

**LOOKING BEYOND
WITH RESILIENCE**



**BUDGET
HIGHLIGHTS
2024**

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ECONOMIC REVIEW

Path towards the Crisis

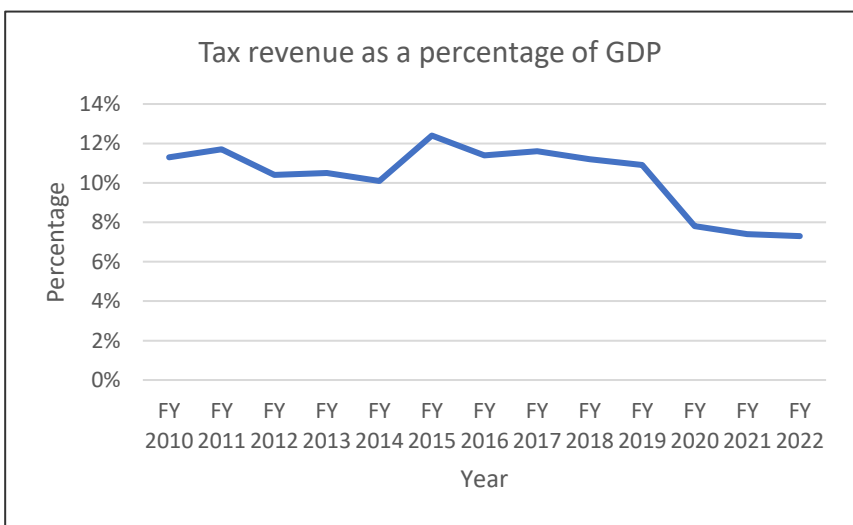
Sri Lanka’s longstanding structural economic issues plunged the country into a severe post-pandemic economic crisis in 2022. Low revenue generating Fiscal policies coupled with extensive subsidies and welfare measures led to high fiscal deficits. Combined with high risk commercial borrowing, this situation elevated Sri Lanka’s debt to unsustainable levels. With official reserves dropping to one week of imports, Sri Lanka for the first time in history, announced an external debt service suspension in April 2022, pending debt restructuring. The foreign exchange liquidity constraint caused shortages of fuel, medicine, LPG, and other inputs needed for economic activity. The economy contracted by 7.8% in 2022 and poverty doubled from 13.1 in 2021 to 25 percent. Inflation peaked towards the 4Q of 2022 and the currency depreciated by >80% during the year.



Fiscal Policy Catastrophe

By 2022, the tax system was characterized by low, multiple, and frequently changing tax rates, a narrow and shrinking base, a disproportionate tax burden on labor rather than capital income, overreliance on indirect taxes, and low levels of compliance. These shortcomings have resulted in an excessively complex tax system and have undermined its fairness. These structural issues, compounded by untimely tax cuts in 2019 and other shocks, led to the lowest recorded tax-to-GDP ratio in Sri Lanka at 7.3 percent in 2022. This abrupt decline played a significant role in the ongoing economic crisis.

In response, the government initiated a series of tax reforms during 2022-23 to enhance domestic revenue mobilization and strengthen the tax system. This tax reform package, under implementation since May 2022, included the introduction of new taxes, a wide range of adjustments to the tax rates and bases, and an intention to improve revenue administration by improving collection efficiency and increasing compliance (Table 1).



Recovery Path

The economy has shown initial signs of stabilization in the first half of 2023. Several critical reforms such as cost reflective utility pricing, new revenue measures, a floating currency, and monetary tightening and phasing out of monetary financing have helped stabilize the economy. Inflation came back to single digit levels in July 2023 for the first time in 19 months. An improved trade balance, a promising recovery in tourism and remittances, the continuing external debt service suspension, and inflows from development partners helped build usable official reserves to about 5 to 6 weeks of imports (or US\$2.4 Bn by end-July 2023, compared to US\$500 Mn in December 2022). The primary deficit declined in the first four months of 2023 compared to the same period in 2022; but a sharp rise in domestic interest payments led to a high overall deficit. On the other hand, the real GDP contracted by 7.9% YoY in the first half of 2023.

Debt Restructuring

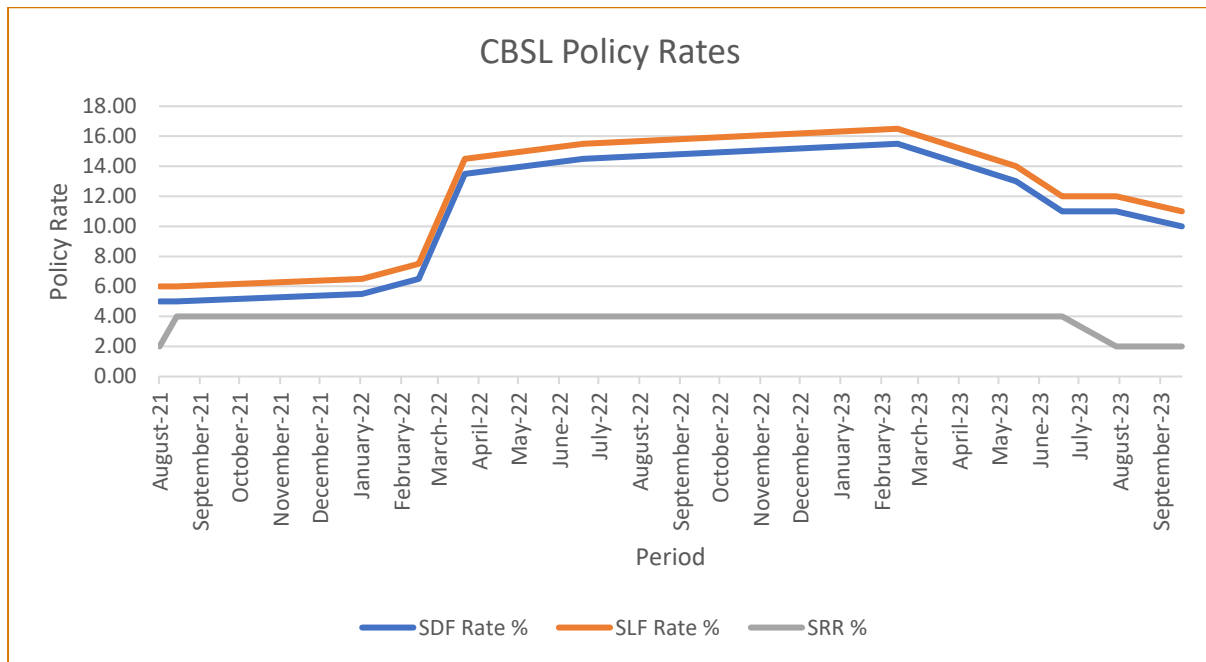
A scheme of sufficiently deep debt restructuring was needed to restore Sri Lanka's debt sustainability and regain access to international financial markets. The IMF's Extended Fund Facility (EFF) program, approved in March 2023, sets targets in terms of debt level, gross financing requirement, and external debt service threshold to restore debt sustainability. The government has implemented a domestic debt optimization strategy aimed at reducing annual gross financing needs by 1.5 percent of GDP in 2027-2032, on average. The financial sector-held securities issued under domestic law are excluded from domestic debt restructuring to mitigate risks to financial sector stability.

While domestic debt was successfully restructured, the external debt restructuring discussions are still continuing and would be crucial. The authorities are also expected to reach an agreement with external private creditors on comparable terms.



Monetary Policy

The monetary policy stance had been on a tightening trajectory since August 2021 as the Central Bank of Sri Lanka regularly increased policy rates till it peaked in March 2023. This was in response to pressures encountered, predominantly on the fronts of inflation and balance of payments.



