2027

BUDGET ECONOMIC AND FISCAL POSITION REPORT

Issued under Section 49 of the
Public Financial Management Act,
No. 44 of 2024

Ministry of Finance, Planning and Economic Development, Sri Lanka

November 12, 2026



BUDGET ECONOMIC AND FISCAL POSITION REPORT – 2027

Anura Kumara Dissanayake,
Minister of Finance, Planning and Economic Development,
Sri Lanka

November 12, 2026

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Key Economic Indicators

Indicator	Period	Unit	Value	
			2025	2026
REAL SECTOR				
Economic Growth	First Half	%	4.8	4.7
Agriculture	First Half	%	0.6	-0.6
Industry	First Half	%	7.9	7.2
Services	First Half	%	3.3	3.1
Inflation (Year on Year) – CCPI (2021=100)	End Oct	%	2.1	8.3
Inflation (Average) – CCPI (2021=100)	End Oct	%	-1.2	5.0
Unemployment Rate	2nd Quarter	%	3.8	4.0
Labour Force Participation Rate	2nd Quarter	%	49.3	50.0
FISCAL SECTOR				
Budget Balance	Jan-Aug	Rs. Bn.	-411	35
Total Revenue	Jan-Aug	Rs. Bn.	3,295	3,998
Tax Revenue	Jan-Aug	Rs. Bn.	3,068	3,684
Non Tax Revenue	Jan-Aug	Rs. Bn.	226	315
Total Expenditure	Jan-Aug	Rs. Bn.	3,712	3,967
Recurrent Expenditure	Jan-Aug	Rs. Bn.	3,381	3,531
Public Investment	Jan-Aug	Rs. Bn.	339	446
Government Debt	End Jun	Rs. Bn.	29,635	31,278
EXTERNAL SECTOR				
Exports	Jan-Sep	USD Mn.	10,215	10,754
Agriculture Exports	Jan-Sep	USD Mn.	2,324	2,317
Industrial Exports	Jan-Sep	USD Mn.	7,854	8,398
Textile and Garments	Jan-Sep	USD Mn.	4,021	3,797
Other	Jan-Sep	USD Mn.	3,833	4,601
Imports	Jan-Sep	USD Mn.	15,390	18,666
Consumer Goods	Jan-Sep	USD Mn.	3,816	4,485
Intermediate Goods & other	Jan-Sep	USD Mn.	8,617	10,456
o/w Petroleum Products	Jan-Sep	USD Mn.	2,961	4,487
Investment Goods and other	Jan-Sep	USD Mn.	2,956	3,725
Trade Balance	Jan-Sep	USD Mn.	-5,174	-7,912
Tourist Arrivals	Jan-Sep	No.	1,725,494	1,693,679
Earnings From Tourism	Jan-Sep	USD Mn.	2,473	2,245
Workers' Remittances	Jan-Sep	USD Mn.	5,812	6,865
Portfolio Investments (Net)	End Jun	USD Mn.	526	450
Overall Balance of Payments (BOP)	Jan-Jun	USD Mn.	522	136
Gross Official Reserves	End Aug	USD Mn.	6,178	6,929
Exchange Rate (End Month)	End Oct	Rs. per USD	304.42	332.61
Exchange Rate (Monthly Average)	Oct	Rs. per USD	303.13	331.42
MONETARY SECTOR				
Standing Deposit Facility Rate (SDFR)	End Sep	%	7.25	8.25
Standing Lending Facility Rate (SLFR)	End Sep	%	8.25	9.25
Statutory Reserve Requirement (SRR)	End Sep	%	2.00	2.00
Commercial Bank Weekly Average Weighted Prime Lending Rate (AWPR)	End Sep	%	8.10	11.04
Weighted Average Yield Rate of Treasury Bills (91 Days)	End Sep	%	7.57	9.25
Weighted Average Yield Rate of Treasury Bills (364 Days)	End Sep	%	8.02	9.95
Growth in Money Supply (M_{2b})	Aug 2025/Aug 2026	%	10.7	11.5
Growth in Credit to the Private Sector	Aug 2025/Aug 2026	%	20.5	24.5

Reporting Requirements
Under the Public Financial Management Act, No. 44 of 2024 (PFMA)

Section	Requirement	Purpose	Mode of Compliance
Section 11	Submission of the Fiscal Strategy Statement*	To provide the Parliament and public with a formal statement of the Government's fiscal strategy, provide strategic guidance for the upcoming annual budget, establish a basis upon which fiscal performance shall be evaluated objectively strengthen parliamentary oversight of performance against Government's fiscal strategy and enhance fiscal transparency and accountability as per Section 11(4) of the PFMA.	To be announced by the Minister of Finance at Parliament on or before thirtieth day of June of each year upon obtaining the approval of the Cabinet of Ministers. The Fiscal Strategy Statement shall be published on the official website of the Ministry of the Minister of Finance.
Section 49	Submission of the Budget Economic and Fiscal Position Report*	To provide information on all Government decisions and all other circumstances that may have material effect on the fiscal and economic position of the Government including the content specified under Section 49(2) of the PFMA.	To be tabled in Parliament by the Minister of Finance on the day fixed for the second reading of the Appropriation Bill in Parliament, in each year. The report shall be published on the official website of the Ministry of the Minister of Finance upon submission to Parliament.
Section 50	Submission of the Mid-Year Fiscal Position Report*	To provide a basis for the public to evaluate the Government's Mid-year fiscal performance as against its fiscal strategy as set out in its statement including the content specified under Section 50(2) of the PFMA.	To be published in the website of the Ministry of the Minister of Finance, by the last day of the month of October of the relevant year or the lapse of ten months from the date of the passing of the Appropriation Act of the relevant year, whichever is later; and to be tabled in Parliament within two weeks of the date of such release or if Parliament is not sitting on the date of the release of the report, cause a copy of such report to be tabled within two weeks of the next sitting of Parliament.

Section	Requirement	Purpose	Mode of Compliance
Section 51	Submission of the Final Budget Position Report (Annual Report)*	To provide a basis for the public to evaluate the Government's annual fiscal performance as against its fiscal strategy as set out in its statement for the relevant financial year including the content specified under Section 51(2) of the PFMA.	To be published on the website of the Ministry of the Minister of Finance, not later than six months from the end of the financial year; and be tabled in Parliament within two weeks of the date of such release if Parliament is sitting on the date of the release of the final budget position report; or if Parliament is not sitting on the date of the release of the report, cause a copy of such report to be tabled in Parliament within two weeks of its next sitting.
Section 52	Submission of the Pre-election Budgetary Position Report**	To provide updated information to the public of the fiscal position of the country including the content specified under Section 52(2) of the PFMA.	To be released to the public within three weeks of the publication of proclamation or Order requiring the holding of a General Election to elect the members of Parliament; and placed before Parliament within two weeks of the first sitting of the new Parliament and be published in the official website of the Ministry of the Minister of Finance. The Minister of Finance shall, for the purpose of enabling the Secretary to the Treasury to prepare the report, disclose to the Secretary, details of all Government decisions and other circumstances, within his knowledge, which have, or could have material, fiscal or economic implications.
Section 53	Submission of Reports on financial performance of the Ministry of the Minister of Finance*	To provide a statement on financial performance including revenue and expenditure, of the Government.	To be submitted to the Cabinet of Ministers and simultaneously published on the official website of the Ministry of the Minister of Finance, not later than forty-five days after the end of each quarter.

** By the Minister of Finance*
*** By the Secretary to the Treasury*

Compliance – 2026

- **Final Budget Position Report – 2025**

  As per the Section 51(1) of the Public Financial Management Act, No. 44 of 2024 (PFMA), the Final Budget Position Report was released to the public by the Minister of Finance as part of the Annual Report of the Ministry of the Minister of Finance on June 30, 2026.

- **Fiscal Strategy Statement – 2027**

  As per the Section 11(3) of the Public Financial Management Act, No. 44 of 2024 (PFMA), the Fiscal Strategy Statement (FSS) was announced by the Minister of Finance at Parliament on June 26, 2026. The FSS was published on the official website of the Ministry of the Minister of Finance on June 26, 2026 with the announcement made by the Minister of Finance.

- **Mid-Year Fiscal Position Report – 2026**

  Status of the fiscal and economic position of the first six months of 2026 was released to the public on October 31, 2026 and was tabled in Parliament on November 12, 2026.

- **The Budget Economic and Fiscal Position Report – 2027**

  This report contains the estimates related to the gross domestic product, consumer prices, employment and unemployment, balance of payment, revenue and expenditure and Government borrowing, the basis which has been used in the preparation of the aforementioned estimates, a statement relating to the sensitivity of the aforementioned estimates and the changes which may occur in connection with the economic or other basis used in preparation of such estimates, a statement, quantified as far as practicable, the risks that may have a material effect on the fiscal position among other information which was tabled in Parliament on November 12, 2026.

Budget Economic and Fiscal Position Report – 2027

This Report contains two parts: Part I presents the Medium-Term Fiscal Strategy Statement specified in Section (20)(2)(c) of the Public Financial Management Act, No. 44 of 2024 and; Part II presents Information on all Government decisions and all other circumstances that may have material effect on the fiscal and economic position of the Government including the content specified in Section 49(2) of the Public Financial Management Act, No. 44 of 2024.

PART I

Medium-Term Fiscal Strategy Statement

01

1.1 Overview

Sri Lanka entered 2026 on a stronger macroeconomic and fiscal footing, reflecting continued policy reforms to restore macroeconomic stability, strengthen public finances, and rebuild confidence in the economy. Despite successive domestic and external shocks, including the impact of Cyclone Ditwah and heightened geopolitical tensions in the Middle East, the economy has stabilized.

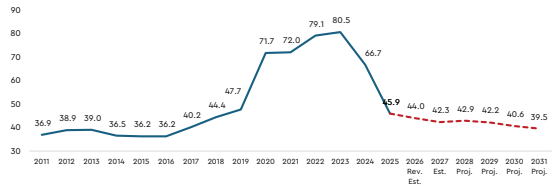
Real GDP expanded by 4.2 percent year-on-year in the second quarter of 2026, marking twelve consecutive quarters of positive growth. In addition, the World Bank reclassified Sri Lanka as an upper-middle-income country with effect from July 1, 2026. Recent high-frequency indicators continued to signal an expansion in economic activity. Headline inflation, as measured by the Colombo Consumer Price Index (CCPI), was 8.3 percent year-on-year in October 2026.

Gross official reserves, including the swap facility with the People's Bank of China, increased to about USD 6.9 billion by end-September 2026, equivalent to more than 3 months of imports, supported by net foreign exchange purchases by the Central Bank of USD 1.5 billion.

The current account recorded a cumulative deficit of USD 420.4 million in the first nine months of 2026, compared with a surplus of USD 1,853.2 million in the same period of 2025, reflecting heightened external sector pressures amid the escalation of the conflict in the Middle East. The merchandise trade deficit widened to USD 7.9 billion, from USD 5.2 billion. The cumulative fuel import bill increased by 51.5 percent year-on-year to about USD 4.5 billion, exceeding the total annual fuel import bill for 2025 within first nine months of 2026. Earnings from tourism declined by 9.2 percent year-on-year to USD 2.2 billion, reflecting disruptions associated with the Middle East conflict and the downward revision of average tourist expenditure. Workers' remittances provided an important offsetting inflow, rising by 18.1 percent year-on-year to USD 6.9 billion in the first nine months of 2026.

Fiscal performance during the first eight months of 2026 remained strong, reflecting sustained revenue mobilisation and expenditure discipline. Recent reforms in tax policy and revenue administration have lifted revenue well above the pre-crisis (2015–2019) average of 12.6 percent of GDP. Total government revenue, including grants, is expected to reach 16.6 percent of GDP in 2026. The primary surplus is projected to rise to 3.6 percent of GDP, up from the earlier projection of 2.1 percent. The closing cash balance of Treasury cash flow operations stood at Rs. 1,131 billion at end-September 2026, compared with Rs. 1,220 billion at end-September 2025. In addition, interest payments as a share of total revenue declined markedly, from 79.1 percent in 2022 to 45.9 percent in 2025, and stood at around 40.2 percent during the first eight months of 2026.

FIGURE 1.1 | Interest Payments
As a % of Total Revenue



Source: Department of Fiscal Policy

Despite heightened operational and financial pressures arising from the Middle East conflict since the second quarter of 2026, the financial performance of major State-Owned Enterprises (SOEs) remained broadly resilient, supported by ongoing governance, and operational reforms. The 51 major SOEs reported an aggregate before tax profit of Rs. 366.9 billion during the first eight months of 2026, compared with Rs. 307.5 billion in the same period of 2025. However, higher energy and input costs, disruptions to trade and transport, and increased uncertainty have placed renewed pressure on the financial position of several SOEs.

The improvement in macroeconomic and fiscal conditions has also been reflected in recent sovereign credit rating

developments. On September 22, 2026, Fitch Ratings upgraded Long-Term Issuer Default Ratings of Sri Lanka from 'CCC+' to 'B-', with a Stable Outlook, citing progress in macroeconomic stabilisation and structural reforms, improvements in fiscal and external balances, and the rebuilding of foreign exchange reserves.

The Report on Investor Relation and Debt Transparency 'The Transparency Dividend' released by Institute of International Finance ranked Sri Lanka fourth for year-on-year improvement in investor relations and fifth among the strongest improvers in debt transparency across 57 emerging market and developing economies. These gains reflect stronger debt disclosure and investor engagement.

However, the progress achieved in strengthening macroeconomic stability, fiscal resilience and the external position continues to be tested by the aftermath of Cyclone Ditwah. The Post-Disaster Needs Assessment (PDNA) estimates total recovery and reconstruction needs at approximately Rs. 1,022.5 billion over a three year period. In response to the immediate recovery and reconstruction requirements, Parliament approved a supplementary budget of Rs. 500 billion for 2026 to support the restoration of damaged infrastructure and housing, the recovery of livelihoods and other urgent post-disaster needs. Substantial rehabilitation and reconstruction expenditure will continue into 2027, presenting an important challenge to the fiscal framework and requiring the Government to balance essential recovery needs with the preservation of fiscal discipline and medium-term fiscal sustainability. Current assessments indicate an additional expenditure requirement of approximately Rs. 260 billion in 2027.

The continuation of reconstruction into 2027 will require a temporary adjustment to the previously envisaged expenditure path. While the Fiscal Strategy Statement 2027 envisaged primary expenditure of approximately 12.9 percent of GDP, within the statutory ceiling of 13.0 percent of GDP, the additional reconstruction requirement cannot be fully accommodated through expenditure reprioritisation without adversely affecting other priority investments. Accordingly, under the revised Medium Term Fiscal Framework (MTFF), primary expenditure is expected to temporarily increase to around 13.6 percent of GDP in 2027, while capital expenditure and net lending are projected to increase from 4.4 percent to around 5.1 percent of GDP. As such, the temporary deviation from the primary expenditure ceiling will be addressed in accordance with the provisions of the Public Financial Management Act (PFMA) applicable to exceptional circumstances, together with a clear path for restoring compliance with the statutory ceiling.

The reconstruction programme will place particular emphasis on the quality, resilience and efficiency of public investment. Expenditure will be prioritised on the basis of urgency, project readiness, implementation capacity and economic and social importance, while Build Back Better principles will be incorporated, where technically and economically appropriate, to strengthen the resilience of restored public assets and communities against future disasters. Strong expenditure controls, transparent procurement and regular monitoring of commitments, cash releases and actual expenditure will support effective implementation. Cyclone Ditwah-related expenditure will be separately identified and reported to ensure that it remains temporary, targeted and additional, while preventing temporary disaster-related recurrent expenditure from creating permanent fiscal commitments.

Alongside the domestic impact of Cyclone Ditwah, developments in the Middle East remain an important source of macroeconomic and fiscal risk through their effects on energy prices, import costs, tourism, the external sector and vulnerable households. In response to the sharp increase in energy costs and related pressures on household incomes and productive sectors, the Government

introduced a temporary relief package, initially budgeted at Rs. 100 billion. The package concluded in September 2026, with total expenditure of Rs. 105.9 billion. Following the further escalation of the conflict, a new package of Rs. 41 billion was introduced in October 2026 to provide additional fuel subsidies during October-December 2026. These interventions were designed to cushion the immediate impact of the external shock while limiting broader second-round effects on living costs and economic activity. At the same time, the Government will preserve cost-reflective energy pricing over the medium term, thereby avoiding prolonged broad-based subsidies that could generate high fiscal costs, weaken the financial position of SOEs and crowd out resources required for reconstruction and productive public investment.

The climate and weather-related risks are also expected to remain an important source of uncertainty for the macroeconomic and fiscal outlook. The ongoing El Niño event, which is expected to remain strong into early 2027, could contribute to abnormal rainfall patterns, disruptions to agricultural production and water availability, and renewed food-price pressures. Such developments could have wider fiscal implications through their effects on economic activity and government revenue, as well as through potential additional requirements for disaster response, social protection and other targeted interventions. These risks reinforce the importance of maintaining adequate fiscal buffers and contingency arrangements, strengthening disaster-risk monitoring and preparedness, and integrating climate resilience into public investment and medium-term fiscal planning.

Despite exceptional expenditure requirements, the Government will continue to pursue revenue-based fiscal consolidation. Under the revised recovery path, Government revenue is projected at approximately 15.8 percent of GDP in 2027 and around 16.0 percent of GDP thereafter. Continued revenue mobilisation will be essential to accommodate temporary reconstruction expenditure while preserving the primary surplus and maintaining the declining debt trajectory. The Medium-Term Revenue Strategy (MTRS) will be introduced to strengthen the durability, efficiency, and fairness of the revenue system, rather than relying on temporary or distortionary taxes to finance one-off expenditure. Priority reforms will focus primarily on revenue administration and are expected to generate additional revenue of around 2.0 percent of GDP over the medium term. Key measures include further broadening of the tax base and tax net, strengthening risk-based audits and compliance management, accelerating the digitalisation of tax administration, enhancing Revenue Administration Management Information System (RAMIS), implementing e-invoicing, and taking further measures to reduce tax evasion and revenue leakages.

The revised fiscal framework is expected to preserve a strong primary balance despite the exceptional reconstruction programme. Under the current recovery path, the primary surplus is projected at approximately 2.3 percent of GDP in 2027. As exceptional Cyclone Ditwah-related expenditure declines, primary expenditure is projected to return to approximately 12.9 percent of GDP in 2028, restoring compliance with the statutory primary expenditure ceiling, while the primary surplus is expected to strengthen to approximately 3.0 percent of GDP over the medium term. From 2028 onwards, primary expenditure is expected to remain within the statutory ceiling, while revenue mobilisation, primary surplus objectives and continued debt reduction will guide the medium-term fiscal framework.

