



First Capital  
A Janashakthi Group Company

# INTERIM BUDGET REVIEW 2022



30<sup>TH</sup> August 2022



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# FISCAL SUMMARY

## REVENUE

*Taxes on  
Goods and  
Services*

*Taxes on  
External  
Trade*

*Non-Tax  
Revenue*

*Others*

**LKR 2,094Bn**  
(8.8% of GDP)

## EXPENDITURE

*Salaries and  
Wages  
including PCs*

*Interests*

*Subsidiaries  
and  
Transfers*

*Public  
Investments*

*Others*

**LKR 4,427Bn**  
(18.6% of GDP)

## BUDGET DEFICIT

*Net Domestic and  
Foreign Financing*

**LKR -2,333Bn**  
(-9.8% of GDP)

The background of the slide is a collage of financial market data. It features several candlestick charts in white and yellow, line graphs with blue and white lines, and a large, prominent blue arrow pointing upwards. The overall color scheme is blue and white, with a grid pattern visible in the background.

# 1. FISCAL STRATEGY

# FISCAL STRATEGY

## Policy Outlook for Fiscal Strategy

The Government's fiscal strategy is emphasizing on improving revenue on multiple angles and focusing on creating structures and committees to facilitate economic reform. The strategy is also aiming at gradually reducing extreme risk created in the economy due to the massive budget deficits which has invariably resulted in a continuous piling of debt.

- In the Medium-Term Macro Fiscal Framework, Government's aim is to further raise revenue to reach 15.0% of GDP by 2025 while targeting a primary surplus of more than 2.0% of GDP in 2025.
- Consequently, Government aims at reducing the public sector debt from around 110.0% of GDP as at end 2021, to no more than 100.0% of GDP in the medium term.
- As per the revised budget, the Government's total revenue and grants amounts to 8.8% of GDP amounting to LKR 2,094Bn for 2022 with 88.4% of the revenue expected through taxes, while Taxes on Goods & Services continuing to take the top slot contributing 52.5% of tax revenue and 46.4% of total revenue and grants. Non-tax revenue is forecasted to be 11.1% of the total expected government revenue.
- The total revised expenditure for 2022 is LKR 4,427Bn resulting in 18.6% of GDP, relative to the original estimate of 20.8% of GDP in 2021. Recurrent expenditure is forecasted to shoot up to 81.8% of total expenditure, constituting 15.2% of GDP. Interest and subsidies & Transfers are expected to be the largest components of recurrent expenditure amounting to 38.1% and 28.2% of recurrent expenditure respectively.
- Government plans on spending public investments at 4.5% of GDP relative to the original estimate of 5.0%.



# 1.2 BUDGET SUMMARY

Summary of the Budget Estimates: 2022 (Revised)

	2021	2022	
		Original Est.	Revised Est.
<b>Total Revenue &amp; Grants</b>	<b>1,464</b>	<b>2,223</b>	<b>2,094</b>
<b>Total Revenue</b>	<b>1,457</b>	<b>2,213</b>	<b>2,084</b>
Tax Revenue	1,298	1,987	1,852
Income Tax	302	496	558
Taxes on Goods & Services	646	1,031	972
Taxes on External Trade	350	460	322
Non-Tax Revenue	159	226	232
<b>Grants</b>	<b>7</b>	<b>10</b>	<b>10</b>
<b>Total Expenditure</b>	<b>3,522</b>	<b>3,851</b>	<b>4,427</b>
<b>Recurrent</b>	<b>2,748</b>	<b>2,935</b>	<b>3,620</b>
Salaries & Wages including PCs	846	968	995
Other Goods & Services incl. PCs	169	189	225
Interest	1,048	1,115	1,379
Subsidies & Transfers	685	663	1,021
<b>Public Investment</b>	<b>790</b>	<b>931</b>	<b>1,072</b>
<b>Other</b>	<b>-15</b>	<b>-15</b>	<b>-265</b>
<b>Revenue Surplus(+)/Deficit (-)</b>	<b>-1,290</b>	<b>-722</b>	<b>-1,536</b>
<b>Primary Surplus (+)/Deficit(-)</b>	<b>-1,010</b>	<b>-513</b>	<b>-954</b>
<b>Budget Surplus (+)/Deficit(-)</b>	<b>-2,058</b>	<b>-1,628</b>	<b>-2,333</b>
<b>Total Financing</b>	<b>2,058</b>	<b>1,628</b>	<b>2,333</b>
<b>Total Foreign Financing</b>	<b>-14</b>	<b>-179</b>	<b>342</b>
Foreign Borrowings - Gross	517	508	717
Project and Programme Loans	352	358	467
Foreign Commercial	165	150	250
Debt Repayments	-531	-687	-375
<b>Total Domestic Financing</b>	<b>2072</b>	<b>1807</b>	<b>1991</b>
Non-Bank Financing	1,898	1,397	2,672
Sri Lanka Development Bond	-68	-91	-357
Bank borrowings and Other	242	501	-323

