

SC

Securities

SC Securities (Pvt) Ltd |  Subsidiary of Sampath Bank PLC

2022 BUDGET - HIGHLIGHTS

The Democratic Socialist Republic of Sri Lanka

12th November 2021

SC Securities (Pvt) Limited

Subsidiary of  *Sampath Bank PLC*

Budget Summary

Budget Deficit targeted at 8.8%

Budget deficit expected to decline by 10.8% YoY in 2022:
More than proportionate increase in revenue compared to expenses would narrow the budget deficit in 2022.

LKR.Bn	2021 E Revised	2022 E Budget
Total Revenue and Grants	1,561	2,284
<i>+/- YoY Growth</i>		<i>46.3%</i>
Revenue and Grants/GDP	9.5%	12.3%
Total Expenditure	3,387.0	3,912.0
<i>+/- YoY Growth</i>		<i>15.5%</i>
Expenditure/GDP	20.6%	21.1%
Budget Deficit	(1,826.0)	(1,628.0)
<i>+/- YoY Growth</i>		<i>-10.8%</i>
Budget Deficit/GDP	11.1%	8.8%

Source: Budget Speech 2022

New Revenue Proposals

Proposal	LKR Billion
1 Surcharge Tax	100
2 Social Security Contribution	140
3 Value Added Tax (VAT) and other charges	14
4 Special Goods and Services Tax	50
5 Proposals relating to Motor Vehicles	4
6 License fees, auctions and other non-tax revenue	25
Total	333

