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SRI LANKA

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

June 30, 2005

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OVERVIEW

1. **The four papers presented here discuss several issues that highlight both Sri Lanka's accomplishments and their policy constraints amidst a protracted period of civil conflict and political instability**. The papers further develop the background behind some of the major policy issues discussed during the Article IV consultation. They also point to constraints in major policy areas that will need to be addressed for Sri Lanka to reach its growth potential, achieve broad-based poverty reduction, and move toward middle-income emerging-market status.

2. **While Sri Lanka's growth performance compares favorably to many countries at a similar stage of development, it has significantly trailed the fast growing countries of Southeast Asia**. Chapter I suggests that Sri Lanka has benefited from high levels of human capital development and relatively good governance. However, many other factors have constrained Sri Lanka's growth performance: the civil conflict; political instability; high fiscal deficits and inflation; inefficiencies in the financial and energy sectors, which are dominated by the public sector; and overly regulated land and labor markets. Achieving medium-term growth objectives will require major changes in the investment environment and in the macroeconomic policies that have hampered economic growth.

3. **As highlighted in the staff report on the Article IV consultation discussions, the key medium-term macroeconomic priority in Sri Lanka is revenue enhancement**. This is particularly important due to high government debt levels and the large expenditure requirements for sustained poverty reduction. This will require revenue improvements that are unlikely to be realized purely through gains in administration. Chapter II reviews the tax policy options and challenges facing the authorities in both the short and medium term. While rigorous enforcement of the existing tax structure will be crucial, the chapter outlines several options for tax policy reforms.

4. **High intermediation costs have held back development of the financial sector and could also frustrate Sri Lanka's quest for higher growth**. Chapter III finds that financial deepening has stagnated and interest spreads increased somewhat in recent years. Among the main causes for this are inefficient state banks in combination with poor competition in the banking sector. This underscores the importance of the government actively promoting efficiency in the banking sector, both as shareholder and supervisor.

5. **Finally, Chapter IV reviews developments in external trade with emphasis on the potential for further expansion of regional trade, particularly with a rapidly growing India**. Sri Lanka's external trade has performed relatively well in recent years, but still not as strong as some of its Asian trading partners. Trade with India has expanded rapidly from a very low base and still accounts for only a small portion of Sri Lanka's total exports. As the economic boom of its large neighbor is expected to continue, Sri Lanka should be able to further expand its trade with India. Traditional indicators of trade openness, as well as a regional gravity model, indicate that Sri Lanka has been underutilizing its trade potential. Growth in regional trade should be accompanied by overall trade reform, including through the introduction of a low-uniform tariff, to minimize distortions and inefficiencies that can result from preferential arrangements.

I. ECONOMIC GROWTH IN SRI LANKA: RECORD AND PROSPECTS[1]

A. Introduction

1. This chapter reviews Sri Lanka's economic growth record over the last 25 years and analyzes the factors underpinning this performance. In doing this, it identifies the impediments that will have to be removed to raise Sri Lanka's growth rate over the medium term. The main constraints to achieving higher growth are: the civil conflict, political instability, high fiscal deficits and inflation, underdeveloped financial markets, misguided agricultural policies, inadequate infrastructure, and labor rigidities.

B. Sri Lanka's Growth Experience

2. **Since the late 1970s, when a policy shift toward a more liberal economic regime took place, Sri Lanka's real GDP growth has averaged 4¾ percent a year**. Sri Lanka's growth rate in per capita terms—at 3½ percent—has been approximately the same as in India and higher than in Pakistan, Bangladesh, and Nepal (Table I.1). On average, low-income countries and lower-middle income countries have not performed better over the same period. In particular, of a group of countries with similar income per capita in the mid-1970s, only Botswana did better.[2] However, a number of East Asian economies, such as China, Korea, Thailand and Singapore, outperformed Sri Lanka by a wide margin. As a result of this divergence, for

Table I.1. Growth Performance of Selected Asian and World Economies by Income Level, 1978¬2003

(Annual averages)

	Growth of Real GDP	Population Growth	Growth of Real GDP Per Capita
China	9.5	1.2	8.2
Korea	6.8	1.1	5.7
Thailand	6.2	1.4	4.8
Singapore	7.0	2.3	4.5
Indonesia	5.6	1.7	3.8
Malaysia	6.4	2.5	3.8
Sri Lanka	4.6	1.2	3.4
India	5.3	1.9	3.3
Lao PDR	5.6	2.3	3.2
Pakistan	5.2	2.6	2.5
Bangladesh	4.3	2.1	2.2
Nepal	4.3	2.3	1.9
Philippines	2.9	2.3	0.6
Low-income countries	4.2	2.2	2.0
Lower middle-income countries	3.9	1.3	2.6
Upper middle-income countries	2.4	1.5	0.8

Source: *World Development Indicators*, World Bank, 2005.

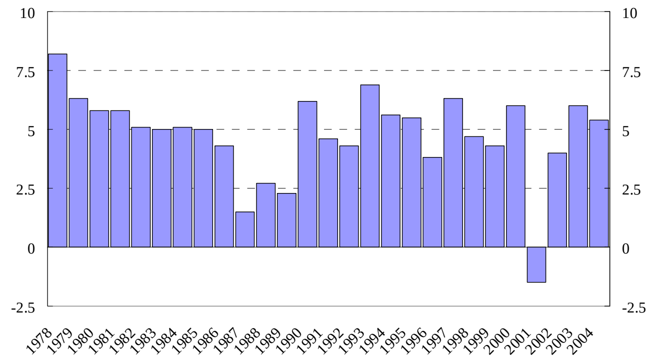
[1] Prepared by Enric Fernandez.

[2] Of the other eight countries with income per capita (in purchasing power terms) within 20 percent of Sri Lanka's in the mid-1970s, Zambia, Madagascar, and Central African Republic contracted; Gambia, Senegal, Mauritania and Solomon islands grew by 0–1 percent a year; and Egypt grew by 2¾ percent a year.

instance, Thailand's GDP per capita in 2003 was two times Sri Lanka's while the difference in 1975 was only 30 percent.

3. **Over the years, trend economic growth has fluctuated with the pace of economic reforms and the intensity of the civil conflict** (Figure I.1).

Figure I.1. Sri Lanka: Annual Real GDP Growth, 1979¬2004
(In percent)



- The first wave of liberalization paid handsomely with private investment doubling to 21 percent of GDP and growth rising above 6 percent in 1978–1982.

- When simmering ethnic tensions, however, developed into full-scale civil war in 1983, private confidence took a severe blow and the government focus of attention shifted away from economic reforms. GDP growth declined to an average of 3¾ percent in 1983–89.

- Despite the continuation of the civil conflict, a pickup in reforms in the first half of the 1990s raised average growth to 5½ percent.

- While reform efforts lost steam, the war escalated following a brief ceasefire and an attempt at peace talks in 1995. In 2000, higher oil prices and large imports of military equipment brought the country to the brink of a foreign exchange crisis and the following year, hit by a terrorist attack on the Colombo airport, political instability, a severe drought, and the global slowdown, the economy suffered its first recession in decades. The average growth from 1995 to 2001 fell below 4 percent.

- The ceasefire that has held since 2002 to date has contributed to the pickup in growth above 5 percent in 2002–04 despite the lack of progress in the peace process. At the same time, political instability has hampered the implementation of structural reforms.

4. **In terms of sectoral contributions to growth, agriculture has been a continued drag, and services have gradually replaced manufacturing as the most dynamic sector**. The long-term average growth rate in agriculture has barely exceeded the rate of population growth, which has contributed to the persistence of poverty (the headcount ratio stood at 23 percent in 2002, which is relatively high for Sri Lanka's per capita income).

Manufacturing was the main source of growth during the 1990s, when the apparel industry took off (Table I.2). In the 2000s, the expansion in telecoms (largely fulfilling pent-up demand for fixed line and cellular telephone services) has made the largest contribution to growth while more recently port services have grown strongly. Both of these sectors—telecoms and ports—have benefited from deregulation and privatization in recent years.

Table I.2. Sri Lanka: GDP Growth by Sector , 1983¬2004

	Average			
	1983¬1989	1990¬1995	1996¬2001	2002¬2004
Real GDP (annual percent change)	3.7	5.5	3.9	5.1
Agriculture, forestry and fishing	1.8	3.6	0.7	1.1
Manufacturing	6.3	9.2	5.3	3.8
Construction	1.2	5.5	4.7	3.7
Transport, storage, and communication	4.0	5.4	7.3	10.6
Wholesale and retail trade	3.9	6.0	3.2	6.2
Financial services	10.4	8.1	7.7	9.4
Other	5.0	3.9	3.7	3.5
Shares in GDP				
Agriculture, forestry, and fishing	29.3	25.8	21.2	18.9
Manufacturing	11.7	14.4	16.8	16.4
Construction	7.3	6.8	7.0	6.9
Transport, storage, and communication	10.4	10.3	11.4	13.5
Wholesale and retail trade	21.3	21.7	21.9	21.5
Financial services	5.0	6.1	7.6	9.1
Other	15.0	14.8	14.1	13.6
Percent contribution to annual growth				
Agriculture, forestry and fishing	0.5	0.9	0.1	0.2
Manufacturing	0.7	1.3	0.9	0.6
Construction	0.1	0.4	0.3	0.3
Transport, storage, and communication	0.4	0.6	0.8	1.4
Wholesale and retail trade	0.8	1.3	0.7	1.3
Financial services	0.4	0.5	0.6	0.8
Other	0.7	0.6	0.5	0.5

Sources: Central Bank of Sri Lanka; and IMF staff estimates.

5. **A growth accounting exercise suggests that total factor productivity (TFP) was an important factor behind the increased growth rates in the first half of the 1990s**.[3] The expansion of manufacturing, where productivity is almost twice as high as in agriculture, is one of the main factors underlying this result. Large increases in investment rates (public and private) and the very low initial capital output ratio explain the large contribution of capital accumulation to growth in the late-1970s. In the 1980s, the slowdown was broad based although the pace of capital accumulation remained relatively rapid as a result of public investments in irrigation. In recent years the ceasefire has resulted in an expansion of trade among Sri Lankan provinces and increasing employment. Many new jobs, however, have been created in sectors of relatively low productivity, such as

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[3] For the growth accounting exercise, a time series for the capital stock was estimated using the perpetual inventory method with national accounts data on investment and an estimate for the capital-output ratio in 1960 from the *Penn World Tables*, version 5.6 (Summers and Heston, 1991). Data on employment is from annual reports of the Central Bank of Sri Lanka and were interpolated for years with missing observations. The share of capital in total income and the depreciation rate were assumed to be 40 percent and 8 percent, respectively. No adjustment was made for the quality of inputs.

agriculture, which pulls down the estimates of TFP growth (Table I.3).

Table I.3. Sri Lanka: Growth Accounting Decomposition

(Annual average; in percent)

	Real GDP Growth	Contributions From: TFP	Capital	Employment
1970¬1977	3.1	0.0	1.8	1.3
1978¬1982	6.2	0.8	3.8	1.6
1983¬1989	3.7	0.6	2.6	0.6
1990¬1995	5.5	3.0	2.0	0.6
1996¬2001	3.9	0.1	2.3	1.6
2002¬2004	5.1	0.7	1.1	3.3
1978¬2004	4.8	1.1	2.4	1.3
2005¬2009	5.9	1.9	2.5	1.5

Sources: CBSL *Annual Report* (various issues); and IMF staff estimates.

C. What Factors Explain the Growth Performance?

6. **A vast literature on growth and development provides useful guidance in identifying the main factors underpinning Sri Lanka's growth performance**. The evidence on conditional convergence implies that the relatively low starting income levels in the 1970s helped Sri Lanka enjoy a higher growth rate (Barro and Sala-i-Martin, 2003). Among other variables that have been found to be associated with higher growth, Sri Lanka has enjoyed a relatively favorable position on human capital development and some aspects of governance (Table I.4).

Table I.4. Selected Indicators of Human Capital Development and Governance 1/

	1977 Life Expectancy	1977 Literacy Rate	Regulatory Quality (-2.5 to +2.5)	Rule of Law (-2.5 to +2.5)	Control of Corruption (-2.5 to +2.5)
Bangladesh	47	28	-0.54	-0.68	-0.47
China	65	63	-0.06	-0.45	-0.01
Hong Kong SAR	72	...	2.07	1.71	1.50
India	53	39	-0.09	-0.01	-0.31
Indonesia	53	65	0.27	-0.36	-0.47
Korea	66	...	0.69	0.81	0.54
Malaysia	65	67	0.86	0.85	0.51
Nepal	46	20	-0.22	-0.36	-0.28
Pakistan	53	26	-0.57	-0.44	-0.98
Philippines	60	86	0.45	-0.11	-0.40
Singapore	71	80	2.29	2.13	2.18
Sri Lanka	67	84	0.34	0.29	-0.23
Thailand	61	86	0.49	0.49	-0.32
Vietnam	58	86	-0.56	-0.50	-0.64

Sources: World Bank, 2005, *World Development Indicators* and *Governance Research Indicators*.

1/ By construction, governance indicators around the world have approximately a normal distribution with zero mean and unit standard deviation.

- **Human capital development**. At 67 years in the mid-1970s, life expectancy in Sri Lanka was higher than in Thailand, Malaysia, Korea or China, and roughly the same as the average in upper middle-income countries. Estimates in the growth literature (Barro and Sala-i-Martin, op. cit.) suggest that a 10-year difference in life expectancy (which is less, for instance, than the difference between India and Sri Lanka in the mid-1970s) is associated with more than a 1 percentage point difference in growth rates of per capita GDP as a longer and healthier life increases the incentives for investment in human capital. The most recent data confirm that Sri Lanka still compares favorably with this group of countries. The comparison is equally favorable in terms of literacy rates, which were above 80 percent in the mid-1970s and now exceed 90 percent. On measures of human capital development, Sri Lanka is well ahead of most other South Asian economies.

- **Some aspects of governance**. Sri Lanka scores relatively well in a set of indicators compiled by Kauffman et al. (1999 and 2005) related to quality of regulation, the rule of law, and control of corruption.[4] These authors have provided empirical evidence of a strong casual relationship from better governance to better development outcomes, including higher income levels. Comparisons are clearly favorable when taken with other South Asian economies along the first two dimensions. In terms of control of corruption, the differences between Sri Lanka and India are not statistically significant but both countries are well ahead of Bangladesh and Pakistan. Indicators for Sri Lanka are in line with China's and Thailand's.

7. **In contrast, the following factors have hampered Sri Lanka's growth performance**:

- **The civil conflict**. The civil conflict has affected economic growth through several channels, most clearly through the loss of human lives and the destruction of property and infrastructure. It has also absorbed a large amount of manpower and physical equipment that could have been used more productively in other activities. In particular, government spending on defense rose by more than 2 percent of GDP during the conflict years compared with pre-war levels. Staff estimates suggest that an increase in annual investment by 2 percent of GDP could have raised GDP growth by 0.4 percent a year.[5] Higher costs of doing business—for instance, on transportation and insurance premiums as well as a result of the general disruption of economic activity—also lowered total factor productivity and the incentives to invest. The conflict had the largest impact on certain economic activities (e.g., tourism) and geographical areas (the North and East and the areas bordering this region). For instance, tourist arrivals, which had reached 400,000 in 1982, fell to 150,000 in the late 1980s and only recovered to the pre-war level in 2003 after the ceasefire was signed. In a more indirect way, the conflict has also affected the ability of successive governments to concentrate on economic reforms.

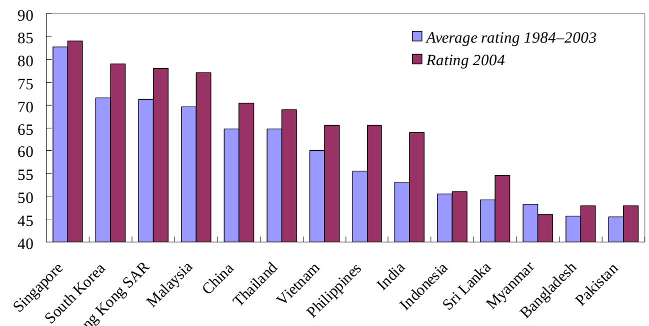
- **Political instability**. According to the widely used International Country Risk Guide (ICRG) political risk rating, of more than 130 countries, less than fifteen were perceived to be more unstable than Sri Lanka from 1984 (the first year for which the index was compiled) to 1995—Bangladesh and Pakistan were among them (Figure I.2). In part, political instability has been intimately related to the civil

[4] These indicators are based on a variety of surveys measuring subjective perceptions of various aspects of governance and have been available since 1996. The indicators for 1996 are taken here as a proxy for governance over the period for which the GDP growth is being analyzed.

[5] Assuming a Cobb-Douglas production function with constant returns to scale, the marginal product of capital is equal to the product of the capital share (assumed to be 0.4, as in the growth accounting exercise) and the inverse of the capital-output ratio (estimated to be around 1.85 during the civil conflict years).

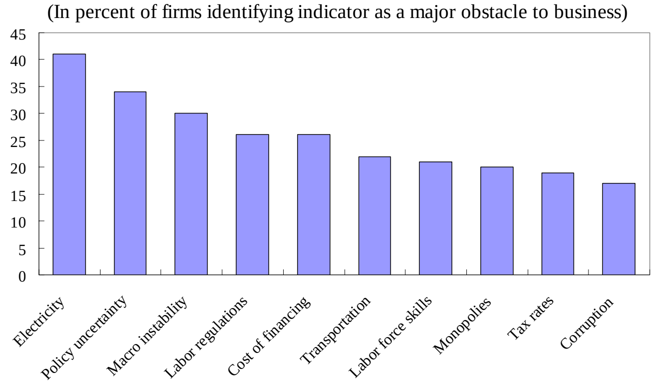
conflict, and fueled by political assassinations.[6] On the other hand, political instability related to the government's inability to implement its policy agenda or as policy uncertainty also appears to have been a concern, especially in recent years. After a large improvement in 2002 following the ceasefire agreement, the ICRG index of political instability has worsened gradually to a level in 2004 equivalent to the average of the index for 1996–2000. This has reflected the lack of progress on the peace process but also the weakness of successive governments, which have been unable to implement their policy agenda, and the lack of a broad consensus on economic reforms. Policy uncertainty was identified in a recent ADB/World Bank business climate survey as the second most important factor affecting the competitiveness of Sri Lanka (Figure I.3).

Figure I.2. Selected Countries Political Risk Ratings, 1984–2004
(Scale 0 to 100, a higher index implies less risk)



Source: *International Country Risk Guide* , PRS Group.

Figure I.3. Sri Lanka: Investment Climate Survey, 2004
(In percent of firms identifying indicator as a major obstacle to business)



Source: World Bank.

- **High fiscal deficits and inflation**. Fiscal deficits have averaged close to 9½ percent of GDP from the mid-1970s until 2004. Very few countries have averaged higher fiscal deficits than Sri Lanka over the last 25 years. High deficits have raised the level of public debt to more than 100 percent of GDP, hampering private investment by raising expectations of higher future taxes and heightening macroeconomic risks. Interest payments have become the largest expenditure item in the government budget and have crowded out public investment. Indeed, the ADB/WB business survey identified the risk of macroeconomic instability as an important burden on the

[6] For instance, the 1990's witnessed the assassinations of President Premadasa and Presidential candidate Dissanayake in 1993 and 1994 respectively, and the attempted assassination of President Kumaratunga in 1999.

investment climate while poor transport infrastructure was singled out as the single most important constraint by rural firms. Fiscal dominance of monetary policy has also contributed to a relatively high average inflation rate of more than 10 percent. Estimates in Batista and Zalduendo (2004) suggest that lowering inflation from 10 to 5 percent could increase GDP growth rates by about ¼ percentage point by improving resource allocation.

- **Underdeveloped financial markets**. Typical measures of financial depth suggest that Sri Lanka remains relatively underdeveloped.[7] The corporate bond market also remains very thin and most firms rely on internally generated funds or bank credit to finance investment. The dominance of public sector institutions in the financial system (state-owned banks, savings banks, and pension funds) has hampered financial market development as banks remain relatively inefficient and other institutions have mostly been used as captive sources of government financing.

- **High electricity tariffs and labor market rigidities**. These factors have also been identified in the ADB/WB business survey as major constraints for private investment. Given the dependence on oil for electricity generation, reflecting years of underinvestment, and operational inefficiencies at the Ceylon Electricity Board, including large transmission losses, electricity tariffs are high (Rs. 7–7.5 per kilowatt for industrial users) although they remain well below cost recovery levels. In the labor market, redundancy decisions are subject to approval by the labor commissioner, who until 2003 also had discretion over the amount of redundancy payments. In practice, these were set at very high levels (2–3 months of wages per year worked). Since then, a formula for redundancy payments has been introduced, adding predictability, but redundancy costs remain among the highest in the world.[8]

- **Misguided agricultural policies**. Agricultural policies, primarily aimed at attaining self sufficiency in paddy production, have constrained the diversification into higher yield crops. Restrictions on the transfer and use of land have also prevented the

[7] In Sri Lanka, stocks traded, private sector credit, and broad money were about 3 percent, 30 percent and 40 percent of GDP, respectively, in 2004. The average for lower middle income countries is above 20 percent, 70 percent, and 80 percent of GDP, respectively (*World Development Indicators*, 2005).

[8] In 2005 the ceiling for redundancy payments was raised to 48 months of wages, compared to 31.5 months under the previous formula. Benefits accrue at a rate of 2.5 months of wages per year worked during the first four years; 2 months of wages per year worked during the next 5 years; and so on, declining to 0.5 months of wages per year worked during years 28 to 37. Thus, a worker who is laid off after 20 years of employment would be entitled to 36 months of wages.

consolidation of small plots into larger economically viable holdings. The development of land markets would facilitate access to credit by allowing the use of land as collateral. Lack of access to credit has been identified as a top constraint for the development of rural firms (World Bank, 2005). High and variable import tariffs for agricultural commodities has also led to price distortions and discouraged investment in storage facilities (as protection is usually lowered when domestic prices rise).

D. Looking Ahead

8. **While comparing favorably to many countries at a similar stage of development, Sri Lanka's growth performance has trailed the fast growing countries of Southeast Asia**. This chapter suggests that Sri Lanka has benefited from relatively good levels of human capital development and governance. However, many other factors have constrained Sri Lanka's growth performance: the civil conflict, political instability, high fiscal deficits and inflation, inefficiencies in the financial and energy sectors, which are dominated by the public sector, and overly regulated land and labor markets.

9. **Sri Lanka's medium term macroeconomic framework assumes that GDP growth will rise above its historical average to 6–7 percent a year**. The fact that only on one occasion since 1950 Sri Lanka has enjoyed growth above 6 percent for two years in a row underscores that this is an ambitious goal. Achieving it will require major changes in the investment environment and in the macroeconomic policies that have hampered economic growth. In particular: a durable solution to the civil conflict will have to be reached; the fiscal deficit and inflation reduced, while increasing spending on infrastructure; the political environment will have to improve and a broad consensus on the policies that have to be sustained over time needs to be developed; and structural reforms in the electricity sector, financial sector, the labor market and the agriculture sector that relax the constraints highlighted in the previous section have to be implemented. In the absence of reforms, growth performance could remain below 5 percent.

