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BUDGET PROPOSALS

2022

OVERVIEW

Presented on 12th November 2021

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November 12, 2021

Dear Client,

Budget Proposals - 2022

We have pleasure in forwarding herewith an overview of the Budget Proposals presented in Parliament on 12th November 2021, by *Minister of Finance Hon Basil Rajapaksa*.

If you require any further information or clarifications relating to the above, you may contact us.

Yours faithfully,



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01 / Key Tax Proposals

Key Tax Proposals – Imposition of New Taxes

Surcharge Tax

It has been proposed to introduce a Surcharge Tax at the rate of 25% on individuals or companies, whose taxable income exceeds LKR 2,000 Mn for the year of assessment 2020/2021.

This proposal has been introduced as one-time tax charge to the taxpayers.

Social Security Contribution

It has been proposed to introduce a Social Security Contribution on annual liable turnover which exceeds LKR 120Mn, at the rate of 3%, w.e.f. 1st April 2022.

This has been introduced with the aim of rebuilding Sri Lankan economy affected by the Covid pandemic. However, the applicable tax rate announced during the budget speech on same was 2.5%, hence, it requires further clarity.

Special GST

The special GST which was proposed to be imposed in the last budget proposal in the year 2021 to be implemented by making following sectors liable w.e.f. 1st January 2022.

- Telecommunication
- Motor Vehicle
- Cigarettes
- Liquor
- Betting and Gaming

Key Tax Proposals – Value Added Tax

Value Added Tax on Financial Services (VAT on FS)

It has been proposed to increase the VAT on FS rate from 15% to 18% w.e.f. 1st January 2022, up to 31st December 2022.

New exemption on VAT

It has been proposed to exempt the importation or supply of medical equipment, machinery, apparatus, accessories and parts thereof and hospital furniture, drugs and chemicals donated to the Government hospitals or the Ministry of Health for the provision of health services to address the pandemic or public health emergency, approved by the Minister of Finance on the recommendation of the Secretary to the Minister of health by amending the item (xxxi) in paragraph (a) of Part (II) of the First Schedule of the VAT Act No. 14 of 2002 as amended.

Key Tax Proposals – Excise Duty

Excise Duty (Special Provisions) on Cigarettes

It has been proposed to increase the excise duties on cigarette and a gazette notification will be issued on same.

Excise Duty on Liquor under Excise Ordinance

It has been proposed to increase the excise duties on liquor and a gazette notification will be issued on same.

Key Tax Proposals – Administration Provisions

It has been proposed to establish a consolidated Unit at the Department of Inland Revenue (DIR) to strengthen and increase of revenue collection at the Large Taxpayer's Unit (LTU) and Upper Corporate Unit (UCU) at the DIR.

It has been proposed to introduce digitalized platforms to Sri Lanka Customs by introducing Single Window System and Streamline the issues in relation to the Revenue Administration Management Information System (RAMIS) of the DIR.

Further, to expedite the implementation of the digitalized revenue platform of the Excise Department.

Once the above digital platforms have been implemented and streamlined, it is proposed to enable the submission of digital invoices and documents as valid documents in tax filing, with the proper verification system in place.

It has been proposed to simplify the process of obtaining the liquor license.

02 / Non Tax Revenue Proposals

It has been proposed to Levy certain fees in respect of vehicles;

1. Levying a fee on vehicles which undergo motor traffic accident and allowing the insurer to reimburse the fee from the insurance.
2. Levying a fee for modernization, modification or upgrading of vehicles.
3. Imposing a penalty during a period of amnesty in respect of legalization of all unauthorized roadworthy motor vehicles and motor cycles.
4. Release all the vehicles stationed at Sri Lanka Customs because of non-payment of tax or other reasons for release after charging relevant taxes and fines.

It has been proposed to issue license for conducting leisure related activities for special premises which are developed as special Zones.

It has been proposed to issue licenses by Telecommunication Regulatory Commission of Sri Lanka through auction.

These licenses are issued generally in relation to telecommunication including for fixed telephone operators, mobile operators, internet services providers and satellite broadcasting operators.

03 / Budget Speech – Summary

- There are three main responsibilities that any elected government must fulfill in any country in the world. They are: -
 - National security,
 - Development,
 - Social welfare.
- 5 major issues facing by the World
 - The social and economic disparities have increased
 - The slow progress of achieving the sustainable goals
 - Increased environmental catastrophes owing to increased global temperature
 - Assistance from bi-lateral and multi-lateral institutions are severely limited as was never before in the history.
 - The challenge of adapting to the “new normal”

Strengths

- **Bold leadership and political stability**
- **Infrastructure at Global Standards**

Infrastructure facilities are of high standard. The 100,000 kilometer road project and the 5,000 bridges program, the by-road network will be strengthened further and the entire country will become a single network.
- **Non-aligned, friendly international relations**

Sri Lanka has expanded its diplomatic relations with the bilateral and multilateral agencies which includes the World Bank, the Asian Development Bank, the European Union, the Japan International Cooperation Agency (JICA), the Kuwait Fund, the French Development Agency, the KfD, Korean International Cooperation Agency (KOICA) the OPEC for International Development, and all agencies aligned with the United Nations.
- **A Healthy, Intelligent Human Resource**

During the time of the Covid pandemic, Sri Lanka experienced practically, the importance of having a highly sensitive human resource. As a result, Sri Lanka had the opportunity to provide immediate care to all.
- **A Nation that is Environmental Friendly**
- **Vision of a Sustainable Economy**

Already announced the program to build a green economy through the “Vistas of Prosperity and Splendour”. The budget 2022 is an extension of that same concept.
- **Priority for National Security**
- **Leader in Vaccinations**

Today Sri Lanka has achieved the vaccination targets. Therefore, today Sri Lanka is considered the “Vaccinated Nation in Asia”.
- **Returning to Work Defeating Covid**
- **Local entrepreneurial strength**

The Challenges

- International drug mafia targeting youth who should take over leadership of the country
- Fraudulent Business Operations which are seeking illicit profits through creation of an artificial shortage of goods, creation of a black market through high prices.
- Forces detrimental to the country who are so called social activists can overthrow strong and populist governments.
- Common Global Challenges such as disruption to food production chains, climate change, natural catastrophes, energy crises, and fluctuations in international commodity prices over which Sri Lanka has no control.
- The Challenges of rising Cost of Living
- Obsolete economic tools
Increase in prices is due to a shortage of goods, the imposition of import restrictions, the overreliance on imports, the depreciation of the rupee together with the failure to adequately encourage manufacturers.
- Greater emphasis on a trading economy rather than manufacturing economy and innovations
- Challenges of Earning Foreign Exchange
Inadequate foreign direct investments, reduction of inflow of worker remittances. Apart from utilizing such inflows to meet the import expenditures, the country has failed to take decisive action required in a middle income country to create an export surplus in goods and services.
- Public Debt Expansion over the years which drains significant portion of earnings
- Improper management of Foreign Reserves
Instead of building foreign exchange reserves, using it for the importation of goods creating a foreign reserve crisis.
- Need to explore novel avenues of earning foreign exchange and must adopt a special programme to encourage the export to earn foreign exchange.
- Inadequate attention on non-debt creating avenues
- Supplementing Imports through encouraging local production
- Limitation to encouraging Foreign Direct Investment
- Common social and economic challenges
- State enterprises a burden to the economy as most of these institutions do not provide returns on the investments made by the government.
 - 300 state owned enterprises
 - Total investment Rs.670 billion
 - Annual maintenance cost Rs.75 billion

Policy Synopsis

National Policy Framework “Vistas of Prosperity and Splendour” was considered in its entirety in preparing the Budget 2022. Over the past years other than the government seizing a slice of the income of tax payers, it has not resulted in any increase of the total private and government revenue. Therefore this year national budgetary policies is more focused about a structural change that would enable the increase of total revenue of the country and thereby increase savings and investment.

