National Budget – 2018

'Blue – Green Budget: Enterprise Sri Lanka'

The 2018 national budget proposal complemented the Inland Revenue (IR) bill and the policy reforms set out in the recent economic policy statement. Under the budget themed 'Blue - Green Budget: Enterprise Sri Lanka', the Government of Sri Lanka (GoSL) expects to integrate the full economic potential of ocean related activities in formulating the overall sustainable development growth strategy while reviving the entrepreneurial spirit of the country. The budget strives to support the medium-term targets such as:

- *USD 5,000 per capita income*
- *1 Mn new jobs*
- *FDI inflows of USD 5 Bn*
- *Doubling exports to USD 20 Bn*
- *GDP growth of 5%*
- *Inflation nearly 6%*

The overall budget deficit for 2017 is estimated to be 5.2% of the GDP, which is higher than the target of 4.6%. The provisional total revenue and grants for 2017 is 15.4% of the GDP, which is the highest since 2008. This reflects the GoSL's continuous efforts on fiscal consolidation. The budget deficit target for 2018 is 4.8% of GDP, with a revenue and grant target of 16.4% of GDP, which is expected to be strengthened by the new IR Bill and the 2018 budget proposals. The total expenditure is targeted to be 21.1% of GDP. Approximately, 56% of the deficit is expected to be financed by domestic sources.

The following could be identified as salient features of the 2018 national budget.

Continuous effort in fiscal consolidation

The budget has focused on addressing the longstanding challenges of twin deficits, namely fiscal deficit and the current account deficit. The budget attempts to bring the fiscal deficit down to 4.8% of GDP in 2018, mainly with the revenue mobilization expected from the IR Bill. The primary surplus of 0.3% (provisional) in 2017 is expected to improve to 1.0% in 2018.

The revenue proposals of the budget is expected to raise further LKR 110 Bn in 2018. A tax revenue increase of 19.4% (provisional) is expected in 2017, mainly driven by the increase in indirect tax. The direct tax as a % of the total of tax revenue is expected to improve from 17.6% in 2017 to 18.4% in 2018. The public investment for 2018 is expected to be LKR 761 Bn, which is lower than the GoSL's Public Investment Programme in 2017.

To address the current account deficit, the budget proposes several measures through trade reforms, which is expected lead to trade liberalisation and national competitiveness. Under the new proposals;

- The para-tariffs applicable on the tariff lines, which currently do not carry any customs duties will be abolished within the next 3 years. In 2018, nearly 1,200 para-tariffs will be removed. A trade adjustment programme will be introduced to provide relief and support to the local private sector to adjust to the proposed system. Additionally, the private sector will be supported by the National Export Strategy and Export Market Access Support.

- Introduce Anti-Dumping and Countervailing laws together with strengthened Consumer Protection laws whilst also augmenting the National Quality Infrastructure. Furthermore, anti-competitive laws will be introduced for private sector to better facilitate growth through scale, whilst ensuring a level playing field.

- Prominence has been given to the fisheries sector for which LKR 3.3 Bn has been allocated. The fisheries industry is expected to reap the benefits from the lifting of the EU ban and the receipt of EU GSP+, which could be a valuable agricultural export in the export basket.

FDIs to support economic growth

Sri Lanka is committed to adopt an economic strategy through export driven Foreign Direct Investment (FDI) in the recent years. There are several proposals, which have supported this strategy in the budget. The following initiative has been taken to attract FDIs;

- In order to support and establish industrial parks, GoSL has provided support to Rojana Industries of Thailand to establish an industrial park at Milleniya with an investment of USD 500 Mn. This venture will be provided with land and necessary infrastructure such as electricity, water, access roads, etc by GoSL. Similar support will be extended to the proposed Industrial Zones in Bingiriya and Weligama. An LKR 2.5 Bn has been allocated to this initiative. The Board of Investments (BOI), the relevant line agencies and the newly established Public Private Partnership (PPP) unit at the ministry will collaborate in facilitating such ventures. Work has commenced on the establishment of the Hi-Tech Innovation Park in Pitipana with an allocation of LKR 100 Mn.

- Establish a 'One Stop Shop' for business registration via the introduction of a single identification system while streaming and digitizing records.

- Introduce an e-local government application system, automated construction permit issuing mechanism, integrated Land Registry (eLR), digitized 45 Land Registers, and establishing a National Single Window connecting 31 State agencies with the Customs Department to ease the process of starting a business.

The above initiatives will also help Sri Lanka to gain momentum in the Doing Business Index.