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II. Tax Policy Reform: Macroeconomic and Microeconomic Considerations[1]

1. **The key medium-term macroeconomic priority in Sri Lanka is revenue enhancement**. This is particularly important due to high government debt levels and the large expenditure requirements for poverty reduction. The authorities' medium-term objectives rely on ambitious revenue projections that are unlikely to be realized purely through gains in revenue administration. This chapter reviews the tax policy options and challenges facing the authorities in both the short and medium term. The first section considers trends in the level and composition of revenue in Sri Lanka relative to a set of international comparators. Based on this analysis, it then considers key areas from a more microeconomic perspective, identifying the advantages and disadvantages of current and potential future policy measures to increase tax yield.

A. The Level and Composition of Revenue

2. **Despite large and continuing expenditure pressures, revenue yield has been declining in recent years**. Overall central government revenue has fallen from 19 percent of GDP in 1996 to 15.3 percent in 2004 (Table II.1). Falls in revenue from trade taxes associated with trade policy reforms have not been compensated by increasing yield from other tax sources. On the contrary, all other sources have also fallen as a share of GDP. Nontax revenue has varied, with 2004 a particularly poor year.

Table II.1. Revenue Performance 1996–2004

(In percent of GDP)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total revenue	19.0	18.5	17.2	17.7	16.8	16.6	16.5	15.7	15.3
Direct taxes	2.7	2.4	2.0	2.6	2.2	2.5	2.4	2.2	2.0
Indirect taxes	9.9	9.6	8.9	9.2	9.7	9.6	9.4	8.4	9.2
Trade taxes	3.3	3.0	2.8	2.5	1.9	1.9	1.8	1.9	2.0
Other tax	1.0	1.0	0.8	0.8	0.7	0.7	0.5	0.6	0.6
Nontax	2.1	2.5	2.7	2.7	2.3	2.0	2.5	2.5	1.5

Sources: Sri Lankan authorities; and Fund staff estimates.

3. **A lack of buoyancy of tax revenues is a common problem in developing economies**. Keen and Simone (2004) show that the pattern of revenue performance in these countries over the 1990s has been one of stagnation or slight decline. While declining trade taxes have often been compensated for by increases in taxes on domestic consumption, corporate income tax yields have generally declined. Nevertheless, as they note, the rate of decline in Sri Lanka is striking—a decline of over 5 percent of GDP in total revenue compared to the average for lower-middle income countries of a 0.3 percent of GDP decline. This reflects both underlying poor elasticity of revenues to income, due in part to poor administration and widespread tax evasion, and the effect of discretionary tax measures that exempt from taxation the companies, industries or sectors that are driving economic growth.

[1] Prepared by Matt Davies.

4. **Revenue performance in Sri Lanka compares poorly against its peers and competitors**. Figure II.1 shows Sri Lanka's revenue collection against key emerging and low-income economies, with a particular focus on its Asian peers. Care is required when interpreting such international comparisons. In particular, one needs to take into account the particular structure of the economies in question. Unlike some of the countries in the sample, Sri Lanka is a relatively small, open economy with few captive sources of revenue that generate high rents—such as oil or minerals. Some of the countries in the charts below include revenues collected at lower levels of government, whereas Sri Lanka does not, however, these were only 0.7 percent of GDP in 2004 and so do not change the picture markedly.

5. **Sri Lanka's overall revenue yield remains comparatively low compared with an average of 19 percent of GDP in Asian emerging markets**. Sri Lanka's overall revenue performance is better than its low-income neighbors in South and East Asia with Cambodia, Bangladesh and Nepal all having current yields more than 3 percentage points of GDP below current Sri Lankan performance. However, when compared with its middle-income and emerging market peers within and beyond the region, only the Philippines performs worse with a yield of only 14.5 percent.

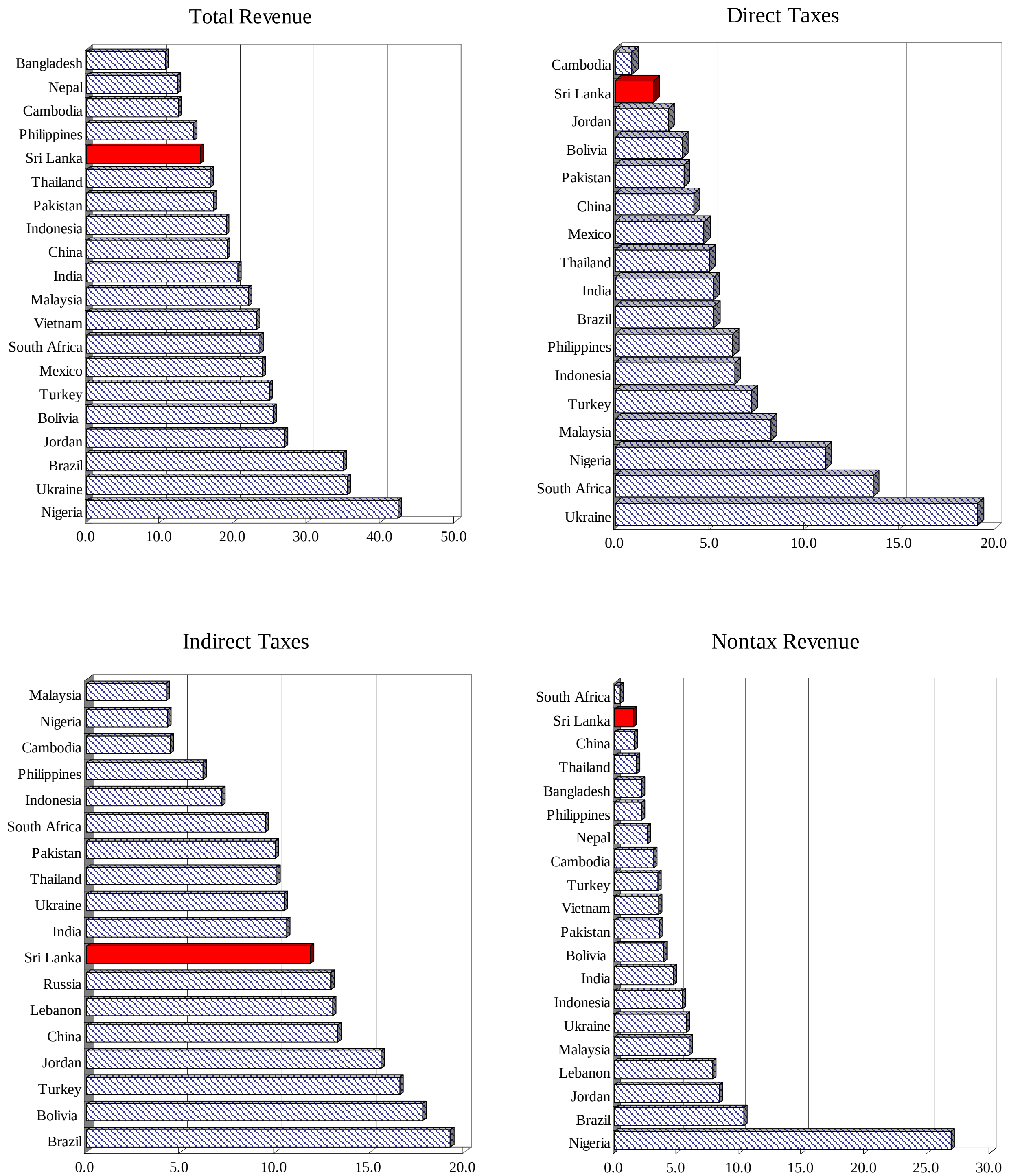
6. **Sri Lanka's central government revenue is unusually dependant on taxes on domestic goods and services**. These taxes account for over 60 percent of central government revenue as compared to only 25 percent in the ASEAN countries. At almost 10 percent of GDP, the taxation of this sector is at levels comparable to OECD countries. In contrast, taxes on income and profits remain very low by international standards. Although low yields from these sources are to be expected in low-income countries, Sri Lanka's level is still extremely low. The average in low and lower-middle income countries in the early 2000s was around 4 percent of GDP compared to Sri Lanka's 2–2.5 percent. Sri Lanka's decline in corporate income tax is consistent with experience across developing countries, who saw revenues from this source decline by about 20 percent from the early 1990s to the early 2000s as a result of reduction both in rates (to induce supply side effects) and bases (to improve investment incentives) (Keen and Simone).

B. Revenue Policy Reform

Overview

7. **The key principle behind revenue policy should be to place the lowest rate on the broadest base so as to minimize distortionary effects**. It should also be efficient, yielding maximum revenue for the minimum cost. Although progress has been made in streamlining

Figure II.1. Revenue Indicators in Selected Emerging and Low-Income Economies



Sources: Country authorities; and IMF staff estimates.

the tax structure through the introduction of the VAT and some rationalization of the grounds for granting tax holidays and exemptions, the Sri Lankan tax base remains extremely narrow. This reflects weak administration and a widespread network of exemptions and preferences.[2] All of these issues need to be addressed to improve revenue performance.

8. **This chapter focuses on the priority areas of VAT and direct taxes**. As the VAT underpins revenue collection in Sri Lanka, it is crucial to ensure it is operating at maximum efficiency. Tax yields from personal and corporate income are particularly low by international standards, which suggest efforts should be made to increase the yield from them—taking note of the fact that these taxes can introduce some of the most severe distortionary and competitive effects.

The Value Added Tax (VAT)

9. **The VAT is an important source of revenue in Sri Lanka**. It was established in 2002 by merging the previous Goods and Services Tax (GST) and the National Security Levy (NSL; a simple broad based sales tax with very few exemptions). The intention on establishment was revenue neutrality. However, this has not occurred, in part because it inherited the widespread exemptions of the GST rather than the broad base of the NSL. Additionally, given these exemptions, the rate was set too low for revenue neutrality, particularly given the more sophisticated administration required for the VAT. Nevertheless, the efficiency of Sri Lanka's VAT is in line with the regional average in Asia and Eastern and Central Europe (Table II.2).

Table II.2 VAT Rates, Revenue and Efficiency

	Standard VAT Rate	Other Positive VAT Rates	VAT Revenue 1/	Efficiency Ratio 2/	Applicable Year
Sri Lanka	15.0		5.9	0.39	2004
Asia average	10.5		3.8	0.38	
Bangladesh	15.0		4.1	0.27	2003
Cambodia	10.0		...	...	2002
China	17.0	13.0	5.6	0.33	2000
Fiji	12.5		...	...	2003
Indonesia	10.0		3.7	0.37	2001
Japan	5.0		2.0	0.40	2001
Korea	10.0		4.7	0.47	2001
Mongolia	15.0		7.3	0.49	2001
Nepal	10.0		3.0	0.30	2003
Papua New Guinea	10.0		...	...	2002
Philippines	10.0		3.1	0.31	2003
Samoa	10.0		...	...	2002
Singapore	4.0		1.4	0.35	2001
Thailand	7.0		3.1	0.44	2002
Vanuatu	12.5		...	...	2002
Vietnam	10.0	5.2	4.3	0.43	2002
Latin American average	14.0		5.9	0.38	
Eastern and Central Europe average	20.0		8.0	0.40	

Sources: Internal IMF note based on data from *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); *World Economic Outlook* (IMF); *Taxes and Investment in Asia and the Pacific* (IBFD); and *Corporate Taxes 2003–2004, Worldwide Summaries* (PricewaterhouseCoopers).

1/ May include some revenue from other general sales taxes.
2/ Efficiency ratio = Total VAT revenue as a percentage of GDP divided by the standard VAT rates.

[2] Annex II.1 provides a detailed summary of the current tax structure in Sri Lanka.

Its coverage, however, remains partial with many specific exemptions causing cascading effects. In particular, wholesale and retail trade remains outside of the VAT net and are taxed on the basis of turnover by the provincial governments.

10. **The VAT is a crucial component of a modern tax system**. It is less distortionary than most taxes and can play an important role in tax enforcement by creating a paper trail that facilitates audit. Introducing and enforcing a well-designed VAT can therefore serve as a basis for increasing other revenue sources in the medium term. The key principle underlying a VAT is that it is a broad based tax levied at multiple stages of production with taxes on inputs credited against taxes on outputs a crucial part of the process. Best practice suggests that a single positive rate (with only exports zero-rated) should be adopted and exemptions should be used sparingly, ideally only in areas where the output is hard to observe or administer (e.g., small firms).

11. **Recent VAT policy reforms depart from these principles**. Many of these reforms were revenue enhancing in the short term but undermined the cleanliness of the VAT, adversely affected economic incentives, and complicated administration. The main measures were:

- Introducing a lower rate of 5 percent for essential goods (but abolishing refunds under this rate) and a higher rate of 18 percent for luxury goods.

- Introducing further exemptions for agricultural products and imported capital goods. In some cases, in particular the agricultural export sectors, these measures were revenue enhancing as exemption removes the right to claim refunds for inputs.

- Imposing a 5 percent surcharge on the valuation of imported goods for VAT purposes.

12. **The VAT is the most efficient vehicle for delivering short-term revenue gains**. Policy measures can either increase the rate or widen the base, either through including previously exempted sectors or through better administration of existing sectors. In the short term, the latter route is unlikely to lead to large revenue yields.

13. **Raising the average VAT rate would provide immediate revenue gains, particularly given its relatively good productivity**. The current headline rate of 15 percent is about average by international standards. The Asian average is 11 percent while the average in Eastern and Central European countries (and the OECD) is around 20 percent. These averages, however, are affected by countries that can afford lower rates because of significant other revenue sources, such as mineral revenue. International evidence is clear that increases in rates generally translate into higher revenues even if these gains may not be fully proportional to the rate rise. A rise in the average rate could be achieved in a number of ways but would ideally involve unifying the VAT rate, probably at the 18 percent rate. Alternatively, abolishing (or increasing) the 5 percent rate or moving more items to the 18 percent rate would have a similar effect but would produce a less attractive tax structure.

14. **Broadening the base should, however, be the key priority**. A broader base would enable a lower rate to be charged. This should have two features: including major sectors that are not currently covered—wholesale and retail trade—and removing the patchwork of specific exemptions. The authorities have estimated that the effect of the specific exemptions (not including the costs of excluding the wholesale and retail sectors from the base) could be on the order of 1 percent of GDP a year. Extending the VAT to wholesale and retail trade would produce some offsetting effect on general government revenue as the provincial governments would lose their main revenue source, and this would have to be compensated for by an increase in central government transfers. A high threshold for VAT qualification should be retained to address concerns for the small business sector without favoring any particular industry.

Personal Income Taxes

15. **Personal income tax yields tend to be low in developing economies**. This reflects low formal sector participation and administrative priorities—setting a high threshold to minimize administrative burdens and disincentives to work. Nevertheless, Sri Lanka's income tax yield is low even by the standards of low-income countries who average around double the Sri Lankan level in percent of GDP.

16. **The personal income tax base in Sri Lanka is particularly narrow**. This, in part, reflects sensible policy but also reflects widespread exemptions and evasion. Most notably, the effective exemption of civil servants from the income tax net significantly decreases the base in a country with such a large public sector (accounting for around 15 percent of formal employment). The number of current contributors to the Employers Provident Fund (EPF), a mandatory contributory retirement scheme for formal sector employees, represents the upper bound of potential income tax payers. This number currently stands at 2 million, compared to the number of income taxpayers of around 1 million (ADB, 2004 and Stern, 1997).

17. **Recent policy reforms have acted to extend the base and reduce the average rate charged on it**. The 2005 budget extended the tax base by making government employees liable for income. Although this measure was initially notional (it made only 50 percent of income liable and introduced an allowance for those few public servants who would have to pay tax on their salaries), it is an important first step to correcting the long-standing anomaly. The base was also extended by restricting deductions. Administrative reforms to bring taxpayers into the net were also introduced, although their enforceability is questionable. However, the structure of the tax was significantly complicated and the average rate reduced, by increasing the number of bands from 3 to 6 with the unchanged top rate applying at an income almost double that in 2004.

18. **Increasing the yield of the personal income tax over the medium term is crucial**. The policy environment for the PIT is broadly appropriate; therefore the focus in this area should primarily be on reinforced administration. Policy measures should concentrate on maintaining the base at an appropriate size taking into account administrative, redistributive and revenue objectives. Measure in this regard could be:

- Reducing the number of bands for income tax. The current rate structure is unnecessarily complicated and could be revised to improve simplicity and increase revenue. Guiding principles should be maintaining a high threshold for liability, retaining the top rate around current levels, and minimizing the number of intermediate rates.

- Increasing the amount of government income considered for income tax purposes. Provided that the minimum threshold for income tax liability is set at an appropriate level to protect low-income earners, there is very little policy rationale for providing public servants with the current generous level of exemptions.

Corporate Income Tax

19. **Sri Lanka does not have a captive source of corporate income tax (CIT)**. The high yields seen in other developing countries often reflect receipts from high-margin enterprises such as extractive industries. The predominant form of industry in Sri Lanka however is the low-margin garment sector. This, combined with increased global tax competition, suggests that the CIT is unlikely to show a large yield in the short term. Nevertheless, the low yields currently realized suggest that there is scope for improvement.

20. **Theoretically, the CIT should be a single rate tax not significantly different from the top rate of personal income tax**. This minimizes potential distortions and incentives for evasion. The aim should be to have a simple structure with minimal exemptions that will enable increasing yields to be captured automatically with growth. There are currently 5 CIT rates in Sri Lanka (see Annex II.1 for details):

- A mainstream rate of 32.5 percent, close to the top rate of personal income tax of 30 percent and a reduced rate of 20 percent for companies with annual income of below Rs. 5 million.

- Four preferential rates of 10, 15, 20 and 30 percent that apply to specific sectors and activities.

- Various tax holidays for Board of Investment (BOI) companies and selected firms and industries.

21. **A key issue in Sri Lanka is the widespread use of exemptions and incentives**.[3] A government study in 2002 estimated that the cost of CIT exemptions, predominately to the BOI companies, was around 1 percent of GDP. The effectiveness of these exemptions in attracting FDI or promoting the growth of domestic industries is yet to be proven. International evidence suggests that, in addition to tax rates, the key determinants are

[3] See, in particular, the previous Article IV discussion (IMF 2003).

infrastructure, institutions, stability and labor skills/costs (Zee and Tanzi, 2001). A recent UNCTAD study suggests that it is Sri Lanka's labor laws that are in fact the greatest disincentive to investment. In these circumstances, there is a risk that tax holidays and exemptions may in fact be merely granting rents to investors or benefiting their home treasury rather than acting as effective investment incentives.

22. **The economic service charge (ESC) has been the key policy reform with respect to CIT in recent years**. This charge effectively sets a minimum CIT payment of 1 percent of turnover. The payment is creditable against CIT but not refundable. Since April 2005 it has close to full coverage of the corporate sector, with BOI companies and the retail and wholesale trade included but with reduced rates of 0.25 percent and 0.5 percent, respectively. The application to the BOI companies, who currently enjoy tax holidays, is significant, particularly in terms of the number of companies it brings into the tax net. The current number of corporate taxpayers is around 20,000. There are 1,400 BOI companies, who tend to be larger than average (there are currently only 10,000 companies with more than 10 employees in Sri Lanka).

23. **In the medium term, however, the ESC is not a solid basis for corporate income taxation**. In a situation of poor administration and widespread evasion a tax such as the ESC can be justified. It ensures a tax contribution from ongoing concerns and allows the revenue administration to begin to build up documentation on its clients. However, there are important problems associated with it, particularly as it adds to the costs of doing business, particularly for those who are not liable for CIT.

24. **In the medium term, CIT reform should promote more effective taxation of a broader base**. In addition to further movement away from the use of tax holidays and exemptions, key measures should be:

- Eliminate preferential rates to create a more streamlined structure. The medium-term aim should be to move to a two-rate CIT structure based solely on a fair definition of income applied uniformly to the corporate sector.

- Reform the current rate structure to remove the high marginal tax rate effect. The current policy of two rates differentiated by annual income creates high marginal tax rates as companies move beyond the threshold. This either discourages growth or promotes tax evasion. The system should be revised to a structure similar to the income tax structure of changing marginal rates of taxation, with thresholds and rates being set to preserve revenue neutrality in the short term.

25. **Privatize/restructure SOEs to ensure profitability**. This would have both a direct effect, increased tax payments from these companies, and an indirect effect, through a cheaper and more responsive business environment that enhances corporate profitability.

Other Taxes

26. **While the VAT and direct taxes should be the primary area of focus, other taxes can also contribute to improved revenue performance**.

- **Import duties**. Recent reforms to the headline rates of import duty, which streamline the number of bands and reduce the average rate levied are consistent with good practice in revenue and trade policy. However, additions to these headline rates in the form of surcharges, cesses, excises and surcharges on valuation for VAT purposes, while revenue enhancing, are inconsistent with stated trade policy and need to be gradually rolled back as increases in other revenue sources allow.

- **Excise duties**. Excise rates are already high by international standards and yield relatively high amounts. These taxes should continue to be used primarily for microeconomic purposes on a limited selection of goods with low price elasticity. However, overall revenue effects should not be neglected. Care should be taken in setting rates as they can have unintended negative consequences for revenue collection. The recent hike in vehicle excises (raising the overall tax on an imported vehicle by 100 percentage points to around 275 percent) was so successful in discouraging demand that revenues actually fell. Similarly, high excises on tobacco and alcohol can encourage smuggling, reducing revenues and diminishing welfare enhancing effects.

- **Nontax revenue**. Aside from fees and charges, nontax revenue is primarily affected by the operating profits of state-owned enterprises. To the extent that restructuring of state-owned enterprises leads to increased viability and profitability, revenue performance would be enhanced.

C. Final Remarks

27. **More effective enforcement of the existing tax structure is crucial in improving revenue performance**. Although additional tax policy measures are essential to improve the buoyancy and efficiency of the revenue system, these will only be effective if existing and new polices are properly implemented. This requires improved revenue administration focused on improved registration, to ensure the effective base is as close as possible to the legislated one, and enforcement, to ensure that assessed taxes are collected.

28. **Improvements in administration are, however, not enough to meet the authorities' ambitious revenue targets**. There is substantial scope for policy reforms to improve both the yield and efficiency of the current tax system. Focus should be given to:

- **VAT**: Given its dominance in revenue yield, this should be the primary focus for short-term measures. If key base broadening measures, such as including the wholesale and retail trade in the VAT base, cannot be implemented in the near-term then average rates will need to increase.

- **Direct taxes**: In particular, by removing the system of preferential rates from the corporate income tax.

29. **Policy changes should be supported by rigorous analysis of their revenue and poverty impact**. The real cost of changing rates and bases, in particular through the exemption process is often not intuitive. It is crucial to ensure that the poor are not priced out of necessities through tax measures, and equally it is important to ensure that exemptions granted in the interests of poverty reduction are not primarily benefiting more affluent groups.

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

<table>
<tr><th>Nature of Tax</th><th>Tax Exemptions and Reductions</th><th>Rate</th></tr>
<tr><td>Personal Income Tax</td><td></td><td></td></tr>
<tr><td>Taxable is all income minus contributions to an occupational pension scheme.