Expenditure Management

- Funds for capital expenditure rather than recurrent expenditure will be made available for State Owned Enterprises (SOE's) by the Government.
- Construction of new state institutions to be suspended for two years to utilize the allocated capital expenditure for development activities that directly benefit the public.
- Reduce fuel allowance provided to Hon. Ministers and government officers by 5 litres per month.
- Cut down the telephone expenses of government institutions by 25%.
- Reduce the provisions for electricity by 10% to encourage the use of renewable energy sources.
- Eligibility for MP's pension scheme to be extended to 10 years from existing 5 years.
- A Client Charter to be prepared and displayed in the premises of the government institutions to promote client-centricity.
- An appraisal system and Key Performing Indicators (KPIs) to be introduced for public service.
- A new salary structure for the public service to be established by removing the anomalies in public service salaries with effect from the next financial year.
- Salary Increment will be granted for public service on the due date without the need of appraisal reports for all government employees subject to disciplinary action, if any.
- Integrated Results Based Management System to be established to follow up and monitor integrated national development priorities that are to be achieved within 2022-2024 Medium Term Budgetary Framework through five (5) National Coordinating Sub-Committees.
- The retirement age of public service to be extended to 65 years.
- Samurdhi movement to be modernized with a view to transform rural development movement that ensures economic revival and food security.
- Samurdhi Banks to be converted as one-stop shops that provides all services and facilities for the development of micro and small enterprises.
- Implementation of restructuring activities and investigations into alleged frauds on depositors of cooperative and rural banks to be commenced swiftly.
- Applicable laws to be amended to amalgamate life and property insurance business of Sri Lanka Insurance Corporation.
- A single window system will be established to facilitate the import-export process by integrating all institutions that work with Sri Lanka Customs.
- A grading system for exporters to be introduced and free customs facilities to be provided to those with high grading.
- Custom duties and CESS rates together with licensing mechanism for imports to be simplified.
- Consolidated Large Tax Payer Unit to be established.
- Tax law to be amended in relation to the use of digital identification numbers and other legal requirements.
- Legal provisions to be established to apply technological processes to tax administration to enhance tax collection.
- Special Goods and Services Tax to be implemented from January 2022.
- A country wide telecommunication network covering all the schools in Sri Lanka using Fibre Optic technology to be installed.
- A Three-Wheeler Regulatory Authority to be established to regulate three-wheeler charges and service standardization.
- A contributory pension scheme for senior citizens who do not currently receive pensions to be established.
- An Act on Rights of the Differently-abled and a programme for the development of their entrepreneurship and skills to be introduced.
- Business registration fees not to be charged in year 2022 for new start-ups.
- Finance Act to be amended to simplify complex processes adopted by Board of Investment, Department of Foreign Exchange and Export Development Board in relation to new business registrations.

- A new programme to provide necessary knowledge, to encourage flower growers and to promote export-oriented production to be implemented.
- Local production of fabrics required for apparel industry to be started.
- A rapid programme to promote the local handloom and the Batik production industry to be implemented with the aim of generating an income of USD 1 billion by 2025.
- Gem & Jewellery Industry to be promoted & country to be promoted as a hub for Gem & Jewellery.
- Investments in rubber-related finished products to be promoted and restrictions will be imposed on rubber-related imports.
- Promote local manufacture of equipment and appliances required for the generation of renewable energy.
- Wellness tourism, event tourism, destination tourism and homestays to be promoted.
- A new programme to establish new Ayurveda treatment centres and to promote traditional indigenous medicine and natural treatment methods to be formulated.
- The capacity of the organic fertilizer production for targeted cultivations to be expanded.
- Diversified agricultural products and value added agricultural products to be promoted to generate foreign income.
- Hi-tec agro parks to be established and the extent of cultivated lands to be expanded.
- New laws to be introduced on the usage of lands owned by plantation companies to ensure maximum utilization of buildings and other assets.
- A Green Agricultural Development Act to be drafted that protects rights of the farmers and promotes productivity.
- With a view to make Sri Lanka as the Asia's naval hub, free ports to be established and strict rules in relation to registration of ships to be simplified.
- It is expected to construct a hospital and hotels in close proximity of Mattala Airport.
- Two new oil refineries focused on exports are planned to be established in Hambantota and Trincomalee.
- Three new Techno-Parks are proposed to be commenced in Habarana, Nuwara Eliya and Kandy.
- A special finance bill to be submitted to ensure safety of local and foreign exporters.
- Required lands and tax concessions to be provided for investors to establish an international school and a hospital in every district.
- Private Public Partnerships to be promoted to implement mixed development projects.
- Procurement Processes of the public sector to be modernized through decentralization and e-procurement technology.
- Restrictions under Trade Union Ordinance No. 14 of 1935 and the Amendment Act, No. 24 of 1970, to obtain multiple memberships and integration of professional associations to be removed.

Development of the National Economy

Expenditure Proposals for 10 Key Sectors

Manufacturing economy and livelihood development

- **Agriculture Sector**
Relief for farmers to encourage the usage of non-toxic Weedicides
- **Proposed to provide a Rs. 5,000 grant per hectare up to a maximum of 2 hectares for usage of alternative weedicides.**
- **Promoting the use of organic fertilizers**
Every farmer to be provided with startup working capital to produce solid and liquid fertilizers, organic pesticides instead of chemical pesticides, and further financial support to be provided to support farmers to incur additional expenses to remove weeds without using chemical weedicides.
- **Introducing new agricultural technology**
It is proposed to introduce new agro-technologies
- **Plantation sector**
To build a value-added plantation crop industry which is equipped with modern technology.
- **Fisheries and aquatic Sector**
Amenities to be expanded to encourage the production of processed fish, dried fish, Maldive-fish, and canned fish.
- **Livestock Sector**
To encourage medium and large-scale private sector investors to engage in the production of milk, eggs and poultry, by minimizing the cost of raw materials and machinery.
- **Traditional cottage industries**
To develop traditional cottage industries including rattan, clay-based products, brass, lacquer, masks, coconut shell, jewellery, stone carving, flax fibre and Dumbara patterns.
- **Textile industry including handloom and batik**
To target export income by developing textile industries including handloom and batik.

