



BUDGET ESTIMATES 2007

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

Draft
Sinhala and Tamil versions are printed separately

BUDGET ESTIMATES

2007



FISCAL YEAR 2007

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

2. EXPLANATORY NOTE ON THE BUDGET ESTIMATES – 2007

1. GENERAL

This publication includes estimated revenue that will accrue to the Consolidated Fund and estimated expenditure to be incurred by the Government out of the Consolidated Fund during the year 2007. Estimates have been prepared on the basis of accounting practice to provide data in a greater detail to facilitate the Parliamentary scrutiny of public finance. In addition to the expenditure for which Parliamentary approval has been sought through the Appropriation Bill for 2007, items of expenditure for which approval was already granted by various legislations passed by Parliament from time to time (such as loan repayments, interest payments of public debt, pension etc.) are also included in these Estimates. Items of expenditure which were not shown in the annual Budget Estimates hitherto such as development expenditure financed by proceeds of various cesses and also projects which are implemented on Design, Built and Transfer (DBT) basis by Public Enterprises using funds received from donor agencies with the approval of the government to get the benefits of concessional financing are also included so that enterprise based investment is also captured in the estimates.

2. REVENUE ESTIMATES

Details of tax revenue and non tax revenue are shown in table 5.2.1 and 5.2.2 These revenue estimates are based on prevailing rates of duties/taxes which were specified by regulations made under various revenue legislations which are shown in the Table 5.1.1 and 5.1.2. In the preparation of these Estimates, macro economic forecasts on GDP, prices, exchange rate, interest rate, imports and exports were also taken into consideration. The expected impact of various measures taken during the last two years to strengthen the tax administration to arrest leakages of revenue and the likely impact of various Free Trade Agreements have also been recognized. Contributions expected from public enterprises were also given due consideration in estimating non-tax revenue.

3. PRESENTATION OF EXPENDITURE

(a) Cluster/Sectoral Approach

The expenditure estimates for the year 2007 are presented within the Medium Term Expenditure Framework for 2006-2009, which was developed to establish a rolling plan for development expenditure to be implemented in a sequenced and coordinated manner. Indicative provisions for 2008 and 2009 have been included on the basis of provisional data for 2006 and the projected expenditure for 2007. Appropriate revisions will be made each

year during the formulation of the Budget based on the past experience. The estimates have been presented under the following 9 clusters.

- Governance, Operations and Monitoring
- National Security, Administration of Justice and Law Enforcement
- Art, Culture and Religion
- Livelihood and Regional Development
- Social Protection
- Human Resources Development
- Infrastructure Development
- Production and Services
- Science, Technology, Research and Development

Such groupings of expenditure in terms of broad clusters will be useful for better expenditure management as all sector specific programmes can be supervised by Sectoral Steering Committees.

(b) Inclusion of sufficient provisions for development projects

The budgetary provision for development projects have been provided liberally so that implementing agencies will not be constrained by the non availability of provision if that particular agency has the capacity to commence procurement and to implement the project expeditiously. Implementation of relatively low priority programmes/projects which do not have proper implementation plans or procurement arrangements have to be sequenced in order to allow uninterrupted availability of both material and human resources to high priority programmes.

(c) In-built safeguards for rational and effective spending

To facilitate this process, releases of cash for capital expenditure excluding those on rehabilitation will be linked to procurement plans and performance of each project. Spending agencies, which undertake regional specific programmes are required to consult the Ministry of Nation Building and Estate Infrastructure Development, which will coordinate with all line Ministries with regard to all regional specific development projects and programmes and development expenditure of Provincial Councils.

In order to ensure that the proposed rationalization of cash releases will not affect the projects undertaken within the medium term expenditure framework any unspent provisions will be rolled over, if necessary, to the ensuing year in the preparation of the annual estimate for the following year. This arrangement will also encourage the preparation of project implementation plans well in advance. Statements to these effects have been included in the appropriate places in these estimates with an asterisk for the guidance of implementing agencies.

