112.6	89.2	107.9	101.7	76.8	132.0	106.9	89.7	98.4	124.3
August	108.4	102.1	105.2	71.1	90.7	94.6	114.3	81.9	102.7	101.5	104.4	136.9	108.1	113.6	104.8	115.4
September	106.4	109.9	108.4	79.3	71.8	70.2	94.5	0.0	106.3	96.8	88.4	105.0	105.0	95.0	97.7	125.5
October	101.8	109.2	105.7	77.1	178.1	90.6	93.2	79.8	106.0	106.3	85.2	113.6	96.9	103.1	103.1	113.4
November	104.2	114.7	109.2	75.6	84.0	97.7	89.1	79.5	117.5	100.0	101.9	117.7	73.3	96.8	98.9	107.1
December	104.3	110.5	106.9	62.6	118.5	93.9	106.0	97.9	112.8	109.7	96.7	125.8	97.0	105.2	106.8	98.6

(a) A new series with wider coverage and with the base year as 1997. In the former annual trade indices series, the price index was first computed as a Laspeyres index and the volume index was derived as the ratio between the value index and the price index (effectively as a Paasche index). In order to accommodate the variability of items arising from the greater frequency of a monthly index, the new monthly trade indices series first computes the volume index as a Laspeyres index and then derives a unit value index as the ratio between the value and volume index. This methodology avoids the subjective imputation of prices that would be required in deriving a price index first when certain items are not exported or imported in a particular month.

(b) Provisional.

(c) Data for 1994 and 1995 have been obtained by splicing the previous annual trade indices series.

Source: Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 76

Foreign Trade

Rupees Million

Period	Imports		Exports				Balance of Trade	
	Customs	Adjusted (a)	Domestic	Re-exports	Total Customs	Total Adjusted (a)	Customs	Adjusted (a)
1989	75,353	80,225	54,686	826	55,511	56,175	-19,842	-24,050
1990	105,559	107,729	75,866	758	76,624	76,624	-28,936	-31,105
1991	127,831	126,643	81,376	849	82,225	82,225	-45,606	-44,418
1992	149,780	153,555	107,374	135	107,509	107,855	-42,272	-45,700
1993	181,381	193,550	137,286	708	137,994	138,175	-43,388	-55,375
1994	221,527	235,576	157,790	870	158,660	158,554	-62,867	-77,022
1995	244,324	272,201	194,280	979	195,258	195,092	-49,066	-77,109
1996	277,897	301,076	225,131	1,294	226,424	226,801	-51,473	-74,275
1997 (b) (c)	332,730	346,026	271,156	3,022	274,178	274,193	-58,552	-71,833
1st Quarter	75,659	84,442	57,846	300	58,146	58,119	-17,514	-26,323
2nd Quarter	83,722	85,841	60,415	380	60,795	60,872	-22,926	-24,968
3rd Quarter	80,218	84,244	74,767	1,670	76,438	76,363	-3,780	-7,882
4th Quarter	93,131	91,499	78,127	673	78,800	78,839	-14,332	-12,660
1998 (c) (d)	369,013	380,274	303,166	2,684	305,850	306,329	-63,163	-73,945
1st Quarter	88,704	96,242	67,349	320	67,669	67,950	-21,036	-28,292
2nd Quarter	88,958	92,339	71,005	500	71,506	71,656	-17,452	-20,683
3rd Quarter	89,397	93,482	84,264	1,121	85,385	85,445	-4,011	-8,037
4th Quarter	101,954	98,211	80,548	743	81,291	81,278	-20,664	-16,933
1997(b) January	25,800	27,893	17,956	109	18,065	18,223	-7,735	-9,671
February	22,498	25,331	20,530	83	20,613	20,578	-1,885	-4,753
March	27,362	31,218	19,361	107	19,468	19,318	-7,894	-11,900
April	25,384	28,457	20,284	159	20,443	20,561	-4,940	-7,896
May	25,455	27,754	21,125	126	21,251	21,231	-4,203	-6,523
June	32,883	29,629	19,006	95	19,101	19,080	-13,782	-10,549
July	26,571	29,980	27,281	796	28,077	27,860	1,506	-2,120
August	24,966	25,510	24,251	509	24,759	24,912	-207	-598
September	28,681	28,754	23,236	366	23,602	23,591	-5,079	-5,163
October	25,671	28,869	26,889	72	26,961	26,904	1,290	-1,965
November	26,829	28,082	23,797	427	24,224	24,401	-2,605	-3,681
December	40,632	34,548	27,441	174	27,615	27,534	-13,017	-7,014
1998(d) January	29,971	33,506	19,881	114	19,995	20,061	-9,976	-13,445
February	28,168	29,332	23,332	94	23,426	23,610	-4,742	-5,722
March	30,566	33,404	24,135	112	24,248	24,279	-6,318	-9,125
April	27,397	29,087	20,756	167	20,923	21,046	-6,474	-8,041
May	31,880	32,870	25,767	160	25,928	26,064	-5,952	-6,806
June	29,681	30,381	24,482	173	24,654	24,546	-5,027	-5,835
July	29,857	32,626	32,712	573	33,285	33,351	3,429	725
August	28,586	31,159	23,677	318	23,994	23,988	-4,592	-7,171
September	30,954	29,698	27,875	230	28,105	28,106	-2,849	-1,592
October	30,092	30,619	26,472	224	26,696	26,562	-3,397	-4,057
November	30,387	33,664	26,162	109	26,271	26,399	-4,116	-7,265
December	41,475	33,929	27,914	410	28,324	28,317	-13,151	-5,612

(a) Adjusted for lags and other factors in recording.

(b) Revised.

(c) Monthly and quarterly data may not add up to the annual total due to subsequent adjustments made by Customs.

(d) Provisional.

Sources : Sri Lanka Customs
Central Bank of Sri Lanka

Exports

Rupees Million

Period	Industrial Exports						Agricultural Exports				Gems	Other	Total Exports
	Total	of which					Tea	Rubber	Coconut Products	Other Agricultural Products			
		Garments	Yarn and Other Textile Items	Petroleum Products	Diamonds								
1989	28,470	16,916	715	2,242	3,258	13,664	3,112	2,865	2,408	2,204	3,452	56,175	
1990	41,510	24,287	876	3,974	3,684	19,823	3,090	2,783	3,199	2,933	3,294	76,624	
1991	51,188	31,652	1,609	3,289	2,807	17,867	2,641	2,619	3,409	2,358	2,143	82,225	
1992	77,281	49,176	4,033	2,771	4,696	14,893	2,960	3,691	4,959	2,452	1,589	107,855	
1993	101,437	62,349	5,801	3,801	6,867	19,911	3,086	2,796	5,825	3,402	1,178	138,175	
1994	118,544	68,945	7,740	3,959	7,222	20,964	3,582	3,761	6,385	3,917	1,401	158,554	
1995	147,094	84,806	10,140	4,374	8,373	24,638	5,713	5,271	6,857	3,972	1,573	195,092	
1996	166,543	93,814	11,527	5,740	8,673	34,068	5,753	6,091	7,295	4,771	2,280	226,801	
1997 (a)	203,114	121,083	13,372	5,743	7,372	42,533	4,640	6,940	8,555	4,899	3,512	274,193	
1st Quarter	42,581	25,208	2,746	1,067	1,514	8,666	1,655	1,640	1,706	1,485	386	58,119	
2nd Quarter	45,494	26,468	3,034	1,315	2,282	9,083	1,208	1,674	1,760	1,179	474	60,872	
3rd Quarter	55,446	34,748	3,200	1,569	1,587	12,349	857	1,892	2,480	1,462	1,877	76,363	
4th Quarter	59,593	34,659	4,392	1,792	1,989	12,435	920	1,734	2,609	773	775	78,839	
1998 (a) (b)	229,437	142,333	16,969	4,662	3,768	50,280	2,808	6,110	11,027	3,577	2,803	306,329	
1st Quarter	49,383	30,029	4,578	1,451	557	12,898	830	1,268	2,113	1,034	340	67,950	
2nd Quarter	52,715	31,000	4,289	1,066	881	12,716	829	1,297	2,891	1,613	530	71,656	
3rd Quarter	64,519	41,697	3,993	1,077	921	12,916	625	1,879	3,158	1,120	1,167	85,445	
4th Quarter	62,820	39,607	4,099	1,068	1,409	11,750	523	1,666	2,865	810	766	81,278	
1997	12,975	7,561	791	301	561	2,793	567	547	585	615	141	18,223	
January	15,814	9,462	978	405	555	2,644	570	564	586	292	108	20,578	
February	13,792	8,185	978	361	398	3,229	518	529	535	578	137	19,318	
March	15,645	8,801	1,089	519	1,144	2,682	431	535	580	520	188	20,561	
April	16,047	9,094	1,091	494	790	3,025	438	626	593	346	157	21,231	
May	13,802	8,573	854	302	347	3,376	339	513	608	313	129	19,080	
June	20,680	13,009	1,131	337	847	4,371	274	580	779	834	834	27,860	
July	17,796	11,040	1,037	630	339	3,897	280	658	882	763	636	24,912	
August	16,971	10,699	1,031	602	401	3,897	303	654	819	357	406	23,591	
September	20,230	11,869	1,593	512	900	4,263	299	667	936	397	112	26,904	
October	18,296	10,071	1,103	616	572	3,744	241	574	905	185	456	24,401	
November	21,068	12,719	1,695	664	517	4,427	380	493	768	191	207	27,534	
December	14,101	8,819	1,170	550	103	4,081	245	385	624	490	122	20,061	
1998(b)	17,426	10,388	1,745	515	121	4,367	321	405	755	210	104	23,610	
January	17,856	10,822	1,663	386	333	4,450	264	478	734	334	114	24,279	
February	15,217	8,970	1,341	414	195	3,985	275	372	748	247	177	21,046	
March	19,841	11,384	1,747	400	388	4,146	290	416	998	183	172	26,064	
April	17,657	10,636	1,211	252	298	4,585	265	509	1,145	183	181	24,546	
May	26,090	17,434	1,656	384	411	4,544	199	583	1,090	233	594	33,351	
June	17,511	11,657	970	366	272	4,104	193	625	953	247	333	23,988	
July	20,918	12,606	1,367	327	238	4,268	233	671	1,115	640	240	28,106	
August	19,896	12,458	1,193	266	549	4,314	146	587	975	392	228	26,562	
September	20,397	12,092	1,452	410	607	3,828	154	570	1,054	245	118	26,399	
October	22,527	15,057	1,454	392	253	3,608	223	509	835	173	419	28,317	
November													
December													

(a) Monthly and quarterly data may not add up to the annual total due to subsequent adjustments made by Customs

(b) Provisional

Sources: Sri Lanka Customs
Ceylon Petroleum Corporation

EXTERNAL SECTOR

Tea Exports, Sales and Prices

TABLE 78

Period	Exports				Colombo Auctions										London Auctions									
	Volume ('000 kg.)		Value	Price	Quantity Sold ('000 kg.)				Gross Price (Rs./kg.)			Quantity Sold ('000 kg.)			Prices (New Pence/kg.)			Quantity Sold ('000 kg.)			Prices (New Pence/kg.)			
	Rest	Total	Rs. Mn.	F.O.B. Rs./kg.	High	Medium	Low	Total	High	Medium	Low	All Teas	Sri Lanka	India	Kenya	Malawi	All Countries	Sri Lanka	India	Kenya	Malawi	All Countries		
1989	3,823	200,377	13,664	66.91	66,374	49,016	78,293	193,683	55.85	49.33	56.97	54.61	3,369	7,526	14,202	3,081	32,962	127.44	138.95	123.70	104.63	123.11		
1990	4,301	211,689	19,823	91.78	70,370	49,142	97,373	216,885	68.12	62.61	77.33	70.97	3,967	9,155	18,330	4,465	43,642	114.10	109.47	112.66	85.89	114.35		
1991	2,172	210,223	17,867	84.34	86,025	46,574	111,551	226,150	57.41	51.53	61.75	58.27	2,498	6,032	18,613	2,438	36,392	100.28	132.00	101.10	76.34	104.67		
1992	720	180,956	18,167	81.98	51,886	34,606	86,381	172,873	66.45	54.84	61.90	61.75	748	6,884	15,472	882	30,679	107.35	116.62	115.56	84.60	113.32		
1993	3,248	215,159	21,847	91.16	67,102	41,986	104,128	213,216	68.34	63.57	71.49	69.27	1,444	5,145	16,325	364	29,992	104.03	130.96	123.85	94.18	123.84		
1994	5,354	224,207	22,951	20.964	68,108	44,610	111,010	223,728	66.30	57.93	67.38	65.12	2,591	4,966	14,893	718	28,431	93.72	115.21	125.62	101.81	119.18		
1995	1,209	239,592	24,801	24.638	66,102	45,160	113,933	225,195	70.04	62.89	77.27	72.21	759	3,075	14,201	628	24,273	94.99	126.86	103.29	71.73	103.46		
1996	357	243,752	24,109	34.068	63,506	43,123	123,353	229,982	93.38	89.70	114.35	103.88	178	2,489	11,500	173	17,199	130.29	126.65	111.28	88.52	113.47		
1997 (a)	281	268,258	26,537	158.39	75,163	48,582	131,032	254,777	109.43	107.94	129.47	119.40	276	1,657	5,047	303	11,208	137.23	148.31	133.04	94.94	135.06		
1st Qtr	74	59,170	5,244	8.666	18,768	11,698	32,705	63,172	98.18	91.08	110.02	102.99	58	231	2,527	25	3,297	138.12	117.80	120.94	84.73	122.80		
2nd Qtr	86	59,776	5,862	9.063	18,062	11,638	28,381	58,081	103.89	104.45	128.72	116.11	69	—	1,346	200	2,770	137.81	—	148.43	92.81	136.38		
3rd Qtr	67	78,007	7,073	12.349	21,893	13,704	34,255	69,851	108.81	105.42	136.06	122.34	79	337	623	77	2,582	132.15	165.22	140.88	103.51	138.04		
4th Qtr	54	71,305	12,435	174.226	16,440	11,541	35,691	63,673	128.05	126.93	141.70	135.34	70	1,089	551	1	2,557	141.84	149.55	142.06	110.00	146.40		
1998 (a) (b)	72	271,796	27,188	184.94	69,734	45,268	141,166	256,688	127.60	121.45	141.88	134.35	87	471	766	124	3,066	176.36	205.38	134.59	82.45	145.83		
1st Qtr	31	68,301	12,898	188.75	17,547	10,914	35,572	64,034	155.64	140.52	145.56	147.45	32	471	351	40	1,604	177.01	205.38	160.53	103.44	175.43		
2nd Qtr	41	64,951	65,002	12,716	17,871	11,143	32,751	61,765	131.38	124.59	145.52	137.55	55	—	415	84	1,462	175.96	—	109.30	72.21	112.95		
3rd Qtr	—	69,876	12,916	184.83	20,091	13,021	39,988	73,100	109.42	114.65	145.28	130.14	—	—	—	—	—	—	—	—	—	—		
4th Qtr	—	68,658	68,658	11,750	14,225	10,190	32,855	57,269	114.52	106.09	130.40	122.09	—	—	—	—	—	—	—	—	—	—		
1997	20	19,252	2,793	145.07	7,605	4,414	10,740	22,759	99.26	92.47	108.95	101.18	16	231	941	—	1,278	128.06	117.80	112.84	—	114.55		
Jan	20	17,689	17,710	2,644	5,500	3,604	11,150	20,254	96.78	90.27	110.83	104.52	29	—	609	—	793	143.06	—	113.99	—	119.78		
Feb	33	22,249	2,282	3,229	5,663	3,680	10,816	20,159	99.22	90.63	110.26	103.53	13	—	977	25	1,225	139.64	—	133.06	84.73	133.36		
Mar	22	18,031	18,053	2,882	4,301	2,917	9,054	16,272	103.53	97.76	120.31	111.77	33	—	716	25	953	134.48	—	145.17	98.89	141.42		
Apr	22	19,850	19,872	3,025	6,031	4,136	9,555	19,722	104.04	105.00	129.36	116.56	13	—	352	93	691	143.96	—	159.31	92.40	141.64		
May	42	21,895	21,937	3,376	7,730	4,585	9,772	22,087	103.97	108.26	135.69	118.86	23	—	278	82	1,126	139.30	—	143.02	91.45	128.89		
Jun	11	28,997	28,908	4,371	9,701	5,738	12,930	26,369	102.00	103.00	131.57	115.67	10	—	202	52	922	119.90	—	134.73	103.02	123.09		
Jul	22	24,134	24,156	3,897	7,194	4,502	10,787	22,482	111.41	111.57	138.92	124.74	48	82	193	3	663	131.12	178.66	153.05	112.54	152.83		
Aug	33	24,976	25,009	4,081	4,998	3,464	10,538	19,000	118.34	117.22	138.62	129.44	21	255	228	22	997	140.34	160.93	136.09	103.29	142.11		
Sep	22	24,636	24,658	4,263	3,354	3,957	13,251	22,562	122.32	123.45	142.06	133.91	27	407	233	1	1,033	134.82	150.19	139.18	110.00	144.51		
Oct	11	21,619	21,630	3,745	4,535	3,348	10,436	18,319	127.77	127.08	139.15	133.89	10	275	214	—	803	134.64	143.14	143.14	145.79	145.79		
Nov	21	25,950	25,071	4,427	6,551	4,236	12,004	22,792	133.12	130.08	143.56	137.98	33	407	104	—	721	149.69	148.84	146.30	—	149.80		
Dec	10	22,536	22,546	4,081	6,176	4,026	12,379	22,581	149.60	138.18	147.10	146.18	23	465	192	10	882	175.43	205.52	170.00	122.00	190.53		
1998(b)	10	23,112	23,122	4,367	5,750	3,478	11,455	20,684	159.26	142.20	145.60	148.79	9	6	62	—	465	181.20	195.00	171.45	—	175.81		
Jan	11	22,653	22,664	4,450	5,621	3,410	11,738	20,769	158.57	141.50	143.89	147.46	—	—	97	30	257	—	—	135.02	96.85	138.04		
Feb	22	20,465	20,487	3,985	5,009	3,810	11,229	21,048	141.60	129.29	140.11	138.53	19	—	137	20	354	168.78	—	120.32	82.72	123.32		
Mar	19	20,780	20,799	4,146	4,998	3,631	10,398	19,520	138.96	128.47	147.45	141.41	11	—	141	—	471	—	—	98.82	67.43	103.52		
Apr	—	23,716	23,716	6,371	3,702	1,124	21,197	115.44	116.18	149.02	133.09	—	25	—	137	27	644	175.95	—	109.08	70.96	113.58		
May	—	24,259	24,259	4,544	3,935	1,650	14,650	29,173	104.91	114.47	148.40	128.67	—	—	—	—	—	—	—	—	—	—		
Jun	—	22,176	22,176	4,104	5,310	3,515	11,625	20,450	114.07	120.29	151.29	136.52	—	—	—	—	—	—	—	—	—	—		
Jul	—	23,441	23,441	4,268	182.09	5,443	13,713	23,477	112.80	110.83	136.71	126.43	—	—	—	—	—	—	—	—	—	—		
Aug	—	24,902	24,902	4,314	173.25	5,427	3,736	11,101	20,263	110.52	104.46	134.23	122.47	—	—	—	—	—	—	—	—	—		
Sep	—	21,936	21,936	3,828	174.50	4,219	3,155	10,784	18,158	117.71	110.75	134.62	126.42	—	—	—	—	—	—	—	—	—		
Oct	—	21,820	21,820	3,608	165.37	4,579	3,299	10,970	18,848	116.21	103.43	122.28	117.47	—	—	—	—	—	—	—	—	—		
Nov	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Dec	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		

(a) The monthly and quarterly data may not add up to the annual figure due to subsequent changes made by Customs.

(b) Provisional.

(c) The London Auctions were discontinued on 29 June 1998.

Sources : The Colombo Tea Brokers' Association
Sri Lanka Customs
The Tea Brokers' Association of London
Sri Lanka Tea Board

EXTERNAL SECTOR

TABLE 79

Volume and Value of Tea Exports

Item	1997		1998 (a)	
	Volume ('000 kg.)	Value (Rs. Mn.)	Volume ('000 kg.)	Value (Rs. Mn.)
Black Tea in Bulk	148,275	20,902	160,116	26,016
Black Tea in Packets	97,545	15,408	92,240	17,136
Black Tea in Bags	10,781	3,662	11,946	4,577
Instant Tea	832	382	860	414
Green Tea	244	75	155	63
Other	10,860	2,104	6,551	2,074
Total	268,537	42,533	271,868	50,280

(a) Provisional

Source : Sri Lanka Customs

EXTERNAL SECTOR

TABLE 80

Country Classification of Tea Exports

Country	Volume ('000 kg.)		Percentage of Total Volume		Value (Rs. Mn.)		Percentage of Total Value	
	1997	1998 (a)	1997	1998 (a)	1997	1998 (a)	1997	1998 (a)
1. Middle East Countries	99,898	121,459	37.2	44.7	14,277	20,565	33.6	40.9
1.1 Egypt	14,325	10,890	5.3	4.0	1,623	1,578	3.8	3.1
1.2 Iraq	3,341	7,139	1.2	2.6	369	1,047	0.9	2.1
1.3 Iran	6,224	5,520	2.3	2.0	1,042	964	2.4	1.9
1.4 Jordan	12,731	7,819	4.7	2.9	1,735	1,305	4.1	2.6
1.5 Kuwait	2,248	2,694	0.8	1.0	381	504	0.9	1.0
1.6 Libya	9,806	13,551	3.7	5.0	1,514	2,494	3.6	5.0
1.7 Syria	15,338	19,587	5.7	7.2	2,273	3,174	5.3	6.3
1.8 Saudi Arabia	8,693	11,174	3.2	4.1	1,364	2,147	3.2	4.3
1.9 U.A.E.	20,601	35,130	7.7	12.9	2,950	5,977	6.9	11.9
1.10 Yemen	2,021	2,320	0.8	0.9	265	360	0.6	0.7
1.11 Other	4,570	5,635	1.7	2.1	761	1,015	1.8	2.0
2. European Union	30,465	30,673	11.3	11.3	4,857	6,068	11.4	12.1
2.1 France	2,198	1,736	0.8	0.6	373	359	0.9	0.7
2.2 Germany	6,506	5,900	2.4	2.2	1,098	1,098	2.6	2.2
2.3 Italy	1,824	1,860	0.7	0.7	273	315	0.6	0.6
2.4 Netherlands	2,252	2,061	0.8	0.8	322	352	0.8	0.7
2.5 United Kingdom	9,249	9,814	3.4	3.6	1,292	1,639	3.0	3.3
2.6 Other	8,436	9,302	3.1	3.4	1,499	2,305	3.5	4.6
3. Other Industrial Countries	16,638	19,263	6.2	7.1	3,130	4,311	7.4	8.6
3.1 Australia	2,571	3,300	1.0	1.2	706	1,053	1.7	2.1
3.2 Canada	1,221	1,569	0.5	0.6	212	306	0.5	0.6
3.3 Japan	8,274	8,031	3.1	3.0	1,410	1,607	3.3	3.2
3.4 New Zealand	1,093	971	0.4	0.4	194	231	0.5	0.5
3.5 U.S.A.	3,131	5,165	1.2	1.9	552	1,068	1.3	2.1
3.6 Other	348	227	0.1	0.1	56	46	0.1	0.1
4. Other Countries	121,536	100,473	45.3	37.0	20,269	19,336	47.7	38.5
4.1 Afghanistan	1,008	151	0.4	0.1	93	17	0.2	0.0
4.2 C.I.S. Countries	54,823	43,981	20.4	16.2	9,803	9,233	23.0	18.4
4.3 Chile	5,415	5,532	2.0	2.0	663	785	1.6	1.6
4.4 Hong Kong	3,178	3,310	1.2	1.2	534	650	1.3	1.3
4.5 Pakistan	5,190	3,196	1.9	1.2	666	457	1.6	0.9
4.6 Singapore	778	758	0.3	0.3	140	155	0.3	0.3
4.7 Turkey	34,168	29,161	12.7	10.7	5,397	5,341	12.7	10.6
4.8 South Africa	2,242	1,838	0.8	0.7	308	306	0.7	0.6
4.9 Other	14,734	12,546	5.5	4.6	2,665	2,392	6.3	4.8
Total	268,537	271,868	100.0	100.0	42,533	50,280	100.0	100.0

(a) Provisional

Source : Sri Lanka Customs

TABLE 81

EXTERNAL SECTOR Rubber Exports and Prices

Period	Exports						Prices													
	Volume (Mn. kg.)			Value (Rs. Mn.)			Price F.O.B. Rs./kg.		Colombo Market Prices (Rs./kg.)						Singapore (a) (F.O.B. Buyers' Closing Spot) (Sing. \$ Cents/kg.)		London (a) (Buyers' Closing Spot) (New Pence/kg.)		New York (Dealers' Spot) (US \$ Cents/kg.)	
	Sheet	Crepe	Other	Total	Sheet	Crepe	Other	Total	All Rubber	R.S.S.		Latex Crepe		Scrap Crepe	R.S.S. No. 1	R.S.S. No. 1	R.S.S. No. 1	R.S.S. No. 1	R.S.S. No. 1	
										No. 1	No. 2	No. 1	No. 2							
1989	42.7	29.3	14.0	86.0	1,441	1,186	483	3,112	36.17	22.63	23.84	32.80	27.70	20.54	185.05	59.01	112.18			
1990	48.4	36.5	1.9	86.8	1,577	1,436	67	3,080	36.50	22.93	21.36	28.88	27.47	19.68	156.31	53.55	101.75			
1991	38.7	36.7	1.0	76.4	1,288	1,320	33	2,641	34.55	23.73	22.80	25.68	24.62	20.73	142.33	51.85	99.09			
1992	38.3	35.0	5.3	78.6	1,354	1,450	156	2,960	38.63	29.23	28.87	35.60	38.27	27.51	140.31	54.13	101.64			
1993	36.1	31.4	2.0	69.6	1,491	1,517	78	3,086	44.34	36.47	34.41	41.65	40.72	30.27	134.16	60.73	98.40			
1994	33.7	26.1	9.4	69.1	1,697	1,429	456	3,582	51.81	50.35	49.56	53.01	52.31	44.87	175.88	80.04	133.30			
1995	31.6	23.6	13.0	88.3	2,536	2,132	1,046	5,713	83.59	72.03	69.95	87.29	86.30	68.66	226.31	106.14	181.70			
1996	38.7	24.9	8.6	72.2	2,940	2,148	668	5,753	79.76	67.65	66.22	75.03	73.49	56.12	199.40	94.31	160.64			
1997	30.4	26.6	4.5	61.5	2,006	2,317	319	4,640	75.36	56.62	54.54	81.35	80.20	45.78	174.50	65.69	122.03			
1st Quarter	11.7	8.2	2.6	22.4	807	665	184	1,655	73.30	62.74	60.64	73.96	73.03	50.86	174.50	78.60	142.04			
2nd Quarter	9.8	5.7	0.7	16.2	664	491	53	1,208	61.98	61.98	60.07	84.26	83.02	50.80	n.a.	71.79	129.39			
3rd Quarter	4.7	6.1	0.1	11.0	291	559	9	857	78.44	53.68	51.45	85.03	84.08	45.09	n.a.	52.30	114.50			
4th Quarter	4.2	6.6	1.1	12.1	246	602	73	920	76.65	48.09	46.00	82.16	80.68	36.36	n.a.	n.a.	102.20			
1998	12.9	25.2	2.7	41.3	640	1,991	176	2,808	67.72	49.76	46.21	63.36	61.24	35.39	n.a.	47.52	89.38			
1st Quarter	3.5	7.1	0.7	11.3	182	610	38	830	73.14	45.83	41.29	75.40	72.77	32.52	n.a.	48.28	92.51			
2nd Quarter	5.2	6.5	0.8	12.5	255	527	47	829	66.11	49.77	45.28	73.40	70.58	32.77	n.a.	46.94	91.80			
3rd Quarter	2.1	5.9	1.2	9.0	101	465	59	625	69.01	53.47	50.99	58.46	56.64	36.95	n.a.	46.37	86.00			
4th Quarter	2.1	5.7	0.0	8.5	102	389	32	524	62.36	49.98	47.29	46.19	44.98	39.32	n.a.	48.47	87.21			
1997	4.2	2.8	0.8	7.7	289	224	54	567	73.19	63.59	62.19	72.35	71.12	51.18	174.50	77.78	143.74			
January	4.4	2.7	0.6	7.8	305	219	46	570	73.55	62.06	60.03	74.25	73.44	50.57	n.a.	78.04	142.63			
February	3.1	2.7	1.2	6.9	213	222	84	431	74.87	62.58	59.69	75.28	74.52	50.83	n.a.	79.97	139.74			
March	3.9	1.9	0.1	5.9	267	156	8	438	75.58	61.00	59.63	79.91	78.77	51.76	n.a.	73.68	132.57			
April	3.5	2.0	0.3	5.8	241	172	21	439	75.58	63.37	61.23	87.87	86.44	50.81	n.a.	71.35	130.20			
May	2.4	1.8	0.3	4.5	156	163	21	339	75.58	57.52	54.80	83.31	82.78	47.16	n.a.	70.34	125.41			
June	1.6	1.8	0.1	3.4	108	167	***	274	81.15	54.88	52.88	86.92	85.69	45.93	n.a.	60.37	114.11			
July	1.4	2.1	0.1	3.6	87	188	6	280	78.12	54.88	52.88	86.92	85.69	45.93	n.a.	60.42	115.42			
August	1.7	2.2	0.4	4.0	96	204	3	303	76.06	48.64	46.67	84.87	83.78	42.17	n.a.	59.37	113.97			
September	1.9	1.8	0.4	4.2	109	165	26	299	71.53	49.26	46.67	83.71	82.50	38.63	n.a.	57.45	113.42			
October	0.8	3.1	0.2	4.3	43	188	10	241	78.82	47.55	46.30	82.91	81.56	36.72	n.a.	52.64	104.32			
November	1.5	2.1	0.5	4.8	94	249	37	380	79.61	47.46	45.04	79.87	77.97	33.73	n.a.	46.82	88.87			
December	0.5	2.2	0.2	2.9	29	206	10	245	83.24	44.35	39.95	75.87	71.62	32.19	n.a.	45.93	88.86			
1988(c) January	1.8	2.7	0.2	4.6	91	221	9	321	69.43	46.47	42.94	74.28	74.28	34.03	n.a.	51.87	96.74			
February	1.2	2.2	0.3	3.8	61	184	19	264	69.65	46.67	40.98	74.43	72.42	31.34	n.a.	47.05	91.92			
March	1.4	2.2	0.3	3.9	70	186	19	275	70.06	45.56	41.13	75.20	72.57	31.48	n.a.	47.23	90.84			
April	1.9	2.1	0.4	4.4	91	178	21	290	66.07	50.56	46.06	74.57	72.43	33.21	n.a.	47.43	94.04			
May	1.9	2.2	0.1	4.2	94	164	7	265	62.49	53.19	48.65	70.50	66.61	33.62	n.a.	46.17	90.54			
June	1.8	2.2	0.3	4.3	94	164	7	265	62.49	53.19	48.65	70.50	66.61	33.62	n.a.	46.17	90.54			
July	0.9	1.8	0.3	2.8	38	149	12	199	70.45	54.51	51.90	62.50	61.10	35.50	n.a.	47.25	88.09			
August	0.6	2.0	0.2	2.7	28	154	11	193	70.25	55.20	53.19	62.80	60.10	39.60	n.a.	45.67	94.89			
September	0.7	2.1	0.7	3.5	35	162	36	233	66.35	50.70	47.89	62.80	60.10	39.60	n.a.	46.20	89.03			
October	0.5	1.6	0.1	2.2	24	112	10	146	65.44	52.95	48.75	48.69	47.72	39.42	n.a.	49.14	88.03			
November	0.7	1.7	0.1	2.5	34	119	2	154	62.83	51.00	48.50	46.02	44.71	40.11	n.a.	n.a.	88.12			
December	0.9	2.4	0.1	3.8	44	159	20	224	58.80	46.00	44.61	43.87	43.00	38.42	n.a.	47.81	84.48			

Sources : Sri Lanka Customs
The Colombo Rubber Traders' Association
John Keells Ltd.
Forbes & Walker Ltd.

(a) Average monthly prices in Singapore and London refer to average daily closing spot prices.
(b) Monthly and quarterly data may not add up to the annual total due to subsequent adjustments made by Customs.
(c) Provisional.

