

Budget Speech 2009

Part I

Mahinda Rajapaksa

President and Minister of Finance & Planning

06th November 2008

PART I

Budget Speech – 2009

01. Hon. Speaker, it is with great pleasure that I am presenting my fourth Budget to this august house. *Mahinda Chinthana*, Ten Year Horizon Development Framework is being widely implemented across the country. The humanitarian operation to relieve the country from the grips of terrorism has reached its final phase. A democratic environment for a political solution in which the power of all people will be amply strengthened is emerging. A revival of religions, cultural and moral values has taken place. We have reached a decisive juncture in our journey towards peace and development. Exactly half of my term of office has been completed. At this point, it is important for all of us to look at our achievements during the past 3 years in retrospect and to know how we propose to go on our journey in the 3 years that is ahead of us.

02. Hon. Speaker, I wish to commence my speech with a brief note on the situation that prevailed in this country at the time I assumed office. I am sure you would recall that the North and East of our country were controlled by terrorists. These areas were even declared as L.T.T.E controlled areas. Illegal banking and Court operations were paid a blind eye. Innocent children were used as child soldiers and women were used as suicide bombers while operating large terrorist outfits in those areas. Terrorism was permitted to be operated in wide scale not only allowing damage to human lives and property but also our economy and the democratic image of our country. There was no stable policy towards defeating terrorism. Innocent civilians in the North and East were subject to the inhuman acts of terror and harassment for over 25 years. The LTTE carried out brutal terrorist attacks and destroyed not only key economic centers such as the Central Bank, Oil Refinery, Airport, and the World Trade Center in Colombo but also globally acclaimed places of worship such as the Sri Maha Bhodiya and the Sacred Tooth Relic. Virtually, all our Tamil leaders who were widely respected in

our society were brutally murdered. The LTTE killed more Tamil leaders than Sinhala leaders and virtually eliminated democratic representatives of the Tamil people. The LTTE murdered not only those leaders who were dedicated towards peace and development but even a Prime Minister of India who was a close friend of our country.

03. When Provincial Councils were established in 1988, the LTTE terrorists did not permit them to be functioned in the North and East. Although many Governments put forwarded many proposals from time to time towards achieving peace, the LTTE was not interested in moving away from terrorism. I am sure you would also remember that there was even a Peace Accord that was signed with these brutal terrorists in 2002. It is a known fact that this Accord even acknowledged that the LTTE could administer as per their plans, in the LTTE controlled areas. In the pretext of Tsunami rehabilitation efforts, the LTTE was in fact consolidating their strength through Tsunami Rehabilitation Committees. The ulterior motive behind all these attempts was to strengthen as an armed force but not to embrace the democratic process. This situation became uncontrollable and spread outside the North and East, affecting the entire country. The situation got further complicated due to external interferences. Whatever the remaining democratic machinery that was in existence in the North and East was also destroyed with the signing of the Peace Accord by the United National Front Government in a short-sighted and hasty manner. Tamils, Muslims and Sinhalese in the East were demeaned and stressed. Security Forces were weakened. What I promised in *Mahinda Chinthana* is to move away from this unsuccessful old path already taken. The path towards a undivided country, a majority consensus and a dignified peace as chosen in *Mahinda Chinthana*, after having realized the dire consequences of the old unsuccessful path that the country had already travelled.
04. Hon. Speaker, on the other hand the Neo-liberal globalization process that was followed by our country for over 30 years, paid economic dividend only to a very

small segment of our society. We were fast realizing that this process is unsuccessful. More than half of the GDP was Colombo based. Agricultural development was forgotten. Paddy fields were neglected. They were filled and used for other commercial activities. Rubber and tea cultivation was destroyed by permitting such lands to be blocked out and sold. The need to develop irrigation, highways, electricity, water supplies and rural development was also forgotten. In short, rural villages were so neglected and were made to distant from Colombo as though they were no longer a part of Sri Lanka. The country suffered a tremendous mental setback, realizing that not only the Government is unable to fulfill its primary obligation of being able to combat terrorism and bring about peace but that it has no will to construct even a rural road. Pushing aside the Professionals and the intellectuals of our country and using foreign consultants instead, became a habit. The public sector was pruned to a destructive level. Picketing campaigns by unemployed graduates became a common sight. Workers engaged in industrial actions due to closure of large factories such as those at Ambilipitiya and Thulhiriya. State Institutions such as the Food Department, CWE, Paddy Marketing Board, CTB , State Engineering Corporation and the Government Factory were being wound up. Alternate Institutions were being setup in place at Sri Lanka Customs, Inland Revenue Department, Railways and People's Bank. Tax Amnesties that were introduced made a detrimental impact on the tax system. Large scale tax frauds took place. Banks such as Pramuka Bank, crashed. State revenue was low. Debt burden of the country increased having raised debt without building - up corresponding national assets.

05. The negligent attitude adopted towards building national roads and a network of bridges, transportation, electricity, irrigation and port development for over 25 years, hampered opportunities towards developing a modern economy. The oil dependent power generation process that was adopted was not only environmentally unfriendly but also proved to be expensive and created a debt burden that was difficult for the country to bear. Although over 40 years has

lapsed, no action had been taken to improve facilities at the Sapugaskanda Refinery in order to strengthen the national economy. In fact there was a plan to hand over this facility to the private sector. There was a fictitious belief that all activities could be done through the Private Sector. While boasting of achievement of other countries in the region, action that should have been taken to place our country on par with them was neglected.

06. Hon. Speaker, our moral values deteriorated. Drugs and gambling was widespread in the country. Religious rituals and cultural bonds began to slip away from the society. People got distant from places of worship. Our sacred land became a country that consumes a high quantity of alcohol. Social discipline deteriorated to an extent that even children were susceptible to drugs, casinos and night clubs. Related activities were admired as attractive investments. Such investments were promoted with the grant of even BOI concessions. Child molesting, rape and underworld as well as organized crime, were widespread. *Mahinda Chinthana* Ten Year Horizon Development Framework for a New Sri Lanka was introduced with the hope of changing the dangerous economic, social and terrorists associated political path, which I just spoke of. It is to implement this that we got the mandate of our people in 2005. The main objective of *Mahinda Chintana* Ten Year Horizon Development Framework for a new Sri Lanka was to bring about an economy and a civilized society in which there is no fear or suspicion and in which value could be added to our national heritage and national resources. We are dedicated to bring about the required changes in all spheres during the past three years. In this process, adverse forces also got activated and surfaced in many forms. Despite all odds, we are determined to move forward on the chosen new path.

Our Approach

07. Hon. Speaker, we have come to a stage in which we believe that we should and we can, eradicate terrorism. However, we have not disregarded the need for a

political settlement. Terrorists were initially permitted for 10 months, to enter into a peaceful approach. Brutal terrorists who were not amenable to a democratic solution proceeded to escalate violence with the massacre of innocent civilians including mothers and infants at Kebithigollewa and proceeded to close the Mavil Aru anicut, denying even drinking water that is a gift of nature to the people. It is in this background that humanitarian operations were launched by our armed forces in the East, to rescue civilians, eradicate terrorism and to bring about a lasting peace to our country.

08. Hon. Speaker, the humanitarian operation that commenced in July 2006, and extended to cover the entire Eastern Province was completed with the liberation of Thoppigala (Barans hat). All displaced people were resettled within 9 months. Basic facilities were reconstructed. By the end of 2007, Local Authority elections were also conducted in those Districts. In early 2008, Provincial Elections were conducted and a democratic administration was established in terms of our Constitutional framework. Rs. 25,000 Million had been spent upto now, for the development of the East. Revival of the East as promised in *Mahinda Chintana* was made a reality. These areas have become giant contributors of our national production process.
09. It is our responsibility to eradicate terrorism to create a democratic environment and development in the North as well as to enable people to have a free life. This is also the expectation of people living in those areas. Our security forces were successful in liberating Mannar and Vavuniya Districts, and boarder areas in Trincomalee, Anuradhapura, Mullativu Districts and Weli-Oya. The secret Madhu Shrine was also liberated and our forces have develop this holy place of worship. 26th page of *Mahinda Chintana* states that, the Madhu church and the surrounding would be developed to protect the sacred area and propose to provide opportunities to all Catholics to visit this holy place, that they could not visit for over 25 years.

10. Hon. Speaker, I am glad to note that at this moment the Budget is being presented, our troops are advancing their operations having rescued a vast area in the Kilinochchi and Mulativu Districts. I am so glad not only on account of the bravery and victories of our armed forces. I also value the thoughts from a humanitarian point of view, that the day on which we can rescue around 200,000 of our own fellow citizens living in the affected areas from the brutal grips of terror, is near. Our security forces are fighting against the worst terrorist group in the world, without causing any destruction to civilians, dams, hospitals, school, temples or churches. These operations are truly commendable. Hon. Speaker, I propose a special honour of this august house, be offered to our security forces.

11. Hon. Speaker, it is to eradicate terrorism through this true humanitarian exercise that we spent a substantial amount of money on national security during the last three years. This Parliament has fulfilled a tremendous social responsibility by giving the required approvals to incur such expenditure. Unfortunately, certain liberal members in the opposition and peace agents saw these as wasteful expenditure. However, we view such expenditure as a priority need towards establishing a stable economic environment to restore democracy, consolidate human rights and achieve economic development. People are committed to make any sacrifice to relieve our country from terrorism and restore a peaceful living environment, since they do not intend to permit their future generations to go through the same sufferings experienced for over 25 years. A country that is free of terrorism is also the prime need of private sector investors.

12. The entire East and the liberated areas in the Vanni and Northern Province have rejoined the domestic production process. Major improvements will thereby be achieved in agriculture, fishery, milk production and tourism sectors. Terrorist activities are now confined to a few Divisional Secretariat divisions and their strength is gradually deteriorating. I know, that the day on which such Divisional Secretariat divisions will be relieved by our heroic forces without

harming any civilians or public property, is not far away. Even during this period the terrorist can join the democratic process. We are committed to rehabilitate such terrorists and to absorb them to the society as productive citizens. Therefore, my earnest plea to the terrorist is to lay-down arms and join the democratic process, even at this last moment. If not, they would be militarily defeated. Further, we should also take steps to conduct Local Government elections, and Provincial Council Election in the North. We should also take simultaneous action to implement our development plans on an urgent basis to re-build infrastructure facilities which had been destroyed by terrorists themselves in the North and also take immediate action to develop the North which remained neglected without any development for nearly 30 years.

13. Hon. Speaker , We must liberate the innocent people living in Kilinochchi and Mulativu mortally scared of the firearms of the terrorists. We should assist them. They have had enough sufferings. We must improve the livelihood of these innocent people by developing schools, hospitals and electricity and transport facilities in those areas. The people in those areas will act with patience till we affect these measure on a priority basis. Our security forces are engaged in operations in such areas to liberate such people in the name of humanity. I appeal to such innocent people to join hands with the forces.
14. Hon. Speaker, we rejected “Regaining Sri Lanka” which underestimated local entrepreneurship and viewed any problem with a blind eye in the guise of globalization and neo-liberalism. We proposed an alternate strategy through ‘*Mahinda Chinthana*’ which would strengthen the domestic economy, domestic identity, and a new value to national wealth. We have realized through our own experience and by looking at the global experience, that economic and social welfare cannot be successfully achieved through total reliance on the private sector or only through a market economy.

