

BUDGET PROPOSALS 2009

Macroeconomic Implications

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FOCUS

This policy brief focuses on analyzing the macroeconomic implications of government budget for 2009. The objectives of the brief are:

- To review whether the Budget contributes to improvements in the fiscal situation of the government,
- To examine trends in revenue, expenditure and budget deficit,
- To review macroeconomic implications of the budget proposals and budget deficit.

POLICY DIRECTION OF THE GOVERNMENT

Sri Lanka has followed various brands of mixed economy models since its independence. Viz.:

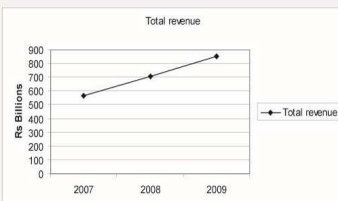
- Market-intensive mixed economy, where most of the economic activities that the market can provide efficiently are managed by firms or individuals.
- Government intensive mixed economy, where most of the economic activities that the market can efficiently provide are done and managed by government.

The current regime appears to be characterized by following trends:

- Moving away from a more market-oriented economy towards a more government oriented economy,
- Moving away from a more export oriented economic strategy to a more import substitution economic strategy
- There are signs of re-emergence of protectionism in light of the experienced and perceived balance of payments difficulties.

REVENUE TRENDS: IS THERE AN IMPROVEMENT OF THE REVENUE SITUATION?

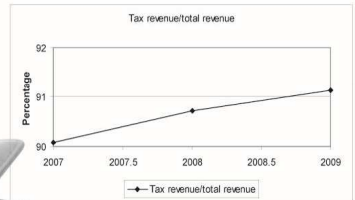
A remarkable feature of the fiscal situation in the country during the past three years is a notable improvement of government revenue. Total government revenue is expected to increase from around RS 550 billion in 2007 to around Rs 850 billion in 2009 (See figure below)



REVENUE TRENDS: TAX REVENUE

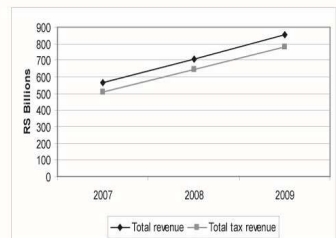
This enhanced revenue gives opportunity for the government to effectively provide public goods and services necessitated as a duty of the government even in a market economy.

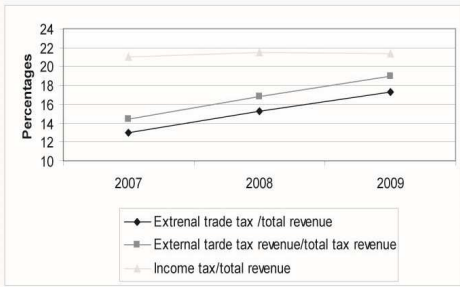
Tax revenue has also increased from 90% to 91% of total revenue in 2008, and is expected to increase further to about 91.2% in 2009. This increase in government revenue is also a salient feature of fiscal trends in recent years (See figure below).



REVENUE TRENDS: EXTERNAL TRADE TAX AND INCOME TAX

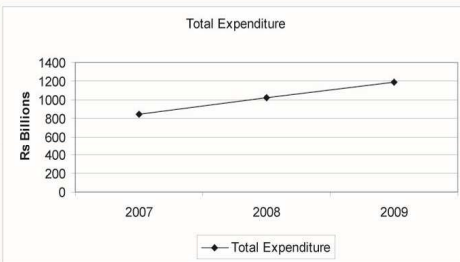
Enhanced government revenue during the past two years and the expected revenue in the next years have been and will be from the taxes on trade. Though total tax revenue has increased, the revenue from income taxes has not and will not increase notably as depicted in the figures below. While revenue from income taxes will remain more or less constant, revenue from external trade will increase notably. Government has increasingly chosen to rely on external trade taxes to enhance revenue.





EXPENDITURE: OVERALL TRENDS

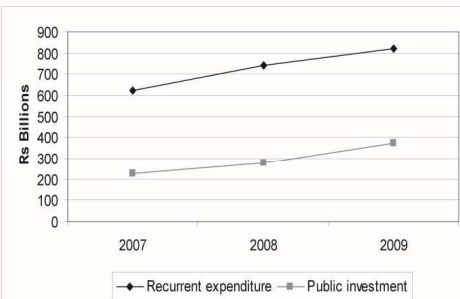
Total government expenditure has increased from about Rs 800 billion in 2007 to around 1000 billion in 2008. This will further increase to about Rs 1200 billion in 2009.



