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FISCAL POLICY AND GOVERNMENT FINANCE

6.1 Overview

At the turn of the year 2020, fiscal policy was focused on reviving a stagnant economy. However, with the economic fallout from the COVID-19 pandemic, the fiscal outcome deviated from expectations, as reflected in the decline of the government revenue and a rise in government recurrent expenditure, thereby widening the budget deficit and raising the outstanding central government debt. Heavy reliance on domestic sources in financing the budget deficit in 2020 reflected the impact of extremely challenging global market conditions that limited access to foreign financing, and the expressed preference of the Government to reduce the reliance on foreign financing. According to the Ministry of Finance, the provisional estimates of the fiscal sector statistics for 2020 have been adjusted for payment arrears carried forward from 2019.[1] Meanwhile, in the absence of an annual budget approved by the Parliament for 2020 from the beginning of the year, fiscal operations in 2020 were performed under the Votes-on-Account (VoAs) and the authorisation of His Excellency the President as per the provisions of Article 150 (3) of the Constitution. In November 2020, the Parliament approved the Annual Budget for 2020, which comprised the VoAs and the authorisation of His Excellency the President. Despite the limited fiscal space in 2020, the Government, under extremely challenging circumstances, continued to support the businesses and individuals affected by the pandemic. Going forward, near term risks to the fiscal sector could remain elevated due to low revenue mobilisation and the large foreign currency debt service requirements. Persistent deviations of the budget deficit and the elevated level of outstanding central government debt warrant a firm commitment towards fiscal consolidation as envisaged in the National Policy Framework of the Government.

1 The estimates of government revenue, expenditure, and fiscal balances for 2019 and 2020, described in this Report, incorporate the adjustment for payment arrears, as per the data received from the Ministry of Finance.

6.2 Fiscal Policy Measures[2]

The fiscal policy direction and measures were broadly aimed at supporting the businesses and individuals affected by the pandemic, while facilitating the recovery of economic activity in 2020. The policies implemented by the Government at the turn of year 2020 with a view to promoting economic growth by reducing the tax rates also helped to minimise the adverse impact of the pandemic. Fiscal operations in 2020 were carried out under the VoAs and the authorisation of His Excellency the President as per the provisions of Article 150 (3) of the Constitution, in the absence of an annual budget approved by the Parliament until late 2020, due to admissible delays in presenting the Budget 2020, ensuing the Presidential Election in November 2019. The budgetary provisions for expenditures and advances and borrowings under the VoAs and the authorisation of His Excellency the President for 2020 were cumulatively presented to the Parliament in November 2020 and the approved budgetary estimates for 2020 were published in the Appropriation Act No. 6 of 2020,[3] gazetted on 20 November 2020. Meanwhile, the Appropriation Act for 2021 was gazetted on 10 December 2020. During the year, the Government focused on strengthening the 2020-2025 medium term programme of poverty alleviation and economic revival, as envisaged in the National Policy Framework of the Government "Vistas of Prosperity and Splendour". Accordingly, the Government aspired to ensure the economic freedom of the people through the creation of a production and export oriented economy, facilitated by the framework of a market economy. Further, the Government emphasised the need to promote a balanced trade policy in view of enhancing export earnings through diversification, while highlighting the need to secure foreign exchange inflows in order to fulfil external debt servicing obligations. In addition, the deficit financing strategy of the Government shifted towards mobilising domestic funds, thereby reducing exposure to foreign liabilities in the period ahead.

The fiscal strategy of the Government focused on ensuring a sustained and high economic growth over the medium term. Improving economic and social infrastructure was recognised as an integral part of the overall development drive of the Government. To this end, public investment is expected to be maintained at around 5.0 – 6.0 per cent of GDP, per annum, over the medium term. As enunciated in the National Policy Framework, the Government remained committed to addressing income disparities across different segments of the society. Minimising infrastructure gaps in various economic sectors, such as roads, housing, power and energy, education, science and technology, etc., remained priorities in spite of the challenges stemming from the pandemic. The Government initiated measures to review foreign funded projects in the pipeline in order to streamline them according to the national development priorities. Further, measures were taken to identify projects, which can be implemented through foreign investment, thereby lessening the debt burden of the Government. Further, according to the National Policy Framework and the National Budget for 2021, greater emphasis was placed on the introduction of Public Private Partnerships (PPPs), thus enhancing private sector contribution to economic growth.

The Government implemented measures to lower the tax burden of businesses and individuals, thereby supporting the rebounding of economic activity and enhancing the income of people. Major tax revisions initiated since late 2019 included lowering the income tax rates and

2 The key fiscal policy measures discussed in this section are detailed in Box 10, 'Major Economic Policy Measures'.

3 Certain expenditures and advances made under Resolutions passed under Article 150(2) and authorised under 150(3) of the Constitution were included in the First Schedule, Second Schedule and Third Schedule, of the Appropriation Act for 2020, while borrowings made in terms of Resolutions passed under Article 150(2) were included under Section 2(1)(b) of the Appropriation Act for 2020.

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Figure 6.1
Fiscal Sector Performance

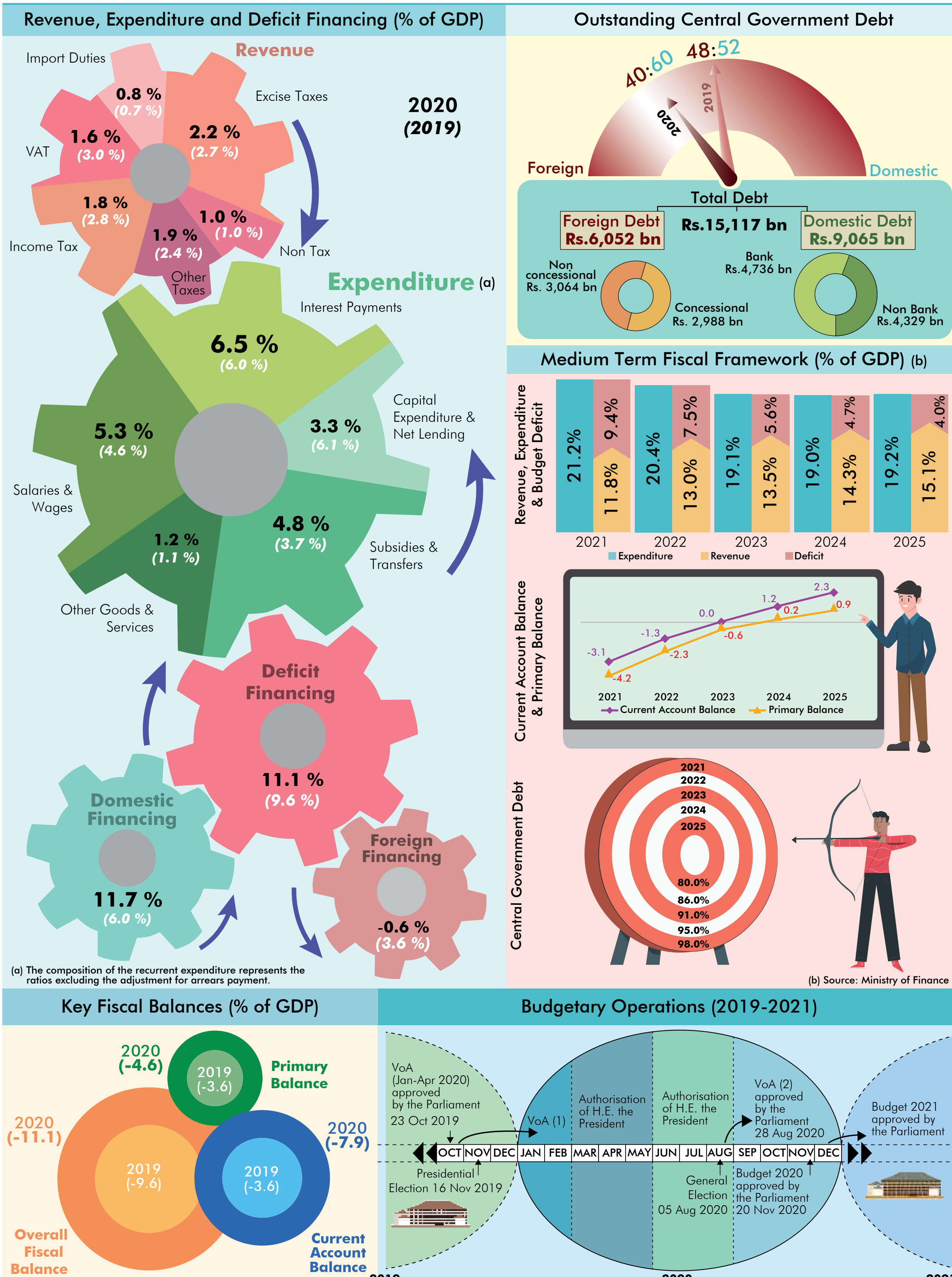

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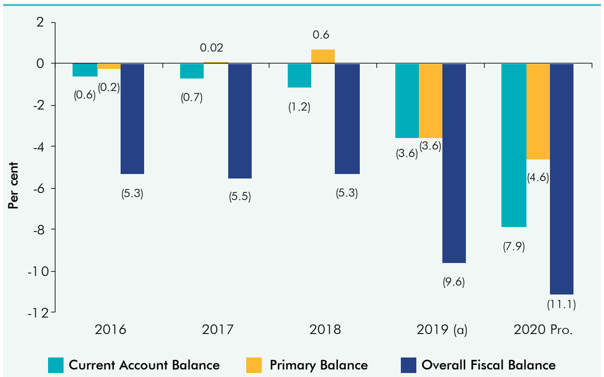
Figure 6.2
Major Fiscal Indicators (as a percentage of GDP)



(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.