15. Notwithstanding funding constraints, we stopped relying on sale proceeds of public assets to bridge the budget deficit. Leave alone compromising deployment projects, we did not abandon constructing even rural roads, saying that there are no funds available. We neither compromised development or welfare expenditure placing emphasis only on defense expenditure. We did not rely solely on the World Bank to raise funds. Measures were taken to increase bilateral aid and Government revenue. We commenced the construction of mega irrigation projects such as Moragahakannda, Uma Oya, Kirindi Oya and Daduru Oya to make an economic revival in irrigated and backward regions. Funds were raised and steps were taken to modernize our road network in a manner that would cater the demands of at least another 20 years. Priority was given for the development of rural and provincial roads and bridges. Development of railways and the highways system has also been given priority in the Government's investment program.
16. Mega projects such as the development of Colombo, Hambantota and Oluvil Ports have been commenced to link our country with the global economy. Steps were taken to construct large power generation plants at Norochcholai, Upper Kotmale and Kerawalapitiya. Water supply projects are in progress in all main districts to enhance the availability of drinking water. Although the required funds were in place, it is unfortunate that terrorists did not permit us to construct the Jaffna Teaching Hospital and the Jaffna water supply project. We believe that these projects can be commenced next year.
17. Hon. Speaker, in addition to the large number of private investments that have taken place towards meeting urban needs of Colombo, construction of the Performing Arts Theater is also in progress. The International Convention Centre and the Administrative Complex being build at Hambantota, the Greater Colombo Urban Developemnt Project, International Stadium at Diyagama and new townships being built under '*Nagenahira Nawodaya*' are also key projects in this transformation. Many projects have been commenced to preserve the

environment, as envisaged in *Nilla Pirunu Ratak – Pivoithuru Parisarayak*. A mega project for garbage disposal will be commenced next year, at a cost of Rs.150 Billion.

18. The disparities that prevail in education as well as in health infrastructure at provincial level are a problem. Steps have to be taken to avoid the resultant effect of overcrowding in urban schools and the eminent closure of rural schools. We propose to eliminate these disparities by developing over 300 Isuru Schools across the country and also by introducing information technology and sports related facilities to such schools. Priority was accorded to upgrade technical colleges to university status, setting up the Rajarata Medical Faculty, increase the number of vocational training centers and improve facilities in universities. We also upgraded the Defence Academy to University status. We have adopted an approach to minimize inter-provincial disparities by equipping district hospitals with all modern facilities and by setting up teaching hospitals with improved technology, operating theatres and staff accommodation facilities and setting up of Godagama new hospital.
19. Hon. Speaker, recent Governments of country tried to create a picture of economic development that is detached from agriculture and local industries. A trend was created to import rice, flour, sugar, wheat, milk powder, vegetable, fish, medicine and crops which can be produced locally and even industrial products such as textile, footwear, boats and vehicles. Through the provision of duty rebates, people were tempted towards consuming milk powder. The local dairy industry was neglected. There was a failure to ensure encouraging prices for farm products. BOI concessions were extended not only to import food for human consumption but even animal feed. Local producers were not given any concessions for parallel investments. This clearly demonstrates that we did not even attempt to produce animal feed within the country.

20. Our country being an island did not even have a strategy to make itself self sufficient in salt. The potential to use rain water for agriculture purposes and even as an export had been totally disregarded. Since imported goods were provided at concessionary prices , local producers were trapped in a framework within which they had to face unfair competition . Even our leaders had started to endorse this policy as correct and effective.

21. Hon. Speaker, the policy of 'Mahinda Chinthana' is to encourage local producers and production. As such, imposition of Cess, introduction of loan schemes and extension services were done to promote local production. Our country managed to escape from the prevailing global food crisis since we took a firm stand to move away from the aforesaid economic policy in 2006 itself. We were able to give encouraging prices to farmer for crops such as paddy, wheat, onion, potatoes, fruits and liquid milk. A subsidy of around 96 percent of the price of fertilizer, was given to paddy farmers. Substantial investments were made to promote the production of high quality seed paddy, provide extension services and loans to farmers and to revive the rice milling industry. Our policies helped farmers to get richer and enabled large foreign exchange savings. However, still we spend about US\$ 800 Mn. to import food items. We need to develop agriculture, milk production, fisheries etc. on an accelerated basis if we are to make further savings. The income of farmers could thereby be increase and poverty could also be alleviated. Food security could be ensured. Our external reserves could also be increased. This is why we are implementing 'Api Wawamu - Rata Nagamu' policy strategy as a national priority.

22. Hon. Speaker, the industrial sector also experienced a reawakening. Production of motor cars, fishery boats, high value tea, garments, footwear, gem & jewellery, perfumes, furniture etc. have seen new beginnings within the country. Even security forces have ventured into producing their uniforms, boats, security vehicles etc. within the country in addition to being engaged in the important task of combating terrorism.

23. Hon. Speaker, I was able to mobilize aid to commence mega investment projects from every state visit that I have made so far. Substantial development aid was received from countries such as China and Iran. Increased aid was mobilized from countries such as Japan, India, Pakistan, USA, France, Australia, The Netherlands, Denmark, Sweden, Hungary, Spain, UK, Korea, Saudi Arabia and Kuwait. This is how we were successful in increasing foreign aid up to US\$ 1,000 million towards development activities, within the last 3 years. If not for development assistance extended by our friendly countries, we would not have been able to proceed with mega development projects such as Norochcholai coal power plant, Moragahakanda and Uma Oya irrigation projects and Hambantota port. Operations of the Sapugaskanda oil refinery were proposed to be given to the private sector for the next 25 years. However, with assistance from the Government of Iran steps are now being taken to increase the production capacity of this CPC refinery to 100,000 barrels per day. We will thereby be able to refine the entire national demand of oil. We should appreciate the 7 month credit facility extended by the Government of Iran that helped us to successfully face the global oil crisis. World Bank and the Asian Development Bank have allocated a US\$ 1,700 Million for development projects, for the next 4 years. In the above programs, priority has been given to increase the capacity of 11 main irrigation tanks including Parakrama Samudraya, Ridiyagama, Kaudulla, Thabbowewa, Chandrikawewa, Inginimitiya and Giritale and to develop provincial and rural roads.

Challenges

24. Hon. Speaker, the global oil prices hikes witnessed during the last 3 years are massive. A barrel of oil that was US\$ 40 went up to US\$ 147 by July this year. Foreign exchange spent to import oil in 2005 was US\$ 600 Million. Although the oil prices are presently low, we have to spend around US\$ 3,000 Million towards importation of our oil requirement. It was around US\$ 2,500 Million last year.

The foreign exchange required to import fertilizer and raw material also increased consequent to the steep escalation of oil prices.

25. During this year, the price of all essential commodities increased by 100 percent. The crisis escalated to such extent that compelled even certain countries with open economic policies to proceed to ban exporting food. Consequent to the oil price escalation, inflation rose to around 25 percent. In spite of pressures that were exerted to import rice and predictions given that a kilo of rice would be around Rs.100, we successfully overcame such issues. Those who belong to the working class faced this situation with the Government, with a proper understanding and responsibility. This was indeed a strength to us.
26. Hon. Speaker, we have completed constructing over 100,000 houses for those who were displaced by the Tsunami disaster and also reconstructed the affected fishery harbours, roads, bridges, schools, hospitals etc. During the past 3 years, not only we were able to successfully rebuild the affected regions faster than other countries that faced this disaster, we also managed to implement a program through which the impact of such a disaster could be minimized.
27. Hon. Speaker, one of the greatest challenges we are faced with is to rebuild the public sector. We experience a sever shortage of man power of teachers, doctors, nurses, tax and Customs officers, technicians due to the employment freeze that was there in the state sector for many years. The operations of state institution were consequently weakened. Substantial quantum of money had to be spent to resolve salary anomalies which have gone unattended for many years and due to the new salary structure that was introduced. I wish to note that we are the only government that took care of security concerns and development priorities while also not forgetting to develop the public sector, while ensuring annual recruitments and salary increments as well.

28. Hon. Speaker, the global economy is presently facing a serious crisis. Key Financial Markets including the United States and Japan have collapsed. In this backdrop, the United States alone has allocated US\$ 700 Billion in an attempt to prevent their economy from crashing. In this background, the United States and United Kingdom have moved to nationalize major banks and financial institutions. In the meantime, the economic crisis has started to affect Asia and the Middle East as well. Major foreign currencies have weakened. As a result, the prices paid for our main exports such as tea and rubber, are going down.
29. Hon. Speaker the European Union has adopted a new trend, wherein conditions are being attached to concessions granted by them such as GSP+. It is unfair to engage in international trade and investment within a framework through which political objectives are tried to be achieved. As much as we do not permit terrorists to operate in the North at the cost of innocent people, we will also not permit other countries to accomplish their political agendas through our export industry. We are a proud nation that is not second to any developed country which respects fundamental rights, human rights, rights of women, respect labour laws, laws preventing the use of child labour, environmental laws, gender equality, election and civil rights
30. Hon. Speaker, We propose to implement *Mahinda Chinthana* - the Ten Year Development Strategy, giving consideration to views and proposals of everybody. We have direct dialogues with Trade Unions to be able to address problems of the working class who are serving amidst economic hardships. Through this process we have worked towards developing industrial peace within the country. Around 90 strikes that we experienced during the year 2002 had reduced to less than 20 by the year 2008. Workers are conducting themselves with greater dedication and tolerance, being aware of global trends and the situation that is prevailing in the country as well as the *Mahinda Chinthana* development program. We have maintained an economic growth of over 6 percent in the last 3 years.

Economic Progress

31. Amidst economic challenges, country's GDP has grown by an average of 7 percent. The Per capita income which was US\$ 1,000 in 2004 increased to US\$ 2,000 this year.

Unemployment was reduced to 500,000 from 800,000. We generated 300,000 new job opportunities. The rural income thereby increased since those who benefited most through these new job opportunities were the youth of such areas.

We have constructed a large number of concrete roads under the *Maga Naguma* program connecting many villages. Many *Gama Naguma* and drinking water projects were also implemented at village level. During the past 3 years, we have spent around Rs.39,000 Million on account of such projects. In addition the villagers also contributed with a 20 to 30 percent labour input. As such, the amount of money spent towards village development as well as participation of villagers was immense.

Capital Expenditure that was Rs. 177 billion in 2006 was increased to Rs. 278 billion to implement ports, power plants, railways and irrigation projects that were so far neglected. Rs. 360 billion has been allocated in the Budget estimates for such projects.

Government income that was Rs. 400 billion was increased to Rs. 700 billion.

Tea sector was transformed to be a US Dollar 1 Billion export industry. Tea, Rubber, coconut and minor export crops became very popular among tea Small holders and contributed towards improving their income.

Despite a heavily competitive environment, necessary encouragement was provided for the garment industry to move forward and record itself as a US\$

3,500 million industry. Numerous incentives were granted to this sector throughout the last 3 years.

A construction boom was created to revive the local construction industry that had collapsed and this sector has now recorded over a 9 percent annual growth. Today several of our own construction firms have come to the forefront. These firms are entrusted with a lot of responsibility in the backdrop of major construction and development work that are envisaged in the North and East.

The minimum monthly wage of a public servant was increased from Rs. 7,900 to Rs. 11, 730. The Cost-of- Living allowance was also increased from Rs. 1,000 to Rs. 3,500. Hon. Speaker the monthly wage of a public servant has increased by Rs. 7, 330 - within 3 years. Allowances for pensioners were also increased.

Expenditure on account of medical facilities and drugs for the welfare of the people has been increased from Rs. 7,100 million in 2005 to Rs. 13, 000 Million. Expenditure on school text book, uniforms, food and transport facilities has been increased from Rs. 2,560 million to Rs. 5,510 million. We have been able to sustain the highest Human Resource Index record in the South East Asia due to the quality of education and health facilities maintained in our country.

The transport sector was improved with the construction of roads and bridges throughout the country and flyovers around Colombo. The usage of cars, buses, three wheelers and motor bicycles have increased from 1,830,700 to 2,328,000. Telephone usage that was around 3.7 million has increased to 10 million. This is more than a two fold increase.

We have built over 300 *Nana Sala* centers to improve the technological knowledge and usage in rural areas. Measures were also taken to enhance technological know- how through the school network, various ministries and local government bodies.

Households that consume electricity have increased from 33 lakhs to 40 lakhs consequent to the expansion of rural electrification schemes and strengthening the distribution network. The number of families that consumes drinking water has increased from 500,000 to 12,000,000.

Economic Development that was confined to Colombo has expanded to villages. Consequently, regional disparities have reduced during the last three years. It is reported that poverty has substantially reduced in all districts other than in the Nuwara Eliya district.

The railway service that had deteriorated was revived with the addition of 100 railway carriages and 10 power-sets. Action is also being taken to improve the railway track network and make the railway service an attractive mode of transport.

To make bus commuter transportation more effective, we are in the process of once again strengthening the SLTB to make it capable of transporting around 17 lakhs of commuters per day, by introducing 2,240 new buses and by streamlining the maintenance aspects. SLTB will be made capable of handling 40 percent of country's passenger transportation needs by strengthening its fleet to 6,000 operating busses. Steps have been taken to strengthen private bus operations as well. School bus services have been reviewed. Private bus owners will be made strong local entrepreneurs and the quality standards of their service will also be improved.

