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**BUDGET HIGHLIGHTS** **2023**



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14<sup>th</sup> November, 2022

Dear Valued Client,

## **BUDGET HIGHLIGHTS 2023**

BDO Partners take great pleasure in presenting our views on the budget proposals for the year 2023. In this publication, we provide a synopsis of the budget proposals made by Hon. Ranil Wickremesinghe in his capacity as the Minister of Finance, in his budget speech presented in parliament today.

We believe that being proactive in analysing the tax exposure regarding the proposed changes may provide new tax planning opportunities for the taxpayer. The proposed changes may have an impact on the way you do business and manage your affairs. If you need any further clarifications in relation to the proposed changes our team of tax professionals would be pleased to assist you. Please refer below for their contact details.

At BDO nothing matters more to us more than our clients. Our brand stands for exceptional client service, delivered by exceptional people. We trust you find our comments useful and hope you will engage with us to discuss any tax planning opportunities.

Yours faithfully,

*BDO Partners*  
**CHARTERED ACCOUNTANTS**

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# Executive Summary

Hon. Ranil Wickremesinghe in his capacity as the Minister of Finance proposed several measures to improve Government revenue with the objective of moving away from costly monetary financing in the form of money printing to cover Government expenditure. This will be also supported by improved efficiency in public financing and measures on fighting corruption.

It has been proposed to establish a Presidential Commission on Taxation to study and make recommendations on the functioning, coordination and changes to be made in the tax structure, the institutions, procedures etc. Special emphasis has been given for measures to improve the tax administration in Sri Lanka.

The salient changes proposed in relation to **Government Revenue** have been listed below;

## Income Tax

### Income Tax on Dividend

- ❖ The dividend income earned during the period from 01<sup>st</sup> October, 2022 up to the effective date of the Inland Revenue (Amendment) Act 2022 will be taxed as follows;
  - Exempt dividend received or derived by non-residents during that period
  - Apply income tax rate of 15% for dividend received or derived by residents during that period
  - Exemption will be applicable on any dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from, another dividend received by that resident company or another resident company



### PAYE/APIT paid by SOEs

- ❖ State owned enterprises (SOEs) will not pay PAYE/APIT on behalf of its employees from 01<sup>st</sup> January, 2023. It will not be a cost to the SOEs and the respective individuals will have to bear their personal taxes.

### Non-resident persons engaging in Government projects

- ❖ The income of Non-resident persons who engage in Government projects of economic benefit to the country and approved by the Minister of Finance, funded from foreign grants will be exempt from income tax. (this would not cover employment income ??? I think this is for the business income).

### Value added tax (VAT)

- ❖ The exemptions given under the VAT Act will be rationalized effective from 01<sup>st</sup> April, 2023. The exemptions on electricity, transport and fuel will be specifically reviewed.
- ❖ A consolidated Value Added Tax Act will be introduced, consolidating the amendments introduced from 2002 to 2022.

### Social Security Contribution Levy (SSCL)

- ❖ The following will be exempt from SSCL
  - Import of motor vehicles liable to Excise Duty effective from 01<sup>st</sup> January, 2023
  - Equipment used by differently abled persons and pharmaceutical products (HS code 2844.40)



## Tax Administration

Proposals have been made to improve the tax administration of the country to broaden the tax base, improve compliance and impose stricter enforcement. This is to be done through improvements in technology, regulations, process improvements and investment in human resources. The focus will be on the Department of Inland Revenue, Sri Lanka Customs and the Department of Excise.

- Mandatory electronic tax filing for all taxpayers include non-corporate taxpayers
- Tax audit and verification programme to be implemented
- Address deficiencies in the RAMIS system
- IT based platforms of the three key revenue collection agencies to be linked
- Tax Ombudsman will be appointed to address concerns of taxpayers
- A charter for taxpayers' rights and obligations to be introduced
- A list of active VAT registered persons to be published in the Inland Revenue website
- Introduce KPIs to revenue collecting agencies
- Introduce legislation to improve the efficiency of tax collections at the Department of Excise and Sri Lanka Customs
- Improve taxpayer awareness by establishing a Dedicated Awareness Unit at IRD
- Measures to discourage cash transactions and encourage bank/card transactions, with specific limits

## Taxes at import point

### Phased out removal of para-tariffs

- ❖ CESS will be removed in three years commencing from 01<sup>st</sup> January, 2023 in a phased out manner. This will remove existing barriers to international trade, promote manufacturing and agriculture sectors and provide incentives for local industries.
- ❖ Ports and Airports Development Levy will be phased out and removed over a period of 5 years starting from 01<sup>st</sup> January, 2023.



### Change in Customs Duty

- ❖ The current three band tariff system of 0%, 10% and 15% for Customs Duty will be revised to 0%, 15% and 20%.

### Surcharge Tax

- ❖ A surcharge tax will be charged at the point of import on diesel, petrol and crude oil.

### Commercial Hub Operations

- ❖ Law relating to Commercial Hub operations will be consolidated and the exemptions under Commercial Hub operations will be extended to bunkering services
- ❖ Commercial hub enterprises will be exempt from Social Security Contribution Levy
- ❖ Exemptions granted under the Strategic Development Project (SDP) Act to be extended to any business or project engaging in commercial hub activities, if identified as an SDP

### Non-tax Revenue Proposals

- ❖ Fees and charges which have not been revised from 2020 to 2022 will be increased by 20%
- ❖ Transfer of revenue and collections by Ministries and Departments on a daily-basis to the General Treasury with effect from 01<sup>st</sup> January, 2023



# Overview of the budget concept for 2023

The budget is being read at a time Sri Lanka is recovering from its economic downturn. Several steps taken to relieve the debt load are the continuous discussions with the International Monetary Fund, India and China. The rupee is strengthening while the inflation is difficult to control.

## 1. 1977 Approach

There was expected to be an economic revival with the introduction of the open economy in 1977. However, loss making Government enterprises which were inefficient and the civil conflict.

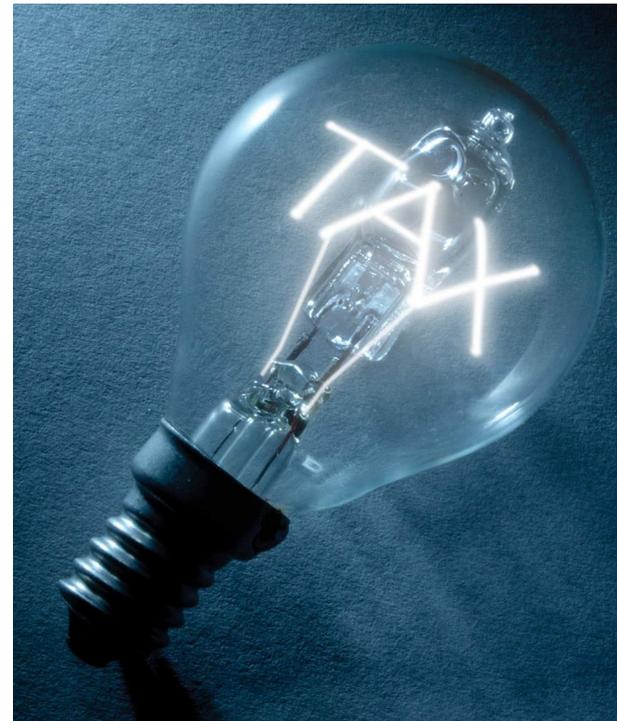
## 2. Aspirations of the youth

Youth are dissatisfied with the direction of the country and have opted to migrate. It is the duty of the State to ensure the youth have a prosperous future.

## 3. New Basis of the economy

It is proposed to introduce a new economy suitable to the new economic outlook but one which is inline with the lifestyle accustomed to the civilians. Therefore, the means of livelihood that is to be created is not one that suits the current level of per capita income. A way to raise per capita income to match the lifestyles that young people aspire to is to be sought.

The focus is on taking care of poor and vulnerable groups and ensuring all sections of the society are receiving equitable benefits through health services and free education that is currently provided as well as other welfare programs. Maximum benefits should be obtained from the resources spent for this purpose. Entrepreneurs in the private sector should be promoted while also regulating economic activities, investing in infrastructure, correcting market failures and maintaining law and order.