Source: Ministry of Finance

the Value Added Tax (VAT) rate, raising the VAT threshold, and abolishing the Nation Building Tax (NBT) and Economic Service Charge (ESC). These measures were expected to enable a strong rebound of economic activity in spite of their adverse impact on government revenue in the near term. The Government expects that the revenue collection will increase over the medium term, benefiting from the expected expansion of activity with low tax rates, which will be maintained over the medium term and the envisaged high and sustainable economic growth.

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Amendments to the Inland Revenue Act No. 24 of 2017, progressed during 2020, in line with the revisions proposed in late 2019, targeted at simplifying the tax structure, while providing support for businesses and individuals.[4] Revisions were introduced to personal income tax rates, the tax free threshold and the income tax calculation bands, as detailed in Box 10, 'Major Economic Policy Measures' of this Report.

The tax concessions introduced at the outset of the COVID-19 pandemic reinforced the fiscal stimulus measures implemented since late 2019, thereby minimising the adverse impact of the pandemic on businesses and individuals in 2020. In addition to the sweeping concessions granted in late 2019, major concessions introduced in 2020 included exemptions of the Ports and Airports Development Levy (PAL) and the CESS on the importation of selected health related equipment, extensions to payment timelines of Withholding Tax (WHT) and VAT, and directions on penalty payment exemptions for all taxes during the lockdown period. Further, small and medium scale enterprises (SMEs) were granted various tax relief measures in the form of waivers of income tax

4 As announced by the Inland Revenue Department in late 2019, tax revisions were implemented with effect from 01 January 2020, subject to the approval of the Parliament. The Economic Service Charge Amendment Act No. 4 of 2020, was enacted on 12 October 2020 on the removal of the Economic Service Charge (ESC). Further, a Bill for the amendments to the Value Added Tax Act No. 14 of 2002, was gazetted on 18 March 2021.

Table 6.1
Summary of Government Fiscal Operations

Item	2019 (a)	2020 (b)
Rs. million		
Total Revenue and Grants	**1,898,808**	**1,373,308**
Total Revenue	1,890,899	1,367,960
Tax Revenue	1,734,925	1,216,542
Non Tax Revenue	155,974	151,417
Grants	7,909	5,348
Expenditure and Net Lending	**3,337,896**	**3,040,996**
Recurrent	2,424,582	2,548,359
Adjustment for arrears as per the Ministry of Finance	123,428	-123,428
Capital and Net Lending	913,314	492,638
o/w Public Investment	631,235	811,773
Adjustment for arrears as per the Ministry of Finance	299,178	-299,178
Current Account Balance	**-533,683**	**-1,180,399**
Primary Balance	**-537,736**	**-687,386**
Overall Fiscal Balance	**-1,439,088**	**-1,667,688**
Total Financing	**1,439,088**	**1,667,688**
Foreign Financing	542,641	-83,199
Domestic Financing	896,448	1,750,887
As a percentage of GDP (c)		
Total Revenue and Grants	**12.6**	**9.2**
Total Revenue	12.6	9.1
Tax Revenue	11.6	8.1
Non Tax Revenue	1.0	1.0
Grants	0.1	0.04
Expenditure and Net Lending	**22.2**	**20.3**
Recurrent	16.1	17.0
Adjustment for arrears as per the Ministry of Finance	0.8	-0.8
Capital and Net Lending	6.1	3.3
o/w Public Investment	4.2	5.4
Adjustment for arrears as per the Ministry of Finance	2.0	-2.0
Current Account Balance	**-3.6**	**-7.9**
Primary Balance	**-3.6**	**-4.6**
Overall Fiscal Balance	**-9.6**	**-11.1**
Total Financing	**9.6**	**11.1**
Foreign Financing	3.6	-0.6
Domestic Financing	6.0	11.7

(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(b) Provisional
(c) For 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.

Source: Ministry of Finance

arrears on assessments issued up to the year of assessment 2018/2019, non-issuance of additional assessments for the year of assessment 2019/2020, granting of a grace period to settle taxes in arrears/default, extension on seizure notices and extended timelines for tax payments and filing tax returns. The National Budget 2021 proposed further tax measures, including tax exemptions, reduction of income tax for certain businesses, simplification of tax calculations and enforcing tax administration.[5]

Revisions were made to international trade related taxes in view of maintaining stable prices, while easing pressure on the balance of payments (BOP) and the exchange rate amidst the pandemic. Accordingly, upward revisions were made to Customs duty and a surcharge was imposed on the importation of petrol and diesel to maintain domestic retail prices at the same level during the year. Also, Customs duty on certain items, including tobacco products, was increased in the range of 25-50 per cent. Customs duty on imported goods was simplified to 0 per cent, 10 per cent and 15 per cent from 0 per cent, 15 per cent and 30 per cent, with effect from 18 November 2020. In addition to exemptions granted on CESS and PAL, the Special Commodity Levy (SCL) on certain essential medical equipment was revised in order to support the domestic producers, while reducing volatility in domestic market prices.

Several measures aimed at strengthening the tax administration were initiated during 2020. The automation processes were expedited with modifications to the Automated System for Customs Data (ASYCUDA) of the Sri Lanka Customs (SLC). The ASYCUDA system was modified enabling importers to submit documents to the SLC without being physically present. A revenue reporting module was developed at the SLC in order to report daily revenue collections to the Ministry of Finance (MOF) under the Integrated Treasury Management Information System (ITMIS). The spending agencies, including all departments of the General Treasury, the Parliament, National Audit Office, among others, were integrated with ITMIS in 2020, and more spending agencies are to be integrated with ITMIS from June 2021. The Inland Revenue Department (IRD) introduced an Alternative Tax Payment System (ATPS) via online payment platforms to strengthen tax revenue mobilisation, while conducting several general services online, including the issuance of Taxpayer Identification Numbers (TIN), temporary VAT registrations for importers, etc. Under the Revenue Administration Management Information System (RAMIS), the automation of stamp duty collection was completed in 2020.

Government expenditure rationalisation measures continued in 2020, including the curtailment of expenditure on items, such as the acquisition of vehicles, buildings, etc. Several measures were initiated to manage public expenditure against the backdrop of weakened revenue mobilisation amidst the pandemic. All ministries and departments were advised to limit expenditure within the allocated provisions, while avoiding non essential expenses during 2020. Meanwhile, digitalisation of systems and processes continued, including the rollout of e-procurement and the e-National Identity Card project. Further, the National Pay Commission was established in February 2020, to revisit all remuneration structures of the public sector as well as the private sector, and to advise the Government regarding formulation and implementation of a national wage policy.

During the COVID-19 pandemic, the pension payment process was streamlined through several efficiency enhancing measures. The digital life certificate project commenced during

5 A bill comprising amendments to the Inland Revenue Act No. 24 of 2017, was gazetted on 18 March 2021.

the first half of 2020, thereby allowing pensioners to provide their life certificate using fingerprints in lieu of the existing documentation process. This eliminated the need for the life certificate being sent to Divisional Secretariats every year in order to verify the life/residence of pensioners. In addition, facilities were provided for pensioners to appoint a guardian, whenever the pensioner is unable to receive the pension in person due to difficulties arising from serious physical or mental health issues. Further, the Widowers and Orphans (W & OP) pension activation was entrusted to Divisional Secretaries through the introduction of a web based programme in order to ensure accuracy and efficiency of the payment process.