Operations of several entities which were proposed to be liquidated such as the Government Factory, State Engineering Corporation and Paper Corporation, were recommenced. State construction entities such as Mahaweli Engineering Division, State Engineering Corporation, SD & CC and the Engineering Divisions of the Armed Forces have also come to the forefront.

Producer prices were maintained at a high level. The price of a kilo of paddy, maize and onions stabilized around Rs. 25 to Rs. 30 per kilo. The paddy production that was around 3,245 MT in the year 2005 increased to 3,800 MT this year. Maize, B Onion and potatoe production could be increased to a level that could meet 50 per cent of the local demand. Milk production had been increased to meet 28 percent of our local demand and this is being improved towards the 50 percent target. While wheat flour consumption has dropped from 1,000 MT to 750 MT there was a relative increase in the consumption of local rice flour, rice and other grain. Cess and other taxes will be used to further reduce the demand for wheat flour and milk powder.

Action taken by the UPF Government towards privatization and the ultimate closure of the CWE had a direct impact on the cost- of- living and welfare of the lower and middle class people. A large number of employees who served CWE became disgruntled. Steps were taken to reduce prices of essential goods with improvements made to the Cooperative network and through the introduction of Lak Satoosa/COOP City trade network. We have setup around 300 Coop City outlets so far.

State Banks were strengthened. Steps are under way to strengthen Rural Development Banks that were merged to focus on rural development through their network that consists around 300 branches. Further, Lanka Puthra Bank was setup to intervene in activities that were facilitated by the Development Banks which were privatized, Insurance Trust was created to streamline insurance related activities and Sri Lanka Savings Bank was setup to create a base with those depositors who suffered and were left idle with the collapse of Pramuka Bank and Mihin Lanka was setup for the benefit of low income earners. I hope that, these entities will not be privatized if UNP comes back to power.

Preservation of the environment was given priority by giving preference to solid waste management for a eco-friendly economy, discouraging the use of

polythene and plastic, promoting tree plantation and preservation of Arts and *Pilisaru Piyakaru* program. Our aim is to create a eco - friendly environment as vouched in terms of *Nilla Pirunu Ratak – Piyakaru Parisarayak. Mathata Thitha* program made substantial progress through measures taken to impose higher tax on cigarettes, conduct educational programs and raid illicit liquor.

32. Hon. Speaker, our people have begun to feel the benefits of development taking place in their areas. Villages benefitted by a greater part of the income that generated from over 3,000 new jobs which were created. With the enhancements in foreign employment, an annual income of around US\$ 2,500 Million accrued to ordinary people. The rural economy revived with high prices paid for farm products and the development projects that are being implemented.

33. Hon. Speaker, Our opponent are publicizing that there are human rights violations in our country. Our country's image is being tarnished with the aid of certain non governmental organizations, alleging that the country is being ruled by a Government that is on a war footing, that the Government is anti-democratic and that that our country is a failed state overshadowed by corruption. Pressure is being exerted to discourage development aid. Adverse action is being taken to sabotage certain benefits that can be obtained in relation to our exports. Substantial money is being spent with the assistance of certain media towards a major conspiracy that is detrimental to our state. What is comforting is that our people have intelligently understood this. We won all 27 electorates in the North - Central and Sabaragamuwa Provinces since people are keen to ensure that our development strategy is implemented and those involved in the conspiracy are defeated. The best democratic response that can be given in to those who are attempting to sabotage our development strategy was given by our people at the 3 provincial council elections held.

Government Expenditure

34. Hon. Speaker, before I proceed to announce the Budget Proposal, I wish to make a brief statement on government revenue and expenditure. A key feature in relation to Government projects is to incur more capital expenditure on infrastructure and augment Government revenue as opposed to revenue generation through the sale of state assets. We have increased capital expenditure up to Rs. 360 Billion. Priority has been accorded to combat terrorism by increasing expenditure on state security. Hence a stable environment is now evolving to facilitate all economic activities of the country. Expenditure on education was increased to Rs. 100 Billion on account of recruitment of new teachers, improvements made to school buildings and equipment, provision of school books and improving library and computer facilities in all areas. Enhanced hostel facilities and expanded strength of academic and other staff helped to improve University Education. Graduates are increasingly being productively employed in view of improved curricula, geared to address prevailing demands. While Rs.21,000 Million has been allocated for University education, Rs. 4,600 Million has been allocated for vocational training and to improve technical and professional education, with a view to develop a skilled labour market. Hon. Speaker, around Rs. 4,000 Million has been allocated to the health sector to improve the staff strength of Doctors, Nurses and other staff, to provide better medical facilities and also towards services provided free of charge.
35. Rs. 29, 935 Million has been allocated in 2009, to revive villages by carrying out a consolidated development program alongside *Gama Neguma*, to improve rural roads, electricity schemes, drinking water schemes, and self employment projects. Rs.41,000 Million has been allocated for *Samurdhi* Program towards the welfare of the less privileged and displaced persons and for the fertilizer subsidy. In addition, government also should be repaid. Hon. Speaker, this is

why Government expenditure is estimated to be around Rs. 1,719 Billion in 2009.

Government Revenue

36. We have taken measures to improve Government revenue which was Rs. 331 Billion in 2004 to Rs. 712 Billion this year. Revenue from Income Tax has registered a record improvement of Rs. 143 Billion. This is a favourable trend. We have managed to maintain a Revenue/GDP ratio of 16 per cent. This is despite many concessions provided for oil, essential commodities, raw material and investments.

Budget Deficit

37. When presenting the 2006 Budget, I pointed out that the gap between Government Revenue and Expenditure needs to be narrowed. This gap which was 10 percent in 2004 had been now reduced to 7 per cent. Further, Government debt that was over 100 per cent of Government borrowings was reduced to 85 per cent.
38. Hon. Speaker, I also wish to emphasize at this point, that all loans raised by us have been towards investments that would generate an asset that is worth several more times than the loan so raised. We are in the process of creating such assets with the ports, power plants, irrigation projects and water resource schemes which are being developed. We have been able to create these fixed assets utilizing development expenditure not only at national level but also at provincial and rural levels. The concrete roads which are being built at rural level are investments that would last for many years. Rural electrification projects, drinking water schemes, minor irrigation schemes, being built across villages are also assets which would facilitate long-term village development. They generate revenue both for the country and the village. Poverty is being

reduced. We also improve the ability of our economy towards long-term debt repayment with effective budgeting that ensures creation of assets which are more valuable than loans raised.

39. Hon. Speaker, I have seen certain opposition Members of Parliament making statements to newspapers and in television programs, that each one of us are in debt to the tune of Rs. 150,000. What they do not mention is that we have a 20-25 year period to make such repayments. They do not tell that the annual amount repayable by a person is only Rs. 7,000. They neither tell that we have increased the annual average per capita income to Rs. 200,000. I wish to emphasize that we carefully evaluate each loan that we raise and have directed such funds to create productive assets that can be used for generations such as ports, power plants and reservoirs. I have therefore introduced through my last 3 Budgets, a revenue- expenditure pattern that would facilitate to build a country which is not burdened with debt or depends on the sale of state assets to generate revenue and I will strengthen this position through my proposals in the 2009 Budget. Fiscal Management Report, 2009 Revenue and Expenditure Estimates and other Economic Reports will be tabled.

Budget Speech 2009

Part II

Mahinda Rajapaksa

President and Minister of Finance & Planning

06th November 2008

PART II

Budget Proposals - 2009

1. Hon. Speaker, We have now come to an important juncture. Having liberated the East from the grips of terror we are now in the final stage of liberating Vanni and the North. While *Nagenahira Udanaya* has become a reality, we are hopeful of *Uthuru Vasanthaya* as well. Democracy has to be strengthened in the North through Provincial and Local Government elections. In the same manner that a political consensus is sought, urgent development activities that need to be implemented in the North should also receive priority. After many decades, there is an opportunity immerging to implement a development strategy that would bridge the North and South. On the other hand, virtually all major development projects in terms of *Mahinda Chinthana* Development Framework for a New Sri Lanka, are being implemented at various stages. Oil exploration work has also commenced. National security has been strengthened to enable the private sector to expand investment and production. Lacunas in the public sector are being addressed to make it productive and people friendly. Action should also be taken to ease the cost-of-living. In the midst of all this, the sudden collapse of the global economy has posed new challenges to our economy. We have to steer the economy forward, while managing these challenges as well. This Budget has been prepared having taken into consideration all these facets.
2. Hon. Speaker, the security forces are liberating the North for all of us. Their lives are equally valuable as the lives of those living comfortably in Colombo. They are protecting the country at the cost of their lives not for any political gains but targeting the future of this country and for peace and development for the next generation. Before I outline the proposals, I request all of you that we unite and dedicate ourselves to bring about sustainable peace, development and welfare in our country. As much as soldiers are fighting to liberate the country from terrorist at the cost of their lives. I strongly believe that our country can achieve national security, peace and economic prosperity through such unity.

3. *Flourishing Society - Sustainable Development*

Hon. Speaker *Mahinda Chinthana* Development Strategy envisaged a realistic national economic policy. Its thrust was to promote local producers, utilize foreign investment productively and blend all this to bring about our national identity. We believe that we should produce all what we can, within our country. I therefore, wish to initially make certain proposals to promote domestic production.

- I propose to increase import duty on wheat grain from 6 percent to 10 percent to discourage the consumption of wheat flour and to promote the production of paddy and other grain.
- A 5 percent Cess will be imposed on wheat flour to promote the production of locally made flour such as rice flour and kurakkan flour.
- To promote local agricultural produce such as black gram, kurakkan, cowpea and sesame seed, I propose to impose a 15 percent Cess on similar imports.

I believe that these proposals will encourage maximizing the production of rice and other grain throughout the country in the forthcoming Maha season.

- Only a small quantity of around 25 percent of the demand of liquid milk is produced locally. I have stated in *Mahinda Chinthana* that we should get away from this dependency on imported milk powder and instead become a country that is self sufficient in milk. Our dairy farmers are engaged in production of milk in the North, East, South and North West, North Central and Central Provinces. I propose to increase the special commodity levy on imported milk powder import from Rs. 5/- to Rs. 15/- per kg. to further encourage dairy farmers. Money will be set aside from the levy so collected to import milking cows, promote breeding centres and set up small and medium milk

farms on a scientific basis and to broaden the veterinary services. This will also enable milk farmers to secure remunerative prices.

- Cultivation of sugar cane and manufacturing of Sugar was progressing in Badulla and Monaragala districts. These industries faced a draw back due to the closure of Hingurana and Kantale Sugar factories. I propose to increase the special commodity levy on imported sugar from Rs. 14/- to Rs. 16/- per kg. in order to encourage the local sugar industry and sugar cane cultivation. This will also promote the Palmyrah industry in the North and Kithul industry in the South.
- A Cess of Rs. 25 / kg on rubber latex and Rs. 4 / kg on tea will be imposed on imports in order to maximise domestic usage of tea and rubber.
- There is injustice caused to local producers of animal feed since BOI registered companies engaged in such production enjoy tax concessions. I propose to impose a 25 percent Cess on imported maize and animal feed applicable to all importers including those in the BOI regime. This will be a major incentive to those farmers getting ready to cultivate around 70,000 hectares of maize in the forthcoming season.
- Paper manufacturing factories at Ambilipitiya and Valachchenai were closed down due to neo - liberal policies that were followed. We took steps to revive these two factories. I propose to impose a 5 percent Cess on paper imports to modernize these two factories and make them commercially viable.
- Furniture manufacturing industry in various parts of the country including Moratuwa has witnessed a speedy improvement. Local manufactures are in fact exporting high quality household and office

furniture. I propose to impose a 15 percent Cess on all imports of such items to further incentivize related local manufacturers.