### 3.1 The new economy is to be built as a social market economy, or an "open economic system of social Protection".

Its focal points are:

- ❖ An export oriented competitive economy.
- ❖ An environmentally friendly green and blue economy
- ❖ A digital economy

The proposed new economic foundation is to focus on changes in the tax system, new sources of revenue and massive economic reforms and restructuring. Two unique factors of this economy are the economic reforms and re-organization and economic modernization.

### 3.2 The goals to be achieved through the social market economy or social-security-open-economy are:

- ❖ High economic growth of 7 to 8 percent.
- ❖ Increasing international trade as a percentage of GDP by more than 100 percent.
- ❖ Annual growth of US\$ 3 billion from new exports from 2023 to 2032.
- ❖ Foreign direct investment of more than US\$ 3 billion in the next 10 years.
- ❖ Creating an internationally competitive workforce with high skills in the next ten years.



# Budget Proposals

## 1. Macro Fiscal Policy

- a) The fiscal stabilization programme envisages government revenue to increase to around 15 percent of GDP by 2025 from 8.3 percent of GDP as at end 2021.
- b) A primary surplus more than 2 percent of GDP is expected in 2025 and continuous increments thereafter.
- c) Public sector debt to be reduced from around 110 percent of GDP as at end 2021, to no more than 100 percent of GDP in the medium term.
- d) Inflation to reduce to a mid-single digit level in the medium term.
- e) Interest rates are also expected to reach a moderate level.
- f) The exchange rate is also expected to abate.
- g) The medium-term economic growth is expected to return towards 5 percent in the medium term and accelerate to a higher level thereafter.



## 2. Introduction of a single agency for External Trade and Investment - proposed fund allocation Rs. 100 million.

To set up a single agency (replacing the Board of Investment Board, Export Development Board, Sri Lanka Export Credit Insurance Corporation, National Enterprise Development Authority etc.) which creates a conducive environment for promoting investment and external trade.

### 3. Setting up of New Economic Zones - proposed fund allocation Rs. 300 million

- a) To be set up in the Western Province, North-Western Province, Hambantota, and Trincomalee with a view to attracting foreign investments along side the development of required infrastructure.
- b) A new law will be enacted for the new economic zones
- c) Investments and industrial zones currently operating under various government agencies will come under the New Economic Zone program

### 4. Establishment of the National Productivity Commission - proposed fund allocation Rs. 100 million

The operations of the National Productivity Secretariat will also be incorporated into the proposed Commission.

### 5. Enhancing Access to Global Markets

- ❖ to establish an International Trade Office to deal with all the international trade negotiations.

It is to be initially be established under the Ministry of Finance and subsequently, it will be amalgamated to the Ministry of Foreign Affairs (MFA). Accordingly, the MFA will be renamed as Ministry of Foreign Affairs and International Trade.

The objective is for Sri Lanka to resume efforts to integrate with key markets such as India and China, to resume trade negotiations with Thailand and to engage with ASEAN for developing production networks.



## 6. Introduction of a Logistics Infrastructure Development Programme

A three-year Logistics Development Programme (2023 to 2027) to be introduced targeting to improve the logistics performance of Sri Lanka among the first 70 countries.

## 7. Investment Friendly Environment - proposed fund allocation Rs. 200 million

Reforms to be introduced by the Ministry of Investment Promotion to simplify and make the existing arrangements efficient to create a more business friendly environment.

The objective is to reduce costs, procedures and timing and to improve transparency enabling to create a healthy business environment.

## 8. New Labour Policies - Enactment of a new updated and unified Labour Law

- ❖ to update laws to benefit both employer-employee segment and the economy as the country's labor laws are outdated and fragmented.

## 9. Lands for Agricultural Exports

A programme is to be devised to allow investors to utilize free land to increase both production and export by obtaining vacant land on long-term lease basis to grow exportable crops. Further, a new law to facilitate the proposed agricultural land lease program will also be presented later.

Vacant land such identified are land belonging to Janatha Estate Development Board (JEDB), Sri Lanka State Plantation Corporation (SPC), and Land Reform Commission (LRC).



## 10. Disposal of Government Lands

There had been occurrences of discrimination and malpractice as preliminary activities related to disposal of lands are done by the District Secretaries/Government Agents through Divisional Secretaries/Additional Government Agents, Sri Lanka Mahaweli Authority and Land Reform Commission.

A programme will be prepared during the next year to enable preliminary activities in relation to disposal of all government lands to be done only by the Divisional Secretaries.

## 11. Digital Technology

- ❖ to appoint a Committee to examine and report to the Cabinet of Ministers on the requirement for furtherance of the digital technology industry, including required policy environment, laws, institutional support and facilities.

## 12. Effective use of Sri Lanka's Mineral Resources for National Development

- ❖ to appoint a Committee comprising the Ministry of Industry, Ministry of Environment, Geological Survey and Mines Bureau, National Agency for Public Private Partnership (NAPPP) and related institutions to formulate and implement an appropriate policy on how the known mineral resources could be effectively utilized for national development.

## 13. New Department for Cinnamon Industry - proposed fund allocation Rs. 200 million

- ❖ to establish a separate Department for the development of the cinnamon industry in Karadeniya area.



## 14. New Project/program Appraisal Scheme

- ❖ All new projects/programs to be considered in the future are to be first submitted to the National Planning Department after conducting a feasibility study to include financial economic and technical aspects by the line agency/Ministry.

Subsequently, the National Planning Department examines the respective projects/programs and submits them to the National Development Committee with its recommendations.

## 15. Tourism Industry- Proposed fund allocation Rs .50 million from the Tourism Development Fund.

- ❖ Three maritime zones in the Eastern, Southern and Western provinces will be identified and the infrastructure in those areas to be developed. It is also proposed to facilitate promotion of adventure sports such as water rafting.

## 16. General Education

### 16.1 Providing internet facilities to school

- ❖ to provide free internet facilities to 1,000 senior and junior secondary schools located in remote areas will be facilitated with the contribution of the Telecommunication Regulatory Commission and other private internet facility providers.

### 16.2 Improving facilities in rural schools - proposed fund allocation Rs. 200 million

The construction of sanitary facilities, particularly toilets with proper water facilities, or to provide water facilities for existing toilets in 139 provincial schools and 23 national schools, as well as in rural schools with minimal facilities.



## 17. Higher Education

- ❖ to gradually increase the percentage of admissions to state universities on island wide merit basis from 40 percent to 50 percent with effective from the academic year 2023 /2024.

Accordingly, the Ministry of Education is to take action to amend the system of admission to state universities.

## 18. Post-graduate education for doctors - Proposed fund allocation Rs. 60 million

- ❖ to establish postgraduate study programs for doctors in Peradeniya, Ruhuna and Jaffna universities.

It is also proposed to prepare a National Policy for post graduate education locally for the doctors.

## 19. Quality Assurance and Accreditation Board for the University Degrees - Proposed fund allocation Rs. 100 million

- ❖ to introduce a Quality Assurance and Accreditation Board to ensure the quality and accreditation of degree courses conducted in universities.

## 20. Foreign Scholarships for A-Level Qualified Students and Graduates

- ❖ to provide 75 scholarships for the Advanced Level qualified students who receive excellent results at the 2022 A-Level examination to follow degrees in foreign universities. Funds to be allocated from the President's Fund.

It is also proposed to provide opportunities for 75 graduates to follow post-graduate degrees in recognized foreign universities. Financial support for these scholarships to be obtained private sector and foreign donor agencies.



## 21. New Faculty of Medicine - Proposed fund allocation Rs. 200 million

- ❖ to setup a new medical faculty under Uva-Wellassa University.

## 22. Separate Institution to Study History of Sri Lanka - Proposed fund allocation Rs. 50 million

It is proposed to establish an Institution to undertake and facilitate research on the history of Sri Lanka.

## 23. Public Service Reforms

It is proposed to appoint a Presidential Commission to review all the aspects of public service in line with current requirement and make recommendations including necessary reforms.

