

# 2022 INTERIM BUDGET

## HIGHLIGHTS

**The Democratic Socialist Republic of Sri Lanka**

**30<sup>th</sup> August 2022**

**SC Securities (Pvt) Limited**

*Subsidiary of*  *Sampath Bank PLC*

# Interim Budget Summary

## Budget Deficit Revised to 9.8%

Budget deficit is expected to increase to 9.8% due to the sharp increase in government expenditure with certain new expenditure proposals

LKR.Bn	2021	2022 E Original	2022 E Revised
<b>Total Revenue and Grants</b>	<b>1,464</b>	<b>2,223</b>	<b>2,094</b>
<i>+/- YoY Growth</i>		<i>51.8%</i>	<i>43.0%</i>
Revenue and Grants/GDP	8.3%	12.0%	8.8%
<b>Total Expenditure</b>	<b>3,522</b>	<b>3,851</b>	<b>4,427</b>
<i>+/- YoY Growth</i>		<i>9.3%</i>	<i>25.7%</i>
Expenditure/GDP	19.9%	20.8%	18.6%
<b>Budget Deficit</b>	<b>(2,058)</b>	<b>(1,628)</b>	<b>(2,333)</b>
<i>+/- YoY Growth</i>		<i>-20.9%</i>	<i>13.4%</i>
Budget Deficit/GDP	11.6%	8.8%	9.8%

Source: Interim Budget Speech 2022

## New Expenditure Proposals

Proposal	LKR Million
1 Social Safety Net program	46,600
2 Supply of seeds and planting materials	400
3 Payment for crop damages	350
4 Promotion of tourism industry	300
5 Establishing Youth Agriculture Companies	250
6 National Agency of Public Private Partnership (NAPPP)	250
7 Promotion of local packaging products	250
8 Promotion of domestic dairy production	200
9 Facilitating new skill based jobs	200
10 Railway facilities for vegetable and fruit transportation	200
11 Research and development	100
12 Youth entrepreneurship for agriculture and animal production	50
13 Other subsidies and relief	5000
<b>Total</b>	<b>54,150</b>

Source: Interim Budget Speech 2022

# Budget Deficit and Financing

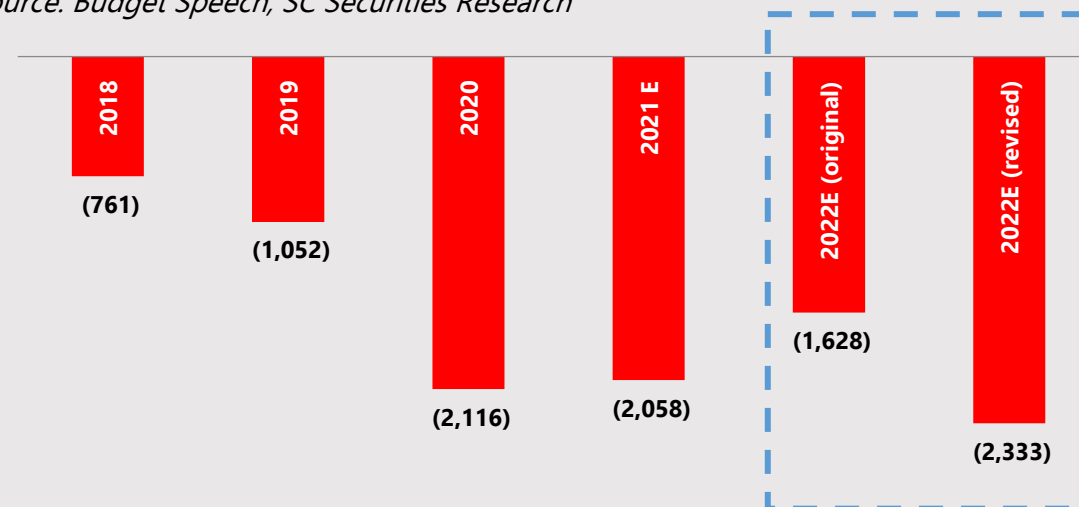
## Deficit to increase by 13.4% YoY

**Deficit is set to increase due to the increase in expenditure in the revised budget caused by the following**

- Accounting for previously unbudgeted expenditure measures
- Higher procurement costs due to rising prices
- Increased allocations for social protection measures
- Allocations for chemical fertilizer
- Higher interest costs
- Accounting for onlending under the Indian Credit Line
- Financing CEB payments to the CPC