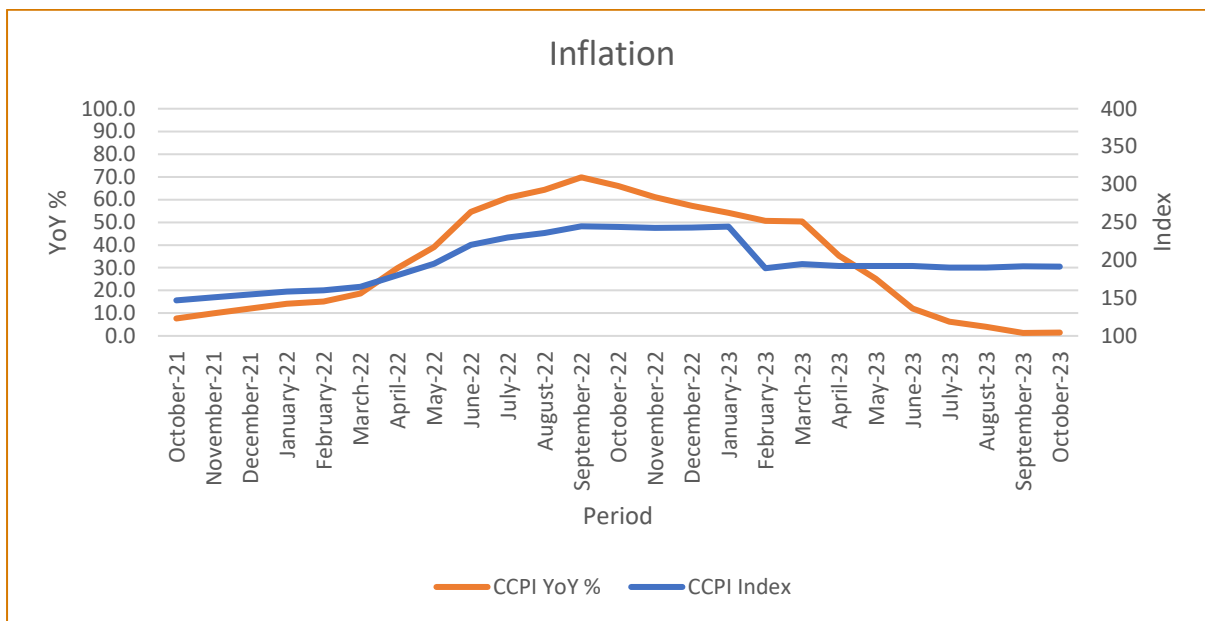
The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were gradually increased from 4.5% and 5.5% in end July 2021 to a high of 15.5% and 16.5% in March 2023 which continued till end May 2023. The Statutory Reserve Ratio was also increased from 2% to 4% in September 2021. These measures resulted in shortage of liquidity in the financial markets and decline in credit but curbed inflation to some extent.

With the control of inflation, the monetary policy was gradually eased with SDFR and SLFR reducing to 10% and 11% respectively in October 2023. SRR also was brought back to 2% in August 2023 creating the platform for reduced interest rates and credit growth. However, the anticipated low interest rates and credit growth are yet to materialize as the Treasury Bill and Bond rates are still hovering in the range of 13% - 15% while AWPR being at ~15%.



Inflation

Inflation reached its peak levels in September 2022 with NCPI based inflation surpassing 70% while CCPI based inflation reaching just below 70%. However, as inflation moderated faster than expected Central Bank commenced easing of the monetary policy stance in June 2023. Reinforcement of inflation was supported by the lagged impact of tight monetary and fiscal policies that were in place, easing of global commodity prices and its passthrough to domestic prices, and appreciation of the exchange rate. The favourable base effect was instrumental in keeping the YoY impact at levels as low as 1.5% (CCPI) and 0.8% (NCPI) in spite of the absolute indices continued to increase.



Fiscal Reforms

On the fiscal front the government initiated a series of tax reforms during 2022-23 to enhance domestic revenue mobilization and strengthen the tax system. This tax reform package, under implementation since May 2022, included the introduction of new taxes, a wide range of adjustments to the tax rates and bases, and an intention to improve revenue administration by improving collection efficiency and increasing compliance.

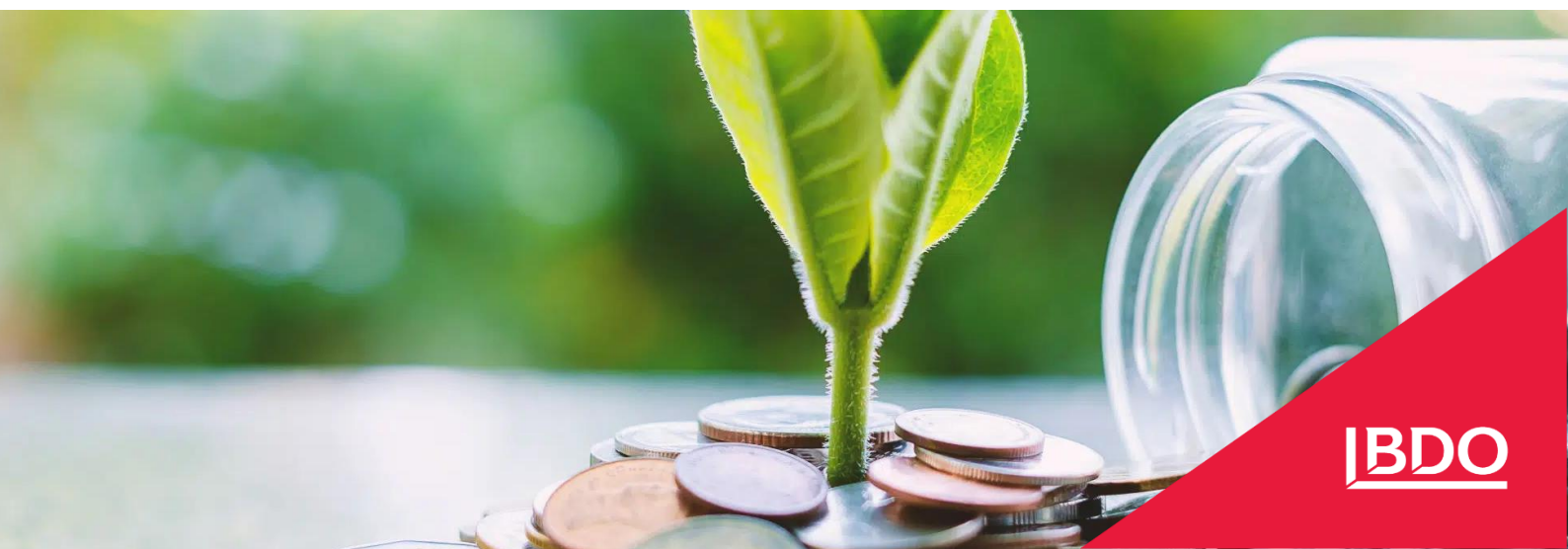
While those measures introduced in 2022-23 have led to higher revenues, further reforms are needed to ensure that the tax system is efficient, sustainable, and equitable. Over January-September 2023 YoY, nominal tax revenue increased by 50% driven by both the 2022 reform package and higher inflation. Nevertheless, revenue of LKR 1,928Bn in the first nine months of 2023 remains below the IMF anticipated target of LKR 2,100Bn.

External Sector

Exports

Earnings from exports marked the highest monthly earnings in August 2023, yet there was a decline of 8.7% on a YoY basis USD 1,118.6Mn. This was mainly due to a decline in earnings from industrial exports, including apparel, associated with slowing external demand. Decline in earnings from apparel exports to most of the major markets (USA, EU and UK) contributed mostly to this drop while there was an increase in export earnings of transport equipment, food, beverages and tobacco and petroleum products due to the increase in the volumes of bunker and aviation fuel exports. Moreover, agricultural exports marginally declined amidst the decrease in earnings from seafood, tea, and coconut related products. Earnings from tea exports declined marginally led by lower export prices though export volumes slightly improved.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
-Aug	966.3	871.7	-9.8
-YTD	7,167.7	6,273.6	-12.5
Agricultural			
-Aug	254.2	242.9	-4.5
-YTD	1,708.5	1,702.9	-0.3
Mineral Exports			
-Aug	2.5	2.0	-19.2
-YTD	21.1	15.7	-25.7
Total			
-Aug	1,225.4	1,118.6	-8.7
-YTD	8,912.1	8,010.1	-10.1



Imports

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
-Aug	231.2	268.1	15.9
-YTD	1,945.7	2,028.3	4.2
Intermediate			
-Aug	1,036.5	857.1	-17.3
-YTD	8,584.0	7,185.5	-16.3
Investment goods			
-Aug	212.6	299.4	40.8
-YTD	2,263.5	1,747.9	-22.8
Total			
-Aug	1,485.9	1,426.0	-4.0
-YTD	12,800.9	10,974.1	-14.3

Import expenditure declined by 4.0% YoY to USD 1,426.0Mn in Aug 2023 as import expenditure of intermediate goods dipped despite expenditures on consumer goods and investment goods imports recorded an increase. The increase in consumer goods expenditure was driven by the increases in expenditure on both food and non-food items. Expenditure for intermediate goods decreased, led by the decline in textiles and textile articles (primarily, fabrics and yarns), fuel and rubber and articles thereof. Import expenditure on investment goods increased with the

increase in imports of machinery and equipment (primarily, turbo jets). Meanwhile, imports of building material and transport equipment recorded a decline in during the month compared to the previous year. However, the relaxation of import restrictions which commenced since Jun 2023, could gradually generate higher import expenditure in the period ahead once demand conditions improve.

Services

The total tourist arrivals for the month of September was recorded at 111,938 displaying an increase of 275.6% YoY compared to Sep 2022, owing to factors such as the ongoing recovery of the tourism sector, improved socio-economic conditions, improvements in air connectivity followed by China's recent reopening and the strong demand for travel following pandemic-related restrictions.