Tax year: April 1 to March 31.
Date of payment: mid-August, mid-November, mid-February, mid-May</td><td>• 50 percent of gross government income
• Remitted income earned abroad and paid in foreign currency
• Agricultural income (exempt for first 5 years and thereafter taxable at 15 percent)
• Non Sri Lanka source income of diplomats
• Travel allowances for expatriates serving in Sri Lanka
• Travel allowances granted to employees for business travel abroad
• Compensations for death and injuries
• Scholarships
• Terminal retirement benefit exemption applies only if</td><td>
<table>
<tr><th>Annual Income (In thousands)</th><th>Marginal Rate (In percent)</th></tr>
<tr><td>0–300</td><td>0</td></tr>
<tr><td>300–600</td><td>5</td></tr>
<tr><td>600–800</td><td>10</td></tr>
<tr><td>800–1,000</td><td>15</td></tr>
<tr><td>1,000–1,200</td><td>20</td></tr>
<tr><td>1,200–1,400</td><td>25</td></tr>
<tr><td>Above 1,400</td><td>30</td></tr>
</table>
<table>
<tr><th colspan="2">Terminal Retirement Benefits (In million)</th><th rowspan="2">Marginal Rate (In percent)</th></tr>
<tr><th>>20 Years</th><th><20 Years</th></tr>
<tr><td>0–2</td><td>0–1</td><td>0</td></tr>
<tr><td>2–2.5</td><td>1–1.5</td><td>5</td></tr>
<tr><td>2.5–3</td><td>1.5–2</td><td>10</td></tr>
<tr><td>Above 3</td><td>Above 2</td><td>15</td></tr>
</table>
</td></tr>
<tr><td>Corporate Income Tax</td><td></td><td></td></tr>
<tr><td>Taxable income is defined as total revenue less total deductible expenses.

Deductible expenses include:
• Depreciation (various schemes)
• Bad and doubtful debts
• Interest on borrowing for business purposes
• Turnover tax payable at provincial level
• Expenditure for scientific, industrial, and agricultural research
• Severance payments</td><td>• Agricultural income/profit exempt.
• Unit trusts and mutual funds investing in specific areas: 10 percent
• Other unit trusts and mutual funds: 20 percent
• Companies for exports, agricultural undertakings, promotion of tourism, construction work, and overseas management activities paid for in foreign currency: 15 percent
• Quoted Companies (300 shareholders or more) with taxable income above</td><td>
<table>
<tr><th>Annual Income (In millions of rupees)</th><th>Average Rate (In percent)</th></tr>
<tr><td>0–5</td><td>20</td></tr>
<tr><td>Above 5</td><td>32.5</td></tr>
</table>
</td></tr>
</table>

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
• Contributions to employees' occupational pension schemes 7 year loss carry-forward (capped at 35 percent of this year's profits) *Tax year*: April 1 to March 31 *Date of payment*: mid-August, mid-November, mid-February, mid-May	Rs. 5 million: 30 percent. • Specialized housing banks: 20 percent • Existing venture capital companies: 30 percent • Nontraditional exports, information technology, electronics, machine tool manufacturing, small scale infrastructure projects (power generation, warehousing, cold storage): Period — Tax Rate (In percent) 1^{st}-3^{rd} year — 0 4^{th}-5^{th} year — 10 6^{th} year onwards — 20 • Pioneering investments in infrastructure projects, companies engaged in R&D, underperforming industries, new or existing companies that export nontraditional goods and the suppliers of those companies, corporations in the area of agriculture, fisheries, livestock, construction, tourism, and provision of overseas management services: Period — Tax Rate (In percent) Up to 12 years — 0 Thereafter — 15 • New venture capital companies: 5 year tax holiday • Income earned abroad and paid in foreign currency is exempted • Other incomes (excluding grants and	

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
	donations) of institutions approved under section 8(a) of IRD Act in excess of Rs. 200 million: 10 percent • Profits earned from sale of shares (including rights, bonuses, and warrants and shares in BOI companies): 15 percent • Off shore transactions of FSBU of any bank operating in Sri Lanka: 20 percent • Profits and income earned from the re-export of stones, metal, petroleum, gas or other specified items; income received by employment agencies from the Sri Lanka Bureau of Foreign Employment; and income from operations and maintenance of facilities for storage of goods and commodities brought into Sri Lanka for re-export: 10 percent	
Withholding Tax		
• Fees paid for services rendered (creditable against provider's income tax liability)		5 percent
• All dividends, interest paid on deposits (>108,000/year/per bank) in Sri Lanka, T-bills and T-bonds, lottery prices (>500,000), government rewards, partnership income, royalty or annuity (>Rs. 0.5 million/year)	• Withholding tax threshold of Rs. 300,000 for individuals whose main source of income is interest from deposits.	10 percent
• Interest, rent, ground rent, royalty, annuity, paid out of Sri Lanka	• Interest not sourced in Sri Lanka, interest on a bank loan or advance, and interest paid on foreign currency held in foreign currency banking unit are exempted	20 percent
• Economic service charge: payable by all businesses with minimum turnover of Rs. 50 million and more than 2 years of operations (creditable against income	• 0.5% percent for wholesale/retail trade and 0.25% BOI companies	1 percent of turnover Minimum: Rs. 100,000 Maximum: Rs. 50 million

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
tax).		
Tax on Public Corporation		
Levied on the profits after tax over distributed dividends.		25 percent
Profit Remittance Tax		
Levied on profits remitted abroad		10 percent
Social Security Contribution		
Levied on employee's income		12 percent employer 8 percent employee
Value Added Tax		
Computation: Domestic products: Sales price excluding VAT multiplied by VAT rate less VAT on inputs (capped at 10 percent). Imported products: 105 percent of CIF with the addition of duty, surcharge, and excises, multiplied by VAT rate (capped at 10 percent). T*urnover threshold*: Rs. 0.5 million per quarter or Rs. 1.8 million per year (no threshold for imports). *Date of payment*: Payable on or before the last day of the month following the end of the taxable period (months or quarter).	Exemptions: • paddy and seed paddy • rice • wheat and wheat flour • coconuts • rice flour • tea • bread • milk • eggs • tax holidays as agreed with the BOI • imported capital goods • precious stones and metals • selected financial services • life insurance • agricultural machinery • lease of residential accommodation (unless agreement with BOI) • educational services • health services (unless agreement with BOI) and equipment • books • stamps	0 percent (exports of goods and services) 5 percent essential food items—no refund 15 percent standard rate 18 percent luxury consumer goods—refunds limited to 15 percent

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
	• burial services • meals provided for free or subsidized at work • transport provided by employer to employees for free or subsidized • public (land) transportation • consumption of electricity below 30 kwh • kerosene, aviation fuel, bunker fuel, crude oil • pharmaceuticals • public library services • duty free shops beyond customs • imports of personal items and samples of less than Rs. 10,000 • imports of machinery products that are re-exported within a year • imports by embassies • imports by relief organizations • animal feed • agricultural seeds and plants	
Mobile Phone Levy		
Levied on all charges payable by mobile phone subscribers		2.5 percent
Excise Tax		
Computation: Domestic products: Wholesale price multiplied by rate, or quantity multiplied by specific tax. Imported products: 105 percent of CIF with all fiscal levies (excluding excise) multiplied by rates, or quantity times specific tax. *Date of payment*: Monthly or at the time of import		Luxury items 10 percent (e.g., air conditioners, washing machines, televisions, ovens and cookers, cell phones). Items — Tax Cigarettes <60 mm in length — Rs. 1,640/1,000 sticks 60–67 mm — Rs. 3,137/1,000 sticks 67–72 mm — Rs. 5,088/1,000 sticks 72–84 mm — Rs. 5,904/1,000 sticks >84 mm — Rs. 6,150/1,000 sticks

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate	
		Pipe tobacco	Rs. 250/kg.
		Aerated water	Rs. 6/litre
		Diesel	Rs. 2.5/litre
		Petrol	Rs. 20/litre
		Kerosene	Rs. 1.25/litre
		Liquor	
		Coconut/arrack	Rs. 366/proof litre
		Foreign liquor	Rs. 490/proof litre
		Molasses/arrack	Rs. 366/proof litre
		Malt liquor>5 percent	Rs. 43.5/proof litre
		Malt liquor<5 percent	Rs. 27.5/proof litre
		Wine	Rs. 200/proof litre
		Other beverages	Rs. 6/litre
		Motor vehicles	
		Petrol	
		Cars	
		<1,000cc	30 percent
		1,000–1,500cc	40 percent
		>1,500cc	50 percent
		Luxury type	60 percent
		Small vans	30 percent
		Auto—trishaws	4 percent
		Motorcycles	
		125–200cc	5 percent
		>200cc	15 percent
		Diesel	
		Cars	
		<1,500cc	95 percent
		>1,500cc	115 percent
		Dual purpose van	
		<1,500cc	72 percent
		>1,500cc	84 percent
		Luxury type	72 percent
		Passenger van	60 percent
		Auto trishaws	14 percent

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
Luxury Motor Vehicle Tax		
Levied on an annual depreciation over a period of 7 years	Public passenger and goods transport vehicles are exempted	Tax Object / Annual Tax in First Year: Luxury (Diesel, exceeding 2,500cc; Petrol, exceeding 2,000cc): Rs. 50,000 Semi-luxury (Diesel, 2,200cc–2,500cc; Petrol, 1,800cc–2,000cc): Rs. 25,000 Semi-luxury dual purpose (excluding vans) (Diesel, exceeding 2,500cc; Petrol, exceeding 2,500cc): Rs. 10,000
Customs Duties		
• Tariffs	Duty waivers: • Masoor dhal (3 percent) • Big onion (Rs. 8 per Kg) • Chillies (Rs. 30 per Kg to Rs. 10 per Kg) • Potatoes (Rs. 20 per Kg to Rs. 1.5 per Kg) • Milk powder (12 percent to 6 percent) • Sugar (Rs. 4.5 per Kg)	0 percent, high value and essential commodities 2.5 percent, basic raw materials 6 percent, semi processed items 15 percent, intermediate products, spare parts etc 28 percent, motor vehicles and other finished products
• Surcharge		10 percent
• Cess on imported processed food, fruit, vegetables, perfumes, footware, ceramic ware and household appliances. Calculated according to detailed schedule with the higher value of ad valorem and specific rates applying.		10–20 percent

Sri Lanka: Summary of the Tax System

(As of April 1, 2005)

Nature of Tax	Tax Exemptions and Reductions	Rate
Debit Tax		
Applies to all debit, travelers check and certificate of deposit transactions	• Tax liability <Rs. 20 • Debits for tax and loan/interest payments to government • Pension fund benefits • Transactions for licensed produce brokers • Trading in government securities for primary dealers • Repo transactions • Transactions in Colombo stock exchange • Inter- and intra-bank transactions • Dishonored checks and error corrections • Collection accounts • Any Exempt Account	0.1 percent
Ports and Airports Development Levy		
Levied on cost, insurance, and freight (CIF) value	• A 0.5 percent rate applies to articles imported for processing and re-exports. • Imports of diamonds, gems, gold, jewelry, and electronic items for processing and re-export are exempted • Diplomats are exempted	General rate, 1.5 percent Special rate (exports and BOI companies), 0.25 percent
Betting and Gaming Tax		
Date of payment: Quarterly		Activity — Tax Gaming — Rs. 50 million Rujino — Rs. 1 million Bookmaking — Rs. 0.5 million Book making without telecast — Rs. 0.025 million

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III. High Interest Spreads in the Banking Sector—Causes and Remedies[1]

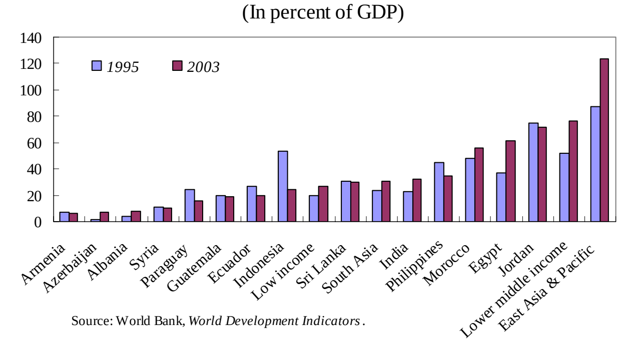
A. Introduction

1. Insufficient progress in bringing down financial intermediation costs could frustrate Sri Lanka's quest for higher growth and poverty reduction. This chapter finds that financial deepening has stagnated and interest spreads have remained high (Section B). Among the main causes for this lack of progress, the chapter argues, are inefficient state banks in combination with poor competition in the banking sector (Section C). Some policy implications associated with the later results are discussed (Section D): If the banking sector were sufficiently competitive, inefficient banks would adjust or leave the market, this way contributing to a reduction in interest spreads. Insufficient competition, on the other hand, requires that the government actively promote efficiency in the banking sector, both as shareholder and supervisor. While the chapter makes a few suggestions to overcome weak competition, identifying the underlying root causes requires further research.[2]

B. Evidence of Weak Financial Intermediation

2. **Progress in financial deepening has been disappointing over the last decade**. As shown in Figure III.1, bank credit to the private sector in Sri Lanka is broadly in line with the level in low-income countries. However, bank credit to the private sector declined over the last eight years and Sri Lanka is far away from the level of lower middle-income countries. Low credit to the private sector is a significant impediment to growth. Unless the trend can be reversed, Sri Lanka is unlikely to achieve the medium-term target of boosting investment from 25 percent to 30 percent of GDP and increasing growth from the historical average of 5 percent to 7 percent.

Figure III.1. Bank Credit to Private Sector, 1995–2003
(In percent of GDP)



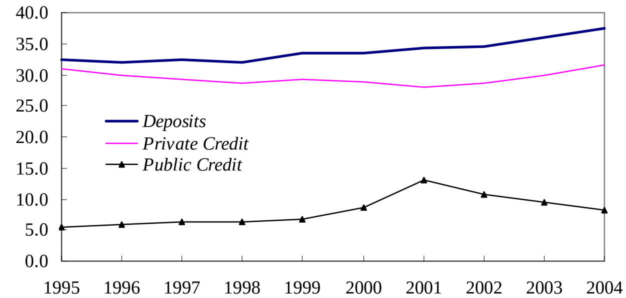
Source: World Bank, *World Development Indicators*.

[1] Prepared by Erik Lueth.

[2] The main data used in this chapter are from commercial banks' audited accounts. The analysis focuses on commercial banks on the grounds that specialized banks account for only 20 percent of banking sector assets (excluding the central bank).

3. **Crowding out by the public sector explains part of the stagnation in private sector credit**. As shown in Figure III.2, the lackluster performance of private sector credit is not due to a lack of funds, as deposits increased continuously since 1998. Bank financing of burgeoning fiscal deficits more than offset the increase in deposits, leading to a decline in private sector credit-to-GDP until 2001.

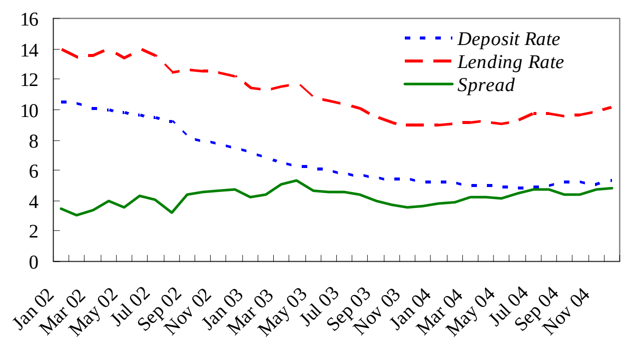
Figure III.2. Sri Lanka: Origin and Destination of Funds, 1995–2004
(In percent of GDP)



Source: IMF, EDSS.

4. **In addition, high interest spreads have undermined financial intermediation**. The interest spread pattern in Sri Lanka resembles the observations on credit to the private sector. While the level of the interest spread is broadly consistent with countries at the same level of development, the spread has increased somewhat over the observation period (Figure III.3). High spreads drive a wedge between the interest received by savers and paid by investors, render many investment projects unprofitable, and are likely to have contributed to the stagnation in private sector credit.

Figure III.3. Sri Lanka: Interest Rate Spread, 2002–2004



Source: CBSL *Annual Report*, various issues.

Table III.1. Sri Lanka: Correlation Between Various Interest Rates, 2003 1/

	Repo Rate	Reverse Repo Rate	Interbank Call Rate	T-Bill Rate (3m) 2/	Deposit Rate	Lending Rate
Repo rate	1.0000					
Reverse repo rate	0.9898	1.0000				
Interbank call rate	0.9935	0.9704	1.0000			
T-bill rate (3m) 1/	0.9580	0.9379	0.9541	1.0000		
Deposit rate	0.9133	0.8872	0.9114	0.8912	1.0000	
Lending rate	0.9827	0.9798	0.9748	0.9529	0.8881	1.0000

Source: CBSL, *Annual Report 2003*.

1/ The data refers to 2003, because in 2004 there was little variation in policy rates.
2/ Primary Market.

5. **The maintenance of high interest spreads does not seem to have impaired the monetary transmission mechanism**. Changing interest spreads can render the transmission of monetary policy impulses to the economy ineffective. In 2003, for example, the loosening of monetary policy could have been diluted by the increase in spreads that took place in that year. This does not seem to have happened, as illustrated in Table III.1. Interbank rates, treasury bill rates, lending rates, and deposit rates are all closely correlated with policy rates. On the contrary, the monetary transmission mechanism seems to have improved over recent years. A similar table in the 2002 FSAP

showed a very weak correlation between policy rates and deposit rates. Consistent with a high interest spreads, however, the correlation between deposit rates and lending rates is weaker than most other correlations.

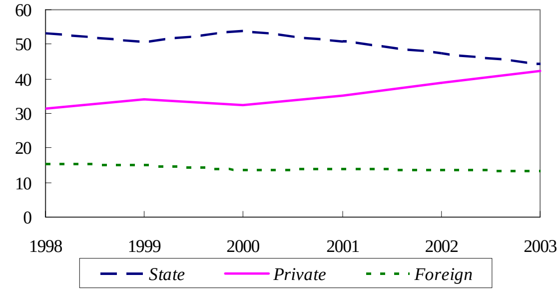
C. Causes of High Interest Spreads

State Banks

6. **Inefficient state banks still account for a significant share of the banking sector**. There are two state-owned commercial banks in Sri Lanka, the Bank of Ceylon and People's Bank. Their market share in terms of assets (and deposits), while falling, still accounted for 45 percent in 2003 (Figure III.4). These banks are saddled with large NPLs, owing to poor management and government intervention in the past (Table III.2). In addition, their personnel and operating costs are well in excess of the sector average reflecting, among other things, overstaffing. As a result, their profitability is poor and People's Bank's level of capital inadequate—in fact, its capital has been negative for several years.[3]

7. **Remaining inefficiencies and past legacies of state banks prevent a reduction in their interest spreads**. Personnel costs continue trending up, consistent with the observed pattern in interest spreads. In addition, new management teams have tried to bring the return-on-assets more in line with the sector norm and started to address the banks' NPL problems. As a result, profitability, capital adequacy ratios, and provisioning for NPLs improved considerably over the last years. However, to the extent that state banks started to operate on commercial principles, the underlying weaknesses became apparent and interest spreads increased (Figure III.5).

Figure III.4. Sri Lanka: Market Share by Type of Bank, 1998–2003 1/



Source: Audited Accounts, Sri Lanka Commercial Banks.
1/ Share of banks' assets in total assets.

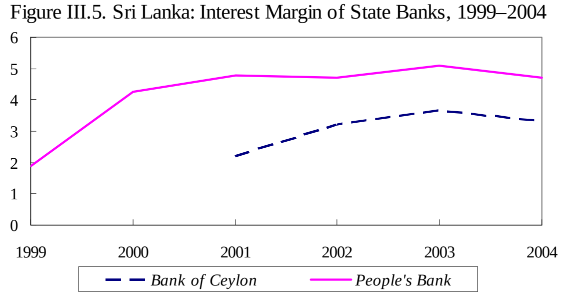
Table III.2. Sri Lanka: Banking Sector Indicators by Type of Bank, 1998–2004

	1998	1999	2000	2001	2002	2003	2004
NPLs 1/							
State	25.8	26.4	22.2	21.8	22.9	21.0	14.2
Private	14.5	15.9	14.5	18.1	17.6	14.7	...
Foreign	11.3	12.8	14.3	12.8	7.6	5.2	...
Personnel costs 2/							
State	16.8	19.4	20.9	15.9	17.9	22.4	22.6
Private	13.7	14.8	13.6	12.4	13.6	14.1	...
Foreign	9.5	9.7	8.4	8.7	9.8	9.5	...
Provisioning 3/							
State	38.6	45.1	46.3	41.1	46.1	52.7	66.0
Private	15.2	13.9	15.8	16.1	20.0	28.8	...
Foreign	54.3	48.0	42.7	42.5	52.0	48.6	...
Capital adequacy 4/							
State	8.6	8.8	4.3	2.9	4.2	4.5	...
Private	12.5	12.2	11.4	10.5	11.0	12.5	...
Foreign	13.7	12.0	12.2	14.2	21.6	14.8	...
Return-on-assets 5/							
State	0.9	-1.8	-0.2	0.3	0.5	0.8	1.0
Private	1.4	1.2	1.1	0.7	1.0	1.1	...
Foreign	2.1	2.5	3.0	3.1	3.4	3.6	...

Source: Audited Accounts, Sri Lanka Commercial Banks.

1/ Percent of total assets.
2/ Percent of total income.
3/ Percent of NPLs.
4/ Total capital in percent of risk-weighted assets. Only since 2002, data includes foreign banking units.
5/ Profits as percent of end-of-period assets.

Figure III.5. Sri Lanka: Interest Margin of State Banks, 1999–2004



Source: Audited Accounts, Sri Lanka Commercial Banks.
1/ Net interest income to average assets, percent.

[3] A five-year restructuring plan for People's Bank was formulated in late 2004. The bank will be recapitalized on a staggered basis based on the achievement of performance indicators.

Lack of Competition

8. **There are few alternatives to commercial bank financing**. This limits competition and keeps spreads high. As shown in Table III.3, competitors to commercial banks hold 50 percent of Sri Lanka's financial assets. However, alternative sources of financing for the private sector are much smaller. More than half of specialized bank assets, or 7 percent of total financial assets, belong to the National Savings Bank, a state bank that by design invests most of its funds in government securities. The same is true for the provident funds, which comprise 23 percent of financial sector assets. Hence, real competition to commercial banks is confined to 20 percent of the financial sector.

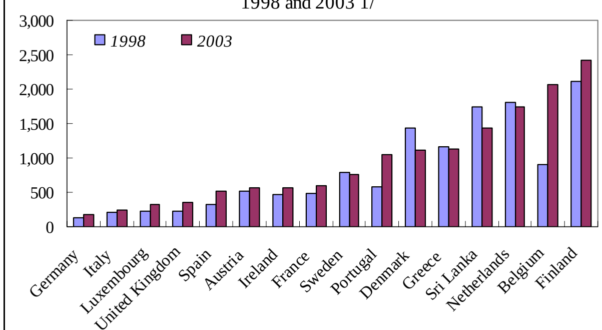
Table III.3. Sri Lanka: Financial Sector, 2004 1/

	In Billions of Rupees	Share in Total (Percent)
Licensed commercial banks	1,161	50.2
Licensed specialized banks	317	13.7
Other specialised financial institutions	229	9.9
Provident funds (EPF, ETF, and others)	536	23.1
Insurance companies	72	3.1
Total	2,315	100.0

Source: CBCL *Annual Report 2004*.

1/ Excluding CBSL.

Figure III.6. Country Comparison: Herfindahl Index for Total Assets, 1998 and 2003 1/



Sources: Audited Accounts, Sri Lanka Commercial Banks; *Report on EU Banking Structure, 2004*.
1/ The Herfindahl index is the sum of the squares of the market shares of all banks competing in the market.