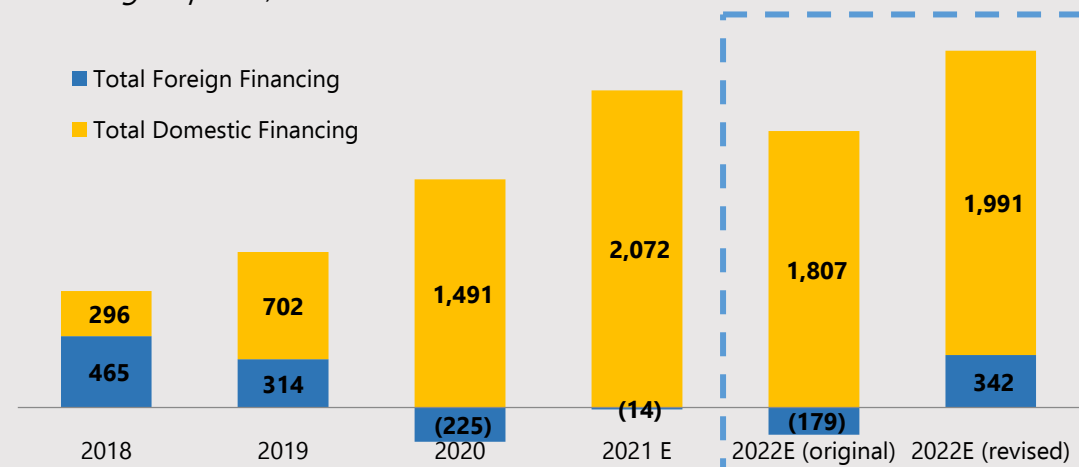
## Budget Deficit (LKR.Bn)

Source: Budget Speech, SC Securities Research



## Deficit Financing (LKR.Bn)

Source: Budget Speech, SC Securities Research



# Macro-fiscal Framework

**Government revenue to increase :** Fiscal stabilization program envisages government revenue increasing to around 15% of GDP by 2025 from 8.2% of GDP as at end 2021

**Primary surplus :** The government is targeting a primary surplus more than 2% of GDP in 2025 and expects to improve upon this level

**Public debt to reduce:** It is aimed to reduce public sector debt from around 110% of GDP as at end 2021, to no more than 100% of GDP in the medium term

**Inflation and interest rates under control :** It is expected that inflation will be brought back under control to a mid-single digit level in the medium term and interest rates are also expected to gradually reach a moderate level

**Strengthen the currency :** Once macroeconomic confidence is re-established and foreign exchange reserves are replenished through foreign financing, the adverse pressure on the exchange rate is also expected to abate

**Economic growth to rebound :** With the implementation of a series of growth enhancing structural reforms, the medium-term economic growth is expected to return towards 5%

# Revenue Proposals

## Value Added Tax (VAT)

VAT rate will be increased to **15%** from the current rate of **12%** with effect from **1<sup>st</sup> September 2022**

Decreasing VAT threshold from LKR 300 million per annum to LKR 120 million per annum effective from **1<sup>st</sup> October 2022**

Removal of the VAT exemption on Condominium Residential Apartments effective from **1<sup>st</sup> October 2022**

## Corporate Income Tax (CIT)

Increasing the standard CIT rate from **24% to 30%** and increasing the concessionary CIT rate from **14% to 15%** effective from **1<sup>st</sup> October 2022**

	Previous Tax rate (%)	Proposed Tax Rate (%)
Banks	24	30
Insurance	24	30
Non-Bank Financial Institutions	24	30
Retailers	24	30
Construction	14	15
Healthcare	14	15
Leisure	14	15
Exports	14	15
Alcohol, Tobacco, Gambling and Casino	40	40
Manufacturing	18	18

Impose income tax for dividends paid by a resident company to a non-resident person effective from **01<sup>st</sup> April 2023**

# Revenue Proposals

## Compulsory Tax Registration

Introduce compulsory tax registration for all residents who are above 18 years of age without considering their annual income and tax-free thresholds.

## Non-Tax Revenue

Measures will be taken to enhance non-tax revenue, including royalties received for government assets, and by ensuring better utilization of our mineral resources and increase value addition

## Betting and Gaming

Following amendments are proposed with regard to Betting and Gaming Levy effective from **1<sup>st</sup> January 2023**

- Increasing Annual Levy for carrying on the business of gaming from LKR 200 Mn to LKR 500 Mn
- Increasing Annual Levy for betting
- Increasing the rate of the levy on Gross Collection from 10% to 15%

# Public Sector Reforms

## **Rationalize the number of government employees**

Government employees who are willing to take no pay leave for 5 years or so and go abroad or engage in educational activities in the country are allowed to do so

## **Retirement age of public sector and semi-governmental employees changed to 60 years**

Current retirement age of 65 years for public sector employees and 62 years for semi-governmental employees will be reduced to 60 years. Those employed beyond 60 years of age at present in the government and semi government sectors will be retired as of 31st Dec 2022