Source: Budget Speech 2022

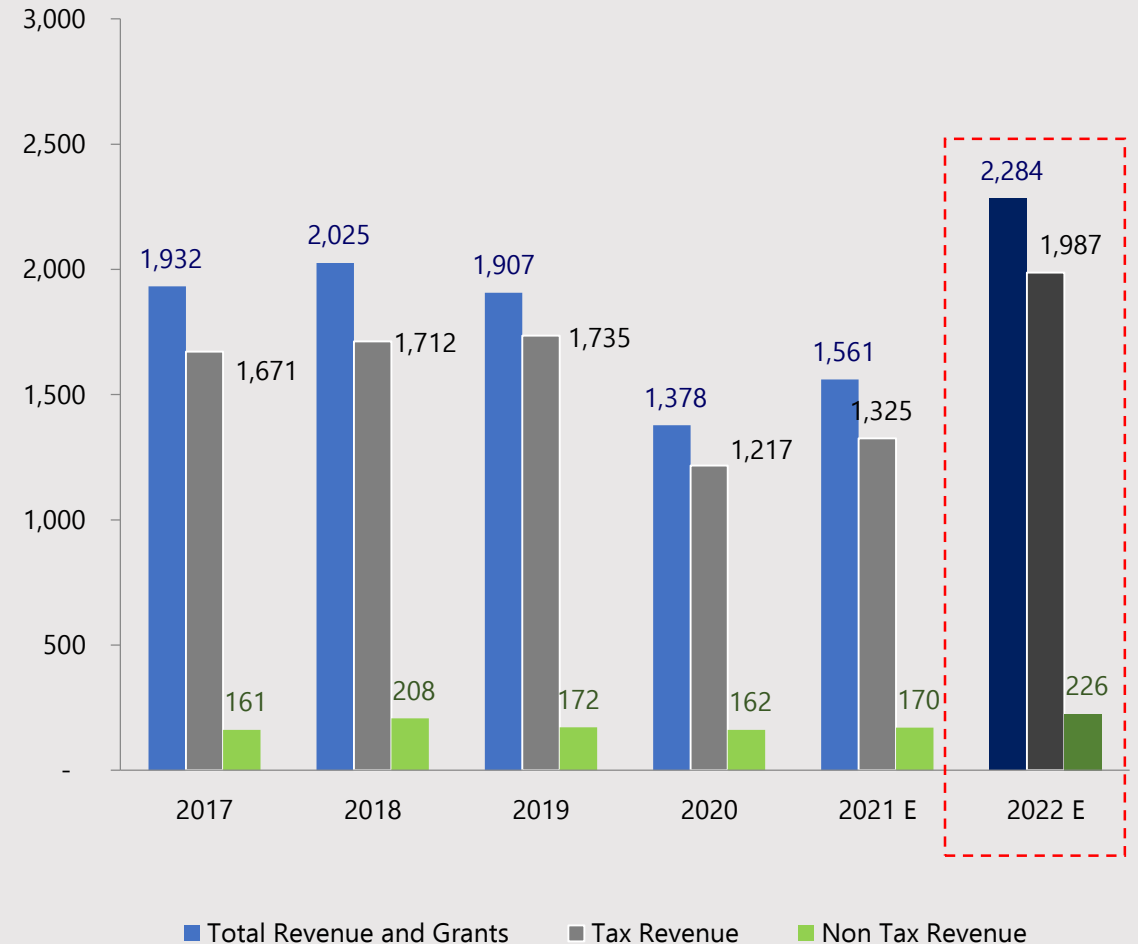
Government Revenue

An Optimistic Revenue Target

- **+ 46.3% Growth in Government Revenue:** From a relatively low revenue base in 2021E (LKR.1,561Bn), Government Revenue and Grants for 2022E is projected to grow by 46.3% YoY to LKR.2,284bn.
- **87% of total revenue is expected to be raised by way of taxes :** Tax on Goods & Services will remain the major contributor (45.1% of the total government revenue) with a forecasted growth of 58.6% YoY to reach Rs.1,031bn.
- **Income Tax revenue to grow by 68.1%:** Main driver would be the one time tax of 25% on taxable income above LKR.2,000 million for year of assessment 2020/21
- **Contribution of non-tax revenue 9.9%:** Forecasted growth of 32.9% YoY to reach Rs. 226bn.

Government Revenue (LKR.Bn)

Source: Budget Speech , SC Securities Research



New Tax Revenue Proposals

Surcharge Tax levied on income on one-off basis

Surcharge Tax at the rate of **25%** on individuals or companies who earned a **taxable income over Rs. 2,000mn** in **2020/2021**

Special Goods and Services Tax (GST)

The special GST which was proposed in last year's budget would be implemented **from 01 January 2022**

Social Security Contribution

Charging "Social Security Contribution" on the **liable turnover over Rs. 120 Million** per annum at the rate of **2.5%** (W.E.F from April 1, 2022)

Amendments to the Value Added Tax Act, No. 14 of 2002

Increase of **Value Added Tax** charged on **financial services** by financial institutions from **15% to 18%** (from Jan 1, 2022 to Dec 31, 2022)

Excise Duty (Special Provisions) of Cigarettes and Excise Duty on Liquor under Excise Ordinance