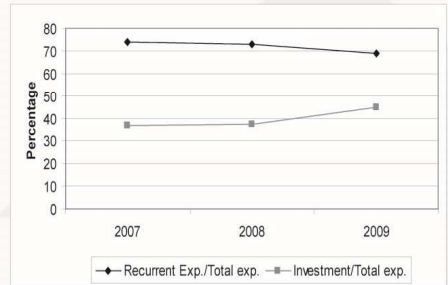
This increase in government expenditure has mainly been driven by the expenditure on war, social welfare services, various subsidies, and investment in infrastructure. By voting for the current government the majority of the public have in effect demanded the above. It is, therefore, not unusual for the government to channel funds towards these areas.

CONSUMPTION AND CAPITAL EXPENDITURE VS. TOTAL EXPENDITURE

Both government consumption expenditure and investment expenditure have increased from their levels in 2007. The total government consumption expenditure has increased from about Rs 590 billion to Rs 720 billion in 2008. This is expected to increase to Rs 800 billion in 2009. The investment expenditure has also increased from about Rs 220 billion to Rs 290 billion in 2008. This is expected to increase to Rs 400 Billion in 2009.



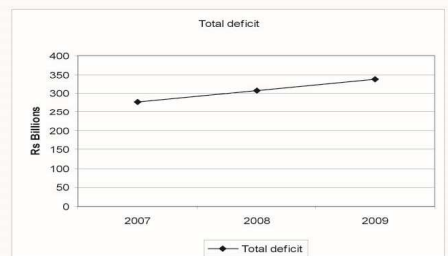
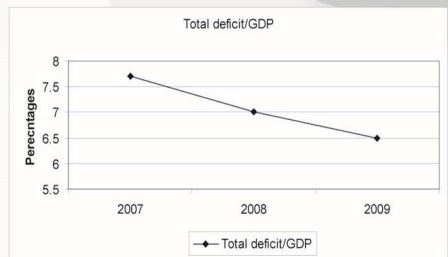
Whether a budget can stimulate or retard economic growth depends on what activities the government is expected to channel funds. Due to war-related expenditure, enhanced social welfare subsidies, recruitment of personal, consumption expenditure has increased. However, government has to rethink enlarging its size in the form of increased public consumption.



The increases in government investment spending will generate activities that complement private economic activity thereby fostering economic growth. Efforts to develop the physical infrastructure by devoting resources for the roads and sea ports can be appreciated. It would be best if the government can focus more on activities which the market fails to provide i.e. public goods and services and social safety nets rather than trying to be a substitute for providing activities which is effectively seen to by private agents in the economy. It appears that policy makers have failed to recognize and give prominence to activities which the market system fails to provide efficiently.

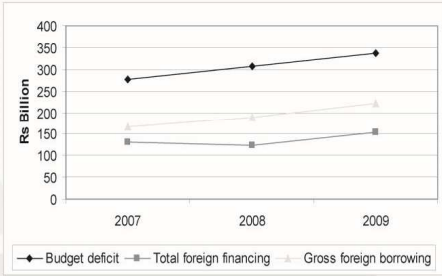
BUDGET DEFICIT

Two aspects have to be looked into in the budget deficit. While the deficit as a percentage of GDP has declined from 7.5 % in 2007 to 6.5% in 2009, the total deficit has increased from Rs 270 billion to 300 billion in 2008, which is expected to increase to about Rs 340 billion in 2009.

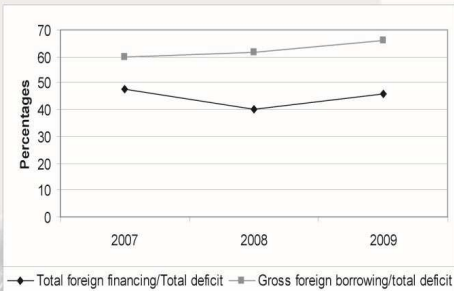


DEFICIT FINANCING: FOREIGN SOURCES

Though rhetoric has been otherwise, the government has relied and will continue to rely on foreign sources for financing budget deficit.



