

FINANCE MINISTER

The Prime Minister and Minister of Finance Mr. D.B. Wijetunge, presented his second budget to the Parliament on 15th November 1989. For a country that was severely beaten by internal strifes and civil unrest of unprecedented magnitudes, a mere presentation of a budget itself should be an achievement.

A few weeks ago when government offices, factories, banks and other establishments were closed, and public utilities were at standstill, an average Sri Lankan would not have anticipated a budget of any sort: the situation was so grim. As pointed out by the Minister, the hardships and disappointments that we have endured are too fresh and still very prominent in our minds.

The Minister discussing the achievements of the government pointed out that, under the pragmatic and very able leadership of His Excellency the President, the country has made considerable gains on the political and economic fronts in the midst of all the problems that confronted us. We are now rapidly emerging from an extended period of internal strife and steadily deteriorating economic performance. The hardships and disappointments that we have endured are too fresh and still very prominent in our minds. It is perhaps more appropriate to take stock of several recent and exceed-

ingly important achievements which will bring us out of the malaise of disunity and serve as a springboard to peace and prosperity in the 1990s.

“Mr. Speaker, His Excellency the President has through his policy of consultation, compromise and consensus, effectively neutralised the hitherto seemingly unsolvable ethnic crisis, restored trust and confidence in Government, and forged new partnerships among and between the various segments of our population. True to his word he has launched the Janasaviya programme and initiated a process which will in time restore fully the dignity and worth of all our citizens. This should unleash hitherto vastly under utilised human resources and stimulate increased productivity. Finally, and most importantly, he has preserved our sovereignty and has done so in a manner which permits us to retain long standing and vitally important international friendships.

The corner-stones of the new strategy are firstly broadbased people's participation in the development of our economy and secondly, industrial reform including a dynamic involvement of the private sector in economic development. This strategy will no doubt pose challenges and place demands on all of us, but those challenges and demands will be shared more

evenly than before. What is important is the long-run rewards of these sacrifices which will far outweigh the immediate costs.”

Discussing the challenges confronted by the government and the importance of “Janasaviya” in meeting those challenges the Minister said: “Mr. Speaker, the Government is fully aware as well as concerned that some of these measures though crucial for economic growth and stability, may adversely affect the poorest segments of the population most. On the other hand, adjustment processes take time to yield benefits to the people in terms of employment opportunities and additional real incomes. The poor, viewed from another perspective constitutes an utilised human resource which if effectively harnessed could raise the level of welfare of society as a whole. The Janasaviya programme which will be a lead programme of the Government during the next few years is basically designed to address the above situation.

I need not repeat that the aim of Janasaviya is to uplift the poorest of the poor, and a programme of this kind has not been undertaken anywhere else so far. The President has repeatedly stated that it is not charity nor a hand-out to the people. The main objective of this programme is to motivate people to participate in

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production and to increase investment within the limitations of their respective environments and economic status in life. The significant feature which lies at the core of the programme is employment generation. We are confident that the Janasaviya programme would create the correct economic environment and would result in the emergence of highly self-reliant communities, and entrepreneurial classes in the rural areas. These would build the firm foundations of economic diversification and the resurgence of productive activity in every part of the Island.

Another important component of the programme laid down in the budget speech has been continued commitment of the government to market oriented economic activities. According to the Minister "... The Government is committed to a policy of encouraging greater investment and economic activities in the private sector. This is a trend that is today widely accepted even in socialist countries, including the Soviet Union and China. These countries are now working towards liberalization, deregulation and increasing the role of the private sector. If there is one lesson to be learnt

from this it is that economic policies and programmes should be formulated not on ideological but on pragmatic considerations.

The Government intends to further liberalise the procedures which impede speedy investment and production. We welcome representations from those who encounter difficulties in the furtherance of their legitimate economic activities. His Excellency has set up various committees and agencies to assist the producers and investors. We hope to maintain a continuing dialogue with the private sector because the Govern-

