6

FISCAL POLICY AND GOVERNMENT FINANCE

The realised fiscal outcome for the first seven months of 2012 and the projections for the balance period of the year indicate that overall fiscal management has become challenging due to lower than expected government revenue collection and an overrun in recurrent expenditure while maintaining an ambitious capital expenditure programmes. During the first seven months of 2012, revenue collection reflected a lower performance than expected mainly due to the slowing down of imports and economic activity in general and immediate impact of the tax reforms introduced in budget 2011. Government expenditure and net lending increased mainly on account of higher interest expenditure due to higher reliance on short term domestic financing in early 2012, and the depreciation of the Sri Lanka rupee against major currencies, and frontloading of capital expenditure. With these developments, even though maintaining the overall deficit within the annual budgetary target of 6.2 per cent of GDP will be a challenging task, the government has expressed its strong commitment to meet the target through necessary adjustments during the balance period of the year. In financing the budget deficit during the first seven months of 2012, the major share of funding came from foreign sources mainly due to the substantial increase in foreign investment in rupee denominated government securities and the successful issue of fifth international sovereign bond.

Fiscal Policy Measures

- **Fiscal policy strategy announced in the budget for 2012 was aimed at further strengthening the fiscal consolidation process by enhancing revenue, rationalising recurrent expenditure and maintaining public investment at a desirable level to support the economic growth prospects of the country.** It was expected that the budget deficit would be reduced to 6.2 per cent of GDP from 6.9 per cent of GDP in 2011. Government revenue was expected to increase as a result of the major tax reforms introduced in 2011 and 2012 aimed at broadening and simplifying the tax system to improve revenue mobilisation. Further, measures were taken to rationalise recurrent expenditure while maintaining capital expenditure at a desired level.

- **Tax measures introduced in the budget for 2012 were mainly focused on supporting economic activity while enhancing government revenue.** Several tax incentives were provided to encourage strategic investment in the areas of agriculture and agro processing, fisheries and fish processing and information technology. Further, tax incentives were given to promote import substitution industries such as cement, steel, pharmaceuticals, fabric and milk powder. In addition, concessionary income tax rates were granted on profits and income of a newly setup bank branch of a commercial bank dedicated to development banking, research and development activities, healthcare services, export of value added tea and handloom industry.

- **Amendments were made to the VAT structure to facilitate domestic economic activity.** Accordingly, the importation of certain types of machinery and equipment including machinery for the production of pharmaceuticals, supply of certain types of locally manufactured machinery and products and the supply of services including research and development, and the importation or the supply of lorries, trucks, buses and several other types of machinery and equipment were exempted from VAT.

- **Several other measures were introduced by the government during the first seven months of the year to enhance the tax revenue.** Accordingly, excise duties on hard liquor and malt liquor were increased by Rs. 60 per proof litre and Rs. 5 per bulk litre, respectively, while excise taxes on cigarettes were also revised upward. In addition, the full customs duty waiver granted on the importation of petroleum products was revised with effect from 13 February 2012. Accordingly, the customs duty applicable on petrol was Rs. 12 per litre and on diesel was Rs. 2 per litre. Further, the excise duties on the importation of motor vehicles, trishaws and motor cycles were revised upward to reduce imports.

- **The Special Commodity Levy (SCL) on some commodities was revised and SCL was imposed on several new commodities during the first seven months of 2012.** Accordingly, SCL on potato, big onion, garlic, peas, green gram, dhal, kurakkan, chili and sugar were revised upward to protect domestic agriculture while SCL applicable on canned fish, dry fish, fish and sprats was reduced to maintain price stability. Further, SCL was extended to several other commodities such as edible oil chilled or fresh fish to protect domestic industries.

- **Several measures were introduced in the budget for 2012 to enhance the non-tax revenue collection of the government.** Accordingly, the Telecommunication Operator Levy on outgoing international calls and incoming international calls was increased with effect from January 2012. At the same time, the online visa fee for Sri Lanka was reduced to US dollars 10 for citizens of SAARC nations and US dollars 20 for citizens of other countries from the initial US dollars 50 flat rate for every country to encourage tourist arrivals to Sri Lanka.

