



First Capital  
A Janashakthi Group Company

# BUDGET REVIEW 2023



14<sup>TH</sup> November 2022

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# FISCAL SUMMARY

## REVENUE

*Taxes on Goods  
and Services*

*Income  
Tax*

*Taxes on  
External  
Trade*

*Non-Tax  
Revenue*

*Grants*

**LKR 3,415Bn**  
(11.3% of GDP)

## EXPENDITURE

*Interest*

*Public  
Investments*

*Subsidies  
and  
Transfers*

*Salaries  
and Wages*

*Other  
Goods and  
Services*

**LKR 5,819Bn**  
(19.2% of GDP)

## BUDGET DEFICIT

*Net Domestic and  
Foreign Financing*

**LKR -2,404Bn**  
(-7.9% of GDP)



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# 1. FISCAL STRATEGY

# FISCAL STRATEGY

## Policy Outlook for Fiscal Strategy

The Government's fiscal strategy is emphasizing on improving revenue, focusing on simplifying tax structures and implementing SOE reform. The strategy is also aimed at satisfying the pre-conditions of the IMF on multiple angles facilitating a reduction in budget deficit and reducing macroeconomic risk.

- In the Medium-Term Macro Fiscal Framework, Government maintains its original stance agreed with the IMF to 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.
- In the 2023 budget, the Government's total revenue and grants is expected to improve to 11.3% of GDP amounting to LKR 3,415Bn for 2023 with 91.7% of the revenue expected through taxes, while Taxes on Goods & Services continuing to take the top slot contributing 56.3% of tax revenue and 51.6% of total revenue and grants. Non-tax revenue is forecasted to be 8.1% of the total expected government revenue and grants.
- The total expenditure for 2023 is LKR 5,819Bn resulting in 19.2% of GDP, while recurrent expenditure is forecasted to be 79.2% of total expenditure, constituting 15.2% of GDP. Interest and subsidies & Transfers are expected to be the largest components of recurrent expenditure amounting to 47.6% and 24.2% of recurrent expenditure, respectively.
- Government plans on spending public investments at 4.0% of GDP amounting to LKR 1,220Bn for 2023.

# 1.2 BUDGET SUMMARY

Summary of the Budget Estimates: 2023			
	LKR 'Bn		
	2021	2022 Revised (Interim)	2023 Budget
<b>Total Revenue &amp; Grants</b>	<b>1,464</b>	<b>2,094</b>	<b>3,415</b>
<b>Total Revenue</b>	<b>1,457</b>	<b>2,084</b>	<b>3,408</b>
Tax Revenue	1,298	1,852	3,130
Income Tax	302	558	912
Taxes on Goods & Services	646	972	1,763
Taxes on External Trade	350	322	455
Non-Tax Revenue	159	232	278
<b>Grants</b>	<b>7</b>	<b>10</b>	<b>7</b>
<b>Total Expenditure</b>	<b>3,522</b>	<b>4,427</b>	<b>5,819</b>
<b>Recurrent</b>	<b>2,748</b>	<b>3,620</b>	<b>4,609</b>
Salaries & Wages including PCs	846	995	1,002
Other Goods & Services incl. PCs	169	225	300
Interest	1,048	1,379	2,193
Subsidies & Transfers	685	1,021	1,114
<b>Public Investment</b>	<b>790</b>	<b>1,072</b>	<b>1,220</b>
<b>Other</b>	<b>-15</b>	<b>-265</b>	<b>-10</b>
<b>Revenue Surplus(+)/Deficit (-)</b>	<b>-1,290</b>	<b>-1,536</b>	<b>-1,201</b>
<b>Primary Surplus (+)/Deficit(-)</b>	<b>-1,010</b>	<b>-954</b>	<b>-211</b>
<b>Budget Surplus (+)/Deficit(-)</b>	<b>-2,058</b>	<b>-2,333</b>	<b>-2,404</b>
<b>Total Financing</b>	<b>2,058</b>	<b>2,333</b>	<b>2,404</b>
<b>Total Foreign Financing</b>	<b>-14</b>	<b>342</b>	<b>560</b>
Foreign Borrowings - Gross	517	717	1000
Debt Repayments	-531	-375	-440
<b>Total Domestic Financing</b>	<b>2072</b>	<b>1991</b>	<b>1844</b>
Non-Bank Financing	1,898	2,672	1,880
Sri Lanka Development Bond	-68	-357	-234
Bank borrowings and Other	242	-323	198

