

Continued from yesterday

The Central Bank discusses the perceptions created in remittances, international bond issue, forex reserves, rupee depreciation, tax base revenue etc. Today's article also features the development projects driving the growth of country's economy.

Perception / Claim
Sri Lankan expatriates are reluctant to send money back to the country

Reality
Remittances have been growing significantly and rapidly

Worker remittances, which grew at a higher rate for the third consecutive year, reached US dollars 2,502 million in 2007. This increase was attributable mainly to the increase in the number of migrant workers leaving for foreign employment by 8 per cent to 217,306 in 2007, the increase in the average wages of migrants in the Middle Eastern region due to the rise in income level of oil producing countries such as Saudi Arabia, United Arab Emirates, Kuwait and Qatar, and increased migration to high wage countries such as Korea, Malaysia and Singapore.

The new measures taken by commercial banks on the initiatives of the Central Bank to mobilise more remittances through creation of more awareness among migrant workers on the benefits of transferring money through banking channels and posting additional bank officers in several major labour hiring countries to mobilise remittances also helped to increase the remittances in 2007.

The enhanced worker remittances are estimated to have financed about 70 per cent of the trade deficit in 2007.

See Chart I & J

Perception / Claim
Sri Lanka will never be able to issue an international bond

Reality
Debut US \$ International bond highly successful

Sri Lanka successfully completed its debut international bond issue of a benchmark size of US dollars 500 million in October 2007.

The country's sound economic fundamentals, conducive investment climate, future growth potential and the unblemished debt servicing record, played a major role in the success of the bond, which was issued at a time when the global financial markets were in turmoil due to the after effects of the sub-prime issue. With the bond issue, Sri Lanka has marked its presence in the global financial market and enhanced its access to the market.

See Chart L



Perception / Claim
Forex reserves have hit rock-bottom

Reality
External debt and liquidity position improving...