- **On the expenditure front, salaries and wages of public sector employees were revised upward while pension allowances were also increased.** Accordingly, the special allowance given to all public sector employees in 2011 was increased from 5 per cent to 15 per cent of their basic salary. This increase was effective from January 2012 for non-staff grade officers, while for staff grade officers 50 per cent of the increase was paid from January 2012 and the balance was paid from July 2012. In addition, various allowances paid to grama niladaris, members of the judiciary, doctors, engineers and the university staff were revised upwards from January 2012. Meanwhile, the pension payment for persons who retired prior to 31 December 2003 was increased by Rs. 1,000 per month, while it was increased by Rs. 500 per month for pensioners who retired during the period 01 January 2004 to 31 December 2005 with a view to correcting pension anomalies.

- **The government continued to enhance the support extended towards vulnerable groups in society through various subsidy schemes.** The Samurdhi allowance paid to low income families was increased with effect from April 2012. In addition, measures were taken to mitigate the adverse implications of the increase in kerosene and diesel prices in February 2012. Accordingly, a subsidy of Rs. 25 per litre and Rs. 12 per litre were granted to kerosene and diesel fishing boats, respectively, and a kerosene subsidy of Rs. 200 per month was granted to all households without electricity.

- **The public investment programme was aimed at accelerating the implementation of several strategic infrastructure projects needed to sustain a high growth momentum, while investing in regional infrastructure to ensure a more regionally balanced growth.** A significant investment was made to develop the road network at national, provincial and rural levels. In addition, investments to increase the capacity of the power sector as well as investments in the areas of port development, rail transportation, water supply and sanitation, and irrigation and water management were expedited during the period under consideration. Meanwhile, investment programmes targeting the rural sector were implemented through rural development initiatives such as "Gama Neguma", "Maga Neguma", "Divi Neguma", and regional development initiatives such as "Uthuru Wasanthaya", "Neganahira Navodhaya" and other provincial development initiatives.

- **The government successfully completed the issue of the fifth International Sovereign Bond of US dollar 1.0 billion with a 10 year maturity at a yield of 5.875 per cent per annum.** The final order books stood at US dollar 10.5 billion, an oversubscription ratio of 10.5 times, while the number of investors in this bond increased to 425 in 2012 from 315 in 2011. This was the largest order book as well as the largest number of investors in the order book for Sri Lanka. The distribution of investors was well diversified, with Asia taking 27 per cent, Europe 29 per cent and the US at 44 per cent. Global Fund Managers were the largest investors accounting for 90 per cent of the transaction, with banks and other investors taking 6 per cent and 4 per cent respectively.

Government Budgetary Operations

Government Revenue and Grants

Revenue

- **Total revenue collection in nominal terms increased by 12.6 per cent to Rs. 556 billion during the first seven months of 2012 from Rs. 494 billion in the corresponding period of the previous year.** Tax revenue increased by 11.9 per cent, while non tax revenue increased by 17.4

per cent. However, as a percentage of estimated GDP, government revenue declined to 7.4 per cent during the first seven months of 2012 from 7.6 per cent in the corresponding period of the previous year. For the seven months ended July 2012, the total revenue was only 50.3 per cent of the original estimate for 2012. The shortfall was mainly due to the reduction in VAT revenue collection which was adversely affected by the slowing down of imports and economic activity and downward revision of VAT rates in 2011.