4. ORDER OF PRESENTATION

The expenditure estimates are presented in the following sequence;

- Summary expenditure by Cluster (total expenditure of each Ministry falling under the respective Cluster)
- Expenditure details of Ministry (Ministries as listed under the Cluster)
 - i. Key functions of the Ministry and institutions under its purview
 - ii. Basic Budget related information of the Ministry and targets
 - iii. Expenditure summary by Programmes
 - iv. Ministry expenditure summaries by Object Codes with sources of Financing and Employment Profile
 - v. Head wise expenditure summary by Object Codes with Financing and Head Specific Employment Profile
 - vi. Detailed expenditure of Projects (Cost Centres) by Object Codes with Financing

5. LEVELS OF DISAGGREGATION

(a) Expenditure Heads

Spending agencies grouped under 9 clusters referred to above have been given a specific expenditure Head number as follows;

- i. Special spending units (certain Departments and Commissions which are not classified under a particular Ministry)were given Head numbers 1-21
- ii. Ministries have been given expenditure Head Numbers starting from Head No 101 to 164
- iii. Departments, Provincial Councils, District Secretaries and some institutions such as the University Grants Commission have been given expenditure Head No. from 201 to 321

(b) Expenditure Programmes

The expenditure is shown under following Programmes;

- Programme 1 - Operational Activities
- Programme 2 - Development Activities

The expenditure which were conventionally identified as capital and recurrent expenditure have now been integrated by showing both these types of expenditure under the relevant programme.

(c) Project

The Programmes referred to above consist of a number of Projects. The Project is an activity or a group of activity which facilitate costing of each activity. In certain instances key

activities coming under a Project have been further classified as Sub-Projects. The Estimates consist of 515 Projects and 1265 Sub Projects.

(d) Object

Identifiable components of a Project cost are classified under “Objects”. There are 48 Object Codes used in these Estimates to classify expenditure.

(e) Financing Particulars

For accounting purposes, cost of each Project has been classified under the following financing Codes.

- 11 Domestic Funds
- 12 Foreign Aid Loans
- 13 Foreign Aid Grants
- 14 Reimbursable Foreign Aid Loans
- 15 Reimbursable Foreign Aid Grants
- 16 Counterpart Funds
- 17 Foreign Aid Related Domestic Funds
- 21 Domestic Funds (Expenditure under Special Law)

(f) Advance Accounts

Certain activities of commercial nature, which are performed by Government departments and are, operated with funds advanced by the Treasury. Expenditure and income limits of advance accounts are shown in the Table 7.1.

(g) Employment Profile

Group A -Positions

This group comprises senior management positions who are appointed under the provisions of the Constitution or any other statute, Heads of Departments and Staff Grade appointments to Constitutional bodies- Parliament, President, former President or any other posts for which Parliamentary authority has considered necessary. Chief Accounting Officers and Accounting Officers appointed under Financial Regulations too should be included in this group.

Group B – Staff Officer Grade

All staff grade officers other than those included in Group A are shown under this category.

Group C – Subordinate Officer Grade

The total cadre of all subordinate officer grades are defined in the Establishment Code.

Group D – Minor Officer Grade

The total cadre of minor officers defined in the Establishment Code.

Casual/ Temporary / Contract / Trainee

All non- permanent staff of all grades.