Investment zones for new products

- To provide basic infrastructure, investment zones were identified.
- The following areas to be developed as proposed investment zones for new products for each identified production sector.
 - Organic fertilizer production - all agricultural districts
 - Pharmaceutical production - Oyamaduwa, Millaniya and Arugambokka
 - Production of raw materials for textile and apparel industry - Eravur, Monaragala, Puttalam and Kilinochchi
 - Export based agro-processing zones - Mattala, Elpitiya, Hambantota and Jaffna
 - Livestock production zones - Nawalapitiya, Wariyapola and Polonnaruwa
 - Fisheries and aquaculture development zones through private investment - Puttalam, Mannar, Hambantota, Jaffna, Kokkadichole
 - Production of chemicals - Paranthan, Pulmudei and Eppawala
 - Investment zones for the production of electric and electronic appliances and IT based products - Henegama, Sooriyawewa, Kundasale and Homagama
 - Manufacturing sports equipment - Hambantota and Sooriyawewa
 - Steel and heavy metal industry - Mirijjawila
- **Small and medium scale enterprises at regional and district levels**
To provide basic required facilities such as land, electricity, water, roads and fences to encourage establishing industries outside Western Province and shift industries from cities to villages.

Basic infrastructure development

- **Water for All**
To target 90% of the fulfilment of the clean drinking water demand by 31 December 2024.
- **Vari Saubhagya**
To renovate small tanks and anicuts within the next three (03) years i.e. by the year 2024.
- **Road Development**
For the National Road Development programme, Rs.260,000 million has been allocated for the year 2022. In addition, a further Rs.20,000 million will be allocated.
- **Development of Renewable energy - Electricity for All**
 - Investment opportunities in energy sector have been opened for private sector. In order to fulfil 70 percent of the aggregate electricity demand through renewable energy by 2030, it is proposed to expedite such investments in 2022.
 - Proposed to allocate an additional Rs.500 million for the facilitation of encouraging private investment in Renewable Energy sector.
- **Housing and Urban Development**
 - In addition to the already made allocations, an extra Rs.2,000 million is allocated for urban housing and an additional Rs.5,000 million is allocated for the development of rural housing.
 - Planned to complete the construction of condominiums that are already under construction in Colombo and its suburbs by 2024.
 - Rs.500 million will be allocated within the next three (03) years to develop housing in the estate sector.
 - Over Rs.7,000 million has been allocated and local and foreign investments are sought for Urban development.

Rural Development Programme

- **Grama Niladhari Division**
Rs. 3 million is allocated to each GN Divisions to develop 14,021 GN Divisions. The total allocation is Rs.42,063 million.
- **Local Government Divisions**
Rs. 4 million is allocated to each Local Government Divisions to develop 4,917 Local Government Divisions. The total allocation is Rs. 19,668 million.
- **Decentralized budget of the Members of Parliament**
Every member of the Parliament will be provided an allocation of Rs.15 million of development budgetary allocations and the total allocation would amount to Rs.3,375 million.
- **Divisional and District Investments**
 - The total allocation of Rs. 19,894 million will be allocated for Rural livelihood development programmes to cover all 335 Divisional Secretary's Divisions and 25 Districts.
 - Provision of these allocations is based on land, population and other socio- political factors.
 - Proposed to allocate Rs.85,000 million for "Gama Samaga Pilisandara" (Discussion with the village) Rural Development Programme.

Providing relief for those affected by Covid 19 pandemic

- **Relief for micro, small and medium scale businessmen**

Proposed to allocate an additional Rs.5,000 million in addition to the already provided allocation to provide relief to micro, small and medium scale businessmen representing all sectors that were directly affected by the actions resorted to by the government to control the Covid 19 pandemic.

- **Relief for school van owners who lost income during the period when the country was locked down**

Proposed to allocate Rs.400 million to provide relief to the school van and bus owners.

- **Relief for Three Wheel owners who lost income during the period when the country was locked down**

Proposed to allocate Rs.600 million to provide relief to the Three Wheel owners who lost their income since those vehicles could not be driven during the past few months.

- **Relief for private bus owners who lost income during the period when the country was locked down**

- Proposed to allocate Rs.1,500 million to provide relief to the private bus owners who lost their income.

- * **Special sectors that lost income during the period of lockdown**

- Proposed to allocate Rs.500 million to facilitate and motivate Arts, Entertainment, Weddings and Event Management sectors.

Environment and Sustainable Development

• Conservation of environment

- Under "Surakimu Ganga" conservation programme, priority has been given to conservation of 103 rivers and river valleys in the island in eco-friendly manner, conservation of eco-sensitive area of Muthurajawela and as a Ramsar wetland.
- Additional Rs.2,000 million is allocated in addition to the already made allocation for environment conservation.

• Forest conservation

- Proposed to allocate Rs.2,000 million in addition to the already made allocations to conserve the available forests and to
 1. Increase the forest cover by 30 percent
 2. Protect the catchment areas
 3. Removal of invasive plants and increase forest cover with beneficial plants

• Wildlife conservation

Proposed to allocate Rs.1,000 million in addition to the already made allocation to conserve wildlife.

Public services and Rural infrastructure facilities

• Education

- Rs.2,200 million has been allocated through the Appropriation Bill to establish 1,000 National Schools and it is expected to complete the programme by implementing expeditiously within the next three (03) years.
- In order to accelerate the programme and for other developments in education sector, it is proposed to include an allocation of Rs.5,300 million as a budget proposal in addition to the already made allocation.

• Development of health/indigenous medicine

Proposed to allocate Rs. 5,000 million in addition to Rs.32,650 million already allocated for the development of agencies that continue Children's and maternal clinics, Rural hospitals, dispensaries, offices of Medical Officers of Health, Ayurvedic dispensaries, Yoga and clinics for mental health.

• Development of Sports facilities

Proposed to allocate Rs.3,000 million for sports development in addition to the already made allocation to improve sports facilities both in the city and village.

• Minor irrigation

Proposed to increase the allocation by Rs.2,000 million to implement programmes including rehabilitation of small tanks, anicuts, canals, tank bunds and catchment areas under minor irrigation schemes.

• Vocational and technical training

Proposed to allocate Rs.2,000 million in addition to the already made allocation to provide facilities for technical and technological education and city universities and to improve the existing facilities for vocational and technical skills after school education.

• Passenger Transport (Railways and SLTB)

Proposed to allocate a further Rs.2,000 million in addition to the allocation provided through the annual budget estimate for National Transport Commission, Department of Motor Traffic, Sri Lanka Transport Board and Sri Lanka Railways to maintain their services with new technological methods and to provide a comfortable, efficient and disciplined transport services for people establishing connectivity between the cities and the villages.

Public Security

- **Judicial Reforms and provision for infrastructure**

In addition to the Rs.6,937 million, it has been proposed to allocate Rs. 5,000 million for digitalization of human resources required for law reforms related to criminal, civil and commercial and to develop court infrastructure facilities in order improve efficiency in judicial functions and avert delays in judicial process, alleviate inefficiencies.

- **Public Security, Law and Order**

In order to ensure public security and safeguarding the welfare of the people, it has been proposed to allocate Rs.500 million in addition to the existing allocation of Rs.7,885 million to establish a community police service that closely work with the people to curb drugs and crimes.