- **Revenue from income taxes increased by 25.4 per cent during the first seven months of 2012 reflecting the notable increase in the collection of withholding taxes.** Withholding tax collection grew significantly by 81.4 per cent during the first seven months of the year, reflecting an increase in the volume as well as maturity structure of new Treasury bond issues, higher borrowings through rupee denominated instruments and relatively high interest rates prevailing in the market compared to the previous year. Corporate and non-corporate tax revenue increased by 16.4 per cent supported by improved performance in banking and financial services, food, beverages and tobacco sectors and the construction industry. Revenue from the Economic Service Charge (ESC) declined by 16.3 per cent reflecting the simplification of the ESC, exemptions and the increase in the threshold to Rs. 50 million per quarter from Rs. 25 million per quarter. The Pay-As-You-Earn (PAYE) tax collection declined by 12.3 per cent to Rs. 9.1 billion during the first seven months of the year mainly due to the increase in the tax free threshold to Rs. 500,000 from Rs. 300,000 and the granting of an additional tax free allowance of Rs. 100,000, and downward adjustment of tax rate bands to 4-24 per cent from 5-35 per cent.

- **Revenue from VAT increased marginally by 2.0 per cent to Rs. 122.9 billion in nominal terms during the first seven months of 2012 compared to the corresponding period in 2011.** The slower growth in revenue from VAT was mainly due to a reduction in VAT revenue from domestic goods and services. The contribution from VAT to total tax revenue also declined to 25.1 per cent during this period from 27.5 per cent in the corresponding period in 2011. VAT on imports increased by 6 per cent reflecting the growth in imports during the first three months although it moderated thereafter with the gradual reduction of imports responding to the policies introduced in the first quarter of 2012 aiming at reducing the

Table 6.1 Economic Classification of Government Revenue

Rs. billion

Item	2010	2011	2012 Approved Estimates	2011 Jan - Jul	2012 Jan - Jul (a)
Tax revenue	**724.7**	**812.6**	**1,000.6**	**438.1**	**490.4**
Income taxes	135.6	157.3	190.3	76.3	95.7
VAT	220.0	215.6	264.9	120.5	122.9
Excise taxes	129.9	186.0	223.1	102.6	111.1
Import duties	64.2	76.0	93.8	42.0	42.2
PAL	49.6	66.0	83.8	35.2	41.9
NBT	46.0	35.7	51.3	18.4	23.2
SCL	10.2	15.6	27.5	8.7	19.5
Cess	29.8	29.7	35.8	15.7	18.5
Other taxes	39.5	30.8	30.5	18.6	15.3
Non tax revenue	**92.5**	**122.2**	**105.5**	**55.9**	**65.7**
Total revenue	**817.3**	**934.8**	**1,106.1**	**494.0**	**556.0**

Source: Ministry of Finance and Planning

(a) Provisional

Chart 6.1 Composition of Government Revenue

trade deficit. Consequently, revenue from VAT declined to 1.6 per cent of GDP during the first seven months of 2012 from 1.8 per cent of GDP in the same period in 2011. The VAT revenue target for 2012 is 3.5 per cent of GDP.

- **Revenue from the Nation Building Tax (NBT) increased by 26 per cent to Rs. 23.2 billion during the first seven months of 2012**. This was mainly due to improved performance in the construction and tourism industries, expansion of economic activities in the Northern and Eastern provinces and an increase in imports in the first quarter of the year. Further, an increase in the registration of wholesale and retail businesses liable for NBT contributed to the growth in NBT collection during this period.

- **Excise tax revenue increased by 8.3 per cent during the first seven months of 2012 compared to the corresponding period in 2011 due to the scaling up of excise duty rates and higher imports during the early part of 2012**. Revenue from excise taxes on motor vehicles increased by 18.8 per cent to Rs. 32.2 billion over the corresponding period in the previous year supported by an increase in imports in the first quarter. However, excise tax collection on motor vehicle imports dropped significantly from June 2012 onwards mainly due to the reduction of motor vehicle imports due to increase in excise tax rates on motor vehicles, three-wheelers and motor cycles with effect from end March 2012 and the depreciation of the rupee. During the period under review, revenue from excise taxes on liquor and cigarettes also increased by 10.8 per cent and 9.8 per cent, respectively supported by the scaling up of excise duty rates on liquor and cigarettes as well as increased soft liquor production and cigarettes sales. However, excise tax revenue from petroleum imports declined by 25.4 per cent during the first seven months of 2012 due to delays in payment of duties on the importation of refined petroleum products.