3.1 SUMMARY OF THE BUDGET

	<i>Rs. Mn</i>					
	2001	2002	2003	2004	2005	2006
					Provisional	Budget
Total Revenue	234,296	261,887	276,516	311,473	379,746	484,376
Tax Revenue	205,840	221,837	231,648	281,552	336,829	435,292
Non Tax Revenue	28,456	40,050	44,868	29,921	42,917	49,084
Total Expenditure & Net Lending	-386,518	-402,989	-417,671	-476,905	-584,783	-731,642
Recurrent	-303,362	-330,847	-334,692	-389,678	-443,350	-509,856
Public Investment	-82,491	-72,177	-87,409	-97,630	-148,581	-225,296
Other	-665	35	4,430	10,403	7,148	3,510
Current Account Surplus / Deficit (-)	-69,066	-68,960	-58,176	-78,205	-63,604	-25,480
Budget Deficit	-152,222	-141,102	-141,155	-165,432	-205,037	-247,266
Financing	152,222	141,102	141,155	165,432	205,036	247,267
Grants	5,500	7,079	8,206	8,681	32,640	42,240
Foreign Borrowing	14,538	1,978	43,066	37,071	47,773	81,983
Domestic Borrowing	123,595	126,352	79,660	117,243	123,603	123,044
Divestiture Proceeds	8,589	5,693	10,223	2,437	1,020	-

AS A PERCENTAGE OF GDP

	2001	2002	2003	2004	2005	2006
					Provisional	Budget
Total Revenue	16.6	16.5	15.7	15.3	16.1	17.8
Tax Revenue	14.6	14.0	13.2	13.9	14.3	16.0
Non Tax Revenue	2.0	2.5	2.5	1.5	1.8	1.8
Total Expenditure & Net Lending	-27.5	-25.5	-23.7	-23.5	-24.8	-26.9
Recurrent	-21.6	-20.9	-19.0	-19.2	-18.8	-18.7
Public Investment	-5.9	-4.6	-5.0	-4.8	-6.3	-8.3
Restructuring	0.0	0.0	0.3	0.5	0.3	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Surplus / Deficit (-)	-4.9	-4.4	-3.3	-3.9	-2.7	-0.9
Budget Deficit	-10.8	-8.9	-8.0	-8.2	-8.7	-9.1
Financing	10.8	8.9	8.0	8.2	8.7	9.1
Grants	0.4	0.4	0.5	0.4	1.4	1.6
Foreign Borrowing	1.0	0.1	2.4	1.8	2.0	3.0
Domestic Borrowing	8.8	8.0	4.5	5.8	5.2	4.5
Divestiture Proceeds	0.6	0.4	0.6	0.1	0.0	0.0

Note : Details may not add to totals due to rounding.

3.2 SUMMARY OF GOVERNMENT REVENUE

(ECONOMIC CLASSIFICATION)

	<i>Rs Mn</i>					
	2001	2002	2003	2004	2005	2006
					<i>Provisional</i>	<i>Budget</i>
1. Tax Revenue	205,840	221,837	231,648	281,552	336,829	435,292
Income tax	34,636	37,437	39,397	41,372	52,535	75,560
VAT / GST	45,900	66,692	97,230	120,382	138,660	174,295
Turnover Tax	1,120	678	-	106	-	-
National Security Levy	43,065	28,859	79	240	-	-
Excise Levy	44,978	52,114	50,972	65,790	76,978	85,363
Stamp Duties	8,415	2,331	51	51	9	3,700
Debits Tax		1,315	3,611	4,489	5,700	6,251
Import Duties *	26,156	28,345	34,184	41,096	45,391	64,596
Port & Airport Development Levy (PAL)		3,497	5,483	7,340	11,188	15,642
Licence Fee/MVT/SRL/Cess/Betting	1,570	571	641	686	6,368	9,885
2. Non Tax Revenue	28,456	40,050	44,868	29,921	42,917	49,084
Rent	630	620	607	1,163	1,155	1,909
Interest	7,626	13,232	7,963	8,673	8,642	6,861
Profit and Dividends	3,507	3,055	5,380	4,357	5,929	8,553
Sales and Charges	8,189	7,344	11,806	9,207	16,196	15,755
Social Security Contributions	2,667	2,930	3,037	3,444	4,910	8,300
Other	5,837	12,869	16,075	3,077	6,085	7,706
TOTAL	234,296	261,887	276,516	311,473	379,746	484,376
Tax Revenue / GDP (%)	14.6	14.0	13.2	13.9	14.3	16.0
Non Tax Revenue / GDP (%)	2.0	2.5	2.5	1.5	1.8	1.8

* Net of Duty Rebate

Note: Revenue from the Postal and Railways Departments is netted against recurrent expenditure of those departments and reflected in recurrent expenditure as transfers to Public Enterprises. Loan recoveries from on-lending is reflected as lending minus repayments and not treated as revenue for economic classification. Divestiture proceeds are treated as a source of financing.