- **Improvement of sanitary facilities of detainees in prisons.**

Due to rise in number of detainees in prison, it has been proposed to allocate an additional Rs.200 million for the improvement of sanitary facilities in prisons.

- **Providing facilities for our senior citizens and persons with special needs**

It has been proposed to allocate Rs.1,000 million to be utilized to establish the necessary facilities at the village level facilitating the Senior citizens and for those with special needs.

Securing the Home Economy

The expenditure on social welfare and relief programs are revisited with a view to focus on suitable mechanism to cater under the Home Economy Security Program. It is in the context of catering who actually deserve such benefit, develop positive attitudes and entrepreneurial skills, familiarize modern communication and to transform the poor community to be empowered to stand on own feet while being enriched and self sufficient in nutritious food. Accordingly, it is proposed to allocate Rs. 31,000 million to provide relief under this Home Economy Security Program and will include three components introduced.

- **Nutrition basket for pregnant mothers**

Apart from the existing allocation for this program, a further Rs.1,000 million will be allocated ensuring the nutrition needs of new born children by supporting the lactating mothers.

- **Home Food Security Program –Relief Basket**

An allocation of around Rs.15,000 million will be made to implement a program identifying economically poor families at the GN Divisional Level and provide them with a relief basket to alleviate the pressure on cost of living hike and to nourish families.

- **Establishment of a mini supermarket chain for women entrepreneurs - Home Shop**

It is proposed to allocate around Rs.15,000 million to this program to establish mini supermarket network at the Grama Niladhari Division level to support their need for economic empowerment focusing on women entrepreneurs.

Public service

The areas focused to enhance efficient and effective public services are as follows.

- **A client-centric public service – Digitization**

A further Rs.500 million in addition to the allocation of Rs.3,500 million will be provided to increase the productivity and efficiency by digitization in the public service making it client centric.

- **Motorcycles for public officers**

It is proposed to allocate Rs.500 million to provide motor cycles to public servants and implement a system of transferring its benefits to them aiming to increase the efficient provision of public services.

- **Elimination of Teachers' and Principals' salary anomalies**

In addition to the current allocation of over Rs.109,000 million, it has been proposed additional Rs.30,000 million be included in salary payments in the context of expeditious implementation of Cabinet decision dated 30 August 2021 agreeing as a matter of policy to eliminate Teacher principal salary anomalies.

- **Job confirmation for graduates**

Steps will be taken to offer permanent appointments from January 2022 to over 53,000 graduates who are already recruited to the government service as trainees and Rs.7,600 million will be allocated for this purpose in addition to the amount already allocated.

- **Compensation for the victims of political victimization during 2015-2019**

It has been proposed to allocate Rs.100 million as compensation to those who have been politically victimized during the period 2015-2019.

- **Eliminate pensioners' pay anomalies**

Rs.500 million will be allocated to undertake initial action required in correcting pension anomalies.

Allocation under Special Financial Provisions

- **For maintenance of Buddhist temples and shrines**

As a support to essential maintenance and construction of Buddhist temples and shrines located in extremely remote areas it has been proposed to allocate Rs.500 million.

- **Indemnity and compensation for persons who went missing at various periods**

Rs.300 million Budget allocations are made to compensate the disappearances of people during different eras owing to various reasons to do justice to the families of such missing persons.

- **Government Contribution to professional Associations**

It is proposed to include an allocation of Rs.100 million to support professional associations for local and international knowledge transmission.

Revenue proposals

Government Revenue as a Percentage of Gross Domestic Product

Period	Revenue%
1950 - 1999	21.9
2000 - 2009	16.3
2020	9.2

Government Revenue Vs Government Expenditure

Deficit in the recurrent account (Government Revenue over recurrent expenditure, as a percentage of Gross Domestic Product.)

Period	Revenue%
2010 - 2014	1.1
2000 - 2009	1.7
2020	7.9

Deficit in the primary account (Total revenue minus other expenditure, excluding interest payments as a percentage of Gross Domestic Product)

Period	Revenue%
2010	1.5
2015	2.9
2020	4.6

Budget Deficit

Results	Actual	Target		
		2022	2024	2025
Period	2020	2022	2024	2025
%	11.1	8.8	6.1	4.8

The proposals expected to strengthen the government’s financial position and rebuild the economy from the post Covid position.

Type of Tax	Expected Revenue to the Government In Rupees billions
A one-time Tax Surcharge	100
VAT on Financial Services	14
Social Security Contribution	140
Tax on Cigarettes	8
Excise Tax	25
Motor Vehicles	4

The proposals expected to simplify the tax administration and improve its efficiency apart from the initiatives taken from 2021 budget are as follows.

Further strengthen the Large Tax Payers Unit (LTU) and Upper Corporate Unit (UCU) to improve revenue collection from large tax payers.

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 digital revenue collections systems of the above revenue bodies.

Money earned by the Perpetual Treasuries Limited

As per the recommendations of the tri-party Presidential Commission of Inquiry appointed by the former HE President to examine, investigate and report on the issuance of Treasury Bonds during the period 01 February 2015 to 31 March 2016, it is proposed to transfer to the Treasury the Rupees 8.5 billion that the Perpetual Treasuries Ltd has earned in violation of the Code of Conduct of the Central Bank of Sri Lanka.

Leisure License Fee

It is proposed to issue a license under goods and services tax for the designated areas to be developed as special zones for leisure activities.

License issued by the Telecommunications Regulatory Commission of Sri Lanka

It is proposed to issue licenses for telecommunication services by The Telecommunication Regulatory Commission of Sri Lanka through an Auction. Furthermore, it is proposed to sell by auction the 5G frequencies to be included in the information technology field.

Macroeconomic vision for a revival

- Organic agriculture for the protection of environment, food security, safe water and land, security of the people and national security.
- Economic development with benefits for all provinces and people together with the restoration of the supply of goods and services, the entire budget process is directed to reduce the rate of increase of the cost of living.
- Human Resource Development through special attention to land, water, food, housing, and healthy environment, as well as, skills-based education and sports facilities by covering the various facets of human resource development.
- Building foreign reserves and trade surplus sustainably from tourism, ports and IT export services.

Targets – Official foreign reserves of USD 10,000 million by 2027 – Increase exports to USD 19,000 by 2022

	At Present	Target By 2027
Budget deficit (% of National Income)	10%	1.5%
Tax Revenue (% of National Income)	9%	18%
Development Expenditure (% of National Income)	3.5%	7%
Public Debt (% of National Income)	102%	74%
Foreign Debt (% of National Income)	36.5%	13.6%

- Transactions such as dividend and interests to be maintained to match the promotion of foreign investments.
- Revenue to be generated from exports, tourism, information technology, and foreign employment.
- To reduce the budget deficit need to strengthen tax administration so that government revenue, expanding the tax base together with an increase in the tax compliance among individuals and businesses.
- To become productive to the rural economy Co-operative Rural Bank system needs to be strengthened.
- Introduction of organic agriculture and an economy of renewable energy to move away from the traditional route. Infrastructure facilities provide to the construction sector, facilitates the market connectivity, health and public services and the education sector to develop. Enrichment of biodiversity and environment conservation generates sustainability.