Social protection will continue to form an integral part of the medium-term fiscal strategy. The experience of the economic crisis, Cyclone Ditwah and the Middle East conflict demonstrates that fiscal sustainability and effective social protection are mutually reinforcing. Strong fiscal buffers provide the Government with the capacity to support vulnerable households when exceptional shocks occur, while well-targeted social protection enables

assistance to be provided without resorting to costly and poorly targeted universal subsidies. Continued improvements in beneficiary identification, targeting and delivery systems will therefore remain important.

The Government will also continue to advance reforms aimed at strengthening the efficiency, transparency and accountability of the public sector while improving the management of fiscal risks. Key priorities include strengthening the governance and financial performance of SOEs, improving the management and utilisation of public assets, and establishing a robust framework for Public-Private Partnerships (PPPs) to mobilise private-sector expertise and financing for priority development initiatives. These reforms will be supported by the proposed State-Owned Enterprises Bill, Public Asset Management Bill and Public-Private Partnership Bill. In parallel, the Government will continue to strengthen governance and anti-corruption measures through the implementation of the National Anti-Corruption Action Plan 2025–2029 and the Governance Action Plan, including strengthening the institutional capacity and independence of Commission to Investigate Allegations of Bribery or Corruption (CIABOC), enhancing the electronic asset-declaration system, improving the reliability and verification of beneficial ownership information, and increasing transparency and accountability in public procurement and fiscal operations.

On October 4, 2026, the Sri Lankan authorities and International Monetary Fund (IMF) staff reached a staff-level agreement on economic policies to conclude the Seventh Review under the four-year Extended Fund Facility (EFF) arrangement, alongside the conclusion of discussions under the 2026 Article IV Consultation. Subject to approval by the IMF Executive Board, completion of the Review would provide Sri Lanka access to SDR 254 million, equivalent to approximately USD 345 million in additional financing. The IMF assessment also highlighted the importance of rebuilding fiscal and external buffers, maintaining price stability, strengthening social safety nets, and sustaining the momentum of governance and structural reforms amid continued downside risks arising from geopolitical developments and weather-related shocks.

Over the medium term, fiscal policy will accordingly balance three interconnected priorities: completing Cyclone Ditwah-related rehabilitation and resilient reconstruction; mitigating the economic and social effects of exceptional external shocks through temporary and targeted interventions; and preserving the fiscal consolidation and structural reform agenda required to safeguard macroeconomic and debt sustainability.

The experience of 2026 and the fiscal pressures anticipated in 2027 highlight the importance of maintaining a credible rules-based fiscal framework that combines fiscal discipline with carefully defined flexibility in exceptional circumstances. The temporary deviation required to meet Cyclone Ditwah related reconstruction needs will therefore be accompanied by continued revenue mobilisation, strong expenditure controls, transparent reporting and a clearly defined path for restoring compliance with the statutory primary expenditure ceiling. This approach will enable the Government to address immediate reconstruction and social needs while preserving fiscal and debt sustainability and safeguarding the macroeconomic stability achieved through the adjustment and reform process.

1.2 Macro-Fiscal Performance

The Sri Lankan economy continued to expand during the first half of 2026, demonstrating resilience despite successive domestic and external shocks. Real GDP grew by 4.7 percent year-on-year during the first half of 2026, with growth moderating from 5.1 percent in the first quarter to 4.2 percent in the second quarter. In the second quarter of 2026, industrial activities expanded strongly by 7.3 percent, while services activities grew by 2.7 percent. However, agricultural activities contracted by 2.3 percent, partly reflecting adverse weather-related

conditions, while taxes less subsidies on products increased by 11.9 percent.

Global economic conditions remained challenging so far in 2026 amid heightened geopolitical tensions, disruptions to energy markets and continued uncertainty in the global financial and trading environment. The outlook remains volatile, with the effects of geopolitical conflict weighing particularly on energy-importing and vulnerable economies, while global disinflation has stalled. Hence, preserving price stability, rebuilding fiscal space and strengthening economic adaptability to future shocks remain important.

Sri Lanka continued its revenue-based fiscal consolidation process in 2026. Government revenue and grants increased by 21.2 percent to Rs. 4,002.3 billion in the first eight months of 2026, from Rs. 3,301.5 billion in the same period of 2025. Tax revenue increased by 20.0 percent to Rs. 3,683.6 billion, while non-tax revenue increased by 39.1 percent to Rs. 314.8 billion in the first eight months of 2026. The strong revenue performance was supported by higher collections from income taxes, VAT, taxes on motor vehicle imports, together with continued improvements in tax administration. By end-August 2026, approximately 75 percent of the annual tax revenue estimate had already been realised.

Revenue from income taxes increased by 17.6 percent to Rs. 825.6 billion during the first eight months, from Rs. 702.4 billion in the same period of 2025. During the first eight months, revenue from taxes on goods and services increased to Rs. 2,366.7 billion, from Rs. 1,939.1 billion in the same period of 2025, while revenue from taxes on external trade increased to Rs. 491.2 billion in the first eight months of 2026 from Rs. 427 billion in the same period of 2025. Revenue from VAT increased by 22.0 percent to Rs. 1,322.7 billion during the first eight months of 2026, from Rs. 1,084.2 billion in the same period of 2025.

Revenue collection by the major revenue agencies remained strong during the first eight months of 2026. Sri Lanka Customs collected around Rs. 1,726.8 billion, equivalent to 78.3 percent of its annual estimate, while the Inland Revenue Department collected around Rs. 1,727.5 billion, or 71.9 percent of its annual estimate. The Department of Excise collected around Rs. 182.4 billion, representing 74.5 percent of its annual estimate.

Revenue administration reforms continued to focus on strengthening taxpayer compliance and modernising tax administration through digitalization. The Inland Revenue Department continued to strengthen the use of a Compliance Risk Management framework to guide enforcement, audit selection and taxpayer services, while the High Wealth Individuals programme initiated risk-based audits targeting high-risk individuals and related entities. Further measures focused on strengthening Value Added Tax (VAT) compliance, cleaning and updating the taxpayer registry, and improving filing compliance. The continued modernisation of the Revenue Administration Management Information System (RAMIS) remains central to these reforms, with all taxes administered by the Inland Revenue Department moving towards processing and collection through the system. In parallel, implementation of the National e-Invoicing System has commenced through a phased approach, enabling the real-time transmission of VAT invoice data from taxpayers' Enterprise Resource Planning systems to RAMIS through a secure Web API, with broader integration expected progressively.

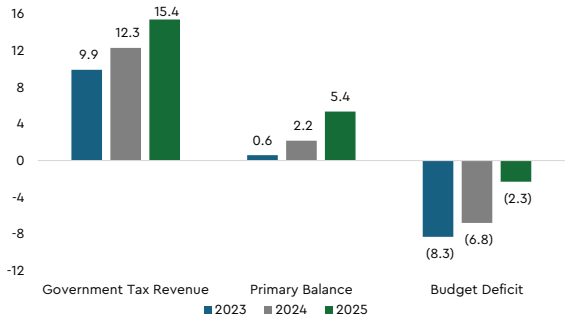
The transition from the Simplified VAT system to the standard risk-based VAT refund mechanism continued during 2026. Following the repeal of the Simplified Value Added Tax (SVAT) scheme with effect from October 1, 2025, the Inland Revenue Department continued to strengthen the implementation of the risk-based refund system through enhanced monitoring, strengthened operational capacity and continued engagement with taxpayers. The VAT Compliance Improvement Programme was extended to the traditional VAT regime from January 2026, supported by measures

including field-based compliance activities, validation of temporary VAT numbers, and the cleaning and updating of the taxpayer registry. In addition, the annual registration threshold for the Social Security Contribution Levy (SSCL) was reduced from Rs. 60 million to Rs. 36 million with effect from July 1, 2026, thereby broadening the SSCL tax base. These reforms have been complemented by continued digitalisation of tax administration, including measures to strengthen VAT reporting and compliance through RAMIS and the phased implementation of electronic invoicing and API-based transmission of VAT invoice data.

Government expenditure increased moderately by 6.9 percent to Rs. 3,966.9 billion in the first eight months of 2026, from Rs. 3,712.5 billion in the same period of 2025. Recurrent expenditure increased by 4.4 percent to Rs. 3,531 billion, while capital expenditure and net lending increased by 31.6 percent to Rs. 435.9 billion. Interest payments declined by 4.6 percent to Rs. 1,609.2 billion during the first eight months of 2026, from Rs. 1,687.6 billion during the same period of 2025. Interest payments accounted for 45.6 percent of recurrent expenditure, while salaries and wages accounted for 23.4 percent, subsidies and transfers for 25.2 percent, and expenditure on goods and services for around 5.8 percent.

The strong revenue performance, together with expenditure discipline, resulted in a significant improvement in the fiscal balances during the first eight months of 2026. The primary surplus increased to Rs. 1,644.6 billion during the first eight months, from Rs. 1,276.5 billion in the same period of 2025. The overall budget balance recorded a surplus of Rs. 35.4 billion during the first eight months of 2026, compared with a deficit of Rs. 411 billion in the same period of 2025. This improvement reflects the continued strengthening of revenue-based fiscal consolidation, although substantial disaster-related rehabilitation and reconstruction expenditure is expected to materialise during the remainder of 2026 and into 2027.

FIGURE 1.2 | Key Fiscal Aggregates: 2023–2025
As a % of GDP



Source: Department of Fiscal Policy

Public debt nevertheless continues to be a key consideration in medium-term fiscal management. According to the Quarterly Statistical Debt Bulletin of the Public Debt Management Office, total gross public debt stood at approximately Rs. 32,977 billion at end-June 2026. Central government debt accounted for approximately Rs. 31,999 billion, comprising around Rs. 19,203 billion in domestic debt and Rs. 12,796 billion in external debt. While sustained primary surpluses and improved fiscal performance support the medium-term debt reduction path, prudent borrowing, effective debt and cash management, and continued adherence to the fiscal framework remain critical to reducing debt vulnerabilities.

Inflationary and exchange-rate pressures increased during 2026, particularly following the escalation of geopolitical tensions in the Middle East and the associated increase in global energy prices. The Sri Lankan rupee depreciated by 6.8 percent against the US dollar on a year-to-date basis by end-October 2026. Headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index, increased from 2.2 percent in March 2026 to 8.3 percent in October 2026. Food inflation increased to 8.8 percent in October, while non-food inflation remained at 8.0 percent and core inflation increased to 5.6 percent. The increase in inflation largely reflected the pass-through of higher energy costs and associated spillovers across the economy. The Central Bank projects headline inflation to remain in the high single digits through

the first quarter of 2027 before gradually easing towards the 5.0 percent target.

The Central Bank maintained the Overnight Policy Rate at 7.75 percent during the early part of 2026. However, in May 2026, in response to emerging inflationary pressures, elevated global energy prices, strengthening domestic demand and heightened uncertainty arising from the Middle East conflict, the Monetary Policy Board increased the Overnight Policy Rate (OPR) by 100 basis points to 8.75 percent. The OPR has subsequently been maintained at 8.75 percent, including during September 2026 monetary policy review, assessing the impact of the earlier monetary policy tightening and evolving domestic and global economic conditions. The current monetary policy stance is aimed at containing second-round inflationary pressures and anchoring inflation expectations while allowing sufficient credit flows to support economic activity. The Central Bank continues to monitor risks arising from geopolitical developments, global commodity prices, and potential El Niño-related conditions in determining the appropriate policy stance.

1.3 Fiscal Strategy in the Medium Term

The fiscal operations of the Government are governed by the Public Financial Management Act, No. 44 of 2024 , which establishes a rules-based framework for responsible fiscal management. The Act requires the Government to pursue sustainable public debt, maintain adequate fiscal buffers against future shocks, manage fiscal risks prudently, and strengthen discipline, transparency and accountability in the management of public finances. It also institutionalises medium-term fiscal planning through the annual FSS and a rolling five-year Medium Term Fiscal Framework (MTFF), which provide the strategic basis for annual budget preparation and the assessment of fiscal performance. The Fiscal Strategy Statement (FSS) 2027, published in June 2026 in accordance with Section 11 of the PFMA, incorporates the MTFF for 2027–2031 together with the Fiscal Risk Statement.

Implementation of the PFMA continued to advance during 2026, with increasing emphasis on translating the statutory framework into effective budget execution, commitment control, fiscal reporting and fiscal-risk management. Further operationalisation of the Act includes the development of implementing regulations and directives covering budget execution, commitment controls and enforcement mechanisms, while the existing Financial Regulations and applicable Treasury circulars remain in force to the extent that they are consistent with the PFMA until the new regulations become effective. The fiscal-management framework has also been strengthened through enhanced monitoring and disclosure of exceptional expenditure, including disaster-related procurement and beneficial ownership information.

The debt-reduction objective remains the overarching fiscal anchor under the PFMA and is operationalised through the primary balance target and the primary expenditure ceiling established under the MTFF. Section 15 of the PFMA generally limits primary expenditure to 13.0 percent of estimated nominal GDP, while the primary balance target is determined consistently with the medium-term debt-reduction objective. At the same time, Section 16 provides carefully defined flexibility to accommodate additional, temporary and targeted expenditure arising from qualifying unforeseen events and natural disasters, subject to the relevant statutory requirements, including Parliamentary approval and a recovery path towards restoring compliance with the fiscal rules.

The medium-term fiscal strategy will therefore focus not only on maintaining strong fiscal aggregates, but also on improving their quality and durability. Sustained domestic revenue mobilisation, supported by the Medium-Term Revenue Strategy, strengthened revenue administration and a broader and more efficient tax base, will remain central to maintaining Government revenue around 16.0 percent of GDP. On the expenditure side, greater emphasis will

be placed on expenditure prioritisation, effective commitment controls, improved public investment management and the prevention of temporary shock-related spending from generating permanent recurrent obligations. Fiscal-risk management will also assume greater importance, particularly in relation to natural disasters and climate-related shocks, SOEs, PPPs and government guarantees. These measures are intended to rebuild fiscal buffers while maintaining the declining public-debt trajectory and safeguarding macroeconomic stability over the medium term.

Fiscal Strategy

The fiscal strategy is guided by the MTFF for 2027–2031, as set out in the FSS 2027 and governed by the fiscal responsibility framework established under the PFMA. The overarching objective of the fiscal strategy is to place public debt on a sustainable downward trajectory while rebuilding fiscal buffers, strengthening revenue mobilisation, improving the efficiency and composition of public expenditure, and safeguarding macroeconomic stability. Under the PFMA, the debt reduction objective is operationalised through medium-term primary balance targets and a primary expenditure ceiling, with primary expenditure generally required to remain below 13 percent of GDP during the initial implementation period. The Act also provides carefully defined flexibility to accommodate temporary and targeted additional expenditure arising from unforeseen emergencies and natural disasters, subject to the relevant statutory requirements.

Fiscal performance in 2026 has been stronger than envisaged at the time of publication of the FSS 2027, reflecting continued revenue mobilisation and expenditure discipline despite substantial additional expenditure requirements arising from Cyclone Ditwah and developments in the Middle East. Under the amended MTFF, total revenue and grants are projected at around 16.6 percent of GDP in 2026, while the primary surplus is expected to reach around 3.6 percent of GDP, compared with the 2.1 percent projection contained in the published FSS 2027. This stronger fiscal position provides an important buffer for accommodating exceptional expenditure requirements while preserving the medium-term fiscal consolidation path.

For 2027, the published FSS originally envisaged primary expenditure of 12.9 percent of GDP, revenue and grants of 15.5 percent of GDP and a primary surplus of 2.6 percent of GDP. Subsequent improvements in the revenue outlook and the additional rehabilitation and reconstruction requirements associated with Cyclone Ditwah have required an update to this baseline. Under the amended MTFF, before incorporating the additional reconstruction expenditure, revenue and grants are projected at around 15.8 percent of GDP and the primary surplus at around 2.9 percent of GDP. Following the incorporation of the supplementary Ditwah-related expenditure, primary expenditure is expected to increase temporarily to around 13.6 percent of GDP, capital expenditure and net lending to around 5.1 percent of GDP, and the primary surplus to moderate to around 2.3 percent of GDP, while the overall budget deficit is projected at around 4.5 percent of GDP. The temporary deviation will be managed within the rules-based fiscal framework, with primary expenditure projected to return to around 12.9 percent of GDP from 2028 and the primary surplus strengthening to around 3.0 percent of GDP over the remainder of the medium-term period.

Revenue-based fiscal consolidation will remain at the centre of the fiscal strategy. While the published FSS 2027 envisaged Government revenue at around 15.5 percent of GDP over the medium term, the amended MTFF reflects a stronger revenue path of around 16 percent of GDP from 2027 onwards. The Government will continue to broaden the tax base, rationalise tax exemptions and incentives, strengthen tax administration and compliance,

and improve the efficiency and fairness of the tax system. Development and implementation of the MTRS will provide a sequenced framework for reforms across tax policy, revenue administration and the legal framework. The latest IMF discussions have similarly emphasised sustained revenue mobilisation, broadening the tax base and strengthening revenue administration as key priorities. The long-term policy objective of increasing Government revenue towards 20.0 percent of GDP and gradually improving the direct to indirect tax ratio towards 40:60 remains part of the broader Government revenue strategy, distinct from the medium-term MTFF projections.

On the expenditure side, the Government will continue to prioritise prudent expenditure management while protecting essential social expenditure and increasing the share of resources allocated to productive public investment. The FSS 2027 sets an objective of maintaining public investment above 4.0 percent of GDP from 2027 onwards. Under the amended MTFF, capital expenditure and net lending are expected to increase to around 5.1 percent of GDP in 2027, partly reflecting Ditwah-related reconstruction, before remaining at elevated levels over the medium term. Greater emphasis will therefore be placed on project readiness, prioritisation, implementation capacity and value for money to ensure that higher capital allocations translate into timely and productive investment. This is particularly important given recent under-execution of capital expenditure and the need to accelerate reconstruction while avoiding the creation of permanent recurrent expenditure obligations.

Public financial management reforms will continue to strengthen the institutional foundations of the fiscal strategy. Further, operationalisation of the PFMA remains focused on improving budget execution, commitment controls, fiscal reporting and enforcement, supported by the continued expansion of the Integrated Treasury Management Information System (ITMIS). During 2026, the Government also introduced strengthened disclosure requirements for disaster-related procurement, including reporting of procurement expenditure and beneficial ownership information, while implementation of electronic Government procurement continued to expand. The Ministry reported 324 active procuring entities on the national e-GP platform by July 2026, with the next phase of the e-GP system planned for 2027.