- **Revenue from most of the import related taxes increased during the first seven months of 2012 compared to the corresponding period in 2011.** Revenue from the Ports and Airport Development Levy (PAL), Cess and SCL increased by 19.1 per cent, 17.6 per cent and 125.4 per cent respectively, during this period. The better performance from PAL was due to the fewer exemptions granted and the wider tax base on which it is applied. During this period revenue from SCL increased significantly to Rs. 19.5 billion from Rs. 8.7 billion recorded in the corresponding period in the previous year with the imposition of SCL on several new commodities. Revenue from the Cess levy during the first seven months of 2012 increased to Rs. 18.5 billion compared to Rs. 15.7 billion in the corresponding period of 2011. Although revenue from import duties was expected to increase by 23 per cent as per the budget for 2012, it declined marginally by 0.4 per cent due to the deceleration of imports from the second quarter of 2012.

- **Revenue from non tax sources increased by 17.4 per cent to Rs. 65.7 billion during the first seven months of 2012 from Rs. 55.9 billion during the corresponding period of the previous year mainly due to an increase in Central Bank profit transfers.** Fees and charges which is one of the major non tax revenue items increased by 5 per cent during the period. However, non tax revenue from rent, interest, and profit and dividends of other government institutions declined during the period under review in comparison to the previous year.

- **According to the budget for 2012, total government revenue in 2012 is estimated to increase by 18.3 per cent to Rs. 1,106 billion from Rs. 934.8 billion in 2011**. As a percentage of estimated GDP, total revenue is expected to increase to 14.7 per cent from 14.3 per cent in 2011 with tax revenue increasing to 13.3 per cent in 2012 from 12.4 per cent in 2011.

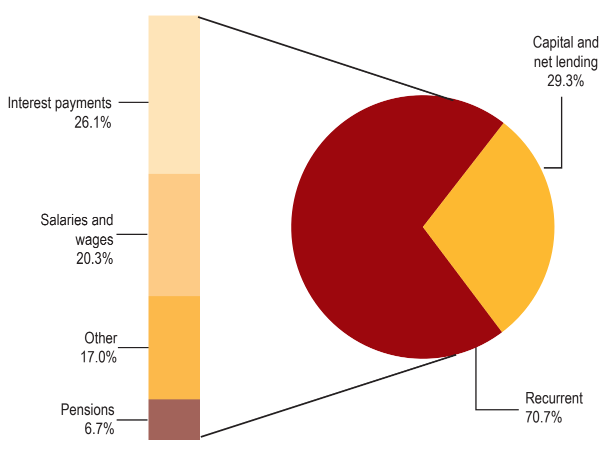
Grants

- **Foreign grant disbursements increased by 44.3 per cent in nominal terms during the first seven months of 2012.** The realised amount of foreign grants in the first seven months of 2012 amounted to Rs. 8.8 billion (44 per cent of the annual estimate of Rs. 20 billion), compared to Rs. 6.1 billion in the same period in 2011. However, foreign grants will gradually decline over the years with the improvement of the country's per capita income which already reached the middle income status.

Expenditure

- **Total expenditure and net lending during the first seven months of 2012 increased to 13.1 per cent of estimated GDP from 12.0 per cent of GDP during the same period in 2011 due to an increase in both recurrent expenditure and capital expenditure and net lending.** In nominal terms, government outlays increased by 25.2 per cent to Rs. 982.1 billion during this period in comparison to Rs. 784.5 billion during the same period in 2011, accounting for 62.8 per cent of the estimated expenditure for 2012.