EXTERNAL SECTOR

TABLE 82

Country Classification of Rubber Exports

Country	Volume (Mn. kg.)		Percentage of Total Volume		Value (Rs. Mn.)		Percentage of Total Value	
	1997	1998 (a)	1997	1998 (a)	1997	1998 (a)	1997	1998 (a)
European Union	19.3	13.3	31.4	32.0	1,486.9	948.3	32.0	33.8
India	3.4	0.9	5.5	2.2	256.0	51.3	5.5	1.8
Japan	3.6	3.2	5.9	7.7	350.0	308.1	7.5	11.0
Mexico	0.8	0.7	1.3	1.7	67.5	47.8	1.5	1.7
Pakistan	7.6	6.5	12.4	15.7	470.1	286.9	10.1	10.2
Poland	2.3	0.7	3.7	1.7	160.2	40.8	3.5	1.5
U.S.A.	9.1	3.7	14.8	8.9	680.3	252.6	14.7	9.0
Other Countries	15.4	12.5	25.0	30.1	1,169.3	872.1	25.2	31.1
Total	61.5	41.5	100.0	100.0	4,640.3	2,807.9	100.0	100.0

(a) Provisional

Sources : Sri Lanka Customs

EXTERNAL SECTOR

TABLE 83

Country Classification of Garment Exports

Country	Value (Rs. Mn.)		Percentage of Total Value		Percentage Change	
	1997	1998 (a)	1997	1998 (a)	1997	1998 (a)
1. European Union	41,094	44,759	33.9	31.4	24.7	8.9
Austria	193	237	0.2	0.2	-21.5	22.8
Belgium-Luxembourg	2,500	3,352	2.1	2.4	9.2	34.1
Denmark	300	309	0.2	0.2	51.5	3.0
Finland	14	16	0.0	0.0	366.7	14.3
France	2,644	2,554	2.2	1.8	-10.8	-3.4
Germany	6,947	7,634	5.7	5.4	-5.0	9.9
Greece	13	15	0.0	0.0	116.7	15.4
Ireland	249	381	0.2	0.3	12.7	53.0
Italy	1,064	1,359	0.9	1.0	13.0	27.7
Netherlands	3,063	3,080	2.5	2.2	-1.1	0.6
Portugal	47	16	0.0	0.0	-24.2	-66.0
Spain	218	301	0.2	0.2	-18.0	38.1
Sweden	504	467	0.4	0.3	92.4	-7.3
U.K.	23,338	25,038	19.3	17.6	54.8	7.3
2. U.S.A.	74,355	91,361	61.4	64.2	32.2	22.9
3. Other Countries	5,634	6,212	4.7	4.4	22.0	10.3
Australia	465	607	0.4	0.4	42.6	30.5
Canada	1,920	2,367	1.6	1.7	53.4	23.3
Japan	642	570	0.5	0.4	-6.3	-11.2
South Korea	146	24	0.1	0.0	-68.3	-83.6
Switzerland	285	294	0.2	0.2	-14.4	3.2
Other	2,176	2,350	1.8	1.7	39.3	8.0
Total	121,083	142,332	100.0	100.0	29.1	17.5

(a) Provisional

Source : Sri Lanka Customs

TABLE 84

EXTERNAL SECTOR

Major Coconut Products, Exports and Prices

Period	Exports				Prices									
	Volume ('000 kgs.)		Total Mn. Nuts (b)	Value (Rs. Mn.)	F.O.B. (Rs. / kg.)		Colombo Market (Rs. / kg.)			London Market (a)		Sri Lanka Coconut Desiccated (₹ / kg.)		
	Copra	Coconut Oil			Coconut Desiccated	Copra	Coconut Oil	Coconut Desiccated	Copra (c)	Coconut Oil	Coconut Desiccated		Phillipine Copra (\$ / kg.)	
1989	8,249	29,667	572	1,423	1,920	945	17,92	25,26	23,68	13,67	19,05	19,46	0,33	
1990	7,250	13,978	508	1,427	1,843	941	16,53	21,14	26,94	13,17	18,36	22,33	0,21	
1991	8,266	13,978	367	1,546	1,789	850	24,31	35,03	26,94	22,28	31,07	26,15	0,26	
1992	5,850	2,430	412	2,372	2,665	1,026	32,19	45,33	43,36	28,22	41,39	38,37	0,37	
1993	4,935	2,578	293	1,565	1,847	949	33,73	44,90	42,94	31,61	43,56	38,65	0,27	
1994	6,485	4,529	437	2,088	2,476	1,285	30,67	41,64	38,55	28,92	37,55	36,19	0,39	
1995	10,219	8,954	579	2,859	3,520	1,750	28,59	41,23	42,57	26,15	34,49	38,87	0,43	
1996	7,843	60,797	475	3,999	4,469	1,622	41,63	50,98	65,78	44,69	56,32	62,83	0,49	
1997(d)	8,547	3,701	505	4,270	4,864	2,076	46,93	52,06	67,00	49,50	55,69	61,30	0,42	
1st Quarter	2,139	570	104	951	1,084	556	48,81	49,65	74,61	50,50	60,85	67,44	0,49	
2nd Quarter	1,695	999	126	1,073	1,201	472	45,57	51,07	66,66	41,25	55,26	59,25	0,43	
3rd Quarter	2,186	1,306	149	1,177	1,343	549	44,05	53,12	62,90	42,20	52,20	58,00	0,38	
4th Quarter	2,527	823	129	1,069	1,236	498	47,73	74,16	64,34	52,03	54,46	60,49	0,39	
1998(d)	8,993	2,668	435	2,975	3,632	2,478	50,90	74,57	65,77	47,65	67,92	61,14	0,41	
1st Quarter	1,963	516	73	488	624	644	51,54	68,15	67,02	49,75	63,80	61,20	0,35	
2nd Quarter	1,793	508	95	648	772	525	47,92	74,60	64,14	44,21	65,20	57,82	0,42	
3rd Quarter	2,917	816	156	1,051	1,262	616	51,30	74,41	63,64	46,09	70,32	57,78	0,41	
4th Quarter	2,320	828	111	788	973	693	52,19	77,68	70,15	50,55	72,34	67,76	0,46	
1997	775	273	34	320	369	178	47,81	44,49	77,93	53,74	62,59	70,28	0,50	
January	781	131	35	327	372	192	49,59	53,88	74,22	50,75	60,30	65,54	0,50	
February	583	167	33	305	342	187	49,08	54,78	71,80	46,12	59,67	66,50	0,48	
March	700	406	37	320	371	164	45,29	47,64	71,43	43,56	58,88	63,00	0,45	
April	543	197	42	421	457	168	47,69	53,54	67,78	40,35	54,04	56,58	0,42	
May	452	396	42	332	373	140	43,46	53,07	61,41	39,90	52,86	58,17	0,41	
June	668	474	47	360	412	168	39,87	53,07	61,88	39,89	53,60	55,92	0,38	
July	732	297	49	416	448	209	45,14	50,55	62,91	43,62	51,81	57,75	0,36	
August	787	535	53	416	482	172	46,58	54,60	63,79	43,30	51,19	60,33	0,39	
September	1,161	321	50	405	477	190	47,78	52,98	65,66	51,12	51,56	63,03	0,40	
October	702	230	45	390	437	137	49,04	56,05	65,56	54,53	53,46	60,32	0,39	
November	664	275	34	275	322	171	50,14	51,18	66,03	50,30	58,38	58,12	0,38	
December	569	114	26	183	220	165	51,28	64,60	66,89	50,05	63,61	60,33	0,35	
1998(e)	750	193	19	112	164	241	53,83	59,14	67,34	55,24	64,67	64,79	0,35	
January	644	209	28	192	237	237	49,11	78,43	66,96	43,74	63,14	58,50	0,36	
February	563	104	23	152	187	185	47,83	70,89	62,95	42,24	65,00	55,65	0,39	
March	460	167	33	233	266	150	46,56	70,89	62,95	42,59	64,55	57,87	0,45	
April	770	237	39	263	319	205	48,81	77,40	64,25	47,80	66,06	59,95	0,41	
May	910	372	47	304	378	205	50,26	75,83	63,64	43,23	61,44	55,54	0,41	
June	994	343	54	360	437	188	51,31	76,43	67,54	47,14	63,67	58,50	0,41	
July	1,012	101	55	387	447	223	52,34	70,98	63,75	47,91	65,86	59,30	0,41	
August	837	252	44	304	366	221	50,77	79,05	65,26	49,58	70,19	65,84	0,45	
September	651	293	37	276	333	237	53,21	80,04	71,74	49,22	73,34	67,81	0,46	
October	832	283	30	209	274	235	52,59	73,96	73,46	52,84	73,50	69,63	0,47	
November														
December														

(a) Computed from weekly averages
 (b) Based on a study conducted by the Coconut Development Authority in 1996/97.
 rates applicable for conversion of volumes of three major coconut exports to nut equivalent (from kgs) have been revised from 1998.
 (c) This refers to prices of the best quality copra
 (d) Monthly and quarterly data may not add up to the annual total due to subsequent customs adjustments.
 (e) Provisional
 Sources: The Public Ledger
 Coconut Development Authority
 Sri Lanka Customs
 Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 85

Volume and Value of Exports of Other Agricultural Products

Period	Volume ('000 kg.)																
	Vegetables	Fruits (fresh or dried)	Aracanuts	Coffee	Pepper	Cinnamon	Cloves	Nutmeg and Mace	Cardamoms	Sesame Seeds	Other Oil Seeds	Betel Leaves	Cocoa Products	Unmanufactured Tobacco	Essential Oils	Cashewnuts	Other Minor Agricultural Products
1989	3,915	6,056	714	1,805	1,576	7,493	312	390	126	334	287	2,298	121	602	1,444	1,328	13,834
1990	12,702	2,331	3,107	1,245	1,309	6,512	2,292	270	34	4,580	26	3,290	168	1,333	953	1,281	18,405
1991	9,305	4,921	2,715	2,660	2,074	7,889	1,037	486	29	1,941	94	2,332	75	1,808	1,127	1,103	12,995
1992	9,791	3,964	649	1,652	2,153	8,238	1,115	815	21	2,352	54	2,215	15	3,935	704	1,062	17,044
1993	11,361	5,186	122	1,009	7,939	8,755	1,688	784	14	1	19	2,824	53	3,818	364	1,384	19,483
1994	16,289	5,774	311	4,371	3,490	11,040	850	666	26	18	176	1,846	15	3,540	299	390	52,459
1995	8,371	5,868	2,763	1,281	2,768	9,852	1,116	755	19	229	144	1,811	190	3,021	342	349	53,545
1996	6,735	5,809	3,109	692	2,987	10,077	1,429	1,084	4	2	127	2,580	43	3,229	304	334	16,030
1997(a)	6,869	9,886	3,338	1,150	3,484	10,661	2,461	760	9	756	256	1,729	153	1,831	266	599	13,820
1st Quarter	1,252	4,554	733	342	944	1,997	1,090	147	1	1	84	463	...	370	36	50	3,217
2nd Quarter	1,461	2,840	1,186	342	689	1,873	601	216	2	...	81	376	...	384	65	185	3,316
3rd Quarter	2,533	1,446	624	200	1,158	3,669	508	293	4	702	37	506	56	582	80	143	3,271
4th Quarter	1,623	1,046	795	370	693	3,123	262	104	2	53	54	384	97	493	85	221	4,016
1998(a)	7,698	3,588	5,025	1,588	5,493	9,401	1,907	899	16	775	110	1,320	88	2,611	263	420	16,840
1st Quarter	1,653	566	513	724	1,221	2,070	1,021	92	3	...	55	112	64	309	64	68	2,356
2nd Quarter	1,650	1,182	1,871	336	2,298	1,479	565	429	3	20	54	405	7	883	64	66	4,504
3rd Quarter	2,520	1,104	1,802	161	1,026	3,226	99	191	...	755	...	418	17	991	66	182	4,944
4th Quarter	1,875	736	839	367	948	2,626	222	187	10	...	1	385	...	428	69	104	5,036
1997	339	1,058	182	34	359	778	289	39	1	...	28	119	...	91	11	17	952
January	448	1,976	265	35	335	720	351	32	...	...	38	203	...	198	15	6	1,085
February	465	1,520	286	169	250	499	450	76	...	...	10	140	...	81	10	27	1,180
March	685	1,390	318	91	166	643	290	45	...	...	33	150	...	61	14	33	1,190
April	685	1,146	506	107	238	475	101	109	1	...	33	106	...	251	22	58	1,128
May	368	304	362	144	285	755	210	62	...	...	15	120	...	72	29	94	998
June	845	302	187	57	413	1,221	280	101	1	445	...	170	...	68	38	51	1,148
July	965	663	182	90	411	1,232	144	89	2	156	...	162	...	329	10	43	1,025
August	723	481	256	53	334	1,216	84	103	1	102	18	174	31	185	32	49	1,098
September	593	407	294	115	213	1,182	97	60	...	53	...	132	...	124	46	85	1,372
October	589	353	227	38	202	1,076	65	17	2	...	...	118	...	172	15	55	1,267
November	442	286	274	217	278	865	101	27	...	...	18	134	...	197	24	81	1,377
December	385	59	201	271	241	837	223	36	...	...	36	4	28	85	27	23	396
1998(b)	248	370	109	287	344	692	329	23	...	...	...	108	18	122	17	23	1,399
January	1,020	138	203	166	637	541	470	33	2	...	18	249	18	102	20	22	561
February	779	640	410	150	573	318	254	143	1	...	...	...	...	119	21	10	2,167
March	468	204	721	114	750	410	108	177	2	1	...	54	...	240	18	31	924
April	403	338	741	72	975	751	203	108	1	19	54	103	...	524	25	25	1,411
May	869	337	754	36	439	874	17	52	...	178	...	136	...	530	25	65	1,658
June	889	489	459	36	305	1,016	23	58	...	369	...	145	...	214	23	67	1,326
July	765	279	589	89	282	1,336	60	81	...	208	...	137	...	247	30	51	1,960
August	911	239	507	160	197	970	55	89	...	...	...	108	...	141	37	41	1,525
September	441	265	196	73	418	912	90	56	...	...	...	157	...	190	21	20	1,930
October	523	232	136	134	333	744	77	42	2	...	...	120	...	97	11	43	1,581

(Contd.)

EXTERNAL SECTOR

TABLE 85 (Contd.)

Volume and Value of Exports of Other Agricultural Products

Period	Value (Rs. Mn.)													Total				
	Vegetables	Fruits (fresh or dried)	Aracanuts	Coffee	Pepper	Cinnamon	Cloves	Nutmeg and Mace	Cardamoms	Sesame	Other Oil Seeds	Betel Leaves	Cocoa Products		Unmanufactured Tobacco	Essential Oils	Cashewnuts	Other Minor Agricultural Products
1989	111	62	15	95	152	1,058	16	46	19	7	16	92	6	79	129	244	262	2,408
1990	321	48	80	38	118	1,188	234	23	10	132	4	90	7	152	120	277	359	3,199
1991	250	70	96	76	140	1,436	64	24	7	42	3	77	3	243	115	290	473	3,409
1992	225	79	33	49	123	1,524	61	47	6	56	1	84	1	1,709	117	237	609	4,959
1993	386	106	9	44	396	1,645	72	36	8	0	8	126	3	1,749	130	342	765	5,825
1994	616	127	18	376	317	1,626	41	39	11	0	10	62	1	1,613	171	112	1,245	6,385
1995	298	198	111	127	358	1,721	65	53	8	8	3	61	2	1,831	266	113	1,633	6,857
1996	253	293	134	54	390	1,923	85	75	4	...	7	74	2	2,346	184	104	1,369	7,295
1997(a)	276	213	145	90	808	2,755	132	88	7	24	5	52	10	2,031	227	181	1,511	8,555
1st Quarter	47	34	16	16	160	402	59	10	1	...	2	15	...	460	37	12	369	1,706
2nd Quarter	57	54	50	26	146	410	32	22	1	...	1	11	...	463	41	59	387	1,760
3rd Quarter	110	39	27	18	274	1,023	25	40	3	22	1	15	4	427	59	40	354	2,480
4th Quarter	62	38	35	30	228	921	16	16	2	2	1	11	6	681	90	70	401	2,609
1998(a)	335	136	277	139	1,718	3,267	141	124	12	28	2	49	8	2,649	340	152	1,653	11,027
1st Quarter	72	21	22	58	339	674	60	14	3	...	1	3	6	490	67	21	265	2,113
2nd Quarter	68	43	92	31	752	522	53	53	2	...	1	11	1	699	103	23	486	2,891
3rd Quarter	121	42	103	14	310	1,162	10	30	...	26	...	11	1	771	89	63	403	3,158
4th Quarter	74	30	60	36	317	909	18	22	7	...	...	24	...	739	81	45	499	2,865
1997	13	27	9	2	54	150	15	3	1	...	1	2	...	171	13	4	121	585
January	15	30	13	2	59	148	18	2	...	...	1	9	...	155	11	2	121	586
February	19	25	13	12	47	104	25	5	...	...	...	4	...	134	14	7	127	535
March	26	25	14	7	36	132	15	6	...	...	...	4	...	135	11	11	138	560
April	17	18	22	7	54	108	7	10	1	...	1	3	...	180	14	19	134	593
May	14	11	15	12	57	170	11	6	...	...	...	4	...	148	16	30	115	608
June	37	14	9	5	89	318	12	11	...	...	...	5	...	105	28	16	117	779
July	43	13	7	6	94	344	9	10	1	...	...	5	...	212	8	10	114	862
August	29	12	10	7	91	361	3	19	1	...	...	5	...	110	26	14	124	819
September	21	13	12	9	63	344	6	6	1	...	...	4	...	243	33	27	151	936
October	24	11	9	6	71	313	3	7	1	...	...	4	...	284	29	17	122	905
November	17	13	13	15	94	264	6	2	...	...	...	4	...	154	28	26	128	768
December	15	4	9	23	74	266	14	4	...	...	1	...	3	131	18	7	58	624
1998(b)	10	13	5	23	90	293	18	3	1	...	...	3	...	190	22	8	136	755
January	47	4	8	13	175	174	28	7	1	...	...	...	2	169	27	6	171	734
February	33	22	19	13	178	113	25	17	...	...	...	...	...	68	22	3	228	748
March	19	8	34	11	257	129	10	21	...	...	...	...	...	310	54	11	131	998
April	16	13	39	7	317	280	18	15	1	...	...	3	...	272	27	9	127	1,145
May	44	15	41	3	139	317	2	8	...	...	...	3	...	328	17	22	143	1,090
June	43	16	25	3	97	387	3	7	...	...	...	3	...	186	31	24	113	953
July	43	11	37	8	74	458	5	15	...	...	...	4	...	257	41	17	147	1,115
August	34	10	34	17	63	340	4	13	...	...	...	4	...	256	36	17	148	976
September	33	10	34	17	140	320	4	13	...	...	...	4	...	286	15	9	202	1,054
October	19	10	16	12	114	249	7	7	...	...	...	9	...	197	30	19	149	835
November	19	10	16	12	114	249	7	7	...	...	...	9	...	197	30	19	149	835
December	22	10	10	12	114	249	7	7	...	...	...	9	...	197	30	19	149	835

(a) Monthly and quarterly data may not add up to the annual total due to subsequent adjustments made by Customs

(b) Provisional.

Source: Sri Lanka Customs

EXTERNAL SECTOR

TABLE 86

Selected Industrial and Mineral Exports

Item	Rupees Million				
	1994	1995 (a)	1996	1997	1998 (b)
A. Manufacturing					
1. Food, Beverages and Tobacco	4,262	5,040	5,272	5,354	7,586
(i) Cocoa Preparations	13	7	3	5	7
(ii) Fruits, tinned and bottled	48	112	158	121	126
(iii) Fruits and Vegetable Juices	63	40	21	31	37
(iv) Fish, fresh and frozen	680	450	475	684	862
(v) Fish, salted	133	202	168	231	178
(vi) Crustaceans and Molluscs	2,216	2,759	3,143	3,002	5,087
(vii) Animal Fodder	29	21	45	44	56
(viii) Manufactured Tobacco	308	648	294	349	191
(ix) Other	771	800	965	888	1,042
2. Textiles and Garments	76,685	94,946	105,341	134,455	159,303
(i) Woven Fabrics	2,077	2,263	2,863	4,015	4,666
(ii) Knitted/Crocheted Fabrics	146	379	402	587	1,112
(iii) Yarn	1,694	2,283	2,347	2,447	2,184
(iv) Garments	68,945	84,806	93,813	121,083	142,332
(v) Other made up Textile Articles	2,208	3,334	3,948	3,989	6,552
(vi) Other	1,614	1,880	1,966	2,334	2,457
3. Chemical Products	1,156	1,438	1,391	1,484	1,805
4. Petroleum Products	3,959	4,374	5,740	5,743	4,662
(i) Naptha	750	802	905	1,035	999
(ii) Bunkers and Aviation Fuel	2,729	3,253	4,437	4,262	3,660
(iii) Other	479	319	398	446	3
5. Rubber Products	5,026	7,851	9,357	10,513	11,528
(i) Rubber Tyres, Tyre Cases Tubes etc.	1,855	3,196	3,763	4,323	5,493
(ii) Plates, Sheets and Strips etc.	53	57	167	252	270
(iii) Surgical Gloves and Other Gloves	2,168	3,285	4,070	4,472	4,030
(iv) Floor Coverings and Mats	228	357	393	488	507
(v) Other Articles of Rubber	722	956	964	978	1,228
6. Ceramic Products	1,920	2,371	2,677	3,246	3,478
(i) Tiles	444	473	544	660	712
(ii) Tableware and Articles used for Domestic or Toilet Purposes	721	1,016	1,151	1,419	1,710
(iii) Statuettes and other ornamental articles	742	867	952	1,116	1,040
(iv) Other	13	15	30	51	16
7. Leather, Paper and Wood	9,961	9,487	10,294	13,949	17,475
(i) Travel goods	1,717	3,008	4,008	5,872	9,018
(ii) Other articles of Leather	814	770	884	801	635
(iii) Footwear	1,925	2,276	2,798	4,139	4,201
(iv) Articles of Wood	1,717	1,346	749	647	568
(v) Other	3,788	2,087	1,855	2,490	3,053
8. Plastics and Articles thereof	896	1,184	1,463	2,003	1,952
9. Machinery, Mechanical and Electrical Equipments	4,572	6,348	8,572	12,076	11,811
10. Jewellery	1,197	1,650	1,970	1,012	653
11. Diamonds	7,222	8,373	8,673	7,372	3,768
12. Other	1,687	4,032	5,797	5,909	5,416
Total Manufacturing	118,543	147,094	166,545	203,114	229,437
B. Mining and Quarrying					
(i) Natural Graphite	96	98	151	168	186
(ii) Ilmenite	171	127	64	105	-
(iii) Metallic Ores and Iron Pyrites etc.	18	89	209	4	3
(iv) Precious and Semi-Precious Stones	3,917	3,972	4,771	4,899	3,577
(v) Other	90	160	96	96	96
Total Mining and Quarrying	4,293	4,447	5,292	5,272	3,863
Grand Total	122,836	151,541	171,837	208,386	233,301

(a) Revised
(b) Provisional

Sources: Sri Lanka Customs
Ceylon Petroleum Corporation

TABLE 87

EXTERNAL SECTOR

Imports by Major Categories

Category	Value in Rs. Million					Value in US Dollars Million (a)					Percentage of Total Imports				
	1994	1995	1996	1997	1998(b)	1994	1995	1996	1997	1998(b)	1994	1995	1996	1997	1998(b)
	1. Consumer goods	45,985	50,353	57,105	63,934	72,823	931	982	1,030	1,084	1,128	19.5	18.5	19.0	18.5
1.1 Food and Drinks	23,914	26,746	33,111	37,867	38,411	484	522	597	642	596	10.2	9.8	11.0	11.0	10.1
(i) Rice	655	122	5,118	4,331	2,621	13	2	91	73	42	0.3	0.0	1.7	1.3	0.7
(ii) Flour	19	4	4	190	785	-	-	-	3	13	0.0	0.0	0.0	0.1	0.2
(iii) Sugar	8,875	8,737	8,026	10,788	8,384	180	170	145	184	129	3.8	3.2	2.7	3.1	2.2
(iv) Milk & Milk Products	4,305	5,630	6,045	5,695	7,517	87	110	109	96	116	1.8	2.1	2.0	1.5	2.0
(v) 1. Fish dried (excluding Maldive fish & including dried prawns)	2,093	2,153	2,355	2,593	2,603	42	42	43	44	40	0.9	0.8	0.8	0.3	0.7
2. Fish Other	863	1,303	1,331	1,719	1,463	17	25	24	29	23	0.4	0.5	0.4	0.5	0.4
(vi) Food Other	7,104	8,797	10,232	12,551	15,038	144	172	185	213	232	3.0	3.2	3.4	3.5	3.9
1.2 Other Consumer goods	22,071	23,607	23,994	26,066	34,412	447	461	433	442	532	9.4	8.7	8.0	7.5	9.0
(i) Motor Cars and Cycles	5,566	5,082	5,094	4,410	7,516	113	99	92	75	116	2.4	1.9	1.7	1.3	2.0
(ii) Radio Receivers & Compounds	1,163	1,006	1,138	1,281	1,431	24	20	20	22	22	0.5	0.4	0.4	0.4	0.4
(iii) Rubber Tyres & Tubes	686	382	639	1,534	1,649	14	7	12	26	26	0.3	0.1	0.2	0.4	0.4
(iv) Medical & Pharmaceutical Products	3,292	4,233	3,869	4,230	5,387	67	83	70	72	84	1.4	1.6	1.3	1.2	1.4
(v) Other	11,364	12,904	13,254	14,611	18,429	230	252	239	247	285	4.8	4.7	4.4	4.2	4.8
2. Intermediate goods	119,829	148,630	164,384	190,883	200,373	2,425	2,900	2,971	3,235	3,104	50.9	54.6	54.6	55.2	52.7
(i) Fertiliser	3,097	4,407	4,189	3,916	3,989	63	86	76	66	62	1.3	1.6	1.4	1.1	1.1
(ii) Petroleum	14,641	19,827	26,525	31,827	22,275	296	387	479	539	345	6.2	7.3	8.8	9.2	5.9
(iii) Chemical Elements & Compounds	5,975	7,310	7,402	8,024	9,241	121	143	134	136	143	2.5	2.7	2.5	2.3	2.4
(iv) Dyeing, Tanning & Colouring Materials	1,649	1,830	1,845	2,245	2,533	33	36	33	38	39	0.7	0.7	0.6	0.7	0.7
(v) Paper & Paper Boards	5,513	7,325	7,487	8,790	9,158	112	143	135	149	142	2.3	2.7	2.5	2.5	2.4
(vi) Wheat & Meslin	5,825	10,155	11,267	8,128	8,133	118	198	204	139	127	2.5	3.7	3.7	2.4	2.2
(vii) Textiles	51,299	59,375	64,601	81,816	90,099	1,038	1,159	1,168	1,386	1,397	21.8	21.8	21.5	23.7	23.7
(viii) Other	31,830	38,401	41,068	46,137	54,945	644	749	742	782	850	13.5	14.1	13.6	13.4	14.4
3. Investment goods	67,524	60,916	66,647	78,232	95,322	1,366	1,189	1,203	1,324	1,477	28.7	22.4	22.1	22.6	25.1
(i) Building Materials	11,898	13,956	14,540	16,030	19,590	241	272	263	271	303	5.1	5.1	4.8	4.6	5.1
(ii) Transport Equipment (c)	22,425	15,564	9,885	12,276	17,098	454	304	303	208	264	9.5	5.7	3.3	3.5	4.5
(iii) Machinery & Equipment	27,635	25,769	35,987	43,853	50,592	559	503	649	742	786	11.7	9.5	12.0	12.7	13.3
(iv) Other	5,566	5,627	6,235	6,073	8,042	113	110	113	103	124	2.4	2.1	2.1	1.8	2.1
4. Total (Items 1, 2 and 3)	233,338	259,899	288,136	333,049	368,518	4,722	5,071	5,204	5,644	5,709	99.0	95.5	95.7	96.2	96.9
5. Unclassified Imports (d)	2,238	12,301	12,939	12,977	11,756	45	240	235	220	182	1.0	4.5	4.3	3.8	3.1
6. Total Imports (e)	235,576	272,200	301,075	346,026	380,274	4,767	5,311	5,439	5,864	5,891	100.0	100.0	100.0	100.0	100.0

(a) US dollar values are computed using annual average rates for the years 1994-1995.

(b) Provisional.

(c) Includes the value of aircraft imported by Air Lanka in 1993, 1994 and 1995.

(d) Revised.

(e) Adjusted for legs and other factors in recording.