9. **Concentration in the banking sector is in line with international standards, and falling**. As illustrated in Figure III.6, Sri Lanka's Herfindahl Index—a common indicator of concentration and, thus, lack of competition—is broadly in line with the financially much more advanced EU countries. If specialized banks were included, on the grounds that they compete with commercial banks on some products (e.g., time deposits), Sri Lanka's index would be even smaller. Also, banking sector concentration has been falling over the last couple of years. This finding is robust to the choice of index (Herfindahl versus M-Concentration, that is, the market share of the M largest banks) and the definition of market (deposits, loans, assets, all banks, commercial banks).

Table III.4. Sri Lanka: Correlation Between Average Interest Spread and Increase in Market Share, 1998–2003 1/

	Interest Margin	Increase in Market Share 2/		
		Assets	Loans	Deposits
High spread banks	7.2	0.4	0.3	0.5
Medium spread banks	5.9	0.9	0.5	0.5
Low spread banks	4.0	-1.0	-0.3	-0.5

Source: Audited Accounts, Sri Lanka Commercial Banks.

1/ Sample size: 18.
2/ Percentage points.

10. **However, price competition seems to be largely absent**. Table III.4 tries to establish a link between the level of interest spreads, averaged over 1998–2003, and gains in market share between 1998 and 2003. For this purpose, 18 commercial banks for which data

are available were grouped according to the level of their interest spread and the average gain in market share was calculated for each group. The largest gains in market share were realized by banks with medium interest spreads, while banks with the lowest spreads actually lost market share over the period under consideration. The finding of limited price competition is robust to the definition of market (assets, loans, deposits), the choice of price (interest spread versus interest margin) and the number of groups (two versus three groups).

Table III.5. Sri Lanka: Average Interest Spreads and Profits by Operating Cost Quintiles 1/

	Operating Costs 2/	Interest Margin 3/	Interest Spread 4/	Return on Equity 5/
1st Quintile	46.6	4.0	6.0	3.1
2nd Quintile	38.2	4.7	6.4	20.0
3rd Quintile	34.5	4.0	6.4	17.7
4th Quintile	30.4	3.3	5.1	28.8
5th Quintile	20.9	2.7	5.4	44.5

Source: Audited Accounts, Sri Lanka Commercial Banks.

1/ 2001–2003 averages (or latest 3-year averages available) of 15 commercial banks.
2/ Operating costs to income, percent.
3/ Net interest income to average assets, percent.
4/ Yield on loans and advances minus deposit interest to average deposits, percent.
5/ Banks with negative equity excluded from the sample.

11. **Low operating costs translate into higher bank profits, rather than lower interest spreads**. Possibly reflecting a lack of competition, efficient banks do not offer more competitive rates, but instead drive home larger profits. This is illustrated in Table III.5, which shows average interest spreads and returns-on-equity by operating cost quintiles. As operating costs fall, profits increase, but interest spreads do not narrow. Only when return-on-equity reaches 30 percent, bank customers start benefiting from lower spreads.

Table III.6. Sri Lanka: Average Interest Spreads and Profits by NPA Quintiles 1/

	NPAs 2/	Interest Margin 3/	Interest Spread 4/	Return on Equity 5/
1st Quintile	29.4	2.6	3.8	-2.3
2nd Quintile	19.9	4.5	5.9	16.0
3rd Quintile	11.9	3.7	6.1	24.8
4th Quintile	5.9	3.2	6.7	37.7
5th Quintile	1.0	4.7	6.7	37.8

Source: Audited Accounts, Sri Lanka Commercial Banks.

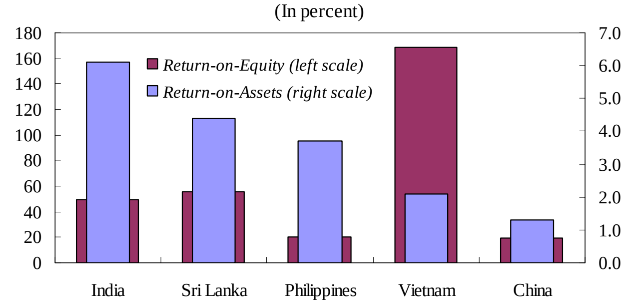
1/ 2001–2003 averages (or latest 3-year averages availbale) of 15 commercial banks.
2/ Nonperforming assets to total assets, percent.
3/ Net interest income to average assets, percent.
4/ Yield on loans and advances minus deposit interest to average deposits, percent.
5/ Banks with negative equity excluded from the sample.

12. **Similarly, lower NPL-ratios are not passed on to consumers, but increase bank profits**. Banks with lower NPLs need to provision less. In a competitive environment this would translate into lower spreads, but in the Sri Lankan context it increases bank profits. Table III.6, shows a strong negative correlation between NPLs and profits in a cross section of banks. Interest spreads, if anything, increase with lower levels of NPLs.[4]

[4] The negative correlation between NPLs on one side and interest spreads and margins on the other may be a statistical artifact. The assets and loans used in the calculation of interest margins and spreads, respectively, include NPLs. If NPLs cease to earn interest, which is to (continued…)

13. **Profit margins of efficient banks appear high by international standards**. Large profits within a specific sector are another indication of weak competition. Figure III.7 compares the return-on-assets and the return-on equity of some of the most profitable banks across Asia. Sri Lanka turns out to have the second most profitable banks across the region irrespective of the measure of profitability. It is problematic, of course, to compare returns across countries; investors would require higher returns in countries that are more risky. Figure III.7 controls for this factor, by comparing (all) Asian countries with the same country risk, based on the rating of the Economist Intelligence Unit.

Figure III.7. Country Comparison: Average Return of the 20 Percent Most Profitable Banks 1/
(In percent)

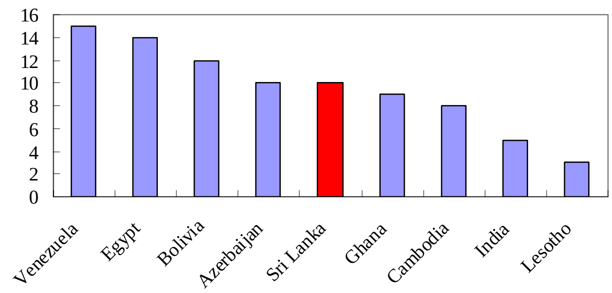


Sources: Bank Scope; Audited Accounts, Sri Lanka Commercial Banks; Economist Intelligence Unit.
1/ Asian Countries with the same EIU country risk rating in 2001–2003. Data for Sri Lanka averaged over 2001–2003. Data for other countries latest year available.

Reserve Requirements and Taxes

14. **Statutory reserve requirements cannot explain the unfavorable interest spreads**. As shown in Figure III.8, reserve requirements in Sri Lanka are close to the median for a sample of countries. In addition, reserve requirements have been gradually lowered, from 15 percent in 1993 to 10 percent at present and, hence, cannot account for the observed stagnation in interest spreads.

Figure III.8. Country Comparison: Statutory Reserve Requirement, 2004
(In percent)



Source: IMF internal database, 2004.

15. **Taxation may have a part in explaining high interest spreads**. In 2002, the government introduced a debit tax of 0.1 percent on the value of any withdrawal from a bank account. Monthly debits not exceeding Rs. 20,000 (about $200) are exempted. In 2003, banks became subject to a value added tax of 15 percent. Many countries exempt the banking sector from VAT, because the assignment of value added to the borrower and lender involves high administrative costs.

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be expected, the interest spreads and margins of banks with high NPLs would be understated. Notwithstanding, the strong correlation between profits and NPLs, both averaged over three years, suggests a lack of competition.

D. Some Policy Implications

16. **In the absence of competition, the problem of high spreads will not disappear on its own**. In a competitive market, the efficient banks would offer more favorable rates and over the medium-term force ailing banks to adjust or leave the market. As laid out in Section III, such a *laissez-faire* approach is unlikely to work in Sri Lanka under the current circumstances. Instead, the government in its role as shareholder and supervisor has to ensure that banks pursue policies that, at least over the medium-term, are consistent with low interest spreads.

17. **Reforms in the state-owned banks need to continue to bring down the average spread**. The increase in state banks' profitability and capital is encouraging and shows that the new management teams adhere to firm budget constraints. However, the upward trend in personnel costs will exert further upward pressures on interest spreads. Given powerful unions, both People's Bank and Bank of Ceylon plan to shrink their staff through natural attrition. However, in the case of People's Bank, this may be insufficient to bring personnel costs in line with private domestic and foreign banks. The government, as shareholder, should also ensure that the stock problems of the past do not recur, including by allowing management to run the banks on strictly commercial terms. In this context, it is encouraging that state banks have ceased to lend to ailing SOEs without government guarantees.

18. **Banking supervision needs to be strengthened, to restore and maintain the health of banks not owned by the government**. Despite the haircuts on collateral valuation introduced in January 2004, Sri Lanka's provisioning guidelines do not conform to best practices. Loans overdue between 3 to 6 months do not have to be provisioned against and full provisioning is required only after 1½ years, compared to a 1 year international norm. Provisioning in line with international best practices and assuming that the current collateral valuation is appropriate would bring several large banks close to, or below, the statutory capital ratio (in addition to People's Bank, which currently operates on the basis of a letter of comfort).[5] Also, more supervisory power needs to be vested in the CBSL, including through changes in the legal environment.

19. **Further research is needed on the causes of weak competition**. This chapter has taken a largely agnostic view as to why competition in the banking sector is relatively weak. State-owned banks may have a competitive advantage in attracting deposits due to implicit government guarantees (or explicit ones in the case of the National Savings Bank); information asymmetries between incumbent and contestant banks may allow the former to retain the bulk of high-quality borrowers; or sunk costs associated with the branch network

[5] The simulation assumes that current provisioning follows CBSL guidelines. To the extent that banks' provisioning exceeds these guidelines, the downward adjustment of the capital adequacy ratio would be smaller.

may reduce the contestability of the market. Further research is needed to discriminate between these explanations.

20. **However, several measures could increase competition in the short run**. The authorities have already taken a useful step by mandating in 2003 that banks publish financial statements on a quarterly basis and display their interest charges and exchange rates for the general public in all bank braches and outlets. However, there is scope for further improvement. The adoption of a single banking license for commercial and specialized banks would do justice to the fact that these banks already compete *de facto* on several products, such as time and saving deposits. In staff's view, consistent enforcement of prudential regulations and uniform treatment across banks—supported by more supervisory autonomy for CBSL—would enhance fair competition and administrative justice. Finally, the eventual divestiture of state-owned banks would create a level playing field by removing implicit government guarantees.

21. **The government should contemplate measures to bring down the transaction costs of financial intermediation**. A central and computerized registry for moveable property would help to collateralize loans and contribute to bring down transaction costs. The authorities may also want to carefully assess the impact that a planned deposit insurance scheme would have on transaction costs. The beneficial effects on competition of deposit insurance could be limited since state banks would continue to be perceived as safer for large deposits, which will not be covered by the scheme. In addition, the insurance may remove some of the discipline currently imposed by depositors on bank risk taking.

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IV. International Trade and Trade Potential in Sri Lanka[1]

A. Introduction

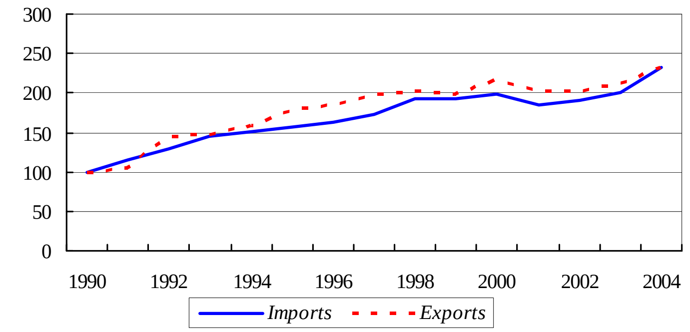
1. **Sri Lanka's external trade has performed well in recent years**. While trade with India has expanded, it still accounts for only a small portion of Sri Lanka's total exports. As the economic boom of its big neighbor is expected to continue in the foreseeable future, Sri Lanka should be able to benefit, contributing to economic growth and further trade expansion.

2. **This chapter investigates Sri Lanka's trade and trade potential, in particular with respect to trade with India**. In the next section, we analyze Sri Lanka's general trade openness and recent trade performance. In Section C, we focus on regional trade and quantify the geographic concentration of Sri Lanka's exports. In Section D, we zoom in on bilateral trade with India and discuss the potential for expansion. Section E presents concluding remarks.

B. Some Characteristics of External Trade in Sri Lanka

3. **Recent trade performance has been encouraging, but continues to rely heavily on a few commodities**. After the global economic slowdown in 2000–2001, trade picked up at about the same pace as before (Figure IV.1). In the last two years, average export growth was about 10 percent, while imports grew roughly at 15 percent annually. The trade deficit, which historically has been hovering around 7–11 percent of GDP, was just over 11 percent in 2004. Traditionally, Sri Lanka has been relying heavily on a few commodity exports, notably tea and garments. The latter accounted for roughly 49 percent of the value of exports in 2004, although its share has come down from a peak of 54 percent in 2000. Recently, the growth of nongarment exports has picked up to 14 percent on average in 2003–2004, while garment exports grew just under 8 percent annually.

Figure IV.1. Sri Lanka Trade Performance
(1990=100, U.S. dollar value)



[1] Prepared by Udo Kock.

4. **Sri Lanka's general openness to trade is low, but exports are higher than what would be expected**. Table IV.1 compares actual trade openness to what is predicted by an openness model. A discussion of the features of this model and the regression results is presented in Annex IV.I. Trade openness in Sri Lanka appears to be less than would be expected for a country its size and stage of economic development, with overall imports and exports about 30 percent below the norm. Sri Lanka's South Asian trading partners share the same characteristic, while a sample of other Asian countries (including China) show trade about 40 percent above the potential predicted by the model. Sri Lanka's exports, on the other hand, are higher than would be expected (40 percent above potential); while exports of its regional trading partners are in line with the model's prediction. Export performance of other Asian countries far exceeds their estimated export potential.

Table IV.1. Actual versus Potential Trade Openness, 1998–2003

	Trade to GDP			Exports to GDP		
	Actual	Potential	Ratio	Actual	Potential	Ratio
Sri Lanka	68	96	0.7	30	21	1.4
Averages						
SAARC countries						
excluding Sri Lanka and Bhutan 1/	38	51	0.7	12	11	1.0
Asia	94	67	1.4	44	15	2.9

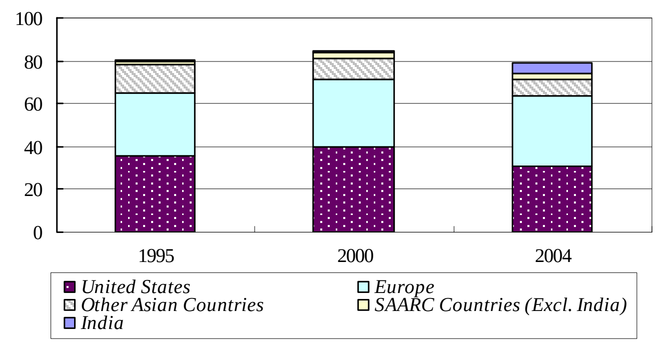
Sources: *Direction of Trade Statistics*; and Fund staff calculations.

1/ South Asian Association for Regional Cooperation (SAARC) includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

C. Geographic Concentration of Exports

5. **The United States and the European Union continue to be the primary export markets for Sri Lanka**. The combined share of the two main industrialized trading blocks exceeds 60 percent of total exports, unchanged from a decade ago (Figure IV.2). Since 2000, the export share of the United States has been declining, but it remains the primary export market, with about 31 percent ($1.86 billion) of total exports, compared to 29 percent ($1.76 billion) for the European Union. Exports to India have become more important and now account for about 5 percent of total exports ($0.3 billion), up from less than 1 percent five years ago. Exports to South Asian countries other than India remain underdeveloped, as their share of total exports from Sri Lanka has stabilized at around 2 percent. The export share of other (East) Asian countries has declined to roughly 8 percent, down from about 13 percent a decade ago.

Figure IV.2. Geographical Concentration of Exports, 1995–2004



6. **Analysis based on the trade intensity index reveals a more nuanced picture of Sri Lanka's export concentration**. The trade intensity index is a more sophisticated method to assess trade concentration as it takes into account the size of the import market.[2] It measures the extent to which an importing country's share of total Sri Lankan exports is large or small in relation to the importing country's share of total world trade. According to this measure, Sri Lanka's exports are highly concentrated with its South Asian trading partners, including India (Table IV.2). Export concentration with its two main trading partners, the United States and the European Union, turns out to be remarkably low when the share in total global trade of these two trading blocks is taken into account. Export concentration with India is high, and while the trade intensity index fell in the late 1990s, it increased during 2002–03 reflecting rapid growth of exports to India, before falling again in 2004. Export concentration with Bangladesh, Bhutan, and Nepal is much lower than with India (and the Maldives), underscoring the point that these potential markets for Sri Lankan exports are underdeveloped.

Table IV.2. Trade Intensity Index, 1994–2003

Trading Partner	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
SAARC	12.5	11.7	12.9	10.7	9.4	8.6	9.8	10.0	11.8	14.5	12.3
India	16.2	15.6	17.7	14.5	11.3	9.9	11.8	11.4	13.8	18.0	15.1
Bangladesh	1.8	1.1	0.3	0.3	0.1	0.5	0.4	0.3	0.5	0.7	0.9
Pakistan	7.0	5.2	6.5	3.5	8.6	8.6	6.6	8.1	6.4	6.4	5.0
Nepal	1.6	1.5	0.0	3.2	0.7	0.1	0.1	0.0	0.2	0.0	0.0
Maldives	69.0	54.7	53.0	45.6	38.6	41.3	79.5	99.6	87.8	56.2	48.8
Other Asian countries	2.4	2.4	2.7	2.6	3.3	3.2	2.8	2.9	2.5	2.4	2.5
European Union (15) 1/	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.5
Middle East	1.9	2.8	3.1	4.0	2.1	2.0	3.4	3.0	4.6	2.6	2.6
United States	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1

Source: Fund staff estimates.

1/ EU-15 refers to the 15 members states of the European Union in the period prior to enlargement in 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

7. **The combination of exports at or above potential with overall trade below potential suggests that the import ratios of South Asian countries were relatively low during the observation period**. This is part of the heritage of import substitution policies that have dominated the region in the past decades. East Asian countries, on the other hand, have long ago abandoned such policies and opened up their markets, as indicated by the fact that both overall trade and exports are above estimated potential. This illustrates the point

[2] The trade intensity index is defined as $I_{ij} = (x_{ij} / x_i) / (m_j / m_w)$,where x_{ij} is country i's exports to country j; x_i is i's total exports; m_j is country j's total imports; and m_w is total world imports (see Drysdale and Garnaut (1982) for details).

that reducing barriers to trade would help Sri Lanka and the rest of the region to sustain higher growth.

D. Trade Potential with India

8. **The pickup of exports to India is a recent phenomenon**. Sri Lanka was slow to pick up on the large trade potential that its fast growing neighbor provides, but recently exports to India have been increasing rapidly (Figure IV.3). In the last two years, exports to India have almost doubled, contributing 12 percent to Sri Lanka's overall export growth, even though exports to India are only 5 percent of the total. While exports to India from Bangladesh and Pakistan jumped in the early and late 1990s, respectively, exports from Sri Lanka did not take off until 2001, one year after the agreement to establish the Indo-Sri Lanka Free Trade Agreement (ISLFTA) came into effect. Exports from other (East) Asian countries to India have shown solid growth rates since the early 1990s, although not at the same pace as some of India's South Asian trading partners. The rapid expansion of exports to India was not matched by equally high export growth to other South and East Asian countries—exports to these countries have been virtually flat in the past decade (Figure IV.4). The rapid growth in exports to India has resulted in a tripling of Sri Lanka's share of Indian imports to 0.3 percent (Figure IV.5), despite a small drop in market share last year, when Indian imports rose by more than 35 percent.[3] The recent pick up in exports to India has not resulted in higher export concentration with India (Table IV.2). In fact, Sri Lankan exports are now relatively less concentrated with India than a decade ago. This suggests that the expansion of Sri Lankan exports to India has not kept up with the overall increase in India's imports.

Figure IV.3. India: Import Growth by Trading Partner (1990=100, U.S. dollar value)

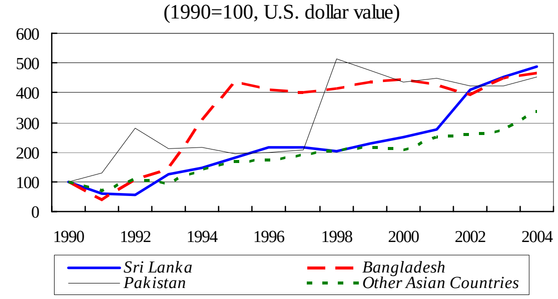


Figure IV.4. Sri Lanka: Export Growth by Trading Partner (1990=100, U.S. dollar value)

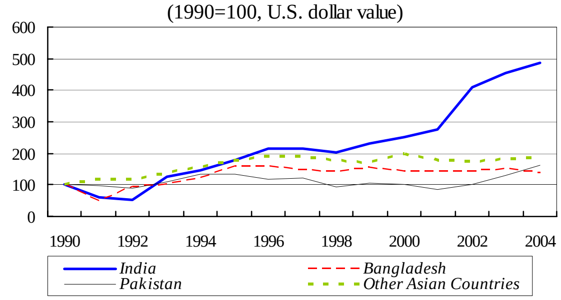
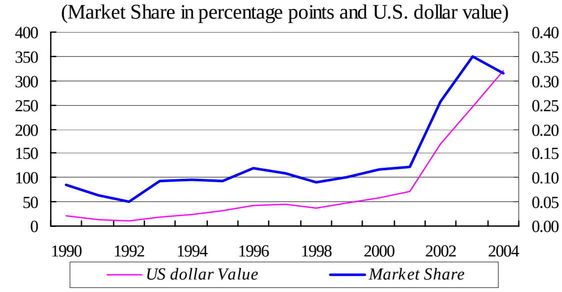


Figure IV.5. Sri Lanka: Exports to India (Market Share in percentage points and U.S. dollar value)



[3] Based on preliminary data from IMF, *Direction of Trade Statistics*.

9. **Sri Lanka participates in regional economic cooperation and trade initiatives, but these have been largely ineffective in promoting regional trade**. The main vehicle for regional economic integration is the South Asian Association for Regional Cooperation (SAARC), established in 1985. In 1995, member countries established the SAARC Preferential Trading Arrangement (SAPTA). This agreement, however, has been relatively ineffective in promoting regional trade, and so far regional integration has been slow due to political tensions and large differences in economic policies and regulations (see World Bank/IMF 2004). In 2004, SAARC leaders agreed to establish by 2006 the South Asia Free Trade Agreement (SAFTA), but private sector expectations are low after the experience with SAPTA.[4] As regional economic integration in the context of SAARC stalled, Sri Lanka has focused more on bilateral trade agreements.