## **Purchase of fossil fuel-based vehicles for public sector will be suspended as a government policy**

Only electric-powered vehicles will be purchased for the use of the public sector in the future and the private sector will also be encouraged

## **Restructure State Owned Enterprises**

It is proposed to establish the "State-Owned Enterprise Restructuring Unit" to facilitate restructuring of government owned business entities (LKR 200 million allocated). In addition it is also proposed to re-activate the Statement of Corporate Intent (SCI) process for key 50 SOEs

## **National Agency for Public Private Partnership (NAPPP)**

A national agency will be established for the purpose of identifying and facilitating investment to be undertaken in partnership with the public and private sector (LKR 250 million allocated for the implementation of this proposal)

# Monetary and Financial Sector Reforms

## **New Central Bank Act**

This new legislation would provide the framework for effective implementation of inflation targeting and prevent monetary financing of the budget deficit - what is commonly known as money printing.

## **Allotment of 20% shareholding in State Banks to the depositors and staff of those banks**

In order to meet recapitalization requirement borne out due to liquidity issues faced by state banks, it is proposed to allow 20% of shareholding of the Bank of Ceylon and People's Bank to their depositors and staff

## **Write off non-performing cultivation loans given to paddy farmers with 2 hectares or less**

LKR 688 million (excluding interest) which is currently in default to the state banks will be written off, and will be paid back to the respective banks in two years in a phased manner through the Treasury



# Industry Impact

Sector	Proposal	Impact	Company
<ul style="list-style-type: none"> <li><b>Consumer Services</b></li> </ul>	<ul style="list-style-type: none"> <li>It is proposed to organize special programs with the support of the Tourist Board and other institutions related to the tourism industry. The target tourists arrivals for 2023 is 2.5 million &amp; provide special attention to attract high end tourists</li> <li>LKR 300 million allocated to promote tourism industry</li> </ul>	<ul style="list-style-type: none"> <li>These proposals would positively affect towards the tourism industry and it will help to recover from the current situation</li> </ul>	SPEN, CHOT, REEF AHUN, CONN, ALHP AHPL, BRR, BBH PALM, EDEN, GHLL JETS, SERV, HSIG HUNA, KHL, KHC MRH, MARA, PEG RFL, RCH, RENU RTBH, SHOT, SIGV STAF, TAJ, TANG RHTL, LHL, NEH, TRAN BERU, CITW, CITH

Sector	Proposal	Impact	Company
<ul style="list-style-type: none"> <li><b>Food, Beverage &amp; Tobacco</b></li> </ul>	<ul style="list-style-type: none"> <li>US dollars 110 million (Rs. 40 billion) allocated for the import of Urea required for paddy cultivation in the 2022/2023 "Maha" season, and fertilizer procurement is already underway</li> <li>LKR 400 million allocated to the Department of Agriculture to produce the necessary seeds and planting materials.</li> <li>LKR 200 million allocated to develop dairy industries</li> </ul>	<ul style="list-style-type: none"> <li>This would minimize the shortage in fertilizer</li> <li>This would enhance the crop yield</li> <li>Domestic dairy production would further develop; thus, it will improve efficiency and productivity</li> </ul>	<p>CIC, AGST</p> <p>Plantation sector companies</p> <p>LMF, LLMP, LAMB</p>

Sector	Proposal	Impact	Company
<ul style="list-style-type: none"> <li><b>Energy Sector</b></li> </ul>	<ul style="list-style-type: none"> <li>It is expected to overcome the domestic cooking gas shortage by utilizing US dollars 70 million (LKR 25 billion) from World Bank loan assistance.</li> </ul>	<ul style="list-style-type: none"> <li>This would ensure uninterrupted domestic gas distribution across the country</li> </ul>	LGL
<ul style="list-style-type: none"> <li><b>Material Sector</b></li> </ul>	<ul style="list-style-type: none"> <li>LKR 250 million allocated to promotion of local packaging products</li> <li>50% import duty concession offered to import advanced new technology equipment/accessories for food packaging</li> </ul>	<ul style="list-style-type: none"> <li>Positive impact for packaging industry</li> </ul>	ACME, PACK
<ul style="list-style-type: none"> <li><b>Utilities</b></li> </ul>	<ul style="list-style-type: none"> <li>The government would facilitates the expansion of renewable energy sources by allocation of necessary lands</li> </ul>	<ul style="list-style-type: none"> <li>We expect utilities sector companies to benefit greatly with the Government's new initiative</li> </ul>	PAP, HPFL, VLL, VPEL, LVEF, WIND, HPWR, LPL, VLL



# Thank You

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