A public sector recruitment programme was commenced with a view to uplifting the living standards of underprivileged households and enhancing public sector contribution to the economy. The Government commenced the recruitment programme in January 2020, aimed at recruiting 100,000 unskilled individuals from low income families, while another recruitment programme was commenced in February 2020 to provide employment opportunities for 50,000 unemployed graduates and diploma holders, who had been unable to secure employment during the preceding three years. These recruitment programmes were suspended in March 2020, ensuing the announcement of the general elections held in August 2020, and recommenced in early September 2020, with the approval of the Cabinet of Ministers to recruit a further 10,000 graduates.

The welfare programmes of the Government continued to facilitate the needy segments of the society, along with measures to streamline the operations of the Welfare Benefits Board (WBB). A cash allowance of Rs. 5,000 was granted to senior citizens, differently-abled persons, kidney patients, farmers, and displaced daily workers in April and May 2020 due to the COVID-19 pandemic. Measures were taken to provide an interest free advance of Rs. 10,000 to Samurdhi beneficiaries during the lockdown in 2020, and a one month grace period was granted to the general public for the payment of utility bills. In addition, Agrahara insurance benefits were increased for police officers, tri-forces personnel, officers in the health sector and other government employees, who were engaged in COVID-19 prevention activities. The WBB signed an MoU with the Department of Samurdhi to obtain data required for the commencement of activities in the Social Registry Information System (SRIS), which is an electronic database for storing information related to the welfare programmes of the Government. The SRIS is expected to be extended into an Integrated Welfare Management System (IWMS) in order to enhance the selection procedure of beneficiaries for various welfare programmes. The Department of Samurdhi intends to establish a 'Graduation Cell' aimed at developing and implementing a graduation policy for the Samurdhi programme in order to support Samurdhi recipients enhance their incomes and move out of the welfare programme.

Several measures were implemented to improve the financial viability of State Owned Business Enterprises (SOBEs), while lessening the burden on the Government. A special committee was established in early 2020 to appoint suitable personnel for key positions in SOBEs, and thereby strengthening the financial viability of these institutions. The Fuel Price Stabilisation Fund (FPSF) was established with a view to ensuring equitable distribution of the benefits of the unusual decline in international oil prices across the economy, rather than revising domestic fuel prices. Accordingly, the Fund was established with an initial capital of Rs. 50 billion by issuing Treasury bills (on face value basis) to the Central Bank on 23 March

2020. The revenue collected from the surcharge on petrol and diesel imports was transferred to the FPSF. The FPSF was partly utilised to settle the dues of the Ceylon Electricity Board (CEB) to the Ceylon Petroleum Corporation (CPC) during 2020, and the fund recorded a balance of Rs. 379.1 million at the end of 2020.

Rating agencies downgraded Sri Lanka's sovereign credit ratings in 2020, citing risks on external debt repayments, external financing and the deterioration of fiscal balances amplified by the COVID-19 pandemic. In April and May 2020, Fitch Ratings and S&P Global Ratings downgraded Sri Lanka's sovereign ratings to 'B-', while asserting the outlook at negative and stable, respectively. In September 2020, Moody's Investors Service, which placed Sri Lanka's ratings of 'B2' under review in April 2020, downgraded Sri Lanka's sovereign ratings by two notches to 'Caa1' and changed the outlook to stable from negative. In November 2020, Fitch Ratings downgraded Sri Lanka's sovereign credit rating to 'CCC'. In December 2020, S&P Global Ratings downgraded Sri Lanka's sovereign credit rating to 'CCC+' with a stable outlook. Despite the adverse speculations of the rating agencies, the Government repaid all its debt servicing obligations in 2020, including the International Sovereign Bond (ISB) of US dollars 1 billion, which matured on 6 October 2020.

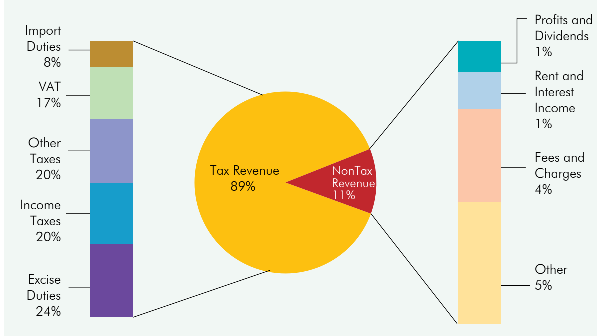
6.3 Government Budgetary Operations

Revenue and Grants

Revenue

Government revenue declined in 2020, both in nominal terms and as a percentage of GDP, reflecting the combined impact of subdued economic performance due to the COVID-19 pandemic, the tax revisions implemented from

Figure 6.3
Composition of Government Revenue - 2020



Source: Ministry of Finance

late 2019, and the tax concessions granted to businesses and individuals affected by the pandemic. Accordingly, total revenue declined by 27.7 per cent to Rs. 1,368.0 billion in 2020 from Rs. 1,890.9 billion in 2019. Tax revenue declined by 29.9 per cent to Rs. 1,216.5 billion in 2020 from Rs. 1,734.9 billion in 2019, mainly due to low revenue from income tax, VAT, NBT, CESS and excise duties. The relative share of revenue from direct taxes declined to 22.1 per cent in 2020 from 24.7 per cent in the previous year, mainly reflecting the impact of subdued incomes of businesses and individuals amidst the pandemic. The share of revenue from indirect taxes accounted for 77.9 per cent of total tax revenue in 2020. Non tax revenue declined marginally by 2.9 per cent to Rs. 151.4 billion, reflecting the reduction in revenue collection from fees and charges and profit transfers of SOBEs. As a percentage of GDP, total revenue declined to 9.1 per cent in 2020 from 12.6 per cent in 2019, reflecting the reduction in tax revenue to 8.1 per cent in 2020 from 11.6 per cent in 2019, while non tax revenue collection remained unchanged at 1.0 per cent in 2020.

Revenue from income tax declined, both in nominal terms and as a percentage of GDP, reflecting the reduction of revenue from all the categories of income tax in 2020. In nominal

Table 6.2
Summary of Government Revenue

Item	2019 (a)	2020 (b)
	Rs. million	
Tax Revenue	1,734,925	1,216,542
Income Taxes	427,700	268,249
VAT	443,877	233,786
Excise Taxes	399,478	321,932
Import Duties	98,427	114,183
Other Taxes	365,443	278,392
Non Tax Revenue	155,974	151,417
Total Revenue	1,890,899	1,367,960
	As a percentage of GDP (c)	
Tax Revenue	11.6	8.1
Income Taxes	2.8	1.8
VAT	3.0	1.6
Excise Taxes	2.7	2.2
Import Duties	0.7	0.8
Other Taxes	2.4	1.9
Non Tax Revenue	1.0	1.0
Total Revenue	12.6	9.1

(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(b) Provisional
(c) For 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.

Source: Ministry of Finance

terms, revenue from income tax declined by 37.3 per cent to Rs. 268.2 billion in 2020 from Rs. 427.7 billion in 2019, and as a percentage of GDP, it declined to 1.8 per cent in 2020 from 2.8 per cent in 2019. The decline in income tax revenue was mainly attributable to the abolition of PAYE tax and ESC, along with the revisions to WHT and corporate and non corporate income tax with effect from January 2020. Revenue from PAYE tax collected for the financial year 2019 and remitted in 2020, together with the revenue on account of APIT, which was introduced in lieu of PAYE tax since 01 April 2020, recorded at Rs. 15.0 billion in 2020, compared to PAYE tax revenue of Rs. 49.4 billion in 2019. Revenue from ESC was recorded at Rs. 15.0 billion in 2020, compared to Rs. 55.3 billion in 2019 due to the arrears collected for 2019. Revenue collection from WHT declined notably to Rs. 10.0 billion in 2020 from Rs. 50.4 billion recorded in 2019, mainly due to the amendments to WHT. Revenue from corporate and non-corporate income tax declined by 16.2 per cent to Rs. 228.3 billion in 2020 from Rs. 272.6 billion in 2019, mainly reflecting the revisions to personal income tax rates and corporate income tax rates, with effect from 01 January 2020.