Budget Annexures



Annexure I

Summary of the Budget (2021- 2022)

Item	2021 Revised Estimate	Rs. Billion 2022 Budget
Total Revenue and Grants	1,561	2,284
Total Revenue	1,556	2,274
Tax Revenue	1,325	1,987
Income Tax	295	496
Taxes on Goods and Services	650	1,031
Taxes on External Trade	380	460
Non Tax Revenue	170	226
Provincial Council Tax Sharing and Devolved Grants	61	61
	5	10
Total Expenditure	3,387	3,912
Recurrent	2,817	2,996
Salaries and Wages including Provincial Councils	887	1,015
Other Goods and Services including Provincial Councils	198	203
Interest	1,055	1,115
Subsidies and Transfers	677	663
Public Investment	582	931
Other	(12)	(15)
Revenue Surplus (+)/Deficit(-)	(1,261)	(722)
Primary Surplus (+)/Deficit(-)	(771)	(513)
Budget Surplus (+)/Deficit(-)	(1,826)	(1,628)
Total Financing	1,826	1,628
Total Foreign Financing	(48)	(179)
Foreign Borrowings-Gross	489	508
Project and Programme Loans	332	358
Foreign Commercial	157	150
Debt Repayment	(536)	(687)
Total Domestic Financing	1,874	1,807
Non - Bank Borrowings	1,569	1,397
Sri Lanka Development Bond	(64)	(91)
Bank Borrowings and Other	368	501
Revenue and Grants/GDP (%)	9.5	12.3
Total Revenue/GDP (%)	9.4	12.3
Tax Revenue/GDP	8.0	10.7
Non Tax Revenue/GDP (%)	1.0	1.2
PC Tax Sharing and Devolved Revenue/GDP (%)	0.4	0.3
Grants/GDP (%)	0.03	0.05
Total Expenditure/GDP (%)	20.6	21.1
Recurrent Expenditure/GDP (%)	17.1	16.2
Non Interest including Provincial Council/ GDP(%)	10.7	10.2
Interest/ GDP (%)	6.4	6.0
Public Investment/ GDP (%)	3.5	5.0
Revenue Surplus (+)/Deficit (-) GDP (%)	(7.7)	(3.9)
Primary Surplus (+)/Deficit(-) GDP(%)	(4.7)	(2.8)
Budget Surplus (+)/Deficit(-) GDP(%)	(11.1)	(8.8)

Compiled by Department of Fiscal Policy

Annexure II

Gross Borrowings Requirement - 2022 (Provisioning for Accounting Transactions)

Item	Rs. Billion
Total Receipts other than Government Borrowings	2,261
Total Payments Including Debt Repayments	5,245
Provision for Advanced Accounts	6
Adjustments for book/cash Value of Government Securities	150
Risk Provision	60
Total Gross Borrowing Requirement to be recorded in Government Accounts	3,200
Total Debt Repayments	1,531

Compiled by the Department of Fiscal Policy, Department of National Budget and Department of Treasury Operations

Annexure III

Revenue Proposals - 2022

No	Proposal	Rs. Mn
1	Surcharge Tax	100,000
2	Social Security Contribution	140,000
3	Value Added Tax (VAT) and other charges	14,000
4	Special Goods and Services Tax	50,000
5	Proposals relating to Motor Vehicles	4,000
6	Licence fees, auctions and other non-tax revenue	25,000

Compiled by Department of Fiscal Policy

Annexure IV

Expenditure Proposals

No.	Proposal	Allocation (Rs. Million)
1.	Providing relief for using organic herbicides	4,000
2.	Modernization of Agriculture	5,000
3.	Modernization of plantation sector and providing relief	10,000
4.	Fisheries and aquaculture development	1,000
5.	Livestock development	1,000
6.	Development of traditional cottage industries	1,000
7.	Development of textile industries including Handloom and Batik	1,000
8.	Infrastructure facilities for new product investment zones	5,000
9.	Small and Medium Scale Industry Zones	5,000
10.	Water for All programme	15,000
11.	Vari Saubhagya	20,000
12.	100,000 km roads (including estate sector roads)	20,000
13.	Development of renewable energy	500
14.	Development of urban houses	2,000
15.	Development of rural houses	5,000
16.	Development of estate houses	500
17.	Rural Development Projects	42,063
18.	Development of local government divisions	19,668
19.	Decentralized budget	3,375
20.	Rural livelihood development	19,894
21.	Relief for Micro, Small and Medium Scale Entrepreneurs	5,000
22.	Relief for school van owners	400
23.	Relief for three-wheeler owners	600
24.	Relief for private bus owners	1,500
25.	Relief for areas of art and entertainment	500
26.	Environment conservation	2,000
27.	Forest conservation	2,000
28.	Wildlife protection	1,000
29.	Development of schools	5,300
30.	Health and indigenous medicine	5,000
31.	Development of sports facilities	3,000
32.	Minor irrigation	2,000
33.	Vocational and Technical Training	2,000
34.	Passenger Transport	2,000
35.	Court infrastructure facilities	5,000
36.	Public security, law and order	500
37.	Sanitary facilities for prisoners	200

No.	Proposal	Allocation (Rs. Million)
38.	Facilities for elders and people with special needs	1,000
39.	Pregnant mothers	1,000
40.	Home economy	15,000
41.	Home shop	15,000
42.	Digitalization of the public sector	500
43.	Motor cycles for government employees	500
44.	Removal of salary anomalies of teachers and principals	30,000
45.	Confirmation of graduate trainees	7,600
46.	Compensating the politically victimized	100
47.	Removal of anomalies of pensioners	500
48.	Maintenance of Buddhist temples	500
49.	Compensation for disappeared people	300
50.	Contribution for professional association	100
51.	Saving of expenditure	(30,000)

Annexure V

Technical Note Budget 2022

Taxation

I. Tax revenue proposals

1. Surcharge Tax levied on income on one-off basis

Imposition of a Surcharge Tax at the rate of 25 percent on individuals or companies who have earned a taxable income over Rs. 2,000 million for the year of assessment 2020/2021.

2. Social Security Contribution

Charging "Social Security Contribution" on the liable turnover over Rs. 120 million per annum at the rate of 3 percent. This contribution is charged with effect from April 1, 2022.

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

3.1 Increase of Value Added Tax charged on supply of financial services by financial institutions from 15 percent to 18 percent. The levy is to be paid every month from January 1, 2022 to December 31, 2022.

3.2 Amending the item (xxxi) in paragraph (a) of Part (II) of the First Schedule of the Value Added Tax Act No. 14 of 2002 to allow Value Added Tax exemptions on importation or supply of medical equipment, machinery, apparatus, accessories and parts thereof and hospital furniture, drugs and chemicals donated to a government hospital or the Ministry of Health for the provision of health services to address any pandemic or public health emergency, approved by the Minister of Finance on the recommendation of the Secretary to the Ministry of the Minister assigned with the subject of Health with effect from January 1, 2022.