The largest source market for tourist arrivals in Sep were India, China, the United Kingdom, Germany and Russian Federation. Total earnings from tourism for the eight month period up to August 2023 was recorded at USD 1,304Mn which is a 57% increase YoY.

Worker remittances too contributed positively with total earnings of USD 3,863Mn for the eight months up to August 2023 which is a YoY increase of 74%.

Future Outlook

The future outlook of the economy is clouded by significant uncertainties that still exist. Growth prospects depend on progress with external debt restructuring and the implementation of growth-enhancing structural reforms. Inflation is expected to stay in single digits amid weak demand. Further monetary loosening and exchange rate pressures could counter this trend.

Poverty is projected to increase in 2023 before declining over the medium term, in line with the slow recovery. With elections are on the cards in 2024 the subsidies and welfare costs could increase that could adversely affect the growth projections.

Despite the removal of import restrictions, the current account deficit is likely to narrow further in 2023 due to continued liquidity constraints and with the recovery in tourism and worker remittances. The primary deficit is expected to decline in 2023, although the overall balance will continue to be high due to the large interest bill. Debt restructuring and revenue-based fiscal consolidation are projected to reduce the overall balance in the medium term.

Downside risks remain very high, given a narrow path to recovery and limited buffers. The key risks to restoring stability, regaining a sustainable growth path, and bringing the economy back to pre-crisis rates of poverty can be listed as follows:

- prolonged or insufficiently deep external debt restructuring;
- deterioration in the political situation;
- inadequate domestic revenue mobilization;
- limited external financing support; and
- global slowdown.

The financial sector needs continuous monitoring, given high exposures to the public sector, rising non-performing assets, and tight liquidity conditions. While the adjustment process may provoke resistance, and backlash from affected groups, it is essential for the country to implement the reforms, carefully navigate political and social pressures, and effectively mitigate the impact of the reforms on the most poor and vulnerable. Improved revenue mobilization performance is a binding constraint to Sri Lanka's return to macroeconomic stability.



SNAPSHOT OF TAX CHANGES

Income Tax

➤ Sale of gems

A special tax return will be introduced for the deduction of 2.5% withholding tax on the sale price of any gem sold at an auction conducted by the NGJA. The Exemption currently granted under the law, will be allowed subject to such return.

➤ Issue of withholding tax certificates

The withholding agent is required to issue a withholding tax certificate without charge or payment from the withholder.

➤ Unit Trusts and Unit Holders

It is mandatory for Unit trusts to furnish information specified by the Commissioner General such as details of income, exempt amounts and withholding tax details to every unit holder before 30th August following the end of each year of assessment.



Requirement of TIN

It is mandatory to submit a copy of the Certificate of the Taxpayer Identification Number (TIN) to;

- Open bank current account at any bank
- Obtain approval for a building plan, by the applicant
- Register a motor vehicle or renew license, by the owner
- Register a land or title to a land, by the buyer

Tax administration

➤ Non filing of income tax returns

Special penal provisions to prosecute persons who have not submitted tax returns and information required by tax officials

➤ Submitting documentary evidence

Any documentary evidence called by tax officials during tax audits or administrative review should be submitted within a reasonable period of time. Any information not provided, will not be allowed to be submitted during the hearings at the Tax Appeals Commission.

Value Added Tax

Tax Invoice - Commissioner General to specify the format of the tax invoice.

Taxable period - "Taxable Period" will be defined to have the same return filing frequency for all taxpayers.

VAT Rate - Increase VAT rate to 18% from January 1, 2024

VAT Administration - Encourage Point of Sales (POS) machines which automates invoicing and sales recording, to support VAT collection in supplying goods and services.

Import Point Taxes

Proposed to take steps to eliminate non-tariff import taxes, including import CESS, Port and Airport Development Levy. The easing of these taxes will be phased out over 3 to 5 years.



INCOME TAX

Taxpayer Identification Number (TIN)

It will be mandatory for a copy of the Certificate of the Taxpayer Identification Number (TIN) to be submitted to:-

- (a) Open a bank current account at any bank;
- (b) Obtain approval for a building plan, by the applicant
- (c) Register a motor vehicle or renew license, by the owner
- (d) Register a land or title to a land, by the buyer

The Commissioner General will issue the required guidelines.

BDO comments

With effect from January 1, 2024, individuals who are 18 years of age or older as of December 31, 2023, or who attain the age of 18 on or after January 1, 2024, will be required to register with the Commissioner General of Inland Revenue and obtain a Taxpayer Identification Number (TIN).

Withholding Tax Return on Sale of Gems

The Inland Revenue Act of 2017 provides an exemption for “any amount derived by a person from the sale of any gem on which tax has been deducted under subsection (2) of section 84.” Section 84(2) requires withholding tax of 2.5% to be withheld on the sale of any gem sold at an auction conducted by the National Gem and Jewelry Authority. It is proposed that the above exemption be available only upon a special return being submitted and subject to such return information.

Withholding Tax Certificate

As per section 87, A withholding agent is required to prepare and serve on a withholder a withholding certificate in the form specified. The withholding certificate shall cover a calendar month and shall be served within thirty days after the end of the month.

It is proposed that this withholding certificate to be issued by the withholding agent should be done, without a charge or payment from the withholder.



Income Tax on Unit Trusts and Unit Holders

It is proposed that Unit trusts furnish information specified by the CGIR, such as details of income, exempt amounts, and withholding tax details to every unit holder before the 30th of August following the end of the year of assessment. Any unit trust that has not complied with this requirement will be deemed as a Unit Trust that does not conduct an eligible investment business.

Any unit trust that does not conduct an eligible investment business shall be deemed to be a company resident in Sri Lanka and taxed accordingly.

Strengthening the Tax Administration

Failure to file tax returns

A special penal provision will be introduced to prosecute persons who have not submitted tax returns and information required by the tax officials.

Submission of Documentary Evidence

The documentary evidence called for by tax officials during tax audits or administrative reviews must be submitted within a reasonable period of time (6 months from the original date of the call for evidence, available in Sri Lanka, and 9 months for others). Where such information is not provided, the taxpayer will be prevented from submitting such information during the hearing at the Tax Appeals Commission.



Clarifications

Clarifications will be provided in relation to the application of the following sections;

- **Section 18** - Maximum finance cost deductible when computing the assessable income from business
- **Section 67** - Taxation of Insurance businesses
- **Section 163** - Court Proceedings for recovery of taxes

BDO Comments

Section 18 - The Court of Appeal in the case of *Samson Rajarata Tiles (Pvt) Ltd v CGIR CA No. CA/TAX/0008/2015* held that a negative Retained Earnings/ Accumulated Loss/ Deficit cannot be considered as “reserves” for the purpose of computing the limitation on the deductibility of finance costs.

VALUE ADDED TAX

The Value Added Tax collection has recorded a sharp growth in revenue collection in the year 2022 as per the Annual Performance Report of the Inland Revenue Department. The following changes have been proposed in order to streamline VAT compliance.



Format of the Tax Invoice

As per the prevailing tax Law, the “Tax invoice” shall set out the following specific information.

- Date of invoice and serial No.
- Name, address, and VAT registration No. of both parties
- Date of supply, the description, and the quantity.
- The value, amount of VAT charged and the consideration for the supply,
- The Words “TAX INVOICE’ at a prominent place in the invoice.

As per the budget, the Commissioner General will further specify amendments to the format of the tax invoice. However, the budget does not specify what the information will be.

Taxable Period

Currently, the following VAT Registered Persons have to file VAT returns every month;

- Registered person with the SVAT who are covered under RIP
- Any person who is registered under the “strategic development project” law during the project implementation period or persons registered under section 22 (7) of the VAT Act

Any person who is not referred to above, is required to file VAT returns every quarter.

It is proposed that the taxable period for all Registered Persons will be the same for return filing purposes. However, it has not been specified whether such taxable period will be monthly or quarterly. It is assumed that since most of the VAT registered persons are filing VAT returns quarterly, all persons will now be required to file VAT returns quarterly. In which case, this proposal will only impact those taxpayers that are currently filing VAT returns on a monthly basis. Clarity is required.

Increase in VAT Rate

The VAT rate will be increased from 15% to 18% from 1st January 2024. The increased VAT rate of 18% has already been announced, therefore the proposal states that the relevant change will be Gazetted.

Point of Sale (POS) Machines

VAT Registered persons will be encouraged to use Point of Sale (POS) machines which automates invoicing and sales recording, to support VAT collection in supplying goods or services.