Revenue from VAT and excise duties declined amidst the slowdown in economic activity and the reduction of the VAT rate from 15 per cent to 8 per cent effective from 01 December 2019. As a percentage of GDP, revenue from VAT declined to 1.6 per cent in 2020 from 3.0 per cent in 2019, while in nominal terms, VAT revenue declined significantly by 47.3 per cent to Rs. 233.8 billion in 2020 from Rs. 443.9 billion in 2019. The revenue from VAT on domestic economic activities declined by 46.0 per cent to Rs. 148.1 billion in 2020 from Rs. 274.0 billion in 2019 while the revenue from VAT on imports declined by 49.5 per cent to Rs. 85.7 billion in 2020 from Rs. 169.9 billion in 2019. Revenue from excise duties, as a percentage of GDP, declined to 2.2 per cent in 2020, compared to 2.7 per cent in 2019, mainly on account of lower revenue collection from excise duty on motor vehicles and petroleum products. Revenue collection from excise duty on motor vehicles declined to Rs. 48.8 billion in 2020 from Rs. 130.4 billion in 2019, due to the contraction of motor vehicle imports amidst the restrictions imposed to curtail non-essential imports during 2020. Revenue from excise duty on petroleum products declined to Rs. 53.1 billion in 2020 from Rs. 61.7 billion in 2019, reflecting the relatively low volume of imports of petroleum products. Nevertheless, revenue from excise duty on cigarettes and tobacco and liquor increased during the year, reflecting the upward revisions to excise duty on cigarettes and liquor in December 2019. Accordingly, revenue from excise duty on cigarettes and tobacco, and liquor increased by 8.0 per cent and 4.8 per cent to Rs. 94.3 billion and Rs. 121.0 billion, respectively, in 2020 over the previous year. Meanwhile, the arrears collected on the NBT amounted to Rs. 2.4 billion in 2020, following the abolition of NBT in December 2019.

Revenue from international trade related taxes showed an improvement in 2020, reflecting the impact of tax amendments, despite the contraction of imports during 2020. Accordingly, revenue collection from import duties increased to Rs. 114.2 billion in 2020 from Rs. 98.4 billion in 2019, partly due to the increase in Customs duty on petroleum products since April 2020 and the removal of duty waivers for petroleum products in March and April 2020. Revenue mobilisation from SCL increased by 17.5 per cent to Rs. 82.7 billion in 2020 due to the upward revisions of SCL rates. Reflecting the increase in the standard PAL rate to 10.0 per cent from 7.5 per cent, revenue from PAL increased to Rs. 115.4 billion in 2020, compared to Rs. 112.2 billion in 2019, in spite of the exemptions granted on several items and the contraction of imports following the restrictions on non essential imports.

During the year, non tax revenue declined in nominal terms, while remaining unchanged at 1.0 per cent of GDP. In nominal terms, non tax revenue declined to Rs. 151.4 billion in 2020, compared to Rs. 156.0 billion in 2019. The reduction in revenue from fees and charges, and profit and dividend transfers from SOBEs amidst the COVID-19 pandemic, mainly contributed to the decline in non tax revenue in nominal terms during 2020. Accordingly, fees and charges declined by 35.9 per cent to Rs. 47.4 billion in 2020 from Rs. 73.9 billion in 2019, while profit and dividend transfers declined to Rs. 17.6 billion in 2020, compared to Rs. 27.9 billion in 2019. However, revenue from social security contributions increased to Rs. 32.4 billion in 2020 from Rs. 29.0 billion in 2019, while rent and interest income increased by 4.3 per cent to Rs. 19.4 billion in 2020 from Rs. 18.5 billion in 2019. The Central Bank transferred distributable profits to the Government amounting to Rs. 24.0 billion in 2020 as against no profit transfer in 2019.

Grants

Foreign grants received from bilateral and multilateral sources declined to Rs. 5.3 billion in 2020 from Rs. 7.9 billion in 2019. Foreign grants from bilateral sources declined to Rs. 2.8 billion in 2020 from Rs. 5.1 billion in 2019, while foreign grants from multilateral sources declined to Rs. 2.5 billion in 2020 from Rs. 2.8 billion in 2019. Development partners, which provided grants during 2020, included the Government of Japan, the Asian Development Bank (ADB), and the Department of Agriculture of the United States.

Expenditure and Net Lending

Government expenditure and net lending in 2020 were adjusted by the Ministry of Finance by shifting a sum of Rs. 422.6 billion to 2019 in view of accounting for the payment of arrears spilled over from 2019. Accordingly, of the recurrent expenditure incurred in 2020, a sum of Rs. 123.4 billion was shifted to 2019, and of the capital expenditure and net lending in 2020, a sum of Rs. 299.2 billion was shifted to 2019. With these adjustments, government expenditure and net lending in 2020 declined to 20.3 per cent of GDP (Rs. 3,041.0 billion), from 22.2 per cent of GDP (Rs. 3,337.9 billion) in 2019. The decline in government expenditure and net lending was attributed to the notable reduction in capital expenditure and net lending to 3.3 per cent of GDP (Rs. 492.6 billion) in 2020 from 6.1 per cent of GDP (Rs. 913.3 billion) in 2019. In contrast,

Table 6.3
Summary of Government Expenditure

Item	2019 (a)	2020 (b)
	Rs. million	
Recurrent Expenditure	**2,424,582**	**2,548,359**
Expenditure on Goods and Services	848,278	974,351
o/w Salaries and Wages	686,452	794,158
Interest Payments	901,353	980,302
Foreign	233,970	266,679
Domestic	667,383	713,623
Current Transfers and Subsidies	551,524	717,133
o/w To Households and Other Sectors	456,241	610,486
Samurdhi	44,660	52,434
Pensions	227,670	257,833
Fertiliser Subsidy	34,966	36,687
Other	148,945	263,532
Adjustment for arrears as per the Ministry of Finance	123,428	-123,428
Capital Expenditure	**619,069**	**795,368**
Acquisition of Real Assets	385,366	483,543
Capital Transfers	239,688	307,917
Other	-5,985	3,907
Net Lending	**-4,933**	**-3,552**
Adjustment for arrears as per the Ministry of Finance	299,178	-299,178
Capital Expenditure and Net Lending	**913,314**	**492,638**
Total Expenditure and Net Lending	**3,337,896**	**3,040,996**
	As a percentage of GDP (c)	
Recurrent Expenditure	**16.1**	**17.0**
Expenditure on Goods and Services	5.7	6.5
o/w Salaries and Wages	4.6	5.3
Interest Payments	6.0	6.5
Foreign	1.6	1.8
Domestic	4.4	4.8
Current Transfers and Subsidies	3.7	4.8
o/w To Households and Other Sectors	3.0	4.1
Samurdhi	0.3	0.4
Pensions	1.5	1.7
Fertiliser Subsidy	0.2	0.2
Other	1.0	1.8
Adjustment for arrears as per the Ministry of Finance	0.8	-0.8
Capital Expenditure	**4.1**	**5.3**
Acquisition of Real Assets	2.6	3.2
Capital Transfers	1.6	2.1
Other	-0.04	0.03
Net Lending	**-0.03**	**-0.02**
Adjustment for arrears as per the Ministry of Finance	2.0	-2.0
Capital Expenditure and Net Lending	**6.1**	**3.3**
Total Expenditure and Net Lending	**22.2**	**20.3**

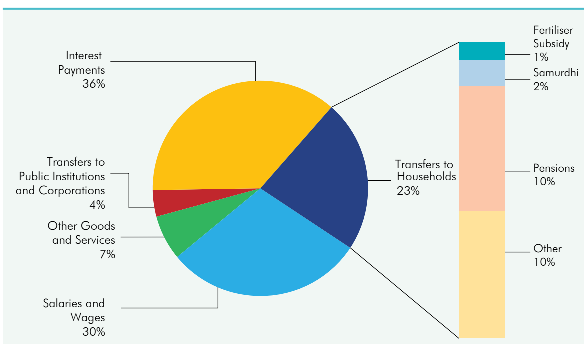
(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(b) Provisional
(c) For 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.

Source: Ministry of Finance

the recurrent expenditure increased to 17.0 per cent of GDP (Rs. 2,548.4 billion), compared to 16.1 per cent (Rs. 2,424.6 billion) in 2019.