## 24. Presidential Commission on Taxation

It is proposed to establish a Presidential Commission on Taxation to study and make recommendations on the functioning, coordination and changes to be made in the tax structure, the institutions, procedures etc. It will also examine the requirement for setting up of centralized institution for managing government revenue.

## 25. Promotion of Electronic Payment System - Proposed fund allocation Rs. 200 million

It is proposed to make it mandatory for all the government payments to be done electronically (online) with effect from 01<sup>st</sup> March, 2024.



## 26. Setting up of Data Protection Authority

Steps are to be taken to set up the Data Protection Authority in 2023.

The new regulator is to be independent and engaged with the Central Bank of Sri Lanka, Securities and Exchange Commission, TRCSL and all relevant sectoral regulators.

## 27. Insurance coverage for Private Sector Employees

It is proposed to provide insurance coverage to provide a monthly allowance for a maximum of three months covering the period from the loss of employment and re-employment and to establish an insurance fund for this purpose.

A scheme similar to the “Agrahara” scheme is proposed for the private sector employees.

Employees' Trust Fund Act should be amended incorporating these two schemes under the Employees' Trust Fund as it is expected to finance both schemes.

## 28. Electronic Scheme for Food Safety

It is proposed to obtain information on all agricultural and livestock products of the household units through an online process and the National Food Security program should be planned accordingly.

This program is to be implemented by the National Food Security and Nutrition Unit.



### 29. Development of Inland Fisheries Industry - Proposed fund allocation Rs. 100 million

It is proposed to increase the capacity of the existing fish breeding centers to facilitate inland fisheries industry.

### 30. Commitment to Manage Expenditure Effectively

It is proposed for circular instructions to be issued to ensure strict control of government expenditure.

### 31. Establishment of a National Operations Centre (NOC)

It is proposed to establish a National Operations Centre (NOC) under the Department of Project Management and Monitoring of the Ministry of Finance for tracking implementation issues.

It is also proposed to establish a comprehensive Web-based National Development Information System within the NOC as the supportive tool.

### 32. Allowing Armed Forces Personnel to Retire Early

It is proposed to allow armed forces personnel, other than special categories, to retire after 18 years of service.

### 33. Difficult situation faced by public servants

It is proposed to provide a considerable relief to the public servants and pensioners at the latter part of year 2023.



### **34. State Owned Enterprise Reforms**

- a) It is proposed to initially restructure Sri Lankan Airlines, Sri Lanka Telecom, Colombo Hilton, Waters Edge and Sri Lanka Insurance Corporation (SLIC) along with its subsidiaries.
- b) It is also proposed to line up the businesses of similar nature by way of backward, forward or horizontal integration.
- c) It is proposed for the Gem and Jewellery Research and Training Institute to be merged with the National Gem and Jewellery Authority

### **35. Debt Management - Taking Selected SOE Debt to Government Balance Sheet**

- a) It is proposed to classify loans from China Exim Bank CEB, SLPA and AASL as central Government debt by end of December 2022.
- b) Guaranteed foreign exchange debt of the CPC will be Government debt by end of December 2022.

### **36. Financial Sector - New Financial Asset Management Companies Act**

It is proposed to introduce a new Financial Asset Management Companies Act to enable banks and finance companies to separate and transfer their non-performing bad assets to an asset management company.



### **37. Establishment of the Microfinance and Credit Regulatory Authority (MCRA)**

It is proposed to establish a Microfinance and Credit Regulatory Authority to ensure the protection of customers of microfinance and money lending businesses.

### **38. Blue and Green Financing Space**

It is proposed to initiate work on the Marine Spatial Plan and identify and declare the Exclusive Economic Zones which will also pave the way to attract sustainable investments.

### **39. Social Protection - Welfare Benefits Policy**

- a) It is proposed as per the Welfare Benefits Act No. 24 of 2002 for the welfare benefits payment schemes beneficiary selection to commence from January 2023.
- b) Payment under the new welfare benefit payment schemes are expected to start by April 2023.

### **40. Continuing the Provision of Increased Allowances Paid to Beneficiaries of Samurdhi, Elderly, Differently-abled and Kidney Patients' Allowances**

- a) It is proposed to provide for benefits throughout the year 2023 for essential people among those who are wait-listed for a prolonged period of time in anticipation of the Elderly, Differently-abled and Kidney patient allowances have been allocated in the budget already.
- b) It is proposed to increase the allowances paid to beneficiaries of Samurdhi, Elderly, Differently-abled and Kidney allowances and economically affected families, from the revised budget for 2022.
- c) The Government is focused on extending the respective relief herein to another four months.
- d) It is proposed to make an additional allocation of Rs. 43 billion from the Budget Estimates at present.



**41. Strengthening Elderly / Differently-abled / Widows as Household Entrepreneurs - Proposed fund allocation Rs. 250 million (for 2023)**

It is proposed that a program be arranged to strengthen elderly, differently abled and widows as household entrepreneurs

It is also expected to obtain the participation of the private sector for promotion and advertising of the products made by them in the market.

**42. Improving Child Nutrition - Proposed fund allocation Rs. 500 million**

It is proposed provided to further strengthen the existing nutrition supplemental programmes in order to reduce health problems.

**43. Agriculture - Expansion of coconut cultivation**

- a) Facilities to be provided for encouraging more and more value-added exports of coconut
- b) Steps to be taken to protect the present coconut lands as well as to encourage the replanting of coconuts.
- c) It is proposed to amend the existing legal provisions and limit the fragmentation of coconut lands with less than one acre in extent.

**44. Establishing 10 Agro-entrepreneurship Villages - Proposed fund allocation Rs. 250 million**

It is proposed to establish 10 Agro-Entrepreneurship villages in order to encourage export-oriented products with the use of modern technology.



#### 45. Producing Triloka Wijayapathra

It is proposed to set up a committee to examine the possibilities of producing Triloka Wijayapathra purely for the purpose of exports

#### 46. Reducing Post-Harvest Crop Losses and Improve Storage - Proposed fund allocation Rs. 150 million

- a) It is planned to develop the required knowledge, technology and various infrastructure facilities to reduce Post-harvest losses.
- b) It is also proposed to set up an Export Committee to obtain proposals, to present crop damages by animals.

#### 47. Irrigation to enhance flood protection systems - Proposed fund allocation Rs. 500 million

It is proposed to implement an irrigation system based on Ma Oya, Aththanagalu Oya and Benthara River.

#### 48. Dairy sector to increase liquid milk production - Proposed fund allocation Rs. 100 million

It is proposed to develop the Kundasale Artificial Insemination Center and adopt new technologies.

#### 49. International University for Climate Change - Proposed fund allocation Rs. 100 million for initial expenses

It is planned to establish an International University for climate change



## 50. Green Hydrogen Technology for Development

It is suggested to commence a joint venture project at a suitable location in the Puttalam - Mannar coastal region to carry out research and development activities for the production of green hydrogen on a commercial basis, on a scheme of public private partnership.

## 51. Community Participation to Increase Forest Coverage - Proposed fund allocation of Rs. 50 million

It is planned to expedite the work related to restoring 50000 acres of degraded forest areas by 2027.

Programs are to be implemented in public places, and water catchment areas to increase the cover even outside the forests.

## 52. New Laboratory for Excise Department - Proposed fund allocation Rs. 100 million

It is proposed to establish a laboratory under the Excise Department to carry out tests relating to alcohol products.

## 53. Establishing a Road Maintenance Fund - Proposed fund allocation Rs. 100 million

It is proposed to establish a Road Maintenance Fund by charging an annual fee not less than Rs. 100 per vehicle when obtaining revenue licenses.

## 54. Rehabilitation and Construction - Proposed fund allocation Rs. 2,000 million

It is proposed to allocate funds to rehabilitate the roads damaged by floods, to repair Garagoda Bridge across the Kenai River, complete the remaining work of the Raja Mawatha in Badulla and to complete the remaining work of District Secretariat of Galle.

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## 55. Facilities for Production of Solar Energy/Electric Cars

- a) It is proposed to remove Port and Airport Development Levy and Social Security Levy effective 01<sup>st</sup> January, 2023.
- b) Social Security Contribution Levy will be waived only for organizations that assemble motor vehicles and add at least 25% local value and produce the required parts locally.
- c) It is proposed to establish a communication technology system for this purpose under the Ministry of Industry.

