

- Proposed tax reforms face legal hurdle
- Inflation as measured in National Consumer Price Index is 73.7 % in September 2022 and food inflation is 85.8%.
- Government is to increase corporate tax to 30% for the export sector.

Macro-Economic Developments

BOI Enterprises – Government proposed tax reforms face legal hurdle as petition was filed with the Supreme Court challenging the Inland Revenue (Amendment) Bill that was added to the Parliament agenda recently. The petitioner who is a General Manager of private company seeks a determination from the Supreme Court that the Inland Revenue (Amendment) Bill is inconsistent with the constitution of the country. The petitioner has named the Attorney General as the respondent.

The spokesman of main opposition party Samagi Jana Balawegaya (SJB) MP S.M. Marikkar recently said his party will work towards defeating the Government's proposed tax reforms. He said that SJB will not vote for the proposed exorbitant tax hikes when the price of goods have already increased significantly. The MP was quoted as saying that they oppose when the previous regime reduce the taxes and thus SJB believes taxes must be increased but any increase must be fair and reasonable.

Recently Tea Exporters Association (TEA) expressed serious concern over the proposed increase in corporate income tax to 30% from 14% at present. The Association point out that industry is currently going through a challenging period due to a number of internal and external issues and this increase of corporate income tax by more than 100% from this month could further aggravate the plight of tea exporters.

Corporate tax for exporters in regional peers

Country	Percentage	Source
Cambodia	20%	https://www.rd.go.th/publish/fileadmin/user_upload/AEC/AseanTax-Cambodia.pdf
Thailand	20%	https://taxsummaries.pwc.com/thailand/corporate/taxes-on-corporate-income#:~:text=The%20corporate%20income%20tax%20(CIT,paid%20from%20or%20in%20Thailand.
India	25% - 30%	https://taxsummaries.pwc.com/india/corporate/taxes-on-corporate-income
Bangladesh	22.5%	https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-bangladeshhighlights-2021.pdf
Vietnam	20%	https://taxsummaries.pwc.com/vietnam/corporate/taxes-on-corporate-income#:~:text=The%20standard%20corporate%20income%20tax,location%20and%20specific%20project%20conditions.
Indonesia	22%	https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-indonesiahighlights-2022.pdf

There is no single data source on corporate tax across the region and thus information was collected from multiple sources.

On the positive note, the Government managed to further reduce fuel prices for the second time in October. Price of Petrol Octane 92 was reduced by Rs 40 per liter & Price of Auto Diesel by Rs 15 per liter. Accordingly

the new price of Petrol (Octane 92) is Rs 370 per liter & Auto Diesel Rs 415 per liter. Amidst heavy criticism and opposition, the second reading of the Petroleum Products (Special Provisions) (Amendment) was passed in Parliament by a majority on 18th October 2022. The move will help to eliminate the Ceylon Petroleum Corporation's monopoly on jet fuel and liberalize the energy sector.

Inflation: Inflation, as measured by the year-on-year (Y-o-Y) change in the National Consumer Price Index (NCPI, 2013=100) increased to 73.7% in September 2022 from 70.2% in August 2022. This increase in Y-o-Y inflation was driven by the monthly increases of both Food and Non-Food categories. Accordingly, Food inflation (Y-o-Y) increased to 85.8% in September 2022 from 84.6% in August 2022, while Non-Food inflation (Y-o-Y) increased to 62.8% in September 2022 from 57.1% in August 2022.

Tea Industry: Tea production is down 7.8% in September 2022 from a year earlier to 20.9 million kilograms while the total output for the nine months dipped 18% from the previous year. From January-September 2022, the total production is 192.37 million kilograms compared to 234.72 million kilograms for the same period in the previous year. As per the industry data published by Forbes and Walkers Tea Brokers, the drop in the production in this year is the lowest since 1996 where it recorded 188.40 million kilograms during the period under review.

Energy: Ruling out the speculation on coal shortage, Power and Energy Minister Kanchana Wijesekera confirmed on 25th October that the first of 38 coal cargos required for this season arrived on Tuesday, whilst noting that the second shipment is expected to arrive on 31st October. Ministry of Power and Energy has decided to use an extended loan of USD 100 Mn Indian credit line to fix roof top solar panels in Government institutes and religious places. The sustainable energy industry recently pointed out that they are facing a risk of bankruptcy due to the non-payment of Rs. 35 billion in dues by the Ceylon Electricity Board. Despite having collected the money from the public for the power supplied the CEB still has not pay the dues to the sustainable energy suppliers.

Fiscal Management: Government is to present Budget 2023 on 14 November 2022. President Ranil Wickremesinghe, in his capacity as the Minister of Finance, Economic Stabilization and National Policies, will deliver the opening speech of the second reading of the Appropriation Bill to Parliament at 1.30 p.m. on 14 November 2022. As per the draft of the Appropriation Bill for 2023, the total expenditure estimated for 2023 is a staggering Rs. 7.8 trillion as against Rs. 6.1 trillion for 2022. Recurrent Expenditure has been estimated at Rs. 4.6 trillion, while total Capital Expenditure at Rs. 3.24 trillion. The gross borrowing requirement is estimated at Rs. 4.43 trillion.

Exports & Imports: State Minister of Finance recently indicated that import restrictions on a number of products including cosmetics, and vehicle spare parts will be lifted within two weeks. Sri Lanka slapped import bans on 1,465 items in August 2022 amidst forex shortage and later 708 products were removed from that list after considering multiple appeals. Earnings from the merchandise exports increased by 5.75 % y-o-y to US\$ 1,093.98 Mn in September 2022 as per the data released by the Sri Lanka Customs. This was mainly due to the increase in export earnings from Apparel & Textiles, Tea, Gems & Jewelry, Electrical & Electronic Components and Spices & Essential Oils.