- To incentivize the manufacture of foot-wear, hand bags, belts and other leather goods, I propose to impose a Cess of Rs. 200 / kg. on all imports of such products. I propose to exempt all raw material required for such manufacturing from import duty and VAT. Steps will be taken to improve the leather industry alongside the garment industry.
- I propose to increase the Cess on polythene and plastic from 1 percent to 5 percent to discourage the usage of such products, in order to preserve the environment.
- We have achieved good results in our efforts to improve the manufacture of ayurvedic medicine by implementing *Osu Gammuna* - projects cultivating ayurvedic plants. I propose to increase the Cess on ayurvedic medicine imports to prevent the undue competition faced by our indigenous medicine industry.
- The importation of fruits and vegetables has caused a heavy threat to domestic agriculture. I therefore, propose to increase the existing Cess on all imports of fruits and vegetables.
- I propose to increase the Cess on sarees, sarongs, ready made garments and material imported for local consumption by 50 percent to improve the quality of handloom and other material manufactured in Sri Lanka.
- Our manufactures have graduated to be able to export fridges, fans and ceramic-ware. I therefore, propose to increase the cess on imports of such items by 50 percent.

- Chocolate, biscuit and sweets manufacturing are businesses that our manufacturers are very familiar. As a further incentive to promote the production of such items, I propose to increase import Cess on Chocolates, biscuits and sweets by 50 percent. I propose to implement regulatory standards on such imports with immediate effect, to ensure that they do not contain melamine.
- We promoted domestic motor vehicle manufacturing. Locally manufactured vehicles are now in the rise. Manufacturers of motor bicycles should also be promoted. I propose to continue the incentives given to such industries.
- Funds and technological know-how required to improve product standards of the handicraft industry are arranged by the National Craft Council. I therefore, propose that the Cess imposed on all related substitute imports to be increased by 100 percent. Import duty and VAT on raw material such as copper, silver will be exempted to minimize the production cost of local entrepreneurs.
- I feel that it is a shame having to import around 50 percent of our salt requirement. I therefore, propose to impose a cess of Rs. 10/kg of imported salt to promote local salt production to reach self-sufficiency and develop as an export industry.

Consequent to the above proposals that were made for local industries, we will be able to produce high quality products using latest technology. The Production economy will thereby broaden at district level. Local entrepreneurial community will thereby emerge and we will be able to achieve sustainable development. In the backdrop of the global economic crisis, our main objective should be to improve local production. We managed to face the recent global food crisis since our rice requirement was produced within the country.

4. *Milk Subsidy for children of low income families*

I propose to give a monthly allowance of Rs.200 for children between the age of 1 to 5 in Samurdhi and low income estate families, to reduce the cost-of-living of such families and also to promote liquid milk consumption among such children. This will also promote the production of liquid milk. The Ministry of Child Development and Women Empowerment and the Samurdhi Authority will issue stamps for all eligible families from January 2009. I propose to allocate Rs. 900 million for this purpose.

5. *A Land in harmony with nature*

Hon. Speaker, I have explained in *Mahinda Chinthana* that my aim is to achieve sustainable development in close liaison with the earth, the animals and fauna and flora. Environmental preservation should be ensured by growing trees alongside roads as a part of highways and urban development that is taking Place Island wide. Special projects should be launched to plant trees in temple, kovil, mosque, and church and office premises. Fauna and flora in river banks all over the country should be nourished and cared for. It is proposed to develop such areas as Green Circles. I proposed to allocate Rs. 150 million to setup plant nurseries, avail plants and provide other required facilities.

6. *Preservation of native habitats*

Preserving Dambana, Rathugala, Pollabadde, Henanigala, Dalukana being villages occupied by our native inhabitants will do proud to our nation. I propose to allocate Rs. 50 million to preserve the natural habitat of such villages, their life style and earning patterns as well as their traditional customs and rituals.

7. *Preservation of Elephants*

The human elephant conflict has reached a peak and is a concern for both parties. These conflicts have caused loss of human life, destruction to agricultural assets and affected day to day lives of those living in such areas. This has also caused major harm to elephants. The construction of electric fences is estimated to cost Rs. 950 million. I propose to give special priority to

construct these protective fences within the next two years and allocate required fund.

8. *Co-operatives and supermarkets (Co-op City outlets)*

Hon. Speaker, we exempted the entire cooperative sector from all taxes in order to revive cooperative societies. Many cooperative societies which have benefited by these concessions and have made satisfactory progress. At present there are over 300 Co-op City outlets in operation. I propose to allocate Rs. 300 million to further popularise Co-op City outlets in rural areas and also to setup around 1,000 mini Co-op City outlets at village level.

9. *Serving the public and simplifying administrative procedures*

A program is underway through the Ministry of Public Administration to provide an administrative service that is closer to the people. Public proposals have revealed that forms and procedures used in the public service delivery process are cumbersome. Even charges levied for public services rendered and the receipts issued have not been simplified to suit the present era. I propose to appoint a task force to be headed by the Minister of Public Administration to simplify the administrative process and the systems and procedures through which these services could be extended to the people in a simpler manner. I have proposed in *Mahinda Chinthana* to setup *Jana Sabha Secretariats*, to make villages prosperous by bringing together the efforts of field level public servants and community organizations in such villages. This Task force will take steps to ensure that village level development officers such as Samurdhi officers, and agricultural officers will render their services through these *Jana Sabha Secretariats*. This will enable to provide facilities to rural people under one roof. I propose to allocate Rs. 150 million for this task.

10. *Training of National Languages*

Ordinary people in our country face many difficulties when they obtain services from public as well as private institution owing to the non-usage of Sinhala and Tamil languages. In order to overcome this problem, working knowledge of Sinhala and Tamil languages among public servants needs to

be developed. I therefore, propose to allocate a sum of Rs. 50 million to conduct related training programs by the National Language Institute.

11. ***Mathata Thitha and protection of milking cows***

Excise Department, religious places of worship, schools and voluntary organizations have done a tremendous service under the *Mathata Thitha* programme to eliminate the drug menace from the society and to rehabilitate those who are addicted to liquor, drugs and cigarettes. I propose to allocate Rs. 100 million to consolidate these measures at village level, to assist religious places of worship, voluntary organizations and schools which are dedicated toward such services and to eradicate from the society the slaughter of milking cows.

12. ***International level facilities to rural sportsmen***

I propose to allocate Rs. 300 million to broaden training programs for rural youth in international sports such as badminton, tennis and swimming, to upgrade related stadium facilities and to widen opportunities for rural youth with exceptional talents, to take part in international sports events.

13. ***Compensation for acquisition of lands for road development***

Heavy compensation is required to be paid on account of land acquired for road development throughout the country. The compensation payable for this purpose as of now is around Rs. 10,000 million. Those who are entitled to receive compensation are confronted with various difficulties consequent to delays associated with such payments. Further road development activities also suffer various setbacks, consequently. To resolve this issue, it is proposed that compensation less than Rs. 1 million would be directly paid by cash. In relation to compensation in excess of Rs. 1 million, action will be taken to issue Treasury Bonds by the Central Bank of Sri Lanka through Bank of Ceylon, with a 1 -2 year maturity period and attracting an annual interest rate of 17 percent. These Treasury Bonds could either be used as security to obtain a loan, be discounted or be redeemed at the end of the two years along with interest. If needed the owner could even obtain interest at six monthly intervals. This arrangement will enable property owners to receive their

compensation in a timely manner. I propose to allocate Rs. 10 billion to issue Treasury Bonds for this purpose.

14. *Coordination of development activities at rural and provincial levels*

Enhanced foreign aid had been mobilized for rural and provincial road development, supply of drinking water, electricity and minor irrigation projects. I propose to set up a Presidential Task Force consisting of representatives from the Provincial Council Ministry, the Nation Building Ministry, Finance Commission, Provincial Councils and other relevant state institutions and the Ministry of Finance and Planning to coordinate the implementation of such projects operated at village and national level.

15. *Small scale hydro power plants*

Around 600 small scale hydro power projects have been identified which are capable of adding around 300 MW of power to the national grid. Such electricity generation will help to save fuel used for power generation substantially. However, many obstacles have surfaced in implementing these projects. I propose to setup a Presidential Task Force that could assist in resolving expeditiously, issues pertaining to provision of land, bank loans, environmental certificates and administrative approvals.

16. *Mihin Lanka Airline and Weerawila Airport*

Our Government is taking measures to expand domestic and international airline services, operate Mihin Lanka Airline to be able to offer an affordable service to the general public and to construct the Weerawila International Airport. Although Mihin Lanka Airline suffered a setback due to increasing oil prices and inadequate capital, the operations could be revived by providing the required capital, since we have secured long - term financing to acquire the required aircrafts. This move will improve domestic and regional air travel and also be a major concession to the export of fruits and vegetables. We have already included the required allocation of Rs. 6,000 million in the Budget Estimates. The Airport and Aviation Authority will make the required investments to construct the Weerawila International

Airport. I propose to allocate Rs. 500 million as the Government contribution for the year 2009 for this construction.

17. ***Universities for all***

As stated in the *Mahinda Chinthana*, steps have been already taken to provide hostel accommodation, lecture hall facilities and curricula development to provide opportunities to a greater number of students who qualify for university education. The facilities available in universities outside Colombo are insufficient. Steps need to be taken to improve facilities of such universities and also to develop areas in the vicinity as university townships. Priority has to be given to improve faculties of these universities on par with other universities and to develop the area in the vicinity to be able to cater to the needs of the campus community. We also need to give priority to immediately fill vacancies in the academic staff and to provide foreign post graduate opportunities for such staff. I propose to allocate an additional allocation of Rs. 950 million to improve Rajarata, Wayamba, Sabaragamuwa, Uva Wellassa, Northern, South Eastern and Jaffna universities.

18. ***50 year commemoration***

The celebrations to mark 50 years since the establishment of the Vidyodhaya University and the Vidyalankara University that gave our country an intellectual revival are scheduled for next year. I propose to allocate Rs. 100 Million to conduct programmes planned to value this memorable event.

19. ***E - Villages***

Allocations were made in the 2006 Budget to connect rural villages in backward areas with the rest of the world and enable them to blend with the global community and economic trends, through Information Technology. This program has enabled online connectivity through around 500 *Nana Sala Centres*, between villages, schools and state and public institutions, and also facilitates to broaden the knowledge of English and Information Technology. I propose to name the year 2009 as an year dedicated to expand the

knowledge of English and Information Technology and allocate Rs. 100 million to broaden the scope of this programme.

20. *A knowledge economy*

Our people reawakened with knowledge with the expansion of free education in our country. The children of remote villages were empowered with knowledge. The way forward in the next 10 years for our country should be based on a knowledge economy. Our agriculture, industry and services should be directed with a high level of technological and intellectual input. At the same time our knowledge should also be utilized for services which are internationally acclaimed. Therefore, income tax concessions available to professionals for services rendered either in or outside Sri Lanka should be further expanded to serve such economies. I therefore propose that income tax payable by any Sri Lankan professional serving a company or a partnership based in Sri Lanka and providing international services and earning in foreign currency, should be confined to 20 percent. This will avail tax concessions to professionals such as lawyers, accountants, engineers, doctors and computer technicians for services rendered by them while being based in Sri Lanka. I believe that this will enable our country to become an international hub providing professional services and also encourage our professionals and the institutions to which they are attached, to adopt mechanisms to provide such services while being based in Sri Lanka.

21. *National Research programme*

The attention that we have given for scientific research is inadequate. We need to improve scientific research into agriculture, new products, national security, history and culture. I propose to allocate Rs. 300 million to expand such research work steered by the National Research Council with the help of universities, other research institutions, various ministries and the intellectuals in our country to promote new revelation in various fields and to promote research work.

22. *A quality health service to all*

The main objective of *Mahinda Chinthana* is to provide a quality health service to people in less developed regions. Priority was given to develop hospitals in remote areas, to build doctors quarters in such hospitals and also to develop estate hospitals. I propose an allocation of Rs. 350 million to further improve the quality of health facilities available to people in remote areas, to develop Akkaraipattu base hospital, to introduce a cancer treatment unit at the Batticaloa teaching hospital, to develop the Monaragala base hospital, to modernize estate hospitals in Kandy, Kegalle, Ratnapura, Nuwara-Eliya and Badulla districts and to provide ambulances to hospitals with less facilities.