## 56. Solar Panels for Religious Places

Actions will be taken to provide solar panels to religious places with the assistance from foreign sources and the government.

## 57. Retaining the Youth in Agriculture Industry - Proposed fund allocation Rs. 120 million

It is proposed to select 240 youth who are currently unemployed representing each district of the island and to empower them as Agricultural Entrepreneurs.

## 58. Loan Scheme to Encourage Young Women Entrepreneurs - Proposed fund allocation Rs. 250 million

It is planned to introduce a loan scheme will be assist female entrepreneurs who are not covered under the financial assistance of the Asian Development Bank (ADB)

## 59. Training of Youth for Foreign Employment - Proposed fund allocation Rs. 50 million

It is proposed to train youth for foreign employment opportunities.



## **60. Health and Sanitation Facilities**

### **60.1 Safety Seal (Sticker) for Drinking Water Bottles**

It is planned for the Ministry of Health to take action to introduce procedures to apply a safety seal (Sticker) to drinking water bottles at the production point.

### **60.2 Sanitary Facilities for Prisoners - Proposed fund allocation Rs. 100 million**

It is proposed to improve the existing facilities up to the required level and the work to be considered as top priority.

## **61. Upgrading Hospitals**

It is proposed to upgrade Badulla, Kurunegala and Polonnaruwa hospital as teaching hospitals.

## **62. Paying Ward System in Government Hospitals**

It is proposed to re-implement the Paying Wards System in Government Hospitals commencing from national and base hospitals.

## **63. Appointment of Task Force to Monitor Budget Implementation**

It is proposed to set up a Presidential Task Force to carry out monitoring functions to expedite implementation of all budget proposals.

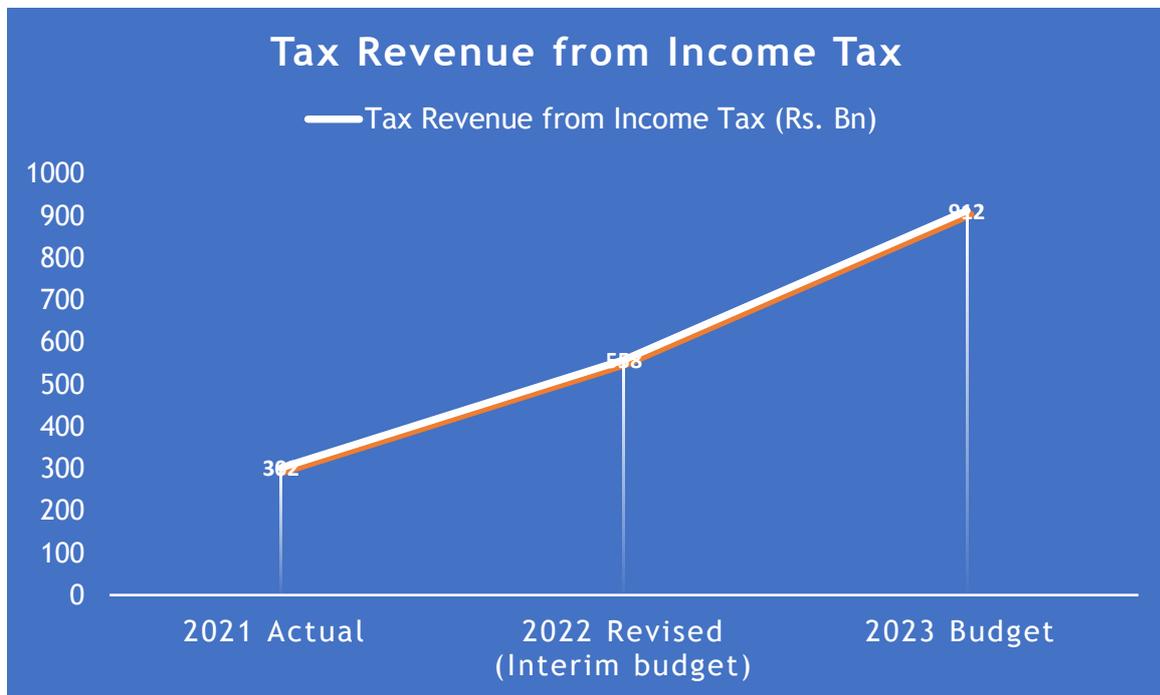


# Income Tax

The revenue proposals that were announced in May 2022, the interim budget proposals announced on 30<sup>th</sup> August, 2022 and the Inland Revenue Amendment bill made several changes to the income tax laws in Sri Lanka. The budget proposals for 2023 attempts to address tax policy gaps and rationalize tax concessions. The expected revenue from income taxes for the Government in 2023 is Rs. 912 Bn.

Summary of the Budget Estimates 2023 as follows:

Tax Revenue	2021 (Actual) Rs. Bn	2022 revised (Interim budget) Rs. Bn	2023 Budget. Rs. Bn
Income tax	302	558	912



**a) Exemption:**

Income earned by non-resident persons from engaging in Government projects approved by the Minister of Finance where such project is totally funded from foreign grants will be exempt from income tax.

**Our Comments**

Currently, the relevant provisions are available in the VAT Act and SSCL Act with regards to specific projects (in the VAT Act it is a specified project). The rationale was that ultimately the tax is borne by the Government. However, the income tax is payable on the income earned in Sri Lanka and for a non-resident person any tax paid in Sri Lanka can be claimed as a credit under the double tax treaty in the other country (if it is a treaty partner). The rationale for exempting income tax on such projects for a non-resident is not very clear. If such projects are carried out by resident persons, the income tax is payable which will create discrimination between resident and non-resident taxpayers.

**b) Dividend Income related exemption**

Amendments to the Inland Revenue Act will be introduced to provide clarity on the income tax liability on dividend during the period from 01<sup>st</sup> October, 2022 to the effective date of the Inland Revenue (Amendment) Act, 2022, as follows:

- ❖ Exempt dividend received or derived by non-residents during that period
- ❖ Income tax rate of 15% for dividend received or derived by residents during the period from 01<sup>st</sup> October, 2022 to the effective date of the Act.
- ❖ Exemption will be applicable on any dividend paid by a resident company to a member to the extent that such dividend payment is attributable to, or derived from another dividend received by that resident company or another resident company.



### Our Comments

As per the clarity provided the change in tax rate on dividend income will be confirmed at 15% from 01<sup>st</sup> October 2022. The Bill to amend the Inland Revenue Act for 2022 seeks to re-introduce withholding tax (WHT) and the WHT on dividend is to be final tax. Based on the clarity proposes that, the dividend income be liable to income tax at the rate of 15% from 01<sup>st</sup> October 2022 and the withholding provisions will come into effect once the amending law is passed. Therefore, in the interim it is not clear whether the tax on dividend income will be final in the hands of the recipient after paying tax at 15%.



# Value Added Tax

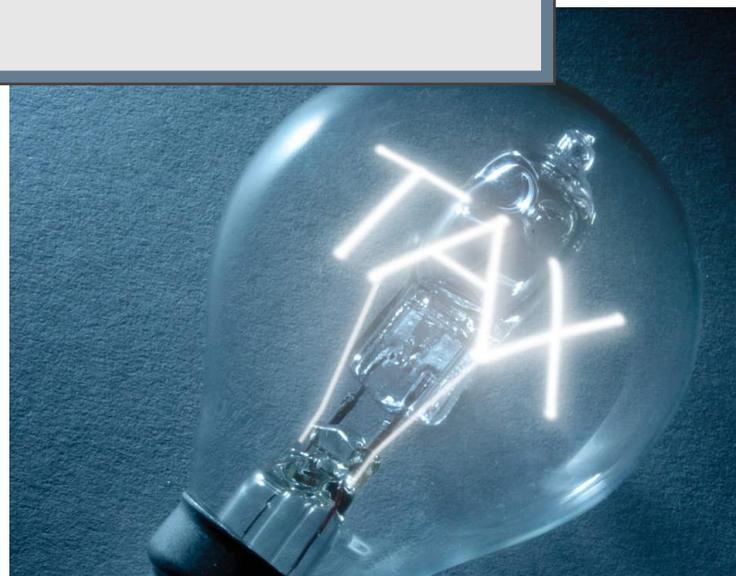
The Value Added Tax (VAT) is a consumption tax which was introduced in August 2002 and the following proposals have been made with effect from 01<sup>st</sup> April, 2023:

- (a) Given that the VAT Law was enacted in 2002 and has undergone a series of amendments since enactment. It has been proposed to introduce a fresh VAT Act incorporating all the changes made to date.
- (b) VAT exemptions have been granted to various sectors, including electricity, transport and fuel. It has been proposed that there is a significant loss of revenue to the Government due to certain exemptions. Therefore, after reviewing the exemptions specified in the First Schedule to the VAT Act, the exemptions will be rationalized.
- (c) A list of active VAT registered persons will be published in the website of the Department of Inland Revenue.