The Government remains committed to restoring and preserving debt sustainability. Debt restructuring is now largely completed, while debt management has been institutionalised under the Public Debt Management Office (PDMO) established pursuant to the Public Debt Management Act, No. 33 of 2024. The Medium-Term Debt Management Strategy (MTDS) 2026–2030 and Annual Borrowing Plan 2026 provide the current framework for managing borrowing costs and risks. The strategy emphasises greater reliance on concessional bilateral and multilateral external financing, gradual reduction of refinancing risk through longer-maturity domestic instruments, development of the domestic Government securities market and improved transparency and liability management. The debt reduction objective of keeping public debt below 95.0 percent of GDP by 2032 remains an important medium-term fiscal anchor, while the Government guarantee framework limits the outstanding stock of guarantees to below 7.5 percent of the relevant three-year average GDP.

The FSS 2027, incorporating the MTFF for 2027–2031 was published in June 2026 to provide the strategic basis for preparation of Budget 2027. The amended MTFF reflects subsequent macro-fiscal developments and the additional 2027 expenditure requirements associated with Cyclone Ditwah, while maintaining an explicit return path towards the statutory fiscal parameters over the medium term.

Fiscal Path:

- Maintaining a primary surplus of at least 2.3 percent GDP in the medium term through strong revenue enhancing efforts and rationalizing government expenditure.
- Maintaining Government revenue at around 16.0 percent of GDP over the medium term, while progressively advancing towards the longer-term objective of raising revenue to around 20.0 percent of GDP.
- Gradually improving the direct-to-indirect tax ratio towards 40:60 over the medium to long term to strengthen the progressivity and fairness of the tax system.
- Strengthening compliance of core taxes, including continued implementation of the VAT Compliance Improvement Programme, timely operation of the risk-based VAT refund mechanism following the repeal of SVAT, monitoring of tax-compliance KPIs, cleaning of the taxpayer registry, risk-based audits and continued modernisation of RAMIS.
- Developing and implementing the MTRS, supported by tax diagnostics, broadening of tax bases, rationalisation of exemptions and incentives, improved tax administration and compliance, and a sequenced reform programme across tax policy, administration and the legal framework.
- Managing primary expenditure within the PFMA framework, recognising the temporary increase to around 13.6 percent of GDP in 2027 associated with exceptional Ditwah-related expenditure and restoring primary expenditure to around 12.9 percent of GDP from 2028.
- Containing the overall budget deficit below 5 percent of GDP over the medium term, consistent with the Government's debt reduction objective.
- Sustaining public debt reduction consistent with the objective of reducing public debt below 95.0 percent of GDP by 2032, supported by sustained primary surpluses, prudent borrowing and strengthened debt management.
- Containing fiscal risks from Government guarantees, maintaining the statutory ceiling on outstanding Government guarantees at below 7.5 percent of the average GDP of the relevant financial year and the preceding two financial years, supported by strengthened assessment and monitoring of guarantees.
- Maintaining public investment above 4.0 percent of GDP, while improving project readiness, prioritisation, procurement and implementation capacity.
- Strengthening targeted social safety nets to protect vulnerable households from economic, disaster-related and external shocks while avoiding broad-based and poorly targeted subsidies.
- Strengthening public financial management, including budget execution, commitment controls, fiscal reporting, cash management and the prevention of expenditure arrears through further implementation of ITMIS and the PFMA framework.
- Expanding e-GP, strengthening procurement transparency and accountability, integrating e-GP with wider PFM systems as implementation progresses, and enhancing disclosure of disaster-related procurement and beneficial ownership information.
- Maintaining cost-reflective energy pricing while providing temporary and targeted assistance where necessary, thereby limiting fiscal risks arising

from SOEs. Continuing SOE, public asset and PPP reforms to improve governance, financial viability, public asset utilisation and the management of contingent fiscal risks.

- Supporting price stability and broader macroeconomic stability, consistent with the Central Bank's medium-term inflation-targeting framework and the need to rebuild fiscal and external buffers.

Medium Term Fiscal Framework

The Medium-Term Fiscal Framework is anchored on the following key fiscal objectives:

- Maintaining Government revenue at around 16.0 percent of GDP over the medium term.
- Maintaining primary expenditure within the statutory ceiling of 13.0 percent of GDP over the medium term, except for temporary deviations permitted under the PFMA in exceptional circumstances, while maintaining public investment above 4.0 percent of GDP.
- Maintaining a primary surplus of at least 2.3 percent of GDP over the medium term.
- Containing the overall budget deficit below 5.0 percent of GDP over the medium term, consistent with the Government's debt-reduction objectives.
- Gradually reducing public debt to sustainable levels, consistent with the medium-term debt-reduction objective.

TABLE 1.1 | Medium-Term Fiscal Framework: 2027–2031

As a percentage of GDP

Indicator	2025	2026	2027	2027	2028	2029	2030	2031
	Provisional	Revised Estimates	Estimates	Budget[a]	Projections			
Total Revenue and Grants	**16.7**	**16.6**	**15.8**	**15.8**	**15.9**	**16.0**	**16.0**	**16.0**
Total Revenue	**16.6**	**16.5**	**15.8**	**15.8**	**15.8**	**15.9**	**15.9**	**15.9**
Tax Revenue	15.4	15.2	14.6	14.6	14.6	14.7	14.7	14.7
Non-Tax Revenue	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Grants	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Total Expenditure	**19.0**	**20.3**	**19.7**	**20.3**	**19.8**	**19.7**	**19.4**	**19.3**
Recurrent Expenditure	**16.0**	**16.2**	**15.2**	**15.2**	**15.2**	**14.9**	**14.5**	**14.3**
Non-Interest Recurrent Expenditure	8.3	9.0	8.4	8.5	8.3	8.1	8.0	8.0
Interest Expenditure	7.6	7.3	6.8	6.8	6.8	6.7	6.5	6.3
Capital Expenditure and Net Lending	**3.0**	**4.1**	**4.5**	**5.1**	**4.6**	**4.8**	**4.9**	**5.0**
o/w Public Investments	3.1	4.1	4.5	5.1	4.6	4.8	4.9	5.0
Primary Balance	**5.4**	**3.6**	**2.9**	**2.3**	**3.0**	**3.0**	**3.0**	**3.0**
Budget Balance	**-2.3**	**-3.7**	**-3.8**	**-4.5**	**-3.9**	**-3.7**	**-3.5**	**-3.3**

Source: Department of Fiscal Policy

[a] With Supplementary

Justification of the Deviation from the Fiscal Framework Target

The amended MTFF reflects stronger revenue projections, slower execution of capital expenditure in 2026 and additional disaster reconstruction requirements in 2027. The resulting revisions to revenue, primary expenditure and fiscal balances are explained below.

Government Revenue

The FSS 2027 projected total revenue and grants at 15.8 percent of GDP in 2026 and 15.5 percent of GDP in 2027. Under the amended MTFF, these projections have been revised upward to approximately 16.6 percent of GDP in 2026 and 15.8 percent of GDP in 2027. This represents favourable deviations of around 0.8 percentage points of GDP in 2026 and 0.3 percentage points of GDP in 2027 relative to the published FSS projections.

The stronger revenue outlook reflects the continued impact of tax policy and revenue-administration reforms, improved compliance, recovery in economic activity and stronger-than-anticipated collections from several major tax categories, including taxes associated with motor vehicle imports. The FSS 2027 had already observed significant revenue overperformance during the early months of 2026, including strong growth in major tax categories and vehicle-related revenue. Continued implementation of revenue-administration reforms are expected to support the durability of this higher revenue base over the medium term.

Primary Expenditure

The PFMA establishes a statutory ceiling of 13.0 percent of GDP for primary expenditure, subject to the exceptional-circumstances provisions applicable to unforeseen events and natural disasters. The FSS 2027 initially projected primary expenditure at 13.7 percent of GDP in 2026, exceeding the statutory ceiling by 0.7 percentage points, primarily reflecting the Rs. 500 billion supplementary allocation approved following Cyclone Ditwah for housing, infrastructure restoration, rehabilitation and livelihood recovery. However, despite the supplementary allocation, the execution of capital expenditure, particularly disaster-related rehabilitation and reconstruction activities, has been slower than initially anticipated.

The published FSS envisaged primary expenditure returning to 12.9 percent of GDP in 2027. However, subsequent assessments indicate that substantial rehabilitation and reconstruction requirements will continue beyond 2026. Under the amended MTFF, approximately Rs. 260 billion of additional expenditure is expected to be required in 2027. Consequently, primary expenditure is projected to increase temporarily to around 13.6 percent of GDP in 2027, approximately 0.6 percentage points above the statutory ceiling.

The expected 2027 deviation is therefore attributable to the continuation of exceptional and time bound disaster recovery expenditure rather than to an underlying structural increase in recurrent spending. The additional expenditure will be separately identified, prioritised and monitored, with the recurrent component strictly limited to temporary recovery requirements. Primary expenditure is projected to return to around 12.9 percent of GDP in 2028 and remain within the statutory ceiling thereafter. This explicit return path is critical to demonstrating that the deviation is temporary and consistent with the principles of the rules-based fiscal framework.

Capital Expenditure and Public Investment

The composition of expenditure is also expected to differ materially from the path envisaged in the FSS. The published FSS projected capital expenditure and net lending of around 4.8 percent of GDP in 2026 and 4.4 percent of GDP in 2027. Under the amended MTFF, capital expenditure and net lending are estimated at around 4.1 percent of GDP in 2026, reflecting slower

than anticipated execution of some capital expenditure, while the ratio is projected to increase to around 5.1 percent of GDP in 2027 following the incorporation of additional Ditwah related reconstruction expenditure.

Primary Surplus

The primary balance is expected to perform substantially better in 2026 than envisaged in the FSS 2027. The published FSS revised the primary surplus target for 2026 to 2.1 percent of GDP in recognition of the additional expenditure arising from Cyclone Ditwah and external shocks. Under the latest estimates, the primary surplus is projected at approximately 3.6 percent of GDP in 2026, representing a favourable deviation of around 1.5 percentage points from the FSS projection. This improvement reflects stronger than expected revenue mobilisation, expenditure discipline and lower than envisaged execution of certain capital expenditure during the year.

For 2027, the published FSS envisaged a primary surplus of 2.6 percent of GDP. Under the amended MTFF, the stronger revenue outlook would have supported a primary surplus of around 2.9 percent of GDP before incorporating additional reconstruction expenditure. Following the inclusion of the additional Ditwah-related expenditure, the primary surplus is projected to moderate to around 2.3 percent of GDP. Accordingly, the revised 2027 primary surplus represents only a marginal downward deviation of 0.3 percentage points from the published FSS target, despite the substantial additional reconstruction expenditure.

Importantly, the projected 2.3 percent primary surplus remains equal to primary surplus level identified under the IMF-EFF programme as the medium-term target for 2027. Thus, although the additional reconstruction programme reduces the primary surplus relative to the updated pre-supplementary baseline, the revised balance remains broadly consistent with medium-term debt-sustainability objectives.

Overall Budget Deficit

The overall budget balance is also expected to perform more favourably than envisaged in the published FSS. The FSS 2027 projected an overall budget deficit of 5.6 percent of GDP in 2026, largely reflecting the impact of the supplementary expenditure associated with Cyclone Ditwah. It projected the deficit to narrow to 4.5 percent of GDP in 2027 and remain below 5.0 percent thereafter.

Under the amended MTFF, the budget deficit is projected at approximately 3.7 percent of GDP in 2026, substantially below the FSS projection, reflecting stronger revenue performance and expenditure developments during the year. For 2027, the deficit is projected at around 4.5 percent of GDP after incorporating additional Ditwah-related expenditure, compared with around 3.8 percent under the updated baseline before the supplementary reconstruction requirement. Although the additional expenditure therefore widens the 2027 deficit relative to the pre supplementary position, the deficit remains below the 5.0 percent medium-term threshold.

Accordingly, the temporary expenditure deviations in 2026 and 2027 do not imply a departure from the Government's broader fiscal consolidation strategy. Rather, they reflect the use of carefully defined fiscal flexibility to respond to exceptional shocks while preserving strong revenue performance, primary surpluses and the medium-term debt-reduction path.

Return to the Medium-Term Fiscal Path

The credibility of the temporary deviations depends on the Government's ability to ensure that exceptional expenditure remains temporary, targeted and transparently managed. The amended MTFF therefore provides for primary expenditure to return to approximately 12.9 percent of GDP from 2028, while the primary surplus is projected to strengthen to around 3.0 percent of GDP and Government revenue to remain at around 16.0 percent of GDP over the medium term.

Continued revenue mobilisation, expenditure prioritisation, improved public investment management, strengthened commitment and cash controls, and transparent monitoring of disaster-related expenditure will underpin the return to the normal fiscal path. The Government will also continue to rebuild fiscal buffers to strengthen its capacity to absorb future domestic and external shocks without compromising debt sustainability.

The temporary deviations associated with Cyclone Ditwah should therefore be viewed within the broader context of a rules-based fiscal framework that combines fiscal discipline with carefully defined flexibility to respond to exceptional circumstances. The explicit return-to-compliance path from 2028, together with sustained primary surpluses and stronger revenue mobilisation, is expected to preserve the credibility of the fiscal framework and support the continuing decline in public debt.

PART II

Budget Economic and Fiscal Position Report – 2027

Issued by the Hon. Minister of Finance, Planning and Economic Development Under Section 49 of the Public Financial Management Act, No. 44 of 2024

This Report is issued under Section 49 of the Public Financial Management Act, No. 44 of 2024, which is required to be tabled in Parliament by the Minister of Finance on the day fixed for the second reading of the Appropriation Bill in Parliament, in each year.

It includes estimates relating to gross domestic product, consumer prices, employment and unemployment, balance of payments, revenue and expenditure, Government borrowing, basis used to prepare the aforementioned estimates among others. The information contained in this report takes into account, as far as possible, all Government decisions and all other circumstances that may have material effect on the fiscal and economic position of the Government.

02 Fiscal Developments, Treasury Operations and Foreign Financing

2.1 Overview

In the first eight months of 2026, the Government's fiscal position proved resilient to multiple shocks on both the domestic and external fronts, creating comfortable fiscal space for swift policy responses while delivering surpluses in the current account, primary and overall budget balances and protecting the poor and vulnerable. Government revenue, including grants, increased by 21.2 percent, while recurrent expenditure increased marginally by 4.4 percent during the period. The execution of capital expenditure remained low at 25.4 percent of the annual estimate due to both domestic and external challenges. Accordingly, the overall budget recorded a surplus of Rs. 35.4 billion, compared to a deficit of Rs. 411.0 billion in the same period of 2025, while the primary surplus increased by Rs. 368.1 billion to Rs. 1,644.6 billion, from Rs. 1,276.5 billion. This improvement was achieved despite the additional spending requirements arising from the recovery and reconstruction efforts following Cyclone Ditwah and the relief measures introduced to cushion the impact of the conflict in the Middle East. The fiscal outcome was supported by the continued implementation of revenue-based fiscal consolidation and structural fiscal reforms. These included tax policy measures to broaden the tax base, the modernization of revenue administration, the strengthening of fiscal oversight of state-owned enterprises, and improvements in public financial and investment management.

As at end-June 2026, the primary surplus of Rs. 1,244.1 billion significantly surpassed the Quantitative Performance Criterion (QPC) target of Rs. 72 billion set under the Extended Fund Facility Program of the International Monetary Fund (IMF-EFF). In view of the fiscal impact of Cyclone Ditwah, the escape clause under Section 16 of the Public Financial Management Act, No. 44 of 2024 was invoked to allow primary expenditure to exceed the ceiling of 13 percent of GDP in 2026. Accordingly,

TABLE 2.1 | Summary of Fiscal Operations

Rs. Million

Item	Jan. – Aug.	
	2025	2026 [a]
Revenue and Grants	**3,301,459**	**4,002,317**
Revenue	**3,294,740**	**3,998,291**
Tax	3,068,495	3,683,527
Non Tax	226,244	314,764
Grants	6,720	4,026
Expenditure	**3,712,492**	**3,966,913**
Current	**3,381,309**	**3,531,045**
Salaries	760,687	826,962
Interest Payments	1,687,571	1,609,194
Other	933,051	1,094,889
Capital and net lending	**331,183**	**435,867**
Public Investments	338,846	446,283
Other	-7,663	-10,416
Current Account Deficit (-)/Surplus (+)	**-86,569**	**467,245**
Primary Deficit (-)/Surplus (+)	**1,276,538**	**1,644,598**
Overall Budget Deficit (-)/Surplus (+)	**-411,033**	**35,404**
Financing	**411,033**	**-35,404**
Foreign Financing (Net)	-51,849	29,712
Domestic Financing (Net)	462,882	-65,116

Source: Department of Fiscal Policy

[a] *Provisional*

the primary balance target of 2.3 percent of GDP originally set for 2026 under the IMF-EFF Program was lowered, while the Government remains committed to reverting to the primary balance target of 2.3 percent of GDP and to the primary expenditure ceiling from 2027 onwards. Meanwhile, the current account balance of the budget turned to a surplus of Rs. 467.2 billion in the first eight months of 2026, from a deficit of Rs. 86.6 billion in the corresponding period of 2025, indicating that government revenue was sufficient to fully finance recurrent expenditure, including interest payments.

Total government revenue, including grants, increased by 21.2 percent to Rs. 4,002.3 billion in the first eight months of 2026, from Rs. 3,301.5 billion in the same period of 2025, achieving 75.5 percent of the annual estimate of Rs. 5,300.0 billion. Tax revenue increased by 20.0 percent to Rs. 3,683.5 billion, while non-tax revenue increased by 39.1 percent to Rs. 314.8 billion, mainly due to profit transfers of Rs. 42.1 billion from the Central Bank of Sri Lanka. As at end-June 2026, tax revenue of Rs. 2,710.6 billion exceeded the tax revenue QPC target of Rs. 2,000 billion by Rs. 710.6 billion. Among the revenue-collecting agencies, Sri Lanka Customs achieved 78.3 percent of its annual tax revenue estimate in the first eight months of 2026, mainly due to motor vehicle taxes, which exceeded its annual estimate by 30.5 percent, while the Inland Revenue Department (IRD) and the Excise Department achieved 71.9 percent and 74.5 percent of their annual estimates, respectively. VAT on imports remained the largest source of revenue collected by Sri Lanka Customs, accounting for about 35 percent of its total collections.

The increase in tax revenue was mainly driven by higher collections from Value Added Tax (VAT), income taxes and excise duties, which accounted for 35.9 percent, 22.4 percent and 20.3 percent of total tax revenue, respectively. Revenue from VAT increased by 22.0 percent to Rs. 1,322.7 billion. VAT on domestic activities increased by 27.5 percent, mainly reflecting the expansion of domestic economic activities and improved VAT compliance. While VAT on imports increased by 15.9 percent, supported by higher imports, particularly of motor vehicles, and the depreciation of the rupee. Revenue from excise duties increased by 23.0 percent to Rs. 748.0 billion, mainly due to the increase in excise duty on motor vehicles by 28.3 percent to Rs. 347.0 billion. Excise duty on liquor increased by 24.3 percent, owing to higher production, while excise duty on cigarettes increased by 22.6 percent.

