

# **FINAL BUDGET POSITION REPORT 2004**



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## **2004**

Issued under section 13 of the  
Fiscal Management (Responsibility) Act No. 03 of 2003

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# **FINAL BUDGET POSITION REPORT - 2004**

**Issued by the Hon. Minister of Finance and Planning**

**In terms of Section 13 of the**

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

## **1. Introduction**

The purpose of the report is to provide updated information on the fiscal position of the country, in order to evaluate the Government's fiscal performance as against its fiscal strategy.

This report is issued in compliance with this requirement. The report contains a statement of estimated and actual Government expenditure, revenue, cash flows and borrowing for the year and gives the reasons for any shortfall in the estimated revenue or cash flow and any excess in the estimated expenditure or borrowing.

In terms of Section 13 of the Fiscal Management (Responsibility) Act (FMRA), the Minister of Finance and Planning is required to present to the public and table in Parliament, the Final Budget Position Report in respect of each financial year.

## **2. Budget Estimates and Actual Outturn for 2004**

The original Budget estimates were revised in the Pre-Election Budgetary Position Report – 2004 submitted to Parliament in February 2004 and subsequently in terms of actual performance further revisions were submitted to Parliament in November 2004 together with 2005 Budget estimates.

The original Budget estimates with the subsequent revisions and actual outturn for expenditure, revenue and borrowing for 2004 are given in Table 1.

**Table 1**  
**Budget, Revised Estimates and Actual Outturn – 2004**

Item	Original Estimates		Revised 1*		Revised 2**		Actual	
	Rs.Bn.	% GDP	Rs.Bn.	% GDP	Rs.Bn.	% GDP	Rs.Bn.	% GDP
<b>Total Revenue</b>	<b>332</b>	<b>16.4</b>	<b>319</b>	<b>15.8</b>	<b>312</b>	<b>15.6</b>	<b>311</b>	<b>15.4</b>
Tax Revenue	301	14.8	279	13.8	282	14.2	282	13.9
Income Tax	61	3.0	53	2.6	43	2.2	41	2.0
Value Added Tax	125	6.2	113	5.6	117	5.8	120	5.9
Excise Duty	59	2.9	59	2.9	65	3.3	66	3.2
Customs Duty	42	2.1	41	2.0	42	2.1	41	2.0
Other	13	0.8	13	0.7	15	0.8	13	0.6
Revenue Adjustment	-10	-0.5	-	-	-	-	-	-
Non Tax Revenue	40	2.0	40	2.0	30	1.5	30	1.5
<b>Total Expenditure &amp; Net Lending</b>	<b>469</b>	<b>23.2</b>	<b>469</b>	<b>23.1</b>	<b>485</b>	<b>24.4</b>	<b>477</b>	<b>23.5</b>
Current Expenditure	358	17.6	364	18.0	387	19.4	390	19.2
Salaries & Wages	105	5.2	106	5.2	108	5.4	106	5.2
Goods & Services	54	2.6	54	2.7	56	2.8	58	2.8
Subsidies & Transfers	78	3.9	83	4.1	102	5.1	105	5.2
Interest Payments	121	6.0	121	6.0	120	6.0	120	5.9
Public Investment	93	4.6	100	4.9	101	5.1	84	4.1
Other	19	0.9	4	0.2	-3	-0.1	3	0.2
<b>Revenue Surplus / Deficit(-)</b>	<b>-26</b>	<b>-1.3</b>	<b>-45</b>	<b>-2.2</b>	<b>-74</b>	<b>-3.7</b>	<b>-78</b>	<b>-3.9</b>
<b>Primary Surplus / Deficit(-)</b>	<b>-17</b>	<b>-0.8</b>	<b>-28</b>	<b>-1.4</b>	<b>-53</b>	<b>-2.6</b>	<b>-46</b>	<b>-2.2</b>
<b>Budget Deficit(-)</b>	<b>-138</b>	<b>-6.8</b>	<b>-149</b>	<b>-7.3</b>	<b>-173</b>	<b>-8.6</b>	<b>-165</b>	<b>-8.2</b>
<b>Financing</b>	<b>138</b>	<b>6.8</b>	<b>149</b>	<b>7.3</b>	<b>173</b>	<b>8.6</b>	<b>165</b>	<b>8.2</b>
Net Foreign Borrowings	50	2.5	36	1.7	24	1.2	37	1.8
Net Domestic Borrowings	65	3.2	87	4.3	136	6.8	117	5.8
Asset Sales	13	0.6	16	0.8	2	0.1	2	0.1
Grants	10	0.5	10	0.5	10	0.5	9	0.4

