



# Insights

October 2021

## 2022 SL Budget Appropriation Bill | Initial Observations

### Key Takeaways

- Decline in total expenditure is achieved at the expense of the capital spending
- Capital heavy ministries take capex cuts while personnel heavy ministries get a boost for recurrent expenditure
- Allocation of defense and security related SUs is strengthened
- Overall health related allocation is increased by nearly LKR 7 Bn
- Total expenditure allocation on education contracts by LKR 6 Bn
- Increase in the organic fertilizer allocation is financed by reductions in the budgets of minor agri Ministries
- Plantation related allocations fall below the norm
- Trade spending to be on par with 2020 levels
- Tourism receives the lowest allocation in five years
- Number of grassroot level development interventions in 2022 may see a decline
- Somewhat lower level of spending is expected on welfare and social development
- Allocations for industries plummet, risks sector development

## Introduction

For the year 2022, the [Appropriation Bill](#) – the first step of the national budget process – has been tabled in the Parliament and the Second Reading is set for 12<sup>th</sup> November 2021 followed by Parliamentary debates. Given the current challenges faced by the country, the Bill has invoked great interest and discussions among politicians and the general public. This article presents ICRA Lanka's initial observations with regard to the aggregate expenditure allocations of First Schedule (i.e., the expenditure of General Services of the Government) and the Second Schedule (i.e., expenditure of the Government, authorized by law, which should be charged to the Consolidated Fund) of the Bill. We caution readers that approved allocations of the individual Spending Units<sup>1</sup> (SUs) may vary from the original Bill.

## Our Observations

### **Decline in total expenditure is achieved at the expense of the capital spending:**

Total expenditure earmarked for 2022 stands at around LKR 4 Tn, a marginal decline of about LKR 30 Bn from the approved allocations for 2021. This reduction comes at the expense of the overall capital expenditure allocation (-20%), which is critical for the long-term growth of the economy. In addition, over LKR 384 Bn has been taken off from 54 SUs to finance the expenditure increase of other 25 SUs.

### **Capital heavy ministries take capex cuts while personnel heavy ministries get a boost for recurrent expenditure:**

Notable decline in capital expenditure allocations were observed in Highways (-LKR 100 Bn) and Water Supply (-LKR 69 Bn), Ministries with generally heavy capex spending. On the other hand, Ministries with large workforces; (1) Finance, (2) Public Services, Provincial Councils and Local Government, and (3) Defense collectively saw their recurrent expenditure allocations move up by LKR 214 Bn.

### **Allocation of defense and security related SUs is strengthened:**

When the allocations in the Second Schedule are excluded, Ministry of Defense emerges as the SU with the largest budget allocation overtaking the Ministry of Public Services, Provincial Councils and Local Government. The jump in allocations from 2021 is quite notable (+21%). The largest portion of the recurrent expenditure is earmarked to be spent on the operational activities of the Sri Lanka Army (LKR 181 Bn). Rest of the security related Ministries<sup>2</sup> have been allocated LKR 117 Bn for 2022.

**Overall health related allocation is increased by nearly LKR 7 Bn:** Current Pandemic is likely to turn into an endemic where the government may have to bear considerable costs yearlong due to relatively higher utilization of public health facilities, containment measures, and vaccination programme including booster shots. LKR 156

---

<sup>1</sup> Spending Unit is either a Ministry or a Special Spending Unit

<sup>2</sup> The Ministry of Public Security, and the State Ministry of Home Affairs and State Ministry of National Security and Disaster Management

Bn has been allocated for two traditional Ministries related to Health<sup>3</sup>, a 4% decline from 2021. However, total health related expenditure will move up by nearly LKR 7 Bn with the allocation of funds under the State Ministry of Primary Health Care, Epidemics and Covid Disease Control.

**Total expenditure allocation on education contracts by LKR 6 Bn:** The Ministry of Education is being allocated LKR 128 Bn; a marginal expansion of 1% compared to 2021. This expansion is a result of an increase in recurrent expenditure, which has risen by nearly LKR 3 Bn. However, aggregate allocations for education related Ministries<sup>4</sup> have contracted by over LKR 6 Bn (-4%).

**Increase in the organic fertilizer allocation is financed by reductions in the budgets of minor agri Ministries:** Total allocation earmarked for 2022 for agriculture related Ministries<sup>5</sup> (including Irrigation) was LKR 133 Bn. This is about 13% decrease from 2021 allocations but more-or-less in line with 2020 spending. Adoption of organic fertilizer is currently one of the priority items in the Government's agenda. The specific Ministry<sup>6</sup> which is responsible for this task, has received a sizable allocation of LKR 46 Bn, an increase of LKR 10 Bn from 2021. This increase is financed by cutting individual allocations of all the minor agri ministries by over 20%.

**Plantation related allocations fall below the norm:** Plantation sector is a key contributor to export revenues of the country at the moment. It is imperative that the government keep supporting the industry to achieve envisaged improvements in yields and quality. However, aggregate allocations for plantation related Ministries have gone down by about LKR 4 Bn (-35%). Even in comparison to 2020, these allocations can be deemed below the norm.