Revenue from income taxes increased by 17.6 percent to Rs. 825.6 billion. This was mainly due to the increase in corporate income tax by 21.9 percent, reflecting the full year impact of the increase in the rate applicable to the liquor, tobacco, and betting and gaming industries from 40 percent to 45 percent and the introduction of a 15 percent tax on gains and profits derived from foreign sources. It also reflects the increase in the Withholding Tax rate on interest income from 5 percent to 10 percent. Revenue from the Social Security Contribution Levy (SSCL) increased by 22.2 percent to Rs. 233.2 billion, with SSCL on imports increasing by 53.0 percent. Revenue from taxes on external trade increased by 15.0 percent to Rs. 491.2 billion, driven by the increase in Customs Import Duty by 33.1 percent, reflecting higher vehicle imports and the imposition of a 50 percent surcharge on the Customs Import Duty applicable on motor vehicles.

Tax policy and administrative reforms continued to support revenue mobilization during the period. The tax policy measures introduced in 2026 included the application of the standard VAT rate on imported fabric with effect from April 1, 2026 and the imposition of SSCL on motor vehicles at the point of importation, manufacture or sale with effect from May 1, 2026. The first phase of the National Tariff Policy was also implemented, through the introduction of a four-band Customs Import Duty structure and the removal of CESS on intermediate inputs.

In revenue administration from the transition from the SVAT system to a risk-based VAT refund system was implemented successfully. The IRD completed the first phase of cleaning and updating the taxpayer registry and initiated risk-based audits targeting high-wealth individuals. All taxes administered by the IRD continued to be processed through the Revenue Administration Management Information System (RAMIS), and a simplified personal income tax return with a pre-filled option is being implemented. Key Performance Indicators (KPIs) on tax compliance continued to be tracked and reported quarterly, while quarterly progress reports on the implementation of anti-corruption measures by each revenue-collecting agency continued to be published. Meanwhile, Sri Lanka Customs has eliminated face-to-face review of customs declarations with the introduction of digital signatures and has strengthened risk-based clearance.

Further, tax policy and tax administration diagnostics were conducted with the support of IMF technical assistance to guide the formulation of a Medium-Term Revenue Strategy. In order to improve governance, and transparency. A list of firms receiving tax exemptions through the Board of Investment, the Strategic Development Projects Act and the Colombo Port City, together with the estimated value of these exemptions, also continued to be published semi-annually.

During the first eight months of 2026, total government expenditure increased by 6.9 percent to Rs. 3,966.9 billion, from Rs. 3,712.5 billion in the corresponding period of 2025. This was a 52.5 percent achievement against the annual estimate of Rs. 7,557.0 billion, which includes the Supplementary Estimate of Rs. 500 billion approved by Parliament on December 19, 2025 for recovery and reconstruction following Cyclone Ditwah. Primary expenditure, excluding interest payments, increased by 16.4 percent to Rs. 2,357.7 billion, mainly reflecting higher spending on subsidies and transfers, salaries and wages and capital expenditure.

Recurrent expenditure increased marginally by 4.4 percent to Rs. 3,531.0 billion, mainly due to the increased spending on subsidies and transfers by 23.2 percent to Rs. 890.3 billion and on salaries and wages by 8.7 percent to Rs. 827.0 billion. The increase in salaries and wages was driven by the implementation of the second phase of the public sector salary revision with effect from January 2026. Within transfers to households, pension payments increased by 17.5 percent to Rs. 332.4 billion, reflecting the rectification of pension anomalies and the pension revisions, while Aswesuma cash transfers increased by 14.6 percent to Rs. 164.3 billion, reflecting the six-month extension of benefit payments to households in the 'vulnerable' category, in response to the impact of Cyclone Ditwah, together with a one-off cash top-up in April 2026. Expenditure on free medicine increased by 52.4 percent to Rs. 115.3 billion, reflecting higher spending on medical supplies for government hospitals. However, expenditure on goods and services declined by 2.9 percent to Rs. 204.6 billion, reflecting tighter controls on such operational expenditure.

In response to the rise in energy prices arising from the conflict in the Middle East, the Government introduced a temporary relief package comprising fuel subsidies of Rs. 100 per litre of diesel and Rs. 20 per litre of petrol, electricity subsidies to maintain stable tariffs for households consuming less than 180 kWh per month and for low-consumption segments of selected non-residential tariffs, an increased fertilizer subsidy for farmers for the Yala season, a subsidy for fishermen, and a one-off cash top-up to Aswesuma households. The package, which amounted to Rs. 105.9 billion by end-September 2026, was provided on budget and financed through the annual budget reserve and expenditure reallocations. These subsidies compensated fuel suppliers and the electricity sector for losses arising from the

partial pass-through of higher costs, while electricity tariffs were revised upwards in May 2026. As the Middle East conflict persisted, the Government decided to extend targeted support until end-2026 at an estimated cost of Rs. 47 billion, to be met through reallocations within the approved expenditure ceiling of the 2026 Budget. Accordingly, a subsidy of up to Rs. 40.7 billion on auto diesel is being provided from October to December 2026, which will expire on December 31, 2026, with no provision for fuel subsidies in the 2027 Budget. In addition, a cash payment of Rs. 6,250 per extremely poor household and Rs. 4,000 per poor household is being provided to Aswesuma beneficiaries, at an estimated cost of Rs. 6 billion.

Interest payments declined by 4.6 percent to Rs. 1,609.2 billion in the first eight months of 2026, from Rs. 1,687.6 billion in the same period of 2025. Interest payments on domestic borrowing, which constituted 86.4 percent of total interest expenditure, declined by 5.2 percent to Rs.

TABLE 2.2 | Estimated and Actual Revenue and Expenditure – 2026

Rs. Billion

Item	Annual Estimate	Jan.- Aug. (Provisional)	Achievement %
Total Revenue	**5,270.0**	**3,998.3**	**75.9**
Tax Revenue	**4,910.0**	**3,683.5**	**75.0**
Inland Revenue Department			
Tax on Income and Profit	1,210.0	825.6	68.2
VAT – Domestic (Net)	937.0	723.6	77.2
SSCL (Domestic)	236.0	164.3	69.6
Other	18.1	13.9	77.0
Sub Total	**2,401.1**	**1,727.5**	**71.9**
Customs Department			
VAT – Imports (Net)	875.0	599.0	68.5
SSCL (Import)	97.0	68.9	71.0
Ports & Airports Development Levy (PAL)	190.0	130.8	68.8
Cess Levy	90.0	54.5	60.5
Special Commodity Levy	129.0	105.0	81.4
Import Duty	235.0	201.0	85.5
Excise Special Provisions			
Cigarettes	105.0	75.7	72.1
Petroleum	205.0	135.1	65.9
Motor Vehicles & Other	279.0	354.8	127.2
Other	1.1	2.1	181.6
Sub Total	**2,206.1**	**1,726.8**	**78.3**
Excise Department			
Liquor/Tobacco	245.0	182.4	74.5
Sub Total	**245.0**	**182.4**	**74.5**
Other			
Telecommunication Levy	17.0	9.3	54.9
Licence Tax & Other	40.8	37.5	92.0
Sub Total	**57.8**	**46.8**	**81.1**
Non Tax Revenue	**360.0**	**314.8**	**87.4**
Total Expenditure	**7,557.0**	**3,966.9**	**52.5**
Current Expenditure	**5,838.0**	**3,531.0**	**60.5**
Salaries and Wages	1,323.0	827.0	62.5
Interest Payments	2,617.0	1,609.2	61.5
Pension Payments	517.0	332.4	64.3
Transfers to Public Corporations & Institutions	184.0	84.7	46.0
Other	1,197.0	677.8	56.6
Capital Expenditure and Net Lending	**1,719.0**	**435.9**	**25.4**

Source: Department of Fiscal Policy

1,389.7 billion, while interest payments on foreign borrowing marginally declined by 0.7 percent to Rs. 219.5 billion. Accordingly, interest payments absorbed 43.7 percent of tax revenue, compared to 55.0 percent in the same period of 2025.

Expenditure on public investment increased by 31.7 percent to Rs. 446.3 billion in the first eight months of 2026, from Rs. 338.8 billion in the same period of 2025. The achievement of public investment against the annual estimate remained low at 25.8 percent.

The Government continued to strengthen public financial and investment management to improve budget execution and fiscal discipline. In October 2026, a standardized methodology for assessing project readiness and transparent project selection criteria for the Public Investment Committee were published, while a review of the existing public investment portfolio is being undertaken. The core modules of the Integrated Treasury Management Information System (ITMIS) were rolled out to all spending heads to strengthen commitment controls, and previously accumulated expenditure arrears were cleared. Further, the Fiscal Strategy Statement 2027, including a Fiscal Risks Statement, was published in June 2026. Companies bidding for cyclone-related procurement contracts are also required to disclose their beneficial ownership information, ensuring transparency in reconstruction spending.

Overall, the budget surplus recorded in the first eight months of 2026 was largely driven by strong revenue performance supported by tax policy and administrative reforms, the decline in interest payments and the slower-than-planned execution of capital expenditure. These more than offset the higher spending on salaries, pensions and social transfers and the expenditure related to Cyclone Ditwah and the conflict in the Middle East. The surplus, together with net foreign financing of Rs. 29.7 billion, enabled a net repayment of domestic financing amounting to Rs. 65.1 billion. Going forward, as the temporary boost to revenue from vehicle imports gradually normalizes, sustaining revenue performance will depend on further broadening the tax base and improving tax compliance. At the same time, improving the execution of capital expenditure, particularly for post-cyclone reconstruction, remains a key priority.

2.2 Government Revenue

Total government revenue excluding grants increased by 21.4 percent to Rs. 3,998.3 billion in the first eight months of 2026 compared to Rs. 3,294.7 billion in the same period of 2025 mainly due to the increase in tax revenue by 20.0 percent to Rs. 3,683.5 billion in the period from January to August in 2026 compared to Rs. 3,068.5 billion recorded in the same period of 2025.

The surge in tax revenue was led by the increase in revenue from:

1. Income taxes by 17.6 percent or Rs. 123.3 billion mainly due to increase of corporate income tax by 21.9 percent to Rs. 484.2 billion reflecting increase in tax rate to 45.0 percent from 40.0 percent on the liquor, tobacco and betting and gaming industries and introduction of 15.0 percent tax on the gains and profit earned or derived from any foreign source with effect from April 1, 2025. Revenue from withholding tax (WHT) increased by 21.2 percent to Rs. 142.9 billion reflecting the increase of WHT on interest rate to 10.0 percent from 5.0 percent with effect from April 01, 2025 and increase to the interest rates. Meanwhile, improvements in tax administration, reflected in a 12.1 percent increase in total income tax file registrations to 1,425,144 as at end-August 2026, compared to end-August 2025, also contributed to this revenue growth;

2. VAT by 22.0 percent or Rs. 238.4 billion driven by increase of VAT on imports by 15.9 percent to Rs. 599.0 billion due to increase of motor vehicle imports by 154.0 percent to 445,546 vehicles for the period from January to August in 2026 with the relaxation of

import restrictions of all type of motor vehicles with effect from February 2025. The imposition of VAT on imported fabric with effect from April 01, 2026 and increase of domestic VAT by 27.5 percent to Rs. 723.6 billion resulted from expansion of domestic activities and administrative measures reflecting increase of VAT registrations including VAT on financial services by 25.5 percent to 38,024 files as at end-August 2026, compared to end-August 2025;

3. Excise duty on motor vehicles by 28.3 percent or Rs. 76.5 billion due to increase of motor vehicle imports by 150.0 percent to 441,097 vehicles for the period from January to August in 2026 with the relaxation of import restrictions of all type of motor vehicles with effect from February 2025;

4. Excise Duty on liquor by 24.3 percent or Rs. 35.4 billion mainly due to increase of liquor production by 9.2 percent to 26.1 million absolute litres in the first eight months of 2026;

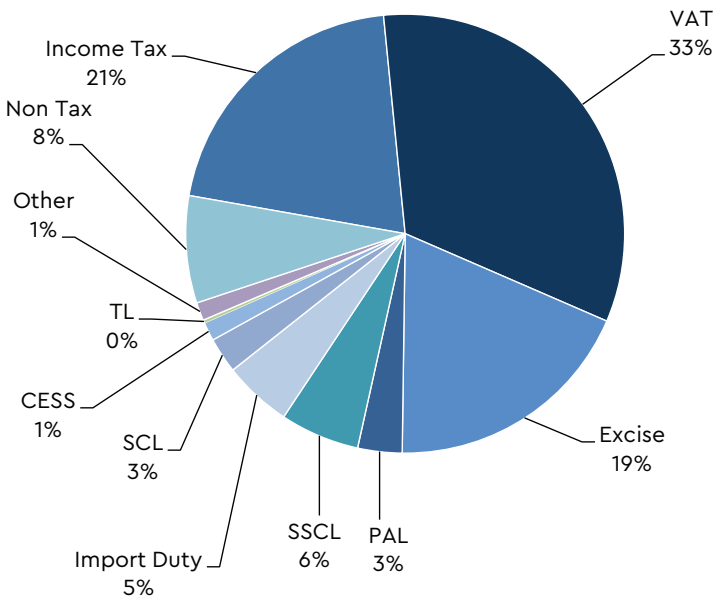
5. SSCL by 22.2 percent or Rs. 42.4 billion driven by increase of SSCL on imports by 53.0 percent to Rs. 68.9 billion due to imposition of SSCL on motor vehicles in the point of Customs with effect from May 01, 2026 and increase of domestic SSCL by 12.7 percent to Rs. 164.3 billion due to expansion of domestic activities together with improved tax administration measures reflecting growth of number of SSCL file registrations by 34.0 percent to 19,957 as at end-August 2026;

6. Customs import duty (CID) by 33.1 percent or Rs. 50.0 billion mainly due to application of CID on motor vehicles together with 50.0 percent Surcharge on applicable CID on motor vehicles and increase of import value of goods by 24.1 percent to USD 16,557 million in the respective period;

7. Ports and Airports Development Levy by 12.9 percent or Rs. 14.9 billion due to the increase in imports.

The increase of non-tax revenue by 39.1 percent or Rs. 88.5 billion in the first eight

FIGURE 2.1 | Composition of Total Revenue : January – August 2026



Source : Department of Fiscal Policy

TABLE 2.3 | Summary of Performance of Government Revenue – 2026

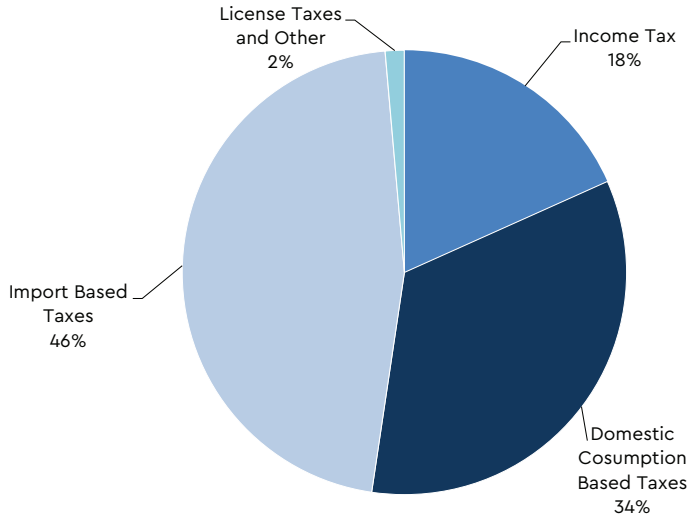
Rs. Million

Item	Jan. – Aug.		Change (%)
	2025	2026 [a]	
Tax Revenue	**3,068,495**	**3,683,527**	**20.0**
Income Tax	**702,351**	**825,625**	**17.6**
Domestic Consumption Based Tax	**929,865**	**1,153,779**	**24.1**
VAT	567,470	723,643	27.5
Excise Tax	216,614	265,825	22.7
SSCL	145,781	164,310	12.7
Import Based Tax	**1,380,169**	**1,641,284**	**18.9**
Import Duty	150,988	200,975	33.1
VAT	516,778	599,037	15.9
SSCL	45,032	68,905	53.0
Ports & Airports Development Levy (PAL)	115,886	130,806	12.9
Special Commodity Levy (SCL)	103,641	104,959	1.3
Excise Tax	391,313	482,148	23.2
Cess	56,529	54,454	-3.7
Licence Taxes and Other	**56,110**	**62,840**	**12.0**
Non Tax Revenue	**226,244**	**314,764**	**39.1**
Total Revenue	**3,294,740**	**3,998,291**	**21.4**

Source: Department of Fiscal Policy

[a] Provisional

FIGURE 2.2 | Tax Revenue by Source : January – August 2026



Source : Department of Fiscal Policy

months of 2026 also contributed to the escalation in revenue. This was mainly led by transfer of Central Bank profit of Rs. 42.1 billion and the increase in revenue from fines, fees and charges by Rs. 21.0 billion. Meanwhile, revenue from interest income and social security contributions also positively contributed to the escalation of this non-tax revenue.

Income Tax

Revenue from income taxes increased by 17.6 percent to Rs. 825.6 billion in the first eight months of 2026, compared to Rs. 702.4 billion recorded in the same period of 2025. This reflects an achievement of 68.2 percent of the annual estimate of Rs. 1,210.0 billion, driven by sustained administrative improvements and enhanced tax compliance.

Revenue from Advance Personal Income Tax (APIT / PAYE) demonstrated a growth of 6.1 percent to Rs. 152.7 billion in the first eight months of 2026 compared to Rs. 143.9 billion in the same period of 2025. The revenue collection from APIT in the first eight months of 2026 accounted for 71.0 percent of the annual estimate of Rs. 215.0 billion.

Personal income tax revenue increased by 5.9 percent to Rs. 45.8 billion during the first eight months of 2026 compared to Rs. 43.2 billion in the same period of 2025, reaching 45.8 percent of its annual target of Rs. 100.0 billion. Meanwhile, corporate tax revenue expanded significantly by 21.9 percent to Rs. 484.2 billion in the first eight months of 2026, up from Rs. 397.3 billion recorded in the same period of 2025. Overall, Corporate and Non-Corporate tax revenue grew by 20.3 percent to Rs. 530.0 billion (achieving 65.4 percent of the annual estimate of Rs. 810.0 billion). This expansion reflects improved corporate profitability across key growth sectors and enhanced revenue realization from statutory tax revisions.