Summary of the Budget Estimates: 2023			
	LKR 'Bn		
	2021	2022 Revised (Interim)	2023 Budget
<b>Revenue and Grants/GDP (%)</b>	<b>8.3</b>	<b>8.8</b>	<b>11.3</b>
<b>Total Revenue/GDP (%)</b>	<b>8.2</b>	<b>8.7</b>	<b>11.3</b>
Tax Revenue/GDP (%)	7.3	7.8	10.3
Non Tax Revenue/GDP (%)	0.9	1.0	0.9
<b>Grants/GDP (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Expenditure/GDP (%)</b>	<b>19.9</b>	<b>18.6</b>	<b>19.2</b>
<b>Recurrent Expenditure/GDP (%)</b>	<b>15.5</b>	<b>15.2</b>	<b>15.2</b>
Non Interest/ GDP (%)	9.6	9.4	8.0
Interest/ GDP (%)	5.9	5.8	7.2
<b>Public Investment/GDP (%)</b>	<b>4.5</b>	<b>4.5</b>	<b>4.0</b>
<b>Revenue Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-7.3</b>	<b>-6.4</b>	<b>-4.0</b>
<b>Primary Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-5.7</b>	<b>-4.0</b>	<b>-0.7</b>
<b>Budget Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-11.6</b>	<b>-9.8</b>	<b>-7.9</b>

