

**Potential resumption of private vehicle imports**

Report date: 15.03.2024

**Key highlights**

Sri Lanka's President has hinted at a gradual resumption of private vehicle imports starting next year. The government has allowed imports of many goods other than private vehicles. Further, the government had decided to prioritize electric vehicle promotion to curtail higher carbon emissions and urban air pollution. Approval was granted to migrant workers for fully electric vehicle import permits, encouraging expatriate workers to remit earnings legally. However, local importers are concerned about the increase in the duty structures for imported vehicles, as the government revised the duty structure in January, leading to a significant rise in import costs. The Vehicle Importers Association of Sri Lanka's survey indicates that local market prices are expected to rise alongside the resumption of imports.

**Recent Lifts in Vehicle Imports**

In March 2020, the Sri Lankan government decided to suspend vehicle imports to address the challenge of dwindling foreign-currency reserves during the COVID-19 pandemic and the subsequent financial crisis. However, in August 2023, Sri Lanka's Government relaxed import restrictions on public and heavy vehicles allowing imports of buses, trucks, bowsters, milk tankers, refrigerated trucks, fire engines, crane trucks, concrete mixers, and concrete pump trucks.

**Impact on Listed Counters**

A further lifting of import restrictions on private vehicles could have favorable effects on the following sectors.

- **Automotive Companies**

The automobile industry will experience increased demand leading to higher sales. However, concerns have been raised about potential duty structure increases, potentially leading to higher costs for imported vehicles. The demand may not reach pre-crisis levels until consumer income improves to afford the highly taxed private vehicles.

- **Insurance Companies**

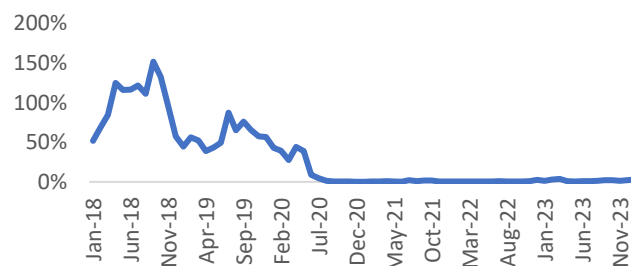
The resumption of vehicle imports would work favorably leading to an increase in the number of policies issued. The increased number of vehicles on the roads could lead to higher demand for mandatory third-party liability insurance and comprehensive coverage. Insurance companies may experience a surge in policy sales and premium income.

- **Leasing & Finance Companies**

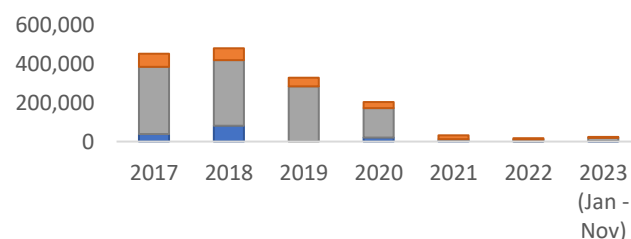
The resumption of vehicle imports in Sri Lanka would lead to increased demand for leasing services. The lower interest rate environment also supports higher leasing disbursements. These companies would see their leasing portfolios expanding due to more disbursements, leading to strong topline growth.

**Import Expenditure on Vehicles**

Source: CBSL

**Vehicle Imports as a % of Food and Beverages Imports**

Source: CBSL

**New Vehicle Registrations**

■ Motor Cars ■ Motor Cycles ■ Other vehicles

Source: CBSL, Ministry of Transport and Highways

### Concerns on Increasing Tariffs

Despite the President's hint at a gradual resumption of private vehicle imports starting next year, importers are cautious about the implications of higher tariffs. They fear that any changes to the tariff structure could result in a significant increase in the cost of importing vehicles, eroded profit margins, and making imported vehicles less competitive in the local market.

### Impact on Government Revenue

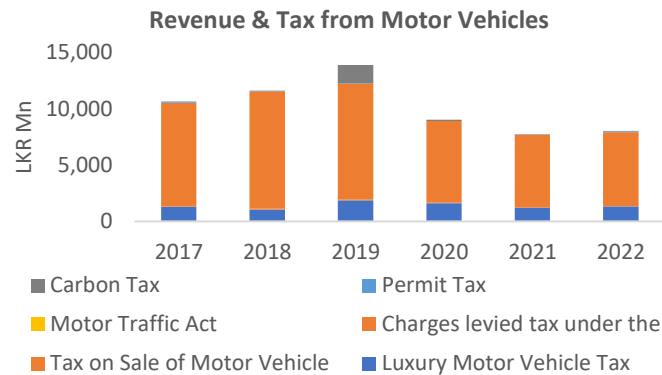
It is estimated that the country has lost approximately LKR 300-400 Bn in taxes per year since the ban on vehicle imports. With a possible lifting of the import ban, the government revenues in terms of import tariffs/ excise duties as well as registration and other fees would see a surge. Sri Lanka Customs earned LKR 970 Bn in 2023, its highest earnings despite the vehicle import ban. In the 2024 budget proposal, 12% of the government revenues are expected to be derived from external trade. Further, the ongoing discussions with the IMF and the country's debt restructuring efforts would lead to prioritizing enhancing government revenue.