Revenue from WHT/AIT grew by 21.2 per cent to Rs. 142.9 billion in the first eight months of 2026, up from Rs. 117.9 billion in the same period of 2025. WHT/AIT collection achieved 77.2 per cent of its annual estimate of Rs. 185.0 billion.

TABLE 2.4 | Performance of Income Tax

Rs. Million

Tax Base	Jan. – Aug.		Growth (%)
	2025	2026 [a]	
Corporate and Non Corporate	440,513	530,033	20.3
PAYE	143,949	152,686	6.1
Tax on Interest Income	117,890	142,905	21.2
Total	**702,351**	**825,625**	**17.6**

Source: Department of Fiscal Policy

[a] Provisional

Value Added Tax (VAT)

Revenue from VAT increased by 22.0 percent to Rs. 1,322.7 billion in the first eight months of 2026, compared to Rs. 1,084.2 billion in the same period of 2025, supported by higher domestic and import-related revenue collections, as well as improvements in tax administration and the continued digitalization of tax administration aimed at strengthening compliance and collection efficiency. VAT on domestic activities increased by 27.5 percent to Rs. 723.6 billion in the first eight months of 2026 from Rs. 567.5 billion in the same period of 2025 due to the expansion of domestic economic activities. Import VAT revenue increased by 15.9 percent to Rs. 599.0 billion in the first eight months of 2026 from Rs. 516.8 billion in the same period of 2025, which was mainly attributable to the VAT revenue collection from imported vehicles. The realization of revenue from VAT was 73.0 percent in the first eight months of 2026 from the annual estimate of Rs. 1,812.0 billion.

TABLE 2.5 | Performance of VAT

Rs. Million

Tax Base	Jan. – Aug.		Growth (%)
	2025	2026 [a]	
Domestic	567,470	723,643	27.5
Imports	516,778	599,037	15.9
Net Revenue	**1,084,248**	**1,322,680**	**22.0**

Source : Department of Fiscal Policy

[a] Provisional

Excise Duty

Revenue generated from Excise Duty increased by 23.0 percent to Rs. 748.0 billion in the first eight months of 2026, compared to Rs. 607.9 billion in the same period of 2025. This growth was mainly driven by higher revenue from motor vehicles, liquor, petroleum and cigarettes despite a decline in revenue from other excisable articles. Revenue from Excise Duty accounted for 20.3 percent of total tax revenue and 18.7 percent of total revenue collection during the first eight months of 2026, while achieving 89.7 percent of the annual estimate. Revenue from Excise Duty on motor vehicles increased substantially by 28.3 percent to Rs. 347.0 billion in the first eight months of 2026, compared to Rs. 270.5 billion in the same period of 2025, resulting from continued strong demand for motor vehicles which had

been restricted from importation up until February 1, 2025. Revenue from petroleum products increased moderately by 11.9 percent to Rs. 135.1 billion during the first eight months of 2026, compared to Rs. 120.8 billion in the same period of 2025. This increase was mainly driven by increase in global fuel prices resulting from the prevailing Middle East conflict.

Revenue from Excise Duty on liquor increased notably by 24.3 percent to Rs. 181.1 billion in the first eight months of 2026, compared to Rs. 145.7 billion in the same period of 2025, contributing 24.2 percent to the total Excise Duty revenue. The realization of revenue from tax on liquor in the first eight months of 2026 was 74.5 percent of the annual estimate for 2026. The overall production of alcohol increased by 9.2 percent to 26.1 million absolute litres in the first eight months of 2026 compared to 23.9 million absolute litres in the same period of 2025. Hard liquor production increased by 16.3 percent to 16.4 million absolute litres whereas beer production declined marginally by 2 percent to 9.4 million absolute litres.

Meanwhile, revenue from Excise Duty on other excisable items, including sweetened beverages, refrigerators, palm oil, and fatty acids, declined marginally by 4.7 percent to Rs. 7.7 billion in the first eight months of 2026, compared to Rs. 8.1 billion in the same period of 2025. However, tax revenue from cigarettes and tobacco increased substantially by 22.6 percent to Rs. 77.0 billion during the first eight months of 2026, compared to Rs 62.8 billion in the same period of 2025.

TABLE 2.6 | Performance of Excise Duty

Rs. Million

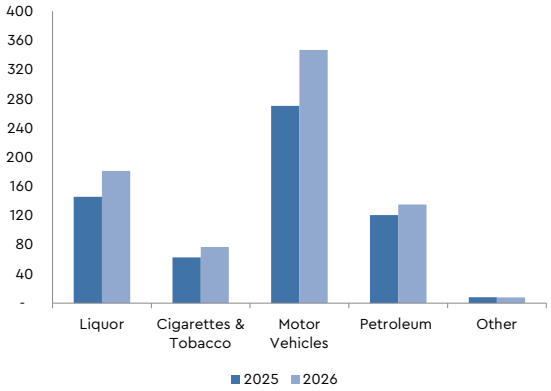
Tax Base	Jan. – Aug.		Growth (%)
	2025	2026 [a]	
Liquor	145,698	181,105	24.3
Cigarettes and Tobacco	62,810	76,995	22.6
Motor Vehicles	270,526	347,032	28.3
Petroleum	120,787	135,116	11.9
Other	8,105	7,726	-4.7
Total	**607,927**	**747,973**	**23.0**

Source : Department of Fiscal Policy

[a] *Provisional*

FIGURE 2.3 | Performance of Excise Duty : January - August 2026

Rs. Billion



Source : Department of Fiscal Policy

Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) revenue increased by 22.2 percent to Rs. 233.2 billion in the first eight months of 2026, from Rs. 190.8 billion in the same period of 2025. This was driven by the expansion of domestic and external activities together with improved tax administration measures, with SSCL on imports recording a notable growth of 53.0 percent to Rs. 68.9 billion, largely attributable to the imposition of SSCL on motor vehicles at the point of importation w.e.f. May 01, 2026. The realization of revenue from SSCL was 70.0 percent in the first eight months of 2026 from the annual estimate of Rs. 333.0 billion.

Customs Import Duty (CID)

Revenue collected from CID significantly increased by 33.1 percent to Rs. 201.0 billion in the first eight months of 2026 compared to Rs. 151.0 billion in the same period of 2025 achieving the 85.5 percent from the annual estimate. The growth is mainly attributable to the increase of import volume in general and increase vehicle importation and surcharge imposed on CID rates.

Special Commodity Levy (SCL)

Revenue collected from SCL increased slightly by 1.3 percent to Rs. 105.0 billion in the first eight months of 2026, compared to Rs. 103.6 billion in the same period of 2025 by achieving 81.4 percent of the

annual estimate. This was mainly driven by the removing of the import restriction on maize, the increase in the applicable tax rate on potato and B'onion and the measures taken to facilitate the importation of rice.

Commodity Export Subsidy Scheme (CESS)

Revenue collected from CESS decreased by 3.7 percent to Rs. 54.5 billion in the first eight months of 2026 compared to Rs. 56.5 billion in the same period of 2025. The decrease was mainly attributable to the elimination of CESS under the Government's para tariff removal scheme as well as the removal of CESS on imported fabric with effect from April 01, 2026.

Ports and Airports Development Levy (PAL)

The total revenue collected from PAL increased by 12.9 percent to Rs. 130.8 billion in the first eight months of 2026 compared to Rs. 115.9 billion recorded in the same period of 2025 recording the 68.8 percent achievement of the annual estimate. This was mainly due to the general increase in the import volumes as well as increase in import values by 24.1 percent to USD 16,557.1 million in the first eight months of 2026.

Telecommunication Levy (TL)

Revenue generated from TL decreased by 11.6 percent to Rs. 9.3 billion in the first eight months of 2026 from Rs. 10.6 billion in the same period of 2025. This continuous decrease was due to the reduction in the value of supply of non-internet telecommunication services.

Luxury Motor Vehicle Tax and Other Taxes

Revenue generated from Motor Vehicle Tax and other taxes increased by 18.6 percent to Rs. 53.5 billion in the first eight months of 2026 from Rs. 45.1 billion in the same period of 2025. Revenue from luxury tax on motor vehicles increased by 32.1 percent to Rs. 29.5 billion in the first eight months of 2026, compared to Rs. 22.3 billion in the same period of 2025. Revenue from betting and gaming levy significantly increased by 65.3 percent to Rs. 9.9 billion in the first eight months of 2026 compared to Rs. 6.0 billion recorded in the same period of 2025. However revenue from share transaction levy also decreased by 16.0 percent to Rs. 3.8 billion in the first eight months of 2026, compared to Rs. 4.6 billion recorded in the same period of 2025. This was mainly due to volatility in value and volume of share transactions as a result of external economic shocks.

TABLE 2.7 | Motor Vehicle Imports

Item	Imports Jan. – Aug.		Change in Nos.	Change %
	2025	2026		
Motor Cars	36,969	75,321	38,352	103.7
Passenger Vans & Buses	1,077	3,000	1,923	178.6
Three Wheelers	9,479	38,667	29,188	307.9
Motor Cycles	97,969	288,573	190,604	194.6
Goods Transport Vehicles [a]	4,942	10,443	5,501	111.3
Land Vehicles [b]	4,373	7,265	2,892	66.1
Other [c]	20,861	22,277	1,416	6.8
Total	**175,670**	**445,546**	**269,876**	**154**

Source: Department of Customs

[a] Lorries, other Goods Transport Vehicle and Special Purpose Vehicles

[b] Tractor, Hand Tractor, Bowser and Other Land Vehicles

[c] Single cab, Dual Purpose vehicle, Qadricycles, Motor Homes

TABLE 2.8 | Coverage of Products and Value of Imports/Exports Under Free Trade Agreements

Free Trade Agreement	Jan. – Aug. 2026			
	Import Value		Export Value	
	(CIF/Rs. Mn)	(CIF/USD Mn)	(FOB/Rs Mn)	(FOB/ USD Mn)
India – Sri Lanka Free Trade Agreement (ISFTA)	96,950	301	147,071	456
Pakistan – sri Lanka Free Trade Agreement (PSFTA)	4,631	14	11,569	36
South Asia Free Trade Agreement (SAFTA)	4,792	15	32,279	100
Asia- Pacific Trade Agreement (APTA)	9,187	29	55,742	173
Sri Lanka – Singapore Free Trade Agreement (SSFTA)	2,969	9	33	0.1
Total	**118,529**	**368**	**246,694**	**766**

Sources: Sri Lanka Customs, Department of Trade and Investment Policy

TABLE 2.9 | CESS Revenue from International Trade

Rs. Million

Item	Jan. – Aug.	
	2025	2026[a]
Cess on Exports	**954**	**1,261**
Tea-under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	312	326
Rubber-under Rubber Replanting Subsidy Act	2	4
Coconut-under Coconut Development Act	96	112
EDB Cess- under Sri Lanka Export Development Act	544	819
Cess on Imports- under Sri Lanka Export Development Act	**55,575**	**53,193**
Total	**56,529**	**54,454**

Sources: Department of Fiscal Policy and Sri Lanka Customs

[a] Provisional

Non-Tax Revenue

Non-tax revenue moderately increased by 39.1 percent to Rs. 314.8 billion in the first eight months of 2026, compared to Rs. 226.2 billion in the same period of 2025 while revenue from non-tax revenue contributed to 7.9 percent of the total revenue. This was mainly due to Rs. 42.1 billion of CBSL profit transfers together with an increase in revenue generated from Profits and dividends, rent, fines, fees and charges, interest income and social security contribution. Accordingly, revenue from interest increased by 19.1 percent to Rs. 51.7 billion in the first eight months of 2026, compared to Rs. 43.4 billion in the same period of 2025. Revenue from fines, fees, and charges increased by 18.7 percent to Rs. 133.6 billion in the first eight months of 2026 compared to Rs. 112.6 billion in the same period of 2025, mainly due to the increase in revenue from fees and charges of the Department of Motor Traffic, Department of Immigration and Emigration and the Department of Registration of Persons. Revenue from Social Security Contributions also increased by 23.8 percent to Rs. 45.3 billion in the first eight months of 2026, compared to Rs. 36.6 billion in the same period of 2025 due to the increase in the contribution rate and salaries of the public servants. Revenue from rent also increased by 31.8 percent to Rs. 5.1 billion in the first eight months of 2026 from Rs. 3.9 billion in the same period of 2025. Meanwhile, non-tax revenue from profits and dividends from State Owned Enterprises (SOEs) significantly increased by 36.0 percent to Rs. 19.9 billion in the first eight months of 2026 from Rs. 14.6 billion in the same period of 2025. The realization of non-tax revenue was 87.4 percent in the first eight months of 2026 as against the annual estimate of Rs. 360 billion.

TABLE 2.10 | Variance Analysis of Government Revenue

Rs. Billion

Item	2025 Jan – August	2026 (Annual Estimate)	2026 Jan-August[a]	Major Reasons for Variance
Income Taxes	702.3	1,210.0	825.6	Revenue from Income tax increased by 17.6 percent to Rs. 825.6 billion in the first eight months of 2026 compared to the same period of the last year, reaching 68.2 percent of the annual estimate for 2026. This performance was mainly attributable to: – Increase in the Corporate Income Tax (CIT) rate on the liquor, tobacco, and betting and gaming industries to 45 percent from 40 percent, with effect from 01.04.2025; – Imposition of a 15 percent income tax on the gains and profit earned or derived from any foreign source, with effect from 01.04.2025 – Increase in the Withholding Tax (WHT) rate on interest to 10 percent from 5 percent, with effect from 01.04.2025; – Increase in wages in the public and private sectors; – Increase Capital Gains Tax rate applicable to individuals and partnerships from 10 percent to 15 percent with effect from 03.06.2026. – Growth in Gross Domestic Product (GDP) of 4.7 percent in the first half of 2026, reflecting the expansion of economic activities; and – Broaden the tax base by strengthening tax administration measures reflecting surge of number of tax file registrations on income tax by 12.1 percent to 1,425,144 as end August 2026 from 1,270,851 files registered at end August 2025. Despite the growth of 6.1 percent in PAYE/APIT revenue during the first eight months of 2026, compared to the same period of 2025, the combined effect of increasing the annual tax-free threshold from Rs. 1.2 million to Rs. 1.8 million and broadening the 18 percent tax slab, effective from 01 April 2025, contributed to lower overall income tax collection.
Value Added Tax (VAT)	1084.2	1,812.0	1322.7	Revenue from VAT showed a significant increase of 22.0 percent to Rs. 1,322.7 billion in the first eight months of 2026, compared to the same period of 2025 achieving 73.0 percent of the annual estimate for 2026. This performance was mainly driven by: – Growth in Gross Domestic Product (GDP) of 4.7 percent in the first half of 2026, reflecting the expansion of economic activities; – Removal of zero-rated VAT on imported fabric and application of the standard VAT rate, with effect from 01.04.2026; – Increase in the number of motor vehicles imported by 150.1 percent to 441,097 units in the first eight months of 2026, compared to the same period of 2025; – Increase in total imports by 24.1 percent to USD 16,557.1 million in the first eight months of 2026, compared to the same period of 2025; and

TABLE 2.10 | Variance Analysis of Government Revenue (Contd..)

Rs. Billion

Item	2025 Jan – August	2026 (Annual Estimate)	2026 Jan-August[a]	Major Reasons for Variance
				– Increase in the number of registered taxpayers by 25.5 percent to 38,024 as at end August 2026, from 30,298 at end August 2025, reflecting improved VAT compliance supported by tax administration measures.
Excise Duty	607.9	834.0	748.0	The realization of Excise Duty was 89.7 percent as against the annual estimate for 2026 mainly due to: – Increase in production of liquor by 9.2 percent to 26.1 million liters in the first eight months of 2026, compared to the same period of 2025; – Increased revenue from Excise Duty on motor vehicles, following relaxation of import restrictions on all types of motor vehicle imports with effect from February 2025; – Increase in the number of motor vehicles imported by 150.1 percent to 441,097 units in the first eight months of 2026, compared to the same period of 2025; – Increase in revenue from Excise Duty on cigarettes by 22.2 percent to Rs. 75.7 billion, owing to an increase in the sale of cigarette sticks by 5 percent to 1,282 million sticks during the review period; and – Growth in Excise Duty on petroleum by 11.9 percent due to increase of petrol imports by 2.2 percent and diesel imports by 8.7 percent during the first eight months of 2026 compared with the same period of 2025. However, revenue from other Excisable articles such as sugar-based beverages, refrigerators and palm oil fatty acids declined by 4.7 percent during the review period and negatively contributed to the overall performance of excise duty revenue.
Customs Import Duties	151.0	235.0	201.0	The revenue collection from Customs Import Duty (CID) significantly increased by 33.1 percent to Rs. 201 billion in the first eight months of 2026 realizing 85.5 percent of annual budget estimate for 2026. This performance was mainly driven by: – Introduction on CID on motor vehicles together with 50 percent Surcharge on applicable CID on motor vehicles; – Increase in the number of motor vehicles imported by 154.0 percent to 445,546 units in the first eight months of 2026, compared to the same period of 2025; – Introduction of a four-band Customs Import Duty structure, revising the existing rates of 0 percent, 15 percent and 20 percent to 0 percent, 10 percent, 20 percent and 30 percent, with effect from 01.04.2026; and – Increase in total imports by 24.1 percent to USD 16,557.1 million in the first eight months of 2026, compared to the same period of 2025

TABLE 2.10 | Variance Analysis of Government Revenue (Contd..)

Rs. Billion

Item	2025 Jan – August	2026 (Annual Estimate)	2026 Jan-August[a]	Major Reasons for Variance
Port and Airport Development Levy (PAL)	115.9	190.0	130.8	The realization of Ports and Airports Development Levy (PAL) was 68.8 percent as against the annual budget estimate for 2026 in the first eight months of 2026 mainly driven by: – Increase in total imports by 24.1 percent to USD 16,557.1 million in the first eight months of 2026, compared to the same period of 2025
Special Commodity Levy (SCL)	103.6	129.0	105.0	Revenue from Special Commodity Levy (SCL) grew modestly by 1.3 percent to Rs. 105.0 billion in the first eight months of 2026, compared to the same period of 2025, reaching 81.4 percent of the annual budget estimate for 2026. This growth was mainly attributable to: – Upward revision of the duty rates on big onions from Rs. 10 per kg to Rs. 50 per kg and on potatoes from Rs. 60 per kg to Rs. 80 per kg, with effect from 26.08.2025
Social Security Contribution Levy (SSCL)	190.8	333.0	233.2	The Social Security Contribution Levy (SSCL) revenue significantly increased by 22.2 percent to Rs.233.2 billion in the first eight months of 2026 compared to the same period of last year, realizing 70.0 percent of the annual budget estimate for 2026, This performance was mainly driven by: – Growth in Gross Domestic Product (GDP) of 4.7 percent in the first half of 2026, reflecting the expansion of economic activity; – Imposition of SSCL at the point of importation of motor vehicles with effect from 01.05.2026; and – Increase in total imports by 24.1 percent to USD 16,557.1 million in the first eight months of 2026, compared to the same period of 2025.
Other Taxes	112.6	167.0	117.3	Revenue from other taxes increased by 4.1 percent to Rs. 117.3 billion in the first eight months of 2026, compared to the same period of 2025, realizing 70.2 percent of the annual estimate for 2026. This was primarily driven by: – Increase in revenue from Luxury Tax on motor vehicles to Rs. 29.5 billion in the first eight months of 2026, from Rs. 22.3 billion in the same period of 2025, following the relaxation of restrictions on motor vehicle imports However, revenue from the Telecommunication Levy declined by 11.6 percent in the first eight months of 2026, reflecting lower consumption of telecommunication services and partly offsetting the overall performance of other taxes. In addition, the 3.7 percent decline in revenue from the CESS Levy further widened the deviation from the estimate.

