

SRI LANKA
National Budget 2022

Highlights

12 November 2021

CT CLSA SECURITIES (PVT) LTD

A Member of the Colombo Stock Exchange

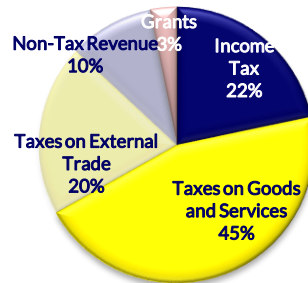
A CT HOLDINGS GROUP AND CLSA GROUP COMPANY

**Sri Lanka
National Budget 2022**

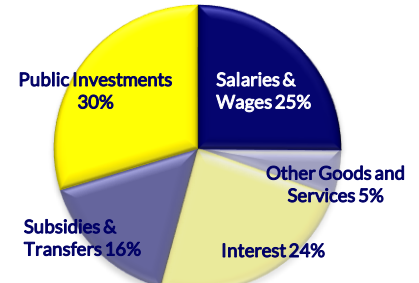
Key Highlights

- ❑ The Minister of Finance of Sri Lanka, Hon. Basil Rajapaksa, presented Sri Lanka's 76th National Budget for 2022 in Parliament on 12 November 2021
- ❑ The Government of Sri Lanka (GoSL) expects to reach a fiscal deficit of 8.8% to GDP for 2022E (vs. 11.1% provisional in 2021E)
- ❑ The GoSL expects to increase total Revenue and Grants to 12.3% of GDP for 2022E (vs. 9.5% in 2021E) in which Tax Revenue is forecast at 10.7% of GDP (vs. 8.0% in 2021E). Major revenue raising proposals include a one-time tax surcharge of 25% on companies with taxable income over Rs.2bn in 2020 and FY21 and a Social Security Contribution of 2.5% on the annual threshold turnover exceeding Rs.120mn w.e.f 1 April 2022
- ❑ Further, a one time increase in Financial VAT on banks and financial service providers to 18% (previously 15%) between 01 Jan 2022 to 31 Dec 2022 is proposed whilst the Special Goods & Services Tax (S-GST) is to be implemented, generating an estimated revenue of Rs.50bn p.a, w.e.f 1 Jan 2022
- ❑ Meanwhile, the GoSL estimates its total expenditure at 21.1% of GDP for 2022E (vs. 20.6% in 2021E), with Public Investment expected to increase to Rs.931bn – 5.0% of GDP (vs. Rs.582bn – 3.5% of GDP in 2021E) whilst Recurrent Expenditure is expected to increase to Rs.2,996bn in 2022E (16.2% of GDP). Major expenditure proposals are for Rural Development Projects and removal of Salary Anomalies of Teachers and Principals, with allocation of Rs.85bn and Rs.30bn respectively
- ❑ Majority of the 2022E deficit is expected to be financed through domestic sources, reducing the dependency on foreign sources, although likely to be inflationary
- ❑ By following a pro-growth policy, the GoSL expects an average economic growth of around 6% during 2022E – 2027E. The GoSL expects to achieve a deficit target of -4.8% by 2025E by the resultant increase in taxes from high growth
- ❑ Consequently, it is expected to reduce Debt to GDP to 89% by 2025E (from 102.8% in 2021E).

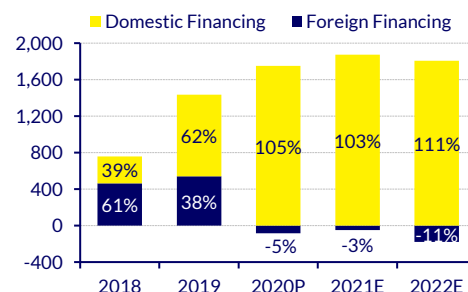
Composition of GoSL Total Revenue 2022E



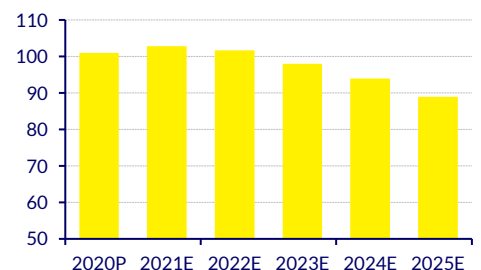
Composition of GoSL Expenditure 2022E



Deficit Financing (Rs bn)



GoSL Debt (% of GDP)



Source : Ministry of Finance Annual Report 2020

Key Revenue Proposals

Proposal	Expected Revenue (Rs bn)	Remarks
Surcharge Tax	100	A tax surcharge of 25% on companies with taxable income over Rs.2bn for 2020/21
Social Security Contribution	140	A charge of 2.5% on the annual threshold turnover exceeding Rs.120mn.
Value Added Tax (VAT) and other charges	14	VAT on banks and financial service providers to be increased to 18%
Special Goods & Services Tax (S-GST)	50	To be implemented w.e.f January 2022
Proposals Relating to Motor Vehicles	4	Motor vehicles related proposals
License Fees, Auctions and other Non Tax Revenue	25	5G licenses to be auctioned openly