Infrastructure development

In order to support the country's growth wave, LKR 82.0 Bn has been allocated for the infrastructure development of which a majority of LKR 41.5 Bn has been allocated to the Western Region Megapolis. Similarly, LKR 12.0 Bn has been allocated for the Township and Strategic City Development programme in Kandy, Anuradhapura, Galle and Jaffna. Furthermore, LKR 2.0 Bn has been allocated to implement the master plan of Kalmunai and Samanthurai and to develop townships in lagging regions.

To improve the connectivity from Western Province to the up country, the Central Expressway project has been allocated an amount of LKR 10.0 Bn. In addition, a LKR 3.0 Bn has been allocated for the improvement in the rural road network and a further LKR 1.0 Bn has been allocated for the rehabilitation of roads that were affected by the natural disasters due to floods and landslides.

Furthermore, construction of a wall for flood protection in the Kelani basin and new multi-purpose reservoirs at Wee Oya, Nawatha, Holombuwa and Reucastle with an allocation of LKR 4.5 Bn.

Allocation of LKR 3.0 Bn also has been made to fast track the establishment of the Aruwakkalu waste disposal and management site.

To share the investment burden, the GoSL is expected to issue PPP guidelines for sectors covering transport and highways, power, ports, water supply, healthcare, education, housing, agri-business, retail and minerals.

Structural reforms to support growth

The GoSL's reform effort will continue in the coming year in line with Vision 2025. Reforms will take place with acts to be enacted such as Liability Management Act, Public Finance Management Act; Acts to be repealed such as Revival of Underperforming Enterprises or Underutilized Assets Act; followed by the amendments to acts and laws such as Public Contracts Act, Land (Restrictions and Alienation) Act, Shop and Office Employees Act and Bankruptcy laws.

Refining the labour stock

It has been identified that, a primary constraint on attaining sustainable growth for Sri Lanka is the nation's human resource pool with inadequate professional and technical skills. Several proposals has been brought forward by this budget to address this issue.

- Investing in the youth population to ensure they possess and develop the necessary skill sets demanded by the private sector (emphasizing on vocational and skills training) with an allocation of LKR 5.6 Bn.

- Allocating LKR 3.5 Bn to the school education system with a focus on improving the ratio of Science, Technology, Engineering and Medicine (STEM) to Non-STEM

graduates in the country. Furthermore, LKR 1.3 Bn was allocated for continuous professional development for teachers whilst LKR 0.8 Bn was allocated to strengthen the "Smart Classroom" concept, digitalization and development of e-text books.

In addition, under the reform efforts, amendments are to be made to the existing labour laws and Shop and Office Employees Act allowing employees to work 5 days a week with flexible hours.

Strengthening the backbone of the economy

The Small and Medium Enterprises (SME) sector is a vital pillar of the economy, contributing over 50% of GDP and 35% of the employment. The main impediment for the sector has been identified as the lack of capital or the difficulty in accessing capital. To facilitate better capital for the SME sector, the following proposals have been introduced;

- Allocating LKR 10.0 Bn for the establishment of a Development Bank with an EXIM window.

- Further strengthening and continuing the existing credit schemes on low interest rates to support the SMEs and Micro level entrepreneurs with nearly LKR 15 Bn being disbursed. GoSL will bear the interest subsidy on these schemes.

- Extending the support mainly to the farmers, fishermen, youth and women who are already engaged in small businesses, individually or as a community, to harness their entrepreneurial capacities as a part of the Grama Shakthi initiative of the President, with the allocation of LKR 2.2 Bn.

- Launching the "IT initiative" to support the SME IT industry, which would be an angel fund to the IT industry. This initiative will be operated through the Export Development Bank (EDB) and the GoSL is to invest LKR 3 Bn in the next 5 years to support:
  - The local start-ups and to attract foreign start-ups,
  - Small and Medium sized IT Companies, and
  - The establishment of incubators

- Establishing a SME Guarantee Fund, which will further augment the SMEs' capacity to borrow, given that it will be considered as collateral. The fund will be extended to the "IT Initiative" and the exporters who require support.

Capital Market development proposals

- Divesting the holdings in non-strategic enterprises via the capital market.
- Allowing the Bank of Ceylon and the People's Bank to raise debt and equity capital via the capital market whilst retaining controlling ownership.
- Ensure the necessary legal framework and policy environment are created for further development.

Sector-wise analysis

The budget proposals have been analysed based on the relative impact on different sectors of the Colombo Stock Exchange.

