

Sri Lanka export development board



Policy Briefing

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Spotlight - Inflation to be contained at 8.5% during 2007

Economic Council to Boost Economic Growth

President Mahinda Rajapakse on 26.12.2006 appointed an Economic Council to advise on economic affairs and to get its direct involvement in the plan implementation process.

The Council's first meeting was held under the patronage of the President Rajapakse. It will meet twice every month under the patronage of the President.

Central Bank Anticipates a Prosperous 2007

Central Bank of Sri Lanka (CBSL) has warned of facing possible external shocks arising from global political and economic developments, domestic disturbances and natural disasters in meeting price and economic stability and stabilizing a financial system for 2007 and beyond.

According to CBSL Governor, the two of the most important challenges that we would have to face in 2007 would be the impact of high and volatile international oil prices as well as the security concerns in the country.

He further stated that monetary policy which is used by Central Banks globally is the mechanism to drive the economy

along the required path. Despite local and international shocks adopting a viable monetary policy will drive the economy along the predetermined path he said. CBSL's forecasts for 2007 are given below.

Economy to grow by 7.5%
Expected inflation - 8.5%
Export to grow at 10%
Imports to grow at 12%
Budget deficit to be confined to 7.2%

Export Growth regain in November

Export earnings in November 2006 grew by 24% over October recovering from the negative growth recorded in October. Consequently the cumulative exports during Jan. - Nov. 2006 grew substantially by 8%.

Export of tea (10%), rubber (109%), coconut (10%), marine products (30%), diamonds, gem & jewellery (9%), textile & garments (5.5%), rubber products (13%) and food & beverages (11%) performed impressively during this period contributing to the overall positive performance of the export sector. Except vegetable (-18%), leather products (-30%) and chemical & plastic (-4%), other major sub sectors performed satisfactorily during the period Jan. - Nov. 2006.

Sri Lanka near to US\$ 500 Mn FDI Milestone

Sri Lanka has recorded a significant growth rate of FDI in 2006. As shown in the table below the FDI growth in 2006 is almost eight fold over the year 2005 which is a remarkable achievement.

FDI Growth

Year	FDI (US\$ Mn)
2003	16.05
2004	32.00
2005	60.34
2006 (Upto Nov.)	453.66

Cess on Parts of Footwear Removed

The Government has decided to remove the EDB cess of 20% imposed on importation of parts of footwear in the Budget 2007. Gazette Notification No. 1477/16 dated 27.12.2006 has been published to give effect to this decision. This will be a relief to the local leather industry.

New Amendments to VAT and PAL Coming into Effect from 01/01/2007

The following amendments proposed by the Budget 2007 on VAT and Ports & Airport Levy (PAL) have come into effect from 01.01.2007.

VAT Amendments

- Removal of 15% restriction on claiming VAT input tax paid at 20% on imported raw materials for export processing.
- VAT deferment facility for local purchases of project related articles by BOI companies.
- VAT exemption on supply of locally manufactured handlooms, furnace oil, supply of electricity, import of machinery/equipment by CEB, import of selected machinery for the modernization of tea / coconut factories, supply of prawns, materials imported for processing / manufacturing of leather and leather products, import of selected machinery / equipment (not manufactured locally) under the "Krushi Navodaya", and supply of jewellery.

Amendments to PAL

- 3% general rate for imports.
- 2% for selected plant & machinery imported for high value added textile industry.
- PAL exemption for importation of gem, diamond & gold as raw/ semi processed/ semi manufactured.

Scheme to Grant Duty Concession for Advanced Technology Extended

The Scheme introduced by the Budget 2005 to grant duty concessions to facilitate the SMEs utilizing advanced technology has been extended till 31st December 2007. The enterprises with assets less than Rs. 100 Mn are eligible for this duty concession provided the minimum investment is Rs. 2 Mn on importing plant and machinery deemed as advanced technology. More details of this Scheme could be obtained from the Ministry of Enterprise Development and Investment Promotion.

Economic Indicators

	Week ending Jan.. 12	Week Ago	Year Ago
Exchange Rates Rs/Unit			
- US\$	108.44	108.82	102.02
- UK£	211.01	211.12	180.25
- Yen	0.90	0.92	0.89
- Euro	139.90	142.35	123.94
- SDR (as at 16 th Nov.)	161.64	161.24	147.81
Interest Rates			
- Commercial Bank average prime lending rate	14.71%	15.41%	12.42%
CCPI (point to point change)	19.3%	19.8%	8.0%

Source : Central Bank of Sri Lanka

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