Our Comments

The proposals to specify the Tax Invoice format and applying a uniform taxable period for all VAT registered persons, is a welcome change as there have been various complaints when working with RAMIS. There have been instances where input VAT claims have been disallowed, due to invoice mismatch, change in taxable period or not using proper tax invoice format. Currently, the country is facing a huge paper shortage and it is timely to introduce an e-invoice system for tax invoices under the VAT law.

Increasing the VAT rate can increase government revenue as predicted. However, it will be challenging to maintain inflation at single digit numbers as prices of goods and services will now increase.



IMPORT TARIFF AND TAXES

Import Tariff and Taxes

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%, 15% and 20%. In addition to the Custom Duty, the following supplementary taxes and levies are charged on imports;

- Special Commodity Levy
- Port and Airport Development Levy (PAL)
- Excise Duty
- Excise (Special Provisions) Duty
- Export Development Board (EDB) Cess Levy
- Social Security Contribution Levy (SSCL)
- Value Added Tax (VAT)



Eliminate non-tariff import taxes

In order to improve Sri Lanka's connectivity with foreign trade and global markets, the Government is taking steps to eliminate non-tariff import taxes, including import CESS, Port and Airport Development Levy. It is proposed to phase out this elimination of import tax over a period of 3 to 5 years.

Sri Lanka Customs

It has been proposed that the following administrative changes need to be implemented by the Sri Lanka Customs;

- Development of risk management capabilities by developing a sophisticated software solution.
- Establishment of a mechanism to prevent mis-invoicing and upgrade the ASYCUDA system
- Introduction of Key Performance Indicators (KPIs) related to core administration functions of the Customs.



The budget mentions that steps will be taken to further modernize the customs laws in line with global best practices.

A National Single Window has been proposed to bring all border management agencies into a single digital platform and facilitate trade-related regulatory documentation in a seamless and timely manner.

Our Comments

We are currently in a rapidly changing environment, and it is necessary to embrace digitalization in order to achieve higher productivity and efficiency. The above proposals will incentivize more trade both in the domestic market as well as with international markets. However, a clear timeline has not been indicated as to when the above proposals will be implemented.



EXCISE DEPARTMENT

Improvements in locally manufactured liquor products

1. Sri Lanka Standards

It is proposed to introduce Sri Lanka Standards (SLS) for toddy and all types of locally manufactured liquor. This is to ensure high quality products both in the local as well as foreign markets.

2. Encourage investments and improvements.

Encourage investments in new types of liquor products which can be targeted for foreign markets.

Encourage R&D, product innovation, product diversification, quality enhancement, export orientation and import substitution for liquor products.

3. Duty free shops

Make selected locally produced liquor products available at duty free shops.

Fees and Levies

1. Excise License Fee

Based on the present demand for excise licenses, it is proposed to increase the Excise License Fee.

2. Administrative Fees

Administrative fees will be introduced for the services provided by the Excise Department.

Revenue Collection

1. Revenue Administration System for Excise Department (RASED)

A Revenue Administration System for Excise Department (RASED) will be introduced by end of October 2024 to improve the efficiency and productivity of excise revenue collection and to minimize wastage and corruption.



2. Tax collection in beedi industry

The budget proposes to strengthen the tax collection and enforcement in the beedi industry.

3. Toddy tender system

The toddy tender system will be revised to collect higher tax revenues for the government. It is also aimed at discouraging the illicit toddy industry.

Online License Issuing System

It is proposed to introduce an online license issuing system to provide an efficient regulatory environment. This system will:

- Streamline the guidelines/rules for various types of licenses
- Revise the maximum limit for certain licenses with a view to address the irrational distribution of liquor outlets creating 'dry areas'
- Introduce flexible opening hours to discourage illicit selling of liquor and to maintain industry discipline
- Revise related regulations for the tourism promotional activities
- Introduce an appropriate policy for soft liquor licenses
- Maintain industry discipline at the highest possible level
- Establish a Design and Monitoring Unit and a Risk Management Unit at the Excise Department
- Introduce Key performance Indicators (KPIs) related to core administration functions



STRATEGIC AND DEVELOPMENT INITIATIVES

(a) Small and Medium Enterprise Sector (Allocation LKR 50Bn)

With a loan facility of LKR 30Bn, a total of LKR 50Bn will be allocated for the development of SME sector through:

- A concessionary loan scheme,
- A capacity development program,
- Linking with the value chains of large companies.

(b) Development Projects (Allocation LKR 1,260Bn)

- A Government Committee has been established to review new projects. As per recommendations of the Committee, the Minister of Finance will grant approval for projects. Government will not allocate funds for projects that deviate from this procedure,
- This will enable to allocate capital expenditure to give a higher contribution to the economic growth,
- Most of the suspended projects will be recommenced.



(c) Development of Higher Education

- Four new universities will be established considering the current trends of the technical sector,
- Rules and regulations should be adopted to convert four private higher education institutions into universities,
- A new Technology University will be established in Kandy under the guidance of IIT University in Chennai, India,
- A programme to enhance State Universities to suit the modern era will be implemented covering University of Peradeniya and University of Sri Jayewardenepura,
- Any recognized educational institution in the world will be permitted to establish universities in Sri Lanka.

(d) Agricultural, Dairy and Fisheries Industry (Allocation LKR 2,500 Mn)

- Provincial agricultural and fisheries modernization boards will be established to assist in the development of agricultural and fisheries sectors,

- All Agrarian Service Centers will be upgraded as Agriculture Modernization Centers in a joint program with the private sector,
- 300,000 acres from other government lands will be allocated for large scale agriculture activities,
- The government to cooperate with the private sector in the management of fishing ports to develop the necessary infrastructure including warehouses,
- A re-finance loan scheme will be implemented to meet the financial needs of those engaged in the dairy value chain,
- A special programme will be implemented to increase milk production by 53% percent in 5 years with the contribution of the private sector by effectively using all the farms owned by the National Livestock Development Board.

(e) Construction Industry

- Government agencies will provide free lands for the construction companies to construct buildings according to the plans of the respective government agencies. After construction, these institutions will pay monthly rent to the construction company. Upon recovering the construction cost and receiving corresponding dividends, the full ownership of the building will be handed over to the government agency,
- A new programme will be implemented aimed at uplifting the living conditions of the people living in urban estate housing in Colombo and the developing of the construction sector.

(f) Transportation Sector

- A pilot project of running 200 electric buses will be started jointly with the Sri Lanka Transport Board in the Western Province,
- The Kandy multi transport center project will be started in January 2024 under the loan support of the World Bank to remove vehicle and passenger traffic,
- Proposals will be called from local and foreign investors to establish Station Plaza or Railway Station Towns as mixed development projects on the basis of Public Private Partnership focusing on railway stations in metropolitan areas such as Pettah, Galle, Matara, Anuradhapura, Jaffna and tourist destinations.

(g) Tourism Sector

- A Long term program, "Visit Sri Lanka" will be implemented to promote tourism to bring at least five million tourists to Sri Lanka annually.
- Provincial Tourism Boards will be strengthened (allocation proposed Rs 750 Mn)
- 720 government owned resorts will be renovated (allocation proposed Rs 600 Mn)
- Development of Pinnawala - Kithulgala tourist corridor (allocation proposed Rs 750 Mn)
- Development of Punarin city as a Tourist attraction (allocation proposed Rs 500 Mn)
- Establishment of a Buddhist museum in Kandy (allocation proposed Rs 200 Mn)

FINANCIAL SECTOR REFORMS

a) Restructuring of debt

- Under the debt restructuring, Sri Lanka's public debt as a percentage of GDP is expected to be reduced from 128% in 2022 to 95 % in 2032,
- Key aspects of Domestic Debt Optimization are completed,
- As part of the restructuring of International Sovereign Bonds under the External Debt Restructuring Process, USD denominated New financial instruments should be issued to settle existing International Sovereign Bonds. Accordingly, budget allocations are required to record the transaction in the government book of accounts. Accordingly, an allocation of Rs. 3,000 Bn is proposed through this budget.



b) Stabilization of financial sector

- The preliminary results of an asset quality review of systemically important banks indicate the need to build additional capital accumulation on a prudent basis. Accordingly, an allocation of Rs. 450 Bn is proposed to support the capital improvement process in the banking system,
- It has been proposed that 20% of the shares of the two large state-owned banks should be given to strategic investors or the public to improve capital and support the future growth of the two state-owned banks.

c) Increase in the borrowing limit

- Bank recapitalization and external debt restructuring will require the issuance of new debt instruments with longer maturities. Therefore, budget allocations are needed to settle the existing debt and the borrowing limit needs to be increased. Accordingly, it has been proposed to increase the borrowing limit by Rs. 3,450 Bn to Rs. 7,350 Bn



d) Law Reforms to strengthen Financial Sector

- The Microfinance and Credit Regulatory Authority Bill and the Secured Transactions Bill have already been tabled in Parliament,
- The new Microfinance Bill will provide more secure legal powers for clients,
- The new Secured Transactions Act will enable SMEs to leverage more of their assets and access loans for growth,
- The Ministry of Finance is introducing new laws to further improve the principles of good governance in Public Financial Management. Accordingly, the Public Debt Management Act, Public Financial Management Act, Public Asset Management Act, Public Enterprise Reform Law have already been finalized and are scheduled to be tabled in Parliament,
- The government has initiated the introduction of the new Investment Law and Public Private Partnership Law to create an investment-friendly legal environment.

e) Governance Reforms

- On the invitation of the government, the IMF has conducted an independent assessment of the weaknesses in Sri Lanka's governance structures,
- The government has already commenced taking steps to address the issues identified in the assessment. For example: measures to improve the procurement process, addressing corruption weaknesses in revenue collection authorities, and addressing issues related to investment incentives are high priorities on the government's agenda.

f) Sri Lanka Revenue Authority

- It has been proposed to establish a new revenue authority,
- It has also been proposed to establish a special project team under the Ministry of Finance to coordinate the establishment of this revenue authority,
- It has been proposed to establish a special project committee to coordinate matters in relation to the establishment of the revenue authority.