Banking and Finance

Budget proposal	Impact on Sector	Key counters
Debt Repayment Levy at the rate of LKR 2 per LKR 10,000 (i.e. 0.02%) transaction made by financial institutions with effect from 1st April 2018. However, this would be applicable only for 3 years and will not be passed on to the customers.	Profits are to be negatively impacted. A LKR 20 Bn revenue collection (in 2018) is expected from all financial institutions.	All listed banks and finance companies.
Reduction of import taxes on electric cars by at least LKR 1.0 Mn.	Positively impacting leasing portfolios	All listed banks and finance companies.
<u>Increased taxes on vehicles</u> • Increase of import tax on the high-end fossil fuelled cars by LKR 2.5 Mn. • Special tax on super luxury vehicles with an engine capacity exceeding 2,500cc. • Increase of import taxes on diesel three-wheelers by LKR 50,000.	Loans to these vehicle segments are expected to be curtailed, negatively impacting loan portfolios.	All listed banks and finance companies.

Budget proposal	Impact on Sector	Key counters
Revised Loan To Value (LTV) ratio for electric three-wheelers to 90%.	Currently all three-wheelers are subject to a LTV of 25%. Minimal impact in the short term as Sri Lanka is in the introductory stage of electric three-wheelers. However, there could be a positive impact on lending portfolios with exposure to this segment.	All listed banks and finance companies. All banks currently have a leasing exposure of 5% to 9%, except NTB with 20%.
<u>Initiatives supporting SMEs</u> • Continued credit schemes with low interest rate to support the SMEs. • Introduction of a concessionary Green Loan Scheme by Regional Development Bank in order to encourage local entrepreneurs to engage in environmental friendly alternative productions. • SME Guarantee Fund to access financing from banks utilizing the SME guarantees in order to enable SME exporters who are in the CRIB, but have the potential to export, yet have no access to finance its operations.	This would lead to an increase in micro and SME lending. If the SME Guarantee Fund is applicable only for state banks, this may negatively affect the listed banking counters due to the competition from state banks.	All listed banks. COMB, HNB, SEYB, DFCC and UBC currently have high exposure on SME.
Introduction of a special credit facility to upgrade the Homestay programme in order to increase room space for tourists.	Increased lending to the tourism industry. Currently, all banks have a 3.0% to 7.5% loan exposure to the tourism industry	All listed banks.
Removal of Nation Building Tax (NBT) on the import of selected equipment including greenhouse technology that enables advanced technology agricultural practices.	This will encourage the leasing and agricultural finance loan products of banks. Currently, all banks have 9% to 13% loan exposure to agriculture and related activities.	All listed banks.

Insurance

Budget proposal	Impact on Sector	Key counters
A 50% tax concession for surplus fund distribution to life insurance policyholders who share profit for a 3 year period.	In the proposed Inland Revenue (IR) bill, life Insurance companies' taxable profits are calculated including entire surplus fund distributed to policyholders. Hence, the 50% tax concession will have a positive impact on the bottom line of life insurance companies.	All life insurance companies
Agrahara medical insurance to be extended to all retirees for their entire lifetime with a contributory premium. Currently, the insurance is provided to retirees, who retired after 2016, for their lifetime.	The retired population (age above 55 years) was ~20.7% of the total population as of 2016. Less opportunity for the private non-life insurance players to tap into the dependent segment of the population. However, a minimal effect is expected.	All non-life insurance companies
A weather indexed insurance scheme to be introduced. The insurance cover will be a minimum of LKR 40,000 per acre for paddy, maize, soya, big onion, potato, and chilli. This will be a contributory scheme with the premium being borne by both the farmer and GoSL.	Agri-related insurance is a growing segment in the regional countries. With these GoSL initiatives, the chance of private players partaking in this segment is expected to reduce. However, impact will be very minimal.	All non-life insurance companies
• Excise duty on petrol and diesel motor vehicles to be applicable based only on the Engine Capacity cc. • Excise duty on electric vehicles to be applicable based on the motor power of the engine (kilo Watt).	Proposed duty reforms on motor vehicles are expected to negatively impact new motor vehicle (non-electric) registration in the country. In 2016, motor insurance contributed a lion share of ~65.0% of the overall industry Gross Written Premium (GWP).	All non-life insurance companies