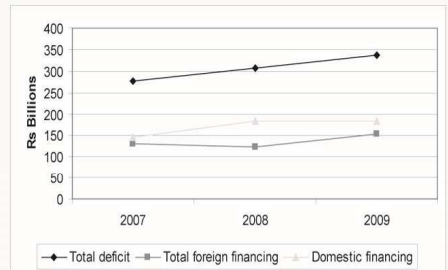
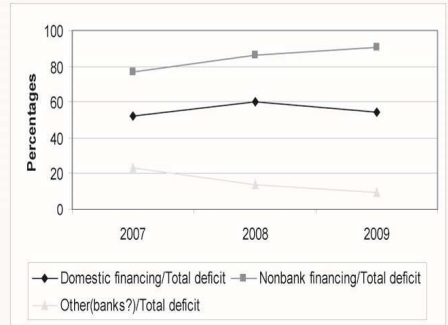
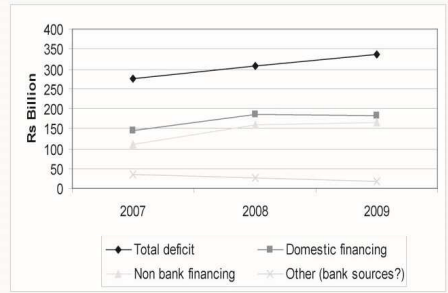
While the initial attempts during 2005-2006 was to focus more on domestic sources, the government appears to have been concerned about inflationary effects of the budget deficits.



However, borrowing from foreign sources on market rates will be difficult for year 2009 as a result of the current global financial crisis. To avoid conditions attached to peace and war, government has been borrowing and will borrow at market rates from foreign markets. However, there are few issues here. First, borrowing from foreign countries to develop economic activities in the non tradable sector is not feasible, as repayment will be difficult in the future. If foreign money is not able to develop the export capacity of the economy, it will be difficult for the government to find foreign exchange for services debt in the future. Second, borrowing from market sources at market rates will be extremely difficult due to the current global financial crisis. It should be noted here that Sri Lanka's sovereign credit ratings have been downgraded by rating agencies recently as a result of increased budget deficit and worsening fiscal situation.

DEFICIT FINANCING: DOMESTIC SOURCES

Borrowing from domestic sources has also increased. Government has heavily borrowed from domestic nonbank sources, as they do not have inflationary effects. However, the government has chosen not to depend on domestic banking sources as it creates inflationary pressures. This policy may change in the 2009 as earmarked foreign borrowing will become difficult due to the global financial crisis. Government will be compelled to draw resources from domestic banking sector for financing deficits.



IMPLICATIONS ON ECONOMIC GROWTH

Government thrust towards developing the infrastructure sector will be favourable for economic growth. The budget is likely to positively contribute to economic development as a result of increased government investment spending, development of sea ports to promote Sri Lanka as an international logistic hub, enhanced focus on small and medium scale industrial sector, measures taken for promoting the paddy dominated agricultural sector as an export oriented sector.

However, this budget also contains elements that are likely to retard economic development. Economic development will be negatively affected as a result of increased government consumption spending, lack of focus on measures to exploit the benefits of the global outsourcing industry, weakening private

EMPLOYMENT

The budget has not clearly envisaged the role of the private sector in absorbing the unemployed population. What has been done is the absorption of these persons into the government sector for various jobs. The domestic agricultural sector is facing a huge labour shortage, though the number unemployed is notable. Lack of modernization of the agricultural sector has prevented even low educated and low skilled individuals choosing to work in the agricultural sector. There is also an expected decline of garment exports to North America and Europe due to global financial crisis and emerging global recession. This will worsen the unemployment problem. The declines in commodity trade, especially rubber, due to the economic recession will also worsen unemployment problems. However, measures taken to reduce the level of unemployment through productive market based approach is not present in this budget.

SUMMARY

- The budget does not effectively contribute to improve the fiscal situation.
- Borrowing non-concessionary loans under LIBOR rates is unfeasible.
- There will be inflationary effects of budget deficit in the year 2009.
- Increased interest rates have discouraged private borrowing and hence retarded private economic activity.
- No effective policy switches to change the populist non-productive subsidies.
- Lack of focus in the budget on reforming education and health sectors.
- The present regime appears to operate on the premise that government should be a substitute for individual economic activity, rather than working to support individual economic activity. Rather than focusing on providing essential public goods and services, government is increasingly entering into areas which can be effectively provided by private economic agents.
- The budget does not include a clear policy or programme to enhance total factor productivity growth through a proper national innovation system.