Sources: Sri Lanka Customs

Co-operative Wholesale Establishment

Ceylon Fertiliser Co. Ltd. and other major importers of fertiliser

Ceylon Petroleum Corporation

Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 88

Imports and Exports of Major Commodities (a)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997 (b)	1998 (c)
IMPORTS										
Rice										
Quantity (MT. '000)	316	172	133	237	209	58	9	341	306	168
Value (Rs. Mn.)	3,396	1,758	1,589	2,852	2,386	655	122	5,118	4,331	2,621
Price - C & F (Rs./MT)	10,750	10,224	11,950	12,021	11,426	11,216	12,875	14,999	14,148	15,643
Wheat										
Quantity (MT. '000)	726	577	670	709	771	865	1,057	913	789	880
Value (Rs. Mn.)	4,964	3,791	3,303	4,549	5,609	5,825	10,155	11,267	8,128	8,133
Price - C & F (Rs./MT)	6,837	6,575	4,933	6,413	7,272	6,734	9,599	12,341	10,302	9,247
Sugar										
Quantity (MT. '000)	320	305	358	370	394	491	418	381	545	444
Value (Rs. Mn.)	4,326	5,173	5,139	4,952	5,621	8,875	8,737	8,026	10,788	8,384
Price - C & F (Rs./MT)	13,503	16,943	14,336	13,383	14,172	18,075	20,906	21,058	19,790	18,871
Crude Oil										
Quantity (Mn. BBLs)	9	13	12	10	13	14	14	15	13	16
Value (Rs. Mn.)	5,896	12,403	9,667	7,667	11,222	11,407	12,362	16,809	15,584	13,902
Price - C & F (Rs./BBL)	628	943	807	803	834	806	903	1,116	1,167	879
Fertiliser										
Quantity (MT. '000)	355	505	359	340	465	427	452	361	391	440
Value (Rs. Mn.)	1,755	2,958	2,430	2,366	3,108	3,097	4,407	4,189	3,916	3,989
Price - C & F (Rs./MT)	4,944	5,857	6,769	6,959	6,684	7,253	9,750	11,604	10,018	9,058
Total Value - Rs. Mn.	20,337	26,083	22,128	22,386	27,946	29,859	35,783	45,409	42,747	37,029
EXPORTS										
Tea										
Quantity (Mn. Kgs.)	204	216	212	182	218	230	241	244	269	272
Value (Rs. Mn.)	13,664	19,823	17,867	14,893	19,911	20,964	24,638	34,068	42,533	50,280
Price - F.O.B. (Rs./Kg)	66.91	91.78	84.34	81.98	91.16	91.32	102.31	139.56	158.39	184.94
Rubber										
Quantity (Mn. Kgs.)	86	87	76	79	70	69	68	72	62	41
Value (Rs. Mn.)	3,112	3,080	2,641	2,960	3,086	3,582	5,713	5,753	4,640	2,808
Price - F.O.B. (Rs./Kg)	36.17	36.50	34.55	38.63	44.34	51.81	83.69	79.78	75.42	67.72
Coconut										
Quantity (Mn. Nuts)	572	508	367	412	293	437	579	475	505	373
Value (Rs. Mn.)	1,920	1,843	1,769	2,665	1,847	2,476	3,520	4,469	4,864	3,632
Price - F.O.B. (Rs./nut)	3.36	3.63	4.82	6.47	6.30	5.67	6.08	9.42	9.63	9.73
Other Agricultural Exports										
Quantity (Mn. Kgs.)	43	60	53	56	65	102	92	55	58	58
Value (Rs. Mn.)	2,408	3,199	3,409	4,959	5,825	6,384	6,957	7,295	8,554	11,027
Price - F.O.B. (Rs./Kg)	56.00	53.32	64.32	88.55	89.62	62.59	74.19	133.67	147.16	189.99
Garments										
Quantity - Mn.Kgs. (Mn. pieces pre-1996)	206.9	247.1	285.7	393.4	457.6	529.5	593.1	278.1	312.5	319.1
Value (Rs. Mn.)	16,916	24,287	31,652	49,176	62,349	68,945	84,806	93,813	121,083	142,332
Price - F.O.B. (Rs./Kg)	81.76	98.29	110.79	125.00	136.25	130.21	142.99	337.28	387.50	446.04
Petroleum Products										
Quantity ('000 M.Tons.)	583.6	632.5	523.2	410.2	597.9	611.8	616.1	660.9	521	474
Value (Rs. Mn.)	2,242	3,974	3,289	2,771	3,801	3,959	4,374	5,740	5,396	4,662
Price - F.O.B. (Rs./MT)	3,842	6,283	6,286	6,755	6,357	6,471	7,099	8,685	10,357	9,846
Precious Stones										
Quantity ('000 carats)	17,052	20,167	13,427	11,411	15,262	15,454	13,410	16,125	16,055	12,261
Value (Rs. Mn.)	2,204	2,933	2,358	2,482	3,402	3,917	3,971	4,771	4,899	3,577
Price - F.O.B. (Rs./carat)	129.25	145.44	175.62	217.52	222.98	253.46	296.12	295.88	305.13	291.77
Total Value - Rs. Mn.	42,466	59,139	62,985	79,906	100,221	110,227	133,979	155,909	191,969	218,318

(a) Adjusted for lags and other factors in recording

(b) Revised

(c) Provisional

Sources: Food Commissioner's Department
Sri Lanka Customs
Ceylon Petroleum Corporation
Co-operative Wholesale Establishment
Central Bank of Sri Lanka

TABLE 89

EXTERNAL SECTOR

Expenditure on Imports (a)

Rupees Million

Period	Animal Products	Vegetable Products					Prepared Foodstuffs			Mineral Products			Chemicals			Paper Products	Cotton Yarn & Textiles	Base Metals	Machinery & Equipment	Vehicles & Transport	Other	TOTAL
		of which		of which		Total	of which		Total	of which		Total	of which		Total							
		I	II	III	I		II	Crude Oil		I	II		Fertilizer	Pharmaceutical Products								
1989	5,383	1,464	175	2,963	4,326	317	9,552	5,572	2,481	1,755	1,086	2,243	12,788	4,135	9,088	5,432	8,984	75,353				
1990	3,737	1,290	1,086	2,203	5,167	1,891	13,129	11,310	1,961	2,601	3,270	3,651	17,701	3,586	12,468	7,788	27,063	105,550				
1991	4,605	1,566	...	3,357	5,134	2,385	15,020	11,799	3,215	2,472	1,749	4,220	27,486	6,837	14,634	11,649	26,328	127,839				
1992	6,558	2,853	...	3,705	4,953	2,435	12,256	5,984	6,272	2,145	2,439	3,815	22,934	8,332	17,049	11,258	45,004	142,932				
1993	4,936	2,886	...	3,705	5,007	2,456	13,888	10,034	3,864	3,115	2,558	4,668	41,740	9,531	22,761	17,978	48,242	181,315				
1994	5,761	2,986	14	5,964	8,077	3,726	13,702	10,464	3,233	3,236	3,290	6,752	54,864	12,332	33,741	20,605	46,339	221,656				
1995	6,552	6,633	...	107	12,599	8,873	13,702	12,080	3,233	3,236	3,290	6,752	63,773	14,973	31,520	19,034	57,139	244,573				
1996	8,320	7,454	...	5	11,713	8,026	23,960	14,244	9,716	5,242	3,869	7,987	64,836	15,551	42,343	19,106	67,067	277,897				
1997 (b)	8,873	14,028	...	186	15,092	10,786	28,385	14,193	16,242	8,042	3,914	8,712	81,795	18,677	43,619	16,575	90,031	334,029				
1st Qtr	2,159	1,452	...	1	4,325	3,431	5,438	...	5,438	1,549	544	1,105	18,171	4,090	9,984	4,287	22,297	75,659				
2nd Qtr	2,092	1,86	...	2	4,333	1,094	5,438	6,084	4,176	2,017	977	1,040	22,673	3,478	3,478	3,763	31,909	83,721				
3rd Qtr	2,373	2,373	...	12	2,759	1,622	8,209	5,884	4,325	2,027	957	970	19,540	4,324	10,131	4,318	23,662	80,945				
4th Qtr	2,249	11,467	...	174	3,675	2,494	4,478	2,225	2,303	2,449	1,436	2,358	21,411	6,785	12,482	4,207	22,163	93,704				
1998 (b)	10,596	11,331	...	785	12,450	8,384	22,589	14,216	8,373	3,998	5,387	9,158	90,100	20,304	50,582	24,617	122,034	381,944				
1st Qtr	2,415	2,094	...	701	2,638	1,582	5,766	4,147	1,618	2,291	979	2,071	22,680	5,014	14,962	6,050	28,812	96,659				
2nd Qtr	2,860	1,832	...	83	3,618	2,448	4,573	2,685	1,888	862	1,531	2,133	24,160	4,795	11,092	6,058	29,242	92,756				
3rd Qtr	2,557	1,137	...	32	2,863	1,950	7,210	4,281	2,929	2,083	716	2,559	31,243	5,098	11,714	6,208	31,248	89,900				
4th Qtr	2,764	2,239	...	217	3,333	2,406	5,040	3,103	1,937	2,607	1,431	2,395	22,037	5,397	12,824	7,261	32,732	98,629				
1997	923	1,363	...	...	1,546	1,230	307	...	307	584	192	553	6,474	1,616	3,036	1,279	8,018	25,799		
Jan	629	36	...	...	1,649	1,436	213	...	220	545	352	583	6,305	1,032	3,437	1,084	6,928	22,498		
Feb	607	86	...	...	1,130	765	365	...	4,911	420	160	360	5,392	1,442	3,511	1,924	7,351	27,362		
Mar	500	180	...	2	1,468	1,136	333	...	1,966	483	186	678	7,201	1,119	3,069	1,162	7,557	25,384				
Apr	855	2	...	2	1,598	1,213	493	...	706	257	449	686	8,400	1,182	3,188	1,274	7,070	25,454				
May	737	4	...	...	1,011	890	376	6,084	1,717	828	294	624	7,072	1,177	4,765	1,327	7,262	32,883		
Jun	851	4	...	...	1,011	573	438	...	1,444	1,065	716	899	7,421	1,496	3,340	1,335	7,695	26,571		
Jul	748	13	...	12	584	293	351	3,140	1,444	360	10	350	6,922	1,377	3,424	1,661	6,547	24,966				
Aug	896	169	...	...	1,164	816	348	2,998	2,744	602	231	883	6,331	1,451	3,367	1,322	9,420	29,408		
Sep	774	304	...	...	1,434	1,015	419	1,018	1,018	342	29	313	804	6,766	1,687	1,346	7,701	26,244		
Oct	702	565	...	...	1,004	634	370	2,364	1,665	855	550	723	6,792	3,481	3,481	5,740	26,829			
Nov	760	1,641	...	...	1,237	845	392	1,096	559	1,252	857	811	7,853	1,985	4,861	1,456	8,722	40,631		
Dec	800	3,539	...	...	557	252	305	1,493	290	1,025	539	699	7,829	1,824	5,592	1,580	9,910	33,645		
1998 (c)	780	1,924	...	240	1,011	681	330	2,373	1,613	759	487	699	7,829	1,824	5,592	1,580	9,910	33,645				
Jan	835	1,660	...	221	1,407	649	421	1,900	1,331	569	255	609	6,739	1,639	4,525	1,616	29,471	85,935				
Feb	899	435	...	82	723	391	342	1,571	864	717	190	422	7,529	1,551	4,844	1,894	10,307	33,543				
Mar	913	321	...	128	1,219	770	449	1,261	875	883	336	547	9,438	1,476	3,324	2,420	9,383	39,026				
Apr	1,048	1,076	...	1	1,297	379	1,366	560	506	793	336	690	7,193	1,474	3,326	2,081	10,097	30,520				
May	900	493	...	1	1,195	930	265	2,711	1,746	729	229	891	7,544	1,739	4,245	1,925	10,593	32,765				
Jun	911	636	...	...	1,346	992	354	1,243	965	793	314	479	6,835	1,751	3,932	2,357	10,682	31,298		
Jul	900	1,141	...	...	322	28	293	1,527	1,729	561	173	856	6,844	1,608	3,537	1,926	9,975	29,887		
Aug	946	1,141	...	...	718	425	293	3,256	836	189	378	880	7,022	1,675	3,537	2,508	9,993	30,758		
Sep	955	1,141	...	...	834	506	328	2,791	1,180	974	551	423	880	2,167	3,963	2,062	11,242	33,803		
Oct	981	325	...	...	1,781	1,475	306	1,224	656	839	494	735	7,881	1,555	4,714	2,691	11,495	34,068		
Nov	828	325	...	...	1,781	1,475	306	1,224	656	839	494	735	7,881	1,555	4,714	2,691	11,495	34,068		
Dec	828	325	...	...	1,781	1,475	306	1,224	656	839	494	735	7,881	1,555	4,714	2,691	11,495	34,068		

Source: Sri Lanka Customs

(a) Unadjusted data

(b) Monthly and quarterly data as well as chapter totals may not add up to the annual total due to subsequent adjustments made by the Customs

(c) Provisional

EXTERNAL SECTOR

TABLE 90

Direction of Trade (a)

Rupees Million

Group of Countries	Exports					Imports				
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)
1. Industrial Countries	118,545	146,710	165,669	200,985	227,037	90,254	91,165	104,055	117,128	137,619
Australia	1,384	1,805	2,360	2,900	3,098	4,534	4,544	5,928	8,837	8,227
Austria	483	464	396	354	491	249	382	595	403	1,177
Belgium - Luxembourg	9,346	11,204	12,119	11,601	10,033	6,282	7,685	7,903	8,105	8,678
Canada	2,509	2,527	2,516	3,291	3,920	677	765	1,302	3,240	2,685
Denmark	479	672	612	718	800	958	1,049	1,074	1,638	1,348
Finland	91	122	167	841	447	664	308	1,064	1,009	692
France	4,236	4,392	5,983	6,028	6,529	2,730	3,008	2,730	4,718	3,014
Germany	10,994	13,032	13,229	13,566	14,980	8,390	8,554	8,497	10,819	13,088
Ireland, Republic of	146	280	558	651	770	374	276	348	405	455
Italy	2,775	3,699	3,220	4,387	4,378	2,364	3,260	4,769	4,842	5,370
Japan	8,167	10,269	14,172	13,815	12,669	26,021	25,556	27,488	28,275	35,903
Netherlands	5,542	7,167	6,833	8,074	6,774	3,501	4,372	4,571	4,719	6,192
New Zealand	215	263	381	389	421	2,380	3,087	3,847	3,963	5,171
Norway	220	451	496	520	589	385	321	277	574	743
Spain	783	997	1,356	1,384	1,668	241	288	459	1,034	590
Sweden	948	1,262	1,286	1,638	1,444	1,203	1,904	3,142	4,254	2,749
Switzerland	1,000	1,036	1,320	1,531	1,678	2,993	4,519	5,190	4,330	5,320
United Kingdom	14,104	17,696	21,477	30,991	34,257	12,234	12,435	13,913	16,658	19,687
United States of America	55,112	69,372	77,148	98,300	122,089	14,070	8,652	10,958	11,009	14,825
Other	15	1	38	6	2	4	1	-	...	1
2. Developing Countries	35,250	40,555	49,217	58,652	65,913	130,310	152,211	172,159	214,224	229,628
Africa	2,145	2,180	2,064	2,585	2,594	3,336	2,930	3,684	3,221	3,682
Kenya	63	89	260	296	239	285	166	201	104	173
South Africa	677	982	858	932	821	2,556	2,110	3,279	2,676	3,175
Sudan	21	72	7	17	4	1	102	1	-	-
Tunisia	326	275	354	579	871	-	161	6	67	25
Zambia	2	2	1	8	19	1	9	3	1	10
Other	1,055	760	584	753	640	493	382	194	373	299
Asia	15,035	18,012	19,273	22,734	22,162	107,340	122,054	138,355	167,274	191,969
Afghanistan	61	64	69	139	83	14	8	13	50	49
Bangladesh	469	617	637	637	674	412	287	98	119	69
China, People's Republic of	95	177	635	464	1,015	7,732	8,229	8,188	10,014	14,623
China - Taiwan	525	478	440	1,330	932	12,364	14,681	15,906	21,953	24,457
Hong Kong	1,762	2,950	3,504	3,200	3,376	15,644	18,316	19,569	24,265	26,546
India	1,170	1,634	2,370	2,582	2,434	19,985	24,045	31,056	33,023	34,837
Indonesia	263	827	305	415	270	4,174	4,983	6,039	7,867	11,787
Korea, South	1,923	1,878	1,937	2,624	1,704	16,123	17,856	19,325	26,939	29,413
Malaysia	284	1,124	1,491	1,299	748	8,952	10,890	10,105	9,816	12,420
Maldives	501	732	903	1,453	2,415	737	863	775	897	1,000
Myanmar	1	2	44	3	34	51	25	642	361	65
Pakistan	2,144	2,218	2,041	2,218	1,740	3,000	2,686	3,815	5,068	5,854
Philippines	366	493	86	699	899	320	439	283	410	754
Singapore	3,776	3,754	3,303	3,409	2,811	11,565	12,798	14,284	16,873	20,081
Thailand	1,538	979	1,168	1,983	2,616	6,058	5,856	7,157	9,045	9,423
Other	157	85	340	279	411	210	94	1,100	574	591

(Contd.)

EXTERNAL SECTOR

TABLE 90 (Contd.)

Group of Countries	Direction of Trade (a)										Rupees Million
	Exports					Imports					
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)	
Europe	2,129	3,661	7,695	8,802	8,741	3,092	2,590	3,078	1,531	1,660	
Cyprus	57	113	391	330	180	290	263	205	279	481	
Greece	504	539	534	641	697	335	93	180	91	71	
Hungary	127	140	161	156	216	201	70	133	69	78	
Poland	780	961	1,469	1,533	1,538	150	96	98	60	100	
Portugal	149	190	244	238	314	112	48	69	58	53	
Romania	25	28	50	40	85	396	997	816	269	107	
Turkey	412	1,606	4,734	5,781	5,619	1,538	1,009	1,545	622	741	
Yugoslavia	66	-	-	-	-	55	-	-	-	-	
Other	9	84	112	83	92	15	14	32	83	29	
Middle East	13,846	13,913	16,818	19,876	27,275	11,961	17,870	22,997	31,130	24,051	
Bahrain	69	76	78	164	180	366	1,194	2,240	6,582	1,539	
Iran	829	1,296	1,995	1,386	1,184	4,493	4,396	8,415	5,822	7,540	
Iraq	2	9	6	369	1,047	3	...	...	...	1
Jordan	1,966	1,649	2,016	1,813	1,355	54	8	77	12	21	
Kuwait	272	400	420	581	694	105	321	472	156	573	
Lebanon	279	265	474	409	566	3	4	5	...	5	
Libya	632	1,249	1,062	1,514	2,494	-	...	...	...	2
Saudi Arabia	1,958	1,055	1,787	2,030	2,901	1,155	4,208	6,275	10,674	6,415	
Syrian Arab Republic	1,832	1,668	3,030	2,514	3,364	199	1,017	225	519	72	
United Arab Emirates	3,083	2,801	3,082	5,240	3,385	3,593	3,762	2,863	4,265	5,161	
United Arab Republic (Egypt)	1,589	1,764	1,428	2,335	9,250	834	1,491	731	1,134	387	
Yemen Arab Republic	336	305	318	286	371	-	-	304	12	7	
Other	997	1,377	1,122	1,235	1,484	1,156	1,469	1,390	1,954	2,328	
South and Central America	2,095	2,789	3,367	4,655	5,141	4,582	6,768	4,045	11,068	8,266	
Argentina	182	212	259	332	338	84	445	523	1,578	2,132	
Brazil	132	253	373	524	253	2,157	4,227	1,553	2,096	1,921	
Mexico	740	834	1,075	1,583	1,939	67	81	700	2,773	2,264	
Peru	127	138	122	236	217	9	36	32	110	59	
Uruguay	45	84	85	97	170	...	...	-	13	14
Other	869	1,267	1,453	1,883	2,224	2,266	1,980	1,237	4,498	1,876	
3. C.I.S., Eastern Europe	1,904	4,781	7,151	10,281	9,843	887	778	1,503	1,023	1,365	
Bulgaria	36	87	48	34	112	385	187	330	80	157	
Czech Republic	17	23	93	133	204	93	109	142	49	59	
Slovak Republic	-	23	7	7	10	-	-	-	-	1	
C.I.S. Countries (c)	1,849	4,644	6,983	10,073	9,516	395	470	1,031	893	1,148	
Other	2	27	27	34	1	14	12	-	1	-	
4. Asian Clearing Union	4,623	5,790	7,124	6,920	6,137	27,985	31,473	44,030	44,663	48,443	
Bangladesh	469	617	637	637	674	412	287	98	119	69	
India	1,170	1,634	2,370	2,582	2,434	19,985	24,045	31,056	33,023	34,837	
Iran	829	1,296	1,995	1,386	1,184	4,493	4,396	8,415	5,822	7,540	
Myanmar	1	2	45	3	34	51	25	642	361	65	
Nepal	10	23	36	94	71	46	34	4	270	78	
Pakistan	2,144	2,218	2,041	2,218	1,740	3,000	2,686	3,815	5,068	5,854	

(a) Unadjusted data.

(b) Provisional

(c) Commonwealth of Independent States.

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 91

Tourist Arrivals, Employment and Accommodation Capacity in the Tourist Sector

Item	1994	1995	1996	1997 (a)	1998 (b)
1. Tourist Arrivals (No.)	407,511	403,401	302,265	366,165	381,063
1.1 Arrivals by Region					
Europe	261,045	254,730	171,888	218,481	246,198
France	30,510	30,996	21,480	25,392	26,874
Germany	93,756	79,698	45,075	59,814	74,058
Italy	18,066	18,378	11,988	14,424	15,867
U.K.	50,313	63,582	52,095	62,997	66,432
Other	68,400	62,076	41,250	55,854	62,967
North America	15,612	14,565	12,462	15,951	17,529
Canada	4,920	5,469	4,689	6,477	7,542
U.S.A.	10,692	9,096	7,773	9,474	9,987
Asia	116,352	118,323	102,558	113,565	99,702
Hong Kong	4,302	7,194	7,170	7,620	3,675
India	44,142	47,448	42,822	47,010	37,356
Japan	19,497	18,180	11,724	13,374	13,785
Pakistan	10,188	11,325	11,748	11,439	10,782
Other	38,223	34,176	29,094	34,122	34,104
Australasia	12,033	10,254	8,763	11,712	12,159
Australia	9,681	9,066	7,626	10,392	10,329
New Zealand	1,323	1,104	1,110	1,293	1,452
Other	1,029	84	27	27	378
Other Regions	2,469	5,529	6,594	6,456	5,475
1.2 Arrivals by Purpose of Visit	407,511	403,101	302,265	366,165	381,063
Pleasure	377,537	383,570	286,924	349,509	354,770
Business	21,340	10,772	8,781	10,542	15,623
Other	8,634	8,759	6,560	6,114	10,670
2. Excursionist Arrivals (No.)	8,413	10,556	12,863	19,716	27,629
3. Accommodation					
3.1 Number of Establishments	1,030	1,118	1,308	1,336	1,338
Hotels and Restaurants	467	525	639	641	644
Travel and Transport Agencies (c)	239	265	317	341	340
Recreational Agencies	14	14	13	13	15
Tourist Shops	266	269	300	302	301
Other	44	45	39	39	38
3.2 Capacity in Graded Establishments					
No. of Units	134	138	143	158	163
No. of Rooms	10,742	11,255	11,600	12,370	12,772
No. of Beds	20,929	21,680	22,040	22,944	23,373
Annual Occupancy Rate (%)	56.6	52.6	40.3	49.1	52.8
3.3 Capacity in Supplementary Establishments					
No. of Units	169	208	223	227	224
No. of Rooms	2,045	2,494	2,509	2,635	2,640
No. of Beds	3,783	4,563	4,574	4,584	4,592
4. Employment (No.)					
4.1 Direct Employment	35,064	36,260	31,963	34,006	34,780
Managerial	5,768	5,542	4,869	4,454	4,544
Technical Clerical Supervisory	10,298	12,682	16,338	18,144	18,660
Manual and Operative	18,998	18,036	10,756	11,408	11,576
4.2 Estimated Indirect Employment	49,090	51,100	44,748	47,608	48,692

(a) Revised

(b) Provisional

(c) Includes Airlines and the Ceylon Tourist Board

Source : Ceylon Tourist Board

EXTERNAL SECTOR

TABLE 92

Some Indicators of Regional Distribution of Tourist Trade

Resort Region	1997						1998 (a)									
	Graded Accommodation Establishments		Accommodation Capacity		Room Occu- pancy Rate		Foreign Guest Nights		Graded Accommodation Establishments		Accommodation Capacity		Room Occu- pancy Rate		Foreign Guest Nights	
	No.	%	No. of Rooms	%	%	'000	%	No.	%	No. of Rooms	%	%	'000	%		
All Island	158	100.0	12,370	100.0	49.1	2,937	100.0	163	100.0	12,772	100.0	52.8	3,263	100.0		
Ancient Cities	35	22.2	2,252	18.2	47.0	471	16.0	36	22.0	2,282	17.9	50.8	535	16.4		
Colombo City	19	12.0	2,798	22.6	54.9	610	20.8	19	11.7	2,754	21.5	53.1	496	15.2		
East Coast	2	1.3	114	0.9	6.1	2	0.1	2	1.2	114	0.9	11.0	5	0.2		
Greater Colombo	31	19.6	2,045	16.5	54.7	601	20.5	30	18.4	2,032	15.9	60.1	686	21.0		
Hill Country	9	5.7	469	3.8	46.3	102	3.5	12	7.4	535	4.2	45.9	116	3.5		
South Coast	62	39.2	4,692	37.9	45.2	1,150	39.2	64	39.3	5,055	39.6	52.2	1,425	43.7		

(a) Provisional

Source : Ceylon Tourist Board

TABLE 93

EXTERNAL SECTOR

Balance of Payments Analytic Presentation Incorporating FCUBs of Commercial Banks as Off-Shore Units (a)

Item	US Dollars Million										Rupees Million									
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(b)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(b)
Trade Balance	-667	-703	-987	-1,045	-1,148	-1,559	-1,505	-1,344	-1,225	-1,157	-24,050	-28,145	-41,253	-45,785	-55,375	-77,022	-77,109	-74,276	-71,833	-73,945
Exports	1,538	1,984	2,039	2,461	2,864	3,208	3,807	4,095	4,639	4,735	56,175	79,481	84,378	107,855	138,176	158,554	195,092	226,801	274,194	305,329
Imports	2,226	2,686	3,037	3,505	4,011	4,767	5,311	5,489	5,884	5,891	80,225	107,626	125,631	153,640	193,550	235,576	272,201	301,077	346,026	380,274
Services, net	1	69	88	146	164	180	152	105	189	143	115	2,772	3,651	6,390	7,846	8,884	7,795	5,805	9,201	9,201
Receipts	340	433	539	613	628	745	821	765	875	913	12,297	17,415	22,364	26,911	30,269	36,793	42,045	42,358	51,692	58,986
Payments	339	365	451	468	464	566	669	680	716	770	12,182	14,644	18,714	20,521	22,442	27,910	34,250	36,553	42,306	49,786
Income, net (c)	-159	-167	-179	-178	-124	-168	-137	-204	-174	-209	-5,725	-6,676	-7,423	-7,820	-6,025	-8,364	-7,032	-11,232	-9,760	-13,465
Receipts	64	98	61	76	119	132	223	175	214	214	2,300	3,948	5,342	7,661	5,761	7,569	11,442	9,695	12,939	13,887
Payments	223	264	241	254	243	321	361	379	393	423	8,025	10,624	9,955	11,165	11,786	15,933	18,474	20,927	22,699	27,352
Goods, Services and Income (net)	-825	-800	-1,088	-1,077	-1,108	-1,547	-1,490	-1,442	-1,240	-1,223	-29,660	-32,050	-45,026	-47,215	-53,553	-75,502	-76,346	-79,703	-72,207	-78,210
Private Transfers, net	328	382	398	459	565	622	675	710	788	848	11,741	14,403	16,490	20,126	26,889	30,766	34,593	33,230	46,494	54,839
Receipts (d)	354	399	438	542	627	707	790	832	922	999	12,701	15,893	18,128	23,796	30,286	34,992	40,482	46,003	54,445	64,580
Payments	26	37	40	84	70	85	115	122	135	151	960	1,400	1,637	3,671	3,396	4,226	5,889	6,773	7,951	9,742
Official Transfers (net)	66	62	71	64	56	58	61	49	44	55	2,363	2,500	2,943	2,809	2,712	2,890	3,114	2,709	2,625	3,490
Current Account	-431	-377	-619	-554	-496	-867	-754	-683	-408	-320	-15,556	-15,147	-25,593	-24,279	-23,952	-42,847	-38,639	-37,764	-23,088	-19,881
Capital and Financial Account	425	514	858	664	1,108	1,070	754	578	668	627	15,595	20,581	35,534	29,007	53,375	53,226	38,379	32,352	37,323	41,182
Capital Account	125	117	135	122	109	113	117	96	87	61	4,487	4,756	5,597	5,344	5,238	5,589	6,009	5,286	5,140	3,862
Capital Transfers (net)	125	117	135	122	109	113	117	96	87	61	4,487	4,756	5,597	5,344	5,238	5,589	6,009	5,286	5,140	3,862
Receipts	126	119	136	124	111	116	121	100	91	65	4,516	4,803	5,648	5,343	5,243	5,720	6,191	5,495	5,386	4,164
Payments	1	1	1	3	2	3	4	4	4	5	30	46	51	114	105	131	182	209	246	301
Financial Account	300	397	723	543	1,000	957	637	482	581	566	11,109	15,925	29,936	23,662	48,137	47,636	32,370	27,965	32,183	37,320
Long-term:	183	402	538	413	640	739	496	383	730	489	7,009	16,247	22,478	17,971	30,684	36,837	24,657	21,201	38,377	32,040
Direct Investment	18	42	63	121	187	158	53	120	430	193	633	1,684	2,634	2,634	9,107	7,815	6,506	6,506	25,504	12,360
Foreign Direct Investments	18	42	63	121	187	158	16	86	129	137	633	1,684	2,634	2,634	9,107	7,815	6,506	6,506	25,504	12,360
Private Long-term (net) (c)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private Long-term (net) (c)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inflows (e)	63	77	110	134	115	93	147	177	127	160	2,269	3,145	4,542	5,320	5,588	4,574	7,449	9,798	7,474	10,351
Outflows	216	405	500	266	265	271	368	260	241	290	8,179	16,398	20,850	11,494	12,579	13,394	18,870	14,328	19,009	19,009
Government, Long-term (net) (f)	372	532	634	441	666	458	686	501	511	587	13,811	21,497	27,638	19,193	22,317	22,656	35,161	27,680	28,642	38,186
Inflows	156	127	133	175	201	187	318	240	270	297	5,632	5,100	5,529	8,994	9,738	9,263	16,291	13,287	19,177	19,177
Outflows	117	-6	185	130	360	218	141	98	-150	77	4,100	-322	7,459	5,692	17,453	10,799	7,712	5,865	-6,194	5,280
Short-term:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private Short-term (net) (c)	93	65	49	125	147	260	27	25	37	-7	3,557	2,685	2,105	5,652	7,110	12,930	1,430	1,355	4,339	-575
Commercial Bank Assets (net) (c)	-2	-104	-14	-82	54	-138	79	4	-290	-78	-1,870	-5,237	-1,667	-4,527	905	-7,093	1,904	-1,103	-20,048	-10,447
Commercial Bank Liabilities (net) (c)	26	33	87	86	92	68	36	62	90	186	2,413	2,230	4,431	4,740	6,167	3,627	4,469	5,260	8,766	17,823
Government Short-term (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SDR Allocations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Errors and Omissions	-59	-18	52	80	48	36	51	38	-97	-270	-108	751	235	1,555	-1,420	-1,380	6,594	4,213	-562	8,559
Overall Balance (g)	-65	-119	-290	-190	-661	-240	52	-68	163	37	-1,863	4,189	12,905	9,681	31,220	13,700	7,809	9	15,845	13,800
Monetary Movements (g)	65	-119	-290	-190	-661	-240	-52	68	-163	-37	1,363	-4,189	-12,905	-9,681	-31,220	-13,700	-7,809	-9	-15,845	-13,800
Exchange Rate Rs/US\$	36.05	40.06	41.37	43.83	48.25	49.42	51.25	55.27	58.99	64.59										
Rates to GDP in Percentages	-9.5	-8.7	-11.1	-10.8	-11.1	-13.3	-11.5	-9.7	-8.1	-7.3	-9.5	-8.7	-11.1	-10.8	-11.1	-13.3	-11.5	-9.7	-8.1	-7.2
Trade Account	-6.2	-4.7	-6.9	-5.7	-4.8	-7.4	-5.8	-4.9	-2.7	-2.0	-6.2	-4.7	-6.9	-5.7	-4.8	-7.4	-5.8	-4.9	-2.6	-1.9
Current Account	-7.1	-5.5	-7.7	-6.4	-5.3	-7.9	-6.3	-5.3	-3.0	-2.4	-7.1	-5.5	-7.7	-6.4	-5.3	-7.9	-6.3	-5.3	-2.9	-2.3
Current Account without Grants																				

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund. The presentation of balance of payments statistics in this table is consistent with Table 90 of the 1997 Annual Report and corresponding Tables in previous Annual Reports where Foreign Currency Banking Units (FCBUs) were treated as off-shore.

(b) Provisional

(c) In this presentation Foreign Currency Banking Units (FCBUs) are treated as off-shore units, in the compilation of balance of payments statistics while those involving FCBUs and non-residents are excluded

(d) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990.

(e) Includes adjustment to capital inflows in 1993, 1994 and 1995 on account of import of five aircraft for which advance payments had been made in previous years.

(f) Data since 1994 have been revised to incorporate additional information.

(g) All transactions in the Monetary Sector are converted at the end of year exchange rates.

Source : Central Bank of Sri Lanka

EXTERNAL SECTOR
Balance of Payments Analytic Presentation (Incorporating FCUBs of Commercial Banks as Part of the Domestic Banking System) (a)
TABLE 94

Item	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)
Trade Balance	-1,559	-1,505	-1,344	-1,225	-1,157	-77,022	-77,109	-74,276	-71,893	-73,845
Exports	3,209	3,807	4,095	4,639	4,735	158,554	195,092	226,601	274,194	306,929
Imports	4,767	5,311	5,439	5,864	5,891	235,576	272,201	301,077	346,026	380,274
Services, net	180	152	105	159	143	8,884	7,796	5,805	9,886	9,201
Receipts	745	821	765	875	770	36,793	42,045	42,358	51,692	58,986
Payments	566	669	660	716	627	27,910	34,250	36,553	42,306	49,786
Income, net (c)	-162	-170	-197	-160	-214	-8,068	-8,717	-10,923	-9,417	-11,468
Receipts	171	226	234	234	214	11,596	11,596	10,258	13,792	13,882
Payments	333	396	383	393	392	16,541	20,312	21,182	23,210	25,350
Goods, Services and Income (net)	-1,541	-1,522	-1,436	-1,225	-1,192	-76,207	-78,030	-79,395	-71,864	-76,212
Private Transfers, net	622	675	710	788	848	30,766	34,593	39,230	46,494	54,843
Receipts (d)	707	790	832	922	989	34,992	40,482	46,003	54,445	64,355
Payments	85	115	122	135	151	4,226	5,889	6,773	7,951	9,142
Official Transfers (net)	58	61	49	44	55	2,890	3,114	2,709	2,625	3,490
Current Account	-860	-786	-677	-393	-289	-42,551	-40,324	-37,456	-22,745	-17,860
Capital and Financial Account	943	699	459	602	395	46,569	36,847	25,725	30,691	25,321
Capital Account	113	117	96	87	61	5,589	6,009	5,286	5,140	3,862
Capital Transfers (net)	113	117	96	87	61	5,589	6,009	5,286	5,140	3,862
Receipts	116	121	100	91	65	5,720	6,191	5,495	5,385	4,164
Payments	3	4	4	4	5	131	182	209	246	301
Financial Account	830	581	363	515	334	40,979	30,638	20,439	25,550	21,459
Long-term:	705	502	381	716	398	34,849	25,939	20,962	37,029	25,904
Direct Investment	158	53	120	430	193	7,815	2,931	6,606	25,504	12,379
Foreign Direct Investment	158	53	120	430	193	7,815	2,931	6,606	25,504	12,379
Privatisation Proceeds	-	37	33	301	56	-	1,920	1,850	7,987	8,846
Private Long-term (net), (c)	295	91	2	47	7	14,554	4,648	88	17,918	3,533
Inflows (e)	384	194	156	150	149	18,992	9,937	8,628	8,741	9,873
Outflows	90	103	155	102	142	4,438	5,289	5,687	9,162	9,162
Government, Long-term (net) (f)	253	358	259	239	198	12,479	18,359	14,268	8,471	12,814
Inflows	440	674	497	500	487	21,757	34,526	27,442	24,761	31,525
Outflows	187	315	238	262	290	9,278	16,166	13,174	16,291	18,711
Short-term:	124	79	-18	-201	-64	6,131	4,699	-523	-11,479	-4,445
Portfolio Investment	28	-2	7	13	-24	1,334	353	749	749	-1,521
Private Short-term (net), (c)	172	33	-44	-20	8	8,495	1,702	-2,426	-1,195	414
Commercial Bank Assets (net), (c)	-158	14	59	-323	180	-8,160	-2,731	1,127	-23,384	5,035
Commercial Bank Liabilities (net), (c)	82	35	-40	129	-228	4,461	5,818	423	12,352	-8,374
Government Short-term (net), (c)	-	-	-	-	-	-	-	-	-	-
SDR Allocations	-	-	-	-	-	-	-	-	-	-
Valuation Adjustments	-	-	-	-	-	-	-	-	-	-
Errors and Omissions	157	139	150	-46	-69	11,062	6,394	4,213	-562	8,559
Overall Balance (g)	240	52	-68	163	37	13,700	7,809	9	15,845	13,800
Monetary Movements (g)	-240	-52	68	-163	-37	-13,700	-7,809	-9	-15,845	-13,800
Exchange Rate Rs./US\$	-	-	-	-	-	49.42	51.25	55.27	58.99	64.59
Ratio to GDP in percentages	-	-	-	-	-	-13.3	-11.5	-9.7	-8.1	-7.3
Trade Account	-	-	-	-	-	-7.3	-6.0	-4.9	-1.8	-2.1
Current Account	-	-	-	-	-	-7.8	-6.5	-5.2	-2.8	-2.1
Current Account without Grants	-	-	-	-	-	-	-	-	-	-

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund. In addition, beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system. (See Technical Note in Box 8)

(b) Provisional

(c) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBUs Transactions in the Compilation of Balance of Payments Statistics" in Box 8.