4. Excise Duty (Special Provisions) of Cigarettes Revision of Excise Duty on Cigarettes

5. Excise Duty on Liquor under Excise Ordinance Revision of Excise Duty on Liquor

II. Proposals in relation to non-tax income

1. Levying a fee in respect of vehicles which undergo motor traffic accidents and allowing the insurer to reimburse the fee from the insurance.
2. Levying a fee for modernization, modification or upgrading of vehicles.
3. Legalizing all unauthorized roadworthy motor vehicles and motor cycles by paying a penalty during a period of amnesty.
4. Release all vehicles stationed at Sri Lanka Customs because of non-payment of tax or other reasons for release after charging relevant taxes and a fine.
5. Issuing a licence for conducting leisure related activities for special premises which are developed as special zones.
6. Issue licences issued by Telecommunication Regulatory Commission of Sri Lanka through an auction. These licences are issued in relation to telecommunication including for fixed telephone operators, mobile operators, internet service providers and satellite broadcasting operators.

III. Tax Administration

1. Further strengthening the Large Taxpayers' Unit (LTU) and Upper Corporate Unit (UCU) established at the Inland Revenue Department to further increase the revenue generated from large taxpayers.
2. Addressing deficiencies within the digitized platforms of revenue agencies: RAMIS at Inland Revenue Department and Single Window at Sri Lanka Customs.
3. Expediting the implementation of the digital revenue platform of Excise Department
4. Simplifying the obtaining of liquor license.
5. Allowing the submission of digital invoices and documents as valid documents in tax filing wherever possible through the above digital platforms with the proper verification system in place.

IV. Other proposals

1. Monetary Gains made by Perpetual Treasuries Ltd.

Transferring to the Treasury monetary gains made by Perpetual Treasuries Ltd. by violating the Code of Conduct of the Central Bank of Sri Lanka, in a way that would not hinder the legal action taken by the Honourable Attorney General.

2. Technical Rectifications

Relevant Amendments will be made to Value Added Tax Act, No. 14 of 2002 and other relevant acts to rectify certain ambiguities (including differences in translations).

Tax Information At a Glance



TAX INFORMATION AT A GLANCE

Year of Assessment 2021/2022

PERSONAL TAX

Tax Free Allowance (for Residents and Non Residents who are Citizens of Sri Lanka) - Rs.3,000,000/-

Income Tax Rates – Residents and Non Residents

Taxable Income Rs.	Tax Rate	Tax Rs.	Cumulative Rs.
1st – 3,000,000	6%	180,000	180,000
2nd – 3,000,000-6,000,000	12%	360,000	540,000
6,000,000 above	18%		

Interest Income and dividend income received by a resident individual is liable to tax at normal rates.

Relief for rent income from an investment asset - 25% of the total rental income.

Partnerships taxable income excluding capital gains is liable to partnership tax @ 6%. Individual partners can claim partnership tax against their income tax liability.

Qualifying Payments

a	Donation in money to an Approved Charity	Maximum of Rs. 75,000 or 1/3 of Taxable Income whichever is less
b	Donations to Government	In money or otherwise full amount can be claimed

Expenditure relief upto 1,200,000 on the following:-

- Health expenditure including medical insurance
- Educational expenditure incurred locally
- Interest paid on housing loans
- Contributions to an approved pension scheme
- Purchase of equity or security

Employment Income Advance Personal Income Tax (APIT) is deducted monthly with the consent of resident employees (Govt. & Private Sector). Resident Individual with income from employment up to Rs.3,000,000/- is not liable for APIT.

Taxation of secondary employment income of Resident employees

Monthly Remuneration from primary employment	Amount on which monthly tax is deductible on the total remuneration from secondary employment	Tax Rate on 2nd employment income
Upto – 250,000	"	6%
250,001 – 500,000	"	12%
500,001 and above	"	18%

Non Resident employee on the total remuneration from secondary employment – 18%
Expatriate Employees Taxed according to the Table No. 04.

LOSSES

With effect from 01.04.2018 losses can be fully set off against the income without any limitation. However lower rate losses can be deducted only against exempt profit or profit liable at lower rates.

EMPLOYMENT BENEFITS

Fair market value shall be taken for the Non-cash benefits. If it can't be ascertained deemed values has to be taken as follows.

<i>Non Cash Benefit</i>	<i>Value for Tax Purposes</i>
House (rated area)	Rs.240,000 per annum Rs.480,000 per annum *
Telephone	50% of cost.
Motor Vehicle Benefit	According to the circular issued by the IRD.
Other Benefits	Fair market value
Servants / Electricity / Gas / Air Ticket (other than official purposes / Hotel facilities for expatriates)	100% of the cost

* where employee's salary exceeds Rs.200,000 per month

<i>(Uniform Scheme Terminal Benefits (Gratuity, ETF)</i>		
	<i>Rs.</i>	<i>Rate</i>
First	10,000,000	Exempt
Next	10,000,000	6 %
Balance		12%

Compensation on Voluntary Retirement

Amount received at the time of retirement from:

ETF – Company Contribution – Liable ETF - Interest - Exempt

EPF – Exempt

INCOME TAX RATES FOR COMPANIES

Description of Company	Income Tax Rate
i) On taxable income of a Company (Other than ii and iii below)	24%
ii) a) Small and Medium Enterprises (SME) (defined)	14%
b) A Company conducting an Agro Processing (defined).	14%
c) A Company engaged in an undertaking for the promotion of tourism (defined).	14%
d) A Company engaged in manufacturing	18%
e) A Company conducting a business of exporting goods and services including specified undertakings.	
f) A Company providing educational services.	14%
g) A Company with income from a business consisting of betting and gaming, liquor and/ or tobacco (excluding such income which is merely incidental to another business)	40%
iii) Gains from realization of investment assets (Capital Gains)	10%
iv) Dividend received from a resident company	14%
v) Agro farming is exempt	

TAXATION OF OTHER ENTITIES

Nature of Entity	Tax rate on Gains from realisation of investment assets	Tax rate on remainder of taxable income
Partnerships*	10%	6%
Trusts	10%	18%
Unit Trusts / Mutual Funds	10%	24%
Charitable Institutions	10%	14%
Non-government Organisations (NGOs)	10%	24%
Employees Trust Fund, Approved Provident or Pension Funds and Approved Termination Funds	-	14%

WITHHOLDING TAX (WHT)

WHT on interest or discount (Non-Resident)	5%
WHT on Rent (paid to Non-Resident)	14%
WHT on Other Investment returns (Royalty, Charge etc.) (Paid to Non resident)	14%
WHT on any Service Fees or Insurance Premium to NR Person	14% (Subject to DTA)
WHT for NR / Conducting Land, Sea or Air Transportation or Telecommunication	2%
WHT on Sale Price of any Gems sold at an auction conducted by National Gem & Jewellery Authority.	2.5%

CAPITAL ALLOWANCE

Class	Depreciable Assets	No. of Years for depreciation
1	Computers and data handling equipment together with peripheral devices.	5
2	Buses and minibuses, goods vehicles; motor cycles construction and earth moving equipment, heavy general purpose or specialized trucks, trailers and trailer – mounted containers; plant and machinery used in manufacturing	5
3	Railroad cars, locomotives, and equipment; vessels, barges, tugs and similar water transportation equipment, aircraft, specialized public utility plant, equipment, and machinery, office furniture, fixtures, and equipment; any depreciable asset not included in another class.	5
4	Buildings, structures and similar works of a permanent nature.	20
5	Intangible Assets, excluding goodwill – Limited useful life	Actual useful life of IA.
	Intangible Assets, excluding goodwill – Unlimited useful life.	20
6	Milking machines with latest technology used to manufacture local liquid milk related products.	2

Economic Overview



Economic Brief 2020

Due to the prevailing pandemic, the economy is currently going through a hard time. The pandemic which made impact since 2020 first quarter, has resulted in declining of exports, remittances, and tourist receipts to historical lows, while rupee was facing immense downward pressure throughout the year. However, in the Q3 of 2020 the economy showed a recovery due to the control of the pandemic.