3.3 SUMMARY OF GOVERNMENT EXPENDITURE

(ECONOMIC CLASSIFICATION)

	Rs Mn					
	2001	2002	2003	2004	2005 Provisional	2006 Budget
1. Current Expenditure	303,362	330,847	334,692	389,678	443,350	509,856
General Public Service	46,236	45,166	46,278	55,187	66,416	80,725
Salaries	22,618	24,383	26,285	30,246	44,950	49,504
Other Goods & Services	23,618	20,783	19,993	24,941	21,466	31,221
National Security & Defence	71,161	64,135	61,606	73,452	81,965	94,764
Salaries	30,313	35,208	36,261	41,486	49,033	57,869
Other Goods & Services	40,848	28,927	25,345	31,966	32,932	36,895
Interest on Public Debt	94,307	116,515	125,126	119,782	120,159	151,259
Domestic	83,755	105,897	113,540	105,878	113,164	132,206
Foreign	10,552	10,618	11,586	13,904	6,995	19,053
Transfers to Other Institutions	39,104	51,071	49,034	57,673	73,208	96,073
Provincial Councils	26,405	30,590	30,776	35,891	46,479	62,870
Corporations	4,890	7,998	5,705	8,405	10,412	13,579
Statutory Agencies	7,032	12,091	11,945	13,019	16,084	19,374
Local Authorities	777	392	608	358	233	250
Social Safety	51,318	53,257	51,628	82,135	101,602	87,035
Pension	26,325	31,123	31,150	36,444	46,782	48,361
Samurdhi	12,574	9,910	8,715	8,498	9,161	12,200
Other Welfare	12,419	12,224	11,763	37,193	45,659	26,474
Contingency & Other	1,236	703	1,020	1,449		
Capital Expenditure & Net lending	83,156	72,142	82,979	87,227	141,432	221,787
Acquisition of Fixed Assets	82,491	72,177	87,409	97,630	148,581	225,296
Capital Transfers	36,115	26,501	36,580	40,449	88,140	133,121
Provincial Transfers	25,535	26,673	34,323	38,546	40,872	63,770
On Lending	6,251	5,421	4,186	4,812	11,141	25,900
Under expenditure	14,590	13,582	12,320	13,823	8,428	13,555
Other Expenditure						(11,050)
Advance Account Net Lending	665	(35)	(4,430)	(10,403)	(7,149)	(3,509)
Repayments on Lending	2,044	1,336	1,710	1,950	1,850	3,000
Restructuring Expenditure	(6,699)	(6,060)	(10,741)	(15,920)	(10,364)	(8,259)
	5,320	4,689	4,601	3,567	1,365	1,750
TOTAL	386,518	402,989	417,671	476,905	584,782	731,643
Current Expenditure / GDP (%)	21.6	20.9	19.0	19.2	18.8	18.7
Public Investment / GDP (%)	5.9	4.6	5.0	4.8	6.3	8.3

Notes:

- (1) Revenue minus Expenditure of departmental enterprises are netted and shown as transfers to Public Enterprises.
- (2) Details may not add to totals due to rounding off.
- (3) Defence related expenditure are treated as current expenditure.
- (4) Debt repayment is treated as a financing item.