(d) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990.

(e) Includes adjustment to capital inflows in 1993, 1994 and 1995 on account of the import of five aircraft for which advance payments had been made in previous years.

(f) Data since 1994 have been revised to incorporate additional information.

(g) All transactions in the Monetary Sector are converted at the end of year exchange rates.

Source : Central Bank of Sri Lanka

TABLE 95

Balance of Payments (a)

Item	US Dollars Million			Rupees Million		
	1997		Net	1998 (b)		Net
	Credit	Debit		Credit	Debit	
A. GOODS (c)						
B. SERVICES	4,639	5,864	-1,225	4,735	5,891	-1,157
Transportation	875	716	159	913	770	143
Passenger fares	389	233	156	400	263	137
Freight	142	100	41	139	124	15
Other (d)	33	54	-21	34	57	-23
Travel (e)	214	79	135	227	82	145
Insurance services	209	180	29	230	202	28
Other business services	30	20	10	34	18	16
Government expenditure n.i.e.	223	252	-29	224	253	-29
C. INCOME	25	31	-6	25	34	-9
Compensation of Employees	234	393	-160	214	392	-179
Direct investment	12	13	-2	12	13	-1
Other (f)	2	77	-75	2	91	-89
D. CURRENT TRANSFERS	220	303	-83	200	288	-88
Private (g)	967	135	832	1,054	151	903
General Government (h)	922	135	788	999	151	848
CURRENT ACCOUNT	44	44	0	55	55	0
CAPITAL AND FINANCIAL ACCOUNT	6,715	7,108	-393	6,915	7,204	-289
CAPITAL ACCOUNT	1,674	1,072	602	1,876	1,282	595
Capital Transfers	91	4	87	65	5	61
Other Sectors (migrant transfers)	91	4	87	65	5	61
Other Sectors (Other) (i)	83	4	79	55	5	50
Other Sectors (migrant transfers)	9	4	5	10	5	5
E. FINANCIAL ACCOUNTS	1,583	1,068	515	1,611	1,277	334
Private investment	1,083	806	277	1,124	988	136
Long - term	584	107	477	355	155	200
Direct investment	133	5	129	150	13	137
Privatisation Proceeds	301	301	0	56	56	0
Other Private Long-term (f)	150	102	47	149	142	7
Short - term	498	699	-201	768	832	-64
Portfolio investment	140	127	13	70	93	749
Other Private Short-term (f), (i)	226	246	-20	183	175	8
Commercial Bank - Assets (f)	323	323	0	386	206	180
Commercial Bank - Liabilities (f)	133	3	129	130	358	-228
Central Government (f)	500	262	239	487	290	198
Long-term	333	149	184	466	157	308
Other Long-term	168	113	55	22	132	-110
Short - term	645	808	-163	607	644	-37
MONETARY SECTOR	16	13	3	12	13	-1
Government - Assets (k)	386	481	-95	302	257	46
Government - Liabilities (k)	242	248	-6	293	291	2
Central Bank - Assets (k)	66	66	0	83	83	0
Central Bank - Liabilities (k)	—	—	—	—	—	—
Transactions with IMF (l)	—	—	—	—	—	—
Valuation Adjustments	—	—	—	—	—	—
Monetary Gold	—	—	—	—	—	—
Errors & Omissions	—	46	-46	—	69	-69

(a) The above presentation conforms as far as possible to international practice as followed by the International Monetary Fund, in the Balance of Payments Manual, 5th edition (1993). In addition, beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system. (see Technical Note in Box 8)

(b) Provisional

(c) Exports are recorded on f.o.b. valuation; imports on c.i.f. valuation.

(d) Includes port expenditure

(e) Passage collections by foreign shipping agents and airlines are included in Passenger fares.

(f) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics.

(g) Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBUs Transactions in the Compilation of Balance of Payments Statistics" in Box 8.

(g) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf war in 1990.

(h) Indicates outright grants received in the form of programme, food and commodity aid, cash and technical assistance.

(i) Indicates outright grants received in the form of project aid.

(j) Credit entries refer mainly to an increase in liabilities resulting from imports under trade credits. The debit entries in respect of such imports are in the merchandise account and are recorded on an arrivals basis. Debit entries refer to a decline in such liabilities and are recorded at the time of settlement of payment for such imports.

(k) The change in capital of the monetary sector is based on local records.

(l) The figures shown in the credit column relate to increase in liabilities to the IMF arising from drawings from the IMF. Sri Lanka Rupee values reflect changes in the representative rate of the SDR. Figures in the debit column are in respect of repurchases or repayments, made in instalments to the IMF, in respect of earlier drawings. Subscriptions to the IMF, consequent to successive increases in Sri Lanka's quota, are also shown in the debit column.

Source : Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 96

Services, Income and Transfers (a)

Item	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)
1. Transportation	139	135	138	156	137	6,879	6,891	7,642	9,194	8,836
Credits	293	336	339	389	400	14,483	17,198	18,778	22,981	25,831
Debits	155	201	201	233	263	7,604	10,308	11,137	13,787	16,995
2. Travel	61	40	-10	29	28	2,995	2,031	-517	1,728	1,826
Credits	231	226	166	209	230	11,375	11,569	9,195	12,316	14,873
Debits	169	186	176	180	202	8,380	9,539	9,712	10,588	13,047
3. Insurance Services	8	17	10	10	16	400	852	526	578	1,011
Credits	21	27	28	30	34	1,009	1,381	1,523	1,757	2,189
Debits	13	10	18	20	18	609	529	996	1,179	1,179
4. Other Business Services	-21	-28	-27	-29	-29	-1,017	-1,411	-1,484	-1,723	-1,889
Credits	176	213	208	223	224	8,702	10,901	11,520	13,161	14,478
Debits	197	240	235	252	253	9,719	12,311	13,004	14,884	16,367
5. Government Expenditure n.i.e.	-7	-11	-7	-6	-9	-373	-568	-362	-392	-583
Credits	25	19	24	25	25	1,225	995	1,342	1,476	1,614
Debits	32	31	31	31	34	1,598	1,563	1,704	1,868	2,198
Total Services	180	152	105	159	143	8,884	7,796	5,805	9,386	9,201
Credits	745	821	765	875	913	36,793	42,045	42,358	51,692	58,986
Debits	566	669	660	716	770	27,910	34,250	36,553	42,306	49,786
1. Compensation of Employees	-1	-1	-1	-2	-2	-54	-74	-78	-91	-99
Credits	9	11	11	12	12	458	574	606	693	762
Debits	10	13	12	13	13	512	648	684	783	861
2. Direct Investment Income	-73	-70	-63	-75	-89	-3,666	-3,599	-3,473	-4,424	-5,747
Credits	1	1	1	2	2	33	54	79	121	131
Debits	74	71	64	77	91	3,699	3,654	3,552	4,545	5,879
3. Other Income (c)	-88	-98	-133	-83	-88	-4,349	-5,043	-7,373	-4,902	-5,621
Credits	162	214	173	220	200	7,981	10,968	9,573	12,979	12,988
Debits	250	312	307	303	288	12,330	16,011	16,946	17,881	18,609
Total Income	-162	-170	-197	-160	-179	-8,068	-8,717	-10,923	-9,417	-11,468
Credits	171	226	186	234	214	8,473	11,596	10,258	13,792	13,882
Debits	333	396	383	393	392	16,541	20,312	21,182	23,210	25,350
1. Private	622	675	710	788	848	30,766	34,593	39,230	46,494	54,843
Credits (d)	707	790	832	922	999	34,992	40,482	46,003	54,445	64,585
Debits	85	115	122	135	151	4,226	5,889	6,773	7,951	9,742
2. General Government	58	61	49	44	55	2,890	3,114	2,709	2,625	3,490
Credits	58	61	49	44	55	2,890	3,114	2,709	2,625	3,490
Debits	-	-	-	-	-	-	-	-	-	-
Total Current Transfers	681	736	759	832	903	33,656	37,707	41,939	49,119	58,333
Credits	766	851	881	967	1,054	37,881	43,596	48,712	57,070	68,074
Debits	85	115	122	135	151	4,226	5,889	6,773	7,951	9,742

- (a) The above presentation conforms as far as possible to the Balance of Payments Manual, 5th edition (1993) of the International Monetary Fund. Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system (see Technical Note in Box 8).
- (b) Provisional
- (c) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8.
- (d) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990.

Source : Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 97

Private Remittances

Origin	US Dollars Million					Rs. Million					Percentage Share				
	1994	1995	1996	1997	1998 (a)	1994	1995	1996	1997	1998 (a)	1994	1995	1996	1997	1998 (a)
	1. Middle East (b)	398	423	484	562	611	20,196	23,567	26,728	33,202	39,466	57.7	58.2	58.1	61.0	61.2
2. North America	62	58	70	72	76	3,163	3,233	3,864	4,259	4,888	9.0	8.0	8.4	7.8	7.6
3. South and Central America	9	7	8	9	10	477	405	468	521	646	1.4	1.0	1.0	1.0	1.0
4. European Union	101	108	122	127	135	5,133	5,991	6,762	7,499	8,720	14.7	14.8	14.7	13.8	13.5
5. Eastern Europe	1	4	3	4	4	56	202	187	253	258	0.2	0.5	0.4	0.5	0.4
6. Europe Other	34	37	43	45	53	1,732	2,065	2,392	2,692	3,423	4.9	5.1	5.2	4.9	5.3
7. South Asia	4	5	7	8	8	224	262	374	478	517	0.6	0.6	0.8	0.9	0.8
8. South East Asia	14	15	17	16	19	729	810	925	972	1,227	2.1	2.0	2.0	1.8	1.9
9. Far East Asia	51	55	61	61	62	2,574	3,086	3,358	3,603	4,005	7.4	7.6	7.3	6.6	6.2
10. Australasia	6	7	8	9	10	323	400	468	501	656	0.9	1.0	1.0	0.9	1.0
11. North Africa	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
12. Central Africa	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
13. South Africa	...	...	...	...	...	7	15	3	...	...	...	...	...	...	...
14. Other	7	8	9	8	11	379	446	473	465	711	1.1	1.1	1.0	0.8	1.1
Total	690	727	832	921	999	34,992	40,482	46,003	54,445	64,517	100.0	100.0	100.0	100.0	100.0

(a) Provisional

(b) Includes US dollars 64 mn. and US dollars 78 mn. received in 1997 and 1998 as compensation of US dollars 2,500 per person to 26,101 and 31,279 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990.

Source: Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 98

External Resources and Their Use

Category	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998 (a)	1994	1995	1996	1997	1998 (a)
A. Resources										
1. Merchandise Exports	3,209	3,807	4,095	4,639	4,735	158,554	195,092	226,801	274,194	306,329
2. Services of which	745	821	765	875	913	36,793	42,045	42,358	51,692	58,986
3. Investment Income (b)	171	226	186	234	214	8,473	11,596	10,258	13,792	13,882
4. Current Private Transfers	707	790	832	932	999	34,992	40,482	46,003	54,445	64,585
5. Capital Inflows	1,461	1,218	1,012	1,360	1,033	72,056	62,477	55,846	75,580	66,710
5.1 Loans (c)	415	447	424	333	466	20,522	22,893	23,411	19,597	30,129
5.2 Other Loans (b), (d)	25	227	73	168	22	1,234	11,633	4,031	5,164	1,397
5.3 Grants	167	174	140	127	110	8,257	8,696	7,739	7,500	7,001
5.4 Private Capital (b), (e)	482	169	210	575	276	22,697	8,709	11,573	34,066	17,659
5.5 Suppliers' Credits and Commercial Borrowings (b), (f)	384	194	156	150	149	18,992	9,937	8,741	8,741	9,873
5.6 Private Capital Transfers	7	8	8	9	10	353	409	465	511	652
6. Short Term Liabilities	655	305	80	350	-44	31,713	22,346	8,226	27,573	4,613
6.1 Drawings from the IMF (g)	82	-	-	-	-	4,429	3,064	-	-	-
6.2 Bank Borrowings	-	-	-	-	-	-	-	-	-	-
6.3 Short-term Credits (b)	452	248	130	226	183	22,348	12,684	7,157	13,291	11,697
6.4 Commercial Banks (b)	82	35	-40	129	-228	4,461	5,918	423	12,352	-6,374
6.5 Asian Clearing Union (ACU)	11	10	8	23	-15	475	780	646	1,931	1,290
6.6 Other	29	13	-18	-31	17	-	-	-	-	-
7. Decline in External Official Assets	-	-	126	-	45	-	-	1,660	-	-
8. Allocation of SDRs	-	-	-	-	-	-	-	-	-	-
Total	6,949	7,167	7,096	8,380	7,894	342,580	374,038	391,152	497,275	515,105
B. Use										
1. Merchandise Imports of which	4,767	5,311	5,439	5,864	5,891	235,576	272,201	301,077	346,026	380,274
1.1 Aid Imports	617	617	584	407	436	27,044	29,748	28,879	24,001	26,140
2. Services	566	669	660	716	770	27,910	34,250	36,553	42,306	49,786
3. Investment Income (b)	333	396	383	393	392	16,541	20,312	21,182	23,210	25,350
4. Current Private Transfers	85	115	122	135	151	4,226	5,889	6,773	7,951	9,742
5. Capital Outflows	1,006	774	641	1,135	621	50,021	42,403	37,307	71,196	46,323
5.1 Long-Term Loans (b)	131	141	140	149	157	6,499	7,212	7,774	8,823	10,230
5.2 Other Long-Term including Commercial Borrowings and Suppliers' Credits (b)	146	278	252	215	226	7,216	14,244	13,939	13,155	14,549
5.3 Progress and Advance Payments	-	-	-	48	48	-	-	-	-	3,094
5.4 Short-Term Credits (b)	280	214	173	246	175	13,852	10,983	9,584	14,485	11,283
5.5 Commercial Banks (b)	158	-14	-59	323	-180	8,160	2,731	-1,127	23,384	-5,035
5.6 Private Capital (h)	276	118	83	132	107	13,547	5,868	4,613	7,813	6,801
5.7 Private Capital Transfers	3	4	4	4	5	131	182	209	246	301
5.8 IMF Repayments (g)	13	33	47	66	83	616	1,184	2,314	3,290	5,100
5.9 Bank Borrowings	-	-	-	-	-	-	-	-	-	-
5.10 Other	-	-	-	-	-	-	-	-	-	-
6. Increase in External Official Assets	348	41	-	91	-	17,989	10,469	-	14,486	9,990
7. Balancing Items	-157	-139	-150	46	69	-9,682	-11,486	-11,740	-7,900	-6,359
7.1 Valuation Adjustments	-	-	-	-	-	1,380	-6,394	-4,213	562	-8,559
7.2 Errors and Omissions	-157	-139	-150	46	69	-11,062	-5,091	-7,527	-8,461	2,201
Total	6,949	7,167	7,096	8,380	7,894	342,580	374,038	391,152	497,275	515,105

(a) Provisional.

(b) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBUs Transactions in the Compilation of Balance of Payments Statistics" in Box 8.

(c) Concessional assistance to the Government in the form of project, commodity and food aid.

(d) Includes all other medium and long-term loans to the Government.

Source : Central Bank of Sri Lanka

(e) Includes portfolio investment in Colombo Stock Exchange (CSE), privatisation proceeds and FDI.

(f) Includes capital inflow adjustments for the import of two aircrafts in 1993, two in 1994 and one in 1995 for which advance payments had been made earlier.

(g) Rupee values include revaluation effects due to changes in the IMF representative rate.

(h) Includes outflows on account of sales in the CSE.

EXTERNAL SECTOR

TABLE 99

Financing of the External Resource Gap (a)

Category	US Dollars Million					Rupees Million				
	1994	1995	1996	1997	1998 (b)	1994	1995	1996	1997	1998 (b)
1. Foreign Receipts	4,833	5,644	5,878	6,670	6,861	238,812	289,215	325,420	394,122	443,782
1.1 Exports	3,209	3,807	4,095	4,639	4,735	158,554	195,092	226,801	274,194	306,329
1.2 Services	745	821	765	875	913	36,793	42,045	42,358	51,692	58,986
1.3 Income (c)	171	226	186	234	214	8,473	11,596	10,258	13,792	18,882
1.4 Private Transfers	707	790	832	922	999	34,992	46,003	46,003	54,445	64,585
2. Foreign Payments	6,758	7,265	7,245	8,243	7,825	334,274	375,055	402,892	490,689	511,474
2.1 Imports	4,767	5,311	5,439	5,864	5,891	235,576	272,201	301,077	346,026	380,274
2.2 Services	566	669	660	716	770	27,910	34,250	36,553	42,306	49,786
2.3 Income (c)	333	396	383	393	392	21,182	20,312	23,210	25,350	29,530
2.4 Current Private Transfers	85	115	122	135	151	4,226	5,889	6,773	7,951	9,742
2.5 Private Capital Transfers	3	4	4	4	5	131	182	209	246	301
2.6 Capital Repayments	570	666	613	676	642	28,184	33,622	33,611	39,753	41,162
2.7 Investment Outflows	276	118	83	132	107	13,547	5,868	4,613	7,813	6,801
2.8 Commercial Banks	158	-14	-59	323	-180	8,160	2,731	-1,127	23,384	-5,035
2.9 Progress Payments	-	-	-	-	48	-	-	-	-	3,094
3. External Resource Gap	-1,925	-1,622	-1,367	-1,572	-965	-95,462	-85,840	-77,472	-96,567	-67,693
4. Financing of Resource Gap	1,925	1,622	1,367	1,572	965	95,462	85,840	77,472	96,567	67,693
4.1 Central Government	607	847	638	627	597	30,013	43,422	35,181	32,261	38,526
Grants	167	174	140	127	110	8,257	8,896	7,739	7,500	7,001
Project Aid	415	447	424	333	466	20,522	22,893	23,411	19,597	30,129
Commodity Aid	-	-	-	-	-	-	-	-	-	-
Food Aid	-	-	-	-	-	-	-	-	-	-
Other Long-term (c)	25	227	73	168	22	1,234	11,633	4,031	5,164	1,397
Short-term (c)	-	-	-	-	-	-	-	-	-	-
4.2 Private Sector	1,381	645	456	1,079	380	68,497	37,149	27,781	68,450	30,855
Direct Investment	166	65	133	435	206	8,223	3,320	7,943	25,790	13,222
Portfolio Investment	296	104	77	140	70	14,473	5,389	4,229	8,276	4,437
Commercial Borrowings & Suppliers' Credits (c), (d)	384	194	156	150	149	18,992	9,937	8,628	8,741	9,873
Short-term (c)	452	248	130	226	183	22,348	12,684	7,157	13,291	11,697
Commercial Banks (c)	82	35	-40	129	-228	-4,461	5,818	423	12,352	-8,374
4.3 Other	-220	-10	124	-88	56	-12,731	-6,216	2,770	-12,044	-8,048
IMF Drawings (e)	82	-	-	-	-	4,429	3,064	-	-	-
Borrowings from Abroad	-	-	-	-	-	-	-	-	-	-
Private Capital Transfers	7	8	8	9	10	353	409	465	511	652
Other	29	13	-18	-31	17	475	780	646	1,931	1,290
ACU	11	10	8	25	-15	-17,969	-10,469	1,660	-14,486	-9,990
External Official Assets	-348	-41	126	-91	45	-	-	-	-	-
4.4 Balancing Items	157	139	150	-46	-69	9,682	11,486	11,740	7,900	6,359
Valuation Adjustments	-	-	-	-	-	-1,380	6,394	4,213	-562	8,559
Errors and Omissions	157	139	150	-46	-69	11,062	5,091	7,527	8,461	-2,201
5. Pressure on Balance of Payments (f)										
5.1 With Aid Imports	39.8	28.7	23.3	23.6	14.1	40.0	29.7	23.8	24.5	15.3
5.2 Adjusted for Aid Imports	39.8	28.7	23.3	23.6	14.1	40.0	29.7	23.8	24.5	15.3

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund. In addition, beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system (see Technical Note in Box 8).

(b) Provisional

(c) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system, in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. For details please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8.

Source: Central Bank of Sri Lanka

(d) Includes capital inflow adjustments for the import of two aircraft in 1993, two in 1994 and one in 1995 for which advance payments had been made earlier.

(e) Rupee Values include revaluation effects due to changes in the IMF representative rate.

(f) Index indicating Pressure on the Balance of Payments is derived as follows: - Item 3 X 100 / Item 1

EXTERNAL SECTOR

TABLE 100

End of Period	Government (b)	Government Agencies and Institutions (c)	Currency Board/Central Bank(d)	Gross Official Assets (1+2+3)	Commercial Banks (e)	Total External Assets (4+5)	Changes in		Rs. Million
							Gross Official Assets Between End Periods (7)	Total External Assets Between End Periods (8)	
1940	29	67	80	177	148	324	-	-	
1945	421	142	461	1,023	237	1,260	847	936	
1950	77	266	565	908	225	1,133	-116	-127	
1955	112	237	655	1,004	225	1,229	97	96	
1960	20	219	190	430	112	541	-575	-688	
1965	11	55	282	348	92	440	-82	-101	
1970	...	58	194	252	151	402	187	-38	
1975	7	...	438	439	395	834	187	432	
1977	4	...	823	4327	573	1,402	391	566	
1978	28	...	4,327	4,330	1,243	5,573	3,501	4,171	
1979	10	...	6,132	6,161	1,316	7,477	1,831	1,904	
1980	14	...	7,960	7,971	1,681	9,652	1,810	2,175	
1981	135	...	4,404	4,419	2,347	6,766	-3,552	-2,886	
1982	415	...	6,743	6,879	2,343	9,222	2,460	2,456	
1983	196	...	7,234	7,649	3,585	11,234	770	2,012	
1984	989	...	7,704	7,901	5,126	13,026	252	1,793	
1985	1,089	...	12,734	13,724	5,218	18,942	5,823	5,915	
1986	958	...	11,602	12,692	5,726	18,418	-1,032	-524	
1987	374	...	9,547	10,505	6,803	17,308	-2,187	-1,171	
1988	590	...	8,840	9,214	9,265	18,479	-1,291	1,171	
1989	1,691	...	8,575	9,166	9,860	19,025	-49	546	
1990	1,105	...	9,963	11,655	11,730	23,385	2,489	4,359	
1991	1,632	...	16,399	17,505	16,967	34,472	5,850	11,087	
1992	1,482	...	28,957	30,590	18,633	49,223	13,085	14,751	
1993	1,597	...	41,592	43,075	23,161	66,236	12,485	17,013	
1994	1,132	...	81,404	83,002	34,447	117,449	39,927	51,213	
1995	938	...	99,859	100,991	42,607	143,598	17,989	26,149	
1996	1,295	...	110,521	111,459	45,338	156,797	10,469	13,200	
1997	1,227	...	101,961	103,188	48,780	151,968	-6,612	-2,043	
June	1,456	...	101,645	103,102	54,012	157,114	-86	5,146	
September	1,359	...	123,883	125,242	57,934	183,176	22,140	26,062	
December	1,192	...	123,093	124,286	67,596	191,881	-956	8,705	
1998	1,474	...	116,750	118,224	68,790	188,014	-6,062	-3,667	
February	1,341	...	118,714	120,055	68,671	188,726	1,831	712	
March	1,475	...	117,934	119,409	71,740	191,149	-647	2,423	
April	1,585	...	122,059	123,644	64,047	187,691	4,236	-3,458	
May	1,605	...	118,142	119,747	63,448	183,195	-3,897	-4,496	
June	1,324	...	119,753	121,077	60,432	181,509	1,329	-1,686	
July	1,370	...	117,662	117,032	65,097	184,129	-2,045	2,620	
August	1,346	...	121,769	123,114	67,714	190,829	4,082	6,700	
September	1,109	...	121,474	122,584	68,613	191,196	-531	368	
October	1,294	...	121,889	123,183	71,299	194,482	600	3,286	
November	1,454	...	124,710	126,165	66,778	194,942	2,981	460	
December	1,376	...	132,900	134,276	62,561	196,837	8,112	1,894	

Source: Central Bank of Sri Lanka

(a) The figures in the table differ from statistics on external assets published in the Annual Reports and Bulletins up to Dec. 1961. The differences that occur are explained more fully in the footnotes that follow and since 1994, the compilation of balance of payments statistics has been treated in accordance with the technical note in Box 8.

(b) Figures upto 1959 include War Loan re-lent to the U.K. Government, less the part held by the Currency Board, Central Bank. Figures upto 1952 agree with previously published statistics. Any difference thereafter is due to the inclusion of balances due to Sri Lanka under payments agreement with the People's Republic of China. Except for these balances which are recorded according to local records, the basis of valuation throughout is at face value according to records abroad. Figures since 1985 have been revised to include DST's special revolving credit balances.

(c) As previously published i.e. at face value according to records abroad. Includes foreign assets held by the Sterling Loans Sinking Fund up to 1974.

(d) The assets of the Currency Board were transferred to the Central Bank on 28 August, 1950. Figures upto 1949 are as previously published. Thereafter the figures are as published under the International Reserve in the balance sheet of the Central Bank. The International Reserve also includes balances due to Sri Lanka on bilateral clearing accounts other than with the People's Republic of China and include statutory reserve requirements of commercial banks since January 1963.

(e) All figures are according to local records, and upto 1947 are as previously published. From 1949 they agree with foreign balances of commercial banks. The balances are the sum of foreign currency on hand and balances due from banks abroad and export bills purchased and discounted. From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded. Since 1993 liquid balances have been re-defined to exclude placements of balances with FCBUs while balances held by FCBUs with non-residents have been included. For details please see the technical note on "Redefining FCBUs Transactions in the Compilation of Balance of Payments Statistics" in Box B.

EXTERNAL SECTOR

TABLE 101

End of Period Exchange Rates

Sri Lanka Rupees per unit of Foreign Currency

Country	Currency	Nov. 15, 1977 (a)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1. Australia	Dollar	9.5542	31.8820	30.9446	32.3608	31.6825	33.4912	38.8270	40.3275	45.1910	40.0252	41.6000
2. Austria	Schilling	0.5270	3.3567	3.8683	3.9934	4.0337	4.1126	4.5074	5.3518	5.1729	4.8610	5.7400
3. Bangladesh	Taka	-	1.2395	1.1243	1.1037	1.1795	1.2417	1.2417	1.3263	1.3358	1.3484	1.3975
4. Belgium	Franc	0.2416	1.1279	1.2732	1.3593	1.3912	1.3850	1.5646	1.8384	1.7951	1.6608	1.9699
5. Canada	Dollar	7.6783	34.5647	34.6762	36.7148	36.2619	37.0359	35.5856	39.7701	41.4404	42.7624	43.7686
6. China Peoples Republic.	Yuan	-	8.4708	7.7057	7.8356	7.9975	8.5452	5.9175	6.4982	6.8334	7.4017	8.1873
7. Denmark	Kroner	1.3930	6.0952	6.7876	7.1798	7.4074	7.3736	8.1941	9.7515	9.5287	8.9883	10.5815
8. France	Franc	1.7601	6.9354	7.7125	8.1924	8.3757	8.4655	9.3151	11.0493	10.8112	10.2338	12.0295
9. Germany	Deutsche Mark	3.7692	23.7002	26.1554	28.0178	28.5714	28.7371	32.1622	37.7638	36.4604	34.2422	40.3572
10. Hong Kong	Dollar	1.8162	5.1216	5.1549	5.4820	5.9425	6.4174	6.4586	6.9888	7.3293	7.9108	8.7487
11. India	Rupee	1.0214	2.3603	2.2332	1.6352	1.7520	1.5774	1.5926	1.5448	1.5839	1.5638	1.5852
12. Indonesia	Rupiah	-	0.0223	0.0212	0.0214	0.0223	0.0235	0.0227	0.0234	0.0241	0.0111	0.0085
13. Italy	Lira	0.0097	0.0316	0.0347	0.0370	0.0313	0.0292	0.0304	0.0342	0.0371	0.0348	0.0410
14. Japan	Yen	0.0341	0.2816	0.2943	0.3390	0.3699	0.4433	0.5004	0.5255	0.4886	0.4715	0.5915
15. Kenya	Kenya Shilling	-	1.8518	1.6708	1.5167	1.2702	0.7271	1.1147	0.9662	1.0306	0.9778	1.1372
16. Korea	Won	-	0.0589	0.0562	0.0560	0.0583	0.0613	0.0634	0.0698	0.0672	0.0363	0.0569
17. Kuwait	Dinar	30.0030	136.9652	-	-	151.8503	165.6467	166.5167	180.4591	190.1257	200.8666	224.8466
18. Malaysia	Ringgit	3.5376	14.8230	14.7551	15.6039	17.6009	18.6181	19.5116	21.2534	22.4175	15.8155	17.8366
19. Netherlands	Guilder	3.5126	21.0029	23.2736	24.8396	25.4186	25.6410	28.7175	33.7407	32.4780	30.3812	35.8141
20. New Zealand	Dollar	8.4049	23.9200	23.5706	23.1082	23.6394	27.6231	32.1047	35.3622	40.0422	35.6280	35.7980
21. Norway	Kroner	1.5576	6.1045	6.6837	7.0919	6.6946	6.6314	7.3701	8.5430	8.7949	8.3751	8.8717
22. Pakistan	Rupee	0.8658	1.8628	1.8962	1.7162	1.7850	1.6388	1.6211	1.5743	1.4148	1.3878	1.4698
23. Philippines	Peso	-	1.7986	1.4371	1.5977	1.8330	1.7893	2.0469	2.0618	2.1571	1.5606	1.7313
24. Saudi Arabia	Riyal	2.4320	10.6651	10.7285	11.3533	12.2652	13.2145	14.0324	14.8511	15.1191	16.3394	18.0674
25. Singapore	Dollar	3.5617	21.1333	22.8831	26.1275	28.0351	30.9074	34.1627	38.2231	40.5007	36.5553	40.8313
26. South Africa	Rand	9.7888	15.8416	16.0319	15.5472	15.0820	14.6254	14.0324	14.8065	12.1229	12.5997	11.5567
27. Sweden	Kroner	1.7814	6.4777	7.0037	7.6473	6.5133	5.9830	6.7340	8.1317	8.2504	7.8095	8.3217
28. Switzerland	Franc	3.8160	26.1609	30.6824	31.4464	31.4745	33.8350	38.1090	46.8146	42.0504	42.1348	49.0449
29. Taiwan	Taiwan Dollar	-	1.5291	1.4894	1.6537	1.8108	1.8614	1.9047	1.9823	2.0627	1.8813	2.1028
30. Thailand	Baht	-	1.5570	1.5911	1.6843	1.8025	1.9406	1.9920	2.1456	2.2194	1.2943	1.8431
31. United Arab Emirates	Dirham	2.1959	10.8906	10.9559	11.5943	12.5248	13.4953	13.6093	14.7160	15.4383	16.6898	18.4586
32. United Kingdom	Pound	15.5255	65.0400	75.5908	79.5820	69.4278	73.4972	78.0513	84.2465	95.8598	101.5983	112.6165
33. United States of America	Dollar	8.9990	40.0000	40.2400	42.5800	46.0000	49.5615	49.9800	54.0475	56.7050	61.2850	67.7800

(a) From mid-night of 15 November 1977, the Sri Lanka Rupee was allowed to float and daily buying and selling rates of major currencies for telegraphic transfers by commercial banks were announced by the Central Bank. From 10 November 1982 the Central Bank's foreign exchange transactions with commercial banks were carried out exclusively in US Dollars, and spot buying and selling rates for the Dollar for transactions with commercial banks were announced by the Central Bank daily.