BUDGET 2009 IN LIGHT OF DEVELOPMENTS IN REST OF THE WORLD.

USVATTE-ARATCHI

What are the challenges that a budget maker in Colombo faces this year? The Minister of Finance in Parliament announced that he loved challenges; but you must first know what you love! In a note Minister Siyambalapatiya wrote in Lankadipa (11 November 2008), he said that the likely deep recession in the world economy in 2009 was taken into account in preparing Budget 2009. The Budget Speech addressed these issues directly in paragraph 47 in the Sinhala version, which paragraph has the misleading headline 'Encouragement to earn foreign exchange'. The challenges go well beyond earning more foreign exchange to questions of borrowing in overseas markets and maintaining output and employment in the domestic economy. In meeting new challenges, choices available to Parliament to make decisions regarding public expenditure are very limited. There are some items of expenditure laid down under special laws and these have to be met before Parliament has room to decide on the allocation of expenditure. These items are shown on page xvii in Volume I of Budget Estimates 2009 (Printed Estimates). They sum to some Rs.739 billion. Total government expenditure amounts to some Rs.1,200 billion. So the budget maker really worries about only some Rs.460 billion, about a third of total expenditure. It is true that decisions to borrow were approved by Parliament in earlier years. By doing so they reduced the extent of the budget under their own control in succeeding years. You can work out a scenario in which Parliament would lose control of the entire budget process because all that they collect in revenue and loans has to be paid back to service accumulated debt. One of the long term challenges for all budget makers in Colombo is to increase the proportion of government expenditure over which Parliament has actual control. That is not easy.

Of the total expenditure under special laws which is not subject to annual Parliamentary approval, some Rs.722 billion is in payment of interest and re-payment of loans. Then control over government borrowing is important for this other reason as well. The more government borrows, more does Parliament, that is the people, lose control over government expenditure, long term and short term.

Let me digress here for a moment to bring to your attention entirely gross errors in Sinhala terminology that have been used by academics, government and journalists in discussing government revenue. The title of the Budget 'aya-vaya lekhanaya' is wrong and it is wrong to speak of government revenue as 'rajaya adayama' in the budget speech. The words 'aya' 'adayama' connote income in economics.

All income comes as wages, profits, interest and rent. There are no other ways in which income can be earned in the economy. As you well know, government does not earn wages. Government earns about Rs. 2 billion in rent on property it owns; Rs.9 billion in interest, mainly on loans it makes to public servants and public entities; Rs.14 billion in profits and dividends. That is a total of Rs.25 billion in government income or 'aya' or 'adayama' in total revenue of Rs.751 billion. That total comprises about 3 percent of total government revenue. Now you see why the Sinhala terms are misleading and utterly confusing.

It is necessary to give Parliament effective control over government expenditure. That brings into focus the need to meet additional expenditure from revenue and not from loans because a higher stock of debt pre-empts Parliament from voting upon a larger proportion of annual expenditure. This can be done by reducing government expenditure and by increasing government revenue, or some combination of the two. This government won two elections on the premise that they would increase government expenditure. Therefore they cannot cut public expenditure. They seem to have reached a limit on raising revenue as indicated by the way they nibbled a little here and a little there in Budget 2009 to raise revenue. In any case 2009 is going to be a lean year to raise revenue and one should expect collections well below estimates. The next step is to lower the cost of debt service by reducing the rate of interest payable on the stock of government debt. Government has been doing that in the past. Government borrowed at lower rates of interest in markets outside Sri Lanka. During the five years ending 2008, the ratio of domestic debt to GDP fell from 5.8 percent in 2004 to 3.5 percent in 2008 and corresponding ratios for foreign borrowing rose from 1.8 percent to 2.5 percent. You will of course keep in mind that likely volatility in foreign exchange markets in 2009 and beyond might make this gain from low interest rates more than lost by the falling value of the rupee. Turmoil in international financial markets, which seems to be dying down but has not been yet entirely quietened, will make credit scarce and more expensive to sub-prime borrowers like us. So room for reducing interest costs on new borrowing may be smaller in 2009 than earlier and the problem of rising costs of debt servicing is likely to continue unabated in 2009.