Revision of Excise Duty on Cigarettes and revision of Excise Duty on Liquor

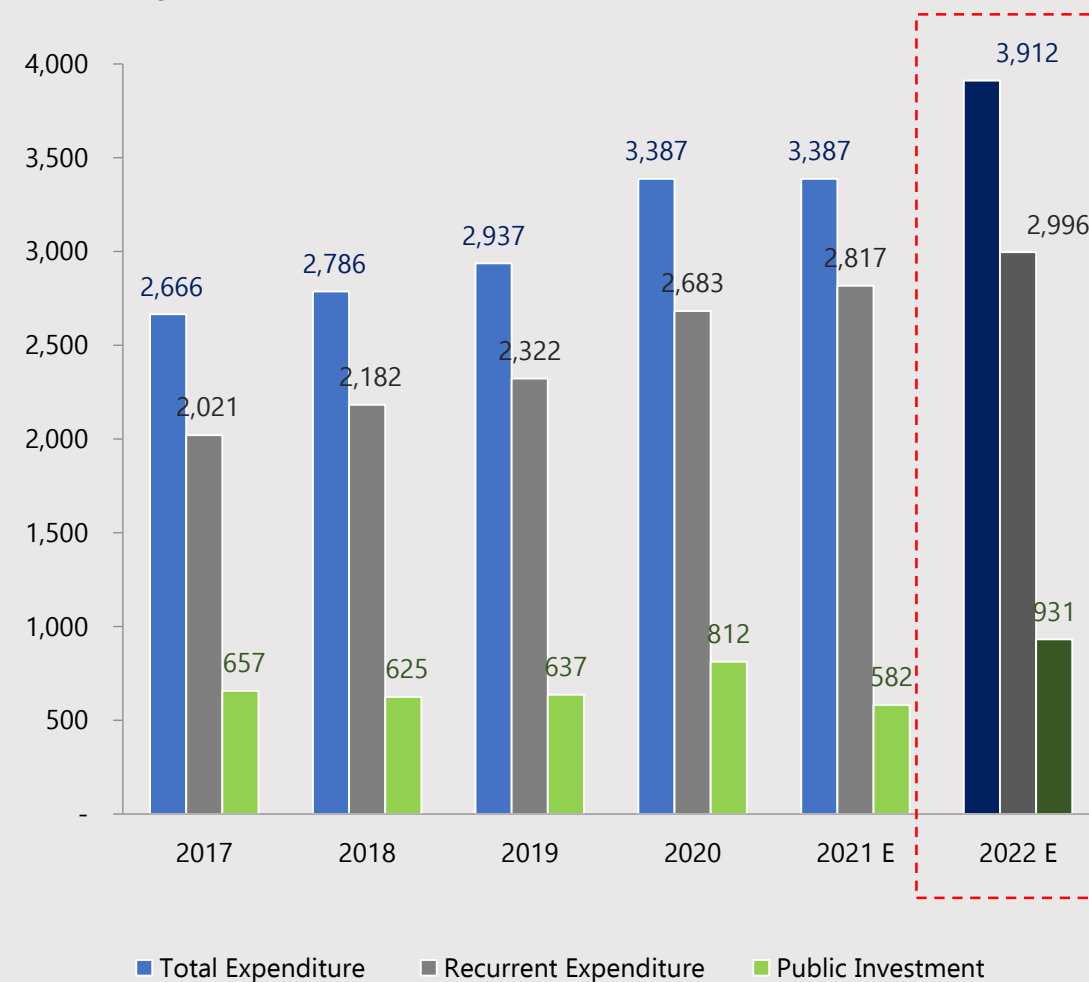
Government Expenses

More Emphasis on Public Investments

- **Total government expenditure is projected to grow by 15.5%:** Recurrent expenditure is projected to grow by 6.4% while expenditure on public investments are to grow by 60% in 2022E
- **77% of total expenditure accounts for recurrent expenditure:** This includes salaries and wages, interest payments which are the two most largest expenses of the government.
- **An investment for the future:** Spending on Public investments in 2022 would attract around 24% of the total expenditure. It is noteworthy that there is a high emphasis on public investment compared to the previous year. Public Investments as percentage of GDP is expected to reach 5% in 2022E compared to 3.5% in 2021E