10. **The free trade agreement with India has proven very successful in promoting bilateral trade, despite the limited grant of preferences**. The agreement to establish the ISLFTA was signed in 1998 and came into effect in 2000.[5] Since then, bilateral trade has expanded significantly, with Sri Lanka's exports to India growing more than 300 percent since the agreement came into effect. This success comes despite the fact that trade preferences granted under the ISLFTA are limited (Baysan et al., 2004). Many of Sri Lanka's main export products are excluded from preferential treatment via a negative list or quota limitations. When the agreement was signed, these products accounted for 46 percent of Sri Lanka's exports to India. This suggests that the expansion of exports to India has been the result of diversification of Sri Lanka's export base. In 2002, Baysan et al. (2004) estimate that 38 percent of the exports to India were products that were not exported to India at all prior to the ISLFTA.

11. **India and Sri Lanka are in the process of expanding their bilateral economic cooperation and integration, which should help realize the trade potential in both goods and services**. The success of the ISLFTA has sparked efforts to expand economic cooperation. Since 2003, the two countries have been negotiating to convert the ISLFTA into a Comprehensive Economic Partnership Agreement (CEPA). The objective is to go beyond establishing a free trade zone, and initiate efforts to increase cross border investment and

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[4] The member countries of SAARC include Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

[5] In 2005, Sri Lanka also signed a free trade agreement (FTA) with Pakistan. Under this agreement, Sri Lanka would be able to enjoy duty free market access on 206 products in the Pakistani market including tea, rubber and coconut (Pakistan would gain duty free access on 102 products in the Sri Lankan market). Although the list of products that are excluded from preferential treatment is much longer, the FTA with Pakistan is expected to help expand exports and promote regional trade integration.

economic and technological cooperation, which should support the growth of bilateral trade in goods, as well as health, tourism, and construction and transportation services.

12. **The fast growing Indian market provides ample opportunities to further expand Sri Lanka's exports**. The Indian economy has grown faster than Sri Lanka's two main trading partners and will continue to do so. During the period 1992–2004, GDP and import growth in India has outpaced the United States by 2 to 1 and the European Union by 3 to 1 (Figures IV.6 and IV.7). IMF staff medium-term forecasts suggest that this trend will continue, with growth in India picking up to 6.4 percent in the medium term, compared to 3.5 percent in the United States and 2.2 percent in the European Union. Import growth in India is projected at roughly 16 percent through 2009; more than twice the import growth rate in the United States and the European Union. In the long run, Deutche Bank projects that Indian GDP growth could average 5.5 percent annually through 2020, outpacing all OECD countries as well as China.[6] The projected rapid expansion of the Indian economy indicates that there is ample scope for Sri Lanka to further expand exports and economic integration.

Figure IV.6. GDP Growth of Three Main Trading Partners, 1992–2009

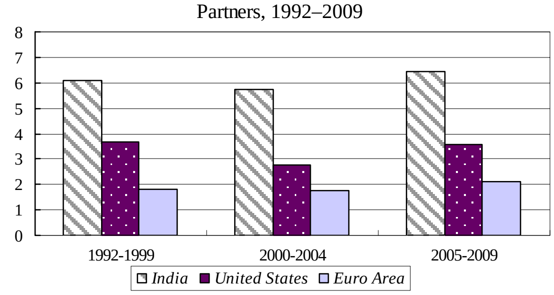
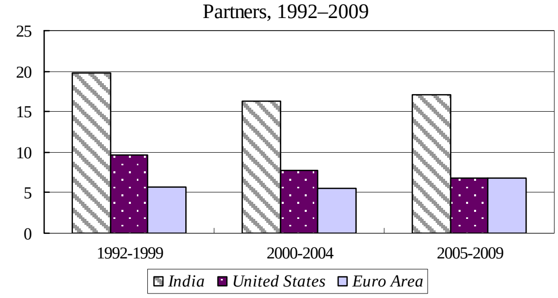


Figure IV.7. Growth of Imports of Three Main Trading Partners, 1992–2009



13. **A standard gravity model also reveals considerable potential for Sri Lanka's exports to India to continue to grow rapidly**. India's economy and imports are growing so rapidly, Sri Lankan exports should be able to continue their rapid growth even if the intensity index for exports to India were to decline. To analyze Sri Lanka's export potential with India we estimate a gravity model of bilateral trade to simulate potential growth (see Annex IV.I for details and the estimation results). We have estimated the model using data for all SAARC countries. The results of the simulation analysis are shown in Table IV.3. Despite the recent pick up in exports to India, Sri Lanka is

Table IV.3. Sri Lanka: Actual and Potential Exports to India, 2000–2004
(In million U.S. dollar)

	2000	2001	2002	2003	2004	2000–2004	
						Average	Cummulative
Actual exports	58	72	171	245	322	173	867
Potential exports	163	162	202	269	354	230	1,151
Difference	-105	-90	-32	-24	-33	-57	-284
Percentage	181	126	19	10	10	33	33

Sources: WEO; and Fund staff calculations.

[6] See Bergheim (2005).

not fully realizing its estimated export potential with India. According to the model, Sri Lanka's potential exports to India are 0.45 percent of GDP ($354 million in 2004). This implies that last year, Sri Lanka's exports to India were under performing by roughly 10 percent (about $30 million). Since 2000, the total export underperformance was about 33 percent ($280 million). Although, according to this analysis, Sri Lanka's exports to India are still underperforming, there has been a significant improvement since the free trade agreement with India was signed.

E. Concluding Remarks

14. **India is projected to remain Sri Lanka's fastest growing main trading partner**. In recent years, Sri Lanka has successfully penetrated the Indian export market, but it has not yet fully realized its trade potential. The growth of exports, while rapid, has been less than the overall growth of India's external trade, as indicated by the decline of the trade intensity index of Sri Lanka's exports to India from 16.2 in 1994 to 15.1 in 2004. Simulations with a regional gravity model for bilateral trade with India indicate that in 2004 Sri Lanka was underutilizing its trade potential with India, providing another indication that there is room for expansion of exports to India.

15. **The ISLFTA that came into effect in 2000 has successfully promoted bilateral trade**. In the last two years, exports to India have almost doubled and accounted for 12 percent of Sri Lanka's overall export growth, even though exports to India are only 5 percent of Sri Lanka's total exports. This success comes despite the fact that many of Sri Lanka's main export products are excluded from the agreement via a negative list or quota limitations. This suggests that the growth of exports to India has been the result of diversification of Sri Lanka's export base.

16. **The success of ISLFTA bodes well for future export growth**. Sri Lanka can build on the early success of the trade agreement with India as the two countries seek to expand their economic cooperation. The CEPA, which is being negotiated, could provide incentives to increase cross border investment and trade in services, just like the ISLFTA did for trade in goods. This increased opening of markets should help Sri Lanka to benefit from the rapid future growth of the Indian economy and realize its full trade potential.

17. **Despite the scope for expanding regional trade discussed here, the focus on regionalism should not come at the expense of more liberal trade policies in general**. Although regional trade integration and cooperation can support growth and economic development, higher and more sustainable growth rates can be achieved from broad trade liberalization (see Vamvakidis 1998). The growth experience of many East Asian countries also underscores the need for free trade beyond export promotion. In addition to deepening regional trade integration, Sri Lanka should therefore consistently pursue free trade policies. In this context the introduction of a low uniform tariff, abolishing the remaining 10 percent import duty surcharge, and reduction of some excessively high excise taxes, should benefit the external sector and promote growth.

Application of Trade Openness and Gravity Models to Sri Lanka's Trade

Trade Openness Model

A country's general degree of over- or under-trading can be assessed by estimating an openness model. The model aims to explain cross-country variations in trade openness by variations in the size of the economy, the stage of economic development, and country or region specific factors. Trade openness is defined as the sum of imports and exports as a share of GDP (the trade ratio), or, alternatively the exports to GDP ratio. In our estimation, we have used population as a proxy for the size of the country and GDP per capita as a proxy for economic development, while dummies account for region specific factors. For more details on this approach, see Rodrik (1998) and Freinkman et al (2004). Our specification is similar although we use an updated and expanded data set. The regression results are shown in Table IV.1.1 below. As expected, larger countries turn out to trade less, while more developed economies tend to be more open. East Asian countries trade more than would be expected based on their size and stage of economic development, while Latin American countries trade less than expected.

Table IV.1.1. Regression Results for Trade Openness Model 1/

	Trade Ratio	Export Ratio
Log population	-0.162 *	-0.049 ***
Log GDP per capita	0.070 *	0.179 *
Country dummies		
CIS	0.385 *	0.634 *
East Asia	0.743 *	0.737 *
Latin America	-0.165 ***	-0.138
G-7	-0.270	-0.582 **
Constant	3.830 *	1.850 *
R-square	0.45	0.24
Number of countries (observations)	161	161

Source: Fund staff estimates.

1/ * stands for statistical significance at the 1 pecent level; ** at 5 pecent; and *** at 10 percent, respectively.

Gravity Model

Bilateral trade performance can be analyzed with a gravity model. The basis of the model is identical to the trade openness model, as cross-country variations in population and GDP per capita are used to explain variations in trade and export ratios. The gravity model adds as explanatory variables a proxy for the distance to the export market—in our case, we use the distance between the capital of the exporting country and India's capital Delhi as a proxy. Although using the importing nation's capital is a common approach, in this case by using the distance to Delhi as a proxy the gravity equation underestimates Sri Lanka's trade potential with India given Sri Lanka's close proximity to India's southern trade centers. Using the distance to Chennai or Bangalore as proxies would predict an even higher export potential.

We follow the methodology used by Rodrick (1998) and Elborg-Woytek (2003), but estimate a standard model without additional explanatory variables other than the ones mentioned. Our sample includes pooled cross-country time series (1991–2004) for all SAARC countries. The regression results are shows in Table IV.1.2. It appears that, as expected from our estimation of the openness model, larger countries export less, while more developed economies tend to export more. The distance parameter has the expected negative sign; a larger distance between the two trading partners is associated with lower trade.

Table IV.1.2. Pooled Regression Results for Gravity Model 1/

	Export Ratio
Population	-0.0082 *
GDP per capita	0.00035 *
Distance proxi	-0.0011 *
Constant	0.8875 *
R-square	0.67
Number of pool observation	70

Source: Fund staff estimates.

1/* stands for statistical significance at the 1 percent level.

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Table 1. Sri Lanka: Gross Domestic Product and Expenditure Components, 2000–2004

	2000	2001	2002	2003	2004
	(In billions of Sri Lankan rupees at current market prices)				
Consumption	1,038.4	1,185.5	1,353.4	1,481.2	1,706.8
Private	906.2	1,041.0	1,214.1	1,341.9	1,542.1
Public	132.2	144.4	139.3	139.3	164.7
Gross investment	352.7	309.7	334.9	388.8	507.2
Private 1/	311.5	267.3	302.9	348.0	461.9
Fixed investment	311.5	267.3	298.7	345.9	461.7
Change in stocks	0.0	0.0	4.2	2.1	0.2
Public	41.2	42.4	32.0	40.8	45.3
Fixed investment	41.1	42.3	31.9	40.8	45.2
Change in stocks	0.0	0.0	0.1	0.1	0.1
Domestic demand	1,391.1	1,495.2	1,688.2	1,869.9	2,214.0
Exports of goods and nonfactor services	490.7	525.4	570.8	632.9	738.7
Aggregate demand	1,881.7	2,020.6	2,259.1	2,502.8	2,952.7
Imports of goods and nonfactor services	624.0	613.2	677.2	741.7	923.3
Expenditure on gross domestic product	1,257.7	1,407.4	1,581.9	1,761.2	2,029.4
Net factor income from abroad	-23.1	-23.8	-24.2	-16.5	-20.7
Gross national income 2/	1,234.6	1,383.6	1,557.7	1,744.2	2,008.5
Net current transfers from abroad	75.6	89.8	107.9	119.7	139.6
National disposable income	1,310.2	1,473.4	1,665.6	1,863.9	2,148.1
	(In percent of GDP)				
Consumption	82.6	84.2	85.6	84.1	84.1
Gross fixed investment	28.0	22.0	21.2	22.1	25.0
Private	24.8	19.0	19.1	19.8	22.8
Public	3.3	3.0	2.0	2.3	2.2
Exports	39.0	37.3	36.1	35.9	36.4
Imports	49.6	43.6	42.8	42.1	45.5
	(In billions of Sri Lanka rupees at constant 1996 prices)				
Consumption	824.8	826.5	880.7	935.2	981.5
Gross investment	260.2	214.7	224.2	262.0	294.1
Domestic demand	1,084.9	1,041.3	1,108.0	1,198.7	1,275.6
Exports of goods and nonfactor services	371.7	352.1	374.1	394.3	425.2
Aggregate demand	1,456.6	1,393.3	1,482.1	1,593.0	1,700.8
Imports of goods and nonfactor services	510.6	461.9	513.7	566.4	619.0
Resource gap	-138.9	-109.9	-139.6	-172.1	-193.8
Expenditure on gross domestic product	946.0	931.4	968.4	1,026.7	1,081.8
Gross domestic product at factor cost	857.0	843.8	877.2	930.1	980.0
	(Annual percent change, constant prices)				
Consumption	5.0	0.2	6.6	6.2	4.9
Gross investment	9.9	-17.5	4.4	16.9	12.2
Domestic demand	6.2	-4.0	6.4	8.2	6.4
Exports of goods and nonfactor services	18.0	-5.3	6.3	5.4	7.8
Aggregate demand	9.0	-4.3	6.4	7.5	6.8
Imports of goods and nonfactor services	14.9	-9.5	11.2	10.2	9.3
Gross domestic product	6.0	-1.5	4.0	6.0	5.4
Memorandum items:					
Population (midyear, in millions)	19.4	18.7	19.0	19.3	19.5
Gross national income per capita, in rupees (thousands)	63.8	73.9	82.1	90.5	103.8
Gross national income per capita, in SDRs	628	649	662	669	693

Source: Data provided by the Sri Lankan authorities.

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

Table 2. Sri Lanka: Saving, Investment, and Current Account, 2000–2004

	2000	2001	2002	2003	2004
	(In billions of Sri Lankan rupees at current prices)				
Gross investment	352.7	309.7	334.8	388.8	507.2
External current account balance	-82.6	-23.7	-25.6	-9.0	-68.7
National saving	270.0	286.0	309.2	379.8	438.5
Net factor income from abroad	-23.1	-23.8	-24.2	-16.5	-20.7
Net private transfers	73.8	87.9	104.9	116.3	136.6
Domestic saving	219.3	221.9	228.5	280.0	322.3
Private	262.3	290.9	297.5	338.2	400.8
Public 1/	-43.0	-69.0	-69.0	-58.2	-78.5
	(In percent of GDP)				
Domestic saving	17.4	15.8	14.4	15.9	15.9
Private	20.9	20.7	19.1	19.2	19.4
Public 1/	-3.4	-4.9	-4.5	-3.3	-3.5
Gross investment	28.0	22.0	21.2	22.1	25.0
Private 2/	24.8	19.0	19.1	19.8	22.8
Public	3.3	3.0	2.0	2.3	2.2
National saving	21.5	20.3	19.7	21.6	21.6
Of which : Private 3/	24.9	25.2	23.9	24.9	25.1
External current account balance	-6.6	-1.7	-1.5	-0.5	-3.4
Private sector saving minus investment	0.1	6.2	5.1	5.1	2.4
Public sector saving minus investment	-6.7	-7.9	-6.6	-5.6	-5.7

Source: Data provided by the Sri Lankan authorities.

1/ Total revenue minus current expenditure.
2/ Includes investment by public corporations not financed through the government budget.
3/ Includes net factor income and transfers from abroad.

Table 3. Sri Lanka: Gross Domestic Product by Industrial Origin at Current Prices, 2000–2004

	2000	2001	2002	2003	2004
	(In billions of Sri Lankan rupees at current factor costs)				
Agriculture, forestry, and fishing	223.9	249.8	287.8	297.3	320.2
Plantation crops 1/	31.3	31.6	40.7	41.1	46.2
Paddy	32.1	34.7	41.8	41.0	45.1
Fishing	29.4	31.1	34.4	34.4	33.8
Other	131.1	152.3	170.9	180.9	195.1
Mining and quarrying	21.5	24.0	25.8	27.5	36.0
Manufacturing	189.3	198.7	222.0	243.6	275.8
Plantation crop processing	28.2	28.6	35.0	35.9	41.9
Other	161.1	170.2	187.0	207.7	233.8
Construction	82.7	95.1	100.6	113.3	142.4
Services	607.8	678.2	767.1	881.0	1,023.7
Gross domestic product	1,125.3	1,245.7	1,403.3	1,562.7	1,798.1
Net factor income from abroad	-23.1	-23.8	-24.2	-16.5	-20.7
Gross national product	1,102.2	1,221.9	1,379.1	1,546.2	1,777.4
	(In percent of GDP)				
Agriculture, forestry, and fishing	19.9	20.1	20.5	19.0	17.8
Plantation crops 1/	2.8	2.5	2.9	2.6	2.6
Paddy	2.9	2.8	3.0	2.6	2.5
Fishing	2.6	2.5	2.5	2.2	1.9
Other	11.7	12.2	12.2	11.6	10.9
Mining and quarrying	1.9	1.9	1.8	1.8	2.0
Manufacturing	16.8	16.0	15.8	15.6	15.3
Plantation crop processing	2.5	2.3	2.5	2.3	2.3
Other	14.3	13.7	13.3	13.3	13.0
Construction	7.3	7.6	7.2	7.2	7.9
Services	54.0	54.4	54.7	56.4	56.9
Gross domestic product	100.0	100.0	100.0	100.0	100.0
	(Annual percentage change)				
Memorandum items:					
GDP deflator	6.7	12.4	8.4	5.0	9.2
CPI (Colombo)	6.2	14.2	9.6	6.3	7.6

Source: Data provided by the Sri Lankan authorities.

1/ Tea, rubber, and coconuts.

Table 4. Sri Lanka: Gross Domestic Product by Industrial Origin at Constant Prices, 2000–2004

	2000	2001	2002	2003	2004
	(In billions of Sri Lankan rupees at 1996 factor costs)				
Agriculture, forestry, and fishing	175.3	169.4	173.6	176.4	175.2
Plantation crops 1/	30.5	28.0	27.0	27.6	27.7
Paddy	27.8	26.2	27.6	29.6	25.2
Fishing	23.5	22.6	24.1	22.4	22.8
Other	93.5	92.5	95.1	96.8	99.6
Mining and quarrying	14.9	15.0	14.9	15.7	16.9
Manufacturing	149.1	142.9	145.9	152.0	159.8
Plantation crop processing	17.9	16.7	16.6	16.6	16.8
Other	131.2	126.2	129.3	135.4	143.0
Construction	59.8	61.3	60.8	64.1	68.3
Services	457.9	455.2	482.1	521.8	559.8
Of which :					
Public administration and defense	41.4	41.9	41.9	42.1	43.0
Wholesale and retail trade	189.4	176.8	186.6	200.4	211.8
Gross domestic product	857.0	843.8	877.2	930.1	980.0
Net factor income from abroad	-16.8	-14.7	-14.0	-9.5	-11.3
Gross national product	840.2	829.1	863.3	920.6	968.7
	(Annual percentage change)				
Agriculture, forestry, and fishing	1.8	-3.4	2.5	1.6	-0.7
Plantation crops 1/	5.8	-8.2	-3.7	2.4	0.4
Paddy	-0.3	-5.7	5.1	7.5	-15.1
Fishing	2.5	-3.9	6.3	-6.9	1.6
Other	1.0	-1.0	2.7	1.8	2.8
Mining and quarrying	4.8	0.7	-0.8	5.4	7.6
Manufacturing	9.2	-4.2	2.1	4.2	5.1
Plantation crop processing	4.2	-6.6	-0.9	-0.1	1.2
Other	10.0	-3.8	2.5	4.7	5.6
Construction	4.8	2.5	-0.8	5.5	6.6
Services	6.9	-0.6	5.9	8.2	7.3
Of which :					
Public administration and defense	4.2	1.0	0.0	0.6	2.0
Wholesale and retail trade	8.7	-6.7	5.6	7.3	5.7
Gross domestic product	6.0	-1.5	4.0	6.0	5.4

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

1/ Tea, rubber, and coconuts.

Table 5. Sri Lanka: Trends in Principal Agricultural Crops, 2000–2004

Category	Unit	2000	2001	2002	2003	2004
Tea						
Production	kg mn	306	295	310	303	308
Registered extent under tea	hectares '000	180	180	180	180	180
Fertiliser used	mt '000	200	182	185	168	177
Cost of Production	Rs/kg	110.6	121.6	124.1	135.6	158.3
Average price						
Colombo (net)	Rs/kg	135.5	144.0	149.3	149.1	180.7
Export (f.o.b.)	Rs/kg	184.7	208.9	216.3	221.0	249.4
Replanted annual	hectares	1,094	1,018	1,028	935	1,139
Replanted cumulative	hectares	65,440	66,458	67,486	68,421	69,560
Rubber						
Production	kg mn	88	86	91	92	95
Total extent under rubber	hectares '000	157	157	157	115	114
Area under tapping	hectares	128	132	125	86	89
Fertiliser used	mt '000	13.8	9.1	6.9	8.4	9.4
Yield	kg/hectare	683	653	724	1,068	1,064
Cost of Production	Rs/kg	44.5	48.0	54.0	63.3	73.4
Average price						
Colombo	Rs/kg	54.8	54.7	68.8	102.5	110.8
Export (f.o.b)	Rs/kg	67.0	66.4	69.5	105.3	127.2
Replanted annual	hectares	793	557	712	564	820
Coconut						
Production	nuts mn	3,096	2,796	2,392	2,562	2,557
Fertiliser used	mt '000	34	30	39	39	33
Cost of production	Rs/nut	3.3	3.7	3.9	4.9	7.5
Average export price (f.o.b.) 1/	Rs/nut	7.4	7.1	12.1	10.0	11.0
Paddy						
Production 2/	mt '000	2,860	2,695	2,859	3,071	2,628
Area sown 2/	hectares '000	878	798	852	983	779
Harvested 2/	hectares '000	832	765	820	911	639
Fertiliser used 2/	mt '000	262.4	284.5	356.9	283.3	284.5
Yield 2/	kg/hectare	3,856	3,954	3,893	3,761	4,087
Guaranteed price 3/	Rs/bushel	155	155	...	...	...

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

1/ Three major coconut kernel products only.
2/ On a cultivation year basis.
3/ 20.9 kg. of paddy = 1 bushel of paddy.