ESTIMATES OF GOVERNMENT EXPENDITURE 1988 - 1990

MINISTRY	1988		1989		1990	
	Expenditure (Rs Mn)	%	Expenditure (Rs Mn)	%	Expenditure (Rs Mn)	%
1. Finance	29,865.3	36.1	47,801.6	44.3	37,162.5	36.1
2. Public Administration Prov. Councils and Home Affairs	5,43.7	6.6	6,794.5	6.3	19,320.9	18.8
3. Defence	10,909.2	13.2	8,917.8	8.3	10,293.2	10.0
4. Agriculture, Food & Co-operatives	2,341.3	2.8	2,716.5	2.5	6,020.7	5.8
5. Transport & Highways	2,758.9	3.3	5,284.8	4.9	5,348.9	5.2
6. Lands, Irrigation and Mahaweli Dev.	5,493.4	6.6	5,370.2	5.0	4,927.2	4.8
7. Power and Energy	4,487.7	5.4	5,015.2	4.6	3,571.4	3.5
8. Health and Women's Affairs	2,759.9	3.3	5,319.3	4.9	3,449.4	3.3
9. Education Cultural Affairs & Information	5,688.7	6.9	6,359.0	5.9	2,335.7	2.3
10. Posts & Telecommunications	2,650.2	3.2	2,338.5	2.2	2,211.8	2.1
11. Higher Education, Science & Technology	977.1	1.2	1,540.1	1.4	1,714.8	1.7
12. Housing and Construction	1,551.3	1.9	1,653.7	1.5	1,209.9	1.2
13. Plantation Industries	764.6	.9	886.0	.8	1,048.8	1.0
14. Justic & Parliamentary Affairs	478.3	.6	862.1	.8	839.1	.8
15. Prime Minister, Judges etc.	438.7	.5	682.7	.6	711.3	.7
16. Foreign Affairs	536.4	.6	537.3	.5	648.2	.6
17. Policy Planning & Implementation	638.9	.8	1,301.6	1.2	538.5	.5
18. Labour & Social Welfare	3,383.9	4.1	2,928.2	2.7	385.1	.4
19. Youth Affairs & Sports	251.2	.3	315.2	.3	360.1	.3
20. Fisheries & Aquatic Resources	236.8	.3	443.8	.4	329.5	.3
21. Trade and Shipping	520.6	.6	287.3	.3	303.0	.3
22. Textiles & Rural Industries Devevelopment	144.0	.2	250.9	.2	258.2	.2
23. Tourism	243.2	.3	153.7	.1	85.2	.1
24. Buddha Sasana	18.4	.0	26.2	.0	41.9	.0
25. Industries	108.2	.1	223.0	.2	27.8	.0
TOTAL EXPENDITURE	82,719.9	100.0	108,009.2	100.0	103,043.0	100.0

Source: Ministry of Finance

ment is aware that the private sector in the country has a big and important role to play in the promotion of exports and economic diversification.

"In this context, our industrial sector must develop rapidly and provide the lead for renewed growth and employment generation. The Ministry of Industries has drawn up plans to assist and encourage expansion of private sector investment at all levels from the very small to the big and establishing linkages between them. In this process, the major emphasis will be placed on facilitating the availability of credit involving schemes such as venture capital funds and equity participation by both domestic and foreign investors. The Government in addition to ensuring the appropriate environment for private sector investment will directly assist in providing infrastructure facilities, marketing assistance and incentives for research and development and transfer of technology.

Mr Speaker, foreign private capital will also have to play a catalytic role in industrialisation in Sri Lanka. In my last budget speech I enumerated some of the measures we proposed towards this end. In 1988, in spite of the discouraging political trends, the GCEC recorded its highest annual level of foreign investment since its inception. It had approved 31 projects with an employment potential of 5000, and signed contracts for 26 projects. It is a matter of great satisfaction that according to the

latest information, this trend appears to be continuing this year with 21 projects approved so far. Similar trends are observed in the case of projects outside the purview of GCEC.

Civil Disturbances & Costs

"The Civil unrest and disturbances have had a disastrous effect on civilian life and on the economy. The extent of the losses resulting from the destruction of capital assets consequent to subversive activities so far has been estimated at around Rs.2475 million. In addition, losses in production of goods and services have been estimated to be around Rs.6575 million. If the combined estimate of these direct losses which amount to around Rs.9000 million has been available to the country, we could have created 125,000 new jobs during the year. This, Mr Speaker, is an estimate I base on our experience in having implemented the Medium and Small Industries Development Programme which only required an investment of US \$ 1800 or Rs. 72,000 to create a new job. Quite apart from the direct losses, the loss in revenue to the Government of around Rs. 5000 million and the consequent measures it had to adopt to curtail expenditure, particularly its investment has also meant loss of job opportunities. In addition rehabilitation expenditure that was expected to create a substantial number of jobs received a set back.....The loss in production, particularly of

food items, compounded by the dislocation of transportation resulted in shortages, which had to be met by imports at very high prices. Shortfall in the export of our goods and the continued slow down in tourism reduced our export and other earnings. As a result our foreign exchange reserves reached dangerously low levels and the rupee depreciated. This led to an all-round increase in the rupee cost of imports on top of the increase in international prices. Besides, the policy measures we were compelled to adopt to conserve our foreign exchange reserves such as restriction of bank credit and higher interest rates also resulted in cost increases. All these factors, contributed to a pronounced increase of the cost of living particularly during the months, June to end September compared to the period January to end-May this year.