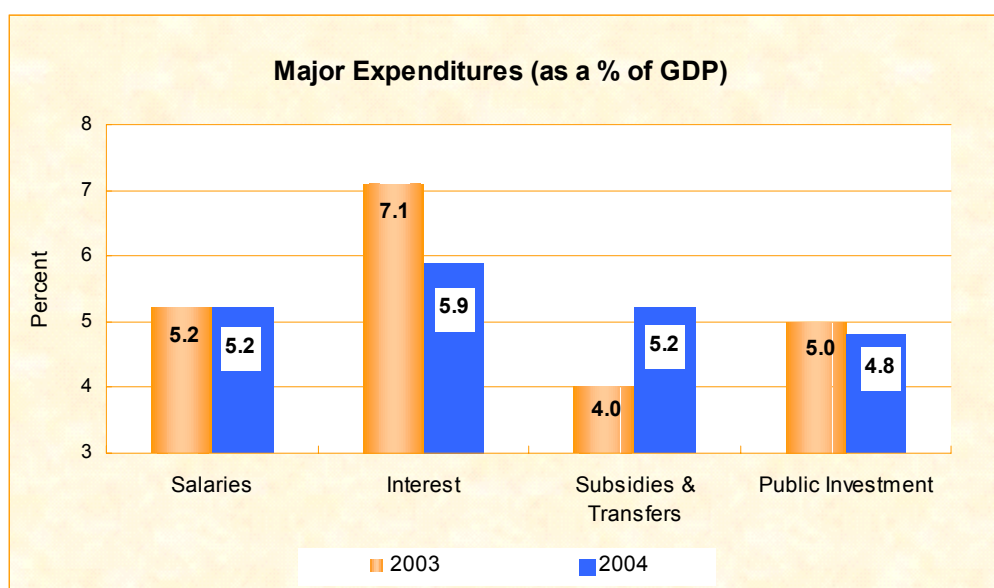
\* Revised 1, estimates: Pre Election Budgetary Position Report, 2004

\*\* Revised 2, estimates: Budget, 2005

### (a) Expenditure

Overruns in recurrent expenditure due to subsidies given to households to provide relief on the rising cost of living, the total government expenditure and net lending exceeded the budget estimates. The total expenditure and net lending amounted to Rs.477 billion as against the estimate of Rs.469 billion.

- **The recurrent expenditure** as a percent of GDP increased to 19.2 from 19.0 percent and original budgetary target of 17.6 percent.



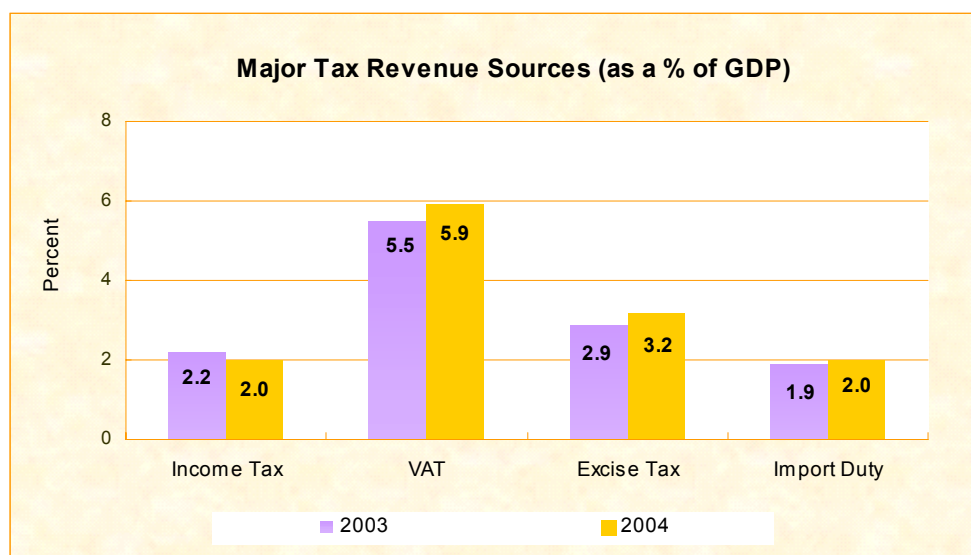
- **Interest Payment**, the largest component in recurrent expenditure at Rs. 120 billion as a percentage of GDP declined to 5.9 percent from 7.1 percent in 2003. The low interest rate regime and the premium collected from issuing government Treasury bonds attributed to the decline in interest payments.
- **Salaries and wages bill** was Rs. 106 billion compared to Rs. 92 billion in 2003. The salary increase introduced in Budget 2003 mainly contributed to this increase. As a percentage of GDP, salary and wages bill stood at 2003 level of 5.2 percent.
- **Defence expenditure** (excluding public order and safety) as a percentage of GDP declined to 2.8 percent from 2.9 percent in 2003. Despite the salary increase, the defence related expenditure was contained reflecting the positive impact due to the continuation of the ceasefire agreement.