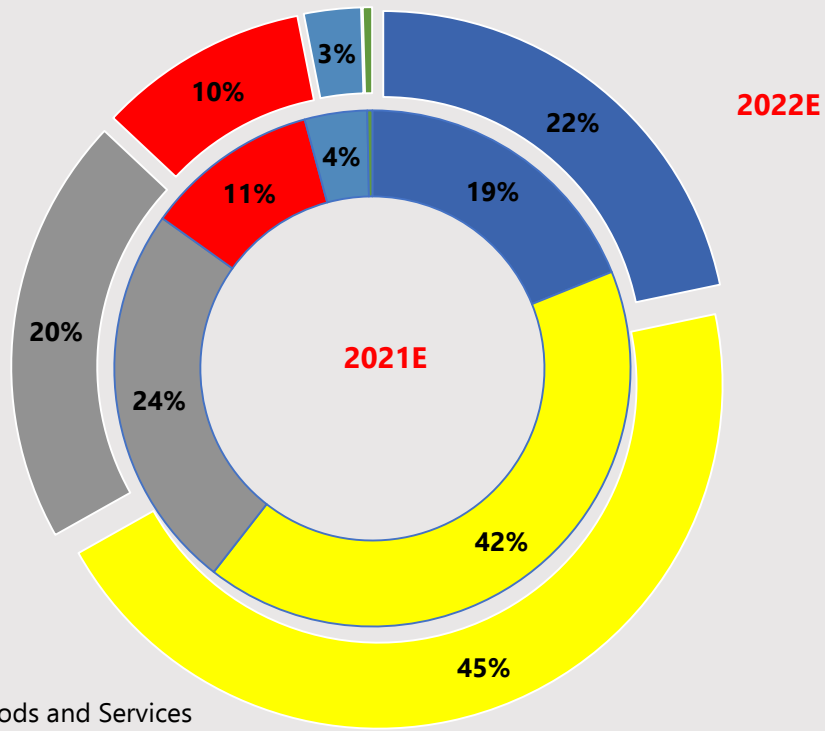
Government Expenditure (LKR.Bn)

Source: Budget Speech, SC Securities Research



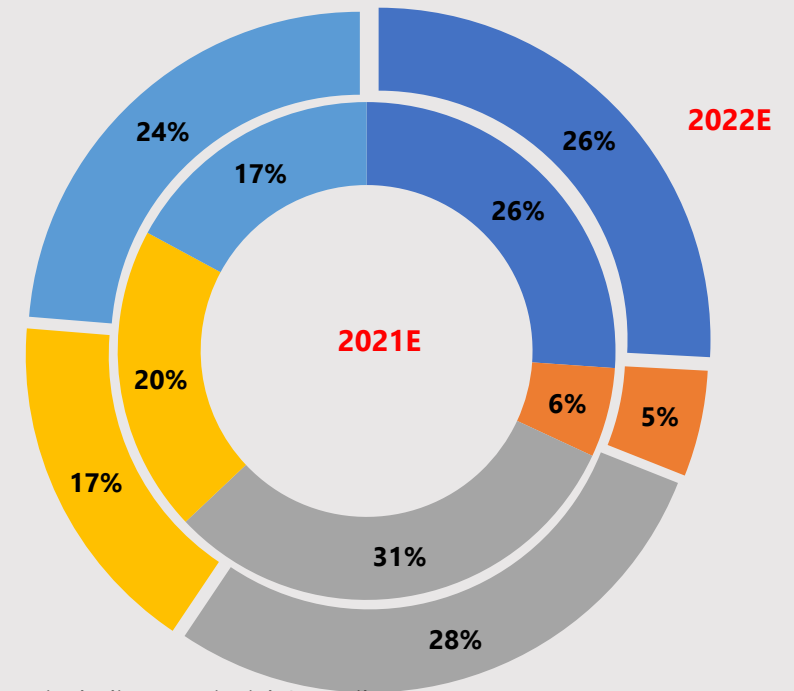
Composition of Government Revenue and Expenditure

Government Revenue



- Income Tax
- Taxes on Goods and Services
- Taxes on External Trade
- Non Tax Revenue
- Provincial Councils Tax Sharing and Devolved Revenue
- Grants

Government Expenditure



- Salaries & Wages including Provincial Councils
- Other Goods & Services including Provincial Councils
- Interest
- Subsidies and Transfers
- Public Investment