SOCIAL DEVELOPMENT AND WELFARE INITIATIVES

Benefits for public sector employees

➤ Salaries

Increase of Government employees' Cost of Living Allowance by Rs. 10,000 from January, 2024.

➤ Pensions - retired staff

Increase the monthly Cost of Living Allowance of public pensioners by Rs. 2,500.
(Estimated expenditure Rs. 386 Bn for 2024)

➤ Widows' & Widowers' and Orphans'

Revision of the deduction percentage from the salary for this pension contribution to 8 percent for all service categories from April 2024 onwards.
(Increased collection Rs. 9 Bn, annually)

➤ Police Officers

Food and lodging allowances for officers who travel long distances to attend duties to be adjusted for three groups of officers in the Police Department.

➤ Distress Loans for Public Sector Employees

To provide a Distress loan facility for all the public servants effective from January 01, 2024 as previously done prior to the economic crisis, without any limitations.

Aswesuma programme

The payment to persons with disabilities and kidney patients to be increased to Rs. 7,500. The monthly payment for elderly citizens will be increased to Rs. 3,000.
(Estimated expenditure Rs. 138 Bn for 2024)

The allocation for persons with disabilities, kidney patients and the Elderly to be increased to Rs. 205 Bn next year.

The current system will be amended to allow new families to be added to the beneficiary list without a delay, where the list is updated every six months.

Rs. 10 Bn has been allocated for the payment of monthly allowances to pregnant mothers.



Small and medium enterprises

Introduction of a concessionary loan scheme of around Rs. 30 Bn with the support of the Asian Development Bank.

Initiation of capacity development programs for the participating institutions, linking of SMEs with the value chains of large companies in the industrial sector.

(Estimated expenditure Rs. 50 Bn for 2024)

Housing and Development

“Urumaya” Programme

- Farmers who lost land as per the Waste Land Ordinance of 1897 during the British Government were subsequently distributed back in 1935 as per the Land Development Ordinance under the license system. The ownership of these farmlands will be handed back to the farmers who own them.

(Estimated expenditure Rs. 2 Bn for the task)

- **Urban Home Ownership**

Rent will not be charged on houses constructed under various urban development programmes for low-income families and full ownership of these houses will be given to those families.

- **Estate Housing**

The grant of land ownership and building of houses for estate dwellers.

(Estimated expenditure Rs. 4 Bn as the initial tranche)

- **Bimsaviya Programme**

Funds allocated to provide the necessary facilities to expeditiously complete this programme.

(Estimated expenditure Rs. 600 Mn)



Development of infrastructure / Living standards

➤ Decentralized Budget

Recommencement of the decentralized budget programme.
(Estimated expenditure Rs. 11,250 Mn)

➤ “Kandurata Dhashakaya”

Introduction of a 10-year multipurpose rural and community development program from the year 2024 including all the 89 Divisional Secretariat divisions that belong to the hill country areas of Sabaragamuwa and Central Provinces as well as Badulla, Matara, and Kurunegala districts.
(Estimated expenditure Rs. 10 Bn for 2024)

➤ Approving development project proposals

Establishment of a Government Committee to review new projects and approval by the Minister of Finance for projects.

(Estimated expenditure of Rs. 1,260 Bn as capital expenditure and Rs. 55 Bn to recommence previously suspended projects)

Introduction of project management committees/units under each Ministry from 2024 onwards, to focus on project related activities. Further, project related activities to be included in the duty list of permanent staff and to procure human resources under contract and duty basis only when related specialists are not available in the public sector.

➤ Rural Roads

Renovation of rural roads which have become dilapidated.
(Estimated expenditure Rs. 10 Bn for 2024)

➤ Natural Disasters

Rehabilitation of damaged rural roads.
(Estimated expenditure Rs. 2,000 Mn for 2024)

➤ Drinking water

To provide priority to projects related to drinking water when allocating the decentralized budget and obtaining foreign loans.

Education

Establishment of the Higher National Council on Education, National Higher Education Commission, and the National Skills Commission.

Expansion of Science and Technology Education in Universities

➤ **Establishment of four new universities, namely,**

- i) Seethawaka Science and Technology University (Lalith Athulathmudali Post Graduate Institute will be incorporated to this University)
- ii) Kurunegala Technology University under the Kothalawala Defence University.
- iii) Management and Technology University
- iv) International University of Climate Change

➤ **Conversion of the following private higher education institutions into universities.**

- v) NSBM
- vi) Sri Lanka Institute of Information Technology (SLIIT)
- vii) Horizon Campus
- viii) Royal Institute

➤ **Empowerment of provincial councils to establish universities.**

➤ **Establishing a National Education University**

Establishing an Education University focused on education by integrating 19 Colleges of Education.

(Estimated expenditure Rs. 1 Bn for 2024)

➤ **Establishing a New Technology University in Kandy**

It will be under the guidance & total support of IIT University in Chennai, India.

➤ **Enhancing the facilities of State Universities**

Peradeniya University to be modernized.

(Estimated expenditure Rs. 500 Mn for 2024)

Department of Allergy and Immunology, University of Sri Jayawardenepura to be upgraded as the National Institute of Allergy and Immunology.

(Estimated expenditure Rs. 40 Mn for 2024)

➤ **Providing opportunities Non-State Universities**

Establishment of rules and regulations to govern Non-state universities

Provide opportunities for any recognized educational institution in the world to establish universities in Sri Lanka

Loan facilities will be provided to students with the provision to repay upon being employed.

- **Establishing the National Higher Education Commission**
It will integrate the University Grants Commission (UGC) and Tertiary and Vocational Education Commission (TVEC).
- **Establishing a National Skills Commission**
A commission suitable for the prevailing challenges to oversee the Vocational Training Authority, National Apprenticeship and Industrial Training Authority will be integrated.
- **Reorganizing Vocational Education under Provincial Councils**
Handing over of the vocational education institutions under the Central Government to the nine Provincial Councils.
Establishing Provincial Boards of Vocational Education
(Estimated expenditure Rs. 450 Mn)
- **Launching of training in Information Technology**
A training program will be launched for job-seeking graduates.
(Estimated expenditure Rs. 750 Mn)
- **Provision of training for Youth and Adult Education**
The Sri Lanka Foundation to conduct a technical and physical modernization project.
(Estimated expenditure Rs. 150 Mn)
- **Introduction of an English Programme**
To develop a national programme to enhance English literacy in Sri Lanka to provide English literacy to all by 2034.
(Estimated expenditure Rs. 500 Mn to start this ten-year programme)
- **Insurance scheme for school students**
To reintroduce the Suraksha Student's Insurance Scheme, covering all school students.

Health services

- **Establishment of a Drug Procurement Review Institution**
To issue specific guidelines for the procurement of medicines
- **Strengthening Medical and Health Research**
To increase the investment in medical and health research to bring Sri Lanka's medical research output on par with the rest of the world.
(Estimated expenditure Rs. 75 Mn)
- **Introduction of a three-year plan to upgrade the facilities of the National Drugs Quality Assurance Laboratory.**
(Estimated expenditure Rs. 25 Mn)
- **Development of a cardiopulmonary resuscitation unit for Badulla.**
(Estimated expenditure Rs. 300 Mn)

➤ **Promotions for Medical Officers**

It is proposed to expedite the arrangements to adopt a promotion scheme applicable to both specialists and graded doctors.

Review of the possibility of paying an allowance for the additional work done by the specialists instead of the existing method of payment.