The increase in recurrent expenditure in 2020 was mainly due to the rise in expenditure on subsidies and transfers, salaries and wages and interest payments. Expenditure on current transfers and subsidies increased during the year, both in nominal terms and as a percentage of GDP, mainly due to the increase in current transfers to the household sector. Transfers and subsidies to the household sector increased on account of the rise in expenditure on pension payments, social security and welfare schemes for needy segments of the society, as well as the additional expenditure incurred due to the cash grant for vulnerable groups and unexpected and unprecedented increase in expenditure incurred on healthcare and other related activities to deal with the spread of COVID-19 pandemic. Expenditure on salaries and wages increased in 2020 over the previous year, reflecting the impact of the inclusion of an interim allowance on a progressive basis to the basic salary with the implementation of the new salary structure from January 2016 for public sector employees, granting an interim allowance of Rs. 2,500 per month to public sector employees with effect from 01 July 2019, an increase of general annual increments of public employees and salaries paid to new recruits during 2020. The expenditure on interest payments, which accounted for the largest share of recurrent expenditure, increased both as a percentage of GDP and in nominal terms in 2020. This increase was reflected in domestic interest payments as well as in foreign interest payments. Interest payments on outstanding domestic debt,

Figure 6.4
Composition of Government Recurrent Expenditure - 2020 (a)



(a) The relative shares have been computed excluding the adjustment for arrears payment of recurrent expenditure shifted from 2020 to 2019.

Source: Ministry of Finance

which accounted for 72.8 per cent of total interest payments increased to Rs. 713.6 billion in 2020, from Rs. 667.4 billion in 2019, mainly due to the increased net domestic financing, that outweighed the impact of the notable decline in yields on government securities and other domestic interest rates. Interest payments on foreign debt increased by 14.0 per cent to Rs. 266.7 billion in 2020 from Rs. 234.0 billion in 2019, mainly reflecting the impact of increased interest payments on outstanding commercial debt. Interest payments accounted for 38.5 per cent of the total recurrent expenditure, and was equivalent to 71.7 per cent of the government revenue in 2020.

Capital expenditure and net lending declined to 3.3 per cent of GDP in 2020 from 6.1 per cent of GDP in 2019. This decline reflects the impact of the limited fiscal space due to the notable decline in government revenue and the rise in recurrent expenditure, along with the adjustment of arrears payment of capital expenditure, which amounted to 2.0 per cent of GDP.

Key Fiscal Balances and Financing the Budget Deficit

The key fiscal balances deteriorated in 2020, reflecting the decline in government revenue and the increase in recurrent expenditure, alongside the contraction of economic activity due to the pandemic. As per the fiscal sector statistics of the Ministry of Finance, the overall budget deficit as a percentage of GDP increased to 11.1 per cent (Rs. 1,667.7 billion) in 2020 from 9.6 per cent (Rs. 1,439.1 billion) in 2019. The current account deficit, which reflects dissavings of the Government, increased to 7.9 per cent of GDP (Rs. 1,180.4 billion) in 2020 from 3.6 per cent of GDP (Rs. 533.7 billion) in 2019. Meanwhile, the primary deficit, which excludes interest payments from the overall budget deficit and reflects the discretionary component of fiscal policy, increased to 4.6 per cent of GDP (Rs. 687.4 billion) in 2020, compared to 3.6 per cent of GDP (Rs. 537.7 billion) in 2019. The Government relied on domestic sources in financing the budget deficit in 2020, reflecting on the one hand, the impact of extremely challenging global market conditions, which restricted access to foreign financing by the Government in 2020, and on the other hand, the expressed preference of the Government to reduce the reliance on foreign financing in recognition of the external debt burden. As per the Ministry of Finance, net domestic financing amounted to Rs. 1,750.9 billion (11.7 per cent of GDP) in 2020, compared to Rs. 896.4 billion (6.0 per cent of GDP) in 2019, while foreign financing recorded a net repayment of Rs. 83.2 billion in 2020 (0.6 per cent of GDP), compared to Rs. 542.6 billion of net foreign financing (3.6 per cent of GDP) in 2019.

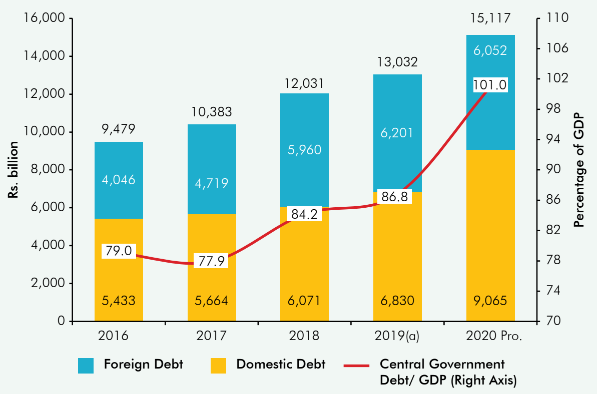
6.4 Government Debt and Debt Service Payments

Central Government Debt

At end 2020, central government debt increased, both in nominal terms and as a percentage of GDP, driven by the increase in domestic debt, while outstanding foreign debt recorded a sizeable decline, over 2019. The significant increase in net domestic financing by the Government in 2020, amidst the decline in government revenue and the rise in recurrent expenditure contributed to the increase in outstanding central government debt by the end of 2020. Limited access to foreign financing by the Government due to unfavourable market conditions in 2020 resulted in net repayments of foreign debt, while the increased appetite of resident financial institutions for holding ISBs issued by the Government of Sri Lanka, due to the rise in yields amidst the pandemic also helped lower the outstanding foreign debt at end 2020, alongside the Government's preference for domestic financing over foreign financing. The outstanding central government debt increased to Rs. 15,117.2 billion at end 2020 from Rs. 13,031.5 billion at end 2019. As a percentage of GDP, the outstanding central government debt rose to 101.0 per cent as at end 2020, compared to 86.8 per cent[6] at end 2019. The contraction in nominal GDP in 2020 also contributed to the increase of central government debt to GDP ratio at end 2020. Of the nominal increase in outstanding central government debt, the parity variation, which is an outcome of the depreciation of the exchange rate, resulted in an increase of the rupee value of foreign debt by Rs. 355.7 billion at end 2020. Central government domestic debt as a percentage of GDP rose to 60.6 per cent at the end of 2020, compared to 45.5 per cent at end 2019, and central government foreign debt as a percentage of GDP declined to 40.4 per cent at the end 2020 from 41.3 per cent at end 2019. The relative share of outstanding domestic debt of central government increased to 60.0 per cent of total debt at end 2020, from 52.4 per cent at end 2019, while the share of central government foreign debt recorded a notable decline to 40.0 per cent at end 2020, from 47.6 per cent at end 2019. Despite the notable increase of outstanding central government debt, certain debt management indicators showed an improvement against the benchmarks specified under the Medium Term Debt Management Strategy (MTDS). Accordingly, by end 2020, the level of outstanding central government foreign currency debt as a share of total outstanding debt was lower at 47.5 per cent, compared to the benchmark of 54.0 per cent at end 2018, and

6 The central government debt statistics at end 2019 could increase should the adjustment for payment arrears in government expenditure as per the Ministry of Finance be incorporated into the net financing of the budget deficit in 2019. However, such an adjustment would have no impact on the outstanding central government debt at end 2020.

Figure 6.5
Outstanding Central Government Debt



(a) Revised

Sources: Ministry of Finance
Central Bank of Sri Lanka

the average time to maturity (ATM) of the foreign currency debt portfolio extended to 6.72 years, compared to the benchmark of 6.60 years at end 2018.

Outstanding domestic debt of the central government increased to 60.6 per cent of GDP at end 2020 from 45.5 per cent of GDP in 2019, primarily reflecting the impact of increased domestic financing. In nominal terms, domestic debt increased significantly by 32.7 per cent to Rs. 9,065.1 billion at end 2020 from Rs. 6,830.3 billion at end 2019. Of the total domestic debt, the share of short term debt increased to 24.2 per cent at end 2020 from 18.6 per cent at end 2019 mainly due to the increase in the outstanding stock of Treasury bills. The outstanding stock of Treasury bills increased by 85.4 per cent to Rs. 1,620.7 billion by end 2020, from Rs. 873.9 billion by end 2019. The outstanding balance of Treasury bonds continued to dominate the domestic debt portfolio, accounting for a share of 63.0 per cent (Rs. 5,713.3 billion) at end 2020 in comparison to 67.4 per cent (Rs. 4,606.2 billion) at end 2019. The outstanding stock of Sri Lanka Development Bonds (SLDBs) declined to Rs. 486.9 billion at end 2020 from Rs. 559.3 billion at end 2019, while the outstanding balance of debt

Table 6.4
Outstanding Central Government Debt (as at end year)