The financial crises started in New York markets and spread to the rest of the world, as financial institutions all over the world held in their portfolio liabilities of major financial houses in US. It started with the unbearable weight of sub-prime loans in banks and other financial houses in US. As Lehman Brothers Holdings, one of the five big investment banks in New York, filed for bankruptcy in mid-September, credit froze in all main markets across the world. Financial institutions in our country were not affected by this tornado, nor are they likely to be affected, because we are a very small and isolated financial market. Our banks and other financial institutions did not hold in their portfolios those toxic assets which started the collapse in US markets. Nor does our share market have derivatives of diverse kinds which contributed so heavily to the collapse of capita markets. At the same, it is important to pay a high tribute to the Central Bank, especially its Deputy Governor Rani Jayamaha, for her persistent effort since 2002 or so to supervise the banking system so as to improve their capital strength and to study carefully the portfolio-at-risk of these institutions. To pay that tribute, it is not necessary to fabricate a story that it is Central Bank intervention that saved the banking system from contagion this time. The system was not at risk, to begin with.

How do the current financial and economic crises affect problems of budget formulation? Let us remember that there are two kinds of crises: one in the financial services sector and the other flowing from there in the real economy, one following the other. Let us start with financial services. The first feature that affects us is the freeze in credit markets that took place immediately after Lehman Brothers Holdings filed for bankruptcy in New York. Now the defining feature of this crisis was not so much the high cost of credit as the lack of trust among lending and borrowing institutions. Suppose you want to open a letter of credit to import tea. The letter of credit issued by your bank will not be accepted by the exporter's bank, as the exporter's bank is not sure that the importer's bank will honour the letter. I suspect that is what happened in tea market. It has happened in many other markets.

Suddenly you find trade grinds to a halt. And it works itself down to producers. Motor car loans have been restricted by banks and all major car producers have unsold stocks of cars. Sales of cars in October in October in US fell by 32 percent compared to October 2007. GM is expected to lose \$73 billion this quarter. Toyota, Honda, Nissan, Ford and Volkswagen will all lose money and as they lose money they will cut down employment. We are affected by the fall in demand for rubber to make motor car tyres and indirectly by the fall in demand for all consumer goods that people who lost employment will not buy. So we find prices of raw materials the world over have dropped drastically from their heights 12 months ago. Copper price which was \$ 4 per pound in July 2008 fell to \$1.70 at end October. The Economist (dollar) commodity price index for all items fell by 21 percent for the twelve months ending October 28th and of metals by 40percent. One is rudely reminded of the fall in commodity prices in 1929 forewarning the Great Depression. Corn prices in US fell by 16 percent from October to December 1929 and world coffee prices fell by 41 percent from September to December. Nobody expects the fall in economic activity in 2009 or soon thereafter to plumb those depths, yet it is foolhardy not to be alive to the probabilities.

Central banks, all over the world including India and China cut lending rates and flooded the financial system with liquidity. Most European banks have cut their discount rates sharply, the Bank of England by 1.5 percentage points to 3 percent in November. Bank of Japan cut its discount rate to 0.25 percent, virtually free money. Governments guaranteed all sorts of liabilities of financial houses, including short term debt in US and took over ownership stakes in many large banks and other financial institutions. It all happened in a short two weeks; it is a tribute to much maligned central bank and government bureaucrats that these things were accomplished at impossibly high speed.

All these crises in financial markets, as expected, caused economies to contract and that process is yet to work out. As credit froze lending became scarce. Small corporations and even smaller businesses found themselves unable to meet their payrolls. Home mortgages were more difficult to obtain. Loans to buy cars were cut down drastically. The fall in the value of individual wealth caused people to cut down expenditure. Consumer and business confidence fell in all economies. Consumer confidence in France, Germany and the Netherlands fell dramatically during the twelve months ending October 2008. It is expected that the G-7 economies will shrink by 0.5 percent in 2009 and emerging economies will grow by 4.5 percent. My own assessment is that these expectations are too rosy. The drop in commodities prices, in my understanding, presages a deeper drop in world output, incomes and employment.

The depth of that drop will determine the demand for Sri Lanka exports. Exports provide 30 percent of the total demand for our output. Write the Central Bank, 'the external sector continued to sustain its strong performance in 2007, largely supported by the favourable global economic environment during much of 2007'. It is now clear to you that the global economic environment will be far from favourable in 2009.