See Chart G & H

Perception / Claim
Rupee has depreciated sharply since of late

Reality
Rupee depreciation has been orderly

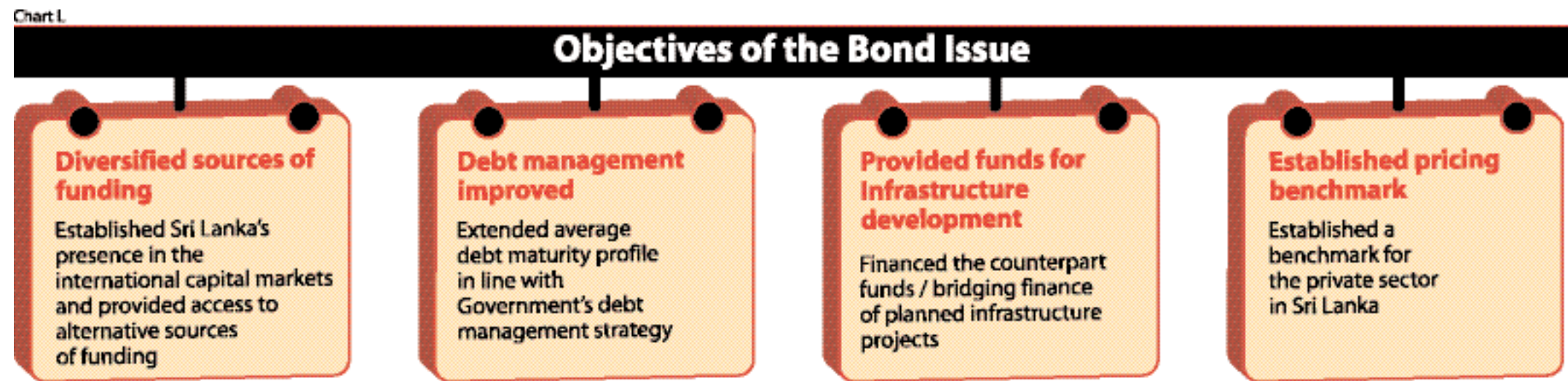
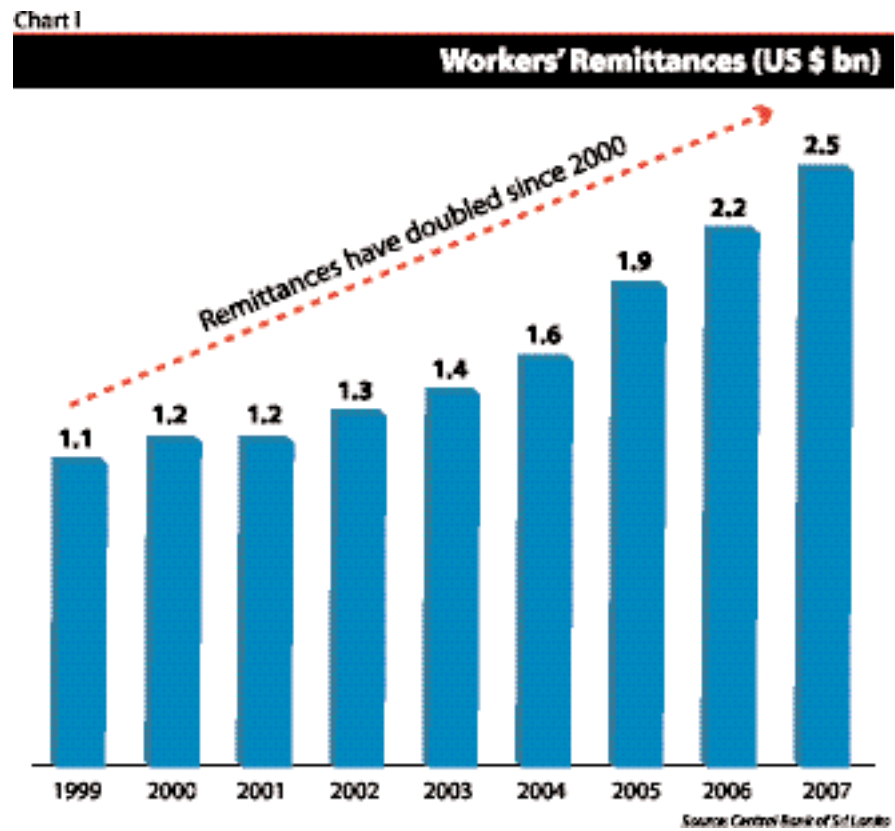
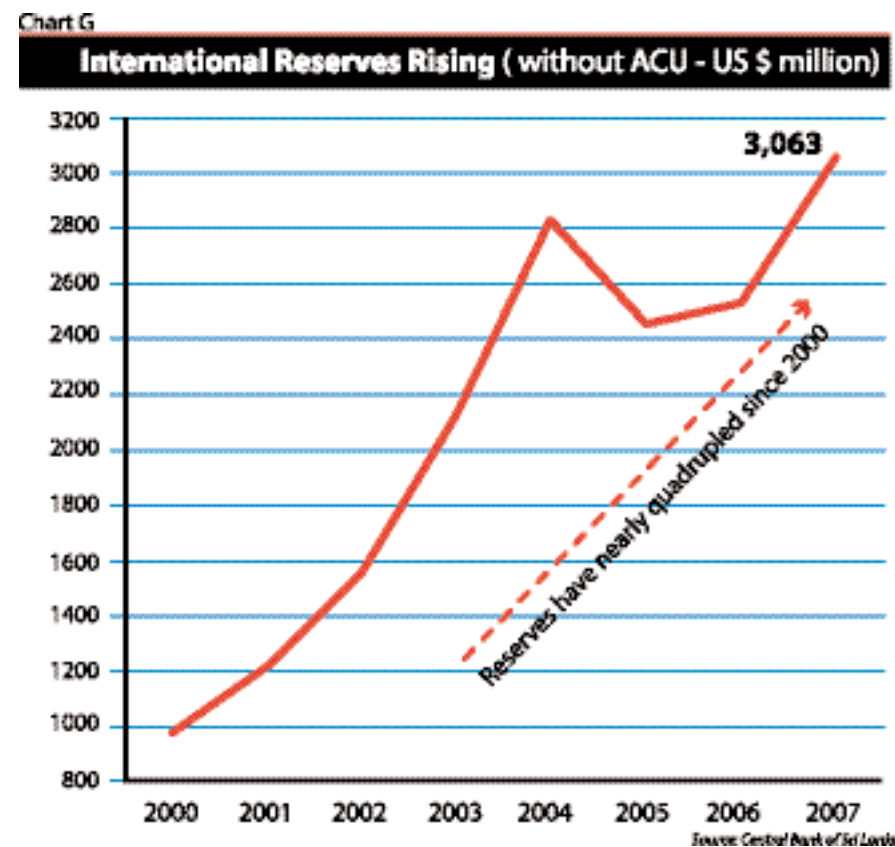
On average, the rupee has depreciated by 5.9 per cent during 2001-2004