23. *Indigenous Medicine*

We possess a great knowledge in indigenous medicine that we can proudly impart to the world. I have gone on record in *Mahinda Chinthana* that I treat it as a duty cast upon me by history, to preserve and disseminate indigenous medicine related knowledge to the world. Based on a request made by indigenous doctors, I propose to allocate Rs. 100 million for research related work in this field, by enhancing research on ancient treatment methods that will contribute towards improving health standards of our country.

24. *Revival of Arts*

Mahinda Chinthana accords special priority to enrich Art and Culture. Several concessions were provided through the last Budget, to uplift the local film industry and the tele drama industry. A greater acceptability was ensured to local art and culture by imposing a tax on foreign films, tele dramas and advertisements. The construction of Ranminithanne universal tele cinema village has now been commenced in order to provide training and studio facilities to improve talents of local film and tele drama artists. Phase I of this project is proposed to be completed and declared opened next year.

Duty concessions have been already provided for various essential equipment required to be imported for the production of films and tele dramas. Tax concessions are also provided to construct cinema halls with high tech facilities or for renovation purposes. Since there is a notable revival

in the local film and tele drama industry and since related activities are of a lower commercial value, I propose to continue the tax concessions already availed to this industry for a further period of two years.

I also propose to provide income tax concessions to producers including authors, singers, musicians and stage drama artists on income arising from such creations. I propose to amend the Intellectual Properties Act to make it mandatory to provide financial benefits for script writers, composers and singers of songs, when their songs are transmitted via radio or television channels.

25. *One Village - One Crop*

A programme is underway to identify a conventional crop for each province and to ensure the successful cultivation of such crops in those provinces. This program will prioritize the promotion of crops such as onions, chillies, tomatoes, beans, lime, papaya and bananas. In order to provide extension services, high quality seeds, fertilizer, financial assistance, storage facilities, preservation mechanisms and post harvest management facilities to relevant farmers from one central location, to improve facilities required to transport such crops, to develop Agrarian centers and link them with economic centers, I propose to make an allocation of Rs. 300 million for these purposes.

26. *Agro Exporting Zones*

The Export Development Board has proposed a program to establish export zones with the involvement of farmer villages in order to provide high quality, value added agri products to the export market. Through this program selected products such as Palmyra products, cinnamon, ginger, vanilla and drinking water could be produced with high quality standards, to be exported. I propose to make an allocation of Rs. 500 million to the Export Development Board for this purpose.

27. *Community tourism villages*

The *Mahinda Chithana* emphasises the need to develop attractive tourist destinations in selected traditional villages situated in cultural and environmental surroundings. Under the *Gama Naguma* programme, I propose to allocate Rs. 100 million to develop selected villages in each province, as tourist villages.

28. *Development of world heritage - Galle*

We need to give priority to develop Galle as a World heritage city. Already the Government of Japan has allocated funds to develop Galle port as tourist port. I propose to allocate Rs. 100 million to develop Galle city, alongside this port development project.

29. *Salutation to soldiers*

Hon. Speaker, people who are away from the ground reality and living luxury lives in Colombo often underestimate the dangers associated with the humanitarian operations carried out by our soldiers in the North. At present, our soldiers are engaged in a perilous operation of combating terrorism at the cost of their lives. As a result, people in the South, specially those in Colombo have got sufficient security. We should be lifelong indebted to such soldiers and their families for their sacrifices and we should constantly admire them. We in fact built a monument to commemorate all soldiers who died in action. I propose to increase the monthly allowance paid to soldiers engaged in action from Rs. 3,000 to Rs. 5,000. I also propose to allocate Rs. 4,500 million for this cause.

30. *Ranaviru Gammana - villages dedicated for soldiers*

We promised to construct 50,000 houses under the *Ranaviru Gammana* in the *Mahinda Chinthana*. In phase I, we constructed a *Ranaviru Gammana* in Ippologama consisting of 1,500 houses with other facilities such as roads, water, electricity, telephones, banks, market places, schools and hospitals. The abandoned building at Malay Street the belonged to the Ministry of Education has been renovated and converted into a modern education institute to enhance education of children of soldiers who are engaged in

security operations. I propose to allocate Rs. 3,500 million to commence the construction of few more *Ranaviru Gammuna* with all facilities during the next year.

31. ***Value Added Tax - VAT***

VAT needs to be simplified. I therefore, propose to decrease the present 15 percent VAT to 12 percent with effect from 1st January, 2009. This will provide a substantial relief to tourism, industries, leasing, construction insurance and telecommunication sectors and also to the entire production sector. With reduced production costs, the overall cost-of-living will also come down. The 20 percent VAT on motor vehicles, luxury goods and liquor will continue to be applicable. The registration limit applicable to VAT will be increased from Rs. 1.8 million to Rs. 2.5 million to simplify VAT administration and also to provide relief to small and medium entrepreneurs. *Gama Naguma, Maga Naguma, Samurdhi* and community water supply schemes carried out by community based organizations, with community participation will be totally exempt from VAT.

32. ***Economic Service Charge - ESC***

Hon. Speaker, I propose that the annual maximum ESC liability of Rs. 60 million, be increased to Rs. 120 million. This increase will affect only to large businesses not paying any income tax.

33. ***Telephone Levy***

The telephone levy of 10 percent presently applicable to mobile and codeless telephones will be expanded to be applicable to fixed line telephones as well. However, fixed line telephones used by any surviving spouse of service personnel killed in action and disabled soldiers will also be exempt from this tax.

34. ***Port and Airports Levy - PAL***

Hon. Speaker, our government has made large investments to develop ports. Around US\$ 1,000 million is being invested to develop Colombo port, Hambantota new port, Oluvil new port, Trincomalee port, Galle tourist port,

and Kankasanthurai port. Since environment related issues that hampered the progress of the second international airport at Weerawila has now been resolved, the construction of this airport is due to be commenced. We need to allocate counterpart funds to complement foreign aid secured to construct six ports and the second international airport. I therefore propose to increase the PAL from 3 percent to 5 percent.

35. **Nation Building Tax**

Hon. Speaker, this country faced a total draw back consequent to terrorist activities that prevailed for over 30 years. Terrorists destroyed railways, ports, highways, bridges, state institutions, hospitals and schools in the North and East. Once congested areas became uninhabited. A large number of brave soldiers of security forces sacrificed their lives. Some became disabled and helpless. A large number of people become homeless and shifted themselves to temporary shelters. Public and private properties were destroyed in various parts of the island including Colombo. Places of worship were also destroyed. The time has now come to rebuild these. As such we should accord priority for development and welfare, whilst seeking a political solution. We need to pay greater attention to the people in the North and South who were affected by terrorism and thus became helpless and also to the brave soldiers who sacrificed their lives to combat terrorism and their families. As such I propose to impose a Nation Building Tax as a social contribution towards welfare of security forces, and to rebuild communities and infrastructure facilities affected by terrorism. This tax which would be 1 percent, will be applicable on the turnover on imports, manufacturing or services other than on the banking and financial sector, for a period of 2 years. In addition to the revenue collected from this tax, we will also seek the assistance of our friendly countries to obtain additional aid to implement nation building programs.

I seek the cooperation of all Hon. Members of this house to approve the Bill relating to the imposition of this levy, as an urgent Bill in this year itself.

36. **Preparation of a National Tax Policy**

Our tax base got eroded as a result of various tax concessions granted from 1977 to promote investment. Different tax rates prevail in country, for similar entrepreneurs in the same region. Local entrepreneurs have been accorded second class status. We have to be mindful of effects on local entrepreneurs due to changes that have taken place in the area of international trade consequent to free trade agreements , duty concessions etc. A tax system that lacks transparency has evolved consequent to there being no consolidated or coordinated approach between revenue administration institutions such as Inland Revenue and Customs and the Board of Investment that grants major tax incentives. Further a high tax rate of 55 percent applicable to banking and financial institutions.

The tax administration has faced major complexities due to ad- hoc measures such as tax amnesty acts introduced from time to time.

Tax administration not having being modernized to suit present times is also an issue. As such we need to introduce a people friendly tax system that is suitable to the needs of our country whilst also using international experiences. We need to strengthen the Inland Revenue Department and the Customs to carryout this task effectively. We also need to link tax administration with institutions that promote investments such as the Board of Investment, Export Development Board and Industrial Development Board. I propose to appoint a Presidential Task Force to prepare proposals to implement this mechanism from the year 2010.

37. ***Fuel prices***

The price hikes of cured oil in international markets during the past 3 years was formidable. By July 2008 the price of a barrel of oil rose to US\$ 147 level. Our country found this difficult to bear. We had to incur around US\$ 3,000 million on account of oil imports.

Having realised the unfavourable conditions, our country implemented a mechanism with a vision to reduce fuel consumption. We were able to

overcome this global crisis to a certain extent by developing our hydro power plants, introducing heavy tax on motor vehicles and by increasing fuel prices.

Hon. Speaker, there is one thing that should be borne in mind by those who ask to reduce fuel prices seeking redress from court and staging protest rallies. They must understand that it is detrimental to reduce fuel prices in an unrealistic manner and make our economy dependent on oil.

Unlike the previous government, we did seek to change fuel prices based on a pricing formula. If we did so, the adverse impact it would have created on the cost-of-living may have lost limitations. Although the price of oil shot up during 2008 we increased prices only twice. That was also less than 50 percent of the actual amount that should have been increased.

The subsidy being given to the Ceylon Electricity Board is around Rs. 40 billion. The loss incurred by Ceylon Petroleum Corporation is in excess of Rs. 20 billion. The Treasury had to infuse funds to railways and SLTB since they also incurred losses. All these are subsidies given to the people. In the backdrop of the global economic crisis, oil prices are gradually coming down. We are therefore able to reduce the prices of oil. However, we need to be mindful of the volatilities in the global market prices. We also have to consider collecting at least a part of tax foregone and mitigate to some extent, the losses incurred. We should not however reverse the successful measures taken to conserve fuel and steps taken to develop alternative energy sources. Taking all this into consideration, I propose to reduce the price of diesel by Rs. 30/Lt, petrol by Rs. 15 /Lt and kerosene by Rs. 20/Lt. I further propose to reduce the price of furnace oil used for the generation of electricity to Rs. 45/Lt. Consideration will be given to make another reduction in the forthcoming months, if international oil prices stabilize at a lower level. It is therefore not necessary to seek redress from Court, submit an alternate Budget or stage protests in relation to these aspects.

- Bus fares could be reduced by about 25 percent consequent to reducing the diesel price by Rs. 30/Lt. A daily traveller will save

around Rs. 750/= to Rs.1,000/= on long distant travel and Rs. 200/= to Rs. 300/= on short distant travel.

- Parallel to this, the Department of Railways will also revise railway fares in a manner that will minimise its losses.
- The reduction of the price of Petrol will pass a benefit of around Rs. 500/- per month to over 1.6 million of motorcycle users and Rs. 1,200/- to Rs. 2,000/- saving to all three wheeler and vehicle owners.
- I request the private sector to reduce three wheeler, taxi and school van fares by at least 20 percent, to pass the related benefits to users.
- I also hope that the price of fish will be reduced since the costs of fishery boat owners will come down substantially.
- Vegetable growers will get substantial benefits consequent to the reduction of the price of kerosene. The reduction in diesel prices will also benefit the construction industry.
- The loss of Ceylon Electricity Board could be mitigated with the reduction of the price of furnace oil used for power generation and steps will be taken to pass on the benefit of reduced electricity tariff with special attention to industries and the tourism sector. Incentives will be provided to promote the usage of bio fuel.

38. Public Servants Welfare

- Hon. Speaker, continuous steps have been taken during the last 3 years to ensure the welfare of public servants. Their minimum salary was increased from Rs. 7,900 to Rs. 11,670. Apart from this, the cost-of-living allowance which was Rs. 1,000 has now been increased to Rs. 3,500. The minimum salary increase in salaries so far is around Rs. 6,000. Salary anomalies have also been rectified to a large extent. In the midst of various difficulties, housing loans and distress loans have

been expanded and housing facilities and vehicles have also been provided to public servants.