Special Goods and Service Tax (S-GST)

- The proposed S-GST in the previous 2021 Budget for **Alcohol, Cigarettes, Telecommunication, Betting, Gaming and Vehicles** will be in effect from 01 January 2022
 - *Estimated Revenue: Rs.50bn*
 - *Listed companies likely to have a potential negative impact: Ceylon Tobacco Company (CTC), Lion Brewery Ceylon (LION), Distilleries Company of Sri Lanka (DIST)*
 - *Impact on Telecommunication: Neutral*

Listed companies likely to have a potential negative impact: Refer Table A

- To charge a one-time tax surcharge of 25% on persons or companies with a taxable income of over Rs.2bn for the year of assessment 2020/2021
 - *Estimated Revenue - Rs.100bn via 62 companies (Refer Table A)*

“Social Security Contribution”

- To charge a 2.5% tax on the annual threshold turnover exceeding Rs.120mn. Highly unlikely to be implemented on retail companies as they run relatively low margins
 - *Estimated Revenue: Rs.140bn (W.e.f. 01 April 2022)*

Banking and Finance

- To increase VAT on banks and financial service providers under supply of financial services by specified institutions to 18% (from 15% previously)
 - *To be paid monthly from 01 January 2022 to 31 December 2022 (one-off tax)*
 - *This tax should not be shifted to the customer*
 - *Estimated Revenue: Rs.14bn*
 - *Listed companies likely to have a potential negative impact : Banks and Finance companies*

Tobacco and Alcohol

- To increase a price of a cigarette by Rs.5
 - *Estimated revenue from the Cigarette price increase: Rs.8bn (implementation with immediate effect)*
- To increase Excise taxes
 - *Estimated revenue: Rs.25bn (implementation with immediate effect)*
 - *Listed companies likely to have a potential negative impact : Ceylon Tobacco Company (CTC), Distilleries Company of Sri Lanka (DIST) and Lion Brewery Ceylon (LION)*

Motor Vehicles: *Estimated Revenue Rs.4bn*

- To impose a fee on vehicles meeting with accidents with the opportunity of reimbursing this fee from the insurance
- To impose a fee on vehicle modification, alteration, and refurbishment; and, subject to an amnesty period to pay fines, legally register illegal motor cars and motor cycles, if they are in a suitable condition
- To release all vehicles seized at the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons. Such releases will be subject to the applicable taxes and fines

Tax Administration

- To further strengthen the Large Tax Payers Unit (LTU) and Upper Corporate Unit (UCU) to improve revenue collection from large tax payers
- To remove weaknesses in the digital revenue collection systems of the revenue collection bodies; Revenue Administration Management Information System (RAMIS) of the Department of Inland Revenue and Single Window System of the Sri Lanka Customs
- To expedite the implementation of the digital revenue collection system of the Excise Department and simplify the excise licensing process
- To introduce a mechanism to examine the accuracy of the tax documents when filing through the above systems, and allow, at every possibility, to present digital invoices and documents as valid documents

Licence, Fees, Auctions and Other Non-Tax Revenue: *Estimated Revenue: Rs.25bn*

- **Bond Scam Related Earnings Transfer**
 - To transfer to the Treasury what the Perpetual Treasuries Limited has earned in violation of the Code of Conduct of the Central Bank of Sri Lanka
 - *Estimated Revenue: Rs. 8.5bn*
- **Leisure License Fee**
 - To issue a license under goods and service tax for the designated areas to be developed as special zones for leisure activities.

- Telecommunication

- To issue Telecommunication licenses through an auction as well as auction the 5G frequencies to be included the information technology field
- *Listed companies likely to have a potential positive impact: Dialog Axiata (DIAL) and Sri Lanka Telecom (SLTL)*