Sources : Central Bank of Sri Lanka
International Financial Statistics

EXTERNAL SECTOR

TABLE 102

Average Exchange Rates

Sri Lanka Rupees per unit of Foreign Currency

Period	Deutsche Mark	French Franc	Indian Rupee	Japanese Yen	Pound Sterling	Swiss Franc	US Dollar	SDR (a)
1989	19.1739	5.6499	2.2216	0.2613	59.1063	22.0350	36.0470	46.1874
1990	24.7961	7.3574	2.2888	0.2767	71.5004	28.8389	40.0630	54.4216
1991	24.9304	7.3327	1.8192	0.3071	73.2036	28.8508	41.3720	56.6101
1992	28.0656	8.2795	1.6911	0.3461	77.3819	31.1691	43.8300	61.7541
1993	29.1847	8.5201	1.5824	0.4339	72.4730	32.6550	48.2510	67.3860
1994	30.4505	8.9004	1.5750	0.4835	75.6840	36.1300	49.4150	70.7500
1995	35.8084	10.2678	1.5822	0.5475	80.8819	43.3417	51.2516	77.7440
1996	36.7450	10.8083	1.5606	0.5083	86.3433	44.7675	55.2719	80.2268
1997	34.0706	10.1219	1.6335	0.4881	96.6890	40.7061	58.9937	81.1695
1998	36.7985	10.9769	1.5744	0.4960	107.0498	44.6800	64.5930	87.6625
1997 1st Qtr	34.6609	10.2727	1.6001	0.4738	93.7337	40.0169	57.3619	79.8895
2nd Qtr	34.2941	10.1702	1.6407	0.4915	96.0462	40.6669	58.7258	81.1869
3rd Qtr	32.9085	9.7706	1.6572	0.5045	96.6665	39.9417	59.4567	81.0639
4th Qtr	34.4188	10.2740	1.6361	0.4827	100.3095	42.1987	60.4306	82.5377
1998 Jan	33.8967	10.1249	1.5673	0.4747	100.6564	41.7392	61.4717	82.6138
Feb	34.0838	10.1683	1.5669	0.4905	101.3315	42.2375	61.8257	83.4107
Mar	34.1388	10.1843	1.5866	0.4841	103.4941	41.8993	62.3001	83.7537
Apr	34.7986	10.3808	1.5972	0.4777	105.5602	41.9399	63.0942	84.7217
May	35.9970	10.7352	1.6220	0.4729	104.6117	43.2261	63.8635	85.7928
Jun	35.9968	10.7349	1.5837	0.4597	106.4096	43.1809	64.5093	86.0225
Jul	36.3392	10.8396	1.5358	0.4639	107.3674	43.1548	65.2468	86.0508
Aug	36.9116	11.0104	1.5517	0.4566	107.7905	44.1660	65.9844	87.5335
Sep	38.7961	11.5703	1.5535	0.4911	111.0153	47.1131	66.0642	90.1679
Oct	40.3787	12.0428	1.5616	0.5493	112.2468	49.5015	66.2868	93.2449
Nov	39.7994	11.8699	1.5800	0.5556	111.2633	48.3209	66.9429	93.1371
Dec	40.4451	12.0611	1.5867	0.5760	112.8504	49.6813	67.5263	94.6927

(a) Special Drawing Right, the unit of account of the International Monetary Fund.

Source : Central Bank of Sri Lanka

EXTERNAL SECTOR

TABLE 103

External Debt Outstanding (a)

Item	US Dollars Million				Rs. Million			
	1997		1998 (b)		1997		1998 (b)	
	Disbursed	Undisbursed	Disbursed	Undisbursed	Disbursed	Undisbursed	Disbursed	Undisbursed
A. Long and Medium Term								
1. Government	7,286	2,327	7,899	2,587	446,507	142,590	535,384	175,365
Multilateral	6,346	2,327	6,897	2,587	388,925	142,590	467,478	175,365
of which : ADB	2,830	771	3,156	854	173,428	47,276	213,896	57,914
IDA	1,243	341	1,396	455	76,186	20,924	94,652	30,871
Bilateral	1,509	400	1,648	375	92,482	24,540	111,711	25,389
of which : Japan	3,078	1,497	3,424	1,672	188,662	91,727	232,101	113,338
Financial Markets	1,611	1,326	1,953	1,442	98,739	81,233	132,371	97,731
Suppliers' Credit (c)	234	59	221	61	14,333	3,587	14,960	4,112
Suppliers' Credit (d)	204	-	96	-	12,502	-	6,520	-
2. Public Corporations and Private Sector with Government Guarantee (c)	670	-	724	-	41,061	-	49,052	-
Multilateral	-	-	-	-	-	-	-	-
Bilateral	-	-	-	-	-	-	-	-
Financial Markets	531	-	569	-	32,548	-	38,553	-
Suppliers' Credit	139	-	155	-	8,512	-	10,499	-
3. Public Corporations and Private Sector without Government Guarantee (c)	270	-	278	-	16,521	-	18,554	-
Financial Markets	270	-	278	-	16,521	-	18,554	-
Suppliers' Credit	-	-	-	-	-	-	-	-
Other Private	-	-	-	-	-	-	-	-
Total	7,286	2,327	7,899	2,587	446,507	142,590	535,384	175,365
Multilateral	2,830	771	3,156	854	173,428	47,276	213,896	57,914
Bilateral	3,078	1,497	3,424	1,672	188,662	91,727	232,101	113,338
Financial Markets	1,035	59	1,068	61	63,402	3,587	72,367	4,112
Suppliers' Credit	343	-	251	-	21,015	-	17,020	-
Other Private	-	-	-	-	-	-	-	-
B. Short-Term and Other	911	-	854	-	55,860	-	57,896	-
1. Central Government	-	-	-	-	-	-	-	-
2. IMF Drawings	433	-	367	-	26,536	-	24,896	-
3. Central Bank Borrowings	-	-	-	-	-	-	-	-
4. Other (c), (d)	478	-	487	-	29,323	-	33,001	-
C. Total Outstanding Debt	8,197	2,327	8,753	2,587	502,366	142,590	593,280	175,365

(a) Beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system. Accordingly, disbursed and outstanding external debt data have been revised to exclude FCBU loans to domestic entities as they are considered as domestic transactions under the new definition. Please see the technical note on "Redefining FCBU Transactions in the Compilation of Balance of Payments Statistics" in Box 8.

(b) Provisional

(c) Data since 1984 have been revised to incorporate additional information.

(d) Includes acceptance credits of Ceylon Petroleum Corporation, and other trade credits

Sources: Central Bank of Sri Lanka
External Resources Department

FINANCIAL SECTOR

TABLE 104

End of Period	Monetary Aggregates										Rs. Million	
	CURRENCY					DEMAND DEPOSITS					(11) Broad Money Supply M ₂ (f) (9)+(10)	(12) (8) as a percentage of (9)
	(1) Total (a)	(2) Held by Govt. (b)	(3) Held by Banks	(4) Held by Public (1)-(2)-(3)	(5) Total (c)	(6) Held by Govt. (d)	(7) Held by Banks (e)	(8) Held by Public (5)-(6)-(7)	(9) Narrow Money Supply M ₁ (4)+(8)	(10) Time and Savings Deposits held by Public		
1989	21,126	5.3	1,471	19,650	35,519	8,357	11,475	15,688	35,338	41,096	76,434	44.4
1990 (g)	23,901	11.1	1,770	22,120	49,596	12,587	19,533	17,477	39,597	50,949	90,546	44.1
1991	27,523	9.6	2,661	24,852	66,875	16,759	28,367	21,748	46,601	63,975	110,575	46.7
1992	30,496	10.6	3,205	27,281	68,012	11,136	34,100	22,776	50,057	79,742	129,798	45.5
1993	35,949	0.7	3,816	32,133	87,131	7,572	52,337	27,222	59,355	100,781	160,136	45.9
1994	43,081	0.5	4,175	38,906	104,093	11,186	61,352	31,555	70,461	121,209	191,670	44.8
1995	46,685	0.5	4,486	42,198	117,687	11,271	73,397	33,019	75,217	153,319	228,536	43.9
1996 1st Quarter	49,707	0.5	4,641	45,065	121,354	10,781	73,843	36,730	81,795	157,382	239,177	44.9
2nd Quarter	47,732	0.5	5,022	42,709	118,012	11,002	73,764	33,246	75,955	164,451	240,406	43.8
3rd Quarter	48,135	0.5	5,939	42,196	122,295	14,628	73,229	34,438	76,634	165,066	241,699	44.9
4th Quarter	49,480	0.5	6,915	42,565	126,723	14,378	76,707	35,638	78,203	174,998	253,201	45.6
1997 January	47,546	0.5	5,840	41,706	122,956	13,614	73,158	36,183	77,889	175,268	253,157	46.5
February	48,012	0.5	5,333	42,678	122,606	12,453	75,234	34,919	77,597	177,370	254,967	45.0
March	50,534	0.5	6,354	44,180	107,382	11,659	59,075	36,648	80,828	179,829	260,657	45.3
April	51,328	0.5	7,947	43,381	114,463	12,181	65,080	37,202	80,583	180,774	261,357	46.2
May	49,066	0.5	6,268	42,797	117,670	12,840	67,386	37,444	80,241	181,947	262,188	46.7
June	49,247	0.5	6,747	42,500	116,672	12,301	67,201	37,171	79,671	185,434	265,104	46.7
July	48,853	0.5	6,343	42,510	114,933	14,023	63,884	37,025	79,535	188,066	267,601	46.6
August	49,718	0.5	5,735	43,982	122,972	18,086	67,800	37,086	81,068	190,921	271,989	45.7
September	50,453	0.5	6,679	43,773	122,081	17,102	66,465	38,514	82,287	194,707	276,994	46.8
October	50,838	0.5	6,444	44,393	125,388	16,907	69,575	38,906	83,300	196,277	279,577	46.7
November	51,099	0.5	6,167	44,932	120,919	18,300	64,842	37,776	82,708	198,989	281,697	45.7
December	53,135	0.5	7,455	45,679	127,136	16,323	70,641	40,172	85,852	202,406	288,258	46.8
1998 January	52,518	0.5	6,160	46,358	122,854	15,601	68,083	39,170	85,527	203,490	289,018	45.8
February	53,851	0.5	6,400	47,451	126,468	14,920	71,736	39,812	87,263	204,188	291,450	45.6
March	57,300	0.5	8,419	48,880	122,862	13,380	66,167	43,315	92,194	205,010	297,205	47.0
April	56,459	0.5	8,221	48,237	120,726	11,692	66,835	42,200	90,436	206,715	297,152	46.7
May	56,088	0.5	7,426	48,662	125,964	14,218	69,230	42,515	91,177	207,296	296,472	46.6
June	55,681	0.5	8,029	47,652	124,461	13,714	68,273	42,475	90,126	206,817	296,943	47.1
July	56,601	0.5	7,912	48,688	122,306	10,854	67,876	43,577	92,264	206,413	298,677	47.2
August	56,936	0.5	8,254	48,682	126,582	14,029	69,846	42,708	91,389	205,116	296,505	46.7
September	57,324	0.5	8,316	49,008	126,403	13,678	68,269	44,456	93,463	208,215	301,678	47.6
October	56,653	0.5	7,378	49,275	123,234	11,434	68,834	42,966	92,240	211,275	303,514	46.6
November	56,921	0.5	7,784	49,137	125,762	15,105	66,819	43,839	92,975	213,661	306,637	47.2
December	60,087	0.5	8,320	51,767	128,147	13,506	70,140	44,502	96,268	219,906	316,174	46.2

Source: Central Bank of Sri Lanka

(a) Total amount of currency, including subsidiary notes and coins issued by the Central Bank.

(b) Currency held by the Treasury and the Kachcherries.

(c) Total demand deposits held by the Central Bank and the commercial banks.

(d) Government demand deposits with the commercial banks and the Central Bank.

(e) Inter bank deposits both local and foreign, including deposits of international organisations and commercial banks with the Central Bank.

(f) M₂ is defined as M₁ plus time and savings deposits of the private sector held with commercial banks.

(g) Monetary data from 1990 have been reclassified as follows, to be consistent with the standard international practice.

Column 5 & 8 - Excludes the value of rupee demand deposits held by customers resident outside Sri Lanka. These deposits are now treated as foreign liabilities (Rs. 899 million at end December 1998).

Column 10 - Excludes the value of rupee time and savings deposits held by customers resident outside Sri Lanka. These deposits are now treated as foreign liabilities (Rs. 151 million at end December 1998).

FINANCIAL SECTOR

TABLE 105

Analysis of Changes in Narrow Money Supply (M₁)

Rs. Million

End of Period	Narrow Money Supply (M ₁) (1)		External Assets (net) of Central Bank and Commercial Banks (including Outward Bills) (2)		Domestic Assets (net) of Central Bank (a) (3)		Commercial Banks' Non-Cash Domestic Assets (4)		Private Loans, Overdrafts, Bills (Local and Import Bills) and Cash Items in Process of Collection (c) (5)		Fixed and Savings Deposits and Other Liabilities (net) of Commercial Banks (6)		Adjustment for Items in Transit (7)		Government Rupee Cash (d) (8)	
	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)	Amount	Cumulative Change (e)
1989	35,338	2,959	4,732	-2,325	23,565	2,668	7,999	128	66,203	5,400	60,138	4,534	-1,599	-1,999	8,621	376
1990	39,597	4,259	3,419	-1,313	29,483	5,918	14,318	6,319	80,606	14,404	75,856	15,718	-954	-954	13,327	4,706
1991	46,601	7,003	12,258	8,839	33,892	4,409	13,477	-841	92,360	11,754	87,676	11,820	44	998	17,666	4,339
1992	50,057	3,456	20,940	8,682	23,020	-10,872	13,486	10	110,938	18,578	105,403	17,727	1,184	1,140	11,740	-5,926
1993	59,355	9,298	48,119	27,179	386	-22,634	18,298	4,812	123,704	12,767	121,116	15,713	1,931	747	8,106	-3,634
1994	70,461	11,106	64,467	16,348	1,627	1,241	21,162	2,864	145,167	21,463	145,523	24,407	4,334	2,403	12,103	3,997
1995	75,217	4,756	66,532	2,065	4,515	2,888	20,512	-650	188,352	43,185	185,859	40,336	6,311	1,977	12,523	420
1996	81,796	6,579	69,880	3,348	2,651	-1,864	29,440	8,728	195,440	7,088	189,383	3,524	13,372	7,061	12,660	137
2nd Quarter	75,956	739	66,393	-139	8,536	4,021	24,285	3,773	202,115	13,763	198,965	13,106	13,592	7,281	12,817	294
3rd Quarter	76,634	1,417	62,583	-3,949	9,794	5,279	25,733	5,221	213,003	24,651	204,752	18,893	13,356	7,045	16,365	3,842
4th Quarter	78,203	2,986	61,861	-4,671	12,974	8,459	27,147	6,635	203,780	15,428	192,615	6,756	18,533	12,222	16,412	3,889
1997	77,889	-314	61,162	-699	11,007	-1,967	29,207	2,060	202,643	-1,137	190,311	-2,304	20,303	1,770	15,516	-896
January	77,597	-606	59,083	-2,778	13,549	575	28,161	1,014	206,575	2,795	196,708	4,093	18,260	-273	14,803	-1,609
February	80,828	2,625	58,609	-3,252	3,122	-9,852	39,190	12,043	211,081	7,301	199,947	7,332	16,975	-1,558	14,252	-2,160
March	80,583	2,380	60,418	-1,443	9,234	-3,740	35,205	8,058	210,869	8,089	205,140	12,552	16,086	-2,449	15,682	-1,493
April	80,241	2,038	59,280	-2,581	12,634	-340	34,371	7,824	210,792	7,012	206,858	14,243	14,896	-3,637	15,919	-730
May	79,670	1,467	62,021	160	10,239	-2,735	38,320	11,173	212,007	8,227	212,964	20,349	14,539	-3,994	15,414	-998
June	79,535	1,332	61,971	110	8,888	-4,086	41,020	13,873	213,040	9,260	214,336	21,721	13,853	-4,680	17,195	783
July	81,068	2,865	61,971	25,196	19,755	-19,755	41,889	14,742	214,927	11,147	219,739	27,124	14,585	-3,948	21,700	5,288
August	82,287	4,084	88,084	26,223	-7,991	-20,565	45,834	16,687	215,777	11,997	223,997	31,382	14,978	-3,555	20,843	4,431
September	83,300	5,097	89,350	27,489	-4,242	-17,216	44,353	17,206	216,581	12,801	224,746	32,131	17,337	-1,196	20,659	4,247
October	82,708	4,505	89,474	27,613	-5,135	-18,109	44,069	16,922	220,784	17,004	227,739	35,124	16,568	-1,965	22,177	5,765
November	85,851	7,648	89,292	27,431	-1,415	-14,389	39,793	12,646	226,368	22,588	230,527	37,912	17,455	-1,077	20,204	3,792
December	85,527	-324	84,864	-4,428	1,334	2,749	38,960	-834	227,468	1,100	225,603	-4,924	22,405	4,949	19,091	-1,113
1998	87,262	1,411	85,662	-3,630	6,359	7,774	35,338	-4,455	227,768	1,400	233,656	3,129	15,949	-1,507	18,260	-1,944
January	92,194	6,343	89,545	253	2,369	3,784	35,494	-4,299	230,107	3,739	228,310	-1,217	20,140	2,684	15,871	-4,333
February	90,436	4,585	85,729	-3,563	-2,106	-691	38,248	-1,545	232,173	5,805	233,761	3,234	16,058	-1,399	13,790	-6,414
March	91,177	5,326	85,594	-8,699	340	1,755	39,143	-650	235,006	8,638	236,854	6,327	15,984	-1,472	16,067	-4,138
April	90,126	4,275	80,429	-8,863	-1,374	41	39,847	54	237,097	10,729	236,607	6,080	13,789	-3,667	15,477	-4,727
May	92,264	6,413	82,597	-6,695	-982	433	39,182	-611	237,752	11,384	238,953	8,426	14,773	-2,683	12,559	-7,645
June	91,389	5,538	85,658	-3,634	-1,250	166	38,496	-1,297	240,252	13,884	241,261	10,734	14,881	-2,575	15,526	-4,578
July	93,463	7,612	87,428	-1,864	-2,313	-898	38,789	-1,004	240,443	14,075	239,358	8,631	16,479	-977	15,045	-5,159
August	92,240	6,389	81,893	-7,399	-2,115	-700	40,155	362	245,487	19,119	244,991	14,464	15,278	-2,178	12,911	-7,293
September	92,975	7,124	89,590	298	-6,427	-5,012	39,973	180	247,504	21,136	245,016	14,489	16,150	-1,306	16,499	-3,705
October	96,268	10,417	93,724	4,432	-6,890	-5,475	44,328	4,535	253,034	26,666	256,282	25,755	16,892	-564	14,754	-5,450
November																
December																

Source: Central Bank of Sri Lanka

Bank by Rs. 9,113 million at end December 1999.

(ii) to include the balance in the Crown Agent's Account of the government (Rs. 7 million at end December 1998).
(iii) to include the revaluation effect of the IMF Structural Adjustment Facility - Rupee Account (This reduces the net external assets of the Central Bank by Rs. 2,622 million at end December, 1998).

(iv) to include rupee deposits of customers outside Sri Lanka as foreign liabilities (This reduces the net external assets of the commercial banks by Rs. 1,050 million at end December 1998).

Column 6 - Excludes the rupee time and savings deposits held by customers resident outside Sri Lanka which are now treated as foreign liabilities (Rs. 151 million at end December 1998) and includes the corresponding changes for adjustments (i) and (ii) made in Column 2.

(a) Domestic assets of the Central Bank exclude the item 'Loans and advances to others'.

(b) Includes government guaranteed securities and cash items purchased on government account from March 1969.

(c) Includes investments by banks in private securities.

(d) Consists of government deposits with the Central Bank and commercial banks (according to banks' books) and currency held by government.

(e) Cumulative changes refer to changes from the beginning of each calendar year. Signs in columns showing cumulative changes indicate effect on money supply (M₁).(f) Monetary data from 1990 have been reclassified as follows, to be consistent with the standard international practice.
Column 1 - Excludes rupee demand deposits held by customers resident outside Sri Lanka. These are now treated as foreign liabilities (Rs. 899 million at end December 1998).Column 2 - Adjusted:
(i) to include effect of the quota subscriptions made to the IMF (This increases the net external assets of the Central Bank by Rs. 9,113 million at end December 1999).

FINANCIAL SECTOR

TABLE 106

Currency Issue of the Central Bank by Denomination

Rs. Million

End of Period	Currency Issue (a)	CURRENCY NOTES										COINS									
		Rs. 1,000 (b)	Rs. 500 (b)	Rs. 200 (b)	Rs. 100 (b)	Rs. 50 (b)	Rs. 20 (b)	Rs. 10 (b)	Total (c)	Rs. 10 (b)	Rs. 5 (b)	Rs. 2 (b)	Rs. 1 (b)	Cts. 50	Cts. 25	Cts. 10	Cts. 05	Cts. 02	Cts. 01	Total (d)	
1989	21,126	9,709	4,766	-	3,963	875	289	532	20,207	17	389	176	140	72	60	35	21	6	3	919	
1990	23,901	11,917	5,271	-	3,874	875	314	545	22,869	18	450	198	152	79	65	36	22	6	3	1,032	
1991	27,523	13,449	7,175	-	3,773	922	375	646	26,411	19	496	208	161	85	69	37	22	6	4	1,111	
1992	30,496	16,161	6,992	-	3,964	946	401	751	29,284	19	550	229	171	92	73	38	23	6	4	1,213	
1993	35,949	19,081	8,976	-	4,298	1,036	441	678	34,579	20	635	262	189	98	78	38	23	6	4	1,370	
1994	43,081	25,012	9,097	-	4,833	1,205	518	761	41,496	20	752	317	213	109	85	38	23	6	4	1,585	
1995	46,685	27,914	9,449	-	4,836	1,266	554	797	44,886	20	878	343	239	119	93	38	23	6	4	1,798	
1996	49,707	29,932	9,999	-	5,080	1,358	600	836	47,874	20	898	343	243	121	94	38	23	6	4	1,832	
2nd Quarter	47,732	28,718	9,406	-	4,899	1,368	597	820	45,877	20	911	343	245	122	95	38	23	6	4	1,855	
3rd Quarter	48,135	29,314	9,232	-	4,922	1,328	592	803	46,261	20	921	342	247	123	96	38	23	6	4	1,875	
4th Quarter	49,480	30,205	9,442	-	5,081	1,328	581	861	47,567	20	940	342	252	125	98	38	23	6	4	1,913	
1997	47,546	28,664	8,981	-	5,061	1,345	612	883	45,616	20	950	342	254	126	98	38	23	6	4	1,930	
January	48,012	28,778	9,226	-	5,059	1,329	608	900	46,069	20	956	340	255	127	99	38	23	6	4	1,943	
February	50,534	30,395	10,002	-	5,239	1,372	618	878	48,573	20	959	341	257	128	99	38	23	6	4	1,961	
March	51,328	30,512	10,207	-	5,488	1,487	657	924	49,346	20	959	342	260	129	100	38	23	6	4	1,983	
April	49,066	29,989	9,424	-	5,210	1,419	643	923	47,077	20	959	340	259	129	100	38	23	6	4	1,989	
May	49,247	29,832	9,359	-	5,107	1,373	631	876	47,247	20	959	339	262	130	101	38	23	6	4	2,000	
June	48,853	29,735	9,100	-	5,091	1,353	626	875	46,849	20	957	338	262	130	101	38	23	6	4	2,004	
July	49,718	30,494	9,223	-	5,084	1,359	612	869	47,709	20	957	339	263	131	101	38	23	6	4	2,009	
August	50,453	31,237	9,161	-	5,139	1,330	621	876	48,433	20	959	340	264	131	102	38	23	6	4	2,020	
September	50,838	31,608	9,093	-	5,184	1,347	628	879	48,808	20	959	341	266	132	102	38	23	6	4	2,030	
October	51,099	31,891	8,958	-	5,226	1,372	643	897	49,056	20	958	341	268	132	102	38	23	6	4	2,043	
November	53,135	33,486	9,201	-	5,356	1,392	655	913	51,072	20	961	343	270	133	103	38	23	6	4	2,063	
December	52,518	32,799	9,065	-	5,441	1,450	679	937	50,439	20	958	410	273	134	103	38	23	6	4	2,078	
1998	53,851	33,699	9,150	-	5,422	1,448	677	947	51,730	27	1,059	413	275	135	104	38	23	6	4	2,121	
January	57,300	35,926	9,907	550	5,565	1,486	698	952	55,154	30	1,068	342	277	135	104	38	23	6	4	2,147	
February	56,459	34,128	9,847	1,111	5,828	1,575	741	987	54,286	34	1,081	425	280	136	104	38	23	6	4	2,173	
March	56,088	34,521	9,485	1,146	5,463	1,517	733	966	53,899	34	1,088	421	277	137	104	38	23	6	4	2,190	
April	55,681	34,552	9,443	1,078	5,238	1,457	713	957	53,477	45	1,093	423	278	137	105	38	23	6	4	2,204	
May	56,601	35,377	9,436	1,197	5,252	1,409	709	931	54,379	52	1,100	424	285	138	105	38	23	6	4	2,222	
June	55,681	35,377	9,436	1,197	5,252	1,409	709	931	54,379	52	1,100	424	285	138	105	38	23	6	4	2,222	
July	57,078	35,795	9,370	1,239	5,190	1,413	706	916	54,697	59	1,106	426	286	139	105	38	23	6	4	2,239	
August	57,324	36,216	9,412	1,243	5,113	1,405	708	905	55,071	66	1,109	427	287	139	105	38	23	6	4	2,252	
September	56,653	35,692	9,298	1,238	5,085	1,397	709	896	54,384	73	1,114	429	289	140	105	38	23	6	4	2,269	
October	56,921	36,167	9,072	1,226	5,091	1,394	720	893	54,632	82	1,122	431	290	140	105	38	23	6	4	2,289	
November	60,087	38,408	9,673	1,277	5,232	1,457	752	904	57,771	91	1,132	434	288	141	106	38	23	6	4	2,316	
December																					

(a) Pursuant to Section 51 of the Monetary Law Act, the Central Bank's holdings of notes and coins are not considered as part of its currency issue.

(b) Currency notes in the denomination of Rs.20 were issued from 4 August 1980, Rs.1,000 from 23 December 1981, and Rs.500 from 9 February 1982 and Rs. 200 from 4 February 1988. Coins of Rs.10 denomination were issued from 11 March 1987.

(c) Currency notes of Rs. 5, Rs. 2, Re. 1, Cts. 50, Cts. 25, Cts. 10 are also included. The value of these notes remained unchanged at Rs.38 million, Rs.27 million, Rs.3.5 million, Rs.0.4 million, Rs. 0.5 million and Rs. 0.5 million respectively from 1974.

(d) Includes coins of the denomination of half a cent (Rs. 0.005), Rs. 100, Rs. 500 Rs. 1,000 and Rs. 5,000. The value of half cents coins has been constant at Rs. 0.09 million since 1950, while the value of Rs. 100 coins stood at Rs. 1.8 million, the value of Rs. 500 coins at Rs. 17.6 million, the value of Rs. 1,000 coins at Rs. 14.0 million and the value of Rs. 5,000 coins at Rs. 15.3 million at end December 1988.

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 107

Rs. Million

Assets and Liabilities of Commercial Banks(a)

End of Period	A S S E T S														Loans and Advances			Fixed and Other Assets (c)	Total Assets or Liabilities
	Government Investments					Foreign Currency on Hand and Balances Due from Banks Abroad	Overdrafts		Bills Purchased and Discounted	Loans	Total	Total Assets or Liabilities							
	Sri Lanka Govt. Obligations		Treasury Bills	Govt. Securities	Other Investments (b)		Imports	Exports											
	Cash on Hand	Due from Central Bank											Due from Domestic Banks	Cash Items in Process of Collection					
1989	1,471	6,140	2,181	3,444	7,607	6,113	801	1,160	121	2,458	4,124	20,255	39,873	66,931	10,605	106,352			
1990	1,770	7,637	2,140	4,957	12,077	11,239	932	1,108	315	2,263	4,790	22,900	51,374	81,642	8,865	132,364			
1991	2,661	12,760	1,706	4,480	13,833	9,899	867	1,215	221	4,494	4,784	28,766	55,986	94,251	13,689	155,361			
1992	3,205	13,084	2,136	3,396	18,113	10,653	1,035	1,813	254	3,062	5,030	39,195	65,033	112,635	18,438	184,507			
1993	3,816	20,058	2,780	4,024	17,217	14,274	806	1,470	232	5,291	5,018	40,505	74,136	125,182	51,379	243,904			
1994	4,175	23,783	3,959	5,453	24,236	15,143	1,347	9,513	234	5,428	5,111	46,254	86,194	143,221	50,238	281,067			
1995	4,486	30,963	6,049	8,311	21,835	11,552	753	6,962	218	8,970	5,611	64,526	107,668	186,992	57,611	335,513			
1996	4,641	29,369	5,028	7,566	18,965	19,243	760	8,099	125	12,054	5,810	60,998	115,940	194,927	63,218	351,815			
1st Quarter	5,022	30,335	5,177	7,821	26,049	16,436	840	9,145	121	9,473	5,493	62,760	120,021	197,867	57,997	356,490			
2nd Quarter	5,939	32,908	4,927	9,602	23,913	14,633	840	10,547	180	11,510	6,075	65,902	125,628	209,196	60,640	373,145			
3rd Quarter	6,915	34,273	7,054	7,864	22,246	15,530	840	10,582	138	12,386	6,205	65,950	117,743	202,422	82,070	389,796			
4th Quarter	5,840	30,083	6,801	5,265	18,199	17,770	840	10,888	118	12,464	6,410	64,469	120,042	203,503	82,797	387,986			
January	5,333	32,189	7,286	5,274	25,015	16,458	840	11,081	81	12,148	6,345	67,687	121,168	207,428	80,492	391,398			
February	6,354	19,906	8,549	5,571	26,267	26,308	925	11,463	81	13,572	6,671	67,386	124,967	212,678	84,473	402,494			
March	7,947	24,868	8,022	4,855	28,983	23,888	1,297	11,526	82	14,012	6,938	65,769	125,848	212,647	78,796	402,629			
April	6,268	31,193	8,606	6,519	28,010	20,409	1,700	11,349	79	13,351	6,731	67,103	125,260	212,524	83,180	410,397			
May	6,747	29,054	8,084	7,276	30,303	21,307	1,620	11,608	94	12,431	6,763	68,428	127,567	215,283	83,519	414,801			
June	6,343	25,936	8,396	6,770	31,699	24,324	1,786	11,903	110	12,891	6,424	67,433	128,947	215,502	86,765	419,626			
July	5,735	29,583	7,607	5,287	31,681	29,053	1,977	11,879	81	11,196	7,098	67,174	130,173	215,722	83,297	421,819			
August	6,679	29,672	5,769	6,735	32,307	32,677	2,097	12,834	83	10,279	7,057	65,490	132,171	215,081	85,492	429,342			
September	6,444	29,963	4,971	9,277	35,777	27,364	2,350	12,331	77	11,237	7,617	65,996	132,305	217,232	88,736	434,464			
October	6,167	29,048	4,253	6,103	36,567	28,531	2,621	12,367	76	12,567	7,667	68,533	134,060	222,902	85,362	433,921			
November	7,455	29,045	6,519	7,538	41,631	20,490	2,616	12,301	77	13,459	6,965	71,977	137,711	230,188	85,007	442,791			
December	6,160	23,550	9,080	7,583	43,831	19,825	3,383	12,004	88	14,250	7,390	70,642	138,671	231,040	94,257	450,712			
January	6,400	30,124	9,725	6,368	45,421	16,859	2,620	12,448	75	13,592	7,592	71,938	139,312	232,410	88,984	451,359			
February	8,419	28,550	7,554	5,956	47,570	17,061	2,839	12,644	74	14,410	7,778	72,631	139,994	234,885	96,337	462,416			
March	8,221	28,017	9,973	4,406	43,913	18,494	2,644	12,504	14	16,292	7,009	73,305	142,770	239,389	95,953	463,514			
April	7,426	31,150	10,829	6,716	45,571	17,731	2,797	13,006	15	16,620	6,920	73,040	144,233	240,827	92,035	468,089			
May	8,029	28,050	10,068	6,870	42,284	17,467	2,828	13,140	17	18,004	7,920	73,923	144,709	244,372	89,848	462,956			
June	7,912	30,642	9,257	8,550	44,302	13,415	3,886	13,101	13	18,771	8,006	76,537	142,674	246,000	99,360	476,426			
July	8,254	31,982	8,929	7,268	47,336	12,083	3,443	12,906	14	20,287	7,927	75,107	145,650	248,986	94,174	477,361			
August	8,315	30,396	11,566	7,438	46,456	11,716	5,137	12,818	14	19,318	7,766	77,430	146,263	249,899	96,394	480,135			
September	7,378	30,570	10,034	7,671	49,762	14,277	3,427	12,946	11	19,487	7,121	77,430	150,404	254,453	95,036	485,553			
October	7,784	29,855	11,002	7,866	50,906	11,628	5,754	13,066	16	19,326	7,434	79,481	150,350	256,607	98,314	492,784			
November	8,320	31,348	11,803	8,202	52,227	13,552	5,349	13,313	11	21,146	6,815	82,224	153,580	263,776	93,793	501,683			
December																			

(Contd.)