Budget Deficit and Financing

Deficit to decline by 10.8%

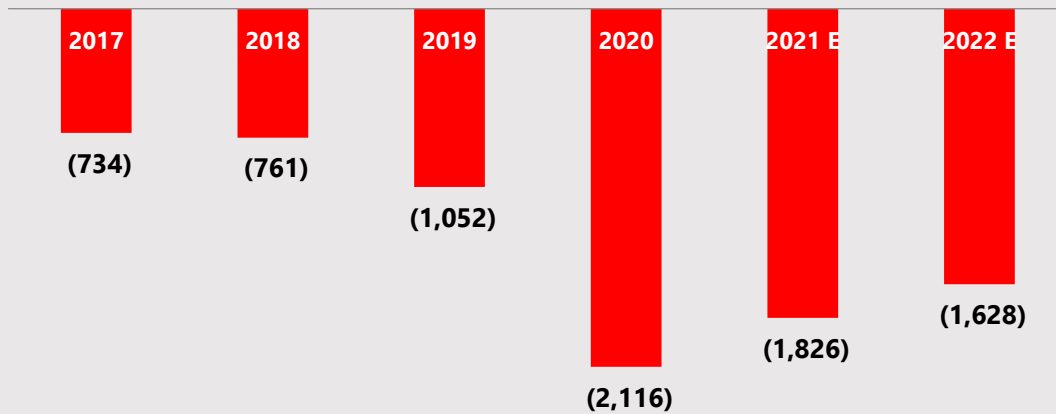
Comparatively higher growth in revenue compared to expenditure is set to narrow the budget deficit by 10.8% over 2021E to reach LKR.1,628bn. Budget deficit as a percentage of GDP is expected to reduce to 8.8% in 2022E compared 11.1% estimated for 2021.

Financing

Budget deficit will be predominantly bridged by way of domestic financing, of which 86% would be in the form of non-bank borrowings. Bank borrowings would be high as LKR.501bn providing for 31% of the deficit.

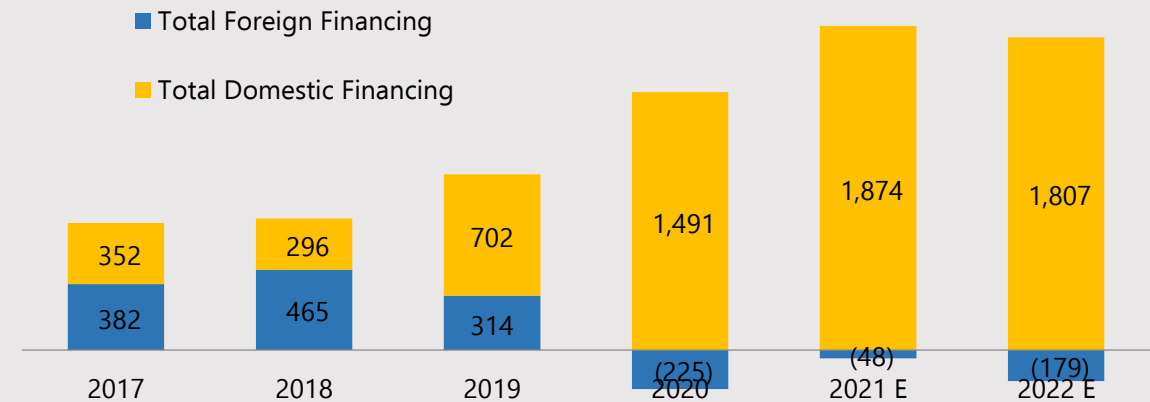
Budget Deficit (LKR.Bn)

Source: Budget Speech, SC Securities Research



Deficit Financing (LKR.Bn)

Source: Budget Speech, SC Securities Research



Industry Impact

Proposal

- VAT on financial services increased from 15% to 18% (from 1st January 2022 to 31st December 2022). This tax cannot be charged from the customers of the Bank or Financial Institution.
- Banks are encouraged to convert their branches into smart banking units using digitalization.

Impact

- Negatively affect towards the bottom line since this tax could not be passed on to customers (This tax should be paid monthly from 01 January 2022 to 31 December 2022.)
- Improve the effectiveness and efficiency of the banking sector companies.

Company

- All Banks and Finance companies and insurance companies are liable to pay.