- **Subsidies and transfers** expenditure increased significantly in 2004. As a percentage of GDP the subsidies and transfers increased from 4 percent in 2003 to 5.2 percent in 2004. With inadequate price revisions especially against the sharp increase in international prices on petroleum products and wheat flour, swelled the transfers and subsidies considerably. The provision of an increased fertilizer subsidy amounting to Rs.600 mn and the recommencement of providing school uniforms to all school children by the new government also contributed to this increase in subsidies and transfers.
- **Public investment** stood at 4.8 percent of GDP in 2004. Project implementation delays mainly arising from the procurement delays contributed to the low level of public investment. The National Procurement Agency was set up in the latter part of 2004 to arrest these delays. Government in its medium term expenditure framework has stressed the need for quality public spending to maximize return and ensure a sectoral resource allocation.

**(b) Revenue**

- The total revenue collection for 2004 amounted to Rs. 311.5 billion, registering a 12.6 percent increase over 2003. This records a 94 per cent achievement of the original budget estimates for the year. The tax and non tax composition of the revenue were 90 percent and 10 percent respectively.
- As a percentage of GDP, government revenue declined to 15.4 percent in 2004 from 15.7 percent in 2003. .
- The reduction in Government revenue as a percentage of GDP in 2004 was due to a substantial decline in non tax revenue. This is due to non realization of government land sale and transfer of funds from dormant EPF accounts coupled with lower than expected profit transfers from the Central Bank.

- With the implementations of several policy measures in the second half of 2004, the tax revenue as a percentage of GDP increased from 13.2 percent in 2003 to 13.9 per cent in 2004 reversing the historical trend
- **Income tax** revenue declined to 2 percent of GDP from 2.2 percent in 2003. Tax concessions, exemption and holidays have eroded the corporate tax base to a greater extent. Coupled with delays in enacting amendments to the legislation which hampered implementation of several measures contributed to the decline in income tax revenue. A further decline in income tax revenue was checked in 2005 budget by introducing measures to rationalize the tax incentives and concessions which have been major slipping sources of tax revenue.



- **Value Added Tax (VAT)** amounting to Rs. 120 billion increased by 24 percent over 2003, an increase from 5.5 to 5.9 as a percentage of GDP. The measures taken to improve VAT administration and refund mechanism contributed significantly for the improved revenue performance.
- **Excise taxes** generated Rs. 66 billion compared to the original estimates of Rs. 59 billion and a 29 percent increase over 2003. In GDP terms excise taxes increased from 2.9 percent in 2003 to 3.2 percent in 2004. Excise tax collection on liquor, cigarettes and petroleum products amounted to Rs. 14 billion, Rs. 23 billion and Rs. 14 billion respectively in 2004. Increased production coupled with upward revisions in rates contributed to this enhancement in the excise tax revenue.

- **Taxes on External Trade** increased by 21 percent to Rs. 41 billion indicating a rise from 1.9 in 2003 to 2.0 percent as a percentage of GDP. The revenue from this source achieved 97 percent of the original estimates. The increased tariff rates introduced in the latter part of the year and growth in trade, helped augment the import duties but wide range of duty waivers granted for essential food items that were in force during the year hampered the achievement of the desired levels. Revenue from the Ports and Airport Levy (PAL) amounted to Rs. 7.5 billion an increase of 50 percent over the 2003. These levels were achieved despite the downward revision of the PAL rates introduced in 2005 Budget and implemented in the latter part of 2004 to encourage exports.