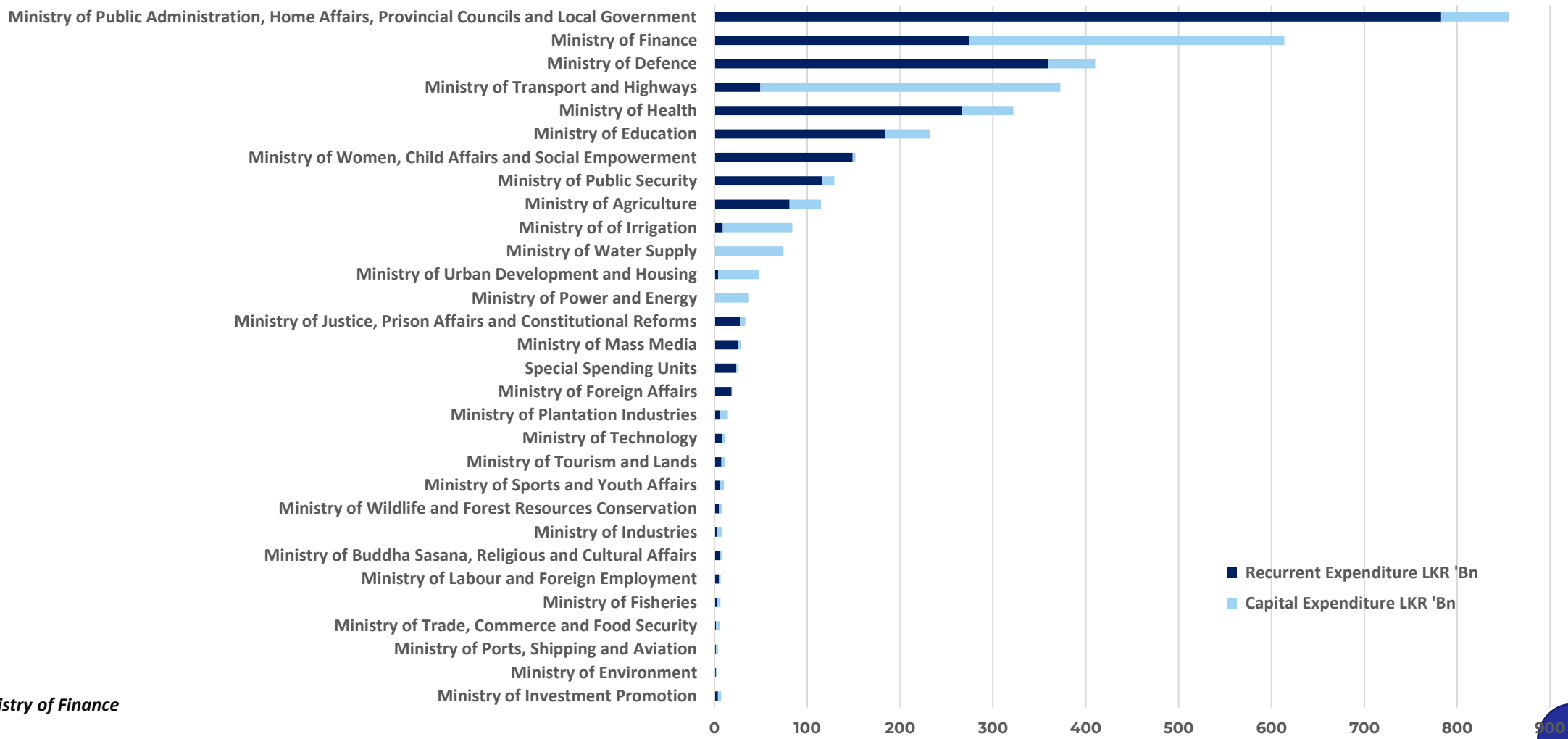
Source: Ministry of Finance



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## 