Given that scenario, the discussion in paragraph 48 of the Budget Speech is far from adequate. The response of the government was to reduce prices of government input to export industries, to reduce the burden of financing these activities and provide financial assistance to find new markets for exports. These measures will of course help in some limited ways. However, they are unlikely to meet the problem of sagging demand overseas for exports. A small economy like ours can do sweet little to affect demand for our exports.

The alternative solution adopted by other countries is to boost domestic demand. In developed countries, central bank interest rates have been drastically cut and governments have authorised huge expenditure plans. China announced on Sunday, November 9, additional government expenditure of nearly \$600 billion to boost domestic demand. Economies with large reserves of foreign exchange can undertake these measures because they can pay for increased imports from their reserves. China has foreign exchange reserves of \$1.75 trillion, Japan \$1 trillion and Korea \$250 billion. Several others like India, Malaysia, Singapore and most West Asian countries hold large reserves of foreign exchange. Total Official External Assets of Sri Lanka rose from about \$3.5 billion at end 2007 to \$4.2 billion at end August 2008, sufficient to pay for a little over three months of imports. That limits the scope for government to raise domestic demand as export demand falls. We must expect higher unemployment and lower levels of economic activity in the year to come. Neither does Budget 2009 discuss the consequences of these eventualities on exchange rates, interest rates and the availability of imports all of which impact not only on the cost of living but also employment and output. In fact, Budget 2009 contains very little, if any, on the economic aggregates and is full of details of individual projects. It is these aggregates that will engage the minds and skills of policy makers during the next few months. My own understanding is that it would have been far better to discuss these things in the Budget Speech and in Parliament so that the public become aware of the economic problems that lie ahead. However, advisors to government have thought it is wise to do otherwise.

BUDGET AND THE NORTH & EAST DEVELOPMENT

The North & East region in the country is a conflict affected area. To address the issue of development of this region two questions have to be asked:

- Conceptually, following conflicts, a region passes through three phases; relief & humanitarian, early recovery and development. Currently what phase is the region in?
- What can the budget can do to impact this developmental situation?

Overall, the North & East region has been in conflict for the past 25 years or so. In addition it had to bear the effects of the Tsunami. This region also has high incidences of poverty. Given this overall situation, certain qualifications are necessary. At present, North & East is not a uniform region. In the Eastern Province, normalcy is established where effects of conflict are being speedily addressed. From a relief and humanitarian phase, it has entered into an early recovery phase. The displacement that occurred after April 2006 is ending with the resettlement of IDPs which is nearing completion. Only around four thousand families are awaiting either resettlement or relocation. Thus a developmental space has been created in the East.

The North, in contrast, has two different situations. In two out of the five Districts i.e. Killinochchi and Mullaitivu, conflict is intensifying. As a result there had been a mass displacement of over 200,000 persons. In the other three districts, although a conflict free situation prevails, certain specific observations can be made. Jaffna peninsula is physically cut off due to closure of the A9 road. Hence mobility of people and materials are some what restricted. In Mannar, the Manthai west DS Division, is totally depopulated. The same situation prevails in the Vavuniya North DS Division. Movement of materials and people in these districts are somewhat restricted. Thus the immediate requirement is relief and humanitarian assistance, with a limited space available for early recovery interventions.

In the economic sphere, according to the latest information made available by the Central Bank, contribution to the GDP by these two provinces was 7.7% in 2006 and 7.9% in 2007. The contribution by the East was 5.0% while that of the North was 2.9% in 2007. Due to the low level of contribution, the per-capita income in 2007 in the North was around Rs.89, 907/- and in the East it was around Rs.119, 131/-. If compared with the national per-capita income which was around Rs.178,783 the Northern Province reflects only 50% and the Eastern province reflect 70% of the National level.