Summary of the Budget Estimates: 2022 (Revised) (Percentage of GDP)

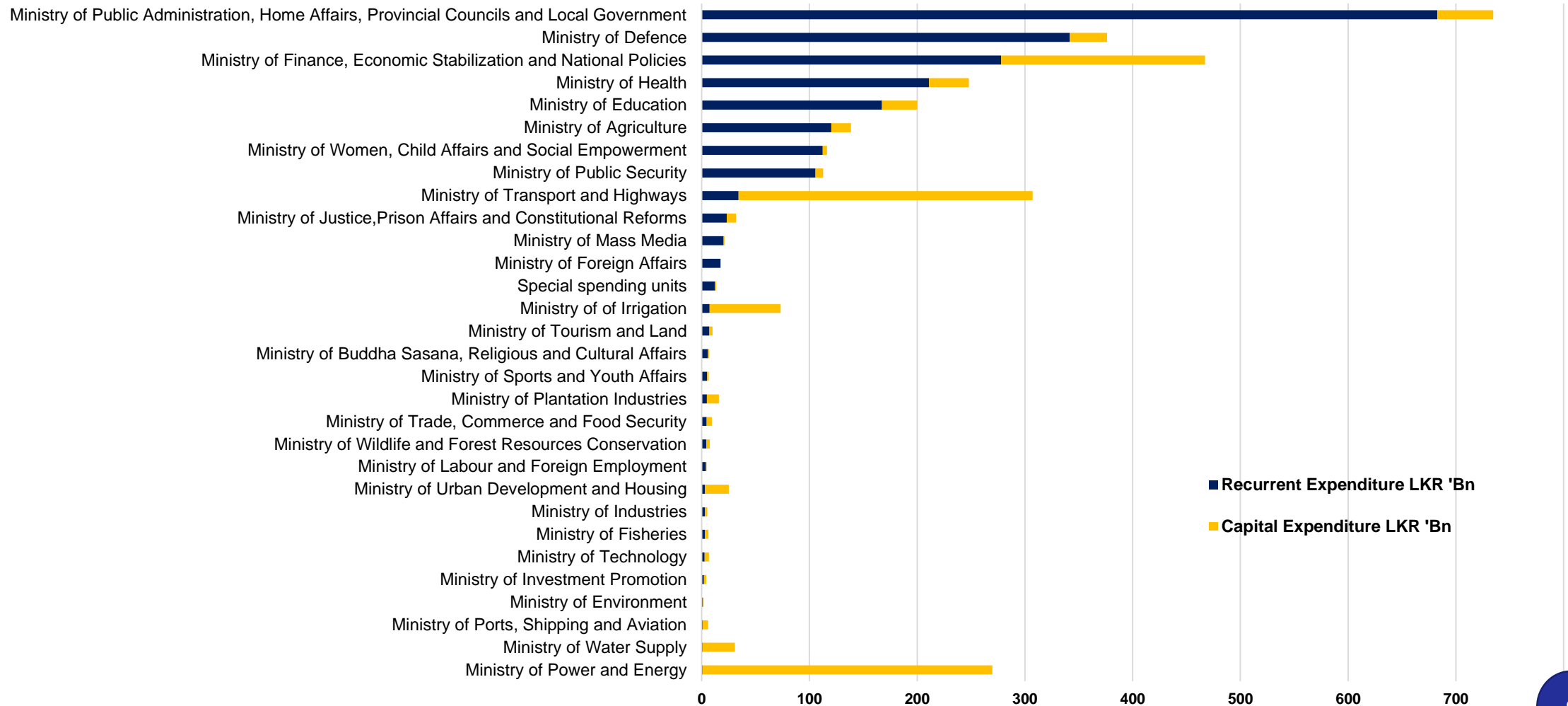
	2021	2022	
		Original Est.	Revised Est.
<b>Revenue and Grants/GDP (%)</b>	<b>8.3</b>	<b>12.0</b>	<b>8.8</b>
<b>Total Revenue/GDP (%)</b>	<b>8.2</b>	<b>12.0</b>	<b>8.7</b>
Tax Revenue/GDP (%)	7.3	10.7	7.8
Non Tax Revenue/GDP (%)	0.9	1.2	1.0
<b>Grants/GDP (%)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
<b>Total Expenditure/GDP (%)</b>	<b>19.9</b>	<b>20.8</b>	<b>18.6</b>
<b>Recurrent Expenditure/GDP (%)</b>	<b>15.5</b>	<b>15.9</b>	<b>15.2</b>
Non Interest/ GDP (%)	9.6	9.8	9.4
Interest/ GDP (%)	5.9	6.0	5.8
<b>Public Investment/GDP (%)</b>	<b>4.5</b>	<b>5.0</b>	<b>4.5</b>
<b>Revenue Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-7.3</b>	<b>-3.9</b>	<b>-6.4</b>
<b>Primary Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-5.7</b>	<b>-2.8</b>	<b>-4.0</b>
<b>Budget Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-11.6</b>	<b>-8.8</b>	<b>-9.8</b>