2. ANALYSIS ON APPROPRIATION BILL 2023

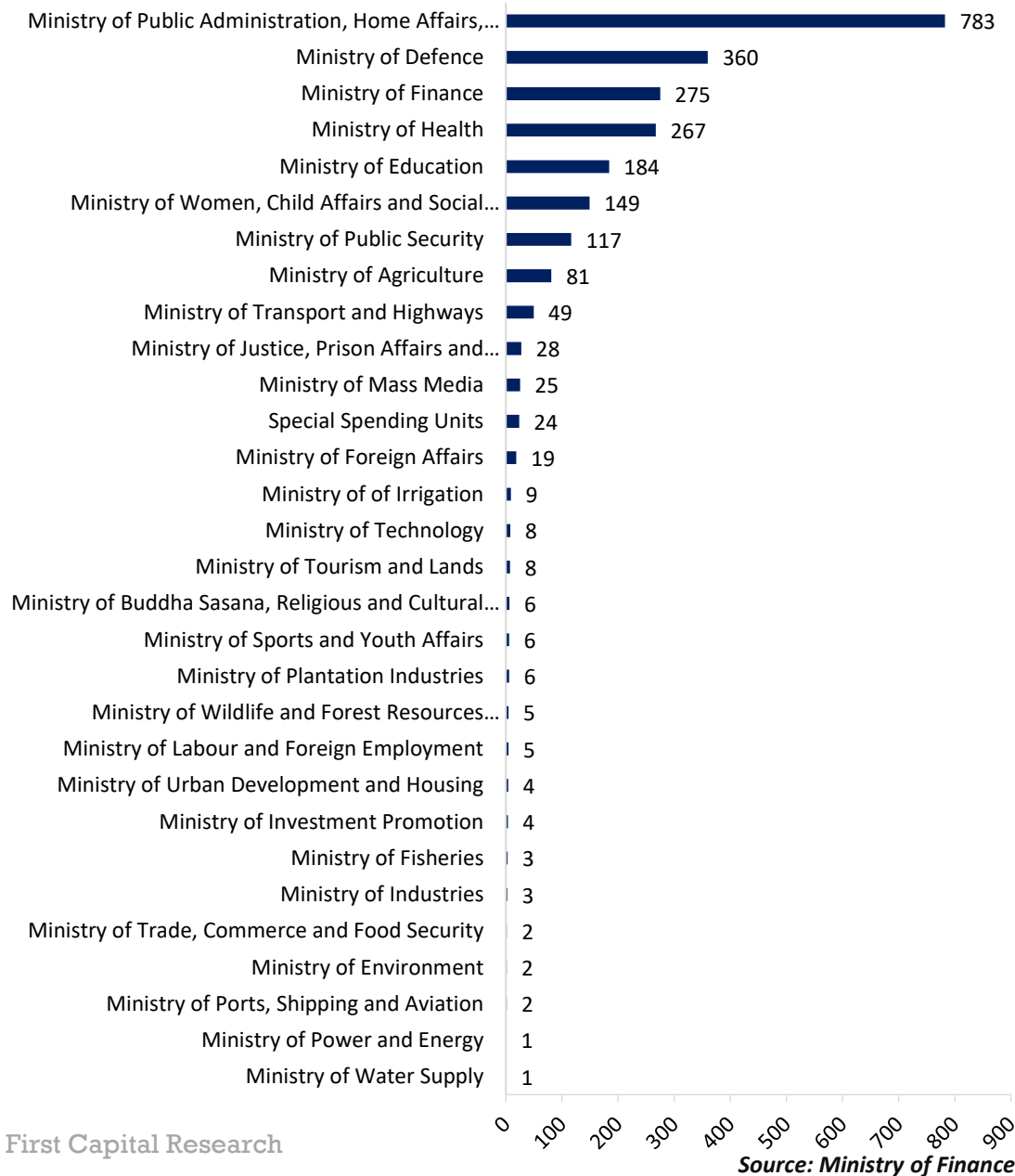
# 2.1 GOVERNMENT TOTAL EXPENDITURE (LKR 'Bn)