	Central Ministry
	Provincial Council
	Allocation to District Secretariat
	North & East Decentralized Budget (DCB)

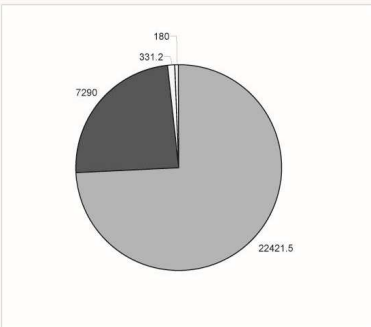
In the social sphere, following the conflict, the internally displaced persons (IDP's) have become an important segment of the population. Around 300,000 protracted IDPs have been in the same status for the past 20 years or so. In addition, after April 2006, there was an emergence of displacement in the East and around 200,000 persons got displaced but they have been speedily resettled. But in the North, Kilinochchi and Mullaitivu a similar number had emerged due to the present conflict situation. These IDP's consist of most vulnerable groups like Women Headed Families, Orphans, Children and Disabled etc., their basic requirements of food, shelter, water and sanitation have to be provided on an urgent basis.

Generally, the government budget sets the policy thrust or gives policy guidelines for the government programmes & projects. To facilitate their implementation, necessary budgetary provisions are made. Many of them for the continuation of activities and some may be for new programme of activities. In what sector has the emphasis been laid? How far do they address the developmental situation?

Description	Rs (Million)
1. Central Ministry	
Ministry of Nation Building & Estate Infrastructure Development	
I) A Development Projects	12,883
II) Gamaneguma	2,493.5
Ministry of Resettlement & Disaster Relief	3,545
Uthure Vasanthaya & resettlement	3,500
Sub Total	22,279
2. Provincial Council	
Northern	2,208
Eastern	5,082
Sub Total	7,290
3. Allocation to District Secretariat	331.2
4. North & East Decentralized Budget (DCB)	180
Total	29,749

On the policy directions/thrust the Budget emphasizes the promotion of local production sectors such as Agriculture Livestock, Fisheries and Tourism. It aims to substitute imports with local production. Infrastructure development in the rural sectors such as "gamaneguma" and provincial roads has been given greater emphasis.

In the Budget, financial provisions have been made from various sources such as Central Ministries, Provincial Council District Secretariat and through Members of Parliament. Since only development is considered, the focus is only on Capital Expenditures and some recurrent expenditures which are associated with humanitarian and relief assistance. The following chart and the table give the details of the capital allocation. Further details of each item are shown in the Annex.



Firstly, the Ministry of Nation Building has a provision of Rs.12.88 Bn for 14 development projects which are foreign funded. Major Projects are North & East Housing Community Restoration Development (NECORD), Coastal Community Development Project, Reawakening Project and Protected Relief and Recovery Programme. World Bank, ADB, JICA, WFP, UNDP, UNHCR and WFP are providing funds for these projects. Also, a special project known as "gamaneguma" is being implemented throughout the country including the North & East. Under this project, capital allocation of Rs.2.471 Bn has been provided it is an ongoing project.

Another important Ministry is Resettlement and Disaster Relief Services. For resettlement and provisions of dryration to the IDPs, around Rs.3.454 bn has been provided to the Ministry. Also, the Finance Minister additionally has announced a provision of Rs. 3,000 Mn for "Uthuray Vasanthaya" and Rs.500 Mn. for Resettlement Ministry activities.

Usually, on the basis of the provisions in the Budget, line Ministries draw up Action Plans, where provision will be made for specific activities. This will be the case in terms of line Ministries, such as Education, Health, Agriculture, Fisheries Livestock etc. Information on these provisions is not readily available. However, it can be concluded that some provision will be made by these Ministries to the North & East.

Funds are also provided to the Provincial Council for certain specific programmes. Eastern Province has got Rs.5.082 Bn while the North has got Rs.2.208 bn. Project Specific Development Grants (PSDG) gets the major allocation Rs.1.1 bn for East and Rs.1.255 Bn for North. In addition to Criteria Based Grants (CBG), Health Sector Development Project (HSDP) & Education Sector Development Project (ESDP), funds are available for certain projects such as Navodaya, NECORD & UNICEF for both provinces. But for the East, additional provisions have been made for Rural Provincial Roads, Neganahira Navodaya, & Road sector amounting to Rs. 3.165 bn. These provisions are financed by both domestic and foreign assistance.

IMPLICATIONS ON INFLATION

The government has taken a concerted effort in the budget to avoid inflationary effects of deficit financing by choosing to finance the deficit from foreign sources and domestic non-inflationary sources. While non reliance of the government to finance the deficit through inflationary sources is appreciated, government will likely be compelled to tilt towards financing the proposed deficits through domestic inflationary sources as external borrowing will be limited due to global financial crisis.