Beverage, Food and Tobacco

Budget proposal	Impact on Sector	Key counters
An excise duty of LKR 0.50 per gram of sugar contained in beverages with immediate effect.	Increased prices may have a negative impact on the demand for soft drinks.	CCS
The import of maize to be liberalized provided that such imports will be made only to meet a gap created due to a lack of domestic production of maize.	This may have a positive impact on the cost of the poultry sector as a shortage of domestic maize production may not have a significant price pressure since the shortage can be imported going forward.	BFL, GRAN, TAFL, CIC
NBT on domestic coconut oil and kernal products to be removed for a period of 1 year.	Possible increase in the demand due to reduced taxation and reduced prices of coconut-based products.	RHL, RAL, COCO, CWM
Lease underutilized state farms or land suitable for the poultry industry to develop modern poultry farms with a view to increase the live birds stock from 110 Mn to 500 Mn per year.	Increase in supply may have a negative impact on the prices of chicken unless the growth in demand is greater or if the excess supply is exported.	BFL, GRAN, TAFL, CIC
NBT to be imposed on liquor with effect from 1st April 2018.	Increased prices may have a negative impact on the demand.	LION, DIST, BREW
Rationalize the tax structure based on a formula linked to the alcohol content and type. Hard liquor to be taxed at a higher rate of LKR 3,300, beer at LKR 2,400 and wine at LKR 2,400 per litre of alcohol.	Higher taxes on hard liquor compared to beer can negatively impact the demand for hard liquor whilst positively impacting the demand for beer.	LION & BREW - Positive DIST - Negative
An excise duty on raw materials used for ethanol production based on the quantity. Toddy to be taxed at LKR 5 per litre & Molasses/Maize/Rice/Fruits to be taxed at LKR 10 per litre.	Increased input cost can have a negative impact on the demand for liquor. However, the curtailing of the illicit market is a positive sign for the legal liquor manufacturers.	DIST

Budget proposal	Impact on Sector	Key counters
An excise duty of LKR 15 per litre on non-potable alcohol with immediate effect.	May have a positive impact on the legal liquor manufacturers.	DIST LION, BREW (Indirect impact)
The liquor licensing fee structure to be rationalized. License issuance mechanism to be revamped with a view to promote tourism.	May have a positive impact as there will be more players to distribute.	LION, DIST, BREW
Excise (special provisions) duty applicable on canned beer to be removed.	Will positively impact the beer segment.	LION, BREW
Issue new licenses to import cigarettes and cigars whilst curbing smuggling.	May have a negative impact on the sector as there could be price competition with new products entering the market. However, CTC could gain by applying for this import license and distributing via its well-established distribution network.	CTC

Chemicals and Pharmaceuticals

Budget proposal	Impact on Sector	Key counters
Excise duty of LKR 10 per kg for plastic resins.	Counters which are involved in manufacturing plastic and PVC products to be negatively affected.	LCEY, CIND

Hotels and Travels

Budget proposal	Impact on Sector	Key counters
Tourism infrastructure developments GoSL is to develop anchor sites to promote tourism in collaboration with Sri Lanka Tourism Development Authority (SLTDA) and the Sri Lanka Tourism Promotion Bureau (SLTPB). Places identified for development are Matara, Hambantota, Batticaloa, Trincomalee and Mannar. Improve four identified railway stations in collaboration with the private sector. Domestic airports to be developed under a PPP scheme. GoSL is to identify suitable areas and demarcate these areas as "open skies for aero sports". The NBT and Port and Airport Levy (PAL) applicable to import non-powered equipment to be removed. Import taxes applicable on off-road electric sports vehicles to be reduced. National parks to be developed in order to promote high-end safari experience.	These proposed infrastructure and transportation developments are expected to boost the tourism offering of the country and increase various segments of tourist arrivals. GoSL estimated an ambitious target of 4.5 Mn arrivals by 2020 in order to achieve the target arrivals to record a 4 year CAGR of 21.7%, which is believed to be difficult to achieve without enormous marketing and brand building activities. Earnings from tourism was the 3rd largest forex earner with a contribution of USD 3.5 Bn, translating into an average spending of USD 168.2 per tourist in 2016.	All listed hotels