TABLE 2.10 | Variance Analysis of Government Revenue (Contd..)

Rs. Billion

Item	2025 Jan – August	2026 (Annual Estimate)	2026 Jan-August[(a)]	Major Reasons for Variance
Non-Tax Revenue	226.2	360.0	314.8	Non-tax revenue increased by 39.1 percent in the first eight months of 2026, compared to the same period of 2025, reaching 87.4 percent of the annual estimate for 2026. This strong performance was mainly supported by profits transferred by the Central Bank, interest income, social security contribution receipts, fines, fees and charges, rent, and profits and dividends of State-Owned Enterprises (SOEs).
Total	**3,294.7**	**5,270.0**	**3,998.3**	

Compiled by the Department of Fiscal Policy

[(a)]Provisional

BOX 2.1 I Major Fiscal Measures: January–September 2026

Effective Date	Measures
Income Tax- Amendments to the Inland Revenue Act, No. 24 of 2017	
03.06.2026	Inland Revenue (Amendment) Act, No. 11 of 2026 - The Inland Revenue (Amendment) Act, No. 11 of 2026 was enacted to give effect to the tax revisions proposed in the Budget 2025 and 2026. • To remove the requirement of filing the Statement of Estimated Tax payable (SET) with effect from the Year of Assessment 2025/2026. • To calculate the amount of each instalment of tax payable by a person for a year of assessment based on the income tax payable by such person for the previous year of assessment. • To exempt payments made by the Sri Lanka Air Force to non-residents for aircraft, software licenses, or related services from income tax. • To clarify the chargeability of income tax on proceeds from life insurance policies. Accordingly, the amounts received under a life insurance policy by an individual upon, the death of the insured person, the maturity of the policy or the surrender of the policy was excluded in calculating assessable income. However, any annuity, pension, retirement, superannuation or similar payments made under the life insurance policy are not excluded from assessable income. • To treat the amount realized by transferring an asset as a gift or donation to the Government of Sri Lanka or to a university established or deemed to be established under the Universities Act, No. 16 of 1978, as equal to its net cost immediately before the transfer. • To increase the Capital Gains Tax rate applicable to individuals and partnerships from 10 percent to 15 percent. The Capital Gains Tax rate applicable to all other entities is 30 percent. • To revise Tax resident rules as follows: – i. Any individual holding a special residence visa is not consider a resident of Sri Lanka for income tax purpose. ii. An individual employed on a Sri Lanka-flagged vessel is consider as a resident of Sri Lanka only for the period they are employed on the vessel. iii. A foreign citizen working on a Sri Lanka-flagged vessel is only pay income tax solely on income derived from such employment, and not on any other foreign income.

BOX 2.1 I Major Fiscal Measures: January–September 2026 (Contd..)

Effective Date	Measures
	• To consider any unit trust or mutual fund that fails to provide the unit holders, with a certificate detailing income, exempt amounts, withholding tax, and other information as specified by the Commissioner General, as a company resident in Sri Lanka, and the provisions of the Act applicable to resident companies are apply accordingly. • To allow any donations to the Government or government established funds that cannot be fully deducted in the year of assessment to be carried forward as qualifying deductions in subsequent years. • To waive off the interest imposed under the provisions of the Inland Revenue Act, No. 24 of 2017, and the Surcharge Tax Act, No.14 of 2022. • To reduce the minimum investment required to qualify for enhanced capital allowances from USD 3 million to USD 250,000. • Other Administrative provisions In addition to the above amendments, various administrative reforms aimed at enhancing compliance, streamlining procedures, and strengthening the efficiency and effectiveness of tax administration have been incorporated in the IR Bill.
Stamp Duty- Stamp Duty (Special Provisions) Act, No. 12 of 2006	
24.02.2026	Gazette Notification No. 2477/22 dated 24.02.2026 - To exempt the Stamp Duty of Rs. 25/= levied on receipts issued for payments exceeding Rs. 25,000/= made by the Government to people affected by disasters.
Betting and Gaming Levy – Betting and Gaming Levy Act, No. 40 of 1988	
17.12.2025 w.e.f. 01.01.2026	Betting and Gaming Levy (Amendment) Act, No. 25 of 2025 - The Betting and Gaming Levy Act, No. 40 of 1988 was amended to give effect to the following revenue measures proposed in the Budget Speech 2025: • To increase the Gross Collection Levy from 15 percent to 18 percent; and • To increase the Casino Entrance Levy imposed on Sri Lanka citizens from USD 50 to USD 100.
Social Security Contribution Levy (SSCL) – Social Security Contribution Levy Act, No. 25 of 2022	
09.04.2026 w.e.f. 01.07.2026 w.e.f. 01.05.2026	Social Security Contribution Levy (Amendment) Act, No. 10 of 2026 • To reduce the annual turnover threshold for the registration of Social Security Contribution Levy (SSCL) from Rs. 60 million to Rs. 36 million with effect from July 01, 2026; and • To impose SSCL at the time of importation or manufacture and sale of motor vehicles, and to exempt motor vehicles from SSCL at the point of after-sales transactions, with effect from May 01, 2026.
Value Added Tax (VAT)- Value Added Tax Act, No. 14 of 2002	
01.04.2026	Gazette Notification No. 2478/07 dated 03.03.2026 - To remove zero rate VAT on imported fabric and apply standard VAT rate.
30.06.2026	Value Added Tax (Amendment) Act, No. 14 of 2026 - Value Added Tax (Amendment) Act, No. 14 of 2026 was enacted to give effect to the following key measures: • To postpone the effective date of the imposition of VAT on the supply of services through electronic platforms by the non-resident suppliers until July 01, 2026. • To introduce the provisions relating to the manner of registration, charging, collection, filing return, etc. relating to the imposition of VAT on the supply of services through digital platforms by non-resident suppliers; • To incorporate amendments to the VAT Act consequential to the removal of SVAT and to facilitate the refunding process;

BOX 2.1 I Major Fiscal Measures: January–September 2026 (Contd..)

Effective Date	Measures
	• To allow for the deduction of Entertainment tax charged by the local authorities in ascertaining the value of supply of film exhibition service; • To write off VAT arrears as per the records of Commissioner General of Inland Revenue in respect of projects carried out by construction contractors of Tsunami projects; • To disallow input tax deduction on the capital goods such as machinery, equipment or vehicles imported for projects on re-export basis where the Value Added Tax at the time of import is deferred, unless such goods are re-exported as agreed; • To mandate and operationalize the use of Point of Sale (POS) Machines by the VAT registered persons, within three months of the date so prescribed. • To combine the Social Security Contribution Levy (SSCL) and VAT on financial services and to charge as VAT at an increased rate of 20.5% on financial services; • To introduce criminal proceedings and sanctions on the offences committed under the VAT Act; and • To clarify the policy relating to the applicability of VAT on the supply of financial services, on Dividend Income.
Excise (Special Provisions) Duty -Excise (Special Provisions) Act, No. 13 of 1989	
01.04.2026	Gazette Notification No. 2478/06 dated 03.03.2026 - To impose Excise Duty on newly created National Subdivisions, with rates assigned based on the prevailing rate applicable to the relevant HS Heading/ Subdivision.
Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)	
12.12.2025	Excise Notification No.03/2025 (Gazette Notification No. 2466/22 dated 11.12.2025) - To revise the Annual Excise License Fee and the Security Deposit and to impose one-time fee for industry entry.
Ports and Airports Development Levy (PAL) – Ports and Airports Developments Levy Act, No. 18 of 2011	
01.04.2026	Gazette Notification No. 2478/05 dated 03.03.2026 - To impose PAL on newly created National Subdivisions, with rates assigned based on the prevailing rate applicable to the relevant HS Heading/ Subdivision.
CESS Levy – Sri Lanka Export Development Act, No. 40 of 1979	
01.04.2026	Gazette Notification No. 2478/04 dated 03.03.2026 - To impose CESS levy on newly created or amended National Subdivisions.
01.04.2026	Gazette Notification No. 2479/38 dated 10.03.2026 - To remove CESS levy on imported fabric as proposed in Budget Speech 2026. - To reduce CESS rate by 50 percent on intermediate input in line with the Development Policy Operation (DPO).
Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962	
01.04.2026	Revenue Protection Order No. 01/2026 (Gazette Notification No. 2478/03 dated 03.03.2026) - To introduce a Four Band Customs, Import Duty Structure, revising the existing Customs Import Duty Rates of 0 percent, 15 percent, and 20 percent to 0 percent, 10 percent, 20 percent and 30 percent effective from April 01, 2026.
Customs Surcharge- Customs Ordinance (Chapter 235)	
01.02.2026	Gazette Notification No. 2473/31 dated 31.01.2026 - To continue the imposition of a 50 percent surcharge on the importation of Motor Vehicles till December 31, 2026.

BOX 2.1 I Major Fiscal Measures: January–September 2026 (Contd..)

Effective Date	Measures
01.04.2026	Gazette Notification No. 2479/55 dated 12.03.2026 - To remove the 50 percent of surcharge on the importation of Motor Vehicles considering the increase of CID from 20 percent to 30 percent with effect from April 01, 2026.
16.05.2026	Gazette Notification No. 2488/56 dated 15.05.2026 - To continue the imposition of a 15 percent of surcharge on the importation of Motor Vehicles with effect from May 16,2026 for a period of three months.
18.05.2026	Gazette Notification No. 2488/69 dated 17.05.2026 - To avert the manipulation of concession that has been granted the letter of credit established on or before May 15,2026 for importation of motor vehicles.
15.08.2026	Gazette Notification No. 2501/88 dated 14.08.2026 - To continue the imposition of a 50 percent of surcharge on importation of Motor Vehicles with effect from August 15,2026 to December 31,2026 considering the ongoing war situation in the middle east and the pressure exerted on the foreign exchange rate.
Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007	
01.01.2026	Gazette Notification No. 2469/12 dated 31.12.2025 - To extend the validity period of prevailing SCL on importation of 62 commodities till December 31, 2026.
01.04.2026	Gazette Notification No. 2482/09 dated 31.03.2026 - Granting approval to provide a concessional Special Commodity Levy, exempting the remainder of the applicable tax, subject to specific regulatory approvals, for the importation of desiccated coconut pieces for local coconut oil production and the importation of salt for pharmaceutical manufacturing purposes, effective from April 1, 2026, to December 31, 2026.
05.05.2026	Gazette Notification No. 2487/02 dated 04.05.2026 - To Increase SCL on importation of Maize, considering recommendation by Food Policy and Security Committee till December 31, 2026.
Imports & Exports (Control) Regulations- Imports and Exports (Control) Act, No. 01 of 1969	
23.03.2026	Imports and Exports (Control) Regulations No. 01 of 2026 (Gazette Extraordinary No. 2481/02 of 23.03.2026) - To allow Air Carriers of Sri Lanka providing international air services to import retreaded aircraft tyres that confirm to the requirements specified by internationally accredited aviation authorities and are classified under HS Code 4012.13, subject to conditions.
01.04.2026	Imports and Exports (Control) Regulations No. 02 of 2026 (Gazette Extraordinary No. 2482/08 of 31.03.2026) - To update the Special Import License Regulations No. 01 of 2023, in accordance with the National Subdivisions of the Harmonized System Codes published by the Revenue Protection Order published in the Gazette Extraordinary No. 2478/03 dated March 03, 2026.
02.04.2026	Imports and Exports (Control) Regulations No. 03 of 2026 (Gazette Extraordinary No. 2482/12 of 02.04.2026) - To remove Import Control License (ICL) requirement on importation of rice variety known as GR 11 rice including Ponni Samba and Kiri/Paal Ponni rice considered to be substitutes to Samba and Keeri Samba, respectively and classified under Harmonized System (HS) Code of 1006.30.29, until April 30, 2026.

BOX 2.1 I Major Fiscal Measures: January–September 2026 (Contd..)

Effective Date	Measures
06.06.2026, 01.01.2028	Imports and Exports (Control) Regulations No. 04 of 2026 (Gazette Extraordinary No. 2487/29 of 07.05.2026) - To ban importation of refrigeration and Air Conditioning equipment and accessories categorized under HS Headings 84.15, 84.18, 84.19, 84.79, 87.04, and 87.07 and working only with Hydrochlorofluorocarbons (HCFCs) with effect from June 06, 2026 and to ban importation of compressors categorized under HS Code 8414.30 which are used as a component of refrigeration system for such refrigeration and Air Conditioning equipment and accessories and working only with Hydrochlorofluorocarbons with effect from January 01, 2028.
15.06.2026	Imports and Exports (Control) Regulations No. 05 of 2026 (Gazette Extraordinary No. 2493/03 of 15.06.2026) - To impose Export Control License (ECL) requirement on export of metal related products, classified under fifty-five (55) Harmonized System (HS) Codes.
19.06.2026	Imports and Exports (Control) Regulations No. 06 of 2026 (Gazette Extraordinary No. 2493/39 of 18.06.2026) - To amend regulations pertaining to Payment Terms for importation of goods, making it mandatory for; • All banks to assign a unique number to each transaction and forthwith notify the Sri Lanka Customs Department of all information including the valid Taxpayer Identification Number (TIN) of the respective remitter (importer), address of the remitter (importer), address of the beneficiary, account number of the beneficiary, bank code, branch code, type of currency and amount, terms of payment, terms of delivery, date of remittance, proforma invoice number, and description of goods, regarding each transaction relating to, or made under, the number so assigned, • Importers to register with the Sri Lanka Customs Department as an eligible importer for the purpose of making advance payments prior to making an advance payment.
10.07.2026	Imports and Exports (Control) Regulations on Prohibition of Importation of Goods No. 07 of 2026 (Gazette Extraordinary No. 2496/38 of 10.07.2026) - To prohibit the importation of goods that are mined, produced or manufactured wholly or partially by forced labour;
Embarkation Levy – Finance Act, No. 25 of 2003	
29.12.2025	Gazette Notification No. 2469/03 dated 29.12.2025 - To extend tax exemption period for persons leaving Sri Lanka by aircraft from Mattala Rajapaksa International Airport (MRIA) for 18 months from December 29, 2025, to June 26, 2027.
Strategic Development Projects- Strategic Development Projects Act, No. 14 of 2008	
08.02.2026	Gazette Notification No. 2474/66 dated 08.02.2026 - To prescribe eligibility criteria for projects to be identified as a Strategic Development Project and applicable tax exemptions or concessions.
The Colombo Port City Economic Commission Act, No. 11 of 2021	
20.01.2026	Colombo Port City Economic Commission (Amendment) Act, No. 1 of 2026 - The Port City Economic Commission Act, No. 11 of 2021 was amended to give effect to the following key measures: • To remove income tax exemption applicable on employment income of individuals employed within the area of Colombo Port City. • To Strengthen Compliance and Monitoring via Annual Estimation and Disclosure of Tax Expenditure, mandatory filing of Corporate Income Tax Returns and ongoing monitoring of performance targets (jobs, investment realized, time period stipulated) by Colombo Port City Economic Commission. • To provide regulatory measures including effective banking supervision in line with international standards.

2.3 Government Expenditure

Government expenditure during the first eight months of 2026 amounted to Rs. 3,966.9 billion of which Rs. 3,531.0 billion was recurrent expenditure and Rs. 435.9 billion was capital expenditure and net lending. Government expenditure is required to be authorized by Parliament annually. Accordingly, the Appropriation Act, No. 23 of 2025, was passed by Parliament, enabling the government to incur expenditure in 2026.

Table 2.11 | Performance of Government Expenditure

Rs. Million

Item	Jan-Aug	
	2025	2026[a]
Recurrent Expenditure	**3,381,309**	**3,531,045**
Salaries	760,687	826,962
Pension	282,905	332,363
Interest	1,687,571	1,609,194
Other	650,146	762,526
Capital & Net Lending	**331,183**	**435,867**
Total Expenditure	**3,712,492**	**3,966,913**

Source : Department of Fiscal Policy

[a] Provisional

Personal Emoluments and Pensions

The expenditure on personal emoluments of public servants, including employees of Provincial Councils, increased by 8.7 percent to Rs. 827.0 billion in the first eight months of 2026, from Rs. 760.7 billion in the same period of 2025. Meanwhile, expenditure on pension payments increased by 17.5 percent to Rs. 332.4 billion in the first eight months of 2026, compared to Rs. 282.9 billion in the same period of 2025. This increase was mainly driven by increases in the basic salaries of public servants and pension revisions in line with the 2025 Budget Proposal.

Interest Payments

Interest payments on both domestic and foreign debt, decreased by 4.6 percent to Rs. 1,609.2 billion in the first eight months of 2026, compared to Rs. 1,687.6 billion in the same period of 2025. The interest payments on domestic debt decreased by 5.2 percent to Rs. 1,389.7 billion in the first eight months of 2026, compared to Rs. 1,466.5 billion in the same period of 2025. Interest payments on foreign debt decreased by 0.7 percent to Rs. 219.5 billion in the first eight months of 2026 from Rs. 221.1 billion in the same period of 2025.

Welfare Expenditure

The Government continued the strengthening of social safety net programs with special attention of providing a relief to the vulnerable and marginalized segments of society through improved targeting and coverage while empowering them to improve their livelihoods.

In the first eight months of 2026, the total welfare spending including social welfare, social security, education, health and nutrition, development assistance and subsidy programs on production and labor market inclusion increased by 17.2 percent to Rs. 738.1 billion compared to Rs. 629.4 billion to the same period of 2025. Social welfare and social security expenditures amounted to Rs. 667.4 billion in the first eight months of 2026. This includes specific allocations such as Rs. 164.2 billion for the "Aswesuma" program including categorical payments for Elderly allowance, allowance for differently abled persons and Kidney patients' allowance which is a 14.5 percent increase compared to the same period of 2025.