Capital Goods

Diversified Holdings | Manufacturing | Construction

Proposal

- It is expected to complete National Road Development programme, which launched to create a modern road network connecting the capital, cities, suburbs and remote villages LKR.260 Bn has been allocated for the year 2022. In addition, a further LKR.20 Bn will be allocated.
- Encouraging the private sector to produce medicines of highest quality, targeting the international market by linking with internationally reputed companies for production.

Impact

- Much welcomed news to construction companies and local contractors could benefit as a result of these projects.
- More opportunities to improve production lines of local pharmaceutical producers

Company

- AEL, KAPI
- HHL

Food & Beverage , Food Retailing

Plantations | Dairy | Fisheries | Alcohol & Tobacco | Super Markets

Proposal

- LKR 10,000 million is allocated for Plantation sector, in addition to the amount allocated under Appropriation bill
- LKR 1,000 million worth of additional funds allocated for the investment in livestock sector
- Importation of rubber related products has restricted whilst the production of rubber related finished products are encouraged
- New industrial zones have proposed for organic fertilizer production, export based agro processing, livestock, agricultural equipment and machinery, fisheries and chemical materials

Impact

- Positive movement for the companies in plantation sector
- Medium & large scale private sector companies engaged in the production of milk, eggs and poultry will get benefited
- Top-line will pick up of those companies in plantation rubber exposure and companies which produce rubber related products for local and export markets
- Companies which are in to the production of organic fertilizer will privilege to benefit from proposed industrial zones

Company

All plantation Companies

BFL

COCO

LAMB

LMF

MELS

RAL

CIC

AGST

Proposal

- Investment opportunities in energy sector have been opened for private sector. In order to fulfill 70% of the aggregate electricity demand through renewable energy by 2030. It is proposed to allocate an additional LKR 500 Mn for the facilitation of encouraging private investment in Renewable Energy sector.
- To promote renewable energy, ensuring the reduction of the use of carbon emitting fuel and foreign currency outflows, it is propose to encourage the local manufacture of equipment and appliances required for the generation of renewable energy.

Impact

- We expect utilities sector companies to benefit greatly with the Government's drive to make power generation from renewable sources and encourage utilities sector companies to embark on new renewable energy projects.
- This will eventually reduce the cost and improve the margins of utilities sector companies

Company

PAP

HPFL

VLL

VPFL

LVEF

WIND

HPWR

LPL

VLL

Consumer Durables

Textile | Manufacturing | Exports

Proposal

- New industrial zones to be established for producing fabric and improve domestic value add of apparel sector.
- It is proposed to allocate LKR 1 Bn for the development of textile industries including handloom and batik.

Impact

- Raw material importation cost can come down and it will eventually improve the gross margins of the textile manufacturing companies.

Company

TJL
MGT

Consumer Services

Hotels & Resorts

Proposal

- It is proposed to upgrade the tourism industry by way of different forms of tourism such as event tourism, destination tourism and home stays and also it is proposed to promote Sri Lanka as a centre for wellness tourism.

Impact

- These proposals would positively affect towards the tourism industry and it will recover the current situation

Company

All hotels and
resorts

Materials

Construction Materials | Fertilizer & Agri | Lubricants | Other Materials

Proposal

- LKR 5,000 million allocated for the introduction of new agro-technologies
- Every farmer will be provided with startup working capital to produce organic-fertilizer. LKR 35 billion allocated on this behalf
- Importation of rubber related products has restricted whilst the production of rubber related finished products are encouraged

Impact

- Positive movement for the companies in agriculture sector
- Companies which are in to the production of organic fertilizer will privilege to benefit from proposed industrial zones

Company

CIC
AGST
DIPD
TYRE

Telecommunication

Proposal

- It is proposed to install a country wide telecommunication network expeditiously covering all 10,155 schools in the country using Fiber Optic technology.
- It is proposed to sell by auction the 5G frequencies to be included the information technology field

Impact

- This will be beneficial to local Telco companies and could result in a significant top-line and bottom-line growth.

Company

- SLT
- DIAL

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Thank You

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