Budget proposal	Impact on Sector	Key counters
<u>Sri Lanka tourism promotions</u> • EDB and SLTDA to jointly invest in the initiatives to develop "Branding Sri Lanka Cuisine". • To promote Sri Lanka, street festivals and exhibitions are to be organized in three overseas locations in 2018. • A VAT refund to be implemented at airports and sea ports for foreign passport holders to refund their VAT spent on shopping in Sri Lanka.	Proposed promotional activity in the key tourism source countries to enhance visibility of Sri Lanka's tourism offerings and in turn increase arrivals to the country. Refund of VAT for foreign passport holders to encourage spending in the country and support GoSL's vision of becoming a "Shopping hub".	All the listed hotels
<u>Improve safety of tourism</u> • SLTDA to establish 25 life-guarding stations along the coastal areas. • Strengthen the existing 20 tourism police units in popular tourist spots. • SLTDA and SLTPB to jointly develop a "Tuk Tuk" programme. Under the scheme, three-wheeler drivers are to be trained as tourist guides and will be required to register themselves with the bureau.	These initiatives are expected to boost the safety of the destination for tourists.	All the listed hotels
<u>Streamline tourism operators</u> • A special credit facility to be granted for Homestay units to upgrade their facilities.	This would encourage the growth of the informal sector, negatively impacting the formal sector.	All the listed hotels
Commission derived or accrued from the businesses carried out in Sri Lanka by Online Travel Agents (OTAs), both resident and non-resident, are subject to a tax of 1%.	Majority of bookings are done via OTAs. The tax could make a price differentiation between a direct booking and an OTA booking. Hence, there is a possibility for increased direct bookings, leading to increased margins.	All the listed hotels

Power and Energy

Budget proposal	Impact on Sector	Key counters
50% tax concession on Renewable energy for the next 4 years.	The IR bill proposed a tax rate of 28%. However, with the budget proposal, the effective tax rate would be reduced to 14%. This would have a positive impact on the bottom line.	PAP, VPEL, HPWR, HPFL, VLL
Incentives to be provided to encourage the use of off-grid solar power in establishing electric car charging stations while the NBT and PAL to be exempted on machines and equipment, which will be imported for the establishment of solar charging stations.	Companies operating within the industry will be able to diversify/expand into building solar powered electric charging stations with the support and partnership of GoSL.	PAP, VPEL, HPWR, HPFL, VLL (diversify) LOLC, HAYL, LGL (subsidiaries to expand)
All vehicles in the country to be hybrid or electric by 2040 and all GoSL vehicles to be converted to hybrid or electric vehicles by 2025.	LIOC is one of the two players in the fuel distribution sector with ~15.0% market share. In the long-term, the company may have to realign its strategy to cater to the electric vehicles using its existing resources and distributional network. Lubricants players supplied ~70.0% of their products to the automotive industry in 2016. The usage of lubricants in electric vehicles is very minimal in comparison to fossil-fuelled vehicles. Hence, in the long run, they also may need to realign or diversify their strategy to stay in the business.	LIOC, LLUB

Construction and Engineering

Budget proposal	Impact on Sector	Key counters
New multi-purpose reservoirs to be built upstream at Wee Oya, Nawatha, Holombuwa and Reucastle to enhance the water retention capacity. A similar mechanism will be implemented to other perennial rivers.	Construction companies with experience in hydro infrastructure projects would be able to bid for these projects. May have a positive impact. Demand for construction materials will also increase.	AEL, TKYO
Desilting of small and medium tanks in a systematic manner to harvest rainwater. Furthermore, GoSL will develop the anchorages and landing sites of fishery harbors.	Companies with exposure to irrigation and harbour construction related projects would be able bid for projects. May have a positive impact. Demand for construction materials will also increase.	AEL, TKYO
Develop infrastructure projects • Central expressway project • Upgrading of the pavilion and tracks at the Sugathadasa stadium • Development of domestic airports under PPP agreements • Production of 20,000 housing units by 2020 for low income segment • Integrated flood mitigation mechanism to cover the Colombo city limits and its suburbs • Administrative city development project • Ancillary infrastructure for the Colombo Port City • Transport development project • Beira lake rehabilitation and redevelopment project • Provision of road infrastructure for the Tech-City at Homagama	Positively benefit the order book of construction companies and/or revenue of construction related materials.	AEL, KAPI, TKYO, ALUM

Plantations

Budget proposal	Impact on Sector	Key counters
<u>Tea</u> • Introduce a new revenue model in the medium term. • To improve productivity of Tea smallholders, financial assistance of LKR 250 Mn to be provided. • Build 25,000 houses to replace the current type of accommodation, namely line rooms in the estate sector.	Specific details of the revenue model are not disclosed in the budget reading. Tea production in the country declined continuously for the last three years and in 2016, it declined by 11.1% to 292.5 Mn Kgs. Hence, empowering tea smallholders with the proposed assistance would bode well for the ailing tea industry as they contribute to ~70.0% of the overall tea production. By way of providing a better housing scheme the livelihood of the plantation sector workers will be enhanced.	All listed plantation companies (all companies have exposure to tea)
<u>Rubber</u> • Rubber Master Plan developed with the input of the industry specialists to be implemented. This would cover areas such as: – raw material base – manufacturing – product advancement – new technology	Expected to assist ailing rubber industry. Rubber production in 2016 was the lowest volume recorded in the past 50 years and plantation companies are moving away from rubber to other profitable crops. This was partly fuelled by declining crude oil prices.	Except for MADU, WATA, MASK and UDPL all listed companies have exposure in rubber