3.4 FINANCING OF THE BUDGET DEFICIT

(ECONOMIC FORMAT)*

Rs. Mn

	2000	2001	2002	2003	2004	2005 Provisional	2006 Budget
Financing	124,541	152,222	141,102	141,155	165,432	205,036	247,267
Grants	5,145	5,500	7,079	8,206	8,681	32,640	42,240
Foreign Borrowing**	495	14,538	1,978	43,066	37,071	47,773	81,983
Project Loans	15,210	18,977	28,140	43,066	37,071	47,773	81,983
Commodity Loans	(5,140)	(4,599)	(4,035)				
Other Loans	(9,575)	160	(22,127)				
Domestic Borrowings / Additional Resources	118,500	123,595	126,352	79,660	117,243	123,603	123,044
Non Bank Borrowing	58,797	74,294	132,003	100,735	69,274	93,108	123,044
Bank Borrowing	56,529	48,554	(4,836)	(20,905)	43,289	26,195	-
Central Bank	44,840	(6,434)	(13,266)	(28,559)	65,828	(33,721)	-
Commercial Bank	11,689	54,988	8,430	7,654	(22,539)	59,916	-
Other Non Market Borrowing	3,175	747	(816)	(170)	4,680	4,300	-
Divestiture Proceeds	401	8,589	5,693	10,223	2,437	1,020	-

Note: Details may not add to totals due to rounding off.

* Netted against debt repayments

** FCBU borrowings earlier shown under foreign borrowings are classified under bank borrowings

3.5 PUBLIC DEBT

	<i>Rs bn</i>					
	2000	2001	2002	2003	2004	2005
						<i>Provisional</i>
Domestic Debt	676.7	816.0	948.4	1,019.9	1,143.4	1,265.7
By Instrument	676.7	816.0	948.4	1,019.9	1,143.4	1,265.7
Treasury Bills	135.0	171.0	211.0	219.3	243.9	234.2
Treasury Bonds	204.1	229.2	347.1	483.1	643.3	751.6
Rupee Securities	263.9	292.8	287.7	248.4	164.8	140.6
Sri Lanka Development Bonds	-	14.7	24.2	8.8	26.1	25.5
Advances & Other*	73.7	108.2	78.4	60.3	65.2	113.8
By Institution	676.7	816.0	948.4	1,019.9	1,143.4	1,265.7
Banks	199.0	256.8	248.2	228.4	272.9	298.8
Central Bank	97.8	92.9	76.3	44.6	113.0	78.4
Commercial Banks*	101.3	163.9	171.9	183.8	159.9	220.4
Non Bank Sector	477.6	559.2	700.1	791.5	870.5	966.9
Employees Provident Fund	211.7	245.0	283.7	323.2	369.2	406.3
National Savings Bank	87.3	96.0	116.6	138.9	151.2	169.6
Other	178.6	218.2	299.9	329.3	350.1	391.0
Foreign Debt	542.0	636.7	720.9	843.9	996.1	956.6
Project Loans	477.8	542.9	639.9	769.6	914.2	865.5
Other	64.2	93.8	80.9	74.3	81.9	91.1
Total Debt	1,218.7	1,452.7	1,669.3	1,863.8	2,139.5	2,222.3
Total Debt as a % of GDP	96.9	103.2	105.5	105.9	105.4	93.9
Debt Service	175.7	179.1	284.4	344.6	300.6	344.9
Repayments	104.5	84.8	167.8	219.5	180.7	224.7
Domestic	81.2	56.8	130.8	185.1	147.7	203.3
Foreign	23.3	27.9	37.1	34.4	33.0	21.4
Interest Payments	71.2	94.3	116.5	125.1	119.8	120.1
Domestic	62.2	84.6	105.9	113.5	105.9	113.2
Foreign	9.0	9.7	10.6	11.6	13.9	6.9

Note : Details may not add to totals due to rounding off.

* Short term liabilities to the banking sector including import bills and overdraft net of deposits

Short term liabilities to the banking sector including Import Bills and Overdraft net of Deposits have been included.