Source: Ministry of Finance



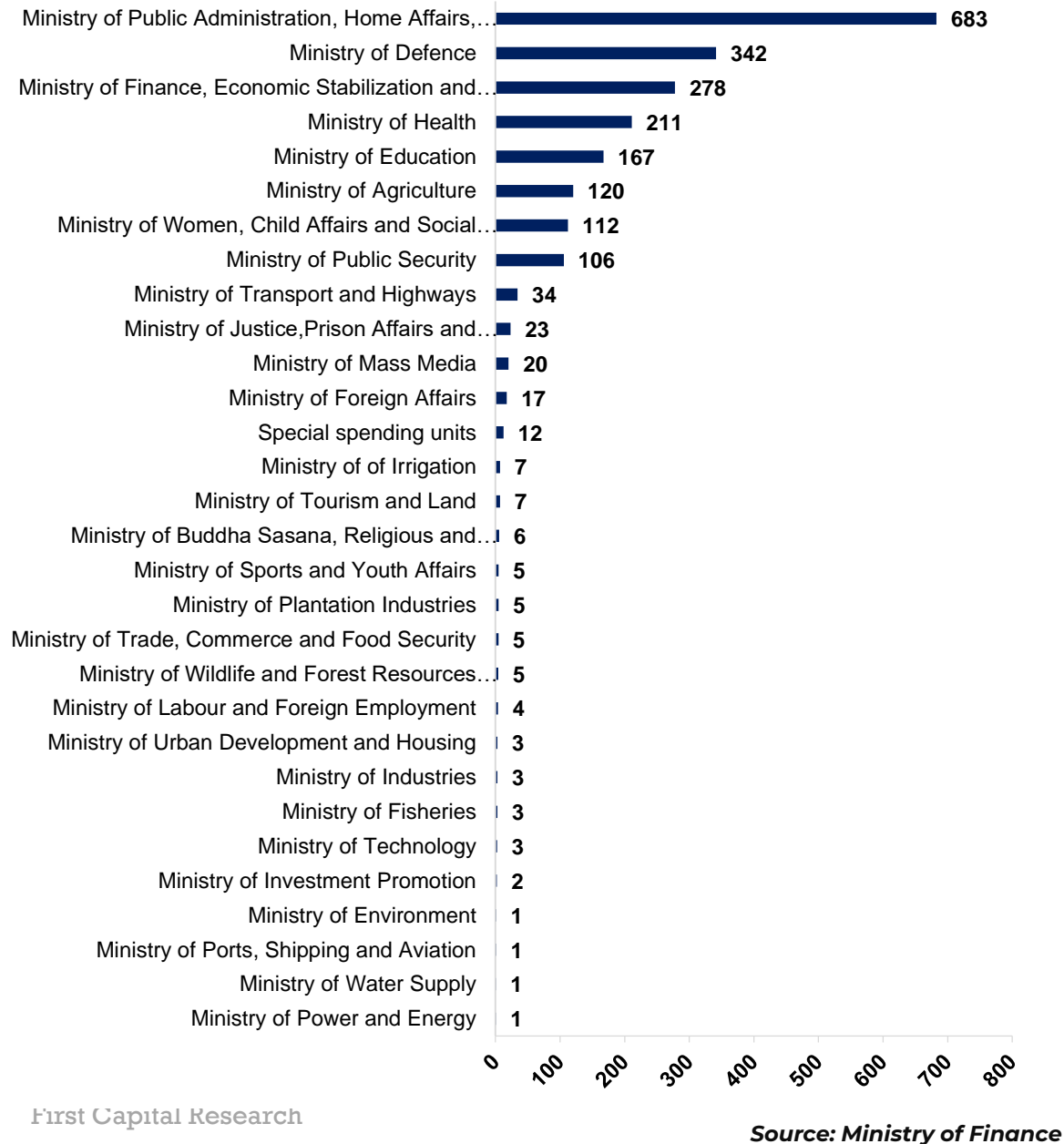
## 2. ANALYSIS ON APPROPRIATION BILL 2022