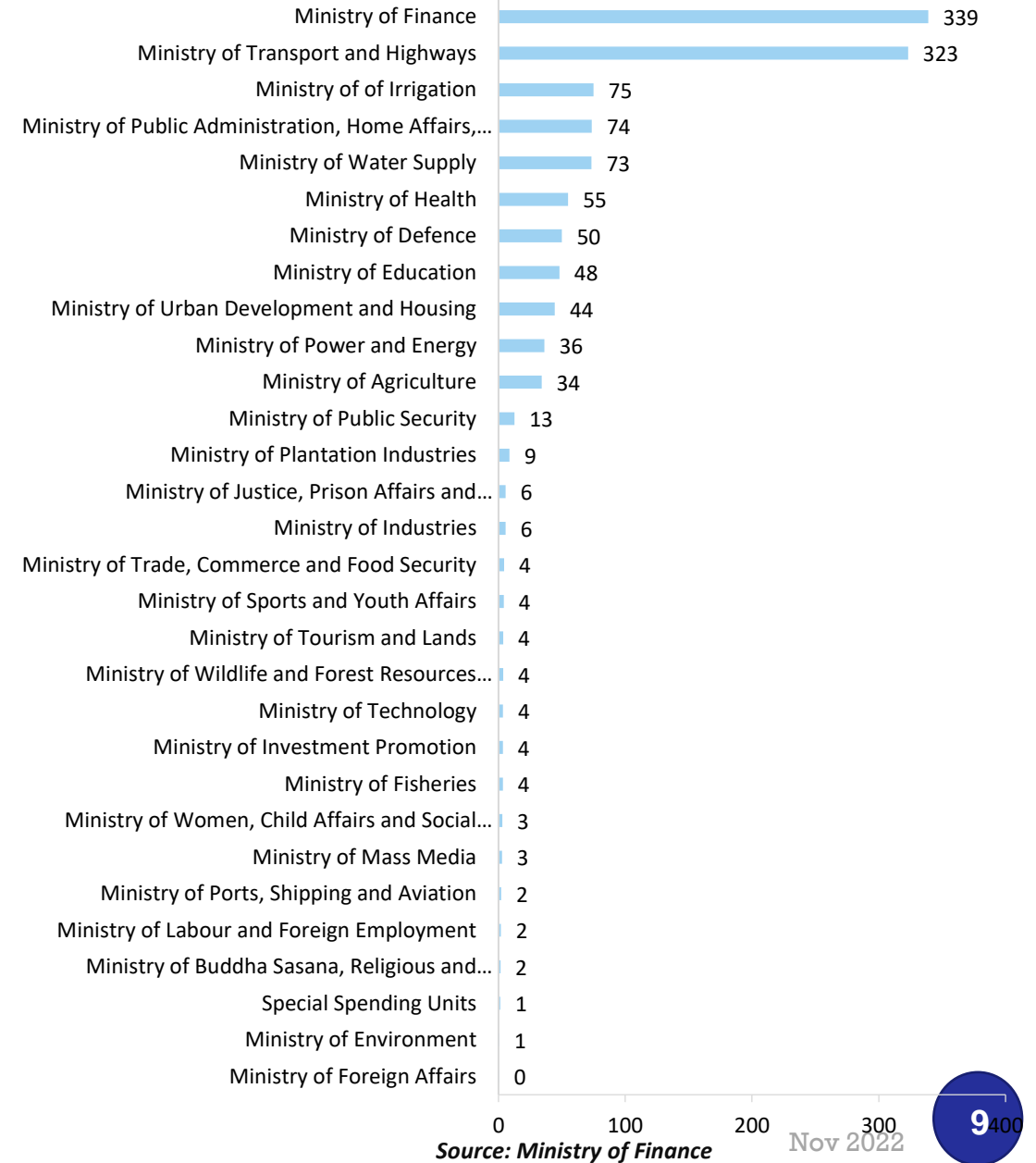
Source: Ministry of Finance



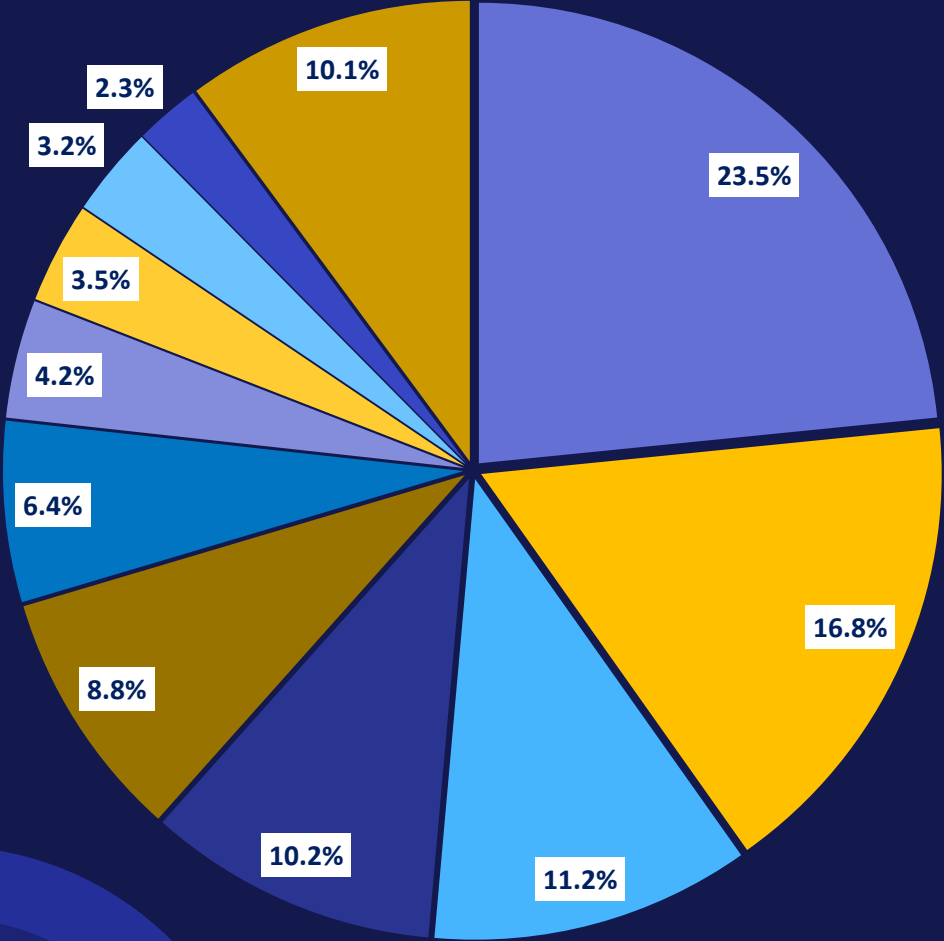
# Recurrent Expenditure (LKR 'Bn)