- We are compelled to face problems that have arisen consequent to the global economic crisis in addition to the difficulties in the domestic front. We ought to sacrifice for the sake of the development of our country as well as for the benefit of the welfare of our soldiers. I proposed to reduce cost-of-living by reducing fuel prices and transport cost. During the discussions I had with Trade Union representative, I was told in fact told that reducing the cost-of-living is more effective than a salary increase. However, I propose the cost-of-living allowance to be increased to Rs. 4,500 per month, with a minimum increase of Rs. 1,000 per month with effect from 1st January 2009 as an relief to all public servants. I propose to allocate an additional provision of Rs. 12,000 million for this purpose. Rs. 3,000 million has been allocated to remove salary anomalies in services such as the judicial service, teachers service and principles service.
- I propose to increase the present Rs. 3,000 festival advance available to public servants to Rs. 5,000
- I propose to increase the present Rs. 1,000 advance which is offered to public servants to purchase school books for their children to Rs. 2,500.
- Most public servants are unable to obtain distress loans due to non availability of sufficient funds allocated for this purpose. Therefore, I propose to increase the related allocation from Rs. 5,500 to Rs. 7,500. I also propose to restrict the Distress loan facility by introducing a maximum of Rs. 250,000. I believe that in the year 2009 more officers will be able to obtain the loan due to this restriction.

By providing such enormous incentives to public sector employees, what we expect is to transform the public service into a more people friendly and effective sector. Therefore, I request public servants to make the highest dedication and render a productive service to the public and always consider that public interest superior to their self interest.

39. *Pension*

Hon. Speaker, it was the policy of the United National Party to reduce pensions and neglect the welfare of the pensioners. We were able to restore pensions of retired public servants. The Rs. 500 cost-of-living allowance introduced in 2006 has been raised up to Rs. 1,440 as of now. With effect from 1st January 2009, I propose to increase the cost-of-living allowance to Rs. 2,000, with a monthly increase of Rs. 560. Around 500,000 pensioners will benefit by this proposal. I also propose to pay a Rs. 500 monthly incentive to public servants, who retire prior to becoming entitled to receive a pension. I propose to make an additional allocation of Rs. 3,000 million for this purpose.

40. *Public service*

Hon. Speaker, I propose that the SLT/Mobitel public service Upahaara package offered to public servants and pensioners, be extended to the clergy, indigenous doctors and workers in the Co-operative service. SLT is able to fulfill such social responsibilities in view of the majority Government holding in Telecom Ltd.

41. *Personal Income Tax*

Personal income tax is applicable on salaries, rent, small businesses and earnings from self employment. An annual income of Rs. 300,000 is exempted from this tax. The income exceeding this limit is taxable at rates ranging from 5 percent to 35 percent, under different slabs. As these slabs were not revised for several years, particularly to be able to provide relief to middle income earners, I propose to make liable for personal income tax three slabs of Rs. 400,000/- each and a further three slabs of Rs. 500,000/- each. Accordingly the personal income tax burden will reduce by about 5 percent. This will provide a relief to around 400,000 people who are liable to pay PAYE Tax. I

believe that more people will volunteer to pay taxes, consequent to the lower tax burden.

42. *Tax on interest income*

A considerable number of people, particularly pensioners and those in the middle class, depend on the interest income from their savings. In the last year, tax was removed on interest income up to Rs. 300,000/- and the 10 percent rate was reduced to 2.5 percent up to Rs. 600,000/-. In order to expand this relief further, I propose to apply the 2.5 percent rate up to an income of Rs. 1,000,000/-.

43. *Electricity and water tariff*

As pledged in the *Mahinda Chinthana* to provide relief to consumers of electricity and water. I propose to provide a Rs. 30/= monthly discount for consumers using electricity less than 90 and a Rs. 20/= monthly discount for consumers using less than 15 units of water. More than 350,000 electricity consumers and 150,000 water consumers will benefit from this proposal. I propose to allocate Rs. 300 million for this relief.

44. *Fertilizer for paddy cultivation*

Hon. Speaker, we remember the era when agriculture was forgotten and subsidies provided for farmers were curtailed. However, I initiated measures through *Mahinda Chinthana* to provide fertilizer at Rs. 350/50 Kg bag at the time when the market price was Rs. 950/50 Kg bag. Despite fertilizer price being increased to Rs. 6,000/50 Kg bag this year, we continue to provide the same at Rs. 350/50 Kg bag. Hence there is a subsidy of 96 percent. We accept that these subsidies are more meaningful than the subsidies offered by previous governments on products like wheat flour. Our farmers suffer badly due to lack of water and non availability of land, loss of harvest, destructions by insects and animals, inability to sell their harvest and lack of proper technology. Despite the Government providing a price of Rs. 30/= to 35/= per Kg paddy, farmers still face financial difficulties in purchasing fertilizer. Therefore, I propose to provide during the forthcoming Maha season to all farmers who use organic fertilizer and

material such as hey, 3 bags of fertiliser per acre under a guarantee issued by farmer societies. Once these farmers harvest, I propose to implement a program through such farmer societies, agrarian service officers and irrigation officers to give over paddy to Government Agents, on account of fertilizer obtained. This programme will be implemented under the direct preview of the Government Agents and will be monitored by the Ministry of Agriculture. This system which provides fertilizer for paddy, on an advance basis will reduce financial difficulties that farmers are confronted when having to purchase fertilizer on a cash basis. I intend to create a food reserve through this collection process. I propose to extend this system to vegetable growers as well.

45. *Jathika Saviya - Gama Naguma*

I vouched in *Mahinda Chintana* that the Village that we witnessed getting deteriorated during the past few decades, will be revived. I placed on record that my aspiration to improve Villages that are filled with affection and beauty, will be made a reality with *Gama Neguma*. To make this a reality, I expanded activities under *Maga Neguma*, rural electrification schemes, rural water schemes, rural credit schemes, *Nena Sala centers*, small irrigation schemes, housing schemes and community development projects. For 2009, I have allocated Rs. 13,515 million for these activities. The amounts allocated are Rs. 3,000 million for *Maga Neguma*, Rs. 3,827 million for housing, Rs. 3,830 million for rural electrification, Rs. 1,680 million for drinking water and Rs. 1,178 million for rural credit schemes. Under the *Gama Neguma* Program, Rs. 16,420 million has been allocated to the Ministry of Nation Building of which Rs. 9,825 million is for rural roads, Rs. 1,642 million for electricity, Rs. 1,149 million for drinking water and Rs. 821 million for small irrigation work. I propose to make a further allocation of Rs. 8,000 million, by allocating Rs. 2 million per Grama Niladhari division. My intention is to revive villages through these measures.

46. *Uthuru Wasanthaya*

Hon. Speaker, time has come to rebuild the North which was an oasis for terrorist for over 30 years. I wish to reiterate the message I conveyed to the

people in the North in page 76 of *Mahinda Chinthana*. 'I extend my hands of cooperation to you and to your children with sincere love and affection without being confined to narrow boundaries of ethnic and religious differences. Having understood fully your struggle for survival against various odds, I will take action to expeditiously solve your problems'. Our government is determined and is giving priority to fulfil this undertaking, We must commence the construction of the rail track and highways connecting the North and the South, schools, hospitals and Government offices need to be renovated and modernized. We have to rebuild around 80,000 houses that have been destroyed and also restore livelihood in the North. Above all, we also have to look after the welfare of innocent children, women and youth living in such areas and rehabilitate LTTE members and make them useful citizens to the society. I propose to make an additional allocation of Rs. 3,000 million for this purpose. I also propose to make an allocation of Rs. 500 million to the Ministry of Resettlement, to carryout resettlement programs in the North.

47. *Incentives for foreign exchange earnings*

Hon. Speaker, the global economy is faced with a major financial crisis. Virtually all countries are witnessing setbacks in stock markets, experiencing currency depreciations and liquidity crisis in the banking sector. This situation affects our exports and the tourism industry. The garment industry is earning around US\$ 3,500 million and provides employment to over Rs. 1 million. Tea and rubber sectors earn over US\$ 1,500 million of foreign exchange, employing over Rs. 1 million with a further 400,000 being self-employed by small estate holders. The tourism industry earns over US\$ 400 million and provides employment to nearly 100,000. This global situation also affects non traditional exports such as ceramic, and leather products. These sectors deserve special concessions to be able to sustain employment and also to sustain foreign exchange earnings. As such, I propose to implement the following proposals

- The fuel adjustment levy charged by the CEB will be reduced to 15 percent for a period of 1 year, for tourist hotels and industries.

- Furnace oil used for industrial purposes will be reduced to Rs. 55 / Lt.
- The loan repayments of industries earning foreign exchange and retaining employees at current levels, will be differed by 6 months. The Central bank of Sri lank will provide the required concessions to commercial banks.
- I propose to allocate Rs. 1,000 million to provide financial incentives to exporters, to assist in finding new markets for their products or to work towards expanding orders in their existing markets.
- The reduction of fuel and electricity prices will be a major incentive to export industries such as garment, porcelain, leather and the tourism industry.

48. ***Tea Industry***

The following are the proposals to ensure a sustainable development in the tea industry.

- I propose to reduce the price of a 50 Kg bag of fertilizer for tea smallholders to Rs. 1,000, to ease their financial burden.
- I propose to impose a Cess of Rs. 4 on every kilogram of tea imported.
- I propose to exempt tea packets and tea bags from import Cess.
- I propose to reduce income tax on revenue from export of tea packets which weigh less than 1 kg - to 15 percent.
- I propose to setup a fully state owned company with shares owned by the Tea Board, Tea Smallholder Authority and Export Development Board to appropriately intervene in the Colombo tea auction.
- I propose that tea be exported on short term credit to tea importers in our friendly countries, on the strength of a Treasury Guarantee .

49. *Increased remittances*

We earn around US\$2,500 from foreign remittances of overseas employees. They face various difficulties when remitting such monies to our country. Those who are employed overseas have explained to me that the absence of our local bank agents in those countries, is one of the key problem. Hence, I propose that a system be introduced, led by the Bank of Ceylon, People's Bank and National Savings Bank with the participation of other commercial banks who wish to join, to appoint local agents in the respective countries. We will be able to attract substantial remittances to our country through this mechanism.

50. *Conclusion*

Hon. Speaker, As I mentioned earlier the aspiration of all of us is to create a country free from terrorism and complete liberating the North. The development projects that have been commenced towards a new Sri Lanka should be successfully completed. Production and rural economy should be empowered. Reduction of cost-of-living is another priority. I have attempted through my proposals to address these concerns in an equitable manner. I consider that the people of this country as well as the Hon. Members, will value my proposals according to their conscience as opposed to the alternative proposals that have been presented in an irresponsible manner and which are totally contrary to what they have done while they were in power. These attempts are aimed at misleading the public.

The objectives of my proposals was to give every possible relief, that would benefit a majority of the society. Through the reduction of fuel prices, transport fares, electricity and water tariff, VAT and income tax and with the enhanced cost-of-living allowance granted to public servants and pensioners, the working class has been given greater relief. Increased production, reduced cost of production and improved productivity, help us to face the global economic crisis. I have attempted to provide the required incentives for the benefit of all sectors. Priority should be given at all times to value the efforts of brave soldiers and sacrifices made by their families, to create a country free from terrorism. We all need to make sacrifices for this purpose.

Hon. Speaker it is proposed to save 2 percent of recurrent expenditure from the allocations made for the administration of ministries, departments, corporations and government institutions. Hon. Ministers and Secretaries must personally take charge to achieve such savings. A total saving of Rs. 2000 million has been estimated from this proposal. A 15 percent under expenditure is expected from the estimated provisions in view of technical limitations associated with incurring capital expenditure. Considering the above as well as the likely reduction in revenue and impact of new proposals, a sum of Rs. 337 billion or 6.5 percent of GDP has been targeted as the Budget deficit. The efforts to reduce the Budget deficit every year has been sustained. Increased inflation that was witnessed in the last year, has decreased to 20 percent. I trust that this will further decline rapidly in the coming months. Economic growth will be maintained at 6.5 percent of GDP. We should work hard to make use of the incentives that I have proposed with a view to encourage national production and to realize an economic growth in excess of 6 percent next year. The relevant tax proposals are at Annex I. The quantification of the financial impact of the Budget proposal and adjustments to borrowing limits, stipulated in the Appropriation Bill are given in Annex II. The overall budgetary position is shown in Annex III.

Hon. Speaker, I stated the following in *Mahinda Chinthana* - my work program. 'Blending all your thoughts, develop man towards preserving the family, develop family towards preserving the village, develop the village towards preserving the country and develop the country to win the world'.