(a) The number of reporting banks was 12 from 1962 to 1974, 11 up to March 1979, 12 in April 1979, 13 in May 1979, 14 in December 1979, 15 in March 1980, 16 in April 1980, 17 in May 1980, 18 in July 1980, 19 in September 1980, 21 in November 1980, 22 in March 1981, 23 in June 1981, 24 in December 1981, 25 in June 1982, 23 in December 1986, 24 in March 1987, 25 in March 1988, 24 in September 1989, 23 in September 1991, 24 in June 1995, 25 in October 1995, 26 in November 1995, 25 in January 1997 and 26 from March 1997 to date.

(b) Includes Central Bank Securities and DFCC Bonds.

(c) Fixed and other assets consist of banks' property, furniture, fittings and sundries (commission, interest etc., and adjustments).

FINANCIAL SECTOR

TABLE 107 (Contd.)

End of Period	L I A B I L I T I E S														Other Liabilities			
	Paid up Capital, Reserve Funds and Undistributed Profits		Demand Deposits						Time and Savings Deposits				Total All Deposits			Borrowings		
			Inter-Bank		Government of Sri Lanka	Resident Constituents	Non Resident Constituents	Government of Sri Lanka	Resident Constituents	Non Resident Constituents	Demand	Time and Savings	Total	Domestic Inter-Bank (d)		Foreign		
			Domestic	Foreign														
1989	5,395	148	5,592	15,375	324	259	40,078	8,210	21,439	48,548	69,986	5,439	1,279	24,253				
1990	6,690	286	8,993	17,256	343	730	50,665	10,305	26,885	61,700	88,585	8,691	1,255	27,143				
1991	8,960	377	7,742	21,641	549	897	63,519	14,544	30,311	78,960	109,270	7,427	1,197	28,506				
1992	9,868	28	8,482	22,741	478	593	79,741	18,442	32,091	98,776	130,877	7,813	1,668	34,291				
1993	21,851	49	5,771	27,169	1,132	533	100,780	23,432	34,592	124,745	159,397	9,157	2,084	51,475				
1994	28,278	30	8,374	31,415	1,502	916	121,210	26,755	41,708	148,982	190,589	10,591	2,101	49,507				
1995	33,460	28	8,232	32,970	1,086	1,252	153,319	31,085	42,576	185,656	228,232	14,260	2,784	56,779				
1996	35,561	13	6,864	36,698	1,420	1,880	157,382	30,873	45,806	190,134	235,940	17,395	3,174	59,745				
1997	36,337	10	6,773	33,109	1,413	1,815	164,451	32,573	41,682	198,839	240,521	19,899	3,561	56,172				
1998	35,307	19	9,305	34,351	1,682	1,738	165,065	34,514	46,280	201,317	247,598	20,511	4,704	65,025				
	39,238	4	10,869	35,516	1,529	2,033	174,998	36,009	48,867	213,040	261,907	26,208	1,987	60,457				
1989	40,079	13	9,334	36,160	1,185	1,902	175,268	36,858	47,573	214,027	261,600	25,932	2,613	57,761				
1990	40,864	17	8,775	34,865	1,127	2,349	177,370	36,986	45,487	216,705	262,203	26,248	3,115	58,968				
1991	41,057	98	7,936	36,618	1,391	2,591	179,829	37,721	46,669	220,140	266,809	26,290	4,802	63,536				
1992	41,566	78	8,006	36,891	1,110	2,738	180,774	38,471	46,545	221,982	268,527	25,676	5,263	61,597				
1993	40,830	55	9,185	37,204	1,112	2,843	181,947	38,270	48,127	223,059	271,186	25,887	4,594	67,900				
1994	41,013	15	8,473	36,958	1,091	3,114	185,434	37,881	47,121	226,429	273,549	24,954	5,245	70,040				
1995	41,680	34	10,482	36,794	1,075	3,172	188,066	39,314	49,195	230,552	279,747	23,274	3,566	71,358				
1996	42,386	16	8,897	37,006	1,299	3,613	190,921	39,241	47,899	233,775	281,574	24,085	3,942	69,733				
1997	43,934	110	8,852	38,464	1,260	3,741	194,707	39,820	49,253	238,267	287,520	22,700	3,586	71,603				
1998	43,317	40	8,445	38,812	1,358	3,752	196,277	40,229	49,293	240,258	289,550	23,395	4,370	73,891				
	43,002	21	9,482	37,705	1,335	3,877	198,989	40,589	49,148	243,454	292,602	22,742	4,462	71,114				
	44,368	2	9,847	40,108	2,011	3,881	202,406	43,255	52,704	249,543	302,247	24,171	3,238	68,767				
1989	46,316	43	9,607	39,137	1,961	3,490	203,490	44,174	51,558	251,154	302,711	27,076	4,547	70,062				
1990	46,791	33	7,211	39,783	1,577	3,340	204,188	45,267	49,356	252,795	302,151	26,689	4,060	71,668				
1991	47,093	28	8,510	43,304	1,672	2,490	205,011	47,307	54,045	254,808	308,853	26,560	5,759	74,152				
1992	47,373	61	7,517	42,176	2,141	2,098	206,715	50,322	52,579	259,136	311,714	25,579	3,215	75,633				
1993	43,654	37	10,568	42,440	2,055	1,848	207,296	51,720	55,905	260,864	316,769	26,848	2,872	77,947				
1994	44,122	47	9,174	42,447	1,482	1,763	206,817	53,413	53,817	261,993	315,810	23,795	3,703	75,526				
1995	45,537	14	8,819	43,556	1,496	1,705	206,413	53,150	54,615	261,268	315,526	24,525	4,108	86,373				
1996	46,108	27	10,997	42,679	1,413	1,597	205,116	55,717	55,717	260,626	316,344	25,996	4,692	84,221				
1997	45,611	29	11,380	44,440	1,339	1,368	208,215	53,895	57,751	263,478	321,229	27,472	3,896	81,936				
1998	46,287	9	9,149	42,867	1,457	1,477	211,275	58,207	57,511	270,959	325,076	25,334	3,896	82,475				
	47,776	748	12,185	43,796	1,634	1,394	213,661	58,918	58,384	273,974	332,357	26,136	4,612	81,904				
	50,220	627	10,397	44,470	1,736	1,249	219,906	61,074	57,232	282,228	339,461	28,413	3,626	79,964				

(d) Includes Central Bank

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 108

Assets and Liabilities of the Central Bank

Rs. Million

End of Period	A S S E T S										Total Assets or Liabilities	International Reserve as a percentage of Currency and Deposit Liabilities
	International Reserve				Loans and Advances to			Domestic Assets				
	Cash and Balances Abroad	Foreign Government and Non-Governmental Securities (a) (b)	Special Drawing Rights	Total	Government (c)	Others (d)	Government and Government Guaranteed Securities	Other Assets and Accounts				
1989	4,831	4,678	452	9,961	7,600	4,313	29,141	11,756	62,771	28		
1990	8,847	7,534	16	16,397	11,162	7,331	27,044	15,529	77,462	34		
1991	21,612	7,332	10	28,954	16,117	5,344	29,864	15,556	95,835	44		
1992	10,954	29,430	3	40,387	18,801	5,763	21,802	14,500	101,253	60		
1993	18,402	58,274	19	76,694	20,856	4,903	3,954	27,227	133,634	85		
1994	19,007	82,648	17	95,671	22,719	3,376	5,100	29,091	155,957	89		
1995	39,932	65,916	49	105,896	24,053	2,811	12,525	28,219	173,505	85		
1996	29,298	81,671	5	110,974	28,025	2,811	5,344	27,990	175,143	87		
1st Quarter	22,866	81,336	21	104,023	27,112	2,768	13,212	30,168	177,983	83		
2nd Quarter	33,487	69,627	166	103,280	27,857	2,727	15,451	35,018	184,133	82		
3rd Quarter	35,243	67,896	106	103,244	28,046	2,259	17,100	30,914	181,564	80		
4th Quarter												
1997	38,076	62,096	106	100,278	28,818	2,264	12,174	31,653	175,187	81		
January	41,012	58,880	53	99,945	28,817	2,260	15,715	28,171	174,906	79		
February	24,498	73,126	48	97,672	28,135	2,223	6,013	29,918	163,960	86		
March	26,096	72,229	114	98,439	28,830	2,200	11,216	32,119	172,803	82		
April	24,555	70,524	63	95,141	28,820	2,195	14,759	33,585	174,501	80		
May	36,904	60,269	71	97,244	28,725	2,155	14,972	33,108	176,203	81		
June	38,625	55,238	71	93,934	28,630	2,149	12,332	34,159	171,404	81		
July	47,961	72,307	15	120,283	28,257	2,142	15	34,069	184,765	95		
August	60,646	58,360	10	119,016	28,824	2,112	16	35,606	185,273	96		
September	52,867	67,617	78	120,562	28,174	2,086	3,680	37,016	191,617	94		
October	43,420	73,663	21	117,304	27,587	2,083	2,830	38,341	188,145	94		
November	51,914	67,060	25	118,999	28,660	1,692	7,222	27,322	183,895	92		
December												
1998	46,625	65,847	105	112,577	30,907	1,683	7,199	20,999	173,365	90		
January	41,990	72,544	44	114,578	30,916	1,679	10,591	22,065	179,829	87		
February	42,598	71,037	40	113,675	30,760	1,643	8,950	22,098	177,126	89		
March	37,857	79,493	139	117,289	30,903	1,607	5,591	24,111	179,501	93		
April	41,291	71,939	89	113,319	30,893	1,553	8,258	23,172	177,196	89		
May	38,891	75,983	15	114,889	30,919	1,524	6,252	24,614	178,198	90		
June	30,202	82,292	83	112,577	30,831	1,513	9,490	25,446	179,856	90		
July	59,563	57,151	19	116,753	30,080	1,510	11,042	26,464	185,848	90		
August	65,764	50,092	651	116,507	30,689	1,485	11,238	27,876	187,794	92		
September	52,218	64,851	117	117,186	30,875	1,476	11,663	29,226	190,426	92		
October	50,343	69,495	59	119,898	28,526	1,474	11,330	30,140	191,368	95		
November	59,385	67,717	76	127,178	30,545	1,122	8,238	21,591	188,673	96		
December												

(a) According to local books at cost or face value, whichever is less.

(b) Includes securities acquired from government institutions.

(c) Includes special loans and provisional advances.

(d) From February 1975, loans and advances to others include amounts granted under the Medium and Long Term Credit Fund.

(Contd.)

FINANCIAL SECTOR

TABLE 108 (Contd.)

Assets and Liabilities of the Central Bank

Rs. Million

End of Period	LIABILITIES														
	Capital Accounts			Currency Issue			Securities Outstanding(e)	Borrowings Abroad	Deposits						
	Capital	Surplus	Total	Notes in Circulation	Coins in Circulation	Total			Government	Govt. Agencies and Institutions	Commercial Banks	International Organisations, Foreign Govts. and Foreign Banking Institutions	Others	Total	Other Liabilities
1989	15	92	107	20,207	919	21,126	-	2,632	2,765	69	5,597	5,651	695	14,776	24,129
1990	15	592	607	22,869	1,032	23,901	-	-	3,593	221	7,458	11,721	670	23,663	29,291
1991	15	842	857	26,411	1,111	27,523	-	-	9,017	107	12,426	15,468	704	37,722	29,733
1992	15	985	1,000	29,270	1,226	30,496	-	-	2,655	36	14,326	19,339	922	37,277	32,481
1993	15	985	1,000	34,579	1,370	35,949	2,155	-	1,801	53	20,466	30,969	851	54,139	40,391
1994	15	985	1,000	41,496	1,585	43,081	3,740	-	2,812	142	24,832	35,658	607	64,251	43,885
1995	15	985	1,000	44,886	1,798	46,685	-	-	3,039	49	31,853	40,748	1,636	77,325	48,496
1996	1st Quarter	985	1,000	47,874	1,832	49,707	-	-	3,916	32	33,174	39,480	831	77,433	47,004
	2nd Quarter	985	1,000	45,877	1,855	47,732	-	-	4,230	137	31,965	41,039	601	77,971	51,279
	3rd Quarter	985	1,000	46,261	1,875	48,135	-	-	5,323	87	33,392	38,365	743	77,909	57,088
	4th Quarter	985	1,000	47,567	1,913	49,480	-	-	3,510	122	35,907	39,181	674	79,392	51,691
1997	January	985	1,000	45,616	1,930	47,546	-	-	4,280	23	33,507	38,258	712	76,780	49,861
	February	985	1,000	46,069	1,943	48,012	-	-	3,678	53	33,730	40,287	764	78,512	47,382
	March	985	1,000	48,573	1,961	50,534	-	-	3,723	30	32,264	36,561	869	62,447	49,979
	April	985	1,000	49,346	1,993	51,328	-	-	4,375	310	25,418	38,408	896	69,408	51,067
	May	985	1,000	47,077	1,989	49,066	-	-	3,655	239	30,949	35,242	472	70,557	53,878
	June	985	1,000	47,247	2,000	49,247	-	-	3,828	232	28,863	37,144	649	70,716	55,239
	July	985	1,000	46,849	2,004	48,853	-	-	3,542	231	27,026	35,397	734	66,929	54,622
	August	985	1,000	47,709	2,009	49,718	-	-	9,190	79	29,814	36,665	942	76,690	57,357
	September	985	1,000	48,433	2,020	50,453	775	-	8,251	49	29,719	35,340	792	74,151	58,894
	October	985	1,000	48,808	2,030	50,838	-	-	8,462	93	31,001	37,172	790	77,517	62,262
	November	985	1,000	49,056	2,043	51,099	-	-	8,818	71	29,189	34,318	808	73,204	62,842
	December	985	1,000	51,072	2,063	53,135	10	-	6,476	64	30,537	38,252	788	76,116	53,635
1998	January	985	1,000	50,439	2,078	52,518	-	-	5,994	32	29,596	36,511	637	72,770	47,077
	February	985	1,000	51,730	2,121	53,851	15	-	7,710	28	30,753	39,164	622	78,276	46,686
	March	985	1,000	55,154	2,147	57,300	-	-	4,870	10	31,298	38,249	586	70,013	48,813
	April	985	1,000	54,286	2,173	56,459	-	-	4,175	23	30,011	35,158	671	70,037	52,005
	May	985	1,000	53,899	2,190	56,088	-	-	3,650	74	32,632	34,840	630	71,826	48,281
	June	985	1,000	53,477	2,204	55,681	-	-	4,539	27	29,589	37,198	590	71,943	49,573
	July	985	1,000	54,379	2,222	56,601	-	-	2,085	20	31,645	34,709	680	69,088	53,167
	August	985	1,000	54,697	2,239	56,936	-	-	3,032	28	31,278	37,206	662	72,206	55,707
	September	985	1,000	55,071	2,252	57,324	-	-	2,298	15	32,423	34,465	669	69,870	59,600
	October	985	1,000	54,384	2,269	56,653	-	-	2,285	98	31,414	35,972	769	70,537	62,237
	November	985	1,000	54,632	2,289	56,921	-	-	2,920	42	32,324	32,904	716	68,906	64,541
	December	985	1,000	57,771	2,316	60,087	-	-	3,109	31	32,748	35,925	604	72,416	55,170

(e) Central Bank's own securities issued under Section 91(1) (b) of the Monetary Law Act.

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 109

Monetary Survey

Rs. Million

End of Period	External Banking Assets (Net) (a)	Domestic Credit				Total (2)+(3)+(4) + (5)	Monetary Aggregates				Other Liabilities (Net)	Reserve Money
		Government (Net) (b)	Private Sector		Narrow Money Supply M ₁ (c)		Quasi Money (d)	Broad Money Supply M ₂ = (7)+(8)+(9)	Other Liabilities (Net)	Reserve Money		
			Government Corporations	Co-operatives									Other Private Sector
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		
1989	4,732	36,119	13,862	1,178	51,163	102,321	35,338	76,434	30,620	26,792		
1990	3,419	35,358	15,636	1,555	63,435	115,964	39,597	90,546	28,838	31,579		
1991	12,258	35,392	14,077	1,683	76,599	127,751	46,601	110,575	29,435	40,056		
1992	20,940	33,065	14,750	1,962	94,226	144,003	50,057	129,798	35,150	44,858		
1993	48,119	26,983	7,775	1,903	114,026	150,697	59,355	100,781	38,679	56,469		
1994	64,467	28,628	5,163	2,541	137,463	173,795	70,461	191,670	46,590	68,055		
1995	66,532	35,447	8,527	3,939	175,886	223,799	75,217	228,536	61,794	78,587		
1996	61,861	48,537	9,938	1,465	192,377	252,317	78,203	253,201	60,978	85,509		
1997	61,163	48,797	7,692	1,682	193,269	251,440	77,889	253,157	59,447	81,076		
February	59,083	48,625	7,398	1,598	193,269	251,440	77,889	253,157	59,447	81,076		
March	58,609	50,698	10,403	1,569	199,109	261,779	80,828	260,657	59,731	71,828		
April	60,418	53,066	10,357	1,632	199,880	264,935	80,583	261,357	63,995	77,056		
May	59,280	56,246	8,430	1,628	200,734	267,038	81,947	265,188	64,131	80,255		
June	62,021	57,937	8,566	1,583	201,858	269,944	79,670	265,104	66,862	78,342		
July	61,971	55,879	9,004	1,622	202,414	268,919	79,535	267,601	63,290	76,310		
August	87,057	38,742	9,797	1,613	203,517	253,669	81,068	271,989	68,738	79,612		
September	88,084	44,064	9,613	1,711	204,453	259,841	82,287	276,994	70,932	80,221		
October	89,350	46,858	1,773	1,773	205,363	263,439	83,300	279,577	73,212	81,932		
November	89,474	44,241	8,432	1,885	210,467	265,025	82,708	281,697	72,803	80,356		
December	89,292	46,365	10,338	1,661	214,369	272,733	85,851	288,257	73,768	83,736		
1998	84,864	49,486	11,264	1,849	214,355	276,954	85,527	289,017	72,800	82,146		
January	85,662	50,062	10,250	1,802	215,717	277,830	87,262	291,450	72,043	84,633		
February	89,545	49,653	9,794	1,915	218,398	279,760	92,194	297,205	72,100	88,608		
March	85,729	51,460	10,371	1,851	219,951	283,633	90,436	297,152	72,210	86,493		
April	85,594	52,517	11,304	1,829	221,873	287,522	91,177	298,472	74,644	88,794		
May	80,429	52,616	11,109	1,949	224,039	289,713	90,126	296,943	73,200	85,297		
June	82,597	57,198	9,456	1,898	226,398	294,950	92,265	298,677	78,870	88,266		
July	85,658	54,226	9,973	1,815	228,464	294,479	91,389	296,505	83,632	88,242		
August	87,428	56,303	8,762	1,790	229,891	296,745	93,463	301,678	82,494	89,761		
September	81,893	60,015	8,465	1,892	235,131	305,502	92,240	303,514	83,880	88,164		
October	89,590	53,564	8,257	1,752	237,496	301,068	92,975	306,637	84,021	89,287		
November	93,724	58,591	9,485	1,812	241,738	311,626	96,268	316,174	89,176	92,866		
December												

Source: Central Bank of Sri Lanka

(a) External assets (net) of Central Bank and commercial banks (including outward bills).
 (b) Credit extended by the banking system to the government, net of government deposits with banks and government cash balances.

(c) Currency and demand deposits of the public.

(d) Time and savings deposits of private sector held with commercial banks.

(e) Monetary data from 1990 have been reclassified as follows, to be consistent with the standard international practice.

Column 1 - Please refer note to Column 2 in Table 105.

Column 2 - Net credit to the government by the Central Bank includes cash items in the process of collection (Rs. 919 at end December 1998) but excludes special

advances given to the government on account of obligations to the IMF (Rs. 9,766 million at end December 1998).

Column 7 - Note to Column 1 in Table 105.

Column 8 - Note to Column 10 in Table 104.

Column 10 - Adjusted for cash items in the process of collection (Rs. 919 at end December 1998) and special advances given by the Central Bank to the government on account of IMF obligations (which amount Rs. 9,766 million at end December 1998) and includes the corresponding changes for adjustments (i) and (ii) made in Column 2 in Table 105.

FINANCIAL SECTOR

TABLE 110

Assets and Liabilities of Foreign Currency Banking Units (FCBUs) (a)

End of Period	L I A B I L I T I E S (b)											Total Assets/Liabilities (17)					
	A S S E T S (b)					R e s i d e n t s											
	Non-Residents			Residents		Non-Residents			Residents								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		(12)	(13)	(14)	(15)	(16)
1989	5,268	14,444	-	160	508	3,384	3,076	2,404	2,588	13,404	440	5,988	456	1,576	824	3,968	29,244
1990	4,981	16,110	-	-	1,593	3,615	6,624	2,416	2,132	15,877	491	8,740	1,273	1,639	1,173	4,014	35,339
1991	5,164	13,230	-	42	1,790	5,867	9,709	3,563	2,242	15,972	775	9,353	2,854	1,808	1,313	5,048	39,365
1992	8,398	16,406	-	-	3,436	12,354	11,641	1,693	1,948	27,259	1,244	10,695	4,584	3,071	1,385	3,742	53,928
1993	4,167	18,414	-	-	2,693	17,688	10,983	2,284	3,097	26,684	1,589	10,326	2,481	6,276	1,158	4,618	56,229
1994	3,876	23,135	-	-	3,971	22,948	9,312	1,941	5,145	28,070	1,293	14,486	3,956	5,883	1,234	5,116	65,183
1995	3,096	27,903	-	-	6,257	30,534	8,350	3,621	5,657	31,222	639	15,667	6,264	11,956	1,123	7,233	79,761
1996	2,717	27,132	-	-	4,907	30,798	8,597	2,994	3,157	33,553	544	12,515	4,965	15,000	967	6,444	77,145
2nd Qtr	4,948	27,668	-	-	4,975	32,680	9,584	2,851	6,014	31,075	494	15,906	4,753	12,118	5,515	6,831	82,706
3rd Qtr	2,381	30,911	-	-	3,915	33,340	8,604	3,534	7,438	29,328	443	15,537	3,784	11,918	6,603	7,634	82,685
4th Qtr	1,924	26,673	-	-	3,949	35,577	9,015	3,935	6,106	28,772	245	13,150	5,744	13,832	5,465	7,760	81,073
1997	4,868	23,179	-	140	4,133	35,994	8,952	3,060	6,323	28,779	11	14,713	4,705	13,596	5,200	6,999	80,326
Jan	4,283	25,526	-	693	3,942	36,112	8,435	2,959	8,049	26,190	11	16,750	4,459	14,340	5,164	6,987	81,950
Feb	4,371	27,159	-	271	4,447	36,042	8,613	2,844	8,181	26,997	12	17,644	4,858	13,727	5,181	7,146	83,746
Mar	4,553	27,620	-	222	4,526	37,109	8,325	2,741	7,620	28,623	12	17,102	2,680	13,453	5,066	7,539	82,095
Apr	4,803	28,302	-	205	4,437	40,514	8,307	3,092	7,490	30,498	12	18,427	2,789	13,852	5,181	8,411	86,660
May	3,606	30,721	-	320	1,929	41,537	7,615	3,726	7,490	32,016	12	19,458	2,690	14,191	5,028	8,714	89,455
Jun	4,948	31,776	-	268	1,076	43,690	7,464	4,079	7,430	34,076	12	20,980	1,604	15,652	5,100	8,448	93,300
Jul	5,240	33,637	-	520	1,392	43,504	7,329	4,356	8,162	36,362	-	20,120	1,554	15,771	5,017	8,992	95,978
Aug	4,394	33,340	-	811	2,197	42,036	7,051	4,839	8,070	32,417	-	20,055	2,481	16,938	4,997	9,710	94,668
Sep	4,511	39,142	-	623	2,734	43,525	7,983	4,320	7,973	36,909	-	21,102	3,446	19,033	4,564	9,810	102,838
Oct	6,279	36,042	-	408	2,478	44,423	8,023	4,445	9,592	34,961	-	22,266	3,229	17,441	4,482	10,127	102,098
Nov	5,738	36,078	-	507	1,877	46,162	7,817	4,902	7,757	35,589	-	22,844	3,158	19,048	4,472	10,214	103,081
Dec	5,886	37,911	-	250	1,170	47,825	7,309	5,702	8,032	33,470	-	25,433	1,554	19,931	4,394	13,239	106,053
1998 (c)	5,361	36,290	-	439	1,581	48,313	6,416	5,402	9,250	30,381	-	25,364	1,929	19,480	4,499	12,899	103,802
Jan	5,394	37,494	-	223	1,022	47,157	6,398	3,225	9,590	30,776	-	26,012	1,292	16,795	4,501	11,887	100,853
Feb	6,360	33,990	-	781	1,136	48,041	6,142	3,190	8,777	30,419	-	24,525	1,781	17,432	4,426	12,280	99,640
Mar	4,885	34,288	-	219	1,267	50,148	5,355	2,816	8,998	28,361	-	25,937	982	18,132	4,514	12,054	98,978
Apr	5,092	32,637	-	315	1,247	50,413	5,418	2,175	8,851	27,313	-	24,740	1,861	17,822	4,538	12,172	97,297
May	4,736	32,491	-	572	1,182	47,742	4,480	3,278	10,119	24,200	-	24,202	1,503	17,738	4,525	12,194	94,481
Jun	6,088	30,999	-	197	1,480	48,565	5,136	2,561	7,106	23,570	-	24,324	2,203	19,637	4,587	13,599	95,026
Jul	6,964	30,840	-	488	1,486	48,396	4,708	2,365	6,348	23,948	-	23,862	2,608	19,753	4,785	13,943	95,247
Aug	5,661	35,450	-	232	1,849	48,124	4,599	2,740	6,151	23,069	-	28,024	1,739	21,069	4,394	14,209	98,655
Sep	6,144	31,147	-	449	4,853	49,655	11,566	2,531	6,284	24,837	-	28,414	2,267	21,589	4,017	14,287	106,345
Oct	6,649	25,796	-	905	5,455	49,345	11,409	3,906	6,880	22,803	-	29,634	5,927	22,183	4,156	11,882	103,465

(a) A Foreign Currency Banking Unit (FCBU) is a unit in a commercial bank, established in terms of Central Bank Circular No. 380 of 2nd May, 1979 which accepts deposits and grants advances in designated foreign currencies from and to -

(i) Non-Residents (ii) Commercial Banks (iii) Board of Investment (BOI) Enterprises, and (iv) Other residents approved by the Central Bank.

(b) Assets and Liabilities denominated in foreign currencies have been converted into Sri Lanka Rupees at exchange rates prevailing at the end of the relevant month.

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 111

Consolidated Monetary Survey (inclusive of FCBUs) (a)

Rs. Million

End of Period	Narrow Money (M ₁) (d)				Broad Money (M _{2b}) (e)				Net Foreign Assets (b)				Total Net Foreign Assets (8) + (11)
	Currency (1)	Demand Deposits (2)	Total Narrow Money (M ₁) (1) + (2) (3)		DBUs (4)	Quasi Money (QM) (5)		Total Broad Money (M _{2b}) (3) + (6) (7)	Monetary Authorities (8)	Commercial Banks		Total Com. Banks (9) + (10) (11)	
			FCBUs (5)	Total Quasi Money (4) + (5) (6)		FCBUs (9)	Total Com. Banks (10)						
1994	38,906	31,555	70,461	136,734	7,109	143,843	214,303	64,571	393	-6,204	-5,811	58,760	
1995	42,198	33,019	75,217	171,157	13,067	184,224	259,442	73,662	-3,037	-5,980	-8,917	64,745	
1996	45,065	36,730	81,795	174,805	15,951	190,756	272,552	80,825	-4,786	-6,851	-11,637	69,188	
1st Quarter	42,709	33,246	75,955	183,011	13,346	196,357	272,313	72,268	-2,187	-4,474	-6,661	65,607	
2nd Quarter	42,196	34,438	76,634	185,215	13,225	198,440	275,074	73,974	-6,100	-3,474	-9,574	64,400	
3rd Quarter	42,565	35,638	78,203	195,672	14,782	210,454	288,657	73,541	-4,186	-6,281	-10,467	63,074	
4th Quarter	41,706	36,183	77,889	196,512	14,239	210,751	288,640	72,074	-3,631	-7,056	-10,687	61,387	
1997	42,678	34,919	77,597	198,967	14,924	213,891	291,488	69,652	-4,722	-4,429	-9,151	60,501	
January	44,180	36,648	80,828	201,786	14,294	216,080	296,908	70,195	-5,332	-3,647	-8,979	61,216	
February	43,381	37,202	80,583	203,267	14,123	217,390	297,972	69,987	-3,675	-4,070	-7,745	62,242	
March	42,797	37,444	80,241	204,406	14,620	219,026	299,266	69,069	-4,463	-4,883	-9,346	59,723	
April	42,500	37,171	79,671	207,451	14,910	222,361	302,031	69,764	-3,119	-5,034	-8,153	61,611	
May	42,510	37,025	79,535	211,136	16,416	227,552	307,087	68,602	-2,326	-4,781	-7,107	61,495	
June	43,982	37,086	81,068	213,574	16,550	230,124	311,192	93,441	-1,740	-5,647	-7,387	86,054	
July	43,773	38,514	82,287	217,683	17,698	235,381	317,668	93,952	-2,057	-7,753	-8,810	89,142	
August	44,393	38,906	83,300	219,323	19,781	239,104	322,403	92,550	-1,229	-2,280	-2,280	90,270	
September	44,932	37,776	82,708	222,653	18,223	240,876	323,584	92,230	-620	-2,233	-2,853	89,377	
October	45,679	40,172	85,851	227,963	19,853	247,816	333,668	89,936	2,095	-1,530	565	90,502	
November	46,358	39,170	85,527	229,476	20,824	250,300	335,827	85,124	488	2,295	2,783	87,907	
December	47,451	39,812	87,263	231,003	20,453	251,456	338,718	84,305	2,177	2,020	4,197	88,502	
1998	48,881	43,315	92,194	233,683	17,732	251,415	343,610	89,465	2,315	2,462	4,777	94,242	
January	48,237	42,200	90,436	237,878	18,362	256,240	346,676	91,168	-1,502	1,154	-348	90,820	
February	48,662	42,515	91,177	239,635	19,128	258,763	349,939	90,552	-838	1,813	975	91,527	
March	47,652	42,475	90,126	239,625	18,815	258,440	348,566	89,687	-3,754	1,565	-2,189	87,498	
April	48,688	43,577	92,264	238,370	18,782	257,152	349,416	89,771	342	2,908	3,250	93,021	
May	48,882	42,708	91,389	237,384	20,726	258,110	349,499	91,014	2,276	6,411	8,687	99,701	
June	49,008	44,456	93,463	241,212	21,033	262,245	355,708	92,888	4,120	7,509	11,629	104,517	
July	49,275	42,966	92,240	248,015	22,378	270,393	362,633	91,089	849	11,891	12,740	103,829	
August	49,137	43,839	92,975	250,441	22,699	273,140	366,115	97,161	2,356	1,520	3,876	101,037	
September	51,767	44,502	96,268	257,995	23,478	281,473	377,741	101,744	1,141	2,763	3,904	105,648	
October													
November													
December													

(a) This new monetary survey is based on the aggregated data pertaining to both Domestic Banking Units (DBUs) and Foreign Currency Banking Units (FCBUs) of banks operating in Sri Lanka. All data are provisional.

Definitional changes have been adopted in aggregating DBU and FCBU data to avoid double counting and misclassification of assets and liabilities. The major changes are:

(1) All DBU placements in FCBUs are recorded as domestic assets, while all DBU borrowings from FCBUs are recorded as domestic liabilities.

(2) Foreign currency deposits of DBUs are classified on the basis of ownership rather than on the basis of currency.

Hence, the following apply:

(i) One half (50 per cent) of NRFC deposits are treated as domestic deposit liabilities;

(ii) All RNNFC balances are treated as foreign liabilities;

(Contd.)