Motors

Budget proposal	Impact on Sector	Key counters
All vehicles in the country to be hybrid or electric by 2040 and all GoSL vehicles to be converted to hybrid or electric vehicles by 2025.	A long-term business model adjustment required, with a strategy focusing towards 100% hybrid or electric vehicle importation.	All listed motor players
Reduction in taxes on electric vehicles. LTV for domestically assembled electric vehicles (including cars, three-wheelers and buses) to be 90%.	Demand for imported electric vehicles is expected to rise. Buyers may opt for domestically assembled electric cars as opposed to imported vehicles due to the low equity required. However, the net impact is expected to be positive for the players engaged in selling of imported electric vehicles.	COLO, DIMO (these two companies engage in selling of imported electric vehicles)
The Usance letter of credit facility (i.e. an extension of a credit period) for importation of motor vehicles to be discountinued from 1st January 2018.	Negatively impact the working capital cycle of listed motor players.	All listed motor players
<u>Import taxes reforms</u> • Ad-valorem rate of excise duty on motor vehicles to be removed. • Excise duty on petrol and diesel motor vehicles to be applicable based only on the Engine Capacity cc. Excise duty on electric vehicles to be applicable based on the motor power of the engine kilo Watt.	Apart from tax reduction on electric vehicles (across all engine capacities) and hybrid petrol vehicles with engine capacity ranging from 1500cc to 1600cc, the duties on all other vehicles have increased. Increase in duties is expected to negatively affect the vehicle market.	All listed motor players
<u>Carbon tax imposed</u> • Carbon tax to be charged on a per day basis on motor vehicles based on engine capacity, age and fuel type. Electric vehicles to be exempted.	Minimal or no impact on demand.	All listed motor players

Land and Property

Budget proposal	Impact on Sector	Key counters
Remove restrictions that limit the land ownership rights of listed companies with foreign ownership.	In particular, companies with a majority shareholding by a foreign party is to benefit due to less restrictions. Furthermore, this is expected to positively impact the overall real-estate sector through increased FDIs.	OSEA (a listed player with 92.1% foreign ownership)
Restrictions on foreigners' ability to purchase condominiums below the 4th floor to be removed.	This is expected to increase demand from foreigners and expats for condominiums/apartments offered by developers.	KDL, MHDL, EAST, CSD, OSEA, IDL, JKH, AEL, LGL
VAT exemption on sale of condominium housing units removed.	This is expected to have a negative effect due to the increase in price per apartment unit.	KDL, MHDL, EAST, CSD, OSEA, IDL, JKH, AEL, LGL

Telecommunication

Budget proposal	Impact on Sector	Key counters
A Cellular Tower Levy of LKR 200,000 per tower per month to be imposed. The levy is to be borne by the mobile tower operator.	Negative impact on the bottom line of the telco companies, and thus the deteriorating margins. Currently, DIAL owns 2,000 towers whilst it operates on 3,000 towers.	SLTL, DIAL
SMS Levy on bulk advertisements at a rate of LKR 0.25 per SMS to be charged with effect from 1st April 2018. The Levy to be paid by the advertiser.	May have a negative effect on the volume of the bulk SMS advertisements. The average number of SMS advertisements of DIAL is estimated to be around 1 Mn per month.	SLTL, DIAL
In order to strengthen the digitalization drive, LKR 2 Bn has been allocated for Information Communication Technology Agency (ICTA) and LKR 755 Mn to the "Smart Class Room" concept.	The accessibility will lead to a tech savvy future generation, which will further increase the data usage.	SLTL, DIAL