"Mr. Speaker, " despite all the difficulties arising out of the stabilisation measures which we were compelled to adopt, the economic situation of the country has shown a marked improvement, since early September. It is indeed unfortunate that the foreign media and various interested agencies abroad have painted an unfavourable picture of the situation in the country....."

Foreign Aid

In the midst of all these difficulties and adverse publicity, Sri Lanka has been able to success-

Budget Highlights

1. A monthly allowance of Rs. 200 will be paid to government servants whose initial salary is less than Rs.2,000 a month. This increase will be extended to pensioners as well.
2. A tax credit of Rs. 900, with effect from year of assessment 1990/91, for individuals who are in receipt of employment income. This will benefit those with employment income of Rs.36,000 by relieving them of the tax burden and those above it by reducing the taxable income.
3. An introduction of the exemption limit of terminal benefits from Rs.100,000 to Rs.200,000.
4. The current scheme of giving continuous tax holidays for exporters will not be discontinued after March. Emphasis will be paid on exchange rate reforms rather than tax holidays.
5. Ten years tax holiday for approved venture capital companies. Persons investing in such companies will be eligible for investment relief.
6. Tax incentives to encourage the broad basing of company ownership. This will be in the form of 40 percent, the incentive to quoted companies with more than 200 registered share holders, and less than 60 percent of the issued capital held by not more than five persons either directly or through nominees.
7. With-holding tax on dividends be reduced from 20 percent to 15 percent.
8. To apply current market value basis for all property from the year of assessment 1990/1991.
9. To increase Turn Over Tax applicable to luxury and semiluxury items to 40 and 20. The 40 percent category includes
 - (a) electro mechanical domestic appliances such as vacuum cleaners,
 - (b) floor polishers and wax,
 - (c) hair dryers and electric shavers,
 - (d) non industrial air conditioners etc. The 20 percent category includes,
 - (a) food items such as cheese, ham, bacon,
 - (b) record players and fax machines,
 - (c) bidet, bath tubs and floor tiles,
 - (d) pressure cookers and cameras etc.
10. To increase turn over tax applicable to manufactures and importers from 5 percent to 6 1/2 percent to 15.
11. To levy a 10 percent customs duty on dried fish.
12. A surcharge of 25 percent on the duty payable on all motorcars.
13. An increase of duty of ethyl alcohol by 25 percent in the case of industrial uses and 100 percent in other uses.
14. An upward revision of postal rates by 25 cents for ordinary letters, Rs.2 for Registered letters, and Rs. 2 to 5 for airmail letters.
15. A 10 percent increase on telephone calls, telegrams and telexes.

fully conclude an understanding with the International Monetary Fund (IMF) and the World Bank. The IMF has already released the second tranche of the Structural Adjustment Facility amounting to US \$ 85 million." the total resources that would be available to the country for balance of payments purpose alone from these two institutions and others would exceed US \$ 200 million. The Sri Lanka Aid Consortium meeting held in Paris last month pledges of aid amounting US \$ 785 million were made. This is an all-time record and also a clear sign of the endorsement our efforts have received from the international donor community. " I wish to take this opportunity to thank the donors for their generous assistance as well as for standing by us in a difficult period.

Mr Speaker, the economic and social problems facing the country are such that they cannot be resolved satisfactorily, unless we pursue policies to restore our economic growth to the high levels attained during 1977 to 1982. This is particularly so if the country is to seriously confront the unemployment problem, which is generally accepted to be a basic cause for the current unrest. Such a goal is certainly not beyond our reach; given the capacity that has been already built up, provided peace is restored and

there is firm resolve on our part to carry through a programme of structural reforms.

Government has also prepared a Five-year Public Investment Programme covering the period 1989 to 1993 which I have tabled today. This document outlines in more specific terms, our long-range investment strategy and the policy reforms which must be adopted in order to achieve our objectives. The structural adjustments envisaged in this programme, some of which we have already set in motion; would involve the following:-

- a) Public Administration Reform consistent with the recommendations of the Administrative Reforms Committee and the devolution of power to Provinces as stated in the Thirteenth Amendment to the Constitution;
- b) Public Enterprises Reform to improve their efficiency through peoplisation, joint ventures with foreign participation and management improvements;
- c) Restructuring public expenditures with a view to reducing expenditures and improving the efficiency of those that remain in the budget;
- d) Industrial and trade reforms with a view to generating growth, exports and employment, involving private investment both local and foreign;
- e) Streamlining bureaucratic procedures which affect private sector economic activity.