Chart 6.2 Composition of Government Expenditure (January - July 2012)



- **Recurrent expenditure as a percentage of estimated GDP increased to 9.3 per cent during the first seven months of 2012 compared to 8.9 per cent in the previous year mainly due to an increase in interest expenditure.** In nominal terms, recurrent expenditure increased by 19.4 per cent to Rs. 695.3 billion during this period from Rs. 582.3 billion in the corresponding period of 2011. Interest expenditure rose by 22.9 per cent during the period under consideration compared to the marginal increase of 0.6 per cent recorded in the same period of 2011, due to the relatively high interest rates that prevailed in the domestic market on government securities, increased issuance of short term Treasury bills and the depreciation of the Sri Lankan rupee against major currencies. However, expenditure on salaries and wages increased moderately by 3.1 per cent during the first seven months of 2012 despite the increase in special allowance given to all public servants from January 2012, equivalent to 10 per cent of their basic salary. Pension payments rose by 15.1 per cent during this period due to the correction of pension anomalies and an increase in the number of pensioners by 23,447 during 2011 and by 8,881 during the first half of 2012. Meanwhile, expenditure on the fertiliser subsidy increased by 39.8 per cent to Rs. 35.5 billion during the first seven months of 2012, due to full impact of extending the fertiliser subsidy to cover all crops from May 2011. Further, expenditure on welfare programmes including the Samurdhi programme increased during the period under consideration.

- **Reflecting the government's commitment to accelerating the implementation of the public investment programme, capital expenditure and net lending as a percentage of estimated GDP increased to 3.8 per cent during the first seven months of 2012 in comparison to 3.1 per cent during the same period in 2011.**

Table 6.2 Economic Classification of Expenditure

Rs. billion

Item	2010	2011	2012 Approved Estimates	2011 Jan - Jul	2012 Jan - Jul (a)
Current expenditure	**937.1**	**1,006.6**	**1,107.9**	**582.3**	**695.3**
o/w Salaries and wages	300.6	319.6	368.0	193.3	199.2
Interest payments	352.6	356.7	370.0	209.0	256.8
Foreign	55.5	68.6	48.0	27.8	41.9
Domestic	297.1	288.1	322.0	181.2	214.9
Samurdhi	9.2	9.0	12.9	5.4	6.4
Pensions	91.0	100.0	111.4	57.1	65.7
Fertiliser subsidy	26.0	29.8	33.8	25.4	35.5
Capital and Net lending	**343.1**	**393.5**	**487.0**	**202.2**	**286.8**
Total expenditure and net lending	**1,280.2**	**1,400.1**	**1,594.9**	**784.5**	**982.1**

(a) Provisional

Source: Ministry of Finance and Planning

The contribution from foreign sources to the public investment programme increased to 50.7 per cent during the period under consideration from 45.1 per cent in the corresponding period of 2011, reflecting an increase in the utilisation of foreign funds for development projects. In nominal terms, rupee funded capital expenditure and net lending increased by 27.3 per cent to Rs. 141.3 billion, while foreign funded capital expenditure and net lending increased by 59.6 per cent to Rs. 145.5 billion over the same period of 2011. Meanwhile, public investments during the first seven months of the year focused mainly on key infrastructure development projects such as road development, power generation, port development, rail transportation, irrigation and water supply and sanitation, while also focusing on rural as well as regional development initiatives.

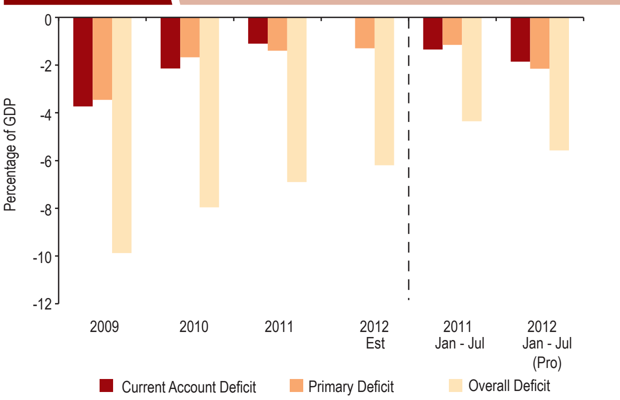
- **According to the budget estimates for 2012, total expenditure and net lending is estimated to decline to 21.2 per cent of GDP in 2012 from 21.4 per cent of GDP in 2011.** This is expected to be achieved by a reduction in recurrent expenditure from 15.4 per cent of GDP in 2011 to 14.8 per cent of GDP in 2012 as capital expenditure and net lending is estimated to increase to 6.5 per cent of GDP in 2012 from 6.0 per cent of GDP in 2011.