### Impact on Currency & Foreign Reserves

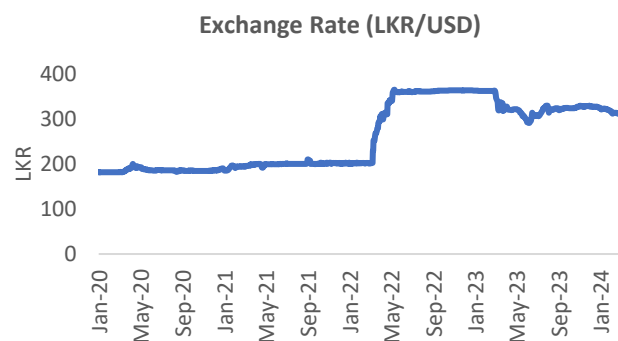
The decision could put pressure on the country's foreign exchange reserves, especially if import volumes surge rapidly. The resumption of vehicle imports could widen the trade deficit, further putting pressure on the country's currency and foreign reserves. The increased demand for foreign currency to finance vehicle imports may lead to depreciation pressures on the Sri Lankan rupee, potentially weakening against major currencies.

### Promoting Electronic Vehicles

The Sri Lankan government's focus on electric vehicles (EVs) suggests a commitment to sustainable transportation. The resumption of vehicle imports could accelerate EV adoption, especially if there are supportive policies like tax incentives or subsidies incentivizing consumers to consider EVs.



Source: Ministry of Transport and Highways



Source: CBSL

**AMBEON SECURITIES (PVT) LIMITED**

No: 10, 2nd Floor  
Gothami Road,  
Colombo 08,  
Sri Lanka.

T : +94 11 532 8 100

F : +94 11 532 8 177

E: [research@ambeonsecurities.lk](mailto:research@ambeonsecurities.lk)



Follow our  
LinkedIn page for  
regular updates



Hit "follow" to  
subscribe to our  
WhatsApp channel

**Sales Team**

Charith Kamaladasa  
Niranjan Niles  
Romesh Kenny  
Chinthaka Weeraratna  
Pasindu Yatawara

Director/CEO  
Executive Director  
Senior Manager Institutional Sales  
Senior Investment Advisor  
Senior Investment Advisor

[charithk@ambeonsecurities.lk](mailto:charithk@ambeonsecurities.lk)  
[niles@ambeonsecurities.lk](mailto:niles@ambeonsecurities.lk)  
[romesh@ambeonsecurities.lk](mailto:romesh@ambeonsecurities.lk)  
[chinthaka@ambeonsecurities.lk](mailto:chinthaka@ambeonsecurities.lk)  
[pasindu@ambeonsecurities.lk](mailto:pasindu@ambeonsecurities.lk)

**Research Team**

Hansinee Beddage  
Shashikala Hanshani  
Amoda Prasansana

Manager Investment Research  
Trainee Investment Research Analyst  
Trainee Investment Research Analyst

[hansinee@ambeonsecurities.lk](mailto:hansinee@ambeonsecurities.lk)

**DISCLAIMER**

Ambeon Securities has taken reasonable steps to ensure the accuracy and reliability of the information presented in this Report. While we strive for accuracy, we do not guarantee the completeness or correctness of the information. The information may be subject to change without notice, and Ambeon Securities is not obligated to update or revise the Report after its initial publication. Any updates or revisions will be made at the sole discretion of Ambeon Securities.

Ambeon Securities, its employees, and affiliates shall not be held liable for any direct or indirect loss or damage that may arise from the use of the information contained in this Report. This includes, but is not limited to, financial losses, lost profits, direct, indirect, incidental, punitive or any other consequential damages.

The information and opinions presented in this Report are for informational purposes only and should not be construed as any offer, investment advice, a recommendation to buy or sell any securities, or an endorsement of any investment strategy. Ambeon Securities does not provide personalized investment advice, and you should consult with a qualified financial advisor before making any investment decisions. This Report may contain forward-looking statements that involve risks and uncertainties. These statements are based on our current expectations and assumptions and are subject to various factors that may cause actual results to differ materially from those expressed or implied in the Report.

This report does not take into account the specific financial situation, investment objectives, or risk tolerance of individual readers. Consequently, investments discussed in this report may not be suitable for all investors. Each reader is responsible for determining the suitability of any investment based on their own circumstances.

Ambeon Securities, its employees, and affiliates may have financial interests in the securities mentioned in this Report. These interests may change without notice, and such positions may have an impact on the opinions expressed in the Report.

This Report is intended solely for the use of the recipient and may not be reproduced, redistributed, or otherwise disseminated to any other person or entity without the express written consent of Ambeon Securities. All rights, including copyright, are reserved.

Investing in securities involves risks, including the risk of loss of principal. Past performance is not indicative of future results, and the value of investments may go up or down. These risks may include, but are not limited to, market risk, liquidity risk, credit risk, geopolitical risk, and other factors that can impact the performance of investments.

By accessing and reading this Report or downloading the report electronically, you acknowledge and agree to the terms and conditions outlined above. If you do not agree with these terms, please refrain from using this Report. Ambeon Securities assumes no responsibility for any unauthorized use of this Report or its contents.