Table A: Companies likely to be impacted by new proposed one-off tax surcharge

Company	Year Ended	2020/FY21 PAT (Rs mn)
LOLC Holdings	Mar	23,075
Commercial Bank of Ceylon	Dec	16,940
Ceylon Tobacco Company	Dec	15,578
Expolanka Holdings	Mar	14,830
Hatton National Bank	Dec	13,096
Dialog Axiata	Dec	12,034
Ceylinco Insurance	Dec	8,880
Sampath Bank	Dec	8,442
Vallibel One	Mar	8,117
Sri Lanka Telecom	Dec	7,880
Hayleys	Mar	7,637
Distilleries Company Of Sri Lanka	Mar	6,962
LB Finance	Mar	6,807
Royal Ceramics Lanka	Mar	6,135
Central Finance Company	Mar	5,544
Tokyo Cement Company (Lanka)	Mar	5,425
People's Leasing & Finance	Mar	5,295
Dipped Products	Mar	5,140
National Development Bank	Dec	5,117
John Keells Holdings	Mar	5,026
Carson Cumberbatch	Mar	4,804
Richard Pieris And Company	Mar	4,680
Melstacorp	Mar	4,425
LOLC Finance	Mar	4,365
Nations Trust Bank	Dec	4,055
Hemas Holdings	Mar	3,621
Bukit Darah	Mar	3,541
Cargills (Ceylon)	Mar	3,481
CIC Holdings	Mar	3,132
Haycarb	Mar	3,047
Seylan Bank	Dec	3,039
Lanka Walltiles	Mar	2,960
Nestle Lanka	Dec	2,947
DFCC Bank	Dec	2,745
Ceylon Guardian Investment Trust	Mar	2,721
Citizens Development Business Finance	Mar	2,554
Lanka Tiles	Mar	2,475
Lion Brewery Ceylon	Mar	2,471
Singer Sri Lanka	Mar	2,452
Ceylon Cold Stores	Mar	2,334
C T Holdings	Mar	2,288
Chevron Lubricants Lanka	Dec	2,225
Commercial Leasing & Finance	Mar	2,216
Access Engineering	Mar	2,173
Teejay Lanka	Mar	2,139
Pan Asia Banking Corporation	Dec	2,048
Commercial Credit And Finance	Mar	2,005

*Net profit is considered for this calculation and therefore, taxable income reported by these companies may differ from the amounts indicated. Companies with foreign operation and earnings may have reported lower taxable income than the Group NP

Agriculture Industry

- To continue the policy to support the use of organic fertilizers, farmers to be provided with startup working capital to produce solid and liquid fertilizers and organic pesticides
- To allocate Rs.4bn to promote the usage of alternative weedicides through a grant of Rs.5,000 per hectare to a maximum of 2 hectares to farmers
 - Listed companies likely to have a potential impact: *CIC Holdings (CIC)*, *Agstar (AGST)*
- Rs.5bn to be allocated to modernize technology in the agricultural sector
- To continue to promote the diversification of agricultural products and value added agricultural products in order to generate foreign income. In this regard, Rs.10bn to be allocated to build a value-added plantation crop industry equipped with modern technology
- In an effort to increase production of milk and enhance consumption of fresh milk, Rs.1bn to be allocated to encourage further investments in the livestock sector
 - Listed companies likely to have a potential positive impact: *Lanka Milk Foods CWE (LMF)*, *Sunshine Holdings (SUN)*
- Establish hi-tec agro parks in order to produce new agro-entrepreneurs by providing uncultivated lands to women and youth under a special basis and thereby expand the extent of cultivated lands in agriculture and plantation sectors

Healthcare Industry

- Rs.5bn allocated for the development of agencies that continue Children's and maternal clinic, rural hospitals, dispensaries, offices of Medical Officers of Health, Ayurvedic dispensaries, Yoga and clinics for mental health
- Further promote steps already taken to increase pharmaceutical manufacturing targeting the international markets by linking up with global companies
- Implement a pricing mechanisms suggested by a committee appointed, comprising of all stakeholders, to keep pharmaceutical prices stable
- Oyamaduwa, Millaniya and Arugambokka to be developed as proposed investment zone for Pharmaceutical manufacturing
 - Listed companies likely to have a potential positive impact: *Hemas Holdings (HHL)*, *Sunshine Holdings (SUN)*, *CIC Holdings (CIC)*

Tourism Industry

- To facilitate the promotion of Sri Lanka as a centre for wellness tourism whilst the global wellness tourism industry is estimated to value more than US\$700bn.
- Promote different forms of tourism such as event tourism that focuses on events such as exhibitions and conferences, destination tourism and homestays.
- Expect to issue a license under goods and service tax for the designated areas to be developed as special zones for leisure activities.
 - Listed companies likely to have a potential positive impact: all listed hotels and listed conglomerates with presence in tourism industry.

Power Industry

- To promote Investment opportunities in private sector to fulfil 70% of the aggregate electricity demand through renewable energy by 2030E
- Expect to add ~2,000mw to the national grid through Renewable Power Plants of Uma Oya, Pooneryn, Siyambalanduwa, Mannar, Boardland, Moragolla and Seethawaka between 2022E - 2025E
- Allocate Rs.500mn for the facilitation of encouraging private investment in Renewable Energy sector
- Encourage the local manufacture of equipment and appliances required for the generation of renewable energy
 - Listed companies likely to have a potential positive impact: *WindForce (WIND), Laugfs Power (LPL), Vidullanka (VLL), Vallibel Power Eranthna (VPEL), Panasian Power(PAP), Resus Energy (HPWR), LVL Energy Fund (LVEF) and Sierra Cables (SIRA)*