BUDGETARY POLICY, DEFICITS, INTEREST RATES, CREDIT CRUNCH, AND CROWDING OUT EFFECT

During 2006-2007, inflation increased to about 25%. In order to contain inflation, the Central Bank had to raise official interest rates. As the figure shows, the Sri Lanka inter bank offer rate, the rate offered by the banks to customers, has been increasing very rapidly. The SLIBOR has increased from around 7.5% in 2004 to about 20% in November 2008. This increase has raised the cost of borrowing. The borrowing potentials of small and medium scale borrowers have declined. The fiscal and monetary policies have, therefore, created a situation of credit crunch, crowding private economic activity. The source of this crowding out of private economic activity has been due to the increased public spending. This pressure on private economic activity is likely to weaken the local economy.



Under the District Secretariat Vote, five Northern Districts get Rs.158.8 Mn and three Eastern Districts get Rs.182.4 Mn for the rehabilitation of capital assets. However, this provision is not directly related to development activities. 36 MPs both elected and nominated belonging to this region, get Rs.180Mn under the Decentralized Capital Budget (DCB). This may also be spent for some development activities.

On the impact of the Budget on the development, economically, the Budget proposes to create a conducive environment for the promotion of local production. Since prices of imported goods would be higher the demand would be for local products if available. There is a vast potential in the Eastern Province with relation to Agriculture Livestock and Fisheries. If other support services are provided, these potentials could be tapped & it can increase its contribution to the National Economy. During 1980's the contribution of the two provinces was 14%. If compared with current level, this can be doubled. It has to be mentioned that necessary infrastructure facilities are also being provided. Hence, it can be argued that if the provisions are put in effective use, East can contribute more than 5% to the national economy.

Socially the displaced population and economically affected people have to be protected. Provision of food items, supplementary food and other basic facilities will be provided. Necessary provisions are available in the relevant Ministry votes. Hence, it can be concluded that relief and humanitarian assistance will be sustained.

With the achievement of normalcy, the resettlement/relocation will be expedited. In the East it may be completed.

In conclusion, it may be noted that the Budget gives only broad policy guidelines. It is the responsibility of the relevant Government Ministries and Department to implement the programme within the given policy framework with available financial resources. Impact can only be seen with implementation

ANNEX

Table1: Ministry of Nation Building & Estate Infrastructure Development - I) A Development Projects

Project details	Rs. (Million)
National Protection & Durable Solutions for IDPs(UNHCR)	14
North East housing Reconstruction Programme (WB&EC)	2,077
North East Coastal Community Development (ADB)	950
Reawakening Project (WB/IDA)	1,250
Agricultural and Rural Development in Trincomalee District (JICA)	8
Recovery Programmes for Peoples Affected by North East conflict (EU)	119
Supporting Demining in North East by the Civilian Demining Unit of Sri Lanka (UNDP)	40
North East Community Restoration & Development Project II (ADB Grant)	750
North East Community Restoration & Development Project II (ADB Loan)	920
Pro Poor Economic Advancement & Economic Empowerment Project(JBIC)	525
Protected Relief and and Recovery Programme(WFP)	4,000
Trincomalee Intergrated Infrastructure Project (France)	905
Tsunami Affected Area Re building Project(Component B - ADB)	750
Tsunami Affected Area Re Building Project(Component H - ADB)	575
Total	12,883

Table2: Ministry of Nation Building & Estate
Infrastructure Development - Gamaneguma

	Recurrent (Rs Million)	Capital (Rs Million)	Total (Rs Million)
Zone 06	22.5	1496	1518.5
Batticaloa, Ampara & Trinco			
Zone 07			
Jaffna, Mullaitivu, Kilinochchi & Vavuniya		975	975
Total			2493.5

Table 3: Allocation to District Secretariat

District	Recurrent	Capital	Total
Vavuniya	86.6	29.1	115.7
Mannar	72.9	37.5	110.4
Jaffna	257.8	41.9	299.7
Kilinochchi	71.4	23.9	95.3
Mullaitivu	65.9	16.4	82.3
Trincomalee	160.8	32.3	193.1
Batticaloa	240.4	44.9	285.3
Ampara	404.6	105.2	509.8
	1360.4	331.2	1691.6

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