Rs. million

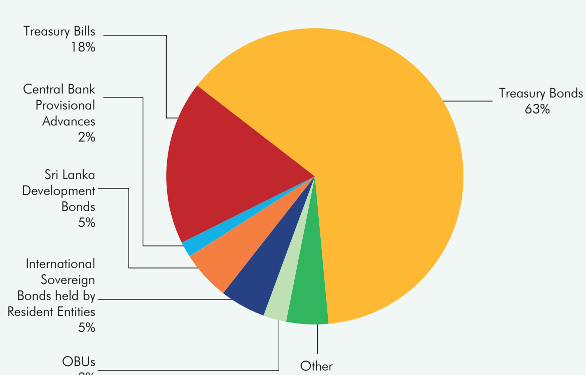
Item	2017	2018	2019 (a)	2020 (a)(b)
Total Government Debt	10,382,832	12,030,548	13,031,543	15,117,247
Domestic Debt (c)	5,664,215	6,071,001	6,830,260	9,065,068
By Maturity Period				
Short Term	1,031,181	1,134,553	1,270,374	2,197,594
Medium and Long Term	4,633,033	4,936,447	5,559,887	6,867,473
By Institution (d)				
Bank	2,361,254	2,321,802	2,888,451	4,735,738
Non Bank	3,302,961	3,749,199	3,941,809	4,329,330
Foreign Debt	4,718,618	5,959,547	6,201,283	6,052,179
By Type				
Concessional Loans	2,130,482	2,705,836	2,767,459	2,988,113
Non Concessional Loans	2,588,135	3,253,711	3,433,824	3,064,066
Multilateral	243,581	58,586	112,943	156,252
Bilateral	316,626	209,970	198,733	184,051
Commercial	2,027,928	2,985,156	3,122,148	2,723,763
International Sovereign Bonds	1,475,049	2,220,411	2,343,777	1,796,579
Foreign Currency Term Financing Facilities	217,054	330,174	242,191	279,612
Non Resident Investment in Treasury Bills	27,552	11,909	23,727	670
Non Resident Investment in Treasury Bonds	295,059	146,914	80,294	6,204
Other	13,215	275,747	432,159	640,698
By Currency				
SDR	829,537	954,761	927,372	970,714
US Dollars	2,650,431	3,781,626	4,076,588	3,875,950
Japanese Yen	516,218	622,852	624,956	664,291
Euro	208,075	225,831	228,713	251,406
Other	514,356	374,477	343,653	289,818
Central Government Debt/GDP (e)	77.9	84.2	86.8	101.0
Memorandum Items				
Total Exchange Rate Variation	225,223	1,063,218	12,401	355,663
On Foreign Debt	211,868	963,181	16,857	329,895
On Foreign Currency Denominated Domestic Debt	13,355	100,037	-4,456	25,767

(a) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics published by the IMF in 2014, non resident holdings of outstanding SLDBs have been classified under foreign debt and resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt.
(b) Provisional
(c) Includes Treasury bonds of Rs. 13,125 million issued to capitalise SriLankan Airlines in March 2013 (matured on 01 June 2018) and Rs. 78,441 million issued to CPC in January 2012 (of which Rs. 21,778 million matured on 01 January 2017 and the current outstanding is Rs. 56,662 million)
(d) The composition of domestic debt held by the banking and non banking sectors was revised from 2017 due to the adjustment for holdings of SLDBs by businesses and individuals
(e) For 2018 and 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.

Sources: Ministry of Finance
Central Bank of Sri Lanka

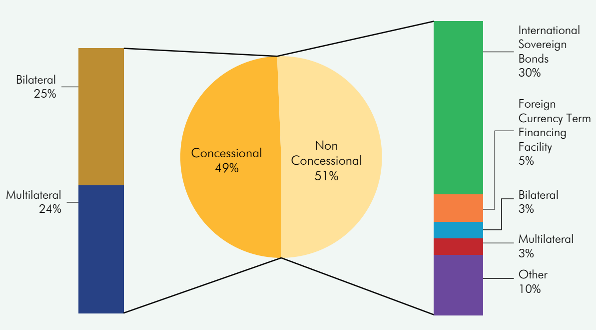
from Offshore Banking Units (OBUs) increased to Rs. 227.4 billon at end 2020, compared to Rs. 168.0 billion at end 2019. As at end 2020, the outstanding debt from the banking sector, which accounted for 52.2 per cent of domestic debt, increased substantially by 64.0 per cent to Rs. 4,735.7 billion, compared to Rs. 2,888.5 billion at end 2019, reflecting a significant increase in the outstanding debt held by the Central Bank and commercial banks. Domestic debt held by the non bank sector increased by 9.8 per cent to Rs. 4,329.3 billion from Rs. 3,941.8 billion at end 2019, accounting for 47. 8 per cent of domestic debt. Foreign currency denominated domestic debt declined to Rs. 719.3 billion (US dollars 3,858.6 million) at end 2020 from Rs. 728.2 billion (US dollars 4,009.4 million) at end 2019, owing to the settlement of

Figure 6.6
Composition of Outstanding Central Government Domestic Debt - 2020



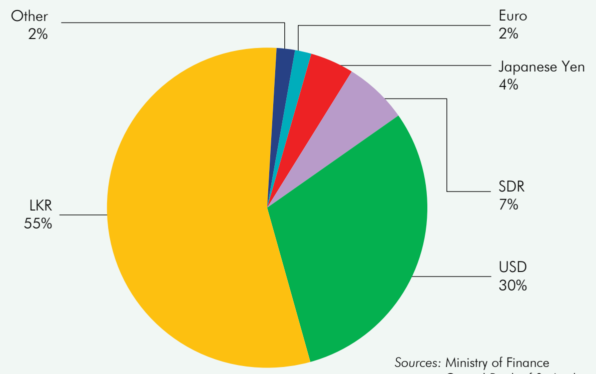
Sources: Ministry of Finance
Central Bank of Sri Lanka

Figure 6.7
Composition of Outstanding Central Government Foreign Debt - 2020



Sources: Ministry of Finance
Central Bank of Sri Lanka

Figure 6.8
Currency Composition of Total Outstanding Central Government Debt - 2020



Sources: Ministry of Finance
Central Bank of Sri Lanka

Sri Lanka Development Bonds (SLDBs). The outstanding balance of SLDBs declined to Rs. 491.9 billion (US dollars 2,638.6 million) at end 2020 from Rs. 560.2 billion (US dollars 3,084.4 million) at end 2019.[7] The outstanding balance of OBU loans rose to Rs. 227.4 billion (US dollars 1,220.0 million) at end 2020 in comparison to Rs. 168.0 billion (US dollars 925.0 million) at end 2019.

Outstanding foreign central government debt declined to 40.4 per cent of GDP at end 2020, from 41.3 per cent of GDP at end 2019, reflecting mainly the impact of net repayments of foreign debt amidst limited access to foreign financing in 2020. In nominal terms, the outstanding foreign central government debt declined to Rs. 6,052.2 billion at end 2020, compared to Rs. 6,201.3 billion at end 2019. The outstanding non concessional debt, including commercial foreign borrowings, decreased by 10.8 per cent to Rs. 3,064.1 billion at end 2020 from Rs. 3,433.8 billion at end 2019. The share of non concessional debt in total foreign debt declined to 50.6 per cent at end 2020 from 55.4 per cent at end 2019. This decline in non concessional debt was mainly due to the repayment of foreign commercial borrowings during the year, including the settlement of the ISB of US dollars 1.0 billion in October 2020. The outstanding balance of concessional debt in total foreign central government debt increased by 8.0 per cent to Rs. 2,988.1 billion from Rs. 2,767.5 billion at end 2019 and accounted for 49.4 per cent of total foreign debt at end 2020, compared to 44.6 per cent at end 2019.

The parity impact on outstanding foreign currency denominated central government debt, resulting from the variation of the Sri Lankan rupee against the debt denominated foreign currencies, increased the rupee value of the outstanding central government debt by Rs. 355.7 billion by end 2020. This consisted of Rs. 329.9 billion due to the parity change on the outstanding foreign debt and Rs. 25.8 billion due to parity change on the outstanding foreign currency denominated domestic debt. The depreciation of the Sri Lankan rupee against the US dollar by 2.6 per cent mainly contributed to the parity impact by end 2020. In general, the impact of the depreciation of the rupee on the outstanding foreign currency debt would be of nominal importance, as the debt denominated in foreign currency is usually serviced using foreign currency inflows to the Government. However, it must be noted that amidst the decline in foreign exchange inflows to the Government in 2020 due to the pandemic, the Government utilised a substantial amount of rupee funds to purchase foreign exchange from the Central Bank for debt servicing purposes in 2020.

7 Foreign currency denominated outstanding balance of SLDBs includes both non resident holdings of SLDBs and resident holdings of SLDBs.