Key Fiscal Balances

- **The overall budget deficit increased to 5.6 per cent of GDP during the first seven months of 2012 from 4.4 per cent of GDP in the same period in 2011.** In nominal terms the overall budget deficit increased to Rs. 417.3 billion during the seven months to July 2012 from Rs. 284.4 billion during the same period in 2011. Further, the current account deficit (government dissaving) as a percentage of GDP increased to 1.9 per cent during the first seven months of 2012 from 1.4 per cent in the corresponding period of the previous year. The primary deficit (overall deficit net of interest payments) also increased significantly to 2.1 per cent of GDP in the first seven months of 2012 from 1.2 per cent of GDP during the same period in 2011.

- **According to budget estimates, the fiscal position is expected to improve in 2012 with the expected decline in overall deficit to 6.2 per cent of GDP from 6.9 per cent of GDP in 2011.** In nominal terms, the overall deficit is estimated to increase to Rs. 468.9 billion from Rs. 450.2 billion in 2011. The primary deficit is expected to decline to 1.3 per cent of GDP from 1.4 per cent in 2011 and the current account operations are expected to reach a balanced position from 1.1 per cent deficit in 2011.

Chart 6.3 Major Fiscal Indicators



Financing the Deficit

- **The overall budget deficit of Rs. 417.3 billion during the first seven months of 2012 was mainly financed through foreign sources.** Accordingly, the contribution from foreign sources amounted to Rs. 236.9 billion or 57 per cent of the total financing requirement, while net domestic financing amounted to Rs. 180.4 billion, which was marginally below Rs. 183.4 billion recorded in the same period in the previous year. However, during the first seven months of 2012 financing from banking sources increased to Rs. 96.9 billion as against Rs. 64 billion estimated in the annual budget 2012, although remaining at the same level recorded in the first seven months of 2011. Non bank financing declined to Rs. 83.5 billion during the first seven months of 2012 from Rs. 86.3 billion in the corresponding period of the previous year.

- **In line with the medium term debt management strategy of improving the government securities market, the government relied more on marketable debt instruments such as Treasury bills and Treasury bonds.** Accordingly, net domestic borrowing through marketable debt instruments during the first seven months of 2012 was Rs. 196.8 billion while non-marketable borrowing recorded a net repayment of Rs. 16.4 billion. With a view to reducing the refinancing risk, while solving the issue of bunching of maturities, the government raised Rs. 148.7 billion through Treasury bonds on a net basis, compared to Rs. 48.1 billion raised through Treasury bills during the first seven months of 2012.

- **Net foreign financing (NFF) during the first seven months of 2012 amounted to Rs. 236.9 billion exceeding Rs. 197.3 billion expected in the budget and Rs. 101.0 billion recorded in the corresponding period of 2011.** The issue of an international sovereign bond, a significant increase in foreign investments in Treasury bills and Treasury bonds with the raising of the cap available for foreign investors, and higher receipt of project loans contributed to the increase in foreign financing in the first seven months of 2012. Accordingly, NFF amounted to 56.8 per cent of the total net borrowing requirement during the first seven months of 2012 compared to 35.5 per cent recorded in the first seven months of 2011.