**(c) Cash Flow Operations of the Government**

- Cash inflows of the Government during 2004 including grants amounted to Rs. 326 billion as against the original estimate of Rs. 383 billion. The main contributory factors for this deviation were the sharp decline in non tax revenue and the non achievement of anticipated targets of certain tax revenue heads.
- Cash outflows on account of operating activities amounted to Rs. 341 billion as against the original estimate of Rs. 353 billion. This generated net cash deficit of Rs. 15 billion as against an estimated surplus of Rs. 30 billion.
- Cash outflows on investment activities amounted to Rs. 77 billion as against an estimate of Rs. 99 billion. In 2004 although the supplementary estimates on capital expenditure accounted for Rs. 21 billion, which enhanced the estimated outflows on investments to Rs. 120 billion, the actual outflow fell below by Rs. 44 billion.

### Summary of Government Cash Flow Operations in 2004

Item	Original Estimate	Supplementary Estimates	Total Estimate	Actual Cash Flow	Deviation
Total Cash Inflows	383	-	383	326	(57)
Total Cash Outflows from Operating Activities	(353)	(17)	(370)	(341)	29
Net Cash Flow from Operating Activities	30	(17)	13	(15)	(28)
Cash Flow from Investing Activities	(99)	(21)	(120)	(77)	44
Under Expenditure	-	38	38	-	(38)
Net Cash Surplus/Deficit	(69)	-	(69)	(91)	(23)
Opening Cash Balance	0.3	-	0.3	0.3	-
Gross Borrowings	287	-	287	275	(13)
Debt Repayments	(218)	-	(218)	(189)	30
Net Borrowings	69	-	69	86	17
Temporary Employed Balance and other Adjustments*	-	-	-	6	6
Ending Balance	0.3	-	0.3	0.7	0.4
Approved Borrowings	350	-	350	338	(12)

\* Other Adjustments are on account of Reimbursable Foreign Aid Advances, Imprest balances and other deposit balances.

#### (d) Borrowings

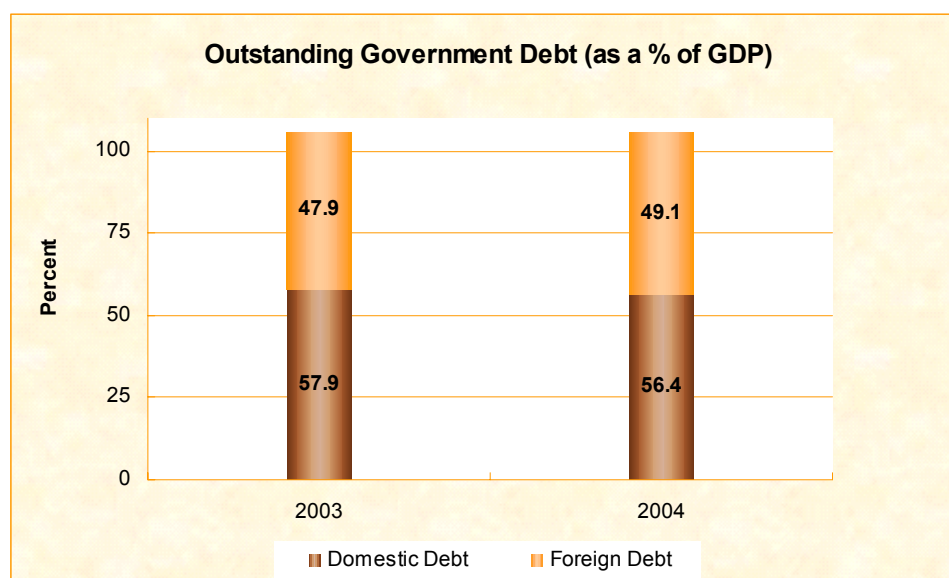
- The Parliament approved Rs. 350 billion as total gross borrowings (in terms of book value) in the Budget 2004.
- The financing of the budget from domestic sources amounted to Rs. 117 billion, which included bank borrowings of Rs. 43 billion.
- Gross foreign borrowings amounted to Rs.78 billion which included commercial borrowings of Rs. 6 billion and private sector development

loans of Rs. 8 billion while the repayments of foreign loans were Rs. 33 billion. Therefore, the net foreign borrowings for budgetary purposes amounted to Rs. 37 billion.