# Capital Expenditure (LKR 'Bn)



# TOTAL EXPENDITURE ALLOCATION



- Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government
- Ministry of Finance
- Ministry of Defence
- Ministry of Transport and Highways
- Ministry of Health
- Ministry of Education
- Ministry of Women, Child Affairs and Social Empowerment
- Ministry of Public Security
- Ministry of Agriculture
- Ministry of Irrigation

Source: Ministry of Finance



# 3. BUDGET AND THE CAPITAL MARKET

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

*Overall budget proposals presented today, does not have any direct impact on the capital markets.*

- However, a proposal was submitted today to increase the tax on incomes generated from dividends. Thus, it was proposed to increase tax on dividends to 15% from existing 14%. We believe this will have a marginal impact on capital market sentiment, given that dividend earned from Capital markets were already taxed at 14%.*
- Meanwhile on positive note, dividend incomes earned by foreign residents are free of income taxes. We believe this will positively impact the perception of foreigners on local capital markets and increase investments by foreigners to the local capital markets.*
- Moreover, government have also addressed the issue of possible double taxation of dividend incomes to companies. Given that dividend incomes derived by a parent via subsidiaries are taxed at 15% at the source of payments, we expect a positively impact towards larger listed companies that have exposure to dividends from subsidiaries.*



# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Propose to introduce a new Financial Asset Management Companies Act to enable banks and finance companies to separate and transfer their nonperforming bad assets to an asset management company to smoothen the resolution process of financial institutions by creating a silt removal of bad debts from an affected institution.	Banking and Finance	Positive for Banks to separately manage bad assets
LKR 200Mn is proposed to be allocated to make it mandatory for all the government payments electronically (online) with effect from 01st Mar-2024 including cash grants to the respective recipients as well as the payments for obtaining services from various government agencies by the public.	Banking and Financial institutions and SHL, SINS	Banking sector counters are expected to benefit as fees from such transaction will boost topline. SHL & SINS is expected to benefit over the sales of electronic devices required for this purpose
In order to enhance the flood protection systems, an additional sum of Rs. 500Mn will be allocated for the implementation of irrigation systems based on Ma Oya, AththanaEalu Oya and Bentara Ganga.	Construction and Building Materials	Potential to acquire the irrigation projects in the mentioned areas
Propose to allocate LKR 2,000Mn in the year 2023 to rehabilitate the roads damaged by floods.	Construction and Building Materials	Opportunity to undertake more new projects together with the increased demand for construction materials.

# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Propose to carry out research and development activities for the production of green hydrogen on a commercial basis, on a scheme of public Private Partnership.	Renewable Energy	Potential to diversify into new operational areas thereby expanding the capacities.
Enterprises that are eligible for the exemptions under the commercial hub activities will be extended to bunkering services.	LIOC, JKH, LGL	Due to exemptions, profits and margins from bunkering operations will increase
If any business or project identified as Strategic Development Project engaged in the commercial hub activities will be eligible for exemptions granted under the Strategic Development project Act, No.14 of 2008	Energy & logistic companies	Will enable profits and margins to improve
Commercial hub enterprises will be exempted from the Levy imposed under the Social Security Contribution Levy Act, No.25 of 2022	Energy & logistic companies	Will enable profits and margins to improve

# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
A Surcharge tax will be charged at the point of importation on diesel, petrol and crude oil.	LIOC	Marginal negative impact. The surcharge tax will be transferred to the end user with pricing formula, will marginally impact volumes
Importation of any motor vehicle identified under Harmonized Commodity Description and Coding Numbers for Custom purposes and liable to Excise Duty under the Excise (Special Provisions) Act No. 13 of 1989, will be exempted from SSCL, with effect from 01.01.2023	Automotive Sector including UML, DIMO, SMOT, COLO	Will enable to reduce prices and increase affordability to consumers, thus prompting demand.
Equipment used by differently abled persons and the pharmaceutical product categorized under HS code 2844.40, will be exempted from SSCL.	Healthcare companies including SUN, HHL, CIC	Will enable to reduce prices and increase affordability to consumers, thus prompting demand.
propose to establish a Laboratory under the Excise Department to carry out tests relating to the quality of alcohol products to identify items unsuitable for human consumption and take legal action in this regard.	LION, DIST	Illicit alcohol market is expected to have a negative impact and potential increase in volumes of LION

# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Proposed to allocate LKR 20,750Mn to raise minimum monthly samurdhi allowance from LKR 420.0 to LKR 3,000.0.	Consumer & Retail companies including CCS, CARG, RICH, SUN, HHL, NEST, LION, DIST, CTC	The relief packages provided by the government will improve disposable incomes of consumers and create an incremental demand for goods and services
Proposed to allocate LKR 3,000Mn to increase the monthly allowance for elders above 70 to LKR 3,000.0 from LKR 2,000.0 whilst monthly allowance of LKR 5,000.0 given to elders above 100 years reduced to LKR 2,500.0.		
Allocated LKR 250.0Mn to support low income disabled persons and current LKR 5,000.0 changed to LKR 2,500.0/month for the next 4 months.		
Allocated LKR 200.0Mn to increase the allowance for kidney patients from current LKR 5,000.0 to a monthly payment of LKR 2,500.0 for the next 4 months.		
Allocated LKR 18,800Mn as relief for the affected families due to prevailing economic conditions, thus LKR 5,000.0 granted for 7 months of the year 2022, further increased by 4 months.		



# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Introduce 3-Year Logistics Development Programme during the period of 2023 to 2027 targeting to improve the logistics performance of Sri Lanka among the first 70 countries.	EXPO, JKH, HHL, HAYL, SPEN	Creating an opportunity to expand business operations on a global context while strengthening profitability through high export revenue.
Establish an International Trade Office to deal with all the international trade negotiation.	EXPO, JKH, HHL, HAYL	Sri Lanka will resume trade negotiations with Thailand, which along with the FTA with Singapore, sets the steppingstone for Sri Lanka to engage in dynamic regional trading arrangements such as Regional Comprehensive Economic Partnership (RCEP).
Underutilized lands to be provided/leased out for export crop cultivation on long term basis, allowing investors to utilize them productively to increase production and exports.	Cultivation related counters such as CIC and AGST	Enhance production and export revenue thereby improving profitability.
With the aim of promoting marine tourism, it is proposed to allocate LKR 50Mn for the development of related infrastructure primarily in three maritime zones in the Eastern, Southern and Western provinces where tourists are able to engage in sea-related activities. Further, water rafting to be popularized to promote sports tourism	Hotel sector counters	Recreational activities will ramp up tourist visits aiding company's to increase profitability.

# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Proposed to impose a tax of LKR 2/- per beedi stick. In addition, other fees payable for obtaining of certificates and licenses will be increased.	CTC	Eliminates the negative impact from the beedi market to the local tobacco market to a certain extent.
CESS levy will be eliminated on phased basis in three years commencing 01-Jan-23. For Ports and Airports Development Levy, it is suggested to phase out completely in five years. Accordingly, current rates of Customs Import Duty is revised from 0%, 10% and 15% to 0%, 15% and 20% to accommodate the proposed phasing out of para-tariffs/levies effective from 01st Jan-23	Manufacturing counters	Improved profitability with lowered tax burden.
Proposed to eliminate PAYE/APIT tax liability of employees of State-Owned Enterprises (SOEs) with effect from 1st Jan-23.	All counters	Positive impact to disposable income thereby favouring all counters.
LKR 200Mn allocated to the Ministry of Investment Promotion to introduce the necessary reforms to create a more business friendly environment.	All sectors	Improve transparency and reduce cost, which may create a healthy business environment.

# BUDGET 2023 AND LISTED SECURITIES

Budgetary Move	Counters Affected	Impact
Income earned by non-resident persons from engaging in Government projects approved by the Minister of Finance (totally funded from foreign grants) will be exempted from income taxes.	All sectors	Despite the granting of exemptions, due to limited qualifications, impact will be just marginal. However, exempted persons will enjoy improved disposable incomes during the current high inflationary environment.
Income tax rate of 15% will be charged for dividend received or derived by residents.	All sectors	Reduce attractability to capital market dividends
Unit rate (Fixed Rate) of the Customs Import Duty and CESS Levy will be adjusted absorb in line with the Rupee depreciation and for avoidance of under-invoicing and under-valuation at the point of Customs clearance. Customs Import Duty on a total of 378 selected FIS Codes will be adjusted under the Export Development Board Act, No.40 of 7979, effective from November 15, 2022.	All import companies	Marginal impact. Given that imported products are already taxed at very high levels, impact will be negative yet marginal
The existing three band tariff system of 0%, 10% and 15% will be revised as a three-band tariff of 0%, 15% and 20%.	All import companies	Negative Impact. Import costs will increase further and affordability will further deteriorate
Measures will be taken to restructure Sri Lankan Airlines, Sri Lanka Telecom, Colombo Hilton, Waters Edge and Sri Lanka Insurance Corporation (SLIC) along with its subsidiaries, the proceeds of which will be used to strengthen foreign exchange reserves of the country and strengthening the Rupee	SLT and other listed entities	Positive impact for listed companies which has the potential to acquire the state owned entities. External sector stability and reduced debt burden on the government and the need for financing SOE losses

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# 4. OTHER PROPOSALS



# OTHER PROPOSALS

Budgetary Move	Impact
Allocate LKR 100Mn to establish a National Productivity Commission as an independent institution to investigate/study productivity issues based on quantitative and qualitative data and recommend trade adjustments schemes.	Enable new job opportunities for those who lost jobs in industries that are closing down due to economic instability and the difficulty of adapting to new technologies.
LKR 300Mn to be allocated for the establishment of new investment zones in the Western and North-Western Provinces, and the Hambantota and Trincomalee districts, with the inclusion of tourism and agriculture-based developments.	Improve foreign inflow to the country which may help to maintain forex stability.
LKR 100Mn will be allocated for a new agency which will be set up in place of the Board of Investment, Export Development Board, Sri Lanka Export Credit Insurance Corporation, National Enterprise Development Authority etc. with the enactment of a new law.	Encouraging factor for foreign and domestic investments.
Fees and charges which have not been revised for three years from 2020 to 2022 will be increased by 20%.	Improve government revenue from respective operations.

# OTHER PROPOSALS

Budgetary Move	Impact
A definition of bookmaker in Betting and Gaming Levy Act will be extended to include a person receives or negotiates bets on all type of sports event, including online betting. A licensing mechanism for the business of bookmaker will be introduced, for a fee.	Improve government revenue from respective operations.
Amendments will be introduced to extend the definition of gaming/casino to include the online gaming/casino. The regulatory and licensing requirements will be applicable for online casinos operators in Sri Lanka.	Improve government revenue from respective operations.

# Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT  
MANAGING RISKS"*

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