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Central Government Debt Service Payments

Total debt service payments of the central government decreased in 2020 to Rs. 1,941.4 billion from Rs. 2,022.5 billion in 2019, due to the decline in amortisation payments, despite the increase in interest payments. Domestic debt repayments declined by 16.6 per cent to Rs. 455.9 billion in 2020 from Rs. 546.3 billion in 2019, mainly due to the decline in Treasury bond maturities. Foreign debt repayments declined by 12.1 per cent to Rs. 505.2 billion in 2020 from Rs. 574.8 billion in 2019, mainly reflecting the ISB amounting to US dollars 1,000 million matured in 2020 as against the ISB maturities of US dollars 1,500 million in 2019. Consequently, total amortisation payments, which accounted for 49.5 per cent of total debt service payments, declined by 14.3 per cent to Rs. 961.1 billion in 2020 from Rs. 1,121.2 billion in 2019. In contrast, interest payments on central government debt increased by 8.8 per cent to Rs. 980.3 billion in 2020 from Rs. 901.4 billion in 2019 due to the increase in interest payments on both domestic and foreign outstanding debt. Interest payments on central government domestic debt increased by 6.9 per cent to Rs. 713.6 billion in 2020 from Rs. 667.4 billion in 2019, due to the notable increase in outstanding domestic debt, despite the decline in domestic interest rates, including yields on government securities. Interest payments on foreign debt rose to Rs. 266.7 billion in 2020 in comparison to Rs. 234.0 billion in 2019, mainly due to the increase in interest payments on ISBs, along with the impact

Table 6.5
Central Government Debt Service Payments

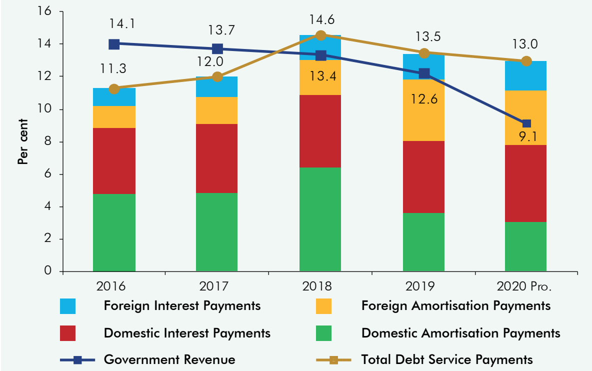
Rs. million

Item	2017	2018	2019 (a)	2020 (b)
Debt Service Payments	**1,603,049**	**2,088,551**	**2,022,507**	**1,941,373**
Domestic	1,213,498	1,561,363	1,213,698	1,169,522
Foreign	389,551	527,188	808,809	771,851
Amortisation Payments	**867,484**	**1,236,361**	**1,121,155**	**961,071**
Domestic	642,875	921,881	546,315	455,899
Foreign	224,609	314,480	574,839	505,172
Interest Payments	**735,566**	**852,190**	**901,353**	**980,302**
Domestic	570,623	639,482	667,383	713,623
Short Term	81,275	74,525	81,029	77,965
Medium and Long Term	489,348	564,957	586,354	635,658
Foreign	164,942	212,708	233,970	266,679

(a) Revised
(b) Provisional

Sources: Ministry of Finance
Central Bank of Sri Lanka

Figure 6.9
Central Government Debt Service Payments (as a percentage of GDP)



Sources: Ministry of Finance
Central Bank of Sri Lanka

Table 6.6
Central Government Debt Indicators

Indicator	2017	2018 (a)	2019(a)	2020 (b)
Central Government Debt/GDP	77.9	84.2	86.8	101.0
Domestic Debt/GDP (c)	42.5	42.5	45.5	60.6
Foreign Debt/GDP	35.4	41.7	41.3	40.4
Domestic Debt/Central Government Debt	54.6	50.5	52.4	60.0
Foreign Debt/Central Government Debt	45.4	49.5	47.6	40.0
Foreign Debt/Exports (d)	162.2	181.0	178.6	250.2
Debt Service/GDP	12.0	14.6	13.5	13.0
Debt Service/Government Revenue	87.5	108.8	107.0	141.9
o/w Domestic Debt Service/ Government Revenue	66.3	81.3	64.2	85.5
Debt Service/Government Expenditure (e)	46.6	53.1	45.4	48.5
o/w Domestic Debt Service/ Government Expenditure (e)	35.3	39.7	27.2	29.2
Foreign Debt Service/Exports (d)	13.4	16.0	23.3	31.9
Interest payments/GDP	5.5	6.0	6.0	6.5
Interest payments/Government Expenditure	21.4	21.7	20.2	24.5
Domestic Interest payments/GDP	4.3	4.5	4.4	4.8
Foreign Interest payments/GDP	1.2	1.5	1.6	1.8
Interest payments/Government Recurrent Expenditure	38.2	40.8	37.2	38.5
Foreign Interest payments/Exports (d)	5.7	6.5	6.7	11.0

(a) For 2018 and 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.
(b) Provisional
(c) Includes Treasury bonds of Rs. 13,125 million issued to capitalise SriLankan Airlines in March 2013 (matured on 01 June 2018) and Rs. 78,441 million issued to CPC in January 2012 (of which Rs. 21,778 million matured on 01 January 2017 and the current outstanding is Rs. 56,662 million)
(d) Export of goods and services.
(e) Government expenditure includes amortisation payments.

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

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of the parity change. Overall, domestic debt service payments declined to Rs. 1,169.5 billion from Rs. 1,213.7 billion in 2019, and foreign debt service payments declined by 4.6 per cent to Rs. 771.9 billion during 2020 from Rs 808.8 billion in 2019.

Central government debt indicators showed a mixed performance in 2020. Total debt service payments declined to 13.0 per cent of GDP in 2020 from 13.5 per cent of GDP in the previous year. Amortisation payments on domestic debt as a percentage of GDP declined to 3.0 per cent in 2020 from 3.5 per cent in 2019. Amortisation payments on foreign debt declined to 3.4 per cent of GDP in 2020 from 3.8 per cent of GDP in 2019. However, total interest payments as a percentage of GDP increased to 6.5 per cent in 2020 from 6.0 per cent in 2019. Interest payments on domestic debt increased to 4.8 per cent of GDP in 2020 from 4.4 per cent of GDP in 2019, on account of the increase in outstanding domestic debt, despite the notable decline in domestic interest rates, especially the yields on government securities. Interest payments on foreign debt increased to 1.8 per cent of GDP in 2020 from 1.6 per cent of GDP in the previous year. The ratio of foreign debt service payments to exports of goods and services rose to 31.9 per cent in 2020 from 23.3 per cent in 2019, due to the decline in exports of goods and services in 2020 over the previous year, thus outweighing the impact of the decline of foreign debt service payments in 2020 over the previous year. Meanwhile, the ratio of central government debt service payments to government revenue worsened to 141.9 per cent in 2020 from 107.0 per cent in 2019, reflecting mainly the notable decline in government revenue in 2020.

Table 6.7
Outstanding Public Debt (as at end year)

	2017	2018	2019	2020 (a)
Rs. million				
Total Outstanding Central Government Debt (b)	**10,382,832**	**12,030,548**	**13,031,543**	**15,117,247**
Outstanding Balance of Foreign Project Loans Received by SOBEs without Public Guarantee	**330,221**	**366,130**	**345,453**	**323,510**
Airport & Aviation Services (Sri Lanka) Ltd.	23,955	24,964	22,317	22,189
Ceylon Electricity Board	155,535	168,649	150,418	136,720
Sri Lanka Ports Authority	150,730	172,517	172,717	164,602
Public Guaranteed Debt (c) (d)	**590,492**	**781,741**	**778,305**	**986,391**
Airport & Aviation Services (Sri Lanka) Ltd.	9,330	10,829	16,532	34,801
Ceylon Electricity Board	15,153	21,376	25,212	70,559
Ceylon Petroleum Corporation	207,622	333,869	297,220	345,500
Ceylon Shipping Corporation Ltd.	11,436	13,098	12,613	12,505
General Sir John Kotelawala Defence University	28,060	36,843	35,311	35,562
Lanka Coal Company (Pvt.) Ltd.	5,886	11,000	5,398	9,692
National Water Supply & Drainage Board	63,836	85,541	102,339	138,180
Paddy Marketing Board	11,087	11,436	11,420	2,023
Road Development Authority	162,701	189,022	206,563	262,015
SriLankan Airlines Ltd.	26,750	31,981	32,083	43,530
Other Corporations	48,631	36,746	33,615	32,023
Public debt	**11,303,545**	**13,178,418**	**14,155,301**	**16,427,148**
As a percentage of GDP (e)				
Total Outstanding Central Government Debt (b)	77.9	84.2	86.8	101.0
Outstanding Balance of Foreign Project Loans Received by SOBEs without Public Guarantee	2.5	2.6	2.3	2.1
Public Guaranteed Debt (c) (d)	4.4	5.5	5.2	6.6
Public debt	**84.8**	**92.2**	**94.3**	**109.7**

(a) Provisional
(b) Includes Treasury bonds of Rs. 13,125 million issued to capitalise SriLankan Airlines in March 2013 (matured on 01 June 2018) and Rs. 78,441 million issued to CPC in January 2012 (of which Rs. 21,778 million matured on 01 January 2017 and the current outstanding is Rs. 56,662 million)
(c) Includes only non financial public corporations
(d) Includes an international bond amounting to US dollars 175 million issued by the SriLankan Airlines in June 2014. This was matured in June 2019 and reissued for a period of 05 years
(e) For 2018 and 2019, revised GDP estimates were used, as released by the Department of Census and Statistics on 16 March 2021.