In 2005, rupee appreciated by 2.4 per cent due to tsunami inflows and debt moratorium

In 2006, depreciation was 5.2 per cent

In 2007, the rupee has depreciated marginally by 0.93 per cent and REER has not been fundamentally misaligned

The rupee continued to appreciate against US dollar so far in 2008.



The Sri Lankan ECONOMY

Perceptions / Claims vs. Reality



PART TWO

Perception / Claim
Tax base / revenue will not improve in the uncertain security environment

Reality
Fiscal measures are shoring up the revenue base

On the fiscal front, the Government is aiming to increase revenue to around 19 per cent of GDP, in excess of current expenditure, to generate a revenue surplus, to limit Government expenditure at around 23 per cent of GDP and contain the budget deficit at around 5 per cent of GDP in the medium-term.

KEY HIGHLIGHTS

The Government's far reaching fiscal administration improvements are generating results

Revenues have increased by about 1% of GDP in the past 2 years

Revenue growth has been diverse, and solid in almost every targeted category

Success of the revenue enhancing measures could be attributed to:

Modernising administration and enhancing transparency of tax laws

Reducing exemptions and loopholes

See Chart K

Perception / Claim
Violence has led the defense expense to 'soar'

Reality
Defence expenditure at 4.1% of GDP is still much lower than many other countries

Defence expenditure as a percentage of GDP increased from 3.6% in 2006 to 4.1% in 2007 as the Government took various measures to improve the security situation. As a result, Eastern Province has been liberated and terrorist activities outside the Northern Province has been significantly curtailed.

Security and safety has to

Perception / Claim
Defence expenditure has increased by 20 per cent in Budget 2008

Reality
That is correct. At the same time, expenditure on Economic and Social Infrastructure Development has also increased substantially

be assured if investment is to be promoted. Hence, allocations for defence has increased by 19.3% in 2008. At the same time, economic infrastructure has received even higher allocations in order to continue the development effort. Social infrastructure including education and health has also received a high amount of funds.

The strategy adopted by

Perception / Claim
Government infrastructure projects are not moving

Reality
Unprecedented quantum of projects is underway

Sri Lanka for economic and social infrastructure development throughout its post-independence history has been for the public sector to provide basic essential services, through direct budgetary allocation or foreign donor support.

This appears to be the policy thrust in the current period as well. Accordingly, the Government has launched a multi-focused programme of infrastructure development as highlighted in the Ten-Year Horizon Development Framework 2006-2016 and in Government's Randora programme.

These programmes have been designed in order to develop a regionally balanced network of economic infrastructure with investments channelled through the Consolidated Fund, private and foreign direct investments and Public Private Partnerships (PPP) Roads, energy, water supply and sanitation, ports and aviation, transport and rural infrastructure development are the main areas focused under the economic infrastructure development of the Randora programme.

The national level projects comprise the development of the Southern Expressway, Colombo-Kandy Expressway and Colombo Outer Circular Road, the development of Norochcholai coal power plant and Upper Kotmale hydropower plant, large scale water supply and sanitation projects especially in Jaffna and Ampara districts and major aviation and port development projects such as Colombo port expansion and Hambantota port development projects.

"Maga Neguma" (Development of roads) and "Gama Neguma" (Development of villages) programmes are implemented at the regional level to facilitate rural infrastructure development in the country to enable the country to achieve economic development that is regionally balanced.

Continued tomorrow