(iii) All other domestic foreign currency accounts are treated as domestic deposit liabilities.

(b) External assets (net) of the Central Bank and commercial banks (including outward bills).

(c) Credit extended by the banking system to the government, net of government deposits with banks and government cash deposits.

(d) Currency and demand deposits of the public.

(e) Time and savings deposits of the private sector held with commercial banks.

FINANCIAL SECTOR

TABLE 111 (Contd.)

End of Period	Net Domestic Assets																Total Net Domestic Assets (24) + (27)				
	Domestic Credit																				
	Claims on Government (net) (c)						Credit to Public Corporations						Credit to the Private Sector					Other Items (Net)			
	Monetary Authorities (13)		Commercial Banks		Total Claims on Govt. (13) + (16)		DBUs		FCBUs		Total Credit to Public Corps. (18) + (19)		DBUs		FCBUs			Total Credit to Private Sector (21) + (22)		Total Domestic Credit (17) + (20) + (23)	DBUs	FCBUs	Total Other Items (net) (25) + (26)
	(14)	(15)	(15)	(15)	(16)	(17)	(18)	(19)	(19)	(20)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)		
1994	16,756	11,872	2,734	14,606	31,362	11,407	5,163	6,244	11,407	14,004	23,274	163,278	23,274	163,278	206,047	-31,562	-18,939	-50,501	155,543		
1995	24,418	11,029	3,215	14,244	38,662	13,305	8,527	4,778	13,305	179,825	30,878	210,703	30,878	210,703	262,670	-48,048	-19,925	-67,973	194,697		
1996	20,036	20,496	3,085	23,581	43,617	12,455	7,346	5,109	12,455	188,094	31,185	219,279	31,185	219,279	275,351	-55,420	-16,567	-71,987	203,364		
2nd Quarter	27,259	15,698	-1,192	14,506	41,765	14,518	8,423	6,095	14,518	193,692	33,075	226,767	33,075	226,767	283,050	-56,187	-20,157	-76,344	206,706		
3rd Quarter	29,202	14,691	-2,206	12,485	41,687	15,307	10,190	5,117	15,307	202,813	33,737	236,550	33,737	236,550	293,544	-62,922	-19,948	-82,870	210,674		
4th Quarter	34,291	14,246	-1,406	12,840	47,131	15,491	9,938	5,553	15,491	193,842	35,931	229,773	35,931	229,773	292,395	-47,797	-19,015	-66,812	225,583		
1997	30,825	17,972	-1,561	16,411	47,236	13,293	7,692	5,601	13,293	194,951	36,351	231,302	36,351	231,302	291,831	-45,482	-19,096	-64,578	227,253		
January	31,589	17,036	-1,568	15,468	47,057	12,463	7,398	5,065	12,463	199,177	36,470	235,647	36,470	235,647	295,167	-43,565	-20,615	-64,180	230,987		
February	22,035	28,663	-1,576	27,087	49,122	10,403	5,010	3,984	10,403	200,678	36,606	237,284	36,606	237,284	301,819	-44,029	-22,098	-66,127	235,692		
March	28,405	24,661	-1,463	23,198	51,603	14,904	10,357	4,557	14,904	201,512	37,944	239,456	37,944	239,456	305,973	-47,398	-22,845	-70,243	239,730		
April	33,302	22,944	-1,544	21,400	54,702	12,965	8,430	4,535	12,965	202,362	41,417	243,779	41,417	243,779	311,446	-46,998	-24,905	-71,903	239,543		
May	31,203	26,734	-1,430	25,304	56,507	12,424	8,566	3,858	12,424	203,441	42,415	245,856	42,415	245,856	314,487	-49,468	-24,899	-74,367	240,420		
June	28,513	27,366	-1,617	25,749	54,262	12,878	9,003	3,875	12,878	204,036	44,560	248,596	44,560	248,596	315,736	-44,526	-25,621	-70,147	245,589		
July	9,363	29,379	-1,514	27,865	37,228	13,541	9,797	3,744	13,541	205,130	44,366	249,496	44,366	249,496	300,265	-50,730	-24,397	-75,127	225,138		
August	10,822	33,242	-1,500	31,742	42,564	13,074	9,613	3,461	13,074	206,164	42,889	249,053	42,889	249,053	304,691	-51,765	-24,400	-76,165	228,526		
September	14,702	32,156	-1,097	31,059	45,761	13,755	9,444	4,311	13,755	207,136	44,479	251,615	44,479	251,615	311,131	-52,316	-26,682	-78,998	232,133		
October	13,530	30,711	-1,008	29,703	43,233	12,754	8,432	4,322	12,754	212,352	45,431	257,783	45,431	257,783	313,770	-51,273	-28,290	-79,563	234,207		
November	20,300	26,065	-1,115	24,950	45,250	14,658	10,338	4,320	14,658	216,030	47,108	263,138	47,108	263,138	323,046	-50,944	-28,930	-79,880	243,166		
December	23,623	25,862	-1,089	24,773	48,396	15,152	11,264	3,888	15,152	216,204	48,835	265,039	48,835	265,039	328,587	-47,563	-33,104	-80,667	247,920		
1998	25,275	24,787	-1,097	23,690	48,965	13,455	10,250	3,205	13,455	217,518	49,095	266,613	49,095	266,613	329,033	-46,046	-32,771	-78,817	250,216		
January	25,160	24,493	-1,108	23,385	48,545	12,846	9,794	3,052	12,846	220,313	48,047	268,360	48,047	268,360	329,751	-45,662	-34,721	-80,383	249,368		
February	22,827	28,633	-1,013	27,620	50,447	13,131	10,371	2,760	13,131	221,802	48,940	270,742	48,940	270,742	334,320	-44,985	-33,479	-78,454	255,856		
March	25,791	26,726	-999	25,727	51,518	13,241	11,304	1,937	13,241	223,701	51,048	274,749	51,048	274,749	339,508	-46,425	-34,671	-81,096	258,412		
April	23,707	28,910	-1,063	27,847	51,554	13,165	11,109	2,056	13,165	225,988	51,295	277,283	51,295	277,283	342,002	-45,896	-35,038	-80,934	261,068		
May	28,541	28,658	-1,173	27,485	56,026	10,765	9,456	1,390	10,765	228,296	48,583	276,879	48,583	276,879	343,691	-54,430	-32,866	-87,296	256,395		
June	28,541	28,658	-1,173	27,485	56,026	10,765	9,456	1,390	10,765	228,296	48,583	276,879	48,583	276,879	343,691	-54,430	-32,866	-87,296	256,395		
July	28,325	25,902	-1,179	24,723	53,048	12,021	9,762	2,028	12,021	230,279	49,353	279,632	49,353	279,632	344,681	-58,998	-35,887	-94,883	249,798		
August	30,261	26,041	-1,182	24,859	55,120	10,272	8,762	1,510	10,272	231,661	49,270	280,931	49,270	280,931	346,343	-59,081	-36,071	-95,152	251,191		
September	30,487	29,528	-771	28,757	59,244	9,704	8,465	1,239	9,704	237,022	49,170	286,192	49,170	286,192	355,140	-57,186	-36,336	-93,522	258,804		
October	27,170	26,394	5,934	32,328	59,498	9,600	8,257	1,343	9,600	239,247	51,038	290,285	51,038	290,285	359,383	-57,169	-37,136	-94,305	265,078		
November	25,909	32,682	6,027	38,709	64,618	10,836	9,485	1,350	10,836	243,549	50,515	294,064	50,515	294,064	369,517	-60,247	-37,177	-97,424	272,093		
December																					

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 112

Purchases and Sales of Foreign Exchange by the Central Bank

Period		Purchases			Sales			Rs. Million
		Spot	Forward	Total	Spot	Forward	Total	Net Purchases (+) Sales (-)
1989		15,522	3,325	18,847	11,476	1,156	12,632	+ 6,215
1990		18,557	306	18,863	6,446	2,598	9,044	+ 9,819
1991		22,746	1,486	24,232	12,024	-	12,024	+ 12,208
1992		20,327	151	20,478	3,425	-	3,425	+ 17,053
1993		31,332	-	31,332	914	-	914	+ 30,418
1994		30,664	788	31,452	615	-	615	+ 30,837
1995		19,187	-	19,187	438	-	438	+ 18,749
1996		5,222	-	5,222	10,880	-	10,880	- 5,658
1997		8,116	-	8,116	9,173	-	9,173	- 1,057
1998		3,847	-	3,847	13,697	-	13,697	- 9,850
1997	January	-	-	-	322	-	322	- 322
	February	-	-	-	1,025	-	1,025	- 1,025
	March	-	-	-	-	-	-	-
	April	-	-	-	2,845	-	2,845	- 2,845
	May	37	-	37	1,426	-	1,426	- 1,389
	June	805	-	805	-	-	-	+ 805
	July	1,067	-	1,067	-	-	-	+ 1,067
	August	6,208	-	6,208	-	-	-	+ 6,208
	September	-	-	-	-	-	-	-
	October	-	-	-	-	-	-	-
	November	-	-	-	-	-	-	-
	December	-	-	-	3,555	-	3,555	- 3,555
1998	January	-	-	-	4,543	-	4,543	- 4,543
	February	5	-	5	970	-	970	- 965
	March	1,931	-	1,931	-	-	-	+ 1,931
	April	1,448	-	1,448	-	-	-	+ 1,448
	May	-	-	-	3,149	-	3,149	- 3,149
	June	-	-	-	819	-	819	- 819
	July	-	-	-	941	-	941	- 941
	August	-	-	-	356	-	356	- 356
	September	-	-	-	-	-	-	-
	October	463	-	463	-	-	-	+ 463
	November	-	-	-	1,982	-	1,982	- 1,982
	December	-	-	-	937	-	937	- 937

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 113

Reserve Position of Commercial Banks (a)

End of Period	Deposits (b)				Reserves Required Against Deposits (c)				Actual Reserves (d)				Total (8+9+10+11)	Balance Till Cash (e) (13)
	Demand (1)	Time and Savings (2)	Foreign Currency (f) (3)	Demand (4)	Time and Savings (5)	Foreign Currency (6)	Total (4)+(5)+(6) (7)	Deposits with Central Bank (8)	D.F.C.C. Bonds (9)	Sri Lanka Govt. Treasury Bills (10)	Till Cash (11)			
												Rs. Million		
1989	17,738	39,724	-	2,661	5,959	-	8,619	5,597	395	2,869	-	8,861	1,471	
1990	24,464	49,337	-	3,670	7,401	-	11,070	7,458	394	3,685	-	11,536	1,770	
1991	27,333	67,170	-	3,553	8,732	-	12,286	12,426	389	-	-	12,815	2,661	
1992	29,890	76,934	-	3,886	10,261	-	16,389	14,326	384	758	1,092	16,550	2,153	
1993	32,786	97,646	17,209	4,918	14,647	2,237	22,889	20,466	334	-	948	25,160	2,868	
1994	38,087	119,470	22,158	5,713	17,920	3,324	26,405	24,932	356	-	1,780	26,968	2,395	
1995	38,952	151,454	32,135	5,843	22,718	2,771	31,900	31,053	300	-	1,350	33,473	3,166	
1996	41,956	179,485	35,117	6,293	26,923	3,663	36,879	35,307	299	-	1,552	37,758	5,353	
1997	42,484	183,185	22,742	5,948	25,646	3,411	35,005	33,507	299	-	2,173	35,980	3,666	
February	41,353	185,962	22,034	5,799	25,935	3,305	35,129	33,730	300	-	1,923	35,953	3,410	
March	42,822	188,804	22,988	5,139	26,657	2,759	30,554	21,264	300	-	2,166	23,730	4,188	
April	42,334	190,865	24,952	5,069	25,504	2,956	30,970	26,739	300	-	3,763	30,802	4,163	
May	44,989	191,723	22,671	5,367	23,008	2,721	31,115	30,949	300	-	2,565	33,834	3,663	
June	44,365	194,848	22,860	5,354	23,382	2,755	31,461	28,863	300	-	2,020	31,183	4,727	
July	43,592	197,892	22,846	5,231	23,747	2,742	31,720	27,026	300	-	2,673	29,999	3,670	
August	44,240	202,087	21,899	5,309	24,250	2,628	32,187	29,814	300	-	3,000	33,114	2,736	
September	45,202	209,632	26,997	5,424	24,460	3,240	33,124	29,719	300	-	2,783	32,802	3,897	
October	42,436	202,822	20,822	5,092	24,693	2,499	32,284	31,001	300	-	2,245	33,546	4,199	
November	46,540	208,762	21,057	5,585	25,051	2,527	33,163	29,189	300	-	2,435	31,923	3,732	
December	46,577	210,654	20,447	5,589	25,278	2,454	33,321	30,537	300	-	2,721	33,558	4,734	
1998	46,267	213,764	21,095	5,552	25,652	2,531	33,735	29,596	300	-	2,174	32,069	3,986	
January	46,690	215,198	20,887	5,603	25,824	2,507	33,933	30,753	300	-	2,528	33,582	3,872	
February	48,657	218,478	21,903	5,839	25,857	2,628	34,325	31,298	300	-	2,577	34,176	5,842	
March	51,310	218,430	25,212	6,157	26,212	3,026	35,394	30,011	300	-	4,284	34,596	3,997	
April	52,476	215,368	25,802	6,297	25,844	3,096	35,238	29,589	300	-	3,682	36,382	3,976	
May	50,283	214,669	26,020	6,034	25,760	3,122	34,917	29,582	300	-	3,207	33,096	3,450	
June	47,437	213,599	27,964	5,692	25,632	3,344	34,917	29,582	300	-	3,207	33,096	3,450	
July	51,276	214,756	27,313	6,153	25,632	3,278	34,668	31,645	300	-	3,503	35,449	4,410	
August	51,276	214,756	27,313	6,153	25,632	3,278	34,668	31,645	300	-	3,503	35,449	4,410	
September	54,012	214,954	26,966	6,481	25,794	3,236	35,201	32,423	300	-	3,068	34,647	5,186	
October	51,616	218,716	24,733	6,194	25,246	2,958	35,512	32,423	300	-	3,299	36,022	5,017	
November	52,569	220,992	25,649	6,308	26,519	3,078	35,905	32,423	300	-	3,594	35,307	5,293	
December	54,126	222,511	32,268	6,495	26,701	3,872	37,069	32,748	300	-	2,876	35,924	5,444	

Source: Central Bank of Sri Lanka

(a) The required reserves are computed weekly every Friday on the basis of deposit liabilities as on the previous Wednesday. Figures so computed are applicable until the following Thursday. Thus, the Required Reserves recorded above refer to the average daily reserves applicable for the last week of the period. The Actual Reserves refer to the reserves that were maintained on the last working day of the period.

(b) Excludes inter-bank deposits.

(c) Under Sections 10c, 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422) Commercial banks are required to maintain reserves with the Central Bank and the ratios so maintained shall not be less than 5 per centum or more than 20 per centum in the case of time and savings deposits and shall not be less than 10 per centum or more than 40 per centum in the case of demand deposits and unused balances of overdrafts allowed. The revised rates since 1987 are as follows :-

Effective Date	Type of Liability	Revised Rate	Effective Date	Type of Liability	Revised Rate
1. 1987.06.05	Unused overdrafts	Nil	11. 1993.06.25	Demand, Time & Savings Deposits (Foreign Currency)	12%
2. 1987.08.07	Demand, Time & Savings deposits	10%	12. 1993.08.27	Demand, Time & Savings Deposits (Rs. & Foreign Currency)	15%
3. 1988.02.26	Demand, Time & Savings deposits	13%	13. 1994.02.18	Deposit Liabilities (foreign currency) invested outside Sri Lanka	5%
4. 1988.09.16	Demand, Time & Savings deposits	13%		Deposit Liabilities (foreign currency) not invested outside Sri Lanka	15%
5. 1991.01.11	Demand, Time & Savings deposits	13%	14. 1997.01.17	Demand, Time & Savings Deposits (Rs.)	14%
6. 1992.01.24	Demand, Time & Savings deposits (f)	14%		Deposit Liabilities (foreign currency)	15%
7. 1992.09.04	Demand, Time & Savings Deposits (Rs.)	13.5%		Deposit Liabilities (foreign currency) invested outside Sri Lanka	0%
8. 1993.01.29	Demand, Time & Savings Deposits (Foreign Currency)	10%	15. 1997.03.28	Demand, Time & Savings Deposits (Rs.)	12%
	Time & Savings Deposits (Foreign Currency)	6%		Deposit Liabilities (foreign currency) not invested outside Sri Lanka	12%
9. 1993.04.16	Demand, Time & Savings Deposits (Rs.)	14%			
	Demand Deposits (Foreign Currency)	10%			
	Time & Savings Deposits (Foreign Currency)	8%			
10. 1993.05.21	Demand, Time & Savings Deposits (Rs.)	15%			
	Demand Deposits (Foreign Currency)	11%			
	Time & Savings Deposits (Foreign Currency)	9%			

(d) With effect from 9 August 1985, the reserves required to be held by the Commercial banks in respect of time and savings deposits were to take the form of rupee deposits in the Central Bank provided that an amount not exceeding one eighth of such reserves could take the form of bonds issued by the Development Finance Corporation of Ceylon (DFCC) and held by such banks as an asset. With effect from 26 February 1988 the reserves required to be held by the Commercial banks were to take the form of rupee deposits in the Central Bank provided that an amount not exceeding one-tenth of its required reserves in respect of the total of time and savings deposits could take the form of bonds issued by the DFCC and held by such banks as assets.

(e) With effect from 16 September 1988 the amount of reserves that could be maintained in the form of Treasury bills was increased to 5 per cent of the total deposits. With effect from 11 January 1991 this facility to hold Treasury Bills as reserves was withdrawn.

(f) With effect from 24 January 1992, an amount of till cash over and above two per centum of the total of deposits liabilities but not exceeding four per centum could be maintained as a part of required reserves in the form of Sri Lanka currency notes and coins.

(g) Total till cash less the amount of till cash kept as reserves.

(h) Deposits liabilities have been defined to include foreign currency deposits as well as rupee deposits for computation of reserves, with effect from 4 September 1992.

FINANCIAL SECTOR

TABLE 114

Savings and Fixed Deposits of National Savings Bank and Commercial Banks

Rs. Million

End of Period	Savings Deposits			Fixed Deposits			Savings Certificates	Premium Savings Bonds (b)	N.S.B. Pension Scheme	Grand Total
	National Savings Bank	Commercial Banks (a)	Total	National Savings Bank	Commercial Banks (a)	Total				
1989	7,790	22,513	30,303	11,970	27,741	39,711	3	9	39	70,065
1990	9,527	27,312	36,839	13,529	36,352	49,881	3	9	36	86,767
1991	11,637	33,509	45,147	16,130	47,771	63,901	3	9	36	109,095
1992	12,224	43,602	55,825	20,605	57,897	78,502	3	9	36	134,375
1993	16,371	58,397	74,768	25,736	69,522	95,258	3	10	38	170,076
1994	19,967	73,357	93,324	33,312	79,244	112,555	3	10	35	205,927
1995	20,942	87,227	108,169	36,726	102,751	139,477	3	17	68	247,734
1996	22,464	89,273	111,737	38,458	105,223	143,681	2	18	69	255,508
1st Quarter	22,584	93,841	116,425	39,545	109,406	148,951	2	19	71	265,467
2nd Quarter	22,631	96,772	119,403	40,755	109,047	149,802	3	20	71	269,299
3rd Quarter	24,537	102,315	126,852	42,201	115,502	157,703	3	22	73	284,653
4th Quarter	24,797	103,873	128,670	42,623	114,959	157,582	3	23	75	286,352
January	24,577	104,472	129,049	43,202	117,072	160,274	3	23	76	289,426
February	24,656	105,242	129,897	43,662	119,751	163,413	3	24	77	293,413
March	24,732	108,326	133,058	44,332	118,538	162,870	3	39	79	296,049
April	24,715	109,601	134,316	44,912	118,337	163,249	3	55	81	297,704
May	24,738	111,397	136,135	45,404	119,906	165,310	3	71	83	301,601
June	24,831	113,279	138,110	45,861	122,229	168,090	3	92	86	306,379
July	25,021	117,628	142,649	46,154	124,805	170,959	3	112	88	310,122
August	25,125	120,357	145,482	46,831	125,613	172,443	3	154	91	315,444
September	25,303	122,494	147,797	47,533	124,984	172,517	3	282	94	318,555
October	25,490	128,582	154,072	47,992	126,076	174,068	3	581	97	322,732
November	28,311	129,907	158,218	48,350	126,240	174,590	3	690	108	332,284
December	28,398	131,673	160,071	48,741	126,562	175,302	3	757	105	334,472
January	28,624	132,627	161,251	48,859	126,466	175,325	3	787	109	336,520
February	28,686	136,296	164,982	48,894	127,535	176,429	3	869	111	338,725
March	28,922	138,723	167,645	48,880	128,194	177,074	3	904	115	343,314
April	29,154	141,624	170,778	49,064	127,522	176,586	3	947	118	345,530
May	29,385	143,950	173,335	49,227	125,735	174,962	3	1,002	123	347,098
June	29,743	145,630	175,373	49,361	122,712	172,072	3	1,046	126	346,940
July	29,986	149,532	179,518	49,635	120,402	170,037	3	1,068	129	346,852
August	30,270	152,362	182,632	49,893	119,310	169,204	3	1,080	132	350,220
September	30,507	153,433	183,940	49,986	123,978	173,964	3	1,082	135	358,053
October	30,697	157,325	188,022	50,122	125,966	176,088	3	915	138	361,273
November	32,880 (c)	157,325	190,204	50,383 (c)	130,504	180,886	3 (c)	869 (c)	145 (c)	372,108
December										

Sources : Central Bank of Sri Lanka
National Savings Bank

(a) Figures of Commercial banks include deposits of the government. From June 1981, fixed deposits include amounts in the National Endowment Scheme, the National Pension Scheme and the Extended Deposit Account (Minors) Scheme.

(b) The Premium Savings Bond Scheme was started by the National Savings Bank on 8 February 1979.

(c) Provisional.

FINANCIAL SECTOR

TABLE 115

Per centum per annum

Money Rates

End of Period	Government Treasury Bills				Over-night Repo Rate	Central Bank Rate (a)	Commercial Bank's Deposits Rates				Commercial Bank's Rates on Advances					Weighted Average Prime Lending Rate (18)		
	Primary Market (a)		Secondary Market				Fixed Deposits				Savings Deposits (11)	Inter Bank Call Loans (12)	Bills Purchased and Discounted (13)	Secured by			Un-Secured (17)	
	3-Month	12-Month	3-Month	3-Month			3 Months	6 Months	12 Months	24 Months				Stock In Trade (14)	Immovable Property (15)			Others (16)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
1989	18.10	19.10	16.12	21.61	-	14.00	7.0-19.04	8.0-6.0	11.0-20.5	13.0-18.0	5.0-14.0	13.0-25.0	7.0-25.0	9.8-30.0	9.8-28.0	10.0-30.0	13.0-35.0	18.00
1990	17.41	18.36	15.85	21.33	-	15.00	7.0-22.5	8.0-21.0	11.0-21.0	13.0-18.5	5.0-14.0	10.0-32.0	14.5-30.0	10.0-30.0	9.0-28.0	10.0-30.0	13.0-35.0	18.60
1991	16.33	17.43	15.05	17.21	-	17.00	11.0-18.5	12.0-9.0	10.0-20.0	14.0-21.0	6.5-14.0	10.0-25.0	10.0-25.0	9.8-30.0	9.8-28.0	10.0-30.0	13.0-35.0	19.80
1992	17.67	18.99	17.26	18.85	-	17.00	10.0-18.5	11.0-8.5	13.5-20.0	14.0-21.0	6.5-14.0	13.0-27.0	10.0-30.0	10.0-30.0	9.0-30.0	10.0-30.0	13.0-33.0	20.20
1993	18.09	19.38	17.84	20.84	16.50	17.00	10.0-17.0	10.0-18.0	13.5-17.5	13.9-19.0	5.5-14.0	16.50-28.0	14.5-30.0	16.5-30.0	16.5-28.0	13.0-32.0	16.5-36.0	20.40
1994	18.73	19.43	18.48	22.98	20.00	17.00	8.0-15.0	9.0-16.0	10.0-17.0	11.2-18.25	5.5-13.0	14.0-28.0	11.0-30.0	15.0-30.0	17.0-27.0	10.5-30.0	15.0-36.0	17.80
1995	19.26	18.97	19.01	20.47	16.50	17.00	9.0-18.4	10.0-17.0	10.0-17.0	12.0-16.0	5.0-13.0	16.0-102.0	11.0-30.0	17.0-28.0	13.0-35.0	16.2-36.0	19.90	
1996	12.95	15.34	11.95	14.95	9.50	17.00	9.0-15.0	10.0-16.0	10.0-17.5	12.0-16.0	4.5-13.0	9.6-12.0	11.0-30.0	15.0-30.0	13.0-35.0	16.5-36.0	17.30	
2nd Quarter	15.21	15.66	14.86	17.46	12.75	17.00	9.0-15.0	10.0-16.0	12.0-17.5	12.0-16.0	4.5-13.0	12.5-16.0	11.0-30.0	15.0-30.0	13.0-30.0	16.5-36.0	17.30	
3rd Quarter	17.27	17.40	17.02	19.52	13.00	17.00	9.0-16.0	10.0-16.25	12.0-17.75	12.0-16.5	4.5-13.0	13.25-25.0	11.0-30.0	15.0-28.0	13.0-30.0	16.0-36.0	18.50	
4th Quarter	17.45	17.38	17.20	18.95	12.75	17.00	9.0-16.0	10.0-16.00	12.0-17.75	12.0-16.5	4.5-13.0	13.0-31.0	11.0-30.0	15.0-30.0	13.0-30.0	16.0-36.0	18.40	
1997	12.86	15.28	12.61	14.36	11.50	17.00	9.0-15.0	10.0-16.00	12.0-17.00	12.0-16.5	4.5-14.0	11.75-22.0	11.0-30.0	17.0-28.0	13.0-30.0	16.0-36.0	17.10	
January	12.78	15.00	12.53	14.28	11.00	17.00	8.0-15.0	10.5-16.00	11.5-17.00	12.0-16.0	4.5-14.0	11.0-26.0	11.0-30.0	17.5-30.0	13.0-30.0	16.0-36.0	16.50	
February	11.91	13.48	11.66	13.41	7.00	17.00	8.0-15.0	10.0-16.00	11.5-17.00	11.6-16.0	4.5-14.0	8.0-17.0	11.0-30.0	17.5-30.0	13.0-30.0	16.0-36.0	15.80	
March	10.67	12.79	10.33	12.08	8.75	17.00	8.0-15.0	10.0-16.00	11.5-17.00	11.6-14.5	4.5-14.0	7.25-28.0	11.0-30.0	17.0-30.0	12.0-27.0	12.0-30.0	16.0-36.0	14.60
April	10.63	12.74	10.38	11.63	8.00	17.00	8.0-15.0	8.0-16.00	11.5-17.00	10.8-14.0	4.5-14.0	9.0-20.0	11.0-30.0	17.0-30.0	12.0-30.0	10.0-36.0	15.20	
May	11.04	12.73	10.79	12.04	8.50	17.00	8.0-14.0	8.0-16.00	10.0-15.5	10.8-14.0	4.5-13.0	9.25-16.0	11.0-30.0	14.0-28.0	16.0-30.0	12.0-29.0	10.0-36.0	14.90
June	10.87	11.99	10.42	11.67	8.00	17.00	8.0-14.0	8.0-16.00	10.0-15.5	10.8-14.0	4.5-13.0	8.68-12.0	11.0-30.0	14.0-28.0	16.0-30.0	12.0-29.0	10.0-36.0	13.70
July	10.00	10.60	9.75	11.00	8.25	17.00	8.0-14.0	8.0-16.00	9.0-15.5	10.8-14.0	4.5-13.0	5.0-23.75	11.0-30.0	14.0-28.0	16.0-30.0	12.0-29.0	10.0-36.0	14.20
August	9.94	10.50	9.69	11.44	9.00	17.00	8.0-14.0	8.0-16.00	9.0-15.5	10.8-14.0	4.5-13.0	7.0-12.0	11.0-30.0	14.0-28.0	14.5-30.0	12.0-29.0	10.0-36.0	14.20
September	9.91	10.25	9.66	11.41	9.00	17.00	6.0-13.0	7.0-12.5	8.5-15.25	8.73-14.0	3.0-11.5	8.5-11.5	11.0-30.0	14.0-28.0	14.5-30.0	12.0-28.0	10.0-36.0	13.00
October	9.98	10.29	9.73	11.48	9.00	17.00	6.0-13.0	7.0-12.5	8.5-15.25	8.73-14.0	3.0-11.5	8.5-12.8	11.0-30.0	14.0-28.0	14.0-28.0	11.0-28.0	10.0-36.0	13.40
November	9.97	10.21	9.72	12.97	11.00	17.00	6.0-13.0	7.0-12.0	8.5-15.25	8.73-14.0	3.0-11.0	9.0-20.0	11.0-30.0	14.0-28.0	14.0-29.0	11.0-28.0	10.0-36.0	13.70
December	10.44	10.58	10.19	14.44	12.00	17.00	6.0-13.0	7.0-12.0	8.5-12.5	8.73-14.0	3.0-11.0	11.0-16.5	11.0-30.0	14.0-28.0	14.0-29.0	11.0-28.0	10.0-36.0	14.20
1998	11.36	11.49	11.11	15.11	12.00	17.00	6.0-13.0	7.0-11.75	8.5-12.5	8.73-14.0	3.0-11.0	11.0-16.5	11.0-30.0	14.0-28.0	14.0-29.0	9.4-28.0	6.0-36.0	15.00
January	11.29	11.44	11.04	15.04	11.75	17.00	6.0-13.0	7.0-11.75	8.5-12.0	8.73-14.0	3.0-11.0	11.5-14.5	11.0-30.0	7.0-28.0	5.8-29.0	7.7-30.0	6.0-36.0	15.00
February	11.72	11.97	11.47	15.22	11.65	17.00	6.0-13.0	7.0-11.75	8.5-12.0	8.73-14.0	2.0-10.0	12.0-25.0	11.0-30.0	7.0-28.0	5.8-29.0	7.7-30.0	6.0-36.0	15.00
March	11.60	11.96	11.35	15.10	12.15	17.00	6.0-13.0	7.0-11.75	8.5-12.0	8.73-14.0	2.0-10.0	11.5-18.0	11.0-30.0	7.0-28.0	5.8-29.0	7.7-30.0	6.0-36.0	15.50
April	11.75	12.09	11.50	15.25	12.10	17.00	6.0-13.0	7.0-11.75	9.0-12.0	8.73-14.0	2.0-10.0	11.5-12.5	11.0-30.0	7.0-28.0	5.8-29.0	7.7-30.0	6.0-36.0	14.50
May	12.18	12.77	11.93	15.68	12.10	17.00	6.0-13.0	7.0-11.75	9.0-12.0	8.73-14.0	2.0-10.0	11.8-13.0	11.0-30.0	7.0-28.0	5.8-29.0	7.7-30.0	6.0-36.0	14.40
June	12.51	12.99	12.36	15.51	12.10	17.00	6.0-13.0	7.0-11.75	9.0-12.0	8.73-14.0	2.0-10.0	12.1-28.0	11.0-30.0	7.0-28.0	8.22-33.0	8.21-30.0	6.0-34.0	15.80
July	12.98	13.38	12.23	15.38	12.00	17.00	6.0-13.0	7.0-11.75	9.0-12.0	8.73-14.0	2.0-10.0	12.0-15.0	11.0-30.0	7.0-28.0	8.22-33.0	8.21-30.0	6.0-34.0	15.80
August	12.59	13.06	12.44	15.59	11.75	17.00	6.0-13.0	7.0-11.75	9.0-12.0	9.56-12.0	2.0-10.0	12.25-17.25	11.0-30.0	7.7-30.0	8.21-30.0	6.0-34.0	14.90	
September	12.63	13.00	12.48	15.63	11.75	17.00	6.0-13.0	7.0-11.75	9.0-12.0	9.56-12.0	2.0-10.0	11.87-21.50	11.0-30.0	7.7-30.0	7.5-33.0	8.8-30.0	6.0-34.0	15.30
October	12.01	12.59	11.86	15.01	11.25	17.00	7.0-13.0	7.0-11.75	9.0-13.0	9.56-12.0	2.0-10.0	11.87-17.0	11.0-30.0	7.7-33.0	7.5-33.0	8.8-30.0	6.0-34.0	14.80
November	12.01	12.59	11.86	15.01	11.25	17.00	7.0-13.0	7.0-11.75	9.0-13.0	9.56-12.0	2.0-10.0	11.25-16.50	11.0-30.0	7.7-33.0	7.5-33.0	8.8-30.0	6.0-34.0	14.80
December	12.01	12.59	11.86	15.01	11.25	17.00	7.0-13.0	7.0-11.75	9.0-13.0	9.56-12.0	2.0-10.0	11.25-16.50	11.0-30.0	7.7-33.0	7.5-33.0	8.8-30.0	6.0-34.0	14.80

(a) Yield rates prevailing at the end of the period.