Diversified

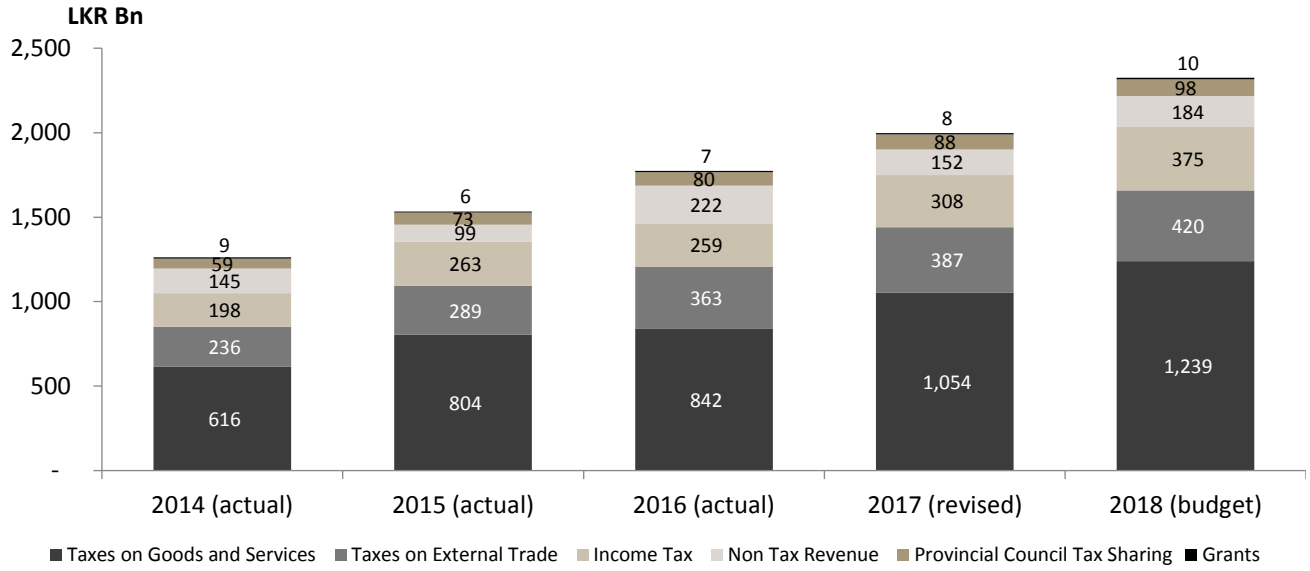
Budget proposal	Impact on Sector	Key counters
A VAT refund to be implemented at the airports and sea ports for foreign passport holders to refund their VAT spent on shopping in Sri Lanka.	Several mixed development projects that are underway include international standard shopping malls. This may positively impact the developers. In addition, existing shopping complexes are also expected to benefit positively.	JKH, ABNS, SHL, ODEL
Restrictions on the foreign ownership on the shipping and the freight forwarding agencies to be removed.	The existing shipping and freight-forwarding players may face new competition.	SPEN, HHL, EXPO
	May be beneficial for the companies operating in the bunkering and container terminal businesses since the number of ships to be called to Sri Lankan ports is expected to increase.	JKH, LIOC

ANNEXURES

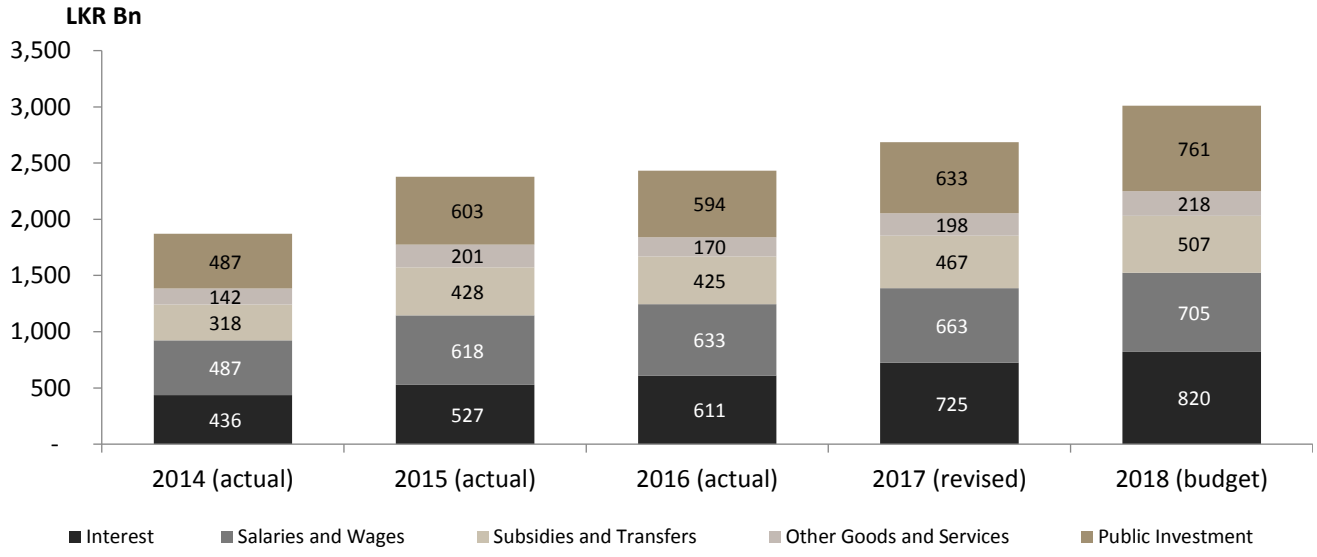
Revenue Proposals - 2018	LKR Mn
Motor vehicles excise duty and luxury tax revisions	25,000
Duty revisions on VAT and NBT	25,000
Debt Repayment Levy	20,000
Cellular Tower Levy & SMS-Advertising Levy	15,000
Duty revisions on liquor	10,000
Revision of Fees & Charges	7,500
Sugar tax on sweetened beverages	5,000
Excise duty on Non-potable alcohol and raw material used for ethanol production	3,000
Carbon Tax motor vehicles	2,500
Excise duty on plastic resin	2,000
Cess Levy, Special Commodity Levy & Ports and Airports Development Levy revisions	(5,000)
Total	**110,000**