International Support on economic recovery: The United States Deputy Assistant Secretary of Treasury for Asia Robert Kaproth visited Sri Lanka recently. During his stay Kaproth held talks with high-ranking representatives of the Government and economic experts. The support of USA is a crucial factor in the IMF negotiations and debt restructuring.

Macro-economic data in nutshell

Purchasing Manager Index (PMI) September 2022

Manufacturing

PMI

Index Value

42.6

Decrease of 7.0
index points
compared to
August 2022

Services

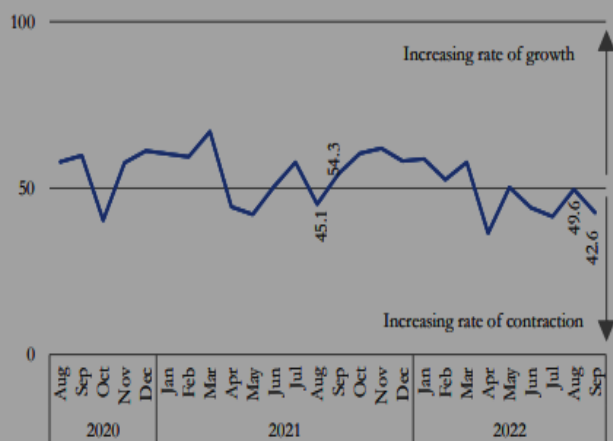
PMI

Index Value

51.2

Decrease of
0.5 index points
compared to
August 2022

PMI - Manufacturing

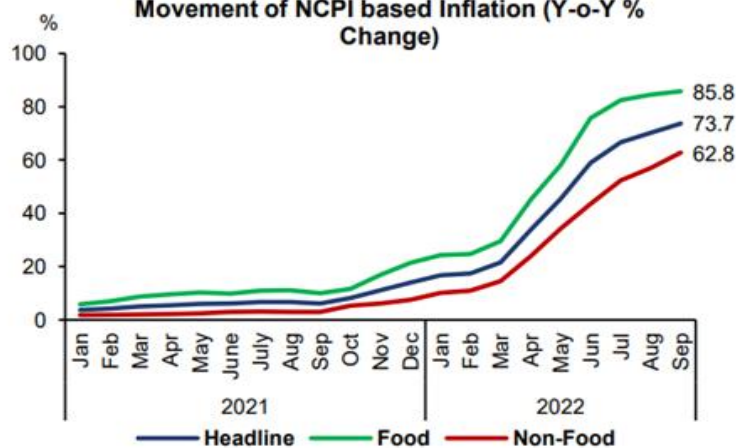


PMI - Services

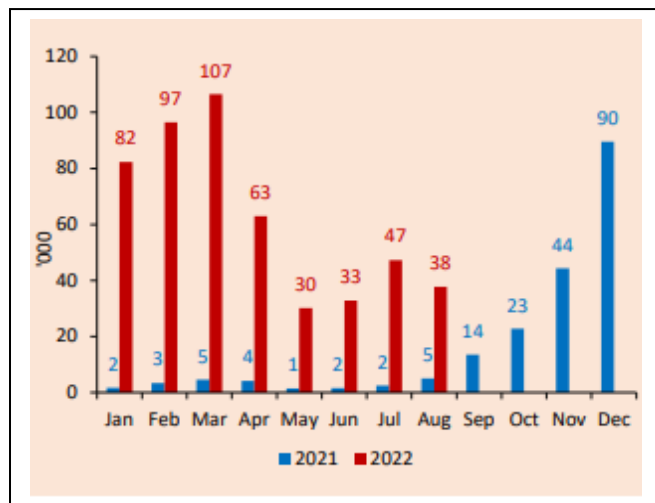


Inflation

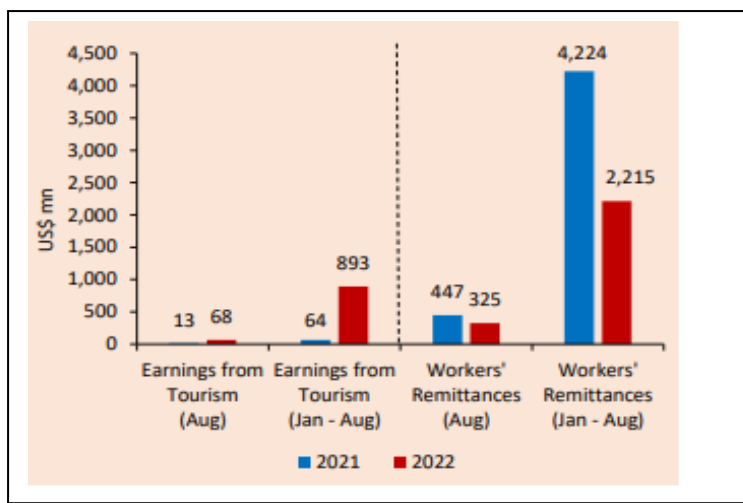
Movement of NCPI based Inflation (Y-o-Y % Change)



Tourist arrivals



Remittances



Disclaimer: *This publication is based on secondary data and predictions done with bona fide intention. No part of this publication constitutes any offer, recommendation or solicitation regarding investment or business decisions directly or indirectly. The content of the report is purely for information and discussion purpose only.*