

Sri Lanka--Social and Demographic Indicators

Units	Sri Lanka		Comparator Groups			
	15-20 Years Ago	Most Recent Estimate	South Asia	Low-Income Countries	Lower-Middle-Income Countries	
General						
Land Area	000 km ³	66	66	4,781	41,383	36,096
Arable land	Percent of land area	36.0	36.0	42.4	12.4	9.2
GNP per capita	US Dollars	370	850	440	410	1,130
Income distribution						
Highest quintile	Percent of income	43	43
Lowest quintile	Percent of income	7	8
Population characteristics						
Population	Millions	16	19	1,355	2,460	2,048
Population density	per km ²	216	300	283	76	47
Population growth rate	Percent per annum	1.5	1.6	1.9	1.9	0.9
Life expectancy at birth	Years	69	73	62	59	69
Age dependency ratio 1/	Percent	65	48	66	71	52
Urban population	Percent	22	24	28	32	42
Labor force						
Labor force participation rate 2/	Percent	39	44	44	45	54
Females in labor force	Percent	30	37	33	38	43
Labor force growth	Percent	2.0	2.6	2.5	2.3	1.2
Health and nutrition						
Physicians	Per thousand people	0.1	0.4	0.4	0.6	1.9
Hospital beds	Per thousand people	2.9	2.7	0.7	1.5	3.4
Immunisation from measles	Percent of children under 12 months	2	95	53	57	89
Safe water	Percent of population with access	37	83	87	76	80
Total fertility rate	Births per woman	3.3	2.1	3.3	3.6	2.1
Infant mortality rate	Per thousand live births	30	15	73	76	33
Education						
Male illiteracy	Percent of male population 3/	9	6	34	28	9
Female illiteracy	Percent of female population 3/	21	11	57	47	21
Primary school enrollment	Percent of school-age population	96	111	101	96	106

Source: World Bank, World Development Indicators.

1/ Ratio of dependents (total number of individuals aged less than 15 years and greater than 64 years) to working age population (number of individuals aged between 15 and 64 years).

2/ Total labor force as a percentage of population.

3/ Fifteen years old or older.

Statement by the IMF Staff Representative
September 3, 2002

1. **This statement provides an update on recent political and economic developments and policies since the staff report was issued on August 20, 2002** (EBS/02/153). The information contained in this statement does not alter the analysis or the appraisal in the staff report.
2. **The authorities have announced that the formal talks with the rebel Liberation Tigers of Tamil Eelam (LTTE) will take place in Thailand during September 16-18.** In advance of this meeting, the government has said the ban imposed on the LTTE would be removed on September 6.
3. **The authorities have made significant progress on the structural actions that were expected before the completion of the SBA review** (paragraph 30, EBS/02/153).
 - The VAT was introduced on August 1.
 - The privatization and banking reform benchmarks were completed by mid-August.
 - The Welfare Benefit Law was submitted to Parliament, and approved on August 26.
 - Cabinet approved the draft electricity reform act, which was gazetted on August 16.
 - Cabinet approved amendments and special provisions bills on the Industrial Disputes and the Termination of Employment of Workmen Acts on August 28.

Although the electricity and labor market bills have not yet been presented to Parliament, the Prime Minister has instructed that they be tabled in Parliament by September 6. On this basis, the staff recommends completion of the SBA review.

4. **Based on data through end-June, the fiscal position is on track (see table) and public corporations' debt has declined.** The overall deficit for the first half of the year was Rs 71 billion (4.5 percent of annual GDP), compared with the annual target is Rs 136 billion. Revenue was somewhat lower than originally projected, with collections through end-June at 45 percent of budget estimates. In particular, this reflects weaker income tax and GST collection. Revenue is expected to be more buoyant in the second half of the year, because of a rebound in economic activity and gains from the introduction of VAT on August 1. Expenditure performance was in line with the budget: total outlays in the first half of the year reached only 48 percent of the budget estimates, with no reported overruns. Total government debt at end-June was Rs 1.6 trillion, equivalent to 100 percent of expected 2002 GDP. Public corporations' debt to the banking system declined by Rs 4 billion in June, largely reflecting a repayment by CPC.
5. **The new fertilizer subsidy scheme, targeting assistance directly to farmers, which was to be put into operation in mid-August, is being revised.** The authorities report that, as originally specified, the new farmers inputs scheme would not realize the cost savings they had envisaged in the budget. To meet the budget limit, they are formulating a revised scheme, further restricting the costs, to be in effect from mid-September. The staff is

concerned about the further delay in introducing a properly targeted scheme, but would expect any total overrun on fertilizer subsidies for 2002 to be small.

6. **In an attempt to clamp down on excessive government spending in the future, on August 21 the Cabinet approved a draft Fiscal Responsibility Act.** The Act seeks to hold state institutions accountable for spending public funds, prompting full accountability from all public offices. The Finance Minister will also have to make a fiscal statement at the beginning of every year and account for any deviation from the budget estimates. The staff has not discussed with the authorities this proposed legislation (which is not referred to in the staff report) but, in principle, welcomes this move to enhance fiscal transparency. Prior to the bill being enacted, the staff will review the specific provisions and advise the authorities, in the context of the September staff visit to Colombo, which will focus on the 2003 budget.

7. **Monetary aggregates remain broadly in line with projected values—both reserve money and central bank net domestic assets are within their targeted path.** However, broad money is running slightly ahead of projected values, reflected in both higher-than-projected credit to the private sector and an improvement in the net foreign assets of the commercial banks.¹ The Central Bank of Sri Lanka (CBSL) has kept its key overnight reverse repo rate at 12.75 percent since the July 24 reduction by 100 bps. Other rates have declined slightly recently—for the week ending August 23, the 3-month treasury bill rate was 10.9 percent, compared with 12 percent at mid-July, while the prime lending rate was 12.2 percent on August 23, compared with 13.5 percent at mid-July 2002.

8. **Preliminary data for June show a trade deficit of \$863 million for the first half of 2002—broadly in line with the staff's projections—and gross official reserves of the CBSL have continued to rise steadily through late August.** Both export and general import volumes were low in June 2002, but the recovery in the imports of intermediate goods continued. The decline in textiles and garment exports was largely attributable to a lower demand from the United States, the United Kingdom, Canada, and Germany. As of August 20, gross official reserves were \$1,327 million—about two months of imports. The rupee is currently trading at about the same level as end-July—Rs 96/\$. In this context, the projected GDP growth (3.7 percent) for 2002 may be difficult to achieve fully, given the disappointing export performance through June and continued concerns about the prospects for global recovery and rising oil prices.

¹ Credit to the private sector grew by 7 percent in the 12 months to June 2002, compared with 5½ percent projected under the program.