## Our Comments

Most taxpayers are struggling to keep track of all the changes made to the VAT law and consolidating the changes under a fresh law will provide ease to the taxpayer. Rationalising the VAT exemptions and providing one comprehensive list will also make it user-friendly for the taxpayers. However, the basis for the rationalization is not specifically mentioned. There is a possibility that part of the present exemptions will be removed and similar types of exemptions would be consolidated.

The list of active VAT registered persons will have to be periodically updated by the Department of Inland Revenue for the taxpayers to access the latest information.



# Tax Administration

The budget proposals emphasize that increase of tax revenue needs to be supported through efficient tax administration. This will help to broaden the tax base, improve tax compliance and have stronger enforcement of the tax laws. Improvement in tax administration will focus on improvement in technology, regulations, process improvement and investment in human resources. Focus will be on the three key revenue collection points, namely the Department of Inland Revenue, Sri Lanka Customs and the Department of Excise.

## a) Requirement for tax registration

It was proposed in the interim budget, that a Taxpayer Identification Number (TIN) will be issued to all citizens above 18 years of age. It has been observed that the income of most individuals will be within the tax free threshold. Therefore, measures will be taken to strengthen the tax administration procedures to identify high-net worth individuals and to bring them into the tax net.

## b) Mandatory e-tax filing

Filing of income tax returns electronically for all taxpayers (including individuals and other non-corporate entities) will be made mandatory. It was made mandatory for all companies to file income tax returns electronically from Y/A 2020/2021.

## c) Digitalising the tax system

Efforts to digitalize the tax system will be continued and steps will be taken to review and address deficiencies in the Revenue Administration Management Information System (RAMIS) of the Department of Inland Revenue.

IT based platforms on the three key revenue collecting agencies will be linked, allowing each institution to share information to ensure tax compliance across these revenue collecting agencies. A mechanism will be developed to collect information from other relevant institutions and manage them in a prudent manner.



#### d) Legal provisions to strengthen the tax administration

Necessary legal provisions will be introduced to strengthen the Revenue Administration in Sri Lanka. Enhanced audit and verification programmes will be used to ensure that all potential taxpayers are registered within the tax system and pay the due tax.

#### e) Administrative review and appeal procedures:

A taxpayer who is dissatisfied with an assessment or other decision may request the Commissioner General of Inland Revenue (“CGIR”) to review the decision. A request for review shall be made to the CGIR in writing not later than 30 days after the taxpayer was notified of the decision.

It has been proposed that the time period for the CGIR to notify the decision, will be extended from 07 months to two years from the date of receipt of such a request with effect from 01<sup>st</sup> April, 2023. Where the decision of the CGIR is not notified within the two year period, the request will be deemed to have been allowed.

##### **Our Comments**

The current law provides that after the expiry of 7 months from the request for administrative review, where the CGIR does not provide his decision, the taxpayers can refer an appeal to the Tax Appeals Commission (TAC). With the proposed amendment, where the CGIR fails to communicate his decision, request is deemed to have been allowed. This is favourable to the taxpayer as, otherwise the taxpayer has to go through the appeal procedure at the TAC without having any idea about the rationale/basis adopted by the CGIR for the issue in dispute.

According to section 07 of the Tax Appeal Commission Act (TAC Act) No 23 of 2011 provisions will be incorporated to make the bank guarantee provided by an appellant, valid until the appeal is determined, irrespective of the lapse of 270 days provided under Section 10 of TAC Act.

Provisions will be incorporated to make it mandatory to transfer the bank guarantee to the Commissioner General of Inland Revenue irrespective of the appellant's decision to appeal to the Court of Appeal.



## f) Measures to improve Tax Administration

- ❖ A tax ombudsman will be appointed to address the concerns of taxpayers
- ❖ A charter to address taxpayers' rights and obligations will be introduced
- ❖ Introduction of a legislative amendment to improve the efficiency of tax collection at the Department of Excise and Sri Lanka Customs
- ❖ A Dedicated Awareness Unit will be established at the IRD to provide relevant public and taxpayer awareness to encourage compliance by the taxpayers
- ❖ Measures will be taken to discourage cash transactions and encourage bank or card transactions, with specific limits.
- ❖ The Ministry of Finance will set revenue targets and introduce Key Performance Indicators (KPIs) for the following institutions:
  - Inland Revenue Department
  - Sri Lanka Customs
  - Excise Department



# Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) was introduced with effect from 01<sup>st</sup> October 2022 by the Social Security Contribution Levy Act, No. 25 of 2022. SSCL is charged at the rate of 2.5% in respect of every liable person whose aggregate turnover exceeds Rs.120 Mn per annum or Rs.30 Mn per quarter.

Every person who,

- a) Imports any article
- b) Carries on the business of manufacture of any article
- c) Carries on the business of providing a service of any description or
- d) Carries on a business of wholesale or retail sale of any article including importation and sale of such article other than a sale by manufacturer described in (b) above

will be liable to pay SSCL.

## Chargeability

Taxable Supply	Liable Turnover
Importation of any article	<ul style="list-style-type: none"> <li>• 100% of the import value</li> </ul>
Manufacture of any article	<ul style="list-style-type: none"> <li>• 85% of the turnover</li> </ul>
Providing a service a) Supply of Financial services b) Land and improvements c) Services other than (a) and (b)	<ul style="list-style-type: none"> <li>• 100% of the Value addition attributable to financial services</li> <li>• 100% of the turnover (as calculated for Value Added Tax purposes)</li> <li>• 100% of the turnover</li> </ul>



Taxable Supply	Liabile Turnover
<p>Wholesale and retail sale</p> <p>a) Sale of any article by a registered distributor in relation to any manufacturer or producer of any goods in Sri Lanka;</p> <p>b) Wholesale or retail sale other than item (a) above including importation and sale</p>	<ul style="list-style-type: none"> <li>• 25% of the turnover</li> <li>• 50% of the turnover</li> </ul>

### Exemptions

The budget proposals for 2023 have extended the exemptions from SSCL including the following items:

- ❖ Importation of any motor vehicle and liable to Excise Duty under the Excise (Special Provisions) Act, No. 13 of 1989 from 01<sup>st</sup> January, 2023
- ❖ Equipment used by differently-abled persons
- ❖ Pharmaceutical products categorized under HS code 2844.110
- ❖ Commercial hub enterprises

### Our Comments

According to the technical notes given with the Budget Speech, the exemption on SSCL for motor vehicles subject to Excise duty mentions the effective date as 01<sup>st</sup> January 2022. However, since SSCL was only implemented from 01<sup>st</sup> October 2022, we have assumed the effective date is 01<sup>st</sup> January 2023.

The following items were mentioned as being exempt in the Tamil version of the Technical notes given with the Budget Speech;

- Production and supply of electricity are exempted for SSCL other than by a person who holds a distribution license under the Section 13 of Sri Lanka Electricity Act No. 20 of 2009.
- Subject to provision of a bank guarantee, importation of unprocessed coarse gem stones by a lapidary service provider registered under National Gem and Jewellery Authority for the purpose of re-exporting the same after cutting and polishing will be offered a deferred SSCL payment facility

However, the above exemptions have not been included in the Sinhala and English translations. Therefore, we need to await the bill amending the SSCL Act for more clarity on this matter.