---

<sup>3</sup> The Ministry of Health and the State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health

<sup>4</sup> The Ministry of Education, State Ministry of Women and Child Development, Pre-Schools and Primary Education, School Infrastructure and Education Services, the State Ministry of Skills Development, Vocational Education, Research and Innovation, the State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education, and the State Ministry of Education Reforms, Open Universities and Distance Learning Promotion

<sup>5</sup> The Ministry of Irrigation, the State Ministry of Promoting the production & Regulating the supply of Organic Fertilizer and Paddy & Grains, Organic Foods, Vegetables, Fruits, Chillies, Onion and Potato Cultivation Promoting, Seed Production and Advanced Technology Agriculture, the Ministry of Agriculture, the State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion, the State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion, the State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports, the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries, the State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification, the Ministry of Fisheries, the State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields, and, Ministry of Plantation

<sup>6</sup> The State Ministry of Promoting the production & regulating the supply of Organic Fertilizer and Paddy & Grains, Organic Foods, Vegetables, Fruits, Chillies, Onion and Potato Cultivation Promoting, Seed Production and Advanced Technology Agriculture

**Trade spending to be on par with 2020 levels:** Ministry of Industry and Commerce is the key Ministry responsible for promoting industrial development in the country. It could play a pivotal role in assisting economic growth and facilitating employment creation. However, the Ministry has received only LKR 5 Bn, which is a reduction of 21% in comparison to what the ministry received in 2021, almost on par with 2020 levels.

**Tourism receives the lowest allocation in five years:** Tourism holds an important role in the economy due to its ability to generate forex revenue and create jobs. With gradual reopening of international borders, tourism is expected to make a comeback in 2022. Allocation for the Ministry of Tourism was halved to LKR 923 Mn, lowest since 2016. The government increased capital expenditure of the Ministry substantially in 2021 (from LKR 288 Mn in 2020 to LKR 1 Bn in 2021), and it has been drastically brought down to LKR 245 Mn in 2022.

**Number of grassroots level development interventions in 2022 may see a decline:** Capital expenditure cuts in Ministries such as Public Services, Provincial Councils and Local Government (-LKR 18 Bn), the State Ministry of Rural and School Sports Infrastructure Improvement (-LKR 262 Mn), the Ministry of Urban Development and Housing (-LKR 9 Bn) etc. may deliver a relatively a smaller number of small-scale development projects in 2022.

**Somewhat lower level of spending is expected on welfare and social development:** Legacy of pandemic may leave an elevated level of poverty especially among rural communities. We observe some sizable cuts in allocations of welfare and social development-oriented Ministries such as the State Ministry of Samurdhi Household Economy, Micro-finance, Self Employment and Business Development (-LKR 10 Bn).

**Allocations for industries plummet, risks sector development:** Development of the industries is a critical need of the hour due to the fragile state of the economy. However, a number of Ministries<sup>7</sup> related to this saw the allocations fall below even 2020 levels. Collectively, the allocations of these Ministries are brought down almost by half for 2022.

---

<sup>7</sup> The State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion, the Ministry of Industries, the State Ministry of Rural Housing, Construction and Building Material Industries, the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries, State Ministry of Gem and Jewellery related Industries, the State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports, the State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification

## Abbreviations

CBSL                    Central Bank of Sri Lanka  
SU                        Spending Unit

*To subscribe to ICRA economic updates, contact  
Lalinda Sugathadasa  
Head of Research & Business Development  
Call: +94 77 478 1343  
Email: [research@icralanka.com](mailto:research@icralanka.com)*

Published date: Oct 13, 2021  
Document #: ins21oct13

©Copyright, 2021- ICRA Lanka Limited. All Rights Reserved. Contents may be used freely with due acknowledgement to ICRA Lanka. All information contain herein are from sources deemed reliable; however, no representation or warranty is made to the accuracy of thereof.

# About ICRA

ICRA Lanka Limited (ICRA Lanka) is a Credit Rating Agency licensed by the Securities and Exchange Commission of Sri Lanka (SEC). ICRA Lanka is a fully owned subsidiary of ICRA Limited ("ICRA") of India. The ultimate parent company of the international credit rating agency, Moody's Investors Service, is the indirect majority shareholder of ICRA.



Subsidiary of  
**ICRA Limited**

#### CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka  
Tel: +94 11 4339907; Fax: +94 11 2333307  
Email: [info@icralanka.com](mailto:info@icralanka.com); Website: [www.icralanka.com](http://www.icralanka.com)

#### Disclaimer

This publication has been prepared by ICRA Lanka solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ICRA Lanka does not represent that it is accurate or complete. ICRA Lanka does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication.

# Contacts

W Don Barnabas  
Managing Director/CEO  
+94-11-773417517  
[wdbarnabas@icralanka.com](mailto:wdbarnabas@icralanka.com)

Lalinda Sugathadasa  
Head of Research &  
Business Development  
+94-11-774781343  
[lalinda@icralanka.com](mailto:lalinda@icralanka.com)

Rasanga Weliwatta  
Head of Financial Sector Ratings  
+94-11-773553564  
[rasanga@icralanka.com](mailto:rasanga@icralanka.com)

Access more of our research content at  
<https://www.icralanka.com/research/>

Follow us on



lcr Lanka



icra-lanka