Table 6. Sri Lanka: Consumption and Prices of Petroleum and Electricity, 2000–2004

	2000	2001	2002	2003	2004
Gross consumption of selected					
Petroleum products ('000 MT)					
Kerosene	229	228	229	207	204
Gasoline	224	249	286	390	453
Auto diesel	1,715	1,675	1,728	1,663	1,890
Furnace oil	785	811	758	715	747
Consumption of electricity 1/	5,259	5,238	5,502	6,208	6,666
Composition of electricity generation (in percent)					
Hydro power (CEB)	46.1	45.9	37.2	41.9	33.7
Thermal power (CEB)	32.2	28.6	28.1	28.8	30.7
Private power	19.3	23.8	32.6	29.2	34.1
Self generation	2.3	1.6	2.0	0.0	1.4
			(Sri Lankan rupees per liter)		
Prices of petroleum products 2/ 3/					
Kerosene	18.4	17.4	24.0	25.5	25.5
Gasoline	50.0	50.0	49.0	53.0	68.0
Auto diesel	24.5	26.5	30.0	32.0	42.0
Fuel oil	14.6	15.8	20.7	22.3	24.3
Cost price of petroleum products 4/ 5/					
Kerosene	23.7	20.2	22.2	27.3	40.3
Gasoline	35.8	29.4	47.6	56.3	65.9
Auto diesel	25.3	24.8	29.0	34.1	48.5
Fuel oil	17.3	15.2	20.7	21.3	29.6
Crude oil (c.i.f., in US$ per barrel)	28.8	24.7	25.1	29.3	37.1
Price of electricity 2/ 6/ 7/3/	4.9	6.0	6.1	8.4	8.7
Price of electricity for domestic units >180 Kwh 2/ 6/ 8/	7.2	7.2	15.8	15.8	15.8

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

1/ Including use for electricity generation.
2/ End of period.
3/ Price includes taxes.
4/ Period average.
5/ Unit cost of production including customs duty (all customs duties are charged to domestic sales), turnover taxes, and all other expenses.
6/ Basic rate on household consumption of electricity between 50 and 500 kilowatt hours per month, excluding fuel surcharge levied on all users of electricity exceeding 150 Kwh per month, in Sri Lankan rupees per Kwh.
7/ Basic rate on household consumption of electricity between 91 and 180 units in 2002.
8/ More than 180 units.

Table 7. Sri Lanka: Price Indicators, 2000–2004

(Annual percentage change)

	Weights	2000	2001	2002	2003	2004
GDP deflator 1/	100.0	6.7	12.4	8.4	5.0	9.2
Colombo consumer price index	100.0	6.2	14.2	9.6	6.3	7.6
Food	61.9	4.5	15.2	10.6	5.8	7.8
Of which: rice	6.4	-7.1	5.8	18.3	-9.7	31.9
Of which: bread	9.4	-1.9	12.9	23.8	20.2	13.9
Clothing	9.4	1.1	4.2	4.5	2.5	1.0
Fuel and light	4.3	18.6	14.3	8.8	15.2	9.6
Of which: kerosene	4.0	45.4	24.7	8.3	17.8	6.0
Rent 2/	5.7	0.0	0.0	0.0	0.0	0.0
Miscellaneous	18.7	9.6	11.7	6.3	5.1	6.5
Colombo district consumer price index	100.0	3.6	10.3	6.8	2.1	5.0
Food and drinks	58.7	1.7	11.8	9.1	1.3	6.1
Housing	13.2	2.6	0.9	0.2	0.1	0.2
Fuel and light	4.9	15.8	16.1	5.6	8.3	4.3
Clothing and foot wear	6.2	1.6	5.2	3.2	3.5	3.8
Liquor tobacco and betel and arecanuts	4.4	12.4	10.1	2.2	4.3	5.7
Personal care and health	3.8	4.1	9.8	6.4	4.7	4.1
Transport	3.7	14.3	17.5	1.6	1.2	6.7
Recreation and education	2.8	2.2	14.5	10.3	4.1	2.5
Miscellaneous	2.3	-0.9	8.0	13.7	-0.3	4.5
Sri Lanka consumer price index	100.0	1.5	12.1	10.2	2.6	7.9
Food, beverages, and tobacco	71.2	-0.7	12.1	10.1	1.0	8.6
Clothing and footwear	4.1	1.1	3.7	9.6	8.0	5.2
Housing, water, electricity, gas, and other fuels	13.1	9.1	11.5	7.7	6.4	5.8
Furnishing, household equipment, and routine house maintenance	2.1	-13.6	15.4	12.3	2.8	3.4
Health	2.4	18.2	12.4	23.5	8.1	9.5
Transport	2.9	18.0	19.9	3.7	8.1	10.8
Leisure, entertainment and culture	0.8	2.8	4.2	4.7	0.0	7.5
Education	1.3	8.8	8.5	11.0	4.1	3.8
Miscellaneous	2.1	3.3	19.2	14.5	8.0	4.5
Wholesale price index	100.0	1.7	11.7	10.7	3.1	12.5
Domestic goods	50.3	2.8	11.0	5.2	3.9	10.3
Imports	27.2	12.0	17.1	1.8	11.8	9.6
Exports	22.5	-5.3	9.2	24.4	-2.8	17.1
Memorandum items:						
Colombo consumer price index (end-period)		10.8	10.8	11.3	5.0	13.8
Wholesale price index (end-period)		4.8	14.7	7.9	3.4	23.9
Sri Lanka consumer price index (end-period)		8.1	13.4	6.6	1.0	16.8

Source: Data provided by the Sri Lanka authorities.

1/ Based on market prices.
2/ Low-income housing is under rent control.

Table 8. Sri Lanka: Selected Wage and Employment Developments, 2000–2004

	2000	2001	2002	2003	2004
	(Index, December 1978 = 100)				
Nominal wages					
Minimum wage	1,000	1,049	1,127	1,205	1,233
Agriculture	1,143	1,176	1,270	1,382	1,398
Industry and commerce	857	920	987	1,009	1,044
Services	560	658	678	678	751
Government employees 1/	1,085	1,311	1,525	1,525	1,872
Real wages					
Minimum wage	94.0	86.6	84.9	85.4	81.3
Agriculture	107.7	97.1	95.6	98.0	92.2
Industry and commerce	80.8	75.9	74.4	71.6	68.9
Services	52.8	54.3	51.1	48.1	49.5
Government employees	102.1	108.1	115.0	108.1	123.3
	(Annual average percentage change)				
Real wages					
Minimum wage	-3.9	-7.9	-2.0	0.6	-4.8
Agriculture	-3.6	-9.8	-1.5	2.5	-5.9
Industry and commerce	-2.7	-6.1	-2.0	-3.8	-3.8
Services	-5.7	2.8	-5.9	-5.9	2.9
Government employees	1.9	5.9	6.4	-6.0	14.1
	(In thousands of persons)				
Employment in the public sector	1,156	1,165	1,061	1,043	1,094
Central government 2/	857	864	790	786	842
Quasi-governmental institutions 3/	300	301	271	257	253
Employment in formal private sector	5,322	5,200	5,622	6,138	6,397
Board of Investment (BOI) companies	368	386	417	431	438
Other	4,954	4,832	5,205	5,707	5,959

Source: Data provided by the Sri Lankan authorities.

1/ Average of initial salary grades for non-executive and minor employees, skilled and non-skilled; excludes school teachers.
2/ Includes employees of government ministries, provincial government, local government, school teachers, and defense personnel.
3/ Includes universities, public corporations, boards, and state-owned banks.

Table 9. Sri Lanka: Labor Force, Employment, and Unemployment, 2000–2004

	2000	2001	2002	2003	2004 1/
			(In millions of persons)		
Total labor force	6.8	6.8	7.2	7.7	8.0
Male	4.5	4.5	4.7	5.1	5.4
Female	2.3	2.2	2.4	2.5	2.6
Urban	0.8	0.9	0.8	0.9	1.0
Rural	6.0	5.9	6.3	6.7	7.0
Total employed	6.3	6.2	6.5	7.0	7.3
Male	4.2	4.2	4.4	4.8	5.0
Female	2.1	2.0	2.1	2.2	2.3
Urban	0.8	0.8	0.8	0.9	0.9
Rural	5.6	5.4	5.8	6.2	6.4
Total unemployed	0.5	0.5	0.6	0.6	0.7
Male	0.3	0.3	0.3	0.3	0.3
Female	0.3	0.3	0.3	0.3	0.4
Urban	0.1	0.1	0.1	0.1	0.1
Rural	0.5	0.5	0.6	0.6	0.6
			(In percent of labor force)		
Unemployment rate	7.6	7.9	8.8	8.4	8.5
Male	5.8	6.2	6.6	6.0	6.3
Female	11.1	11.5	12.9	13.2	13.2
Urban	8.4	8.4	8.4	8.9	8.9
Rural	7.5	8.1	8.8	8.3	8.5
			(In percent of unemployed)		
Male	50.3	52.4	49.0	48.5	49.1
Female	49.7	47.6	51.0	51.5	51.0
Urban	13.5	14.9	11.2	12.9	13.7
Rural	87.0	89.4	88.8	87.1	86.3
Age 24 years or younger	63.8	66.7	67.0	65.8	66.0
Less than 9 years of schooling 2/	49.9	44.3	45.7	44.9	49.0

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

1/ Average of first three quarters.

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

Table 10. Sri Lanka: Employment by Economic Sectors, 2000–2004

	2000	2001	2002	2003	2004 1/
	(In millions of persons)				
Total employed	6.3	6.2	6.5	7.0	7.3
By economic sector:					
Agriculture	2.3	2.0	2.4	2.4	2.5
Manufacturing	1.1	1.1	1.1	1.2	1.2
Construction	0.4	0.3	0.3	0.4	0.4
Services	2.5	2.7	2.9	3.1	3.2
Trade and hotels	0.8	0.8	0.9	1.0	1.0
Transportation, communications, storage	0.3	0.4	0.3	0.4	0.4
Insurance and real estate	0.1	0.1	0.2	0.2	0.2
Personal services and other	1.3	1.5	1.5	1.6	1.6
	(In percent of total employment)				
Agriculture	36.0	32.6	34.5	34.0	34.0
Manufacturing	17.6	17.0	16.5	16.5	16.9
Construction	6.0	5.2	4.4	5.3	5.1
Services	40.3	45.3	44.7	44.2	44.1
Trade and hotels	12.7	13.0	14.7	14.1	14.2
Transportation, communications, storage	4.9	6.2	4.7	5.2	5.8
Insurance and real estate	2.1	2.3	2.6	2.8	2.5
Personal services and other	20.7	23.8	22.7	22.1	21.6

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

1/ Average of first three quarters.

Table 11. Sri Lanka: Summary of Central Government Operations, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
Total revenue	211,282	234,296	261,887	276,516	311,473	389,492
Tax	182,392	205,839	221,837	231,648	281,552	351,119
Nontax	28,890	28,457	40,050	44,868	29,921	38,373
Total expenditure and net lending	335,823	386,518	402,989	422,072	476,905	560,638
Current expenditure	254,279	303,362	330,847	334,693	389,679	418,988
Capital expenditure	67,769	67,902	58,595	75,089	83,808	129,111
Net lending 1/	13,775	15,254	13,547	12,290	3,420	12,539
Overall deficit (before grants)	124,541	152,222	141,102	145,556	165,432	171,146
Grants	5,145	5,500	7,079	7,956	8,681	10,200
Net foreign borrowing	495	14,538	1,979	43,066	37,071	48,684
Net domestic borrowing	118,500	123,595	126,351	79,660	117,243	104,761
Of which : banking system	56,528	48,554	-4,836	-20,905	43,289	0
Assets sales	401	8,589	5,693	10,223	2,437	7,500
	(In percent of GDP)					
Total revenue	16.8	16.6	16.5	15.7	15.3	17.1
Tax	14.5	14.6	14.0	13.2	13.9	15.4
Nontax	2.3	2.0	2.5	2.5	1.5	1.7
					--	
Total expenditure and net lending	26.7	27.5	25.5	24.0	23.5	24.6
Current expenditure	20.2	21.6	20.9	19.0	19.2	18.4
Capital expenditure	5.4	4.8	3.7	4.3	4.1	5.7
Net lending	1.1	1.1	0.9	0.7	0.2	0.6
					--	
Current account balance	-3.4	-4.9	-4.4	-3.3	-3.9	-1.3
Overall deficit (before grants)	9.9	10.8	8.9	8.3	8.2	7.5
Grants	0.4	0.4	0.4	0.5	0.4	0.4
Net foreign borrowing	0.0	1.0	0.1	2.4	1.8	2.1
Net domestic borrowing	9.4	8.8	8.0	4.5	5.8	4.6
Of which : banking system	4.5	3.4	-0.3	-1.2	2.1	0.0
Asset sales	0.0	0.6	0.4	0.6	0.1	0.3
Memorandum item:						
Nominal GDP (in billions of rupees)	1,258	1,407	1,583	1,761	2,029	2,276

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

1/ Includes Rs. 4,400 million net lending to CWE in 2003.

Table 12. Sri Lanka: Summary of Central Government Revenue by Component, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
Tax revenue	182,392	205,839	221,837	231,648	281,552	351,119
Income tax	27,457	34,636	37,437	39,397	41,372	55,361
Personal	10,820	12,203	12,156	10,073	13,435	17,710
Corporate	15,757	18,673	13,769	15,095	16,663	23,874
Save the nation contribution	880	1,027	0	0	0	0
Tax on interest	0	2,733	11,512	14,229	11,274	13,777
Stamp duty and taxes on property	8,163	8,415	3,646	3,662	4,489	5,253
Stamp duty	8,163	8,415	2,331	51	0	0
Debit tax	0	0	1,315	3,611	4,489	5,253
Taxes on goods and services	122,801	136,392	148,914	148,922	187,036	224,262
Turnover tax/ GST	45,600	46,779	67,370	97,230	120,382	142,690
Excises	42,655	44,978	52,114	50,972	65,790	76,865
Of which : liquor	9,531	9,795	10,235	10,735	13,512	17,082
tobacco	19,268	19,475	20,579	20,055	23,457	27,301
License fees	1,007	1,570	571	641	624	4,707
National security levy	33,539	43,065	28,859	79	240	0
Taxes on international trade	23,970	26,156	31,841	39,667	48,655	66,243
Imports	23,970	26,156	28,344	34,184	41,096	54,815
Port and airport development levy	0	0	3,497	5,483	7,559	11,428
Nontax revenue	28,890	28,457	40,050	44,868	29,921	38,373
Property income	18,842	17,406	27,760	24,750	15,493	19,985
Fees and charges	3,589	3,811	4,477	4,500	6,447	6,454
Other	6,459	7,240	7,813	15,618	7,981	11,934
Total revenue	211,282	234,296	261,887	276,516	311,473	389,492
	(In percent of total expenditure)					
Tax revenue	54.3	53.3	55.0	55.5	59.0	62.6
Income tax	8.2	9.0	9.3	9.4	8.7	9.9
Taxes on property	2.4	2.2	0.9	0.9	0.9	0.9
Taxes on goods and services	36.6	35.3	37.0	35.7	39.2	40.0
Taxes on international trade	7.1	6.8	7.9	9.5	10.2	11.8
Nontax revenue	8.6	7.4	9.9	10.7	6.3	6.8
Total revenue	62.9	60.6	65.0	66.2	65.3	69.5

Source: Data provided by the Ministry of Finance.

Table 13. Sri Lanka: Economic Classification of Expenditure, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
Current expenditure	254,279	303,362	330,847	334,694	389,678	418,988
Expenditure on goods and services	130,765	143,747	139,892	138,662	164,530	199,453
Salaries and wages	68,544	78,056	88,804	91,784	106,187	140,517
Other goods and services	62,221	65,691	51,088	46,878	58,343	58,936
Interest payments	71,200	94,307	116,514	125,126	119,782	128,000
Foreign	9,515	10,552	10,617	11,586	13,904	18,383
Domestic	61,685	83,755	105,897	113,540	105,878	109,617
Subsidies and current transfers	52,314	65,308	74,441	70,906	105,366	92,435
To public corporations	3,370	4,376	7,998	5,705	8,405	6,447
To public institutions	5,705	6,919	12,093	11,945	13,019	16,049
To other levels of government	1,424	694	392	608	358	450
To households and other sectors	41,815	53,319	53,958	52,648	83,584	69,489
Under expenditure	0	0	0	0	0	-900
Capital expenditure	67,769	67,902	58,595	75,089	83,808	129,111
Acquisition of capital assets	32,934	36,115	26,501	36,580	40,449	75,184
Capital transfers	34,835	31,787	32,094	38,509	43,359	59,016
To public corporations	14,522	18,351	15,118	19,894	19,306	31,870
To public institutions	12,048	6,973	11,459	14,339	19,068	14,207
To other levels of government	8,218	6,251	5,421	4,186	4,812	12,641
To abroad/other	47	212	96	90	173	298
Under expenditure	0	0	0	0	0	-5,089
Lending minus repayments 1/	13,775	15,254	13,547	12,290	3,420	12,539
Total expenditure and net lending	335,823	386,518	402,989	422,073	476,906	560,638
	(In percent of GDP)					
Current expenditure	20.2	21.6	20.9	19.0	19.2	18.4
Subsidies and current transfers	4.2	4.6	4.7	4.0	5.2	4.1
Of which : to public corporations	0.3	0.3	0.5	0.3	0.4	0.3
Capital expenditure	5.4	4.8	3.7	4.3	4.1	5.7
Net lending	1.1	1.1	0.9	0.7	0.2	0.6
Total expenditure and net lending	26.7	27.5	25.5	24.0	23.5	24.6
Current expenditure	75.7	78.5	82.1	79.3	81.7	74.7
Subsidies and current transfers	15.6	16.9	18.5	16.8	22.1	16.5
Capital expenditure	20.2	17.6	14.5	17.8	17.6	23.0
Net lending	4.1	3.9	3.4	2.9	0.7	2.2
Memorandum item:						
Security expenditure (Rs. millions)	70,774	68,290	64,136	61,983	73,452	82,624
(In percent of GDP)	5.6	4.9	4.1	3.5	3.6	3.6

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

1/ Includes Rs. 4,400 million net lending to CWE in 2003.

Table 14. Sri Lanka: Functional Classification of Expenditure, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
General public services	89,800	88,712	85,683	91,564	102,634	121,870
Civil administration	19,026	20,422	21,548	29,581	29,182	36,890
Security-related	56,915	54,242	49,163	47,005	56,341	62,788
Public order and safety	13,859	14,048	14,972	14,978	17,111	22,192
Social services	93,631	102,527	121,787	124,002	166,845	183,643
Education	30,929	28,286	37,210	39,116	42,340	63,360
Health	20,696	18,772	24,947	27,476	34,419	39,636
Welfare	36,101	45,087	47,715	46,690	73,054	61,452
Housing	2,061	3,270	3,505	3,249	6,796	3,247
Community services	3,844	7,112	8,410	7,471	10,236	15,948
Economic services	66,754	70,742	68,965	77,559	83,545	123,753
Agriculture and irrigation	12,614	14,001	14,571	15,422	17,083	27,023
Fisheries	1,237	1,013	1,178	1,226	871	5,130
Manufacturing and mining	1,490	743	1,599	648	1,263	1,670
Energy and water supply	13,756	15,323	18,117	23,810	22,395	24,386
Transport and communication	28,469	26,814	25,665	24,852	30,758	46,204
Trade and commerce 1/	433	606	501	4893	2,159	1,244
Other	8,755	12,246	7,334	6,708	9,016	18,096
Other	85,052	123,868	126,591	133,380	134,286	134,162
Of which : interest	71,200	94,307	116,515	125,126	119,782	128,000
Total expenditure and net lending	335,237	385,853	403,026	426,505	487,310	563,428
	(In percent of GDP)					
General public service	7.1	6.3	5.4	5.2	5.1	5.4
Of which : security	4.5	3.9	3.1	2.7	2.8	2.8
Social services	7.4	7.3	7.7	7.0	8.2	8.1
Of which: education	2.5	2.0	2.4	2.2	2.1	2.8
health	1.6	1.3	1.6	1.6	1.7	1.7
Economic services	5.3	5.0	4.4	4.4	4.1	5.4
Interest	5.7	6.7	7.4	7.1	5.9	5.6
	(In percent of total expenditure)					
General public service	26.8	23.0	21.3	21.5	21.1	21.6
Of which : security	17.0	14.1	12.2	11.0	11.6	11.1
Social services	27.9	26.6	30.2	29.1	34.2	32.6
Of which: education	9.2	7.3	9.2	9.2	8.7	11.2
health	6.2	4.9	6.2	6.4	7.1	7.0
Economic services	19.9	18.3	17.1	18.2	17.1	22.0
Interest	21.2	24.4	28.9	29.3	24.6	22.7

Source: Data provided by the Ministry of Finance.

1/ Includes Rs. 4,400 million net lending to CWE in 2003.

Table 15. Sri Lanka: Current and Capital Transfers to Public Corporations and Public Institutions, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
Total	35,645	36,619	46,668	51,883	59,798	68,573
Public corporations	17,892	22,727	23,116	25,599	27,711	38,317
Public institutions	17,753	13,892	23,552	26,284	32,087	30,256
Current transfers	9,075	11,295	20,091	17,650	21,424	22,496
Public corporations	3,370	4,376	7,998	5,705	8,405	6,447
Public institutions	5,705	6,919	12,093	11,945	13,019	16,049
Capital transfers	26,570	25,324	26,577	34,233	38,374	46,077
Public institutions	14,522	18,351	15,118	19,894	19,306	31,870
Public corporations	12,048	6,973	11,459	14,339	19,068	14,207
Total transfers to selected corporations and institutions						
Cooperative Wholesale Establishment	…	…	1,841	1,783	95	14
Shipping Corporation	…	…				
Mahaweli Authority	2,532	3,020	3,496	3,810	854	855
Plantation Corporations	…	…				
Ceylon Electricity Board	1,840	1,904	1,118	5,170	1,290	800
Transport Board	3,246	1,340	2,643	774	3,221	1,496
Housing Development Authority	1,328	739	230	100	0	0
Water Supply and Drainage Board	4,789	3,667	9,066	7,805	44	45
Road Development Authority	7,371	10,860	9,877	13,163	490	650
	(In percent of GDP)					
Total transfers	2.8	2.6	2.9	2.9	2.9	3.0
Current	0.7	0.8	1.3	1.0	1.1	1.0
Capital	2.1	1.8	1.7	1.9	1.9	2.0
Public institutions	1.4	1.6	1.5	1.5	1.4	1.7
Public corporations	1.4	1.0	1.5	1.5	1.6	1.3
Total, excluding Mahaweli	2.6	2.4	2.7	2.7	2.9	3.0

Source: Data provided by the Ministry of Finance.

Table 16. Sri Lanka: Transfer and Subsidy Payments to Households, 2000–2005

	2000	2001	2002	2003	2004	2005 Budget
	(In millions of Sri Lankan rupees)					
Total	41,513	51,318	53,257	51,628	82,613	69,110
Of which : excluding pensions	19,911	24,825	22,134	20,478	46,169	27,194
Pensions	21,602	26,493	31,123	31,150	36,444	41,916
Payments to disabled soldiers	1,992	2,721	3,300	3,392	3,860	3,850
Food and kerosene stamps	0	0	0	0	0	0
Fertilizer subsidy	1,733	3,650	2,448	2,190	3,572	4,200
Samurdhi	9,661	12,574	9,910	8,715	8,498	9,635
Nutrition program	92	85	0	0	0	0
School uniform	997	900	799	601	788	1,048
Refugee	2,800	2,563	2,444	2,565	2,532	1,682
Other	2,636	2,332	3,233	3,015	26,919	6,779
	(In percent of GDP)					
Total	3.3	3.6	3.4	2.9	4.1	3.0
Pensions	1.7	1.9	2.0	1.8	1.8	1.8
Other transfers and subsidies	1.6	1.8	1.4	1.2	2.3	1.2

Source: Data provided by the Ministry of Finance.