## 2.1 GOVERNMENT TOTAL EXPENDITURE (LKR 'Bn)

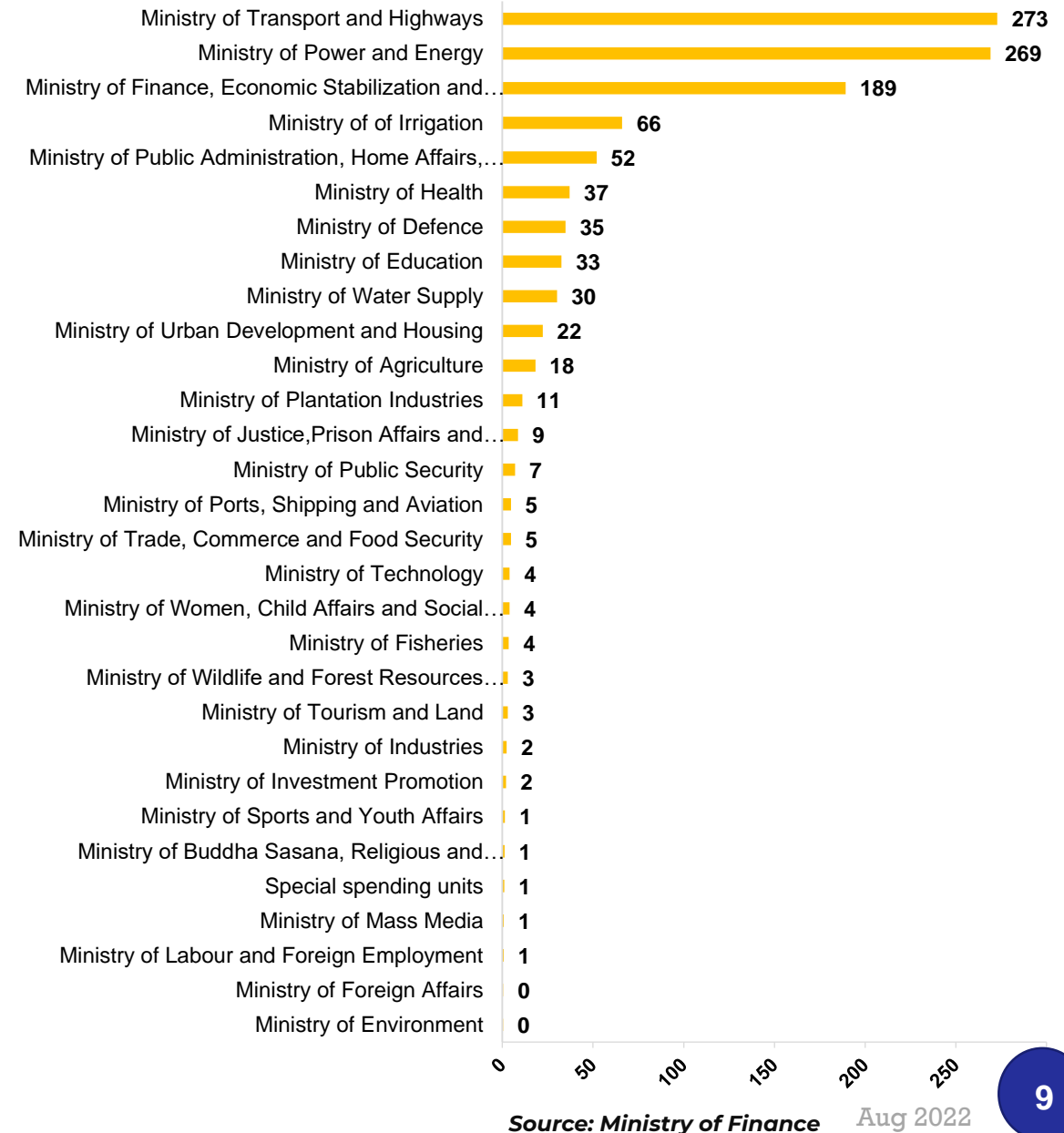




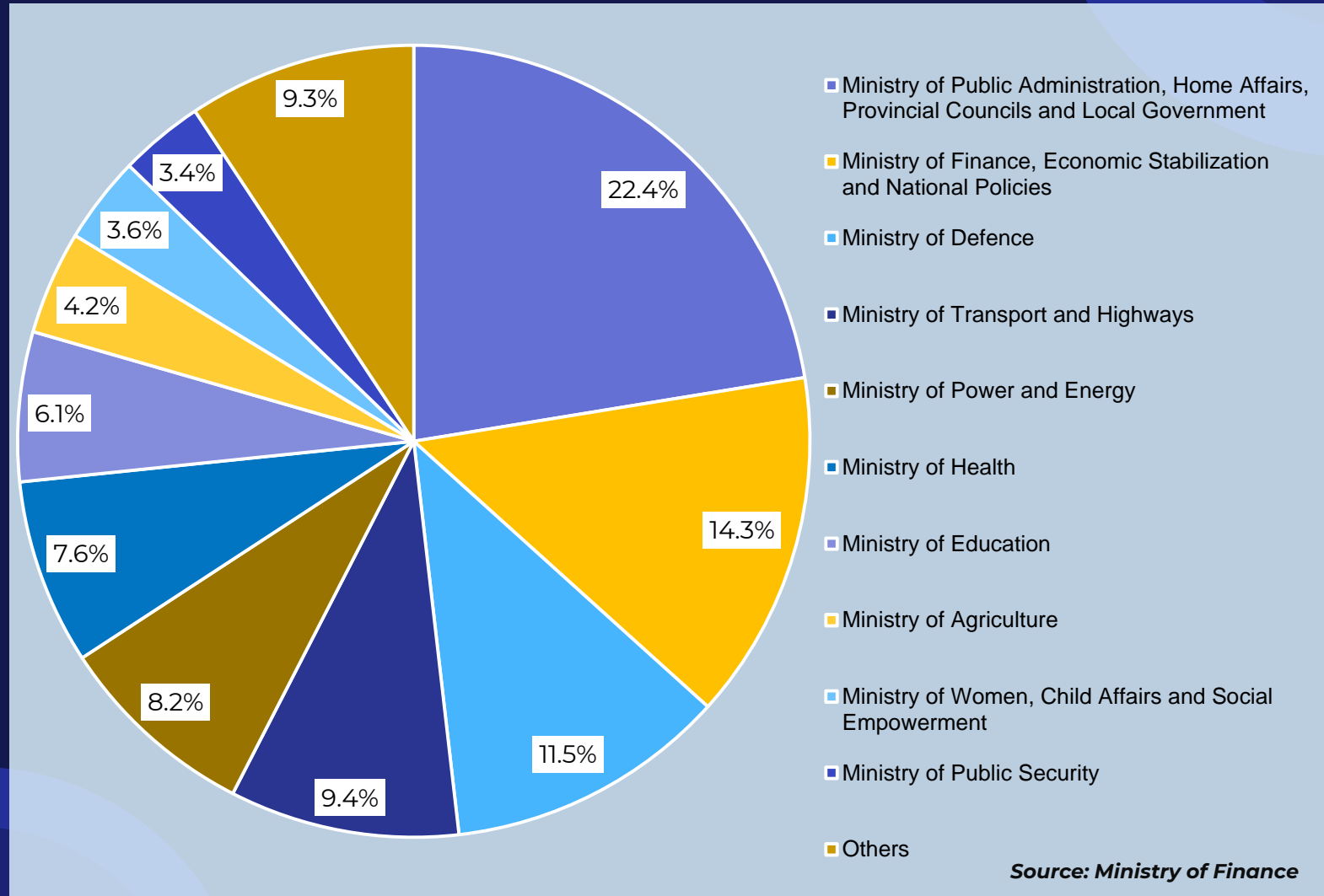
# Recurrent Expenditure (LKR 'Bn)



# Capital Expenditure (LKR 'Bn)



# TOTAL EXPENDITURE ALLOCATION



The background of the slide is a collage of financial market imagery. It includes several candlestick charts with white and yellow bodies on a blue grid. There are also bar charts with vertical bars of varying heights. A large, 3D-style upward-pointing arrow in shades of orange and yellow is a central element. The overall color palette is dominated by blues and greys, with the white text providing high contrast.

# 3. BUDGET AND THE CAPITAL MARKET

# CAPITAL MARKET – BILLS, BONDS, CORPORATE DEBT, EQUITY

*Overall budget proposals presented today have no impact to corporates or the capital markets. Moreover, previously expected Capital Gains Tax (CGT) was also omitted from the interim budget 2022. This is expected to be a big positive to the capital markets, given that investors took a cautious approach anticipating the introduction of CGT during the days leading to the budget. However, President Ranil Wickremasinghe proposed several tax reforms on 31<sup>st</sup> May 2022 which will come in to effect from 01<sup>st</sup> October 2022.*

## Corporate Income Taxes (CIT)

- Corporate income taxes to be increased from 24.00% to 30.00% while concessionary tax rate to be increased from 14.00% to 15.00%.
- VAT threshold to be decreased from LKR 300.0Mn to LKR 120.0Mn per annum.
- VAT exemption granted for sale of Condominium Housing Units to be removed.