- The rest of the financing of budget deficit came from assets sales (Rs. 2.4 billion) & grants (Rs. 9 billion).
- The budget deficit increased from 8.0 percent of GDP in 2003 to 8.2 percent in 2004, against the target of 6.8 percent planned in the original budget 2004, but lower than the 8.6 per cent in the revised budget estimates. The deviation of the deficit as against the original estimate of 2004 was mainly due to revenue slippages and additional expenditure on subsidies.

#### (e) Government Debt

- Total outstanding debt stock as a percentage of GDP was 105.5 in 2004 compared to 105.9 percent in 2003. The high deficit financing and the depreciation of the Rupee against major currencies contributed to high level of Government debt stock.



- The debt was composed of 53 percent of domestic debt (Rs. 1143.4 billion or 56.4 percent of GDP) and 47 percent of foreign debt (Rs. 996.1 billion or 49.1 percent of GDP).
- Out of the total domestic debt share, medium and long term debt was 76 percent and Treasury bonds dominated the domestic debt portfolio accounting to 56 percent. In line with the policy of reducing the non-marketable debt, the outstanding Rupee securities decreased to 14.4 percent of the total domestic debt from 24.4 percent in 2003.
- The share of concessionary loans of the total foreign debt was 97 percent. Japan was the major bilateral donor accounting for 30.4 percent of the total foreign debt, while International Development Association and the Asian Development Bank with shares of 23 and 24 percent from the total foreign debt stock were the major multilateral donors.
- The foreign debt stock in Rupee Terms increased by 18 percent in 2004, where 25 percent or Rs 38.8 billions of this increase was on account of the exchange rate variation of major currencies.
- Total debt service payments composed government amortization payments (Rs. 180.8 billion) and interest payments (Rs.119.8 billion) to domestic and external sectors in 2004 amounted to Rs. 300.6 billion.
- The total debt service payments decreased by 12.8 percent in 2004 compared to an increase of 21 percent in 2003. The total debt service/government revenue ratio stood at 96.5 percent while the foreign debt service/exports ratio was 6.4 percent in 2004.

### Outstanding Government Debt (as at end year)

	2003		2004	
	Rs.Bn.	% GDP	Rs.Bn.	% GDP
<b>Total Domestic Debt</b>	<b>1,020</b>	<b>57.9</b>	<b>1,143</b>	<b>56.4</b>
Short Term	250	14.2	270	13.3
Medium & Long Term	770	43.7	873	43.0
<b>Total Foreign Debt</b>	<b>844</b>	<b>47.9</b>	<b>996</b>	<b>49.1</b>
Project Loans	770	43.7	914	45.0
Non Project Loans	74	4.2	82	4.0
<b>Total Outstanding Debt</b>	<b>1,864</b>	<b>105.8</b>	<b>2,140</b>	<b>105.5</b>

### Government Debt Service Payments

	2003		2004	
	Rs.Bn.	% GDP	Rs.Bn.	% GDP
<b>Amortization Payments</b>	<b>220</b>	<b>12.5</b>	<b>181</b>	<b>8.9</b>
Domestic	185	10.5	148	7.3
Foreign	34	1.9	33	1.6
<b>Interest Payments</b>	<b>125</b>	<b>7.1</b>	<b>120</b>	<b>5.9</b>
Domestic	114	6.5	106	5.2
Foreign	12	0.7	14	0.7
<b>Total Debt Service Payments</b>	<b>345</b>	<b>19.6</b>	<b>301</b>	<b>14.8</b>

### Government Debt Indicators

Indicator	2003	2004
Government Debt / GDP	105.8	105.5
Domestic Debt / GDP	57.9	56.4
Foreign Debt / GDP	47.9	49.1
Total Foreign Debt / Exports (a)	133.7	134.9
Total Debt Services / GDP	19.6	14.8
Total Debt Services / Government Revenue (b)	124.6	96.5
Total Debt Services / Government Expenditure (c)	54.1	45.7
Foreign Debt Services / Exports (a)	7.3	6.4

- (a) Exports of goods & services  
(b) Revenue in economic format  
(c) Expenditure including amortisation payments