➤ **Expansion of Postgraduate opportunities for medical doctors**

In addition to the universities in which the programme is currently implemented, Universities of Kelaniya, Jayewardenepura, and Rajarata University will also be included in the programme.

Indigenous medicine

Investment in development of indigenous medicines, food supplements, medicinal cosmetics and herbal ingredients made from traditional medicinal recipes.

➤ **To provide necessary facilities for such investments under the supervision of the Indigenous Medicine Section of the Ministry of Health and the Ayurvedic Drug Corporation.**

➤ **To establish wellness centers in tourist hotels and resorts**

under the concept of “Sri Lankan Wellness”.

(Estimated expenditure Rs. 100 Mn)

➤ **Strengthening Agriculture and Fisheries Modernization Boards**

It is proposed implement a joint programme consisting of the government, private sector, farmers and agronomists to establish provincial agricultural and fisheries modernization boards to assist in the development of agricultural and fisheries sectors.

All Agrarian Service Centers will be upgraded as Agriculture Modernization Centers.

(Estimated expenditure Rs. 2,500 Mn for 2024)

Legal impediments to grow other crops in bare uncultivated lands in wet zone are proposed to be removed.

It is proposed to allocate 300,000 acres from other government lands including State Plantation Corporation, Mahaweli A and B Zones, and Land Reform Commission for large scale agriculture activities.

➤ **Fisheries Industry Development in Northern Region**

To improve the facilities necessary to increase the productivity of the fisheries sector.

(Estimated expenditure Rs. 500 Mn for 2024)

To develop the freshwater fishing industry.

(Estimated expenditure Rs. 200 Mn for 2024)

Preparing a programme to encourage the fishing community by establishing a revolving fund through community participation.

Assigning the responsibilities of rehabilitating small tanks to the farmer organizations of the respective areas.

Implementing a re-finance loan scheme to meet the financial needs of those engaged in the dairy value chain.

➤ **Nation Branding of Sri Lanka**

To re-engage with government agencies, businesses, citizens, cultural institutions and international organizations to realign Sri Lanka's direction and reclaim the country's status as a top tourist destination and attractive investment hub.

(Estimated expenditure Rs. 100 Mn for the purpose)

➤ **Economic Empowerment of People engaged in Handloom Sector**

Implementing a special programme for economic empowerment of women and youth engaged in the handloom industry.

(Estimated expenditure Rs. 300 Mn for the purpose)

➤ **Construction of Houses for Internally Displaced Persons**

Allocating funds to meet the needs of resettling people in North and Eastern provinces.

(Estimated expenditure Rs. 2,000 Mn for the purpose)

Further, an additional provision to speed up the housing programme and provide essential relief to the families that remain homeless.

(Estimated expenditure Rs. 500 Mn for the purpose)

➤ **Initiate the preliminary work of the Water Supply Project in Jaffna**

As a solution to the serious drinking water issue in Jaffna, it is proposed to implement the Pali-Aru water project in the first half of 2024.

(Estimated expenditure Rs. 250 Mn for preliminary activities of this programme)

➤ **Construction of Galle District Auditorium**

Government contribution to a public-private partnership to move forward the construction of the Galle District Auditorium which started in 2019 and has been halted midway due to the recent crisis.

(Estimated expenditure Rs. 500 Mn for the purpose)

➤ **Development of the Bandarawela Wholesale Vegetables Center**

To establish an Economic Center in Bandarawela with equal economic contribution by the Bandarawela Municipal Council and the Government.

(Estimated expenditure Rs. 250 Mn for the purpose)

➤ **Lower Malwathu Oya Project**

To expedite the rest of the work of Lower Malwathu Oya Project.

(Estimated expenditure Rs. 2,500 Mn for the purpose)

➤ **Anuradhapura Great Temple University Construction Programme**

It is proposed to establish Maha Vihara University in Anuradhapura and it is expected to complete the initial work on this during the next decade.

(Estimated expenditure Rs. 400 Mn for the initial works of this programme.)

- **Establishment of an International Buddhist Library in Anuradhapura**
It is proposed to establish a modern library in Anuradhapura within a 3 year time frame to secure archaic documents of international Buddhist countries and provide facilities to scholars who want to use them for their research purposes.
(Estimated expenditure Rs. 100 Mn for 2024)
- **Development of School & Outstation Cricket**
Developing school cricket and for providing necessary facilities to cricket players at the provincial level.
(Estimated expenditure Rs. 1.5 Bn for 2024)
- **Kandy Multi Model Transport Hub-Access Road**
Development of the access roads for the Kandy multi transport center project which will be started in January 2024 under the loan support of the World Bank to remove the vehicle and passenger traffic in the historic city of Kandy and integrate train, bus and other taxi services.
(Estimated expenditure Rs. 1.5 Bn for 2024)
- **Greater Mihinthale**
To setup a large city base on the station premises of Mihintale with transport, economic, container and storage facilities with the financial assistance of the private sector.
(Estimated expenditure Rs. 200 Mn for the purpose)
- **Establishment of a National Janasabha Secretariat**
Implement a National Janasabha Secretariat to identify unsolved development needs at the rural level with the coordination of public representatives and people in respective areas.
(Estimated expenditure Rs 700 Mn)
- **Flood control in Galle district**
Implement the Gin Ganga water management program.
(Estimated expenditure Rs 250 Mn)
- **Establishment of National Productivity Council**
Set up a National Productivity Council.
(Estimated expenditure Rs 150 Mn)
- **Green Economy - Ensuring Food Security**
Ensure food security and provide guidance to small and medium-scale processors engaged in the food production process.

Proposed to establish a Climate Finance Unit in the Treasury and Climate Change Office in the President's Office to support Sri Lanka's climate prosperity.

Allocated 600 acres of land beyond the Kothmale reservoir to establish an International Climate Change University.
(Estimated expenditure Rs 250 Mn)

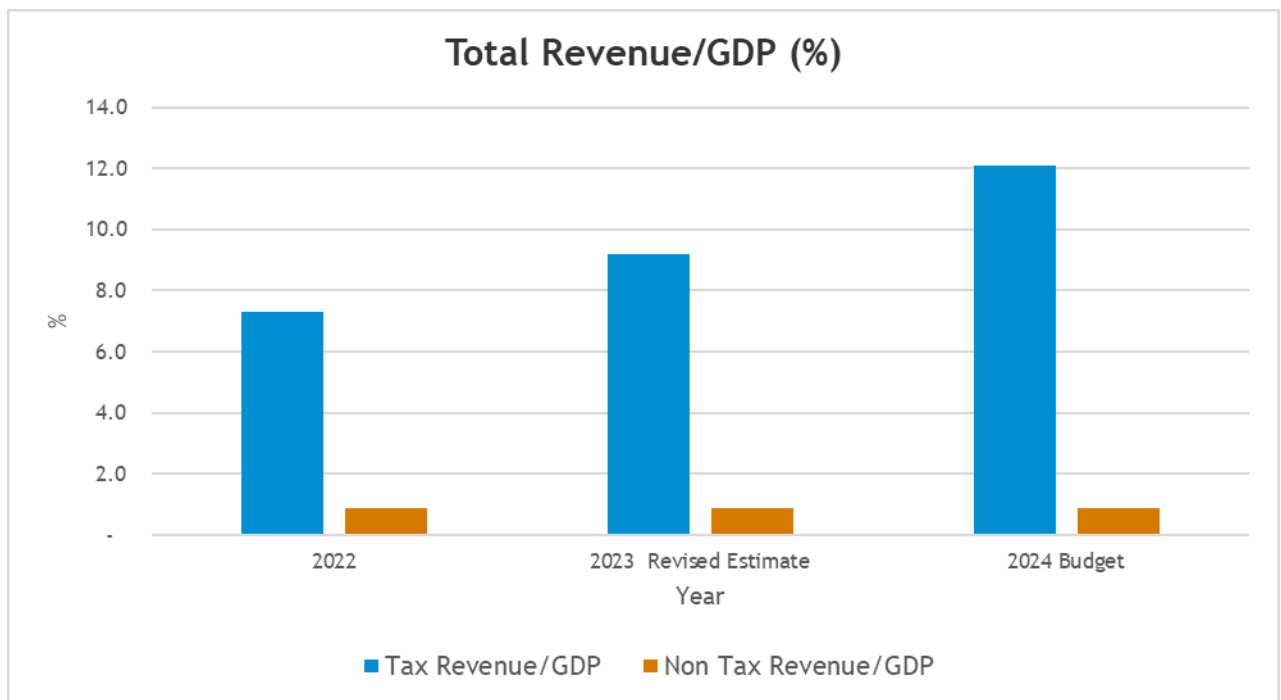
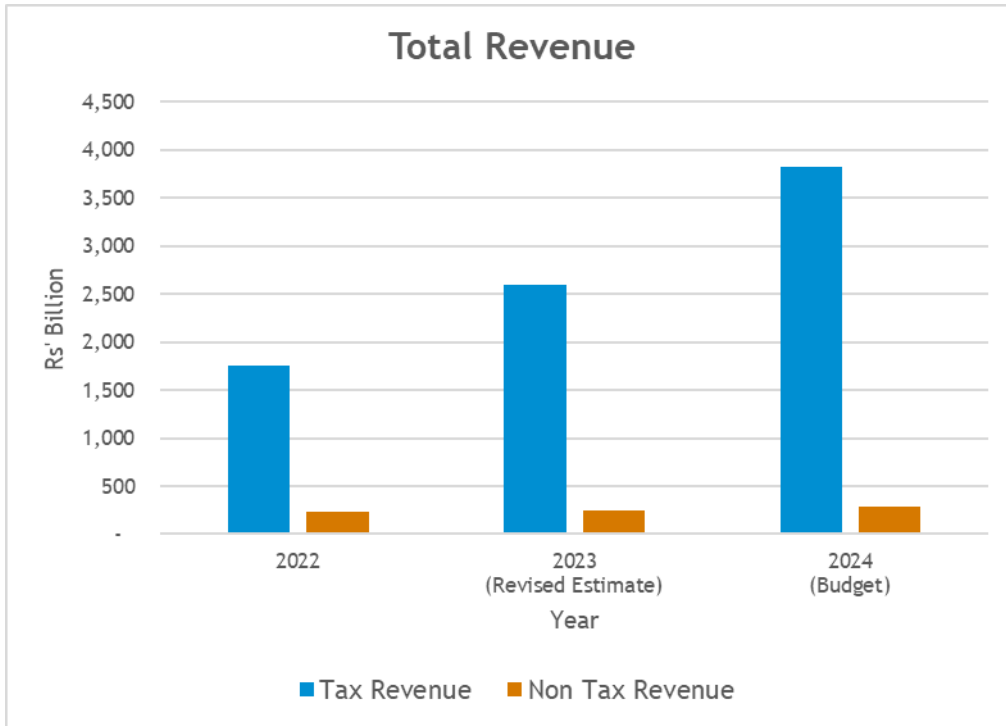
REVENUE AND EXPENDITURE ANALYSIS