Furthermore, government expenditure on medical supplies for government hospitals, including Ayurvedic hospitals, increased by 54 percent, rising from Rs. 74.9 billion in the first eight months of 2025 to Rs. 115.4 billion during the corresponding period in 2026. This increase was mainly attributed to the improved efficiency of procurement methods and the smooth functioning of medical supply chains.

TABLE 2.12 | Welfare Expenditure

Rs.Million

Programme	Jan.- Aug.	
	2025	2026 Provisional
Social Welfare	**94,426**	**133,030**
Medical supplies for Government Hospitals (including Ayurvedha)	74,952	115,394
Health insurance for school children (Suraksha)	1,376	857
Agrahara insuarance scheme for pensioners	486	602
Allowance for pre-school teachers	490	565
"Ranaviru Mapiya Rakawarana" allowance	916	994
Property loan interest to public servants	958	856
Subsidy for economically unprofitable routes, contribution of socially obligatory bus services (Sisu sariya, Gami seriya and Nisi seriya) and Armed Forces Bus Passes	2,608	2,778
"Suwasariya" – 1990 free ambulance service	1,686	2,021
Interest difference on senior citizens' accounts	10,000	1,734
World Food Programme	332	136
Flood and Drought Relief	41	6,683
Other	581	411
Social Security	**462,944**	**534,407**
Cash grant for low income families	98,132	113,200
Support for low-income differently abled persons	9,453	12,331
Financial support for elderly people	29,769	32,305
Financial support for kidney patients	3,166	3,649
Financial assistance to purchase school stationeries	2,833	2,793
Pension	282,631	332,363
Service compensation for death & injured soldiers	33,312	34,653
Pension for Farmers	3,523	2,942
Other	126	171
Health and Nutrition	**25,442**	**25,123**
Thriposha programme	1,750	1,621
Nutritional food package for expectant mothers	4,196	3,472
School nutritional foods programme	17,894	18,219
Morning meal for pre-school children	1,342	1,229
Other	260	582
Education	**18,931**	**19,000**
School texbooks	1,567	867
School uniforms	58	236
Shoes for students in difficult schools	2,490	1,891
Scholarships – grade 5 students	824	347
Mahapola and bursaries	3,245	3,578
Loan scheme for the students who are unable to get into the state universities	1,335	1,059
School & higher education season Tickets	8,250	9,000
Others	1,162	2,022
Development Subsidies	**27,683**	**26,628**
Fertilizer subsidy	22,625	23,179
Other	5,058	3,449
Total	**629,426**	**738,188**

Source: Department of National Budget

Public Investment

According to the accounting format, Public investments amounting to over Rs. 445.5 billion were incurred during the first eight months of 2026. Of this amount, Rs. 45.2 billion was spent on the rehabilitation and improvement of infrastructure damaged by Cyclone "Ditwah." The overall implementation progress stood at around 27 percent. The relatively low level of progress was mainly attributable to several bottlenecks, including supply chain disruptions, particularly the shortage of bitumen required for road construction, delays in procurement processes, land acquisition and environmental clearances, changes in projects' scope, and project management-related issues.

The above public investments were incurred mainly across the following sectors during the first eight months of 2026:

i. Rs. 126.0 billion for the maintenance, rehabilitation, and development of rural roads, bridges, highways, and expressways;

ii. Rs. 25.7 billion for the development and expansion of pipe borne water supply schemes, development of housing schemes, and facilities in urban areas;

iii. Rs. 28.7 billion for transport development including the rehabilitation and improvement of railway fleet, rail roads and bus transportation

iv. Rs. 23.5 billion for the improvement of productivity and efficiency in the agriculture value chain by introducing modern technology;

v. Rs. 22.5 billion for ensuring water security for agriculture purposes, mainly by constructing and maintaining irrigation-related infrastructure;

vi. Rs. 19.1 billion for the rehabilitation and infrastructure development of schools, higher education institutions, vocational training centers, and teacher training programs, with the aim of enhancing the quality of education;

vii. Rs. 24.4 billion for the maintenance and development of hospitals and the provision of medical equipment to hospitals;

viii. Rs. 2.3 billion for the development of infrastructure related to provision of electricity;

ix. Rs. 28.2 billion for Micro, Small and Medium-sized Enterprises development loan schemes; and

x. Rs. 55.2 billion for providing equity for State Owned Enterprises.

2.4 Performance of the Cash Flow of the General Treasury

The General Treasury's cash flow operations during 2026 show a strong improvement in the government's fiscal liquidity position compared with budget estimates. Higher-than-anticipated cash inflows, together with prudent expenditure management, significantly reduced the projected cash deficit and enabled the Treasury to maintain a healthy cash balance at the end of the period. These developments reflect the government's continued efforts to strengthen revenue collection mechanisms, enhance fiscal discipline, and improve the efficiency of public financial management.

According to the Treasury Cash Flow Statement, total cash inflows from revenue and other receipts reached Rs. 3,886.8 billion compared to the estimated inflow of Rs. 3,347.5 billion, recording an increase of Rs. 539.3 billion or 16.1 percent above the estimate. This favorable performance reflects improved revenue mobilization and stronger-than-expected collections from government revenue sources and other receipts.

On the expenditure side, total cash outflows for recurrent payments amounted

to Rs. 3,441.0 billion against an estimated Rs. 4,342.8 billion. This represents a reduction of Rs. 901.8 billion compared to the budget estimate, indicating effective expenditure management and the containment of recurrent spending during the period under review. Similarly, cash outflows for capital payments amounted to Rs. 497.7 billion compared to the estimated allocation of Rs. 774.0 billion, resulting in a lower utilization of Rs. 276.3 billion. This outcome may be attributed to the phased implementation of development projects and prioritization of public investment expenditure.

As a result of higher-than-estimated cash inflows and lower-than-estimated expenditure, the net cash deficit was substantially lower than originally anticipated. While a deficit of Rs. 1,769.2 billion had been projected, the actual deficit amounted to only Rs. 51.9 billion. This represents an improvement of Rs. 1,717.3 billion compared to the estimated position and highlights the positive impact of enhanced revenue performance and expenditure control measures on overall Treasury operations.

To finance its obligations, the Government raised gross borrowings amounting to Rs. 2,217.9 billion during the period, which was slightly higher than the estimated borrowing requirement of Rs. 2,214.1 billion. Meanwhile, debt repayments amounted to Rs. 2,206.3 billion compared to the estimated repayment requirement of Rs. 2,225.1 billion. Consequently, net borrowing recorded a positive balance of Rs. 11.6 billion against the estimated negative net borrowing position of Rs. 11.0 billion, indicating that gross borrowings exceeded debt repayments during the period. This reflects the structural dynamics of treasury financing during the period.

Consequently, the closing cash balance at period-end stood at Rs. 936.0 billion, significantly outperforming the estimated negative balance of Rs. 864.3 billion. Maintaining a substantial positive cash balance demonstrates the effectiveness of government cash management strategies and provides an important liquidity buffer to meet future expenditure requirements and debt service obligations.

Overall, the General Treasury's cash flow performance in 2026 reflects a notable strengthening of fiscal operations, supported by robust revenue growth, controlled expenditure levels, and prudent debt management practices. The improved cash position achieved during the period enhances the government's financial resilience and strengthens its capacity to sustain fiscal stability while supporting priority economic and social programs.

TABLE 2.13 | Government Treasury Cash Flow Operations

Rs. Billion

Item	Jan. – Aug.		
	2025	2026	
	Actual	Estimate	Actual
Opening Cash balance year /month	**805.1**	**915.8**	**915.8**
Total cash inflow from revenue and other receipts	3,187.4	3,347.5	3,886.8
Total cash outflow for recurrent payments	-3,292.4	-4,342.8	-3,441.0
Total cash outflow for capital payments	-327.7	-774.0	-497.7
Net cash surplus / (deficit)	-432.7	-1,769.2	-51.9
Gross borrowing	2,295.6	2,214.1	2,217.9
Debt repayment	-1,457.6	-2,225.1	-2,206.3
Net borrowing	838.0	-11.0	11.6
Adjustment account balance (TEB, net deposits, Other Transfer etc.)	-4.7	–	60.5
Closing Cash balance year / month end	**1,205.8**	**-864.3**	**936.0**

Source: Department of Treasury Operations

TABLE 2.14 | Behaviour of Yield Rates on Government Securities and Exchange Rates: 2025–2026

Period		Treasury Bills (%)			Treasury Bonds (%)				Average Exchange Rate Rs/ USD
		91 days	182 days	364 days	2 year	3 year	4 year	5 year	
2025	Jan	7.93	8.09	8.47	–	–	10.42	10.73	296.18
	Feb	7.57	7.87	8.35	–	–	10.63		296.80
	Mar	7.50	7.84	8.25	–	–		10.72	295.91
	Apr	7.65	7.97	8.30	–	–	10.30	10.64	298.53
	May	7.55	7.77	7.98	–	8.85	9.47		299.41
	Jun	7.55	7.75	7.94	–	–	9.41		299.90
	Jul	7.62	7.91	8.03	–	–	9.46	9.77	301.12
	Aug	7.58	7.89	8.03	–	–			301.49
	Sep	7.57	7.89	8.02	–	–		9.76	302.20
	Oct	7.52	7.90	8.04	–	–		9.80	303.13
	Nov	7.52	7.91	8.03	–	–	9.53	9.56	306.35
	Dec	7.74	8.27	8.45	–	–	9.55	9.80	309.20
2026	Jan	7.84	8.26	8.36	–	–	9.72		309.65
	Feb	7.63	7.92	8.24	–	–	9.50		309.36
	Mar	7.80	8.09	8.41	–	–	9.63		311.91
	Apr	8.20	8.25	8.52	–	–	10.12		316.45
	May	9.36	9.68	9.83	–	–	11.86		324.91
	Jun	10.14	10.21	10.17	–	–	11.44		334.43
	Jul	9.86	10.21	10.20	–	–	11.57	11.90	336.02
	Aug	9.06	9.44	9.89	–	–	10.54	-	332.91

Sources : Public Debt Management Office and Central Bank of Sri Lanka

2.5 Management of Government Debt

Parliament approved a total gross borrowing limit of Rs. 3,740 billion for the fiscal year 2026, of which Rs.2,536 billion was allocated for the period from 1 January to 31 August, 2026. The borrowings during this period were sourced from both domestic and foreign markets, amounting to Rs. 1,859.8 billion and Rs. 304.1 billion respectively. The primary purposes of these borrowings were to meet debt service obligations and to fund various development initiatives.

As of the reporting date, approximately 85.9 percent of the total borrowings in the first eight months of 2026 were secured domestically. Treasury Bonds were exclusively utilized for domestic debt servicing. Utilization of the approved borrowing limit during this period amounted to Rs. 1,403.9 billion , predominantly through the issuance of Treasury Bonds.

Data indicate a net negative issuance of Treasury Bills of approximately Rs. 760 billion, meaning that redemptions exceeded new issuances. This suggests that other sources of financing were used to reduce the outstanding stock of Treasury Bill during the period. Gross Treasury Bill issuances amounted to Rs. 3,568.8 billion, while the outstanding stock of Treasury Bills stood at Rs. 2,378.6 billion as at the end of August 2026.

As at 31 August 2026, the outstanding domestic debt of the Central Government amounted to Rs. 19,419.2 billion. Treasury Bonds accounted for 83.8 percent of the domestic debt stock (Rs. 16,278.4 billion), followed by Treasury Bills at 12.2 percent (Rs. 2,378.6 billion) and term loans at 3.7 percent (Rs. 716.4 billion).

TABLE 2.15 | Domestic Debt Issuance: January-August 2026

Rs. Billion

Instrument	Jan – Aug 2026
Treasury Bonds (Gross)	1,859.8
Treasury Bills (Gross)	3,568.8
Total	**5,428.6**

Source: Public Debt Management Office

2.6 Foreign Financing

Overview

Sri Lanka's debt restructuring process has now largely concluded, a key step towards restoring debt sustainability and macroeconomic stability. Over the four-year IMF programme period, Sri Lanka will benefit from approximately USD 9.5 billion in debt service payment reductions, a 31 percent reduction in the coupon rate of Sri Lanka's Bonds to 4.4 percent, and an extension of the average maturity profile of over five years.

Foreign Financing Commitments

The Government entered into a loan agreement with the International Development Association (IDA) of the World Bank for USD 50 million to finance the Digital Transformation Project. The loan agreement was signed on May 13, 2026 and carries an interest rate of 1.50 percent, with a total tenure of 25 years, including a 5-year grace period.

On 04 August 2026, the Government entered into an agreement with the Export-Import Bank of India (EXIM Bank) for a total financing of USD 350 million under the Indian Credit Line – Rehabilitation and Reconstruction Package to address the devastation caused by Cyclone Ditwah. The facility comprises two loan components of USD 250 million and USD 100 million, carrying floating interest rates of 1.5 and 0.3 percentage points below the one-year MCLR, respectively. Both loans have a 20-year maturity, including a 5-year grace period.

Foreign Financing Disbursements and Utilization

During the period from 1 January to 31 August 2026, total foreign loan disbursements amounted to USD 1,069.1 million.

The largest share of disbursements was recorded under the International Monetary Fund's Extended Fund Facility (IMF-EFF), accounting for 77.5 percent of the total. This was followed by disbursements under loan agreements with the World Bank (10 percent) and the Asian Development Bank (7 percent) . Following the signing of bilateral debt restructuring agreements with the main bilateral creditors, disbursements resumed, and bilateral disbursements during the period amounted to USD 30.1 million.

TABLE 2.16 | Disbursements of Foreign Loans: January-August 2026

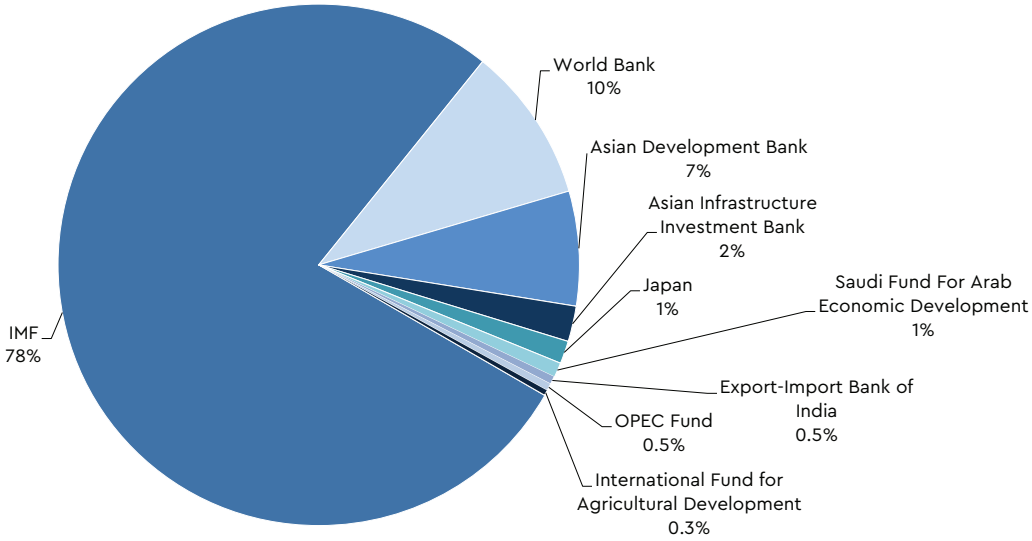
USD million

Development Partner/ Lending Agency	Disbursements* Loan
Bilateral	**30.1**
Japan	15.1
Saudi Fund	9.7
Export Import Bank of India	5.3
Multilateral	**1,039.0**
IMF	828.2
World Bank	103.1
Asian Development Bank	75.9
Asian Infrastructure Investment Bank	23.5
OPEC Fund	4.8
International Fund for Agricultural Development	3.5
Total	**1,069.1**

Source: Public Debt Management Office
For conversion of disbursements made in different currencies into USD, the exchange rates prevailed on each disbursement date have been used
For conversion of SDR into USD, month end exchange rate of SDR applied to the end of previous month published by CBSL have been used.
**Provisional*

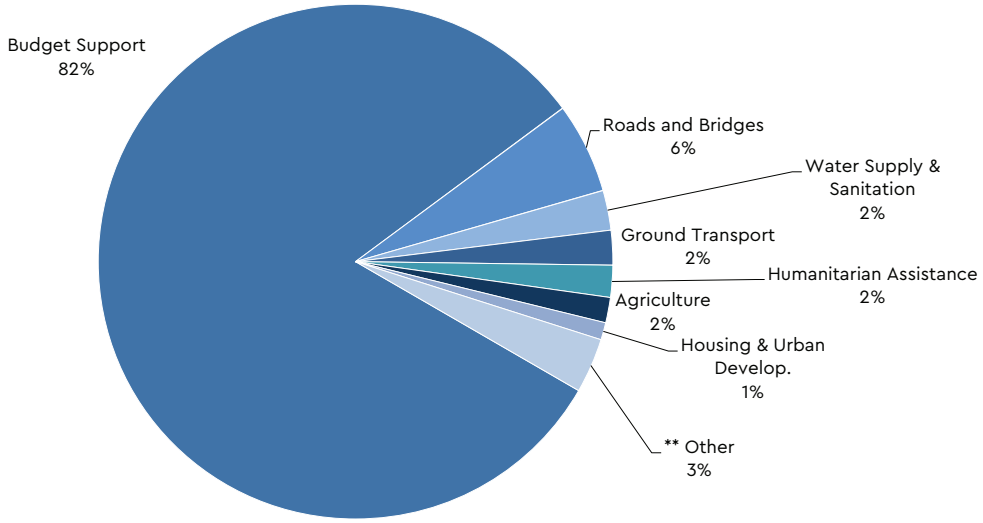
In terms of disbursement allocation by purpose, the Budget Support sector accounted for the majority share at 82 percent of total disbursements, followed by the Roads and Bridges development (6.0 percent) and the Water Supply and Sanitation (2.5 percent).

FIGURE 2.4 | Disbursements by Development Partner: January-August 2026



Source : Public Debt Management Office

FIGURE 2.5 | Disbursements by Purpose: January-August 2026



Source : Public Debt Management Office
*** Other = Education & Training, Health & Social Welfare, Land Development, Power & Energy, Rural Development, Media, Finance & Insurance, Tourism & Hotel Industry, Science & Technology, Trade*

External Debt Stock and External Debt Service Payments

External debt of the central government as of the end of August 2026 amounted to USD 37.7 billion[1]. Multilateral debt accounted for 39 percent of total government external debt, followed by commercial debt at 33 percent and bilateral debt at 28 percent. Approximately 81 percent of commercial debt comprised outstanding International Sovereign Bond (ISB) issuances, with the remainder consisting of foreign currency term financing facilities (syndicated loans).