Sources: Ministry of Finance
Central Bank of Sri Lanka

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Outstanding Public Debt

The outstanding public debt, which includes central government debt, foreign project loans received by SOBEs,[8] and public guaranteed debt, increased substantially to 109.7 per cent of GDP by end 2020 from 94.3 per cent of GDP at end 2019. This increase was mainly due to the rise in central government debt coupled with the contraction in the nominal GDP in 2020. In absolute terms, the outstanding public debt increased to Rs. 16,427.1 billion at end 2020 from Rs. 14,155.3 billion at end 2019. The outstanding central government debt, which is the largest component of public debt, increased to Rs. 15,117.2 billion at end 2020 from Rs. 13,031.5 billion at end 2019, accounting for 92.0 per cent of the total public debt. Public guaranteed debt increased by 26.7 per cent to Rs. 986.4 billion at end 2020 from Rs. 778.3 billion at end 2019, and accounted for 6.0 per cent of total outstanding public debt. However, outstanding debt relating to foreign project loans received by SOBEs declined to Rs. 323.5 billion at end 2020 from Rs. 345.5 billion at end 2019 due to the repayment of outstanding loans by the Sri Lanka Ports Authority (SLPA) and the Ceylon Electricity Board (CEB) during 2020. The SLPA and the CEB were the major holders of SOBE debt, accounting for 50.9 per cent and 42.3 per cent, respectively, at end 2020.

6.5 Budgetary Operations in Sub National Governments

Policy Directions and Measures taken by Sub National Governments

In 2020, sub national governments,[9] which consist of Provincial Councils (PCs) and Local Government (LGs), continued to develop infrastructure facilities, despite disruptions from the COVID-19 pandemic. During the year, the Local Government Enhancement Sector Project, 'Pura Neguma', the Local Development Support Project, the Greater Colombo Waste Water Management Project, and several road development projects progressed, thereby enhancing the economic infrastructure of the country. The Primary Health Care System Strengthening Project and the General Education Modernisation Project also continued, aimed at upgrading social infrastructure at sub national level.

In 2020, the Finance Commission (FC) effected several policy recommendations to foster a balanced regional development in the country via sound public investment implementation and delivery of services at sub national level. The FC recommended to establish a common framework for decision making in the national and sub national governments, while disbursing funds directly to the PCs for development activities. The FC recommended providing a special capital grant to the PCs for environmental protection activities, while discontinuing the allocations made to line ministries for such activities, as most activities were carried out through PCs and local authorities. Further, the Commission recommended empowering the PCs and LGs by recognising new avenues for revenue generation in order to lessen the burden on the central government budget.

Budgetary Operations in Provincial Councils

Revenue collection of PCs declined notably in 2020, compared to 2019, reflecting the impact of the moderation of activity amidst the pandemic. Total revenue of PCs declined to Rs. 52.2 billion in 2020 from Rs. 91.3 billion in 2019. Tax revenue declined to Rs. 43.1 billion in 2020 from Rs. 81.5 billion in 2019, reflecting a significant decline in NBT revenue transferred from the Central Government to Rs. 2.7 billion in 2020 from Rs. 34.9 billion in

8 Foreign project loans received by SOBEs without public guarantee.
9 By end of 2020, the sub national governments consisted of nine PCs and 341 LGs, which comprised 24 Municipal Councils, 41 Urban Councils and 276 Pradeshiya Sabhas.

Table 6.8
Budget Outturn of Provincial Councils

Rs. million

Item	2017	2018	2019 (a)	2020 (b)
Total Revenue	**86,978**	**88,689**	**91,344**	**52,245**
Tax Revenue	77,691	82,228	81,499	43,096
Non Tax Revenue	9,287	6,461	9,845	9,149
Total Expenditure	**287,838**	**292,265**	**310,124**	**337,006**
Recurrent Expenditure	241,338	251,552	286,884	312,079
o/w Personal Emoluments	187,367	198,129	219,698	239,980
Capital Expenditure	46,500	40,713	23,240	24,927
Central Government Transfers	**200,860**	**203,576**	**218,780**	**284,761**
Block Grants	166,348	180,095	199,968	265,593
Criteria Based Grants	3,236	2,462	2,205	1,752
Province Specific Development Grants	20,250	13,536	11,376	11,004
Foreign Grants for Special Projects	11,025	7,483	5,230	6,412

(a) Revised
(b) Provisional

Sources: Ministry of Finance
State Ministry of Provincial Councils and Local Government Affairs

2019. The share of revenue from NBT declined to 6.3 per cent in 2020 from 42.8 per cent in 2019. Tax on property, which continued to be the key source of revenue of PCs, was reported at Rs. 27.4 billion in 2020 compared to Rs. 32.4 billion in 2019. Meanwhile, non tax revenue declined marginally to Rs. 9.1 billion in 2020 from Rs. 9.8 billion in 2019. The share of revenue of the Western Provincial Council of the total revenue collection by all PCs declined to 46.8 per cent in 2020 from 49.2 per cent in 2019 due to the COVID-19 related mobility restrictions, which was a more significant hinderance to economic activities in the Western Province in comparison to other provinces. Of the revenue collection by the other PCs, the North Western and Southern Provinces accounted for 10.8 per cent and 10.5 per cent of the total revenue, respectively.

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The total expenditure of PCs increased mainly due to the increase in recurrent expenditure in 2020. In nominal terms, total expenditure increased to Rs. 337.0 billion in 2020 from Rs. 310.1 billion in 2019, while as a percentage of GDP, it increased to 2.3 per cent in 2020 from 2.1 per cent in 2019. Recurrent expenditure increased to Rs. 312.1 billion in 2020 from Rs. 286.9 billion in 2019, mainly due to the rise in expenditure on personal emoluments. Accordingly, personal emoluments increased to Rs. 240.0 billion in 2020 from Rs. 219.7 billion in 2019, continuing to be the largest item in the recurrent expenditure accounting for 76.9 per cent of the total recurrent expenditure of PCs. The education and health sectors absorbed around 90 per cent of personal emoluments of PCs. Meanwhile, capital expenditure increased to Rs. 24.9 billion in 2020 from Rs. 23.2 billion in 2019, despite the decline in expenditure on acquisition of capital goods, capital transfers and Province Specific Development Projects (PSDPs). Among the high spending PCs in 2020, the Western, the Central and the Southern PCs accounted for 23.3 per cent, 12.3 per cent, and 11.9 per cent of total recurrent expenditure of PCs, respectively.

Transfers from the Central Government to PCs increased notably during the year 2020. The central government transfers increased to Rs. 284.8 billion in 2020 from Rs. 218.8 billion in 2019, mainly due to the increase in block grants amidst the decline in grants for Province Specific Development Grants (PSDGs) and Criteria Based Grants (CBGs). As a percentage of GDP, transfers from the Central Government increased to 1.9 per cent in 2020 from 1.5 per cent in 2019. Block grants, the major form of central government transfers to PCs, amounted to Rs. 265.6 billion, representing 93.3 per cent of the total transfers, which were provided to meet the resource gap in the recurrent expenditure programme of PCs. In addition, grants for special projects increased to Rs. 6.4 billion in 2020 from Rs. 5.2 billion in 2019. The transfers under PSDGs and CBGs amounted to Rs. 11.0 billion and Rs. 1.8 billion, respectively. During the year, 84.5 per cent of expenditure of PCs was financed through central government transfers, compared to 70.5 per cent in 2019, reflecting an increased reliance of PCs on the central government budget due to the substantially low revenue mobilisation of PCs during 2020.