SMEs

- To establish small and medium scale industries at divisional and district levels
 - A number of direct and indirect employment opportunities at divisional level to be created under this programme
 - *Estimated Expenditure: Rs.5bn*
- To suspend the construction of new office premises of the GoSL for two years
- Relief for MSME entrepreneurs: *Estimated Expenditure: Rs.5bn*

Construction Engineering Industry

- Infrastructure on Investment zones for new products
 - **Under Following Fields:** Organic fertilizer production industries, pharmaceutical production, Production of raw material for textile and apparel industry, Rubber industrial products, Export based agro-processing, Livestock, Agricultural equipment and machinery, Fisheries and aquaculture development, Production of chemical materials, Electric and electronic appliances and IT products, Production of sports equipment, Steel and heavy metal industry
 - *Estimated Expenditure: Rs.5bn*
- Construction of Roads: Under the 100,000km of roads project, 18,000 km of roads will be completed by the end of 2021E. In addition, 25,000 km of roads per year will be constructed starting from 2022 - *Estimated Expenditure: Rs.20bn*
- Development of Urban/Rural/Estate houses - *Estimated Expenditure: Rs.7.5bn*
- Rural Development Projects - *Estimated Expenditure: Rs.42bn*
- Development of Local Government Divisions - *Estimated Expenditure: Rs.20bn*
- Court Infrastructure facilities - *Estimated Expenditure: Rs.5bn*
 - *Listed companies likely to have a potential positive impact: Tokyo Cement (Lanka)(TKYO), Access Engineering (AEL), Lanka Tiles (TILE), Lanka Walltiles (LWL), Royal Ceramics Lanka (RCL), ACL Cables (ACL), Alumex (ALUM) and Swisstek (Ceylon) (PARQ)*

Summary of Budget (Rs bn)	2017	2018	2019	2020P	2021E	%YoY	2022E	%YoY
Total Revenue and Grants	1,840	1,932	1,899	1,373	1,561	13.7	2,284	46.3
Total Revenue	1,832	1,920	1,891	1,368	1,556	13.7	2,274	46.1
Tax Revenue	1,670	1,712	1,735	1,217	1,325	8.9	1,987	50.0
Income Tax	275	310	428	268	295	10.1	496	68.1
Taxes on Goods and Services	1,026	1,062	976	587	650	10.7	1,031	58.6
Taxes on External Trade	370	340	332	362	380	5.0	460	21.1
Non-Tax Revenue	161	208	156	151	170	12.6	226	32.9
Provincial Councils Revenue	92	-	-	-	61	>+100.0	61	-
Grants	8	12	8	5	5	-	10	100.0
Total Expenditure	2,573	2,693	3,338	3,041	3,387	11.4	3,912	15.5
Recurrent Expenditure	1,928	2,090	2,425	2,548	2,817	10.6	2,996	6.4
Salaries and Wages	660	626	686	794	887	11.7	1,015	14.4
Other Goods and Services	167	139	162	180	198	10.0	203	2.5
Interest	736	852	901	980	1,055	7.7	1,115	5.7
Subsidies & Tranfers	458	473	552	717	677	-5.6	663	-2.1
Public Investment	657	625	631	812	582	-28.3	931	60.0
Other	-12	-21	-17	-20	-12	-40.0	-15	25.0
Revenue Deficit	-97	-169	-534	-1,180	-1,261	6.9	-722	-42.7
Primary Surplus (+)/Deficit (-)	2	91	-538	-687	-771	12.2	-513	-33.5
Budget Deficit	-733	-761	-1,439	-1,668	-1,826	9.5	-1,628	-10.8
Total Financing	733	761	1,439	1,668	1,826	9.5	1,628	-10.8
Total Foreign Financing	382	465	542	-83	-48	-42.2	-179	>-100
Total Domestic Financing	351	296	896	1,751	1,874	7.0	1,807	-3.6
As a % of GDP								
Revenue & Grants	14.5	13.5	12.6	9.2	9.5		12.3	
Revenue	14.5	13.4	12.6	9.1	9.4		12.3	
Tax	12.6	11.9	11.6	8.1	8.0		10.7	
Expenditure	20.1	18.7	22.2	20.3	20.6		21.1	
Recurrent Expenditure	15.2	14.5	16.1	17.0	17.1		16.2	
Public Investment	4.90	4.4	4.2	5.4	3.5		5.0	
Revenue Surplus (+)/Deficit (-)	-0.7	-1.2	-3.6	-7.9	-7.7		-3.9	
Primary Surplus (+)/Deficit (-)	0.0	0.6	-3.6	-4.6	-4.7		-2.8	
Budget Surplus (+)/Deficit (-)	-5.5	-5.3	-9.6	-11.1	-11.1		-8.8	

P* Provisional

E* Estimate

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