Table 17. Sri Lanka: Deficit Financing (Economic Classification), 2000–2005

(In millions of Sri Lankan rupees)

	2000	2001	2002	2003	2004	2005 Budget
Total financing	124,541	152,222	141,102	145,555	165,432	171,145
Foreign grants	5,145	5,500	7,079	7,956	8,681	10,200
Net foreign borrowing	495	14,538	1,979	43,066	37,071	48,684
Gross foreign borrowing	23,777	42,459	39,036	77,491	70,112	91,000
Repayments	-23,282	-27,921	-37,057	-34,425	-33,041	-42,316
Net domestic financing	118,500	123,595	126,351	84,310	117,243	104,761
Nonbank borrowing	58,797	74,294	132,003	100,565	73,954	104,761
Nonmarket	3,175	747	-816	-170	4,680	0
Market	115,325	122,848	127,167	79,830	112,563	104,761
Bank financing	56,528	48,554	-4,836	-16,505	43,289	0
Central bank	44,840	-6,434	-13,266	-28,559	65,828	0
Commercial banks	11,688	54,988	8,430	12,054	-22,539	0
Other borrowing/ domestic grants	3,175	747	-816	80	4,680	0
Asset sales	401	8,589	5,693	10,223	2,437	7,500

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

Table 18. Sri Lanka: Outstanding Central Government Debt, 2000–2004
(In millions of Sri Lankan rupees, end of period)

	2000	2001	2002	2003	2004
Total domestic debt	676,661	815,965	948,386	1,019,970	1,143,389
Rupee securities	263,888	292,813	287,701	248,414	164,758
Treasury bills	134,996	170,995	210,995	219,295	243,886
Treasury bonds	204,124	229,174	347,128	483,107	643,349
Treasury CDs	12	11	11	11	11
Provisional advances	27,169	30,127	31,033	31,204	34,791
Other	46,472	92,845	71,518	37,939	56,594
Import bills held by commercial banks	14,940	12,480	12,801	180	734
Other liabilities to banking sector net of deposits	23,011	56,649	-3,247	-8,511	-14,490
Other short and medium term liabilities	8,521	23,716	61,964	46,270	70,350
Banking system	199,030	256,808	248,243	228,411	272,981
Central Bank					
By debt instrument	97,778	92,871	76,342	44,587	113,017
Treasury bills	42,238	64,842	44,923	13,365	78,162
Treasury bonds	30,936	1,616	0	0	0
Advances	27,169	30,127	31,033	31,204	34,791
Other	-2,565	-3,714	386	18	64
Commercial banks					
By debt instrument	101,252	163,937	171,901	183,824	159,965
Rupee loans	44,068	44,068	43,981	43,481	41,481
Treasury bills	8,368	11,092	28,895	44,637	40,681
Treasury bonds	7,712	20,598	35,523	65,246	33,350
Other	41,104	88,179	63,502	30,460	44,452
By institution	101,252	163,937	171,901	183,824	159,965
Bank of Ceylon and People's Bank	94,093	140,263	120,152	112,751	110380
Other	7,159	23,674	51,749	71,073	49,585
Sinking Fund	100	100	100	100	100
Nonbank sector					
By debt instrument	477,530	559,057	700,043	791,459	870,408
Rupee loans	219,720	248,645	243,620	204,833	123,277
Treasury bills	84,390	95,061	137,177	161,293	125,043
Treasury bonds	165,476	206,960	311,605	417,861	609,999
Treasury certificates	11	11	11	11	11
Other	7,933	8,380	7,630	7,461	12,078
By institution	477,530	559,057	700,043	791,459	870408
National Savings Bank	87,263	95,976	116,632	138,939	151,158
Other savings institutions	124,368	150,839	228,447	243,972	256781
Employees' Provident Fund	211,742	245,028	283,655	323,182	362,736
Insurance companies	18,969	21,449	26,853	24,828	27398
Finance companies	2,621	3,124	4,194	4,004	4652
Other	32,567	42,642	40,262	56,533	67,683
Foreign administrative borrowings	7,901	8,374	7,623	7,453	4,863
Departments, official funds and other	24,666	34,268	32,639	49,080	62820
Total foreign debt	542,040	636,741	721,956	843,882	996,138
Project loans	477,845	542,942	640,354	769,559	914,232
Nonproject loans	64,195	93,799	81,602	74,323	81,906
Commodity	63,009	67,563	68,050	68,891	73,835
Other	1,186	26,236	13,552	5,432	8,070
Concessional loans	535,129	603,572	702,368	822,839	970,299
Multilateral	249,740	288,876	344,297	404,937	475,246
Bilateral	285,389	314,696	358,071	417,902	495,053
Nonconcessional	6,911	33,169	19,588	21,043	25,839
Multilateral	356	535	394	219	1,801
Bilateral	0	0	1,096	836	575
Commercial	6,555	32,634	18,098	19,988	23,462
External suppliers' credits	217	269	n.a.	n.a.	n.a.
Total outstanding debt	1,218,701	1,452,706	1,670,342	1,863,852	2,139,526

Source: Data provided by the Ministry of Finance.

Table 19. Sri Lanka: Monetary Survey, 2000–2004

	2000	2001	2002	2003	2004			
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
	(In billions of Sri Lankan rupees, end of period)							
Net foreign assets	70	74	111	167	180	164	167	170
Monetary authorities	58	84	117	165	161	152	151	152
Commercial banks	12	-10	-7	3	19	12	15	19
Net domestic assets	414	475	512	551	566	532	635	688
Domestic credit	550	639	680	732	757	791	842	896
Public sector	186	242	236	212	223	228	252	262
Claims on government (net)	147	201	193	176	189	190	213	220
Monetary authorities	92	85	71	42	67	71	84	108
Commercial banks	56	117	122	134	121	119	129	112
Claims on public corporations	38	41	43	36	34	38	39	41
Claims on private sector	364	397	444	519	534	563	590	634
Other items (net)	-136	-164	-169	-181	-191	-259	-208	-208
Broad money	483	549	622	718	746	760	802	859
Narrow money	118	122	139	162	172	170	178	188
Currency	63	66	75	86	95	91	94	100
Demand deposits	56	57	64	76	77	79	84	89
Quasi-money	365	427	483	556	574	590	624	670
	(In annual percent change)							
Net foreign assets	-31.9	6.6	49.3	51.0	56.0	23.5	12.7	1.9
Monetary authorities	-35.1	45.6	39.2	40.2	29.6	10.2	-6.4	-7.8
Commercial banks	-9.6	-188.2	-34.1	-137.1	-322.1	-349.9	-213.7	640.9
Net domestic assets	26.9	14.8	7.8	7.6	7.3	2.0	19.6	25.0
Domestic credit	27.0	16.2	6.5	7.6	10.5	15.3	21.4	22.4
Public sector	73.5	30.5	-2.5	-10.0	-4.8	4.3	22.3	23.2
Claims on government (net)	56.8	36.7	-4.1	-8.7	-1.3	5.6	28.1	25.1
Monetary authorities	96.0	-7.7	-16.1	-40.6	7.0	34.2	143.9	156.9
Commercial banks	18.1	109.5	4.5	9.9	-5.4	-6.3	-2.3	-16.3
Claims on public corporations	141.9	6.7	5.4	-15.9	-20.4	-1.5	-2.1	13.8
Claims on private sector	11.8	8.9	12.0	16.9	18.4	20.4	21.0	22.1
Other items (net)	27.5	20.5	2.9	-7.4	21.4	57.3	27.1	14.6
Broad money	12.9	13.6	13.4	15.3	16.0	16.0	18.1	19.6
Narrow money	9.1	3.2	14.0	16.0	21.7	19.4	14.4	16.6
Currency	7.1	4.6	14.9	13.7	23.5	20.4	19.5	16.4
Demand deposits	11.5	1.5	13.0	18.7	19.6	18.2	9.1	16.8
Quasi-money	14.1	17.0	13.2	15.1	14.4	15.1	19.2	20.5
	(Percent contribution to broad money growth 12 months ago)							
Net foreign assets	-7.6	1.0	6.6	9.1	10.1	4.8	2.8	0.4
Net domestic assets	20.5	12.6	6.7	6.3	6.0	1.6	15.3	19.2
Domestic credit	27.3	18.4	7.6	8.3	11.2	16.0	21.8	22.9
Public sector	18.3	11.7	-1.1	-3.8	-1.8	1.4	6.8	6.9
Private sector	9.0	6.7	8.7	12.1	12.9	14.6	15.1	16.0
Other assets (net)	-6.9	-5.8	-0.9	-2.0	-5.2	-14.4	-6.5	-3.7
Memorandum items:								
Money multiplier (BM/RM)	4.60	4.88	4.92	5.08	4.70	5.01	5.07	5.02
Velocity (GDP/geom. avg. BM)	2.80	2.77	2.70	2.65	...	...	...	2.61

Source: Central Bank of Sri Lanka.

Table 20. Sri Lanka: Balance Sheet of the Monetary Authorities, 2000–2005

	2000	2001	2002	2003	2004	2003				2004				2005
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
	(In billions of Sri Lankan rupees)													
Net foreign assets	58	84	117	165	152	124	138	162	165	161	152	151	152	162
Central bank (net)	42	64	117	165	152	124	138	162	165	161	152	151	152	162
Assets	77	112	209	278	285	212	238	258	278	278	275	261	285	278
Cash and balances abroad	23	40	63	85	147	60	60	54	85	112	101	112	147	122
Foreign securities	54	71	90	134	66	96	121	146	134	107	102	76	66	94
Other	0	0	55	60	72	56	57	57	60	60	73	72	72	62
Liabilities	35	48	91	114	133	88	100	96	114	117	123	110	133	116
Government (net)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Treasury IMF account (net)	16	23	1	1	1	0	0	0	0	0	0	0	0	0
Net domestic assets	47	25	9	-23	19	8	-7	-27	-23	-2	-1	7	19	29
Net claims on government	92	85	71	42	108	63	53	35	42	67	71	84	108	101
Claims on government	95	89	71	43	109	63	53	35	43	68	71	85	109	102
Advances	28	31	31	31	35	33	32	33	31	35	35	35	35	41
Treasury bills and bonds	67	58	40	12	74	30	21	2	12	32	37	50	74	62
Cash items in collection	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Government deposits	-3	-4	0	-1	-1	0	0	0	-1	0	-1	-1	-1	-2
Claims on commercial banks	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium- and long-term	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets (net)	-45	-60	-62	-65	-89	-55	-60	-62	-65	-70	-72	-78	-89	-72
Reserve money	105	113	126	141	171	132	131	135	141	159	151	158	171	191
Currency in circulation	73	77	88	99	116	91	89	92	99	117	106	110	116	134
Commercial banks deposits	32	36	38	43	55	40	41	43	43	42	45	48	55	57
Deposits of government agencies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	(Annual percent change)													
Net foreign assets	-35.1	45.6	39.2	40.2	-7.8	44.5	32.9	51.0	40.2	29.6	10.2	-6.4	-7.8	0.7
Net domestic assets	323.1	-46.6	-64.2	-356.2	-183.3	-73.7	-138.0	-284.9	-356.2	-130.2	-87.7	-125.2	-183.3	-1,350.3
Net claims on government	96.0	-7.5	-16.2	-40.6	156.6	-16.8	-23.9	-51.7	-40.6	7.1	34.3	143.9	156.6	49.6
Claims on commercial banks	-30.5	-71.2	-80.0	0.0	-0.3	-82.7	-83.3	-86.0	0.0	22.7	51.3	63.8	-0.3	0.0
Medium- and long-term	-29.4	-71.2	-80.0	0.0	-0.3	-82.7	-83.3	-86.0	0.0	22.7	51.3	63.8	-0.3	0.0
Short-term	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Reserve money	4.7	7.0	12.3	11.9	20.9	12.7	10.1	10.6	11.9	20.4	15.6	17.6	20.9	20.3
	(Contribution to reserve money growth, in percent)													
Net foreign assets	-31.2	25.1	29.4	37.4	-9.1	32.7	28.8	44.9	37.4	27.9	10.8	-7.6	-9.1	0.7
Net domestic assets	35.9	-20.9	-14.4	-25.5	30.0	-18.3	-21.8	-34.3	-25.5	-7.5	4.8	25.2	30.0	19.5
Net claims on government	44.6	-6.5	-12.2	-22.8	46.7	-10.9	-14.0	-30.5	-22.8	3.4	13.8	37.0	46.7	21.1
Claims on commercial banks	-0.2	-0.4	-0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other assets (net)	-8.5	-14.0	-2.1	-2.7	-16.7	-7.3	-7.8	-3.8	-2.7	-10.9	-9.1	-11.8	-16.7	-1.5

Source: Central Bank of Sri Lanka.

Table 21. Sri Lanka: Balance Sheet of Commercial Banks, 2000–2004

(In billions of Sri Lankan rupees)

	2000	2001	2002	2003	2004	2003				2004			
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Foreign assets	52	45	45	45	76	40	39	29	45	47	52	60	76
Banks abroad	42	35	36	34	62	32	29	19	34	37	42	49	62
Other	10	10	9	11	13	8	10	9	11	10	10	12	13
Cash and deposits	118	128	135	131	176	152	155	165	131	158	163	168	176
Cash in till	11	11	13	13	16	15	14	13	13	22	15	16	16
Deposits with CBSL	29	39	40	38	55	45	40	47	38	40	43	51	55
FCBUs 1/	45	63	66	64	94	77	79	83	64	81	86	89	94
Due from other banks	33	15	16	15	11	15	21	22	15	15	18	11	11
Claims on government	56	103	97	118	93	98	97	105	118	105	98	108	93
Treasury bills	7	10	26	42	38	29	33	37	42	28	26	33	38
Two-year treasury notes	7	19	33	58	32	34	35	46	58	58	47	49	32
Sri Lanka development bonds	0	4	14	5	16	10	10	10	5	6	10	16	16
Other government securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Other 3/	41	70	24	13	7	25	18	12	13	13	16	10	7
Claims on public corporations	27	23	28	29	27	26	25	26	29	13	30	29	27
Claims on private sector	308	329	367	431	526	374	387	410	431	445	464	489	526
Other assets	117	114	116	132	131	121	130	135	132	156	138	172	131
Assets = liabilities	678	741	788	885	1028	810	833	870	885	923	945	1026	1028
Foreign liabilities	41	46	52	57	72	51	54	58	57	61	61	67	72
Banks abroad	6	5	5	6	8	4	5	7	6	7	5	8	8
FCBUs 1/	0	0	0	0	0	0	0	0	0	0	0	0	0
NRFC 2/	29	34	40	43	53	40	41	41	43	45	48	49	53
RNNFC 3/	4	5	6	6	8	6	6	6	6	7	7	7	8
Other	1	1	1	2	2	1	2	4	2	2	2	2	2
Demand deposits	56	57	64	76	89	64	67	77	76	77	79	84	89
Domestic NRFC deposits	56	67	75	88	120	79	81	82	88	91	97	106	120
Time and savings deposits	286	329	371	419	500	383	391	400	419	435	446	467	500
Government deposits	13	26	15	16	20	13	13	15	16	17	15	17	20
Demand	12	25	13	15	17	12	11	14	15	15	13	15	17
Time and savings	1	1	2	2	3	2	2	2	2	2	2	2	3
Due to CBSL	6	5	5	7	7	6	6	6	7	6	6	7	7
Due to banks	36	21	14	9	10	11	12	17	9	10	19	16	10
Due to OFIs	25	32	22	21	17	20	21	18	21	27	20	19	17
Capital	52	45	52	75	77	54	61	67	75	74	75	76	77
Other liabilities	108	115	119	117	117	128	127	128	117	126	126	167	117

Source: Central Bank of Sri Lanka.

1/ A foreign currency banking unit is a unit in a commercial bank which accepts deposits and grants advances in foreign currency from and to non-residents, commercial banks, Board of Investment (BOI) enterprises, and other approved residents.
2/ Non-Resident foreign currency accounts.
3/ Resident non-national foreign currency accounts.

Table 22. Sri Lanka: Advances by Purpose and According to Maturity, 2000–2004 1/

	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Mar.	2004 Jun.	2004 Sept.	2004 Dec.
	(In billions of Sri Lankan rupees)							
By category								
Commercial	135	132	142	157	169	169	176	186
Financial	15	10	12	18	19	18	22	25
Agriculture	15	15	18	19	19	20	19	20
Industrial 2/	35	34	44	47	47	48	50	52
Tourism	4	4	5	6	6	6	7	7
Housing 3/	41	46	53	60	63	65	70	74
Consumption	33	38	47	60	64	71	78	85
Other loans	39	46	55	60	62	64	68	71
Total	317	326	376	427	449	462	489	521
	(Annual percent change)							
Commercial	23.0	-2.1	7.3	10.9	16.5	13.6	15.4	18.3
Financial	22.5	-30.0	20.1	44.5	65.3	42.8	26.9	39.9
Agriculture	-8.9	1.4	14.6	8.1	8.1	12.1	-2.6	3.7
Industrial 2/	6.1	-2.9	27.4	6.9	14.4	18.7	19.7	12.0
Tourism	-9.5	5.8	17.7	14.7	17.0	12.9	17.8	20.7
Housing 3/	15.6	10.9	15.4	13.6	14.8	16.0	19.6	24.1
Consumption	12.6	15.6	24.6	28.5	24.8	32.1	31.5	40.7
Other loans	14.8	18.1	19.2	8.3	15.9	17.1	18.5	18.8
Total	15.4	2.8	15.1	13.7	18.1	18.4	18.8	21.9
	(In percent of total advance)							
Commercial	42.5	40.5	37.7	36.8	37.7	36.6	35.9	35.7
Financial	4.6	3.2	3.3	4.2	4.2	3.9	4.5	4.8
Agriculture	4.8	4.7	4.7	4.5	4.2	4.4	4.0	3.8
Industrial 2/	11.1	10.5	11.6	10.9	10.4	10.5	10.2	10.0
Tourism	1.3	1.3	1.4	1.4	1.3	1.3	1.4	1.3
Housing 3/	13.0	14.0	14.1	14.0	14.1	14.1	14.2	14.3
Consumption	10.3	11.6	12.5	14.1	14.4	15.4	16.0	16.3
Other loans	12.4	14.2	14.7	14.0	13.7	13.8	13.8	13.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
By maturity								
Short term	62.1	60.8	62.0	64.0	64.2	61.8	61.3	61.2
Medium term	22.3	21.5	21.1	21.4	21.6	24.0	23.9	23.9
Long term	15.6	17.7	16.9	14.6	14.2	14.2	14.9	14.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Sri Lanka.

1/ Domestic banking units only. Advances include loans, overdrafts, and bills discounted; and exclude cash items in process of collection.
2/ Includes advances granted to the engineering and building trade, mining and fishing.
3/ Housing covers personal housing (including purchase, construction, and repairs); construction of business premises; and property development.

Table 23. Sri Lanka: Selected Interest Rates, 2000–2005

(In percent, end-of-period)

		CBSL Rates		Money Market Rates			Bank Rates		Memorandum Item
		Repos	Reverse repos	Interbank call rate 1/	Treasury bills 3 months	Treasury bills 12 months	Prime lending 1/	Time and savings 1/	CPI inflation annual rate
2000		17.0	20.0	25.9	17.8	18.2	21.5	9.9	10.8
2001		12.0	14.0	12.7	12.9	13.7	14.3	10.8	10.8
2002		9.8	11.8	10.4	9.9	9.9	12.1	7.5	11.3
2003		7.0	8.5	7.6	7.4	7.2	9.3	5.3	5.0
2002									
2003	January	9.0	11.0	9.5	8.7	8.9	11.3	7.2	13.6
	February	9.0	11.0	9.4	9.1	9.1	11.2	6.9	11.0
	March	9.0	11.0	9.4	9.1	9.2	11.8	6.5	7.9
	April	9.0	11.0	9.6	8.8	8.8	11.8	6.3	8.3
	May	8.3	10.3	8.7	8.6	8.6	10.5	6.1	6.0
	June	8.3	10.3	8.6	8.4	8.5	10.4	6.0	4.5
	July	8.3	10.3	8.7	8.0	8.0	10.4	5.8	3.4
	August	7.5	9.5	7.9	7.7	7.5	9.7	5.7	3.7
	September	7.5	9.5	7.8	7.3	7.1	9.3	5.5	4.8
	October	7.0	8.5	7.5	7.1	7.0	9.1	5.4	3.9
	November	7.0	8.5	7.6	7.3	7.2	9.0	5.4	4.5
	December	7.0	8.5	7.6	7.4	7.2	9.3	5.3	5.0
2004	January	7.0	8.5	7.6	7.5	7.6	9.2	5.2	0.5
	February	7.0	8.5	7.5	7.7	7.7	9.1	5.2	0.9
	March	7.0	8.5	7.5	7.6	7.7	9.3	5.0	2.5
	April	7.0	8.5	7.5	7.8	7.7	9.4	5.0	4.6
	May	7.0	8.5	8.0	7.8	7.7	9.1	4.9	5.9
	June	7.0	8.5	7.9	7.8	7.8	9.6	4.8	6.8
	July	7.0	8.5	7.5	8.1	8.1	9.8	5.0	8.9
	August	7.0	8.5	8.0	7.4	7.9	9.7	5.0	10.5
	September	7.0	8.5	8.0	7.0	7.5	9.7	5.2	11.6
	October	7.0	8.5	8.3	7.3	7.6	9.6	5.2	12.1
	November	7.5	9.0	9.2	7.3	7.7	10.2	5.1	13.1
	December	7.5	9.0	9.7	7.3	7.7	10.2	5.3	13.8
2005	January	7.5	9.0	8.3	7.3	7.7	9.5	5.4	14.6
	February	7.5	9.0	8.2	7.3	7.7	9.8	5.4	15.9
	March	7.5	9.0	7.8	7.6	7.8	9.9	5.4	15.5

Sources: Central Bank of Sri Lanka; and CEIC.

1/ Weighted average.