My dream is for an independent nation. A land filled with greenery. A prosperous tomorrow and a virtuous mankind. I am aware of all the expectations of Sinhalese, Tamils, Muslims, Malays and Burgers being children of Mother Lanka. These expectations can be made a reality. I possess that confidence. I will certainly fulfil that. Let us love challenges. Let us march together towards a better future for Mother Lanka.

Thank You.

Annexure I

1. Income Tax

(Inland Revenue Act No.10 of 2006)

- 1) First Schedule will be amended to widen the personal income tax rate slabs in the following manner.

Slab (Rs.)	Rate (%)
400,000	5
400,000	10
400,000	15
500,000	20
500,000	25
500,000	30
Balance	35

- 2) Consequent to the expansion of the rate slabs, the section 133 will be amended to incorporate the following rates of Withholding Tax on interest from moneys as deposited by individuals in banks or financial institutions.

Total Income (Rs.)	Rate of WHT (%)
0-300,000	0
0-1,000,000	2.5
more than 1,000,000	10

- 3) Section 13 will be amended to :

- a) incorporate a provision for exempting interest income on loans granted by Lady Lochore Loan Fund to employees of the Government ;

- b) exempt trade profits arising from the sale of any foreign currency denominated sovereign bond issued by the Government of Sri Lanka, to any non resident person or licensed Commercial Bank in Sri Lanka, effective from 21. 10.2008 ;
- c) provide for -
 - i. exemption of 50% of income tax on the profits to the writer from the sale of a book of such writer, within the first year from the date of the first printing of that book.
 - ii. exemption of 50% of the income tax on the profits to the producer (of a drama) from staging that drama in the first year ; and
 - iii. exemption of the royalty paid to a singer on the broadcasting / telecasting of any song of that singer.
- 4) Section 9 will be amended to exempt any interest on any foreign currency denominated sovereign bond issued by the Government of Sri Lanka paid to any non resident person or any licensed Commercial Bank in Sri Lanka, with effect from 21. 10.2008.
- 5) Section 60 will be amended to provide for taxation of profits from export of tea packets containing not more than 1 Kg in a packet , at a concessionary rate of not exceeding 15%.
- 6) Section 40 will be amended to restrict the maximum tax rate applicable, to 20% on profits from employment of employees providing professional services to any person or partnership which is exempt from income tax, being a person or partnership providing professional services to a person or partnership outside

Sri Lanka ,for payment in foreign currency, if such employees are paid for in foreign currency.

- 7) Section 24 A will be amended to extend the tax holiday period of 5 years to 7 years, in relation to the profits and income from any new or upgraded cinema.

2. Value Added Tax

(Value Added Tax Act No.14 of 2002)

- 1) Section 22(6) of the Act will be amended to extent the period of claimability up to 2 years, of input tax credits on customs declarations related to importation of goods;
- 2) Paragraph (b) of PART II of the First Schedule will be amended to exempt the supply of:
 - I. locally manufactured tea machinery, with effect from 01.10 2008;
 - II. locally manufactured surgical gauze used for surgeries;
- 3) Paragraph (c) of PART II of the First Schedule will be amended to exempt the importation of :
 - i. buses on or after 09.07.2008 to replace the buses destroyed due to terrorist activities;
 - ii. brass sheets, brass ingots , thread, dyes, paraffin wax and shellac for the manufacture of brassware by the National Craft Council with the approval of Ministry of Rural Industries and self employment promotion.
 - iii. Solar panel modules and accessories for the generation of Solar power energy specified under HS Code Nos. 8501.31.10/8541.40.10/8513.10.10/9405.10.10/9405.10.20/9405.20.10/9405.20.20/9405.40.30/9504.40.40/9032.89.10/8539.31.20

- iv. chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity;
- 4) Section 2(2) (d) will be amended to extend the facility of suspension scheme of deemed exporters (through Export Development Board), to certain specific services provided to exporters, with effect from 01.06.2008;
 - 5) Chapter III A will be amended to exempt Lady Lochore Loan Fund from VAT on financial services;
 - 6) Section 2 of VAT Act will be amended -
 - i. to reduce the 15% VAT rate to 12%.
 - ii. to remove from the Basic Rate Schedule (5% rate) the goods liable to tax in terms of Special Commodity Levy Act. No. 48 of 2007 :
and
 - iii. to make liable to VAT the rest of the goods in that Schedule at 12%;
 - 7) Section 22 will be amended to limit the deduction of input tax in relation to VAT paid at 20% to 10%;
 - 8) Section 10 will be amended to increase the registrable limit for VAT to Rs. 650,000/= per taxable period ; or Rs. 2.5 Million per year.
Similarly, Section 25 (I) will be amended to increase the limit of the registration for optional VAT to Rs. 3 Million.
 - 9) PART II of the First Schedule will be amended to exempt the construction work of Gama Naguma , Maga Naguma, Samurdhi, and community irrigation projects, carried out through the participation of the community.

3. Economic Service Charge (ESC)

(Economic Service Charge Act No.13 of 2006)

- 1) Section 2(2) will be amended to increase the upper limit of ESC payable, (from Rs.15 Million) to Rs.30 Million per quarter.
- 2) Section 2(3) will be amended to
 - i. remove the grace period of 36 months applicable to commence ESC liability;
 - ii. expand the definition of turnover in relation to any trade or business of a bank to include other financial institutions and pawn brokers as well;
- 3) The definition of “turnover” will be amended to exclude from the turnover, the proceeds from the sale of any foreign currency denominated sovereign bond issued by the Government of Sri Lanka to any non resident person or any licensed Commercial Bank in Sri Lanka.

4. Debits Tax

(Debits Tax Act No.16 of 2002)

- 1) Section 11 of the Act will be amended to incorporate therein the other recovery provisions as referred to in the Inland Revenue Act, in addition to the existing provision of recovery through the Magistrate.

5. Social Responsibility Levy

(PART I of the Finance Act No 5 of 2005)

- 1) The Act will be amended effective from 1.4.2008, for application of Social Responsibility Levy in relation to income tax payable by companies under the respective provisions of the Inland Revenue Act.

6. Construction Industry Guarantee Fund Levy

(PART III of the Finance Act No 5 of 2005)

- 1) The respective part of the Act will be amended to make provisions for the collection of Construction Industry Guarantee Fund Levy as a withholding tax, at the time of withholding of income tax under section 153 of the Inland Revenue Act, from the person engaged in the construction industry.

7. Nation Building Levy

- 1) Nation Building Levy is payable by
 - (a) importers;
 - (b) manufactures; and
 - (c) providers of services

- 2) Taxable period is the quarter and the Levy will operate only for the eight quarters of years 2009 and 2010.

- 3) Base of the Levy is the turnover (net of exclusions) which in the case of -
 - (a) an importer, is the CIF value of the articles imported;
 - (b) any other liable persons, is the amount received or receivable in respect of any transaction entered into by such person, reduced by
 - (i.) bad debts incurred;
 - (ii.) Excise Duty paid under the Excise Duty (Special Provisions) Act. No 13 of 1989; and
 - (iii.) Value Added Tax paid under the Value Added Tax Act No 14 of 2002

- 4) Threshold: The Levy is payable for any quarter, if the turnover for that quarter exceeds Rs.100, 000/=

- 5) Rate : The rate of the Levy will be 1%
- 6) Every liable person (other than importers) will be required to furnish a return of his quarterly turnover on a form to be specified by the Commissioner General of Inland Revenue and to pay the Levy on self - assessment basis, within 20 days of the end of each quarter . The Levy payable by importers will be collected by the Director General of Customs at the time the Customs duties or other charges etc., if any, are collected.
- 7) The provisions of the Inland Revenue Act, No 10 of 2006 relating to assessments, appeals, recovery etc.. will be made applicable to the assessments, appeals, recovery etc.. of the Levy.
- 8) Credits : Every manufacturer will be entitled to credit for the Levy paid on materials
- (i.) imported (other than plant machinery etc.); or
 - (ii.) purchased from any other manufacturer ,
- and which are used exclusively in such business of manufacture.
- Where any Nation Building Levy for any quarter is paid in excess of the liability for that quarter, then such excess may be carried forward to succeeding quarters and set off against Nation Building Levy liabilities for such quarter, but no part of the Levy shall be refunded.
- 9) Exclusions: The following will not form part of the turnover on which the Levy is payable.
- (i) the proceeds from the export by such person of any article manufactured by him;

- (ii) the value of any article not being plant, machinery or fixtures imported by such person exclusively for use in, or for, the manufacture by such person of any article for export;
- (iii) the proceeds from the sale of any article manufactured outside Sri Lanka by the person importing such article.
- (iv) the proceeds from the sale of any article to any exporter if the Commissioner General is satisfied, on the production of a letter of credit opened in any bank in Sri Lanka in respect of the export of that article or other documentary evidence that such article has in fact been exported from Sri Lanka;
- (v) the value of any article which is imported, if proved to the satisfaction of the Commissioner General of Inland Revenue, that such article is imported to Sri Lanka for -
 - (a) display at an exhibition;
 - (b) the temporary use in Sri Lanka in any project approved by the Minister;
 - (c) for the purposes of repairs to that article to be carried out in Sri Lanka; or
 - (d) any other similar purpose,and is to be re-shipped by such person, within a period of one year from the date of importation of such article to Sri Lanka;
- (vi) the value of any article imported, if proved to the satisfaction of the Director General of Customs, that such article was, prior to its importation, taken out of Sri Lanka for repairs;

- (vii) the value of any cinematographic film or teledrama produced in Sri Lanka and sent out of Sri Lanka for further processing or printing with the approval of the National Film Corporation.
- (viii) the value of any spare part imported by any airline or shipping company, if proved to the satisfaction of the Commissioner-General, that such spare part is to be used for the maintenance of any aircraft or ship, used in international traffic and owned or chartered by such airline or shipping company;
- (ix) the proceeds from the sale of any article, or any sum received or receivable in respect of the provision of any service to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister on the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission.
- (x) any sum received or receivable by any person from the provision of any one or more of the following services –
- (a) Carriers on the business of Banking or Finance
 - (b) supply of electricity;
 - (c) medical services;
 - (d) supply of water;
 - (e) transport of goods or passengers
 - (f) leasing of movable properties.
 - (g) service of a construction contractor, not being a sub-contractor, insofar as such services are in respect of constructing any building, road, bridge, water supply, drainage or sewerage system, harbour, airport or any infrastructure project in telecommunication or electricity;

- (h) services provided to any exporter of any article, being services directly related to improving the quality and character of such article;
- (i) the services of sewing garments provided to any exporter of such garments;
- (j) services of a freight forwarder, shipping agent licensed under the Licensing of Shipping Agents Act No. 10 of 1972 or courier insofar as such services are in respect of the exporter of any article from Sri Lanka;
- (k) services provided by a public corporation, insofar as such services are in respect of the export of any article from Sri Lanka;
- (l) operating a hotel, guest house, restaurant or other similar business, if, such hotel, guest house, restaurant or other similar business is registered under the Value Added Tax Act, No. 14 of 2002;
- (m) the services of an auctioneer, broker, insurance agent or commission agent of any local produce;
- (n) the services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
- (o) services of a computer software developer in respect of software developed by such person for use wholly outside Sri Lanka and for which payment is received in foreign currency through a bank
- (p) services provided over the Internet, using custom-built software, by an enterprise, exclusively for the provision of such services being services enabling or facilitating the sale of goods, or for the provision of services, by a person in Sri Lanka to persons outside Sri Lanka, for payment in foreign currency;

- (q) client support services provided over the internet or telephone, by an enterprise, exclusively for the provision of such services, to one or more identified clients outside Sri Lanka, for payment in foreign currency;

- (xi) life insurance premia where such person carries on any insurance business;

- (xii) the CIF Value of any article imported if such article is subject to the Special Commodity Levy charged under the Special Commodity Levy Act No 48 of 2007;

- (xiii) distribution or production and supply, of any cinematographic films primarily for exhibition in cinemas;

- (xiv) exhibiting films in a cinema;

- (xv) Value at the point of import or proceeds from the sale of following articles
 - a) Fertilizer ;
 - b) Petroleum and Petroleum products;
 - c) L P Gas ; and
 - d) pharmaceuticals

- (xvi) any other, as may be specified by the Minister by order published in the Gazette.