Chart 6.4 Deficit Financing

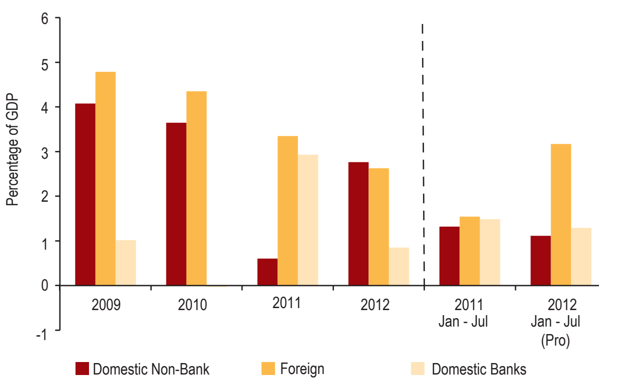


Table 6.3 Sources of Financing

Rs. billion

Item	2010	2011	2011 Jan-Jul	2012 Jan-Jul (a)
Domestic financing				
By instrument	202.2	231.2	183.4	180.4
Treasury bonds (b)	140.4	168.4	98.5	148.7
Treasury bills (c)	82.8	79.6	101.2	48.1
Rupee loans	-24.6	-25.7	-6.9	-3.6
Sri Lanka Development Bonds	11.1	5.3	7.9	12.5
Borrowings from OBUs	-6.8	-0.1	-0.1	0.0
Provisional advances	4.0	16.9	20.7	18.0
Other	-4.7	-13.1	-38.0	-43.3
By source	202.2	231.2	183.4	180.4
Bank	-1.9	191.9	97.0	96.9
Non bank	204.1	39.4	86.3	83.5
Foreign financing	**243.8**	**219.0**	**101.0**	**236.9**
Loans	194.9	193.9	90.8	134.7
Non resident investments in Treasury bonds	33.1	12.4	2.9	92.9
Non resident investments in Treasury bills	15.8	12.6	7.4	9.2
Total	**446.0**	**450.2**	**284.4**	**417.3**

Sources: Ministry of Finance and Planning
Central Bank of Sri Lanka

(a) Provisional
(b) Excluding rupee denominated Treasury bonds issued to foreign investors
(c) Excluding rupee denominated Treasury bills issued to foreign investors

Government Debt and Debt Service Payments

Government Debt

- **The outstanding government debt increased by Rs. 1,027.6 billion to Rs. 6,161.0 billion as at end July 2012 from end December 2011.** Domestic debt increased by Rs. 381.6 billion to Rs. 3,185.7 billion, while foreign debt increased by Rs. 646.1 billion to Rs. 2,975.3 billion including US dollars 521 million deposit maintained at the Central Bank to service the maturing sovereign bond of US dollars 500 million in October 2012. The total debt stock increased by around Rs. 331.8 billion due to the depreciation of the Sri Lankan rupee against major foreign currencies. Foreign currency denominated outstanding debt stock mainly consisted of US dollars, SDR, Japanese yen and Euros. The Sri Lanka rupee depreciated against all major currencies namely the US dollar, the SDR, the Japanese yen and the Euro by 13.6 per cent, 12.0 per cent, 13.0 per cent and 8.9 per cent respectively during the first seven months of 2012.

- **Of the total domestic debt, short term debt increased by 6.6 per cent, while medium and long term debt increased by 15.9 per cent during first seven months of 2012.** The increase in short term debt was mainly due to the increase in borrowings through Treasury bills. However, the share of Treasury bills in total domestic debt as at end July 2012 remained at the same level of 21 per cent as at end 2011. Of the total domestic debt stock, the share of medium and long term debt increased by 1.5 per cent to 76.6 per cent from 75.1 per cent at end 2011. Treasury bonds accounted for 66.4 per cent of the outstanding domestic debt portfolio as at end July 2012. In line with the policy of reducing non-marketable debt, outstanding rupee securities continued to decrease and recorded 1.8 per cent of the total domestic debt from 2.2 per cent at end 2011.

- **The outstanding foreign currency denominated domestic debt as at end July 2012 increased by Rs. 44 billion to Rs. 245 billion (US dollars 1,858 million) from Rs. 200.9 billion (US dollars 1,764 million) as at end December 2011.** This was entirely due to an increase in borrowings through Sri Lanka Development Bonds (SLDBs) by US dollars 95 million and the impact of the depreciation of rupee against the US dollar. The share of foreign currency denominated domestic debt to total domestic debt increased to 7.7 per cent at end July 2012 from 7.2 per cent at end December 2011.