Expenditure Proposals - 2018	LKR Mn
Housing, Urban and Rural Infrastructure Development	82,000
Blue - Green Economy	19,245
Enterprise Sri Lanka	14,340
Reconciliation	13,300
Encouraging Sustainable Agri and Fishery Ventures	7,850
Higher Education	7,340
Education	5,605
Harnessing our Young Entrepreneurs	5,550
Strengthening the Capital Markets	5,000
Health	3,700
Sports	3,450
Creating the Enabling Environment for Foreign Investments	3,150
Public Sector Service Delivery	3,050
Blue Economy	2,525
From Local Entrepreneurs to Global Leaders	2,260
Creating a Secure Environment for all	1,465
Heritage Culture and Wellness	1,310
Legal Reform	1,025
Tourism	565
Total	**182,730**

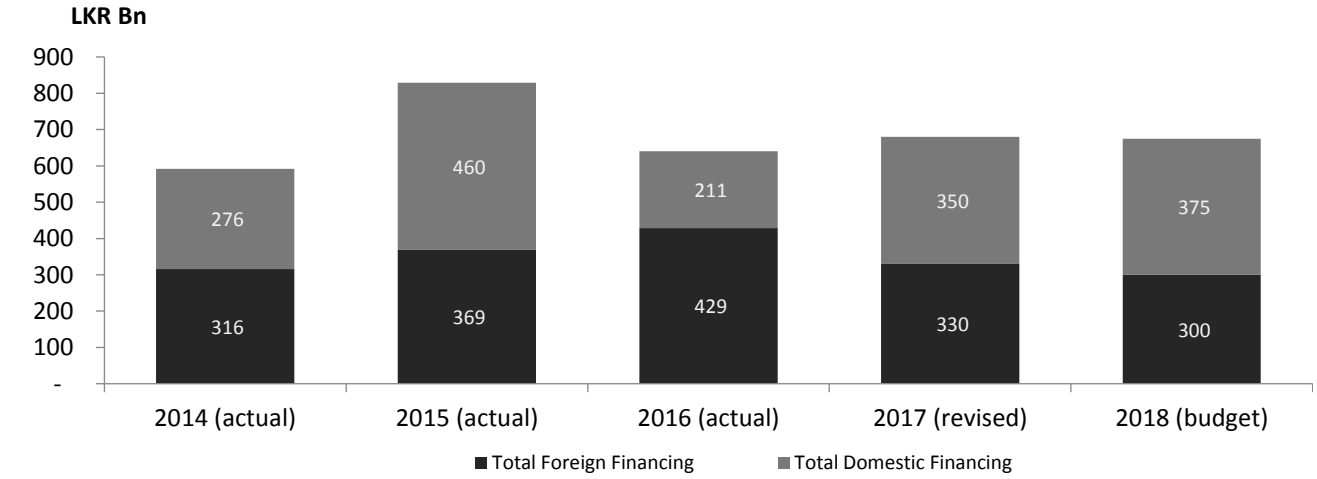
Total Revenue



Total Expenditure



Total Borrowing



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