## Other Tax reforms expected to be implemented with effect from 01st April 2023

- Dividend paid by resident company to non-resident person to be liable for income tax.
- Tax holidays to be removed for Recycling of Construction Materials (10Yr), Business Commenced after TVET Training (5Yr), Manufacturing of Boats & Ships (7Yr), Installation of Communication Towers (5Yr) and Letting Bonded Warehouses/ Warehouses Related to the Offshore Business.
- Additional deduction granted for expenses related to Marketing and Communication to be removed.
- VAT exemption schedule to be reviewed and unproductive exemptions will be removed based on economic benefit.

# BUDGET 2022 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
The VAT rate will be increased to 15.0% from the current rate of 12.0% with effect from 1st Sep-22.	All sectors	Increase in VAT is expected to raise prices while discouraging consuming goods and services leading to deterioration in top line and earnings.
Compulsory tax registration for all residents who are above 18 years of age without considering their annual income and tax-free thresholds.	All sectors	Reduction in disposable income may result in lower demand for goods and services
Proposal to take actions to attract foreign investors and/or technology holders to establish joint ventures with SL partners for industrial investments with advanced technologies to ensure better utilization of mineral resources and increase value addition.	BOGA	Use of advanced technology to result in higher value addition.
Introduce a new Central Bank Act	All banks and finance companies	Will expect to improve banking sector stability, reduce money printing and avoid politicization of monetary policy
Allotment of 20% shareholding in state banks to the depositors and staff of those banks	All State banks	Will strengthen capitalization requirement as new shares are issued.



# BUDGET 2022 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Transportation of 21 goods by railway (vegetables, fruits, flowers and tea products from the upland areas to Colombo and urban areas). Through this, waste, delays and costs can be minimized.	Food, Beverage and Tobacco sector, Plantation sector.	Help to minimize transportation cost and will create an efficient supply chain.
Gradually phasing out the high trade barriers in the form of para-tariffs. This will be done in conjunction with a Trade Adjustment Programme to support industries and workers adversely affected by such tariff liberalization.	Export oriented listed entities such as HAYL, HAYC, DIPD, MGT, TJL.	Creating an opportunity to expand business operations on a global context while strengthening profitability through high export revenue.
Facilitate the expansion of renewable energy sources to enhance availability and reduce the cost of energy generation in Sri Lanka by allocation of necessary land and through the necessary operational restructuring of the CEB.	Renewable energy sector players such as WIND, VLL, PAP, HPWR, VPEL, LPL	Potential for local capacity expansions and positive impact on profitability.

# BUDGET 2022 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
LKR 40Bn allocated for the import of Urea required for paddy cultivation in the 2022/2023. Further allocated LKR 400Mn to the Department of Agriculture to produce the necessary seeds and planting materials to the farmers	Food, Beverage & Tobacco sector, Plantations sector	Availability of fertilizer for the production will enable good harvest
LKR 200Mn is allocated for the development of the dairy industries while LKR 50.0Mn has been allocated for agriculture and animal husbandry using state lands with aim to utilize them efficiently	Food, Beverage & Tobacco sector, Plantation sector	Increase in number of production to cater to the higher demand improve revenue.
LKR 300Mn allocated to improve tourism industry focusing on the identification of new places of tourist attractions and the improvement of related facilities. Special attention mainly to attract high-end tourists.	Hotels and Tourism sector	Increase in inbound tourism lead to higher occupancy rate.
Provide facilities through the Board of Investment (BOI) to establish branch campuses.	Construction and Building Material sectors	Opportunity to undertake more new projects together with the increased demand for construction materials.