Chart 6.5 Outstanding Government Debt

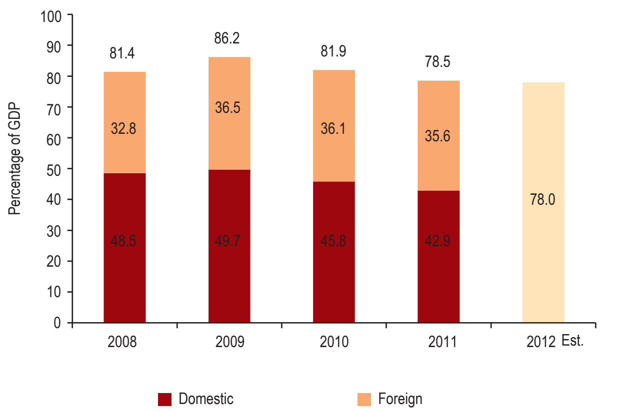


Table 6.4 Outstanding Government Debt

Rs. billion

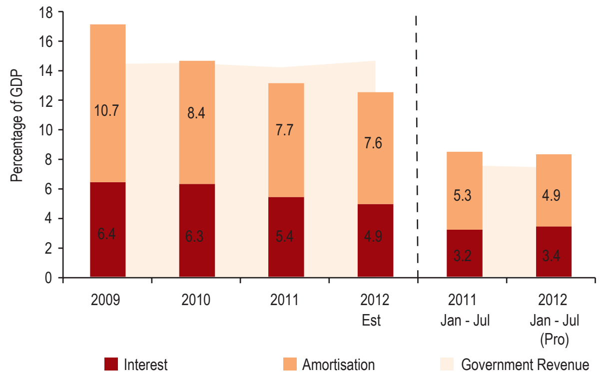
Item	2010	2011	2011 End Jul	2012 End Jul (a)
Domestic Debt (b)	**2,565.7**	**2,804.1**	**2,755.0**	**3,185.7**
By maturity period				
Short term	619.5	698.2	702.6	744.2
Medium and long term	1,946.1	2,105.9	2,052.5	2,441.5
By institution				
Banks (c)	691.7	886.2	792.1	1,244.3
Non bank sector	1,873.9	1,917.9	1,962.9	1,941.3
Foreign debt	**2,024.6**	**2,329.3**	**2,220.2**	**2,975.3**
Concessional	1,266.9	1,328.8	1,306.9	1,441.5
Non concessional	757.7	1,000.5	913.2	1,533.8
Total Government Debt	**4,590.2**	**5,133.4**	**4,975.2**	**6,161.0**

Sources: Ministry of Finance and Planning
Central Bank of Sri Lanka

(a) Provisional
(b) Excludes the government Treasury bonds amounting to Rs. 4,397 million issued to commercial banks on behalf of CWE in November 2003.
(c) Includes outstanding balance to OBUs.

- **The reliance on foreign commercial borrowings increased during the first seven months of 2012.** Accordingly, the share of non concessional debt in the total foreign debt stock increased to 51.6 per cent by end July 2012 from 41.1 per cent at end 2011. Meanwhile, of the total foreign debt stock, the share of concessional loans amounted to 48.4 per cent by end July 2012 compared to 58.9 per cent at end 2011.

Chart 6.6 Government Debt Service Payments vs Revenue



Debt Service Payments

- **According to the budget for 2012, total debt service payments in 2012 are estimated to be Rs. 940 billion.** This consists of amortisation payments of Rs. 570 billion and interest payments of Rs. 370 billion. During the first seven months of 2012, total domestic and foreign debt service payments amounted to Rs. 624 billion. This consisted of amortisation payments of Rs. 367.2 billion (59 per cent) and interest payments of Rs. 256.8 billion (41 per cent). Further, debt service payments to domestic and foreign sources amounted to Rs. 526.4 billion and Rs. 97.5 billion, respectively. Up to July 2012, total debt service payments amounted to 66.4 per cent of the annual target, of which amortisation payments accounted for 64.4 per cent of the annual target and interest payments accounted for 69.4 per cent of the annual target. Therefore, debt service payments for 2012 would be higher than the expected level.