8. Customs Duty Changes

1) Tariff revisions under Free Trade Agreements signed by Sri Lanka

Tariff revisions to be made in respect of selected imports under the bilateral and the regional free trade agreements, of which Sri Lanka is a signatory, will be implemented with effect from 07th November 2008.

- (i) In terms of the South Asian Free Trade Area (SAFTA) agreement, Sri Lanka is required to offer a preferential column of 10% from the general duty rates in respect of items where the general duty rate is less than 20% to the developing member countries of SAARC. Further, the existing general duty rates should be waived off by a preferential column of 30% for under developed countries in respect of relevant items in terms of the agreement.
- (ii) Waive off the balance 30% of the preferential column (thus becoming preferential duty to zero) in respect of items in the residual list which should have been implemented w.e.f. 01.03.2008 under India - Sri Lanka Trade Agreement (ISFTA).
- (iii) Waive off a preferential column of 20% in respect of items in the Phasing out List which should have been implemented w.e.f. 12.06.2008 under Pakistan - Sri Lanka trade agreement (PSFTA).

2) Export Duty on Value Added Vein Quartz

In respect of export of Vein Quartz, an export duty equivalent to 20% of the Free on Board (FOB) value of a Metric Ton is currently payable. In order to encourage those who engage in domestic value addition on Vein Quartz, the export tariff would be revised as given in the table below and will be implemented with effect from 07th November 2008.

FOB for Vein Quartz (per M. T.) (H.S. Codes 2506.10)		Export Duty %
Raw Vein Quartz	Up to 139	20
Value added in range of Vein Quartz	140-190	14
Value added in range of Vein Quartz	191-240	09
Value added in range of Vein Quartz	241-299	03
Value added in range of Vein Quartz	Exceeding 300	Free

3) Tariff amendments to promote local industries and other amendments

Sr. No	HS Codes	Description	Customs Duty	
			Prevailing Rates of Customs Duty	Proposed Customs Duty
1.	4810.29	Paper and Paperboard	2.5%	Free
2.	8437.10.90 8437.80.90	Machinery for grading seed, grain	2.5%	Free
3.	3907.91	Polyesters	2.5%	6%
4.	4410.11 4410.12 4410.19 4410.90	Creation of new HS Codes and revision of tax for Particle board	6%	4410.11.10-2.5% 4410.11.90-6% 4410.12 } 4410.19 } 6% 4410.90
5.	4805.91	Uncoated paper and paperboard	15%	6%
6.	5208.11	Creation of new HS Codes Unbleached woven fabrics of	Free	5208.11.10-Free 5208.11.90-Free

		cotton		
7.	4011.20 4011.10 4011.99.90	Tyres - used on buses or lorries Tyres - used on motor cars Tyres - other	28% or Rs.70/= per kg 28% or Rs.80/= per kg	28% or Rs. 90/= per kg
8.	1701.11 1701.12 1701.91.10 1701.91.90 1701.99.30 1701.99.90	Raw Sugar (To protect local producers)	Rs. 10 per kg	Rs. 12 per kg
9.	8704.21.51 8704.21.52 8704.21.61 8704.21.62 8704.31.41 8704.31.42 8704.31.51 8704.31.52	Revision of tax for cargo carrying vehicles	6% 6% 15% 15% 6% 6% 15% 15%	6% 6% 6% 6% 6% 6% 6% 6%
10.	8539.31.10	Energy efficient AC compact fluorescent lamps	2.5%	Free
11.	2523.21 2523.29.10 2523.29.20	Cement	15%	6%

	2523.29.30 2523.30 2523.90			
12.	8507.10	Automotive Batteries	28%	28% or Rs.85/= per kg
13	84.15	Air conditioners	15%	28%
14.	4811.41.20 4811.90.10 4811.49.20 4821.10.10 4811.51.20 4821.90.10 4811.59.20 4811.99.20 4811.60.10	Creation of new HS Codes for soap wrappers		
15.	8516.79.10 8543.70.20	Creation of new HS Codes for Electric Mosquito Destroyers		
16.	8438.80.30 8438.80.40	Creation of new HS Codes for Tea Stalk Extracting Machines		
17.	8704.21.71 8704.21.72 8704.31.61 8704.31.62	Revision of text of national sub divisions to separate double cabs from crew cabs		
18.	9617.00.10 9617.00.90	Creation of new HS Codes for vacuum containers for transport of semen in liquid nitrogen		
19.	87.00	Creation of new HS Codes for Hearses and Gas operated Auto Trishaws		
20.	8501.31.10	Creation of new HS Codes to identify product related to solar		

	<p>8541.40.10</p> <p>8513.10.10</p> <p>9405.10.10</p> <p>9405.10.20</p> <p>9405.20.10</p> <p>9405.20.20</p> <p>9405.40.30</p> <p>9504.40.40</p> <p>9032.89.10</p> <p>8539.31.20</p>	<p>systems</p>
21.	<p>List of Concessions</p> <p>1. Incorporate Weather Stations to the item no. 12</p> <p>2.To include Hearses as a new item</p>	
22.	<p>List of Exemptions</p> <p>1.Intermediate goods to be used for fashion jewellery industry</p> <p>2. Packaging materials for the purpose of pharmaceutical industry</p> <p>3. Raw materials, components parts and accessories for the manufacture of energy saving compact lamps.</p> <p>4. Materials used for donor funded projects implemented by Ceylon Electricity board</p> <p>5 .Raw materials to be used for handicraft industry</p> <p>6. Components and parts used for fabrication of tea machinery</p>	
23.	<p>Reformatting of National Sub-Divisions in H.S. Codes system</p>	

4. Surcharge

Currently applicable Surcharge of 15%, imposed under Section 10 (A) of Chapter 235 of the Customs Ordinance, will remain unchanged

9. Special Commodity Levy

Special Commodity Levy, currently applicable for a selected number of essential commodities, imposed under the Special Commodity Levy Act No. 48 of 2007 and in terms of the orders published in the Extra Ordinary Gazette No. 1564/03 of 26. 08. 2008 will be revised with effect from 07th November 2008.

10. Imports and Exports (Control) Act No. 01. of 1969

A Gazette will be published under the Import and Export Control Act to incorporate changes that are required to be made, corresponding to the changes proposed in tariff, which are given below.

1. Re-formatting of national sub-headings in the Harmonized Commodity Coding System which is used for levying of import tariff .
2. Removal of discrepancies in respect of importation of hearses and double cabs

11. Cess

The new Cess rates applicable on selected imported items will be gazetted under Section 14 (1) of the Export Development Act No. 40 of 1979. The New gazette notification will be effective from 7th November 2009.

12. Excise Duty.

The New Excise Duty rates applicable on excisable articles will be gazetted under Section 03 of the Excise (Special Provision) Act No 13 of 1989. The New Gazette Notification will be effective from 7th November 2008.

In addition to the above, in the instance where inconsistencies are appeared in the Sinhala, Tamil and English texts, and the provisions which cannot be properly interpreted, necessary amendments will be made in the Inland Revenue Act No 10 of 2006, Value Added Tax Act No 14 of 2002, Economic Service Charge Act No 13 of 2006, Debit Tax Act No 16 of 2002 and other relevant Acts.

13. Effective Dates

Unless stated otherwise, the proposed amendments in relation to

- i. Income Tax and Economic Service Charge will be effective from April 1, 2009;
- ii. Value Added Tax and Debits Tax will be effective from January 1, 2009

Revenue Proposals

Proposal	Rs. Million
Economic Service Charge	1,000
Personal Income Tax	(500)
VAT	(45,351)
Excise	7,000
Nation Building Tax	15,000
PAL	24,000
Import Duty and Cess	25,000
Telephone Levy	2,500
Special Commodity Levy	1,500
Total	30,149

Expenditure Proposals

Proposal	Rs. Million
Milk Subsidy for Children of Samurdhi Families	900
<i>"Haritha Kavaya"</i>	150
Preservation of Indigenous Villages	50
Conservation of Elephants	300
Corporative Super Stores (Co-op City)	300
<i>"Janatha Sathkara Sevaya"</i>	150
National Languages Training	50
<i>"Mathata Thitha"</i> Program and Protection of Milking Cows	100
Sports Upliftment	300
Land Acquisition Compensation Bonds (Allocation for Rs. 7,000 Million for 2009)	10,000
Mihin Lanka and Weerawila Airport	500
Infrastructure for Universities	950
Sri Jayewardanepura and Kelaniya Universities – 50 years Celebrations	100
E-Villages	100
National Research	300
Health Sector Development in Lagging Regions	350
Research on Indigenous Medicine	100
One Village – One Crop	300
Agriculture Export Promotion Zones	500
Tourist Villages	100
World Heritage – <i>"Galupura"</i> Development	100
Enhancement of the allowance for members of the Armed Forces in operational areas	4,500
<i>"Ranaviru Gammana"</i> Program	3,500
National Tax Commission	25
Salary Allowances for Public Servants	12,000
Pension	3,000
Advance Account	2,000
Concessions for Electricity & Water Consumers	300
<i>"Gama Neguma/ Jathika Saviya"</i> Program	8,000
<i>"Uthuru Wasanthaya"</i> and Resettlement	3,500
Incentives for Export Promotion	1,000
Total	53,525

Gross Borrowing Requirement - 2009

	Rs Billion
Total Receipts other than Government Borrowings	907.8
Total Payments including Debt Repayments	1,715.3
Provision for Advance Account	7.5
Risk Provision	25.0
Total Gross Borrowing Requirements to be Recorded in Government Accounts	840.0
Of which Total Debt Repayment	475.0

Summary of the Budget

	Rs. Bn.		
	2007	2008 Revised	2009 Budget
Total Revenue	565.05	709.35	855.00
Tax Revenue	508.95	643.48	779.14
Income Tax	107.17	138.29	166.70
Taxes on Goods and Services	328.60	396.74	464.78
Taxes on External Trade	73.17	108.44	147.66
Non Tax Revenue	56.10	65.87	75.86
Total Expenditure	841.60	1,016.70	1,191.67
Recurrent	622.76	743.39	823.51
Personnel Emoluments	214.16	243.89	268.36
Interest	182.68	215.93	250.44
Subsidies and Transfers	147.45	170.41	196.02
Other Goods and Services	78.47	113.16	108.70
Public Investment	229.27	278.19	370.77
Other	(10.43)	(4.88)	(2.61)
Revenue Surplus(+)/Deficit(-)	(57.71)	(34.04)	31.49
Budget Deficit	276.55	307.35	336.67
Total Financing	276.55	307.35	336.67
Total Foreign Financing	131.41	122.78	153.55
Net Foreign Financing	100.91	97.73	123.02
Foreign Borrowings Gross	165.02	189.04	222.52
Debt Repayment	64.12	91.32	99.50
Foreign Grants	30.51	25.06	30.53
Total Domestic Financing	145.14	184.57	183.13
Net Non Bank Financing	111.31	158.87	165.63
Net Foreign Currency Domestic Financing	3.40		
Net Bank Borrowings	12.37		
Other	18.06	25.70	17.50
Revenue/GDP %	15.8	16.0	16.4
Tax Revenue/GDP %	14.2	14.6	14.9
Expenditure/ GDP %	23.5	23.0	22.8
Recurrent Expenditure/ GDP %	17.4	16.8	15.8
Public Investment/ GDP %	6.4	6.3	7.1
Revenue Deficit(-) or Surplus(+)/ GDP %	(1.6)	(0.8)	0.6
Budget Deficit/ GDP %	7.7	7.0	6.5

List of Documents

- 1. Fiscal Management Report - 2009**
Department of Fiscal Policy
(Tabled)
- 2. Public Investment 2008 - 2011**
Department of National Planning
(Tabled)
- 3. Partnership for Sustainable Development**
Department of External Resources
(Tabled)
- 4. Government Revenue Performance**
Ministry of Finance and Planning
(Tabled)
- 5. Recent Economic Development Highlights of
2008 and Prospects for 2009**
Central Bank of Sri Lanka
(Tabled)
- 6. Budget Estimates 2009**
Department of National Budget
(Tabled)