(b) This is the rate at which the Central Bank grants advances to commercial banks for their temporary liquidity purposes. After August 1977, each bank, depending on its holdings of selected asset items, was allocated a certain quota of the total borrowings permitted at the Bank Rate. Borrowings in excess of this quota were subjected to a penal rate of interest of 15 per cent per annum. In September 1978, a graduated scale of penal rates ranging between 15 per cent and 25 per cent was introduced. It was further revised upward to a range of 20 to 30 per cent, with effect from April 1980. With effect from August 1980, the Bank Rate was raised to 14 per cent, while the penal rate was raised to a range of 21 to 30 per cent. In March 1983, the Bank Rate was brought down to 13 per cent and the penal rate was fixed at 20 per cent. With effect from 23 November 1983, the practice of granting advances to commercial banks under a penal rate was discontinued. With effect from 30 December 1985, the Central Bank reduced the lending rate on its advances to 11 per cent. A further reduction, to 10 per cent, was made with effect from 07 August 1987. The Central Bank increased the lending rate on advances to 14 per cent with effect from 15 June 1989. The rate was increased again to 15 per cent, with effect from 06 July 1990 and to 17 per cent with effect from 04 January 1991.

Source: Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 116

Money Rates: Savings and Long Term Credit Institutions

Per centum per annum

End of Period	Deposit Rates of the National Savings Bank					Lending Rates of Credit Institutions					
	Savings Deposits	Fixed Deposits			24 Months	Savings Certificates (a)	State Mortgage & Investment Bank	Development Finance Corporation of Ceylon Bank	National Housing Development Authority	National Savings Bank	National Development Bank (b)
		6 Months	12 months	Interest Paid on Maturity								Interest Paid Monthly
1989	14.00	14.00	15.00	14.00	16.20	11.00	16.00-19.00	14.00-19.00	3.00-10.00	14.00-20.00	10.30-17.50
1990	16.20	16.20	17.00	16.20	18.50	11.00	19.00-20.00	14.00-19.00	6.00-12.00	18.00-22.00	11.00-18.50
1991	14.00	16.20	17.00	16.20	18.50	11.00	20.50	16.00-22.00	6.00-12.00	18.00-22.00	11.30-18.50
1992	14.00	16.20	17.00	16.20	18.50	11.00	20.50	17.50-23.50	6.00-12.00	18.00-22.00	13.90-20.50
1993	14.00	15.30	16.00	15.30	17.00	11.00	20.50	18.00-24.00	20.50	18.00-22.00	13.70-20.50
1994	14.00	13.20	14.00	13.20	-	11.00	18.50-22.00	18.00-22.00	20.50	18.00-21.00	13.60-22.00
1995	12.00	13.20	16.00	14.40	15.00	11.00	17.00-22.00	20.00-24.00	10.00-20.50	17.00-20.00	12.50-26.00
1996	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	16.00-25.00	10.00-15.00	17.00-20.00	11.90-26.00
1st Quarter	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	16.00-25.00	10.00-15.00	17.00-20.00	11.90-24.00
2nd Quarter	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	16.40-24.00	10.00-15.00	17.00-20.00	11.90-23.00
3rd Quarter	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	16.40-24.00	10.00-15.00	17.00-20.00	11.90-24.00
4th Quarter	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	16.40-24.00	10.00-15.00	17.00-20.00	11.90-24.00
1997	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	17.40-24.00	10.00-15.00	18.00-20.00	19.00-23.00
January	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	17.40-24.00	10.00-15.00	18.00-20.00	20.25-21.00
February	12.00	13.20	15.00	13.80	-	11.00	17.00-22.00	17.40-24.00	10.00-15.00	18.00-20.00	17.00-22.00
March	12.00	13.20	14.00	13.20	-	11.00	17.00-22.00	16.00-24.00	10.00-15.00	18.00-20.00	15.00-22.00
April	12.00	13.20	14.00	13.20	-	11.00	17.00-22.00	17.00-24.00	10.00-15.00	18.00-20.00	15.00-22.00
May	10.80	11.50	13.20	12.00	-	11.00	17.00-22.00	15.00-24.00	10.00-15.00	17.00-19.00	14.00-22.00
June	10.80	11.50	13.20	12.00	-	11.00	17.00-22.00	15.00-24.00	10.00-15.00	17.00-19.00	8.00-21.00
July	10.80	11.50	13.20	12.00	-	11.00	18.00-21.00	15.00-24.00	10.00-15.00	17.00-19.00	13.70-22.00
August	10.80	11.00	12.00	11.10	-	11.00	18.00-21.00	15.00-24.00	10.00-15.00	17.00-19.00	13.70-19.50
September	10.80	11.00	12.00	11.10	-	11.00	17.00-20.00	14.00-22.00	10.00-15.00	16.50-17.50	13.70-20.00
October	10.80	11.00	12.00	11.10	-	11.00	17.00-20.00	14.00-22.00	10.00-15.00	16.50-17.50	11.50-22.00
November	10.80	10.00	11.00	10.20	-	11.00	17.00-20.00	13.60-22.00	10.00-15.00	15.50-16.50	11.50-25.00
December	10.80	10.00	11.00	10.20	-	11.00	17.00-20.00	13.00-22.00	10.00-15.00	15.50-16.50	11.50-25.00
1998	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.50-21.00	10.00-15.00	15.00-16.00	11.50-21.00
January	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-21.50	10.00-15.00	15.00-16.00	11.50-24.00
February	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-21.00	10.00-15.00	15.00-16.00	11.50-22.00
March	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	15.00-16.00	10.30-22.00
April	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	15.00-16.00	10.30-22.00
May	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-21.00	10.00-15.00	15.00-16.00	10.30-20.00
June	9.60	9.00	10.00	9.30	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	15.00-16.00	10.30-20.00
July	10.50	10.00	11.00	10.50	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	15.00-16.00	10.30-22.00
August	10.50	10.00	11.00	10.50	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	15.00-16.00	10.30-20.00
September	10.50	10.00	11.00	10.50	-	11.00	15.00-18.00	13.00-20.00	10.00-15.00	14.00-15.00	10.30-20.00
October	10.50	10.00	11.50	10.50	-	11.00	15.00-18.00	13.00-20.00	10.00-16.00	14.00-15.00	10.30-21.00
November	10.50	10.00	11.50	10.50	-	11.00	15.00-18.00	13.00-20.00	10.00-16.00	14.00-15.00	9.60-20.00
December	10.50	10.00	11.50	10.50	-	11.00	15.00-18.00	13.00-20.50	10.00-16.00	14.00-15.00	9.60-20.00

(a) Rate on ten year certificates.

(b) The minimum rate represents the refinancing rate charged under the Small and Medium Scale Industries (SMI) Scheme and the Small and Medium Enterprise Assistance Project (SMAP). The latter became effective in the second half of 1997.

Source : Central Bank of Sri Lanka

FINANCIAL SECTOR

TABLE 117

Insurance Activities (a)

Rs. Million

Item	1995	1996	1997	1998 (b)
1. Paid-up Capital (as at end period)	1,117	1,155	1,217	1,217
2. Life Insurance				
Life Assurance Fund (as at 31 December)	8,626	10,893	13,503	16,107
New Business:				
Total Number of Policies ('000 units)	266	231	243	237
Total Sums Insured	23,784	19,627	22,124	23,744
Total Premium Collected (c)	981	1,071	995	1,323
Business in Force (including New Business)				
Total Number of Policies ('000 units as at 31 December)	661	724	809	852
Total Sums Insured (as at 31 December)	50,817	54,921	63,643	70,556
Total Premium Collected (d)	2,769	3,441	4,055	4,778
Benefit Payments:				
Total	699	823	1,038	1,219
Maturity (endowments paid at maturity)	366	403	472	609
Death and Disability	225	288	307	365
Surrender	51	57	143	113
Other	57	75	117	132
3. Fire Insurance				
Net Premium (Policies in force)	394	392	520	565
Net Claims Paid and Outstanding	90	97	110	121
Loss Reserve (e)	9	-2	53	32
Operating Profit/Loss	82	91	86	112
4. General Accident Insurance				
Net Premium (Policies in force)	860	1,048	1,416	1,484
Net Claims Paid and Outstanding	253	483	596	621
Loss Reserve (e)	...	21	173	49
Operating Profit/Loss	157	84	133	134
5. Marine Insurance				
Net Premium (Policies in force)	307	392	406	405
Net Claims Paid and Outstanding	68	106	65	80
Loss Reserve (e)	5	6	-241	-4
Operating Profit/Loss	55	89	150	118
6. Motor Insurance				
Net Premium (Policies in force)	1,455	1,566	1,829	2,153
Net Claims Paid and Outstanding	731	975	1,119	1,344
Loss Reserve (e)	194	125	107	105
Operating Profit/Loss	59	42	96	94
7. Total Premium Income from General Insurance				
Net Premium (Policies in force)	3,017	3,398	4,171	4,607
Net Claims Paid and Outstanding	1,142	1,661	1,890	2,167
Loss Reserve (e)	208	151	92	182
Surplus (+) or Deficit (-)	352	305	395	482
8. Employment (No.)	5,150	5,864	6,244	6,511
9. Total Number of Branches	117	250	262	268
10. Total Gross Assets	14,887	19,718	22,701	23,805
11. Net Profit (before Tax)	623	894	831	915
12. Net Profit (after Tax)	418	653	571	691
No. of Institutions Reporting	6	6	7	7

(a) Reporting formats have been revised to provide more comprehensive information. Previous data have been revised according to new information received from Insurance Companies.

(b) Provisional

(c) Total gross premium actually collected for the year in respect of new business. This is on a cash basis.

(d) Total premium collected in respect of new business and policies already in force.

(e) Indicates provisions made for payment of losses incurred during the year but not yet paid. Loss reserve figures exclude one company in 1995 and 1996 and 2 companies in 1997 and 1998.

Sources : Sri Lanka Insurance Corporation Ltd.
National Insurance Corporation Ltd.
CTC Eagle Insurance Co. Ltd.
Union Assurance Ltd.
Ceylinco Insurance Co. Ltd.
Janashakthi Life Insurance Co. Ltd.
Janashakthi General Insurance Co. Ltd.

Share Market Developments

Period	S H A R E P R I C E I N D I C E S (1 9 8 5 = 1 0 0) (a)																					
	Total Turn-over Rs. Mn.	Non-National Transactions		Market Capitalisation Rs. Bn.	CSE All Share	CSE Sensitive	Finance	Food	Chemicals	Construction	Diversified	Textiles	Hotels	Investment	Property	Industry	Motor	Oil Palm	Plantations	Services	Stores	Trade
		Purch. Rs. Mn.	Sales Rs. Mn.																			
1989	226	-	-	17.1	179.8	342.0	215.4	260.7	483.0	51.4	-	157.1	110.0	250.8	125.0	111.2	80.4	497.7	-	255.0	140.2	259.5
1990	1,563	398	7	36.9	384.4	680.3	516.2	382.1	859.6	106.5	-	342.3	335.8	978.9	158.2	281.6	161.0	1,071.3	-	774.6	273.7	722.6
1991	4,302	22	1,561	81.8	837.8	1,198.6	1,675.0	594.0	1,374.3	302.7	-	1,463.7	531.0	2,054.4	200.0	749.4	535.7	1,142.9	-	1,388.4	990.1	1,510.9
1992	4,969	25	1,836	66.2	605.3	826.6	1,100.3	734.0	895.3	163.7	-	688.5	478.7	1,847.0	157.6	488.9	455.0	1,208.5	-	1,111.1	931.2	1,120.1
1993	18,579	97	9,295	123.8	979.0	1,442.4	2,683.4	757.8	1,034.9	446.2	-	801.9	716.6	3,272.9	205.8	686.8	753.5	1,009.3	-	1,797.4	1,204.2	1,146.5
1994	34,522	148	14,473	143.2	986.7	1,438.8	2,997.9	737.4	935.4	285.9	-	696.7	570.9	3,674.9	189.8	791.0	626.5	1,018.7	-	1,775.6	1,231.5	1,102.7
1995	11,249	47	5,389	107.0	663.7	990.5	2,002.7	528.8	757.1	214.7	107.1	308.1	373.4	2,547.3	129.8	483.2	405.6	1,082.2	338.0	1,176.2	865.9	852.1
1996	7,403	31	4,229	104.2	603.0	897.7	1,728.3	535.0	884.6	242.7	107.1	221.4	290.8	1,853.9	126.4	368.3	318.3	1,083.4	338.0	1,235.9	749.5	714.0
1997	753	38	244	108.5	621.6	949.4	1,763.2	609.6	920.4	251.8	110.3	221.9	289.4	1,864.4	126.2	367.6	321.5	1,083.4	337.4	1,286.3	709.5	760.0
Feb	445	25	226	108.3	620.5	955.1	1,749.0	609.0	910.4	255.2	114.7	219.5	289.8	1,874.2	125.8	363.1	313.4	1,083.3	319.3	1,313.0	697.3	728.7
Mar	997	50	389	111.6	637.5	977.5	1,796.1	652.8	932.9	239.2	119.5	216.2	302.5	1,824.1	125.7	369.6	327.7	1,079.1	364.9	1,318.1	695.1	829.5
Apr	2,243	118	1,145	887	739.6	1,172.9	2,065.3	782.4	1,012.3	276.4	136.2	233.6	361.3	1,963.6	128.5	418.6	367.1	1,079.1	472.1	1,410.5	644.7	885.1
May	1,997	105	1,043	582	732.0	1,142.0	1,956.7	774.5	1,018.5	322.8	140.5	199.2	356.2	1,923.3	127.0	420.0	377.8	1,091.6	458.9	1,589.7	618.3	923.1
Jun	2,159	108	1,126	380	139.3	791.9	1,267.0	827.2	993.9	351.7	164.6	174.3	359.0	1,880.1	126.3	464.0	427.9	1,091.6	473.2	1,706.6	574.0	1,030.9
Jul	2,069	94	822	579	153.0	869.7	1,411.2	2,408.9	831.3	972.7	343.0	185.2	394.8	2,057.2	133.4	510.2	440.2	1,091.6	496.3	1,859.1	579.7	1,146.9
Aug	1,803	90	642	792	149.1	814.9	2,195.9	808.7	956.0	305.2	174.9	204.4	396.2	2,299.0	129.3	471.4	488.4	1,091.6	507.3	1,718.6	573.8	1,103.2
Sep	1,573	75	782	947	142.7	779.9	2,087.5	780.1	900.8	279.1	176.5	186.9	374.5	2,269.2	125.9	441.9	400.9	1,014.2	461.1	1,531.7	558.1	1,044.4
Oct	1,669	76	784	890	133.4	728.5	1,119.2	1,922.8	800.8	279.9	161.8	181.3	347.1	2,234.5	120.1	420.3	379.3	1,014.2	443.0	1,491.6	546.9	1,029.3
Nov	1,278	67	556	797	123.1	671.5	1,729.9	652.5	796.0	244.2	156.7	164.2	306.9	1,701.1	118.8	390.5	399.5	1,014.2	484.5	1,520.8	512.3	934.6
Dec	1,330	63	518	767	129.4	702.2	1,772.1	705.1	830.3	257.7	164.5	166.2	307.0	1,643.0	115.2	411.7	373.0	1,262.0	543.2	1,527.1	559.5	941.0
1998	1,399	74	384	527	122.3	662.1	1,654.4	653.8	763.8	255.3	161.9	135.5	286.9	1,607.9	113.4	385.7	345.2	1,262.0	490.1	1,510.5	553.6	863.7
Feb	1,708	101	607	702	128.8	694.9	1,075.9	712.6	782.5	272.4	170.3	148.0	293.2	1,594.0	112.6	395.4	330.3	1,262.0	525.2	1,719.2	555.3	879.9
Mar	1,497	71	643	579	134.7	712.8	1,809.7	760.0	807.9	237.1	173.3	152.0	292.3	1,644.1	107.7	398.4	323.7	1,200.6	574.2	1,824.2	551.3	892.6
Apr	1,796	95	494	546	147.9	782.1	1,236.6	851.6	859.6	266.5	192.4	143.1	303.9	1,603.2	106.8	428.7	339.2	1,200.6	730.9	1,990.2	530.4	989.7
May	2,800	156	569	993	129.7	682.3	1,024.1	1,638.8	742.8	246.2	158.7	136.6	285.5	1,136.8	105.6	368.1	312.0	1,200.6	707.1	1,814.5	523.9	946.6
Jun	1,984	94	567	1,117	111.1	580.9	1,334.8	668.6	703.6	194.9	131.2	122.7	254.1	1,009.4	105.8	331.4	282.9	1,200.6	517.2	1,602.3	526.2	847.2
Jul	1,561	74	694	650	114.4	596.3	893.5	1,381.2	635.5	205.4	146.2	104.8	243.0	1,122.3	106.1	338.8	299.8	1,200.6	557.0	1,508.3	526.2	879.2
Aug	1,295	65	269	433	96.1	496.0	1,092.2	569.8	637.9	189.9	119.9	93.9	216.7	1,021.5	103.8	273.8	256.4	1,200.6	378.8	1,457.6	519.4	796.5
Sep	920	42	211	410	97.2	499.1	1,064.8	613.2	626.6	197.5	120.8	91.9	214.3	963.3	107.6	284.3	262.2	1,200.6	342.3	1,464.7	556.9	786.4
Oct	725	35	243	308	97.3	496.9	1,032.8	626.9	625.2	200.7	124.2	91.9	224.2	925.7	106.1	288.6	266.8	1,441.0	296.1	1,516.9	555.6	722.6
Nov	1,772	89	868	716	112.2	575.3	881.4	1,250.1	768.3	243.7	139.8	111.3	247.5	1,058.4	106.8	337.0	308.6	1,441.0	299.6	1,613.7	608.2	797.5
Dec	687	33	154	237	116.7	597.3	1,355.8	763.9	661.7	253.5	143.7	107.8	266.4	1,260.2	105.3	348.1	298.0	1,441.1	295.6	1,686.5	736.7	846.4

(a) At end period.

Source : Colombo Stock Exchange

FINANCIAL SECTOR

TABLE 119

Cultivation Loans Granted under the New Comprehensive Rural Credit Scheme
[Position as at 31 December 1998 (a)]

Rs. Million

Cultivation Year	Loans Granted			Recoveries			Per cent of Recoveries		
	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops
1988/89	167	86	253	157	79	236	94.1	92.1	93.4
1989/90	372	181	553	328	156	484	88.2	86.4	87.6
1990/91	588	234	822	490	187	677	83.3	80.0	82.4
1991/92	595	235	830	449	208	657	75.5	88.4	79.2
1992/93	569	255	824	497	224	721	87.4	87.7	87.5
1993/94	624	293	918	443	234	677	71.0	79.7	73.8
1994/95	723	257	980	559	209	768	77.3	81.3	78.3
1995/96	476	192	668	339	161	500	71.2	84.2	74.9
1996/97	412	178	590	314	134	449	76.4	75.3	76.1
1997/98	308	135	443	192	97	289	62.3	72.1	65.3
1998/99 (b)	111	45	156	3	2	5	2.7	4.9	3.3

(a) People's Bank data upto 30 September 1998 only.

(b) Incomplete data.

Sources:

People's Bank
Bank of Ceylon
Hatton National Bank
Commercial Bank of Ceylon Ltd.
Seylan Bank Ltd.
RRDBs & RDBs excluding Puttalam
Region of Wayamba Development Bank

New Comprehensive Rural Credit Scheme
Loans Granted for Subsidiary Food Crops by People's Bank and Bank of Ceylon (Position as at 31 December 1998) (a)

Bank and Cultivation Year	Amount Granted						Total Repayments		Outstanding	
	Chillies	Red Onions	Potatoes	Vegetables	Other Subsidiary Food Crops (b)	Total	Amount	As Percentage of Amount Granted	Amount	As Percentage of Amount Granted
People's Bank (c)	8,843	1,687	9,359	133	956	20,978	19,814	94.45	1,164	5.55
1988/89	18,685	2,889	32,790	60	2,801	57,225	51,296	89.64	5,929	10.36
1989/90	45,556	5,625	22,717	131	14,265	88,294	68,266	77.32	20,028	22.68
1990/91	22,056	4,598	24,682	-	8,204	59,540	51,369	86.28	8,171	13.72
1991/92	32,880	2,884	28,727	244	9,746	74,481	61,739	82.89	12,742	17.11
1992/93	47,481	6,992	24,782	-	8,528	87,783	64,676	73.68	23,107	26.32
1993/94	41,147	4,995	22,565	119	21,625	90,451	62,502	69.10	27,949	30.90
1994/95	9,738	5,802	22,219	80	12,572	50,411	40,301	79.94	10,110	20.06
1995/96	8,410	3,766	15,810	10	8,313	36,309	20,335	56.01	15,974	43.99
1996/97	860	2,800	4,126	-	6,041	13,827	4,407	31.87	9,420	68.13
1997/98 (d)										
Bank of Ceylon	6,785	10,080	31,455	869	2,661	51,850	46,887	90.43	4,963	9.57
1988/89	15,256	11,662	69,825	708	4,613	102,064	83,580	81.89	18,484	18.11
1989/90	24,777	11,617	52,577	1,808	7,897	98,676	74,190	75.19	24,486	24.81
1990/91	17,917	11,418	49,100	2,308	3,750	84,493	69,160	81.85	15,333	18.15
1991/92	23,215	11,794	39,820	1,756	3,243	79,828	63,703	79.80	16,125	20.20
1992/93	15,207	12,636	41,762	1,718	3,224	74,547	51,392	68.94	23,155	31.06
1993/94	14,662	12,302	38,833	1,207	1,709	68,713	56,662	82.46	12,051	17.54
1994/95	8,271	5,639	39,281	605	1,807	55,603	44,602	80.22	11,001	19.78
1995/96	17,156	7,216	22,917	611	1,337	49,237	37,153	75.46	12,084	24.54
1996/97	6,576	7,670	8,170	1,653	768	24,837	19,293	77.68	5,544	22.32
1997/98	2,883	474	618	139	26	4,140	1,361	32.87	2,779	67.13
1998/99 (d)										

(a) The data series in this table have been revised on the basis of the revised data submitted by the reporting banks.

Hence, some of the data may not be identical with what was reported in previous Annual Reports.

(b) Includes groundnuts, maize and big onions.

(c) Statistics given as at 30 September 1998.

(d) Incomplete data.

Sources : People's Bank
Bank of Ceylon

FINANCIAL SECTOR

TABLE 121

Deposits and Advances of Bank of Ceylon Sub-Offices at Agrarian Services Centres and Co-operative Rural Banks (1988-1998) and District-wise Classification for 1998

End of Period	Bank of Ceylon Sub-Offices at Agrarian Services Centres										Co-operative Rural Banks (a)					Difference between Total Deposits & Advances (Rs. '000)
	No. of Bank Sub Offices	Deposits			Advances			Difference between Total Deposits & Advances (Rs. '000)	No. of Branches	Deposits			Advances			
		No.	Amount (Rs. '000)	Average (Rs.)	No.	Amount (Rs. '000)	Average (Rs.)			No.	Amount (Rs. '000)	Average (Rs.)	No.	Amount (Rs. '000)	Average (Rs.)	
1988 Dec.	47	126,680	208,091	1,643	25,662	96,098	3,745	111,963	970	2,370,800	1,908,359	805	497,134	829,150	1,668	1,079,209
1989 Dec.	46	131,076	234,798	1,791	25,650	106,824	4,165	127,974	986	2,398,400	2,211,986	922	429,944	950,404	2,211	1,261,482
1990 Dec.	37	105,752	233,947	2,212	22,295	120,883	5,422	113,064	1,028	2,469,700	2,497,322	1,011	456,514	1,450,881	3,178	1,046,441
1991 Dec.	36	n.a.	285,907	-	n.a.	234,907	-	51,000	1,060	2,510,300	3,448,488	1,374	633,421	2,188,463	3,455	1,260,025
1992 Dec.	33	123,346	344,119	2,790	24,377	226,830	9,305	117,289	1,152	3,576,200	4,472,380	1,251	747,248	2,702,884	3,617	1,769,446
1993 Dec.	33	138,847	533,143	3,840	28,125	291,388	10,360	241,755	1,175	3,595,410	5,526,110	1,537	786,289	2,914,800	3,707	2,611,310
1994 Dec.	28	132,151	695,970	5,266	17,223	248,338	14,419	447,631	1,216	3,982,981	6,756,767	1,722	829,780	3,372,800	4,065	3,383,967
1995 Dec.	22	92,605	470,873	5,085	13,088	252,960	19,328	217,913	1,251	4,073,483	7,790,300	1,912	896,289	3,677,700	4,103	4,112,600
1996 Dec.	18	88,204	552,144	6,260	10,581	252,053	23,321	300,091	1,293	4,415,019	8,522,825	1,930	946,318	4,482,795	4,737	4,040,030
1997 Dec.	18	94,200	448,073	4,757	17,524	223,177	12,736	224,896	1,329	4,642,820	9,870,689	2,126	1,051,287	5,145,792	4,895	4,724,897
1998 Dec. (a)	12	54,468	317,550	5,830	7,237	105,408	14,565	212,142	1,351	4,764,741	11,233,684	2,358	1,130,717	6,054,899	5,355	5,178,785
DISTRICTS																
Colombo	-	-	-	-	-	-	-	-	105	334,412	1,133,116	3,388	120,943	619,769	5,124	513,347
Gampaha	1	3,581	42,263	11,802	127	10,104	79,558	32,159	179	581,372	1,380,264	2,374	161,733	922,645	5,705	457,619
Kalutara	-	-	-	-	-	-	-	-	75	237,310	742,008	3,127	79,334	346,330	4,365	396,678
Kandy	-	-	-	-	-	-	-	-	96	358,149	672,270	1,872	104,233	386,043	3,704	286,227
Matale	-	-	-	-	-	-	-	-	39	122,604	228,920	1,867	41,324	190,167	4,602	38,753
Nuwara Eliya	-	-	-	-	-	-	-	-	42	128,083	130,591	1,020	24,584	128,678	5,234	1,913
Galle	-	-	-	-	-	-	-	-	95	327,980	945,236	2,882	87,493	484,362	5,536	460,872
Matara	-	-	-	-	-	-	-	-	81	331,566	885,848	3,279	39,856	177,100	4,443	708,748
Hambantota	-	-	-	-	-	-	-	-	40	160,760	371,143	2,309	37,456	248,289	6,629	122,854
Jaffna	-	-	-	-	-	-	-	-	31	112,308	238,078	2,120	1,038	3,417	3,292	294,661
Mannar	-	-	-	-	-	-	-	-	6	7,526	665	88	10	30	3,000	635
Vavuniya	-	-	-	-	-	-	-	-	3	20,969	537	26	-	-	-	537
Batticaloa	-	-	-	-	-	-	-	-	9	27,331	6,274	230	3,965	3,786	955	2,488
Amperai	-	-	-	-	-	-	-	-	8	44,878	14,875	331	11,026	10,503	953	4,372
Trincomalee	-	-	-	-	-	-	-	-	6	17,527	16,567	945	681	977	1,435	15,590
Kurunegala	2	7,315	72,514	9,913	744	13,390	17,998	59,124	166	720,852	1,884,504	2,614	101,116	1,143,860	11,312	740,644
Pulliam	-	-	-	-	-	-	-	-	41	192,303	633,431	3,295	34,804	259,634	7,460	373,977
Anuradhapura	1	3,082	20,830	6,759	745	8,056	10,814	12,774	39	86,687	58,228	672	17,562	66,033	3,760	-7,805
Polonnaruwa	1	5,187	22,905	4,416	507	12,141	23,947	10,764	26	129,145	165,640	1,283	29,923	131,006	4,378	34,634
Badulla	5	26,458	100,959	3,816	2,101	30,966	14,739	69,953	81	226,786	414,198	1,826	72,115	271,123	3,760	143,075
Moneragala	2	8,845	58,079	6,566	3,013	30,751	10,206	27,328	21	46,039	66,856	1,452	15,841	53,439	3,373	13,417
Kegalle	-	-	-	-	-	-	-	-	76	259,557	492,989	1,899	72,569	336,238	4,633	156,751
Ratnapura	-	-	-	-	-	-	-	-	79	267,057	749,272	2,806	73,109	271,468	3,713	477,804
Mullaitivu	-	-	-	-	-	-	-	-	5	14,592	1,099	75	-	-	-	1,099
Kilinochchi	-	-	-	-	-	-	-	-	2	7,848	1,075	137	-	-	-	1,075
TOTAL	12	54,468	317,550	5,830	7,237	105,408	14,565	212,142	1,351	4,764,741	11,233,684	2,358	1,130,717	6,054,899	5,355	5,178,785

(a) Provisional data.

Sources: Bank of Ceylon
Dept. of Co-operative Development

FINANCIAL SECTOR

TABLE 122

Operations of the Crop Insurance Programme – Paddy Sector
[Position as at 31 December 1998] (a)

Season		Area Cultivated (‘000 ha.)	Area Insured (‘000 ha.)	Premia Collected (Rs. ‘000)	Indemnities Paid (Rs. ‘000)	Difference between Premia Collected and Indemnities Paid (Rs. ‘000)
1988	Yala	130	13	3,488	4,127	639
1988/89	Maha	469	24	6,137	7,619	1,482
1989	Yala	258	13	3,266	3,128	-138
1989/90	Maha	531	25	6,783	6,577	-206
1990	Yala	333	15	4,072	2,410	-1,662
1990/91	Maha	501	38	10,378	6,533	-3,845
1991	Yala	329	16	1,231	2,683	1,452
1991/92	Maha	577	30	8,371	5,152	-3,219
1992	Yala	255	9	2,439	1,806	-633
1992/93	Maha	546	23	10,103	3,616	-6,487
1993	Yala (b)	556	1,045	4,789	2,414	-2,376
1993/94	Maha	1,140	1,889	11,281	21,221	9,940
1994	Yala	710	698	6,619	6,801	182
1994/95	Maha	1,158	554	30,705	21,554	-9,151
1995	Yala	696	374	9,033	4,518	-4,515
1995/96	Maha	1,065	1,076	13,574	17,350	3,776
1996	Yala	499	57	3,767	2,577	-1,190
1996/97	Maha	946	1,122	10,070	5,571	-4,499
1997	Yala	513	435	3,303	1,852	-1,451
1997/98	Maha	1,147	1,418	7,020	1,265	-5,754
1998	Yala (c)	572	1,068	2,976	881	-2,095
1998/99	Maha (c)	538	1,931	5,011	n.a.	n.a.

*Sources : Agricultural Insurance Board
Ceylinco Insurance Co. Ltd.*

- (a) The data series in this table have been revised on the basis of the revised data submitted by the reporting institutions. Hence, some of the data may not be identical with what was reported in the previous Annual Reports.
- (b) Ceylinco Insurance Company data included after 1993 Yala.
- (c) Incomplete data.

செய்தியை உடனடியாக அறிவிக்கப்படுகிறது.

புத்தகப் பட்டியல்

புத்தகப் பெயர்	ஆசிரியர்	பதிப்பு	விலை	பதிப்பு	பதிப்பு
புத்தகம் 1	ஆசிரியர் 1	பதிப்பு 1	விலை 1	பதிப்பு 1	பதிப்பு 1
புத்தகம் 2	ஆசிரியர் 2	பதிப்பு 2	விலை 2	பதிப்பு 2	பதிப்பு 2
புத்தகம் 3	ஆசிரியர் 3	பதிப்பு 3	விலை 3	பதிப்பு 3	பதிப்பு 3
புத்தகம் 4	ஆசிரியர் 4	பதிப்பு 4	விலை 4	பதிப்பு 4	பதிப்பு 4
புத்தகம் 5	ஆசிரியர் 5	பதிப்பு 5	விலை 5	பதிப்பு 5	பதிப்பு 5
புத்தகம் 6	ஆசிரியர் 6	பதிப்பு 6	விலை 6	பதிப்பு 6	பதிப்பு 6
புத்தகம் 7	ஆசிரியர் 7	பதிப்பு 7	விலை 7	பதிப்பு 7	பதிப்பு 7
புத்தகம் 8	ஆசிரியர் 8	பதிப்பு 8	விலை 8	பதிப்பு 8	பதிப்பு 8
புத்தகம் 9	ஆசிரியர் 9	பதிப்பு 9	விலை 9	பதிப்பு 9	பதிப்பு 9
புத்தகம் 10	ஆசிரியர் 10	பதிப்பு 10	விலை 10	பதிப்பு 10	பதிப்பு 10



ISSN 1391-3581

ISBN 955-575-055-6