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## 4. OTHER PROPOSALS

# OTHER PROPOSALS

Budgetary Move	Impact
Negotiations with the International Monetary Fund (IMF) have successfully reached its final stage.	Improved investor confidence and expected fund inflows to the market
Funding will be channelled to priority sectors such as education, healthcare, public transport, public service digitisation, and social protection.	Better development in the infrastructure of the economy
Laws to establish a system like Inspector General (IG) in the USA, tasked with making sure government expenditure system is working well and in the way it is intended. The IG will be strongly empowered and will actively engage in protecting the integrity of the government by detecting and preventing fraud, waste, and abuse in government institutions.	Effective management of government expenditure leading to reducing the impact of budgeting deficit.
A comprehensive study of movable and immovable properties, including government owned buildings, lands and vehicles will be conducted with a view to optimise the utilisation and to identify potential real estate for income generating activities.	Additional stream of revenue to the government
Programmes are expected to initiate in order to promote skilled labour through Vocational Training Institutes and LKR 200.0Mn is allocated for this purpose.	It will create a skilled workforce that will be able to find more effective job opportunities.
provide formal training in food and beverage preparation, fish drying and vegetable dehydrating, sewing knitting, beeralu weaving, brass industry and Black Smithing as livelihood around the training center, online self-employments based on the Gig economy and other life occupations. LKR 200.0Mn is allocated for this purpose.	Creation of new job opportunities while enabling the ones already engaged in the industry to give a quality output.
It is expected that private sector investments will be used for the development of the railway transport service using the existing infrastructure in order to provide efficient and high-quality transport service to the people.	Opening up of opportunities for private entities to enter the state-owned railway monopoly. Also helps the government to recover the losses made by the Sri Lanka Railway Department.

# OTHER PROPOSALS

Budgetary Move	Impact
Proposed to reduce the retirement age of public and semi-government employees to 60 from 65.	Government wage bill reduces, and thus the ability to limit money printing and liquidity injections
Establish the “State-Owned Enterprise Restructuring Unit” to facilitate restructuring of government owned business entities	Reduces government debt burden and need for financing SOE losses.
Proposed to re-activate the Statement of Corporate Intent (SCI) process for key 50 SOEs	Reduces government debt burden and need for financing SOE losses.
A “Parliamentary Committee on Ways and Means” will be established to closely deal with issues and make proposals in raising government revenue.	Reduces the government need to print money and fund the fiscal deficit
Alllocate LKR 46.6Bn to provide additional monthly allowance of Rs. 2,500 for pregnant mothers in addition to Rs. 20,000 already provided, provide LKR 10,000/family for 61,000 food insecure families and provide an additional monthly allowance as urgent assistance to loss of employment and loss of crop.	Will increase the government expenditure
Committee to be appointed to supervise and implement the entire process of the disposal of scrap.	Additional stream of revenue to the government
An independent National Debt Management Agency (NDMA) will be set up under the General Treasury	Reduce and manage the debt burden of the country and thus the stress on the banking system
LKR 250Mn allocated for the Establishment of National Agency for Public Private Partnership and implementation of the proposals	Reduces reliability on government funding and opens up investments for both local and foreign investors.



# OTHER PROPOSALS

Budgetary Move	Impact
The government being the owner of around 80 percent of land will take measures to facilitate access to land with suitable utilities for domestic and foreign investment. We will implement a programme to award title deeds for lands previously handed over under numerous grants.	Encouraging factor for foreign and domestic investments.
Manufacturing of electric bicycles should be encouraged as a local industry with a view to reducing fossil fuel consumption.  Therefore, tax concessions will be provided for imported accessories/parts required in the manufacture of electric bicycles locally with more than 50 percent value addition.	Opportunity for electricity bicycle manufacturers as cost can be minimized.
Introduction of new laws / revision of laws	Enhances transparency and stabilize the economy and facilitate the growth process
LKR 688.0Mn of debt owed by farmers to state banks has been decided to waive off excluding the interest	Freeing farmers from debt burden may result less pressure on the production

# Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT  
MANAGING RISKS"*

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