

SRI LANKA UPDATE | 11 – 17 NOVEMBER 2022

Politics & Policy:

The 2023 Budget is viewed as a good Budget, but not exceptional, considering the current economic situation. The 2023 Budget was presented to the Parliament by President Wickremesinghe on 14th November. The Budget is [intended](#) to support the government's aim to create a primary surplus in the budget by more than 2% of GDP in the Year 2025, to increase government revenue to around 15% of GDP by 2023, to achieve a high economic growth rate of 7% to 8%. To that end, the Budget proposes imposing additional taxes such as wealth tax, increase in VAT (value added tax), additional taxes on revenue etc., as well as divestment and restructuring of state-owned enterprises, and reforming regulatory and public services. [Critics](#) are certain that the new tax regime will impact corporate performance broadly due to the 30 per cent corporate tax sans any concessionary rates. Additionally, a reduction in disposable income is expected to impact demand which would consequently put corporate earnings at risk.

Analysts foresee challenges in implementing the budget and expect Supplementary Budgets to be presented in the future to allocate further resources to implement proposals. Notably, the proposals put forth in the 2023 Budget contain key reforms necessitated by the IMF to receive the USD 2.9 billion Extended Fund Facility.

Labour laws are to be reformed to support an export-oriented economy. In his Budget speech, President Wickremesinghe stated his intention to [introduce](#) a comprehensive law to regulate labour where both employee and employer are protected in a manner to efficiently carry out productive economic activities. The laws, policies and institutional arrangements are expected to provide a conducive environment to promote entrepreneurial abilities and business development.

The government expects to gain a better understanding of the creditors' stance on debt restructuring following the upcoming discussion. Sri Lanka will hold the third round of [discussions](#) with its creditors on 17th November. According to the State Minister of Finance Shehan Semasinghe, the creditors are currently exchanging data and discussing the proposals that Sri Lanka could give regarding a possible haircut for debt restructuring.



The Economy:

Fuel prices have increased again. The Ceylon Petroleum Corporation (CPC) is certain that [the price increase](#) of kerosene and diesel will enable CPC to stop making losses on sales and expects to break even on the sale of the two types of fuel within the coming months.

The United Kingdom has indicated its readiness to improve its trade relationship with Sri Lanka. The UK Prime Minister's Trade Envoy for Sri Lanka Lord Davies' visit to Sri Lanka included several [discussions](#) with government officials that focused on Sri Lanka's trade and investment landscape and plans for reforms and improving ease of doing business. Notably, bilateral trade between both countries in 2021 was worth GBP 1 billion, with the trade balance in Sri Lanka's favour.



WHAT YOU NEED TO KNOW

In his Budget speech, the President stressed the need for [arrangements](#) to create a more business-friendly environment as well as simplifying and making existing arrangements efficient. Accordingly, measures are required to reduce costs, procedures and time, and to improve transparency enabling the creation of a healthy business environment. To that end, the Budget propose an allocation of LKR 200 million to the Ministry of Investment Promotion to introduce the necessary reforms.

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This thirty-third Advisory, written for our partners interested in developments in Sri Lanka against the backdrop of the current crisis, is an update on the one issued last week. This document summarises developments covering significant political and economic events.

The Advisory includes economic, political, social and governance perspectives. It draws on news reports, analyses, government announcements and documents, and other sources that we may be in contact with or have access to.

*This Advisory was prepared by the Strategic Communications Unit of Adfactors PR Lanka.
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