Summary of the Budget Estimates 2024

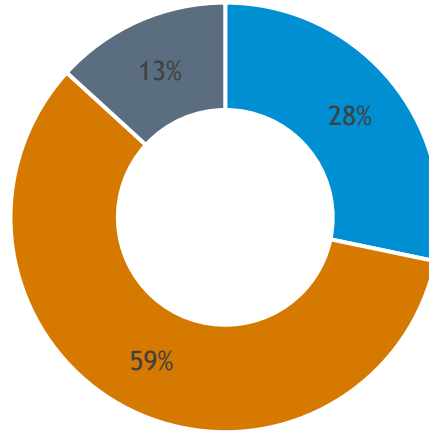
Item	2022	2023 Revised Estimate	2024 Budget
Total Revenue and Grants	2,013	2,851	4,127
Total Revenue	1,979	2,839	4,107
Tax Revenue	1,751	2,596	3,820
Income Tax	534	864	1,080
Taxes on Goods and Services	876	1,376	2,235
Taxes on External Trade	341	357	505
Non Tax Revenue	228	243	287
Grants	33	12	20
Total Expenditure	4,473	5,253	6,978
Recurrent	3,520	4,471	5,277
Salaries and Wages	956	986	1,127
Other Goods and Services	183	248	341
Interest	1,565	2,193	2,651
Subsidies and Transfers	815	1,044	1,158
Capital Expenditure and Net Lending	953	782	1,701
Capital Expenditure without Bank Recapitalization	715	812	1,260
Bank Recapitalization	-	-	450
Net Lending	238	(30)	(9)
Revenue Surplus (+)/Deficit(-)	(1,540)	(1,632)	(1,170)
Primary Surplus (+)/Deficit(-)			
Without bank recapitalization	(895)	(209)	250
With bank recapitalization	N/A	N/A	(200)
Budget Surplus (+)/Deficit(-)			
Without bank recapitalization	(2,460)	(2,402)	(2,401)
With bank recapitalization	N/A	N/A	(2,851)
Total Financing	2,460	2,402	2,851
Total Foreign Financing	425	340	726
Foreign Borrowings-Gross	783	780	1,000
Debt Repayment	(359)	(440)	(274)
Total Domestic Financing	2,035	2,062	2,125
Non - Bank Borrowings	3,610	4,002	2,205
Sri Lanka Development Bond	(380)	(461)	(80)
Bank Borrowings and Other	(1,195)	(1,479)	-
Revenue and Grants/GDP (%)	8.3	10.1	13.1
Total Revenue/GDP (%)	8.2	10.1	13.0
Tax Revenue/GDP	7.3	9.2	12.1
Non Tax Revenue/GDP (%)	0.9	0.9	0.9
Grants/GDP (%)	0.1	0.0	0.1
Total Expenditure/GDP (%)	18.5	18.7	22.2
Recurrent Expenditure/GDP (%)	14.6	15.9	16.8
Non Interest/ GDP (%)	8.1	8.1	8.3
Interest/ GDP (%)	6.5	7.8	8.4
Capital Expenditure and Net Lending/ GDP (%)	3.9	2.8	5.4
Revenue Surplus (+)/Deficit (-) GDP (%)	(6.4)	(5.8)	(3.7)
Primary Surplus (+)/Deficit (-) GDP(%)			
Without bank recapitalization	(3.7)	(0.7)	0.8
With bank recapitalization	N/A	N/A	(0.6)
Budget Surplus (+)/Deficit (-) GDP(%)			
Without bank recapitalization	(10.2)	(8.5)	(7.6)
With bank recapitalization	N/A	N/A	(9.1)