# Finance Act

## Commercial Hub Enterprises

With the objective of achieving the benefits of Sri Lanka's strategic location in the Indian Ocean and its increasing shipping volume, the Sri Lankan government in 2012 introduced legislation facilitating commercial hub operations. Free Ports & Bonded area are envisaged to be integrated areas to be used as "International Trading Hubs".

Finance Act No. 12 of 2012 in Part IV exempted Hub companies from the application of the Customs Ordinance, Exchange Control Act and the Imports and Exports (Control) Act. The Finance Act No. 12 of 2013 further extended the exemptions to tax laws being applicable to hub companies by adding a Schedule providing the Acts specifying the exemptions. It has been proposed that the provisions relating to commercial hub operations will be consolidated.



## Exemptions

- ❖ The exemptions given for enterprises under the commercial hub activities will be extended to bunkering services.
- ❖ Any business which intends to engage in the commercial hub activities and is eligible for the exemptions given under the Strategic Development Project Act No. 14 of 2008 can enjoy such exemptions if identified as a Strategic Development Project (SDP)
- ❖ The commercial hub enterprises will be exempted from Social Security Contribution Levy as the Schedule to the Finance Act does not contain the Social Security Contribution.

### Our Comments

Commercial hub companies enjoy exemptions from Value Added Tax and Nation Building Tax (NBT), Economic Service Charge (ESC) etc. (NBT and ESC were abolished). Therefore, exempting such companies from the newly introduced Social Security Contribution Levy (SSCL) brings the law in line with the objectives at the time Commercial Hub concept was introduced, where such companies can operate with tax concessions in Sri Lanka.

### Registration of Motor Vehicles

Any vehicles which were assembled in/imported to Sri Lanka and has not been registered as at 12<sup>th</sup> November, 2021 will be allowed to be registered under the Motor Traffic Act, if such vehicle is roadworthy as determined by the Commissioner General of Motor Traffic.

### Release of Motor Vehicles seized by Sri Lanka Customs

Any vehicles seized by the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons will be released from Sri Lanka Customs, subject to the payment of applicable taxes and fines. The vehicles which will be so released are;

- a) Any vehicle imported in to Sri Lanka on or after 22<sup>nd</sup> May, 2020 but prior to 12<sup>th</sup> November, 2021 and not removed from the Sri Lanka Customs due to restrictions and prohibitions set out in the Regulations made under the provisions of the Import and Export (Control) Act, No.1 of 1969, or
- b) Any vehicle propelled electrically, imported prior to 12<sup>th</sup> November 2021 and not removed from the Sri Lanka Customs due to non-payment of applicable taxes.



# Import Tariff and Taxes

## Import Tariff

Sri Lanka's main trade policy instrument has been Import Tariffs. In November 2017, Sri Lanka Customs adopted the WTO's new Harmonized Commodity Description and Coding System in its tariff schedule. Currently there are three custom tariff bands 0%, 10% and 15%.

The budget proposals for 2023 have proposed to revise these bands as a three-band tariff of 0%, 15% and 20% with effect from 01<sup>st</sup> April, 2023.

## Phased out removal of para-tariffs

- ❖ CESS will be removed in three years commencing from 01<sup>st</sup> January 2023 in a phased out manner. This will remove existing barriers to international trade, promote manufacturing and agriculture sectors and provide incentives for local industries.
- ❖ Ports and Airports Development Levy will be phased out and removed over a period of 5 years starting from 01<sup>st</sup> January 2023.



## Cess under Export Development Board Act and Customs Duty

- ❖ The Budget has proposed to introduce a new calculation system for Cess and Customs Duty of Sri Lanka as follows;

Unit rate (Fixed Rate) of the Customs Import Duty and CESS Levy will be adjusted to absorb changes in line with the Rupee depreciation and for avoidance of under-invoicing and under-valuation at the point of Customs clearance.

- ❖ Accordingly, Customs Import Duty on a total of 378 selected HS Codes will be adjusted under the Export Development Board Act, No.40 of 1979, effective from 15<sup>th</sup> November, 2022.

## Surcharge Tax on Import

The budget proposals for 2023 mentions that a Surcharge tax will be charged at the point of import on diesel and petrol at Rs.25 per litre each, and crude oil at Rs.20 per litre.



# Betting and Gaming Levy

The Betting and Gaming Levy Act No. 40 of 1988 defines a “bookmaker” to mean a person who receives or negotiates (a) directly or indirectly; (b) in cash or in credit, bets on horse races run, or proposed to be run, in or outside Sri Lanka. However, the Budget Proposals for 2023 has extended the definition of “bookmaker” to include a person who receives or negotiates bets on all type of sports event, including online betting.

Further, the proposal has mentioned that a licensing mechanism for the business of bookmaker will be introduced for a fee. The Act will also be amended to permit the licensed bookmakers to register with the Department of Inland Revenue.

Hence, engaging in the business of bookmaker without being licensed and registered by any person will be prohibited by making it a punishable offence.

## Casino Business (Regulation) Act

The Casino Business (Regulation) Act No. 17 of 2010 defines a “casino” to mean any premises to which individuals have access (a) with or without payment; (b) whether as of right or not, for the playing of any game for a stake and includes the playing of baccarat, puntobanco, big six, black jack, boule, chemin - de - fer, chuck - a - luck, crown and anchor, fardo, fardo bank, hazard, poker dice, pontoon, American french roulette, trente - et - quarntc, vingt - et - um, or wheel of fortune or any other game which may be specified by the Minister from time to time by Order published in the Gazette.

The Casino Business (Regulation) Act, does not provide a definition for “gaming”. However, the Betting and Gaming Levy defines “gaming” to mean the playing of any game for a stake, and includes the playing of baccarat, punto banco, big six, black jack, boule chemin de fer, chuch-aluck, crown and anchor, fardo, fardo bank, hazard, poker dice, pontoon, American for French roulette, trend quarantine, Vingt-et-um, rudjino or wheel of fortune in any premises to which individuals have access.



According to the proposals for 2023 these definitions have been extended, and both should include online gaming/casino.

These requirements will be applicable for online casinos operating in Sri Lanka. Any online casino operating without a license will be considered to be an illegal activity.

#### **Our Comments**

As per the present provisions, every person, who, on or after 01<sup>st</sup> January, 2013 but prior to 31<sup>st</sup> May, 2013 carries on the business of a bookmaker or gaming referred to in subsection (1) of section 2, shall register with the Department of Inland Revenue.

As proposed the Betting and Gaming Levy Act will be amended by removing the restriction for registration with the Department of Inland Revenue.



# Economic Analysis

## Global Economic Outlook

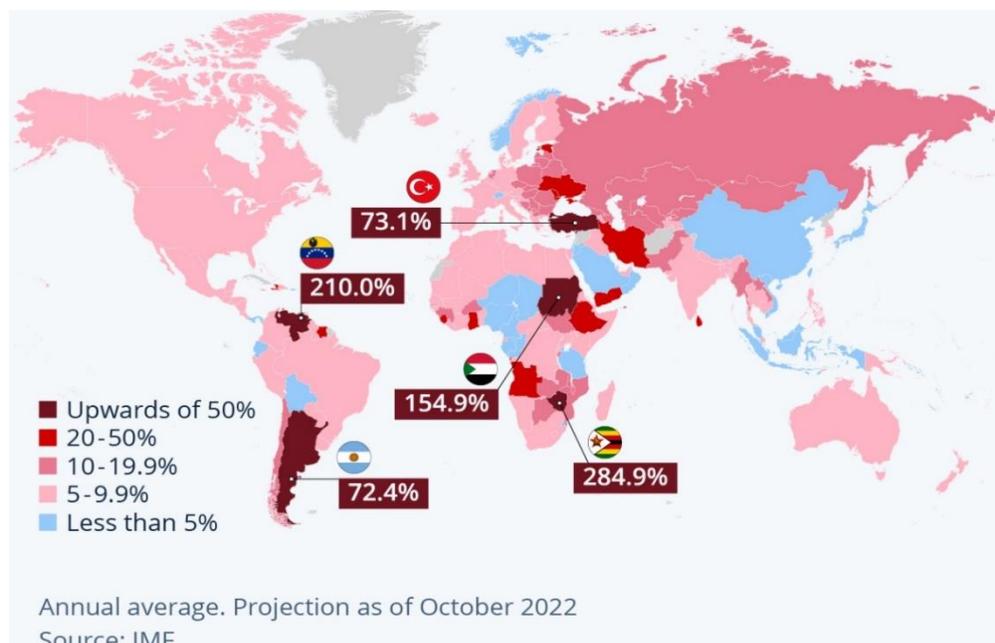
### Current Turbulence

The global economy is going through a turbulent period where multiple challenges are being experienced. Inflation being higher than what has been seen over a few decades, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the continuing COVID-19 issues have all contributed to the present turbulence in the global economy. With the normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic, as policymakers aim to pull down inflation back to target. But an increasing proportion of economies are experiencing slowdown in growth or contraction.