Table 24. Sri Lanka: Reserve Position of Commercial Banks, 2001–2004

(In millions of Sri Lankan rupees)

	Deposits 1/				Required Reserves Against Deposits 2/							Actual Reserves 3/	
	Demand	Time and savings	Other	Total	Demand	Time and savings	Other	Total reserves	Till cash	Required reserves	Required reserves cumulative	Commercial banks deposits with central bank	Excess/ deficit on SRR
				(1)+(2)+(3)				(5)+(6)+(7)		(8) - (9)	(10)*7		(11) - (12)
Period 1/	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
2001	62,622	315,742	15,237	393,602	6,262	31,574	1,524	39,360	5,044	34,317	240,216	240,797	581
2002	70,613	359,232	18,725	448,570	7,061	35,923	1,873	44,857	5,175	39,682	277,772	277,967	195
2003	94,121	408,598	17,360	520,079	9,412	40,860	1,736	52,008	4,955	47,053	329,369	329,855	486
2003 Q1	70,840	373,786	19,175	463,801	7,084	37,379	1,918	46,380	5,196	41,184	288,289	288,732	443
Q2	76,509	380,455	17,900	474,865	7,651	38,046	1,790	47,486	5,163	42,323	296,262	297,116	854
Q3	80,393	388,712	18,039	487,144	8,039	38,871	1,804	48,714	4,800	43,915	307,402	308,058	656
Q4	94,121	408,598	17,360	520,079	9,412	40,860	1,736	52,008	4,955	47,053	329,369	329,855	486
2004 Q1	94,015	425,663	17,601	537,278	9,401	42,566	1,760	53,728	6,853	46,875	328,127	329,244	1,117
Q2	94,364	435,907	16,858	547,129	9,436	43,591	1,686	54,713	6,014	48,699	340,890	341,341	451
Q3	98,545	454,104	16,667	569,316	9,855	45,410	1,667	56,932	6,986	49,946	349,621	349,797	175
Q4	116,697	490,470	17,046	624,214	11,670	49,047	1,705	62,421	6,457	55,965	391,754	392,165	411
2003 Jan.	72,683	364,532	19,960	457,175	7,268	36,453	1,996	45,718	5,180	40,538	283,763	284,117	354
Feb.	70,254	372,013	19,355	461,622	7,025	37,201	1,936	46,162	4,554	41,608	291,257	291,526	269
Mar.	70,840	373,786	19,175	463,801	7,084	37,379	1,918	46,380	5,196	41,184	288,289	288,732	443
Apr.	71,654	375,359	18,644	465,657	7,165	37,536	1,864	46,566	7,679	38,887	272,207	272,752	545
May	76,468	378,231	17,986	472,685	7,647	37,823	1,799	47,269	5,820	41,449	290,140	290,483	344
Jun.	76,509	380,455	17,900	474,865	7,651	38,046	1,790	47,486	5,163	42,323	296,262	297,116	854
Jul.	80,016	383,601	17,992	481,609	8,002	38,360	1,799	48,161	4,670	43,491	304,434	304,811	376
Aug.	81,272	386,878	17,576	485,726	8,127	38,688	1,758	48,573	5,062	43,510	304,571	305,339	768
Sep.	80,393	388,712	18,039	487,144	8,039	38,871	1,804	48,714	4,800	43,915	307,402	308,058	656
Oct.	79,789	394,581	17,677	492,048	7,979	39,458	1,768	49,205	4,717	44,488	311,418	311,814	396
Nov.	92,033	402,675	17,488	512,196	9,203	40,268	1,749	51,220	3,694	47,526	332,681	332,951	270
Dec.	94,121	408,598	17,360	520,079	9,412	40,860	1,736	52,008	4,955	47,053	329,369	329,855	486
2004 Jan.	92,666	412,521	17,633	522,819	9,267	41,252	1,763	52,282	5,381	46,901	328,309	328,499	190
Feb.	94,161	415,767	19,900	529,828	9,416	41,577	1,990	52,983	4,656	48,327	338,288	338,515	227
Mar.	94,015	425,663	17,601	537,278	9,401	42,566	1,760	53,728	6,853	46,875	328,127	329,244	1,117
Apr.	96,798	432,254	17,829	546,881	9,680	43,225	1,783	54,688	8,289	46,399	324,794	325,057	263
May	95,713	430,665	18,368	544,746	9,571	43,066	1,837	54,475	6,649	47,826	334,782	335,065	283
Jun.	94,364	435,907	16,858	547,129	9,436	43,591	1,686	54,713	6,014	48,699	340,890	341,341	451
Jul.	94,842	440,726	16,154	551,722	9,484	44,073	1,615	55,172	6,323	48,849	341,942	342,143	201
Aug.	98,214	449,446	16,049	563,709	9,821	44,945	1,605	56,371	5,907	50,464	353,247	353,575	328
Sep.	98,545	454,104	16,667	569,316	9,855	45,410	1,667	56,932	6,986	49,946	349,621	349,797	175
Oct.	98,183	469,675	16,399	584,257	9,818	46,967	1,640	58,426	6,378	52,048	364,337	364,735	398
Nov.	103,276	479,827	17,404	600,507	10,328	47,983	1,740	60,051	7,526	52,525	367,673	368,006	333
Dec.	116,697	490,470	17,046	624,214	11,670	49,047	1,705	62,421	6,457	55,965	391,754	392,165	411

Source: Central Bank of Sri Lanka.

1/ Reserves data are for the last reserve week of each month. The required reserves recorded in the table refer to the cumulative reserves for the week, while commercial bank deposits with the central bank are the cumulative deposits for that particular reserve week. Excess/deficit on SRR is the difference between the cumulative SRR for the reserve week and cumulative deposits of the commercial banks for the week.

2/ Excludes interbank deposits.

3/ With effect from April 3, 2003, the basis of computing the Statutory Reserve Requirement (SRR) was changed from deposit liabilites and vault cash balances at the close of business on Wednesday of the previous reserve week, to the average of deposit liabilites and vault cash balances during the week ending Tuesday of the previous reserve week.

Table 25. Sri Lanka: Balance of Payments, 2000–2004

	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)				
Trade balance	-1,798	-1,157	-1,406	1,540	2,242
Exports	5,522	4,817	4,699	5,133	5,757
Imports	7,320	5,974	6,106	6,672	8,000
Services, net	38	204	295	399	419
Receipts	953	1,355	1,268	1,410	1,527
Payments	915	1,151	1,151	1,012	1,108
Income, net	-304	-267	-252	-172	-204
Receipts	152	108	75	170	157
Payments	456	375	328	341	360
Of which : interest	332	253	216	234	250
Private transfers, net	974	984	1,097	1,205	1,350
Current account (excluding grants)	-1,089	-237	-268	-106	-678
Official transfers	24	22	31	36	30
Current account (including grants)	-1,065	-215	-236	-74	-648
Capital and financial account	443	564	443	722	636
Capital account (net)	50	198	65	74	64
Financial account	393	366	378	648	572
Long-term:	305	164	326	723	685
Direct investment	176	172	185	201	227
Foreign direct investment, net	173	82	181	171	217
Privatization proceeds	3	90	5	30	10
Private, long-term (net)	82	-257	-21	-32	18
Disbursements	298	44	115	101	169
Amortization	216	301	136	134	151
Government, long-term (net)	47	249	162	554	439
Disbursements	355	575	542	913	771
Amortization	308	326	380	359	332
Short-term, net	88	201	52	-75	-112
Portfolio investment, net (CSE)	-45	-11	25	2	11
Private short-term, net	100	-42	68	19	28
Commercial banks (net)	33	254	-41	-95	-152
Government short-term, net	0	0	0	0	0
Errors and omissions	101	-127	38	-148	-198
Valuation adjustments	0	0	93	0	0
Overall balance	-521	220	337	500	-211
Financing requirement					
Net international reserves	521	-220	-337	-500	211
Increase in gross official reserves (-)	619	-270	-377	-586	313
Reserve liabilities	99	-43	-38	-86	106
	(In percent of GDP)				
Memorandum items:					
Current account (excluding official transfers)	-6.7	-1.5	-1.6	-0.6	-3.4
Current account (including official transfers)	-6.5	-1.4	-1.4	-0.4	-3.2
Overall balance	-3.2	1.4	2.0	2.8	-1.0
Total debt 1/	60.8	61.8	62.4	64.1	65.0
Total debt service (percent of exports of goods and services)	14.7	13.3	13.2	11.6	11.5
Gross official reserves (in millions of U.S. dollars) 2/	911	1,183	1,560	2,146	1,833
(In months of prospective imports of goods and NFS)	1.5	2.0	2.4	2.8	...
Net official reserves	750	970	1,271	1,779	1,573
GDP (in millions of U.S. dollars)	16,281	15,595	16,521	18,250	20,020

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

1/ Includes banking sector liabilities.
2/ Less ACU balances.

Table 26. Sri Lanka: Exports by Commodity, 2000–2004

	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)				
Total	5,522	4,817	4,699	5,133	5,757
Agricultural products	987	923	937	918	1067
Tea					
Value	688	683	659	683	740
Volume (million kg)	288	295	292	298	300
Unit value (US$)	2.39	2.31	2.26	2.29	2.46
Rubber					
Value	28	24	27	39	51
Volume (million kg)	33	32	37	35	41
Unit value (US$/kg)	0.85	0.74	0.73	1.09	1.27
Coconut products					
Value	119	81	84	46	113
Volume (million nuts)	787	516	328	461	538
Unit value (US$/nut)	0.15	0.08	0.13	0.10	0.11
Other agricultural products					
Value	153	135	167	150	163
Volume (million kg)	50	52	64	70	78
Unit price (US$/kg)	3.06	2.60	2.63	2.14	2.08
Industrial products	4,219	3,675	3,643	3,991	4,517
Gems (value)	268	245	277	295	355
Of which: processed diamonds (value)	176	164	191	216	247
Garments					
Value	2,671	2,312	2,244	2,576	2,811
Volume (million pieces)	468	432	393	401	426
Unit value (US$/piece)	5.70	5.35	6.17	6.42	6.60
Other industrial products (value)	1,010	925	942	1,120	1,351
Petroleum products					
Value	96	67	73	65	100
Volume ('000 metric tons)	352	281	306	225	292
Unit value (US$/ton)	272	239	239	290	341
Miscellaneous exports	220	152	45	159	73
	(In percent of total exports)				
Traditional exports 1/	15.1	16.3	16.4	15.0	15.7
Of which: tea	12.5	14.2	14.0	13.3	12.9
Nontraditional exports	84.9	83.7	83.6	85.0	84.3
Other agricultural products	2.8	2.8	3.6	2.9	2.8
Garments and textiles	54.0	52.8	51.6	50.2	48.8
Gems (incl. diamonds)	4.8	5.1	5.9	5.7	6.2
Other industrial products	18.3	19.2	20.0	21.8	23.5
Petroleum products	1.7	1.4	1.6	1.3	1.7
Other	3.2	2.4	1.0	3.1	1.3
Total	100.0	100.0	100.0	100.0	100.0

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

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

Table 27. Sri Lanka: Imports by Commodity, 2000–2004

	2000	2001	2002	2003	2004
			(In millions of U.S. dollars)		
Total	7,320	5,974	6,106	6,672	8,000
Consumer goods	1,388	1,236	1,319	1,481	1,623
Rice					
Value	4	11	18	9	59
Volume ('000 metric tons)	15	52	95	35	222
Unit value (US$/ton)	262	204	191	245	268
Wheat					
Value	127	110	130	137	183
Volume ('000 metric tons)	922	760	993	919	993
Unit value (US$/ton)	138	144	131	149	184
Sugar					
Value	141	115	132	116	109
Volume ('000 metric tons)	562	420	554	509	438
Unit value (US$/ton)	252	274	239	228	250
Other food	421	421	416	440	427
Other consumer goods	695	580	623	779	845
Intermediate goods	3,789	3,321	3,492	3,811	4,645
Petroleum	901	731	789	838	1,209
Crude petroleum					
Value	497	352	422	432	603
Volume (million barrels)	17	14	17	15	16
Unit value (US$/barrel)	29	25	25	29	37
Refined petroleum	404	379	367	406	606
Fertilizer					
Value	80	67	76	88	107
Volume ('000 metric tons)	559	460	537	514	510
Unit value (US$/ton)	143	146	141	170	209
Textiles	1,471	1,320	1,320	1,372	1,514
Other intermediate goods	1,337	1,203	1,307	1,513	1,815
Investment goods	1,737	1,081	1,170	1,320	1,670
Of which : machinery and equipment	787	610	640	699	857
transport equipment	529	129	151	206	257
building materials	305	249	272	328	402
Unclassified	406	336	125	60	62
			(In percent of total imports)		
Food	9.5	11.0	11.4	10.5	9.7
Petroleum	12.3	12.2	12.9	12.6	15.1
Textiles	20.1	22.1	21.6	20.6	18.9
Other intermediate goods	19.4	21.3	22.7	24.0	24.0
Investment goods	23.7	18.1	19.2	19.8	20.9
Other	15.0	15.3	12.2	12.6	11.3
Total	100	100	100	100	100

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

Table 28. Sri Lanka: Direction of Trade, 2000–2004

(In percent)

	Exports					Imports				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
European Union	27.9	26.6	28.8	30.6	33.2	15.1	15.7	14.7	16.9	16.0
Of which:										
France	2.1	2.3	2.0	1.7	1.8	1.3	1.5	1.3	2.0	1.6
Germany	4.2	4.2	4.2	4.6	4.9	2.5	2.5	2.0	2.2	2.5
Netherlands	1.9	1.8	1.6	1.8	1.9	1.3	1.4	0.8	0.8	0.7
United Kingdom	13.5	12.2	12.5	12.7	13.8	4.9	4.1	4.3	4.2	4.0
United States	40.3	40.8	37.3	35.3	33.2	4.0	4.9	3.6	3.0	3.1
Japan	4.2	3.9	3.0	3.2	2.8	10.3	6.2	5.9	6.9	5.2
Middle East	8.0	9.2	8.0	9.2	7.7	9.6	9.4	12.8	10.3	11.7
Of which:										
Egypt	0.6	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Iran, Islamic Republic of	0.6	0.6	0.7	0.7	1.0	3.2	4.3	3.8	4.2	5.3
Iraq	0.3	0.4	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	0.8	0.7	0.6	0.6	0.6	2.1	0.7	2.4	1.2	2.3
Asia 1/	8.7	8.0	10.4	12.1	13.6	52.9	55.7	53.8	57.6	57.9
Of which:										
China	0.1	0.1	0.3	0.3	0.4	4.0	4.1	4.3	5.0	5.8
Hong Kong SAR	1.3	1.1	1.2	1.5	1.2	8.2	9.2	8.1	8.6	7.9
India	1.1	1.5	3.6	4.9	6.9	9.5	11.1	14.1	16.4	18.3
Pakistan	0.5	0.5	0.6	0.7	0.7	1.1	1.4	1.1	1.1	1.4
Singapore	1.1	1.2	1.5	1.3	1.5	7.9	7.6	6.9	8.0	8.9
Taiwan, POC	0.2	0.3	0.3	0.2	0.2	6.2	6.0	4.8	4.2	3.7
Former Soviet Union	2.6	3.5	3.6	3.7	3.5	0.1	0.1	0.1	0.3	0.1
Other countries	8.3	8.0	8.9	6.0	6.0	8.0	8.0	9.0	5.0	6.0
All countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

1/ Excluding Japan.

Table 29. Sri Lanka: Indicators of Trade Performance, 2000–2004

	2000	2001	2002	2003	2004
			(In percent of GDP)		
Exports	33.9	30.9	28.4	28.1	28.8
Imports	44.1	37.9	36.9	36.6	39.3
Consumption	7.6	7.1	7.2	7.4	8.1
Food	3.4	3.5	3.4	3.1	3.9
Other	4.2	3.7	3.8	4.3	4.2
Intermediate 1/	23.6	21.8	21.9	21.6	23.2
Petroleum	5.4	4.6	4.8	4.6	6.0
Other	18.2	17.1	17.1	17.1	17.1
Investment	10.4	6.8	7.1	7.2	8.3
Other	2.4	2.1	0.8	0.3	0.3
Trade balance	-10.2	-7.0	-8.5	-8.5	-10.5
			(Annual percentage change)		
Export volume	18.3	-8.1	3.4	3.5	7.7
Export unit value (US$)	0.2	-4.6	-5.6	5.7	4.1
Import volume	13.0	-10.3	2.2	11.2	9.0
Import unit value (US$)	6.7	-3.3	-8.3	-1.8	9.7
Terms of trade	-6.5	-1.3	2.7	7.5	-5.6
Real effective exchange rate	2.3	1.0	-1.1	-6.5	-2.9

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

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

Table 30. Sri Lanka: Services and Income, 2000–2004

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Total services	38	203	295	399	419
Receipts	953	1,355	1,268	1,411	1,527
Payments	915	1,152	974	1,012	1,108
Transportation	69	77	183	201	209
Receipts	406	384	514	562	624
Payments	337	307	331	361	415
Travel	8	-37	100	163	217
Receipts	252	213	363	441	513
Payments	244	250	263	279	296
Telecommunucations	-2	34	61	45	33
Receipts	46	40	69	53	43
Payments	48	6	8	8	10
Computer and information	...	66	50	65	72
Receipts	...	66	50	65	72
Payments	...	0	0	0	0
Construction	...	31	27	34	20
Receipts	...	41	34	38	26
Payments	...	10	8	4	6
Insurance services	19	106	18	19	20
Receipts	41	423	45	48	50
Payments	22	317	27	29	30
Other business services	-50	-79	-134	-117	-137
Receipts	184	168	171	182	178
Payments	234	247	305	299	315
Government expenditure n.i.e.	-6	7	-10	-11	-15
Receipts	24	22	21	21	20
Payments	30	15	31	33	35
Total income	-304	-267	-252	-172	-204
Receipts	152	108	75	170	157
Compensation of employees	12	14	9	10	10
Direct Investment (profits and dividends)	2	3	2	2	3
Other (interest)	138	91	64	158	144
Payments	456	375	328	341	360
Compensation of employees	14	17	13	15	16
Direct investment (profits and dividends)	110	104	98	92	95
Other (interest)	332	253	216	234	250
Memorandum items:					
Exports of goods and nonfactor services	6,475	6,172	5,967	6,544	7,284
(In percent of GDP)	39.8	39.6	36.1	35.9	36.4
Imports of goods and nonfactor services	8,235	7,125	7,257	7,684	9,108
(In percent of GDP)	50.6	45.7	43.9	42.1	45.5

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

Table 31. Sri Lanka: Financial Account, 2000–2004

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Total, net	393	366	378	648	572
Central government, net	47	249	162	554	439
Concessional medium- and long-term	153	215	273	560	430
Disbursements	353	423	486	806	714
Amortization	200	208	213	246	284
Nonconcessional medium- and long-term	-106	33	-162	-5	9
Disbursements	2	152	5	108	56
Amortization	108	119	167	113	47
Private sector medium- and long-term 1/	82	-257	-21	-33	18
Disbursements	298	44	115	101	169
Amortization	216	301	136	134	151
Direct investment, net 2/	176	172	185	202	228
Short-term, net 3/	88	201	52	-76	-113
Memorandum items:					
Total aid disbursements	423	638	580	1,016	855
Loans	355	575	491	914	770
Project loans 4/	353	423	486	806	714
Commodity and program loans	2	152	5	108	56
Grants	68	62	89	102	85
Project grants	44	40	58	66	55
Commodity and technical assistance grants	24	22	31	36	30

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

1/ Consists of public corporations and private companies.
2/ Includes foreign direct investment, and privatization proceeds.
3/ Includes portfolio investment, net short-term private, net foreign assets of commercial banks, and net short-term government.
4/ Includes nonconcessional project loans.

Table 32. Sri Lanka: External Debt-Service Payments, 2000–2004

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Interest	332	253	216	234	250
Government	129	123	118	144	143
Concessional	115	116	111	140	137
Multilateral	23	28	27	34	39
Bilateral	93	88	85	106	98
Nonconcessional	14	7	7	4	6
Private	88	67	52	48	47
Public corporations and private sector 1/	68	57	43	39	34
Other public corporations and private sector 2/	20	10	9	9	13
Fund	5	4	4	4	10
Short-term debt 3/	109	59	42	38	50
Amortization	621	706	572	525	595
Government	308	327	380	359	331
Concessional	200	208	213	246	284
Multilateral	41	52	61	73	79
Bilateral	159	156	153	174	205
Nonconcessional	108	119	167	113	47
Private	216	301	136	134	151
Public corporations and private sector 1/	174	97	92	88	97
Other public corporations and private sector 2/	42	204	45	46	54
Fund repurchases	97	78	56	32	112
Memorandum items:					
Interest payments/total outstanding debt	3.7	3.0	2.3	2.2	2.2
Average interest rate on concessional debt	1.5	1.4	1.3	1.3	1.3
Average interest rate on non-concessional debt	3.1	3.0	3.7	3.5	3.5

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

1/ With government guarantee.
2/ Without government guarantee.
3/ Includes interest payments on trade credits, central bank and commercial bank liabilities, CPC, and foreign currency deposits of nonresidents.

Table 33. Sri Lanka: External Debt Outstanding, 2000–2004

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Total medium- and long-term 1/	8,295	7,630	8,445	9,659	10,441
Government	6,989	6,809	7,463	8,723	9,523
Concessional	6,686	6,379	7,199	8,300	9,003
Multilateral	3,053	3,104	3,524	4184	4558
IDA	1,615	1,576	1,751	2,065	2,170
AsDB	1,438	1,461	1,695	2,024	2,252
Other	0	67	78	95	136
Bilateral	3,633	3,275	3,675	4,116	4,445
Japan	2,159	1,987	2,245	2,639	2,882
United States	643	623	618	572	564
Germany	321	345	414	479	555
Other	510	320	398	425	444
Commercial	303	430	264	423	520
Multilateral	4	7	4	0	0
Bilateral	13	2	0	10	27
Financial markets	69	152	170	197	261
Supplier credits	217	269	90	216	232
Public corporations and private sector 2/	1,028	572	689	602	507
Other public corporations and private sector 3/	278	249	293	334	411
Short-term debt 4/	575	533	601	620	647
IMF	161	217	295	371	280
Total debt 5/	9,031	8,380	9,341	10,650	11,368
Memorandum items:					
Total debt					
(In percent of GDP) 5/	55.5	53.7	56.5	58.4	56.8
(In percent of exports of goods and nonfactor services)	139.5	135.8	156.5	162.7	156.1

Source: Data provided by the Sri Lankan authorities.

1/ Excluding IMF.
2/ With government guarantee.
3/ Without government guarantee.
4/ Includes acceptance credits of Ceylon Petroleum Corporation, trade credits and short-term borrowings from FCBUs. Excludes nonresident foreign currency deposits.
5/ Excludes banking sector liabilities.

Table 34. Sri Lanka: Net International Reserves, 2000–2004

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

	2000	2001	2002	2003	2004
I. Central bank, net	826	1,092	1,452	2,024	1,671
a. Assets	964	1,201	1,588	2,207	2,034
Gold	4	3	74	69	73
SDR holdings	0	1	2	1	0
Liquid balances abroad	289	429	578	749	1,329
Bilateral credit balances	0	0	0	0	0
Foreign securities	671	767	934	1,388	632
ACU credit balance 1/	0	2	0	0	0
Statutory reserves on foreign deposits of commercial banks	0	0	0	0	0
b. Liabilities	138	109	136	182	364
Nonresident deposits	0	2	1	0	1
Borrowings from abroad	0	0	0	0	0
ACU debit balance 1/	137	107	135	182	362
II. Government, net	-76	-122	-181	-247	-98
a. Assets	84	87	106	122	160
Reserve position in IMF	62	59	60	67	65
Investment	0	0	0	0	0
Other 2/	22	28	46	55	95
b. Liabilities 2/	161	209	287	368	258
Use of Fund credit	161	209	287	368	258
III. Commercial banks, net	145	-110	-70	26	177
a. Assets	1,083	900	795	889	1,243
Liquid balances	544	393	390	369	614
Export bills	110	85	76	97	108
FCBU assets	429	422	330	424	520
b. Liabilities	938	1,009	865	863	1,066
Foreign bank borrowings	74	53	29	52	73
Foreign bank deposits	5	6	19	6	9
Nonbank demand deposits 3/	13	15	10	19	19
Nonbank time deposits 3/	417	417	477	511	584
FCBUs liabilities with nonresidents	429	519	330	276	382
IV. Net international reserves (I+II+III)	895	861	1,202	1,804	1,750
Memorandum items:					
Gross official reserves (Ia+IIa)	1,049	1,288	1,694	2,328	2,194
Gross official reserves (excl. ACU balances)	911	1,183	1,560	2,146	1,832
(in months of next year's imports)	1.5	2.1	2.4	2.8	2.1
Net official reserves (I+II)	750	970	1,271	1,778	1,573
Exchange rate (Rs./US$, end-of-period)	82.58	93.16	96.73	96.74	104.61

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

1/ Asian Clearing Union.
2/ Includes special disbursement accounts and revolving credit balances. Excludes war risk deposit in 2001.
3/ Includes Non Resident Foreign Currency (NRFC) and Resident Non National Foreign Currency (RNNFC) deposits.