According to CBSL 2020 annual report the annual GDP growth rate indicated – 3.6% which further emphasizes the crisis the economy underwent. All the major economic activities such as agriculture, industrial and services have shown negative growth rates as -2.4%, -6.9%, -1.5% respectively. The unemployment rate has increased by 5.5% in 2020 compared to 4.8% in 2019 while the inflation grew by 6.51% in 2020 compared to 3.52% in 2019. Local currency depreciation was one of the major concerns in 2020 which has impacted the import sector as well as the government in paying the foreign debts. CBSL took many initiatives to control the depreciation of the rupee against the dollar, however, the US dollar continued to appreciate against the Sri Lankan rupee. In 2020 country has reported import worth of 16,055 million dollars while the total exports worth was reported as 10,047 million dollars which has resulted negative trade balance of -6,008 million dollars. Though the decline of foreign reserves has critically impacted the today's economy the crisis started to critically immerge with the downfall of exports during 2020. In the year of 2020 CBSL lost its one fourth of its gross official reserves, however the CBSL was able to be a net buyer of forex amounting to over USD 280 Mn. In addition, CBSL sold around 234 Mn worth gold reserves to boost the reserves.

The Government revenue declined in the year of 2020 in nominal terms and as a percentage of GDP due to the pandemic as well as due to the tax revisions implemented, and the tax concessions granted to businesses and individuals. The total revenue declined by 27.7 % to Rs. 1,368.0 billion in 2020 from Rs. 1,890.9 billion in 2019.

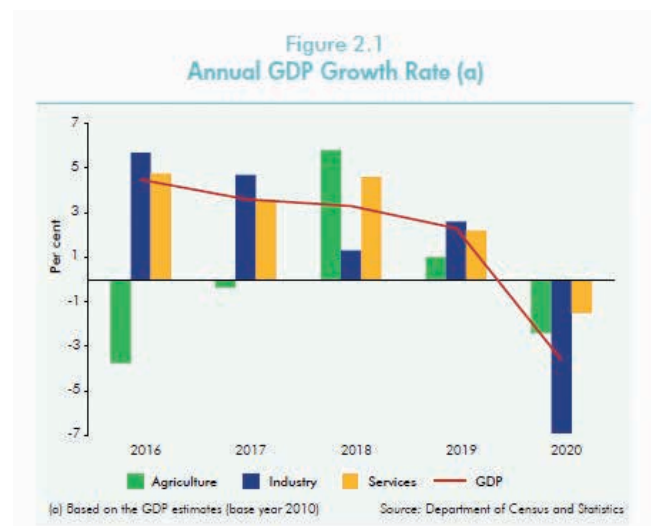
In the meantime the Tax revenue declined by 29.9 % due to the decline in income tax, VAT, tax related to international trade while, non-tax revenue declined in nominal terms, while remaining unchanged at 1.0 per cent of GDP. The Government expenditure and net lending in 2020 declined to 20.3% of GDP (Rs. 3,041.0 billion), from 22.2% of GDP (Rs. 3,337.9 billion) in 2019. Meantime Capital expenditure and net lending also declined to 3.3 per cent of GDP in 2020 but the recurrent expenditure increased by 17% in 2020 due to rise in expenditure on subsidies and transfers, salaries and wages and interest. payments.

Government Initiations

The CBSL took many strategic initiatives to take the situation under control through monetary policy implementations such as reducing Statutory Reserve Ratio (SRR) by 3 percentage points, introducing guided short term interest rates for open market operations, reducing bank rates by 6.5 percentage points, providing Rs.180 bn loans through concessional loan schemes, imposing caps on excessive rates on credit cards and pawning, imposing maximum interest rate of 7% on mortgage-backed housing loans for salaried employees and persuading banks to reduce interest rates were adapted in order to provide relief.

In line with MFIs' recommendations, policy responses are directed to spending and revenue-side measures (health and non-health spending, extending payment deadlines for income tax, and tax exemptions on health imports), government-supported liquidity measures (debt moratoriums and working capital loans), and supplementary economic revival measures (loans for investments at concessional rates to businesses in IT, apparel, plantation, and tourism sectors).

Performance of diverse sectors of the economy during the pandemic



According to Central Bank Governor Mr. Nivard Cabraal , the economic growth rate expected to be achieved in 2021 is 5% and also he expects the economy to grow around 6.5% in the first quarter of 2022. Through the successful vaccination program government expects to mitigate the negative impacts caused by the pandemic on the economy.

Agriculture Sector

Agriculture activities recorded a contraction of 2.4% in 2020 in value added terms, compared to the growth of 1.0% in 2019. The decline of major agricultural sectors like fishing, growing of oleaginous fruits (including coconut), tea, forestry and logging, and animal was the major issue that resulted for the contraction.

However, the paddy harvest in the year 2020 has recorded a growth by 11.5% compared to 2019 but tea production resulted in a decline by 7.1%. As a result, the average price of tea increased by 15.9% resulting price per kilogram of tea to be Rs.633.85 during 2020 in the Colombo tea auction. Rubber production recorded an increase of 4.6% in 2020 largely due to attractive market prices and favorable weather conditions. Subsequently the average prices of the rubber in Colombo auction have shown a steady increase throughout the year with the growing demand for the natural rubber in global market. Coconut production showed notable decline of 9.5% in 2020, severe shortage of coconuts for consumption and industrial usage due to low domestic production resulted increase in prices of coconut and coconut based products. Agriculture has shown some notable highlights in growth of minor export crops and vegetable production by 23.6%, and 13% respectively, while the livestock production and Fishery products declined due to the impacts of the pandemic.

The performance of the agriculture sector in the first half of the year 2021 is really satisfactory compared to 2020. After the challenging year of 2020 agriculture sector saw a relatively healthy output level in the first half of 2021 compared to year ago. The official GDP data show the sector is rebounding by 6.1% (Q/Q) in 1Q after experiencing a contraction in last year. Key commercial crops, especially tea (47.6%), vegetables (19.7%) and fruits (11.7%) made a noteworthy contribution to the growth in overall sector output. However, marine fishing and aquaculture recorded yet another disappointing quarter by contracting 16% (Q/Q) in 1Q. The government policies to reduce chemical fertilizer will directly influence the downfall of the production of agricultural sector in the year 2021.