### Global Inflation

About a third of the world economy faces two consecutive quarters of negative growth. Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024.



The Global Inflation Outlook - Projected annual inflation by country in 2022

## Risks

Risks to the outlook remain significant and to the downside. Policy paths in the largest economies could continue to diverge, leading to further appreciation of US dollar. More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe. A worsening of China's property sector crisis could spill over to the domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects. And geopolitical fragmentation could impede trade and capital flows, further hindering climate policy cooperation.

Emerging markets face a multitude of risks stemming from high external borrowing costs, stubbornly high inflation, volatile commodity markets, heightened uncertainty about the global economic outlook, and pressures from policy tightening in advanced economies. Pressures are particularly acute in frontier markets, where challenges are driven by a combination of tightening financial conditions, deteriorating fundamentals, and high exposure to commodity price volatility. Interest expenses on government debt have continued to rise, increasing immediate liquidity pressures.

## Debt Crisis

Addressing growing debt distress in many markets caused by lower growth and higher borrowing costs requires a meaningful improvement in debt resolution frameworks. Intensifying structural reforms to improve productivity and economic capacity would ease supply constraints and in doing so support monetary policy in fighting inflation. Policies to fast-track the green energy transition will yield long-term payoffs for energy security and the costs of ongoing climate change.



## Sri Lanka Economic Outlook

### Background

Sri Lanka's economy was already showing signs of weakness before the COVID-19 pandemic. Growth and poverty reduction had slowed down in the last five years. A restrictive trade regime, weak investment climate, episodes of loose monetary policy and an administered exchange rate had contributed to external imbalances. Sustained fiscal disparities, driven primarily by low revenue collections, combined with tax cuts in 2019, has contributed to high fiscal deficits, large gross financing needs, and a rapid growth in unsustainable debt.

### Foreign Reserves

Sri Lanka lost access to international financial markets in 2020, after credit rating downgrades. Without market access, Sri Lanka continued to service its external debt and pay for imports using official reserves and loans from the banking sector. Official reserves dropped from US\$7.6 billion in 2019 to less than US\$400 million (excluding a currency swap equivalent to US\$1.5 billion with China) in June 2022. Net foreign assets in the banking system also fell to US\$ -5.9 billion in June 2022. This severe forex liquidity constraint has been felt across the economy,

Particularly from the second quarter of 2022, with shortages of fuel, medicines, cooking gas, and inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April, 2022 and later appointed legal and financial advisors to support debt restructuring.

Amid mass public protests, a new president was appointed in July, 2022. However, political tensions remain elevated with the continued economic crisis.

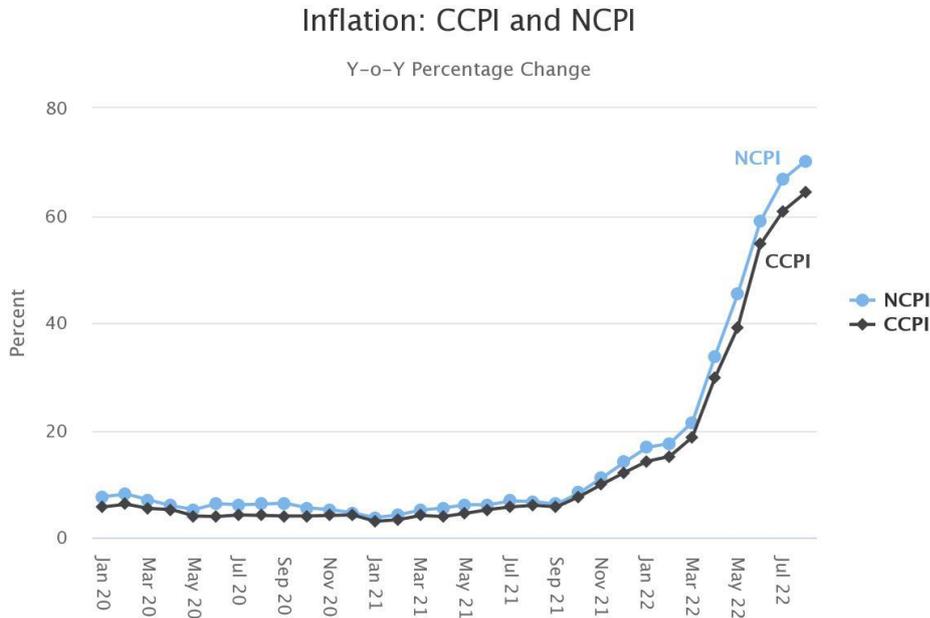
### Inflation

The economy of Sri Lanka contracted by 4.8% year-on-year in the first half of 2022. All key sectors contracted, amid shortages of inputs and supply chain disruptions. Year-on-year inflation (based on NCPI) reached an unprecedented 74% in September 2022, due largely to high food inflation of 94%. This reflects the impact of rising global commodity prices, the fiscal deficit and currency depreciation. The ban on chemical fertilizers in 2021 and related impact on crop yields has also affected domestic food supplies, agriculture earnings and food security. Between January and July 2022, the central bank raised policy rates by a cumulative 950 basis points to curb inflation.

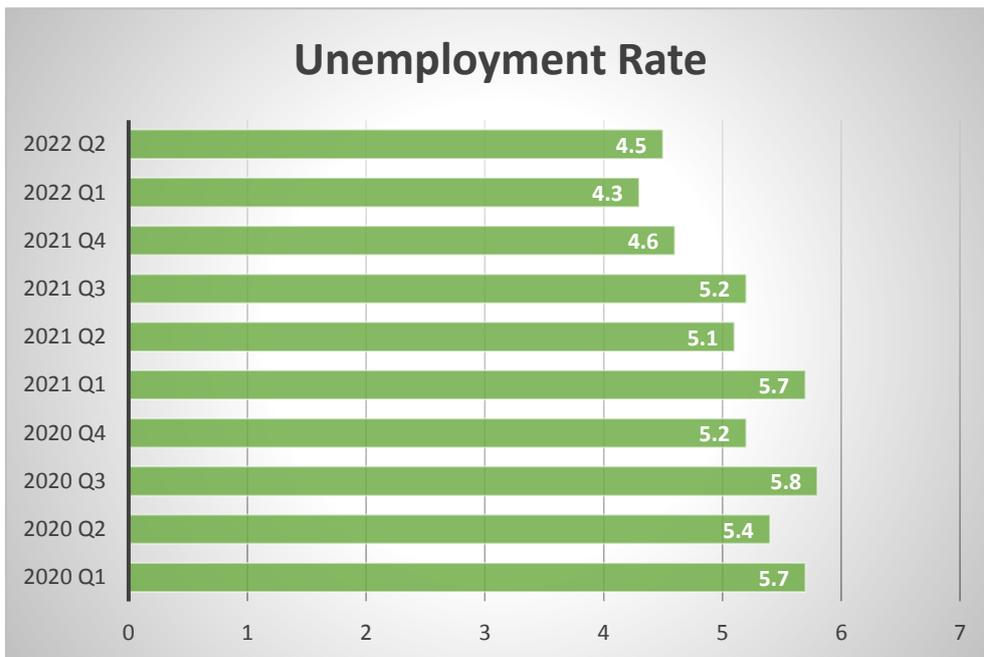


### Poverty

Poverty is expected to have increased in 2022 due to the contraction in the economy. Poorer households are hardest hit owing to food inflation, job losses, limited fertilizer supply and drop in remittances. While social assistance provides some relief, it is inadequate in the face of substantial losses in real income.