Compiled by Department of Fiscal Policy

Note: N/A - Not Applicable

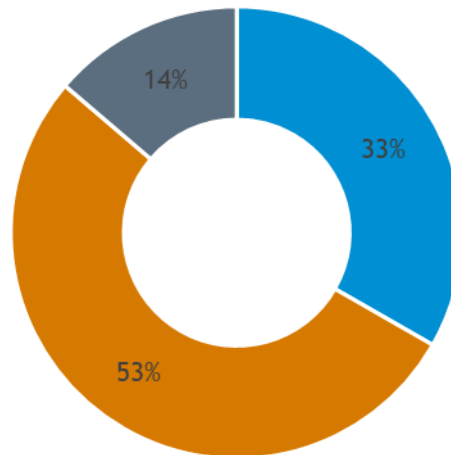


Tax Revenue - 2024 Budget

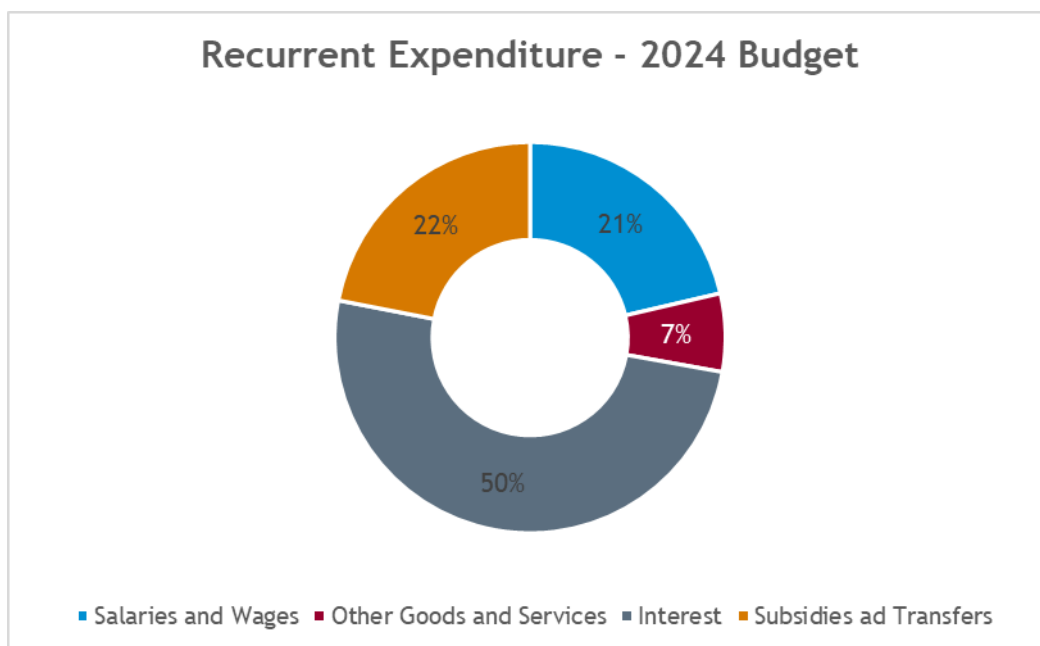
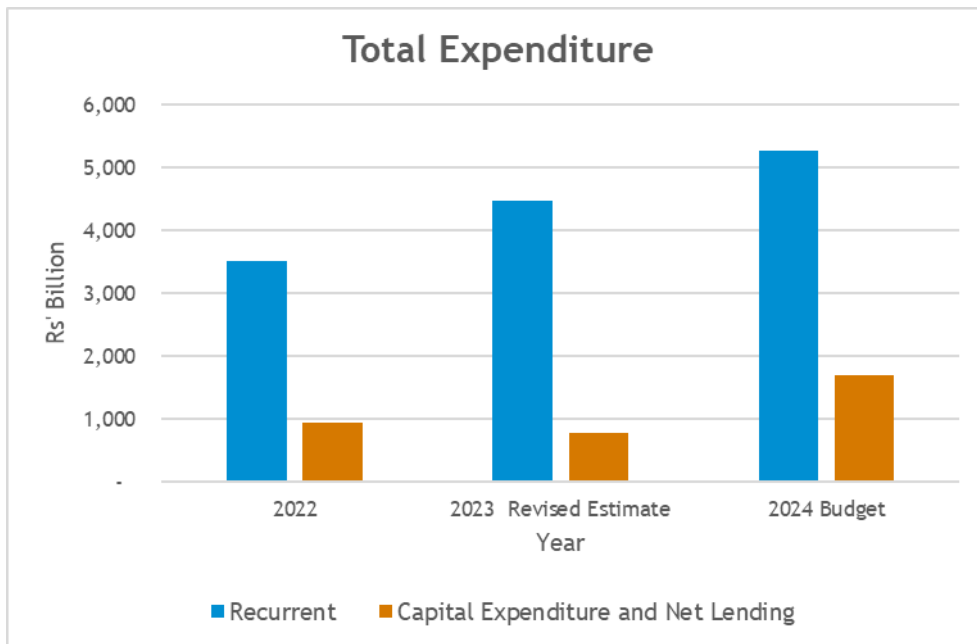


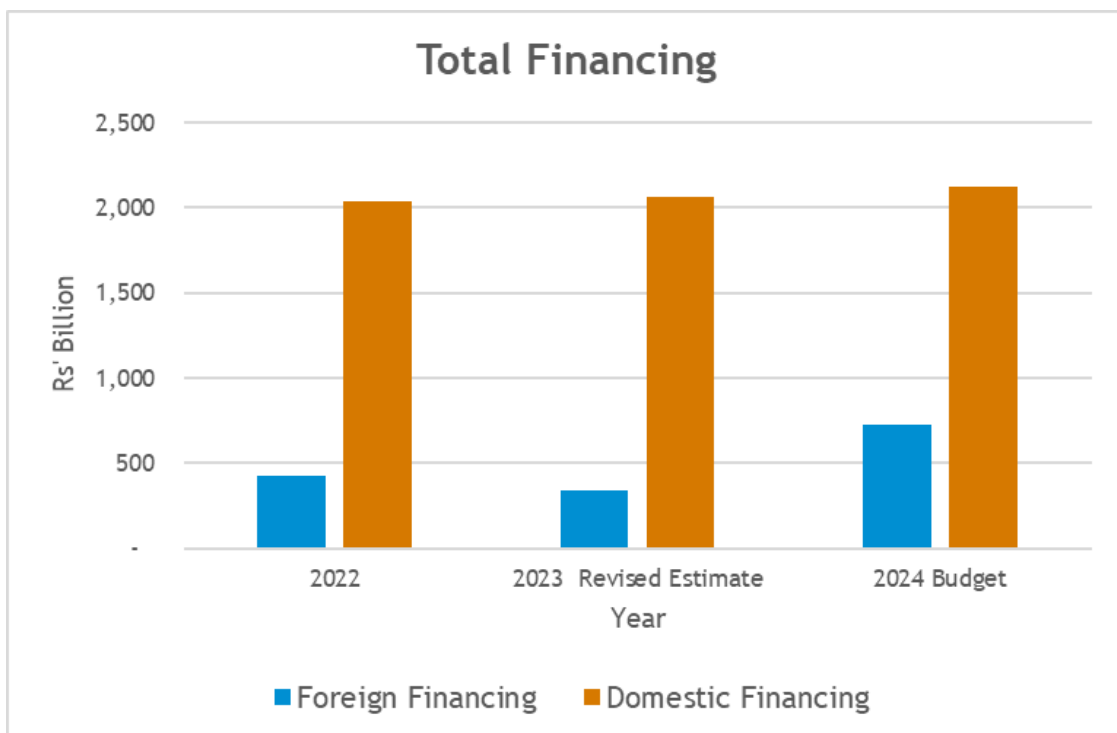
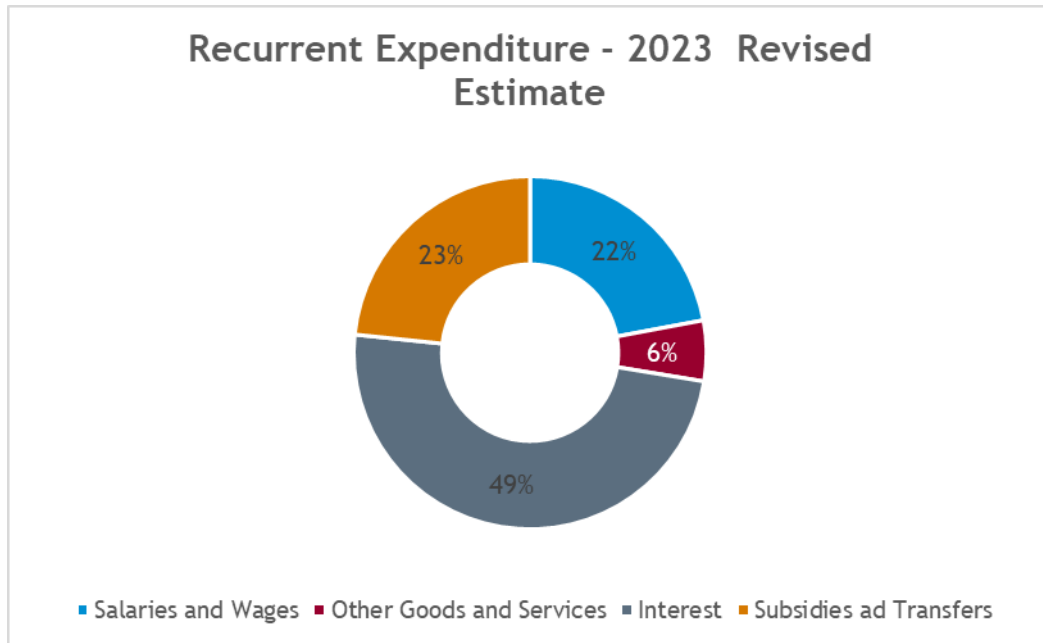
■ Income Tax ■ Taxes on Goods and Services ■ Taxes on External Trade

Tax Revenue - 2023 Revised Estimate



■ Income Tax ■ Taxes on Goods and Services ■ Taxes on External Trade





BDO LEADERSHIP TEAM

Z



SUJEWA RAJAPAKSE
Managing Partner
sujeewa@bdo.lk

RISK ADVISORY

TAX



ASHANE JAYASEKARA
Deputy Managing Partner
Risk, Forensic & IT Advisory Services
ashane@bdo.lk



SARAH AFKER
Partner - Head of Tax Services
saraha@bdo.lk



DINUSHA RAJAPAKSE
Partner - Tax Services
dinushar@BDO.LK

AUDIT



SASANKA RATHNAWEERA
COO, Senior Partner, Head of Assurance,
Head of A&A Quality Management (HAAQM)
sasanka@bdo.lk



R VASANTHAKUMAR
Partner - Audit & Assurance
vasanthakumar@bdo.lk



NIROSHA VADIVEL
Partner - Audit & Assurance
niroshav@BDO.LK

ADVISORY SERVICES



NISHAN FERNANDO
Managing Director
BDO Consulting (Pvt) Ltd
nishan@bdo.lk



IRESHA S.D. SOYSA
Managing Director
BDO Corporate Services (Pvt) Ltd
iresha@bdo.lk



JENNIFER PEIRIS
Director
BDO BPO Services (Pvt) Ltd
jennifer@bdo.lk

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BDO
"Charter House"
65/2, Sir Chittampalam A
Gardiner Mawatha
Colombo 2

Tel : +94-11-2421878-79-70
Fax : +94-11-2336064
Web : www.bdo.lk