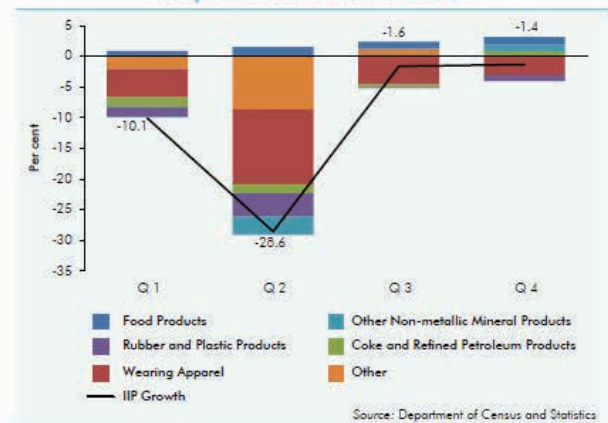
Industrial Sector

The prevailing pandemic caused adverse effects on other economic sectors such as construction, manufacturing, and mining, quarrying activities, which resulted in contraction by 6.9% in 2020 in value added terms, compared to the growth of 2.6% recorded in 2019.

For example, the decline of demand for consumer goods in the foreign markets, disruptions occurred in the global supply chains, limited availability of labour, mobility restrictions

together with poor local availability of raw materials and shutting down operations of factories due to Covid clusters around export zones made the situation even worse. The manufacturing activities recorded a contraction of 3.9% in 2020, compared to the growth of 1.8% recorded in 2019. However, amidst of all these challenges Industrial Production (IIP) has shown a notable recovery in the second half of the year 2020.

Figure 2.8
Contribution to Year-on-Year Change by Major Divisions of IIP in 2020



According to IIP records of the CBSL only food products, printing and reproduction of recorded media, basic pharmaceutical products and machinery equipment manufacturing have been successful enough to record positive records, while wearing apparel, leather-based products, rubber-based products and plastic have shown the worst downfall of production according to the IIP.

The government and responsible regulatory bodies took huge effort to boost the economy and to adjust the GDP generators to new normal. Following are some actions taken by government in collaboration with the Central bank and regulatory bodies in order to protect the local businesses :-

1. The e-commerce trade portal created by The National Enterprise Development Authority to facilitate the Micro Small Medium Enterprises (MSME).
2. Expansive relief package including debt relief, debt moratorium, and working capital loan facilities to SMEs.
3. 'Saubhagya COVID-19 renaissance loan scheme facility' in three phases to provide working capital loans to businesses adversely affected by COVID-19.

Industrial sector grew by 5.5% in 1Q 2021, recovering from the contraction in the same period of previous year. Most of the subsectors have expanded however the recovery was uneven, with contribution to the output growth mainly coming from manufacturing of food & beverages (28% of the change in output), textile & apparel (22.7%), and construction sectors (13.7%). Petroleum refining recorded a sharpest drop in production among all subsectors (-44.3%, Y/Y).

Service Sector

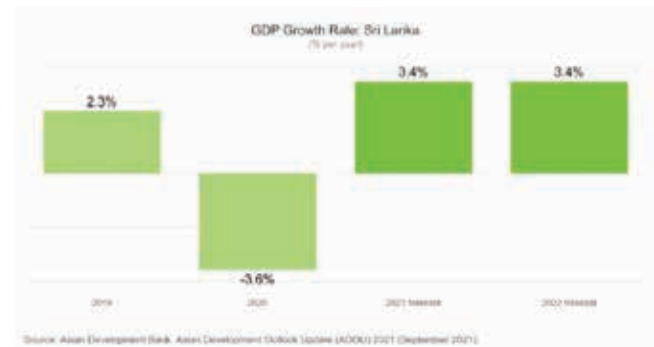
Though the pandemic created negative impacts on several sectors, the IT and telecommunication fields found the opportunity to grow amidst of challenges emerged. However due to the severe downfall in mobility and tourism-based services, the service sector recorded a contraction in 2020 by 1.5% in value added terms, in comparison to the growth of 2.2% recorded in 2019.

The wholesale and retail trade which comes under service sector recorded a growth by 1.4% in 2020. The transportation and storage, accommodation and food Service activities have been heavily damaged due to collapse of tourism and recorded a contraction by 6.7% and 39.4% respectively in 2020 in value added terms. However due to the favorable conditions and emerged opportunities Financial, Insurance, Real Estate Activities including Ownership of Dwellings and Information communication fields grew by 5.0% and 14.1% respectively.

During the First quarter of the year 2021 service sector GDP recorded a growth of 3%. The largest contributor was the financial services (48.7% of the change in output) while wholesale and retail trade (25.3%), and real estate activities (14.1%) was an indicated respectively. However due to the travel restrictions and prevailing pandemic caused tourism sector to be contracted by 31.9% (Q/Q). The disruption caused by the pandemic, difficulties in mobility & downfall of tourism were identified as the main obstacles on the service sector.

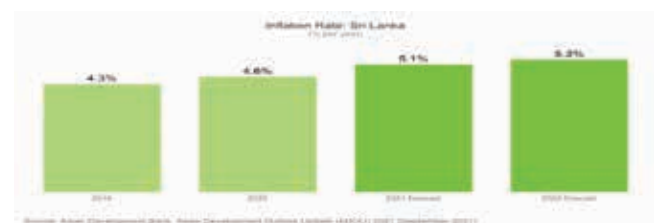
Economic Predictions for 2022

With the successful vaccination program conducted by the government currently the government expects to mitigate the risks of further Covid 19 spreads. This will impact positively on the country's economy to function with minimum obstacles. The year 2022 will be a year to gear up the economy while fulfilling the gaps of educational, healthcare, agriculture, industrial and service sectors.



Source – Asian Development Bank

According to the forecast of Asian Development bank a GDP growth rate of 3.4% is predicted for the year of 2022. As earlier mentioned, the control of the pandemic due to the successful vaccination will have a positive impact on the revival the economy of the country. Further, the government is looking forward to provide the 3rd dose for the essential services like health care to ensure the continuity without any further disruption. According to the predictions the recovery of tourism sector is expected in 2023 as a result it will cause impacts for the local economy to move to the next level in 2022.



Source – Asian Development Bank

The Sri Lankan inflation prediction for the year 2022 is forecasted as 5.3% by the Asian Development bank. The scholars expects that the inflation for year 2022 will rise compared to 2021 actuals and prediction by the Asian Development bank due to the CBSL decisions on money printing

The challenges such as high debt burden, large refinancing needs, weaken foreign currency reserves, rupee depreciation are to be faced by the Sri Lanka economy in their path for the resilience in 2022. The agriculture sector expects the government to amend the policies related to restrictions of chemical fertilizer in order to boost the production. Further the fuel price fluctuations which is expected for 2022 with the demand raising in the global markets are increasing gradually. In the perspective of the scholars the main challenge that the government will face is the difficulties in strengthening the foreign currency reserves due to excessive foreign debt burden.



Knowing you.

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