### Comparison of Inflation and CCPI



**Unemployment Rate in Sri Lanka**  
Source - Department of Census and Statistics

### Trade deficit and currency depreciation

The goods trade deficit declined by 18.6 percent year-on-year in the first half of 2022 as exports, particularly textiles, grew faster than imports, which were largely financed by Indian financial support of approximately US\$3.8 billion. With declining remittances and limited tourism receipts, the current account deficit is expected to have widened in this period. The Central Bank floated the Sri Lankan Rupee (LKR) in March and returned to a managed float in May after the currency depreciated by about 78 percent since the floating. Despite mandatory repatriation and conversion rules, it has been challenging to bring export earnings and remittances to Sri Lanka through formal channels due to low market confidence.

Rs. Million

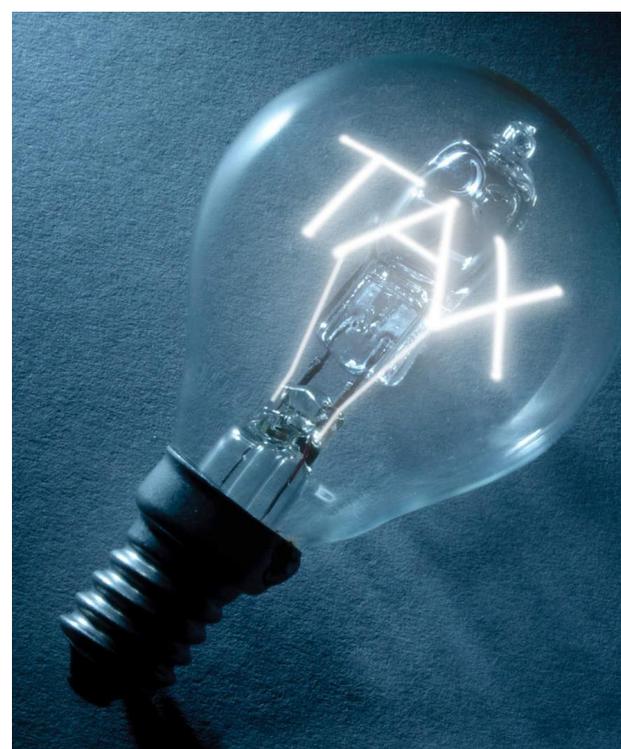
Year	Domestic Debt					Foreign Debt (a) (b)	Total Debt	As a % of GDP (d)		
	Treasury Bills (a)	Treasury Bonds (b) (c)	Rupee Loans	Other	Total			Domestic	Foreign	Total
2010	514,442	1,648,284	87,709	319,624	2,570,059	2,024,583	4,594,642	38.8	30.5	69.3
2011	590,885	1,823,648	61,961	331,988	2,808,482	2,329,280	5,137,762	37.5	31.1	68.6
2012	629,070	2,177,892	58,386	450,303	3,315,651	2,767,299	6,082,950	36.9	30.8	67.7
2013	700,137	2,548,323	55,518	624,810	3,928,788	2,960,424	6,889,212	39.5	29.8	69.3
2014	694,767	2,940,017	55,518	683,444	4,373,746	3,113,116	7,486,862	40.6	28.9	69.5
2015	658,240	3,401,211	24,088	971,620	5,055,159	3,544,031	8,599,190	43.7	30.6	74.3
2016	779,581	3,806,353	24,088	823,051	5,433,073	4,045,796	9,478,869	42.4	31.6	74.0
2017	697,154	3,892,408	24,088	1,050,565	5,664,215	4,718,618	10,382,832	39.4	32.8	72.2
2018	746,887	4,197,323	24,088	1,102,703	6,071,001	5,959,547	12,030,548	39.5	38.8	78.4
2019 (e)	873,943	4,606,232	24,088	1,325,997	6,830,260	6,201,283	13,031,543	42.9	39.0	81.9
2020 (e)	1,620,705	5,713,300	24,088	1,706,975	9,065,068	6,052,179	15,117,247	57.2	38.2	95.4
2021 (e) (f)	2,270,508	6,966,218	24,088	1,836,410	11,097,223	6,492,150	17,589,373	62.7	36.7	99.5

Sources: Ministry of Finance, Economic Stabilization & National Policies  
Central Bank of Sri Lanka

### Outstanding Government Debt

#### Fiscal deficit

Although expenditures increased in the first four months of 2022 on account of additional support provided to social protection beneficiaries, public servants and pensioners, several revenue measures, such as a one-off tax imposed on large corporates, helped reduce the primary deficit. The overall deficit was financed primarily by the central bank and remained broadly unchanged, pertaining to the rising interest bill. To raise more revenue, the government increased the Value Added Tax rate from 8 to 15 percent and proposed additional tax measures in May, and through the Interim Budget in August.



### Future outlook

Sri Lanka faces an unsustainable debt and severe balance of payments crisis, which is having a negative impact on growth and poverty. According to the World Bank Sri Lanka's real GDP is expected to fall by 9.2% in 2022 and a further 4.2% in 2023.

The fluid political situation and heightened fiscal, external and financial sector imbalances pose significant uncertainty for the country's economic outlook. The growth outlook is subject to high uncertainty and will depend on the progress in fiscal consolidation, debt restructuring, and growth enhancing structural reforms. Despite tightened monetary policy, inflation is likely to remain at current levels for some time.

The fiscal deficit is expected to gradually fall over the medium-term due to consolidation efforts. The current account deficit is expected to decline due to import compression. Additional resources will be needed in 2023 and beyond to close the external financing gap. Poverty is projected to remain above 2% in the next few years.

Key downside risks include a slow debt restructuring process, limited external financing support, and a prolonged recovery from the scarring effects of the crisis. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain inflationary pressures. Significant debt restructuring is essential to restore a sustainable debt level. The financial sector has to be managed carefully given high exposures to the public sector. The necessary macroeconomic adjustments may initially adversely affect growth and poverty, but will correct the macroeconomic imbalances, help regain access to international financial markets, and build the foundation for sustainable growth. Mitigating the impacts on the poor and vulnerable remain critical during the adjustment. Reductions in poverty will require an expansion of employment in industry and services and a recovery in the real value of incomes. On the upside, a credible reform program supported by financing from international partners could enhance confidence and attract fresh capital inflows.



Table 1. Sri Lanka - Economic Indicators

	2019	2020	2021	2022e	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	-0.2	-3.5	3.3	-9.2	-4.2	1.0
Private Consumption	3.8	-5.8	6.2	-9.8	-4.0	1.1
Government Consumption	6.6	3.6	3.1	-9.4	-2.2	-2.9
Gross Fixed Capital Investment	-12.1	-9.1	9.6	-16.0	-6.3	1.5
Exports, Goods and Services	1.7	-29.6	10.3	1.8	1.9	2.0
Imports, Goods and Services	-3.5	-20.1	4.1	-9.9	0.4	0.6
<b>Real GDP growth, at constant factor prices</b>	0.4	-3.0	4.0	-9.2	-4.2	1.0
Agriculture	0.5	-1.4	2.5	-9.0	2.4	1.5
Industry	-4.1	-5.3	5.6	-11.2	-5.7	1.0
Services	2.9	-1.9	3.3	-8.2	-4.2	0.9
<b>Inflation (Consumer Price Index)</b>	4.3	4.6	6.0	45.6	23.8	8.0
<b>Current Account Balance (% of GDP)</b>	-2.1	-1.4	-3.8	-1.4	-0.7	-0.4
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	0.7	0.5	0.8	0.3	0.3	0.3
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.0	1.5	1.5	6.1	6.8	6.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	11.3	12.7	13.1	25.6	28.2	27.7
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	49.3	50.0	51.2	65.4	67.6	67.3
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	5.2	0.1	4.4	-9.8	-4.7	2.5
<b>Energy related GHG emissions (% of total)</b>	70.2	71.4	71.9	68.8	67.1	67.7



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