Among multilateral creditors, the Asian Development Bank (ADB) and the World Bank (WB) together accounted for approximately 78 percent of the total multilateral debt. Of bilateral debt, 59 percent was held by non-Paris Club creditors, with the remaining 41 percent held by Paris Club members. Total debt service payments[2] from 1 January to 31 August in 2026 amounted to USD 1,708.8 million, of which USD 1,039.1 million was for principal repayments and the remaining USD 669.7 million for interest payments.

As of end-August 2026, there were no external payment arrears. External payment arrears consist of debt-service obligations (principal and interest) to non-residents that have not been paid when due, as specified in the contractual agreements, subject to any applicable grace period. For the purposes of IMF-EFF program monitoring, overdue debt and debt service obligations that are in dispute are not considered external payment arrears. Arrears arising from the non-payment of debt service for which a rescheduling or restructuring agreement is being sought are likewise excluded from this definition. Arrangements are being made to meet payment requirements under both restructured and non-restructured loan agreements.

1 – *Provisional, Only the Central Government outstanding Foreign Debt are depicted.*
– *Included unpaid Principal accumulated from the date of debt standstill policy was adopted.*
– *Non-resident holdings of T-bill / T-bonds are not included.*
– *Outstanding amounts of ISBs have not been classified on the current resident/ non-resident basis of their holdings.*

2 *Debt Service = Principal Payments + Interest Payments*

03 Economic Perspectives

3.1 Overview

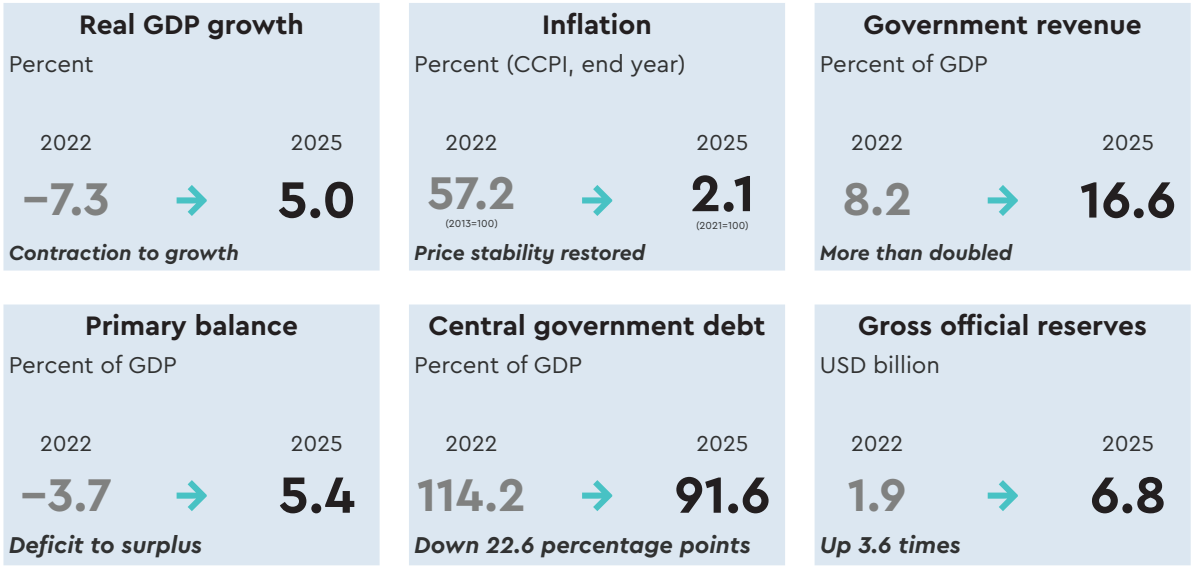
The Sri Lankan economy remained resilient in 2026 despite back-to-back shocks: Cyclone 'Ditwah' and the surge in energy prices arising from the conflict in the Middle East, recording a growth of 4.7 percent in the first half of the year and twelve consecutive quarters of positive growth. This was an improved performance achieved since the economic crisis of 2022. The economy moved from a contraction of 7.3 percent in 2022 to a growth of 5.0 percent in 2025, while year end inflation declined from 57.2 percent to 2.1 percent respectively. Over the same period, government revenue doubled from 8.2 percent to 16.6 percent of GDP, the primary balance improved from a deficit of 3.7 percent to a surplus of 5.4 percent of GDP, and central government debt declined from 114.2 percent to 91.6 percent of GDP. These gains were preserved in 2026, with primary and overall budget surpluses maintained during the first eight months of the year, while gross official reserves increased to USD 6.9 billion by end-September 2026 from USD 1.9 billion at end-2022, equivalent to more than three months of imports. Reflecting this recovery, the World Bank reclassified Sri Lanka as an 'Upper-Middle-Income Country' with effect from July 01, 2026.

All sectors of the economy except agriculture expanded during the first half of 2026, although quarterly growth moderated from 5.1 percent in the first quarter to 4.2 percent in the second quarter. The Industry sector grew by 7.2 percent, mainly driven by construction, mining and quarrying, and the manufacture of food, beverages and tobacco products, while the Services sector expanded by 3.1 percent, supported by financial services, transportation and IT services. However, the Agriculture sector contracted by 0.6 percent, mainly due to lower output in marine fishing and rice cultivation. Strong domestic demand, reflected in rapid private sector credit growth and higher imports of consumer and investment goods, together with expansionary readings of leading indicators, points to continued economic momentum.

The unemployment rate increased to 4.0 percent in the second quarter of 2026 from 3.7 percent in the first quarter, while the labour force participation rate rose to 50.0 percent from 49.2 percent, respectively.

Headline inflation, as measured by the Colombo Consumer Price Index (CCPI, 2021=100), increased from 2.3 percent in January 2026 to 8.3 percent in October 2026, mainly due to higher domestic

FIGURE 3.1 | From Crisis to Recovery – Key Indicators: 2022 and 2025



Sources: Department of Census and Statistics, Central Bank of Sri Lanka, Department of Fiscal Policy

energy and food prices following the pass-through of elevated global energy prices. Core inflation also increased to 5.6 percent, reflecting the second-round effects of higher energy prices and strengthening demand conditions. The Central Bank of Sri Lanka (CBSL) expects headline inflation to remain above the 5 percent target through the first quarter of 2027, before gradually easing towards the target, while medium-term inflation expectations remain broadly anchored.

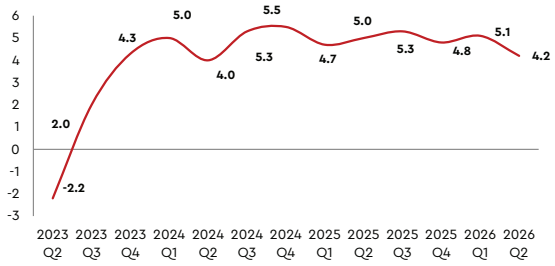
In view of the elevated inflation outlook, the potential second-round effects of energy price adjustments, continued expansion in private sector credit fuelling import demand and pressures on the external sector, the CBSL increased the Overnight Policy Rate by 100 basis points to 8.75 percent in May 2026, and has since maintained it at that level.

The external sector came under pressure, as the escalation of the conflict in the Middle East raised global fuel prices and the country's import bill, compounded by higher vehicle imports. Merchandise imports increased by 21.3 percent to USD 18.7 billion in the first nine months of 2026, while exports increased by 5.3 percent to USD 10.8 billion, widening the trade deficit to USD 7.9 billion from USD 5.2 billion in the corresponding period of 2025. Workers' remittances increased by 18.1 percent to USD 6.9 billion in the first nine months of 2026, partly reflecting inflows for relief and rebuilding following Cyclone 'Ditwah', while earnings from tourism declined by 9.2 percent to USD 2.2 billion, partly reflecting the revised methodology adopted by the Sri Lanka Tourism Development Authority for estimating tourism earnings and fewer arrivals from longer-staying European markets. Consequently, the current account recorded a deficit of USD 420.4 million in the first nine months of 2026, compared to a surplus of USD 1,853.2 million in the corresponding period of 2025. The Sri Lankan rupee depreciated by 6.8 percent against the US dollar on a year-to-date basis by end-October 2026.

The stock market remained volatile, with the All-Share Price Index decreasing by 4.4 percent year-on-year to 20,813 points at end-September 2026, remaining 8.0 percent below its end-2025 level, amid net foreign sales of Rs. 56.8 billion during the first nine months of the year.

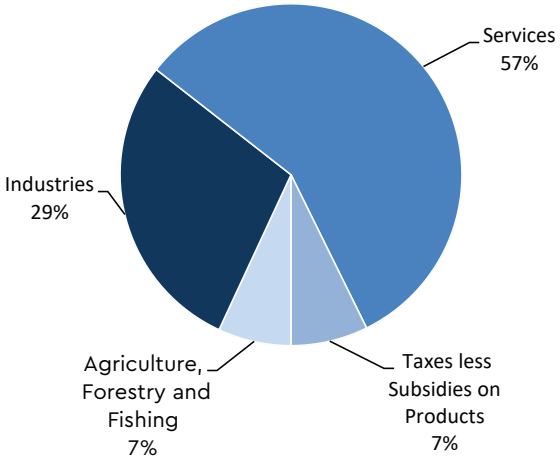
Sri Lanka's improved macroeconomic fundamentals were recognized internationally. Fitch Ratings upgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating to 'B-' from 'CCC+' with a Stable Outlook on September 22, 2026. On October 04, 2026, Sri Lanka and the International Monetary Fund reached a staff-level agreement on the Seventh Review under the Extended Fund Facility arrangement, together with the conclusion of the 2026 Article IV Consultation, which, subject to approval by the IMF Executive Board, would provide access to around USD 345 million.

FIGURE 3.2 | GDP Growth
Percent



Source : Department of Census & Statistics

FIGURE 3.3 | Composition of GDP – First Half of 2026[(a)]



Source : Department of Census and Statistics
[(a)] Constant Prices

3.2 Economic Growth

The economy grew by 4.7 percent in the first half of 2026, compared to the 4.8 percent growth in the same period of 2025. Growth was led by the Industry sector, which expanded by 7.2 percent, compared to the growth of 7.9 percent in the same period of 2025, and accounted for 43.4 percent of overall growth. The Services sector grew by 3.1 percent, compared to the growth of 3.3 percent in the same period of 2025. Taxes less subsidies on products increased by 13.5 percent, compared to the increase of 10.7 percent in the same period of 2025. In contrast, the Agriculture sector contracted by 0.6 percent, compared to the growth of 0.6 percent in the same period of 2025. Accordingly, the Services sector and Taxes less subsidies on products contributed 38.2 percent and 19.5 percent to overall growth, respectively, while the Agriculture sector made a negative contribution of 1.0 percent.

Agriculture

The Agriculture sector, accounting for 7.8 percent of GDP at current prices, contracted by 0.6 percent in the first half of 2026, compared to the growth of 0.6 percent in the same period of 2025. This was mainly due to the contractions in marine fishing and marine aquaculture (19.1 percent), growing of rice (11.2 percent), and freshwater fishing and freshwater aquaculture (50.8 percent), together with declines in growing of rubber (8.5 percent), growing of tea (2.6 percent) and animal production (1.3 percent). However, the growing of oleaginous fruits (coconut, king coconut and oil palm) subsector expanded significantly by 30.8 percent, partly offsetting the overall contraction. Forestry and logging (12.5 percent), growing of spices, aromatic, drug and pharmaceutical crops (3.9 percent), growing of vegetables (2.2 percent) and growing of fruits (2.1 percent) subsectors also expanded.

TABLE 3.1 | Sectoral Composition of GDP at Constant (2015) Prices

Rs. Million

	Sector	2022	2023[b]	2024[b]	2025[b]	First half		Growth (%)	
						2025[b]	2026[a]	2025[b]	2026[a]
	Agriculture, Forestry and Fishing	**911,252**	**911,839**	**916,971**	**929,668**	**465,380**	**462,422**	**0.6**	**-0.6**
1	Growing of Cereals (except rice)	16,507	15,971	16,635	16,676	8,313	8,356	5.0	0.5
2	Growing of Rice	94,730	110,946	115,438	121,533	61,409	54,511	9.6	-11.2
3	Growing of Vegetables	103,161	97,959	97,173	90,317	45,663	46,652	-7.6	2.2
4	Growing of Sugar Cane, Tobacco and Other Non-perennial Crops	3,803	3,742	3,697	3,850	1,928	1,717	2.6	-11.0
5	Growing of Fruits	73,310	73,995	75,472	76,927	39,458	40,284	3.8	2.1
6	Growing of Oleaginous Fruits (Coconut, King Coconut, Oil Palm)	111,196	104,758	92,716	100,334	44,813	58,613	-12.5	30.8
7	Growing of Tea (Green Leaves)	62,867	61,912	63,080	63,966	32,831	31,961	7.0	-2.6
8	Growing of Other Beverage Crops (Coffee, Cocoa etc,.)	1,229	1,141	1,169	1,051	526	523	-10.1	-0.5
9	Growing of Spices, Aromatic, Drug and Pharmaceutical Crops	101,653	99,982	101,492	101,792	52,723	54,769	-0.4	3.9
10	Growing of Rubber	23,871	22,024	22,910	21,541	11,055	10,119	-9.1	-8.5
11	Growing of Other Perennial Crops	27,533	28,086	25,005	23,729	11,974	11,799	-4.7	-1.5
12	Animal Production	83,307	83,645	97,155	107,309	53,407	52,417	15.8	-1.3
13	Plant Propagation	965	728	596	763	324	333	15.0	2.6
14	Agriculture supporting activities	33,062	32,888	28,966	30,552	17,137	17,104	4.3	-0.2
15	Forestry and Logging	50,931	47,221	46,227	51,191	23,037	25,925	2.9	12.5
16	Marine Fishing and Marine Aquaculture	95,447	100,099	104,949	104,850	54,043	43,728	5.2	-19.1
17	Fresh Water Fishing and Fresh Water Aquaculture	27,682	26,739	24,290	13,288	6,740	3,314	-46.8	-50.8
	Industries	**3,308,573**	**3,002,981**	**3,337,231**	**3,597,326**	**1,784,136**	**1,912,985**	**7.9**	**7.2**
18	Mining and Quarrying	198,613	154,313	184,430	215,568	101,799	120,668	14.3	18.5
19	Manufacture of Food, Beverages and Tobacco Products	869,371	899,739	954,559	1,004,413	491,177	515,332	4.2	4.9
20	Manufacture of Textile, Wearing Apparel and Leather Related products	511,860	450,438	500,445	540,558	282,837	274,688	13.4	-2.9

TABLE 3.1 | Sectoral Composition of GDP at Constant (2015) Prices (Contd..)

Rs. Million

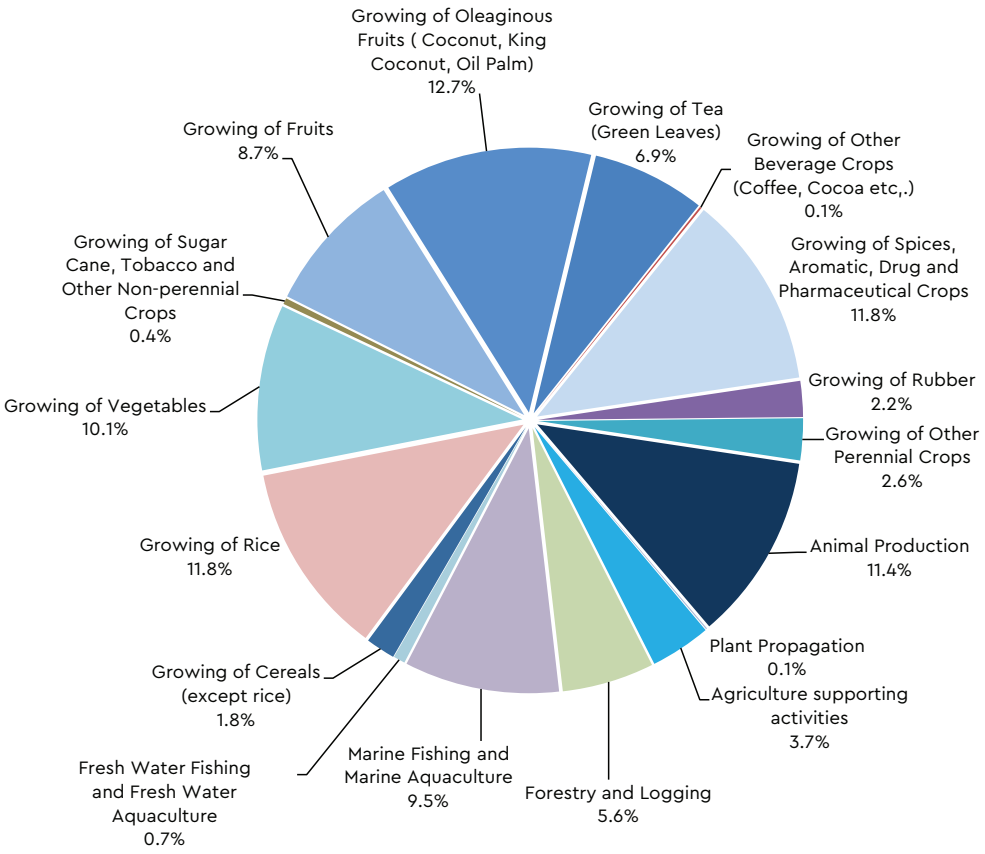
	Sector	2022	2023[b]	2024[b]	2025[b]	First half		Growth (%)	
						2025[b]	2026[a]	2025[b]	2026[a]
21	Manufacture of Wood and Products of Wood and Cork, except Furniture	29,758	23,807	24,975	26,232	11,805	12,727	1.4	7.8
22	Manufacture of Paper Products, Printing and Reproduction of Media Products	52,069	47,259	48,734	53,846	30,885	31,668	14.7	2.5
23	Manufacture of Coke and Refined Petroleum Products	6,474	21,895	19,690	23,026	12,485	11,438	10.0	-8.4
24	Manufacture of Chemical Products and Basic Pharmaceutical Products	82,349	82,949	90,995	93,549	49,408	54,003	-1.7	9.3
25	Manufacture of Rubber and Plastic Products	67,505	56,157	60,973	62,587	32,190	29,217	3.5	-9.2
26	Manufacture of Other Non-metallic Mineral Products	85,182	84,670	86,816	100,890	54,783	61,898	20.3	13.0
27	Manufacture of Basic Metals and Fabricated Metal Products	58,780	60,303	70,963	82,144	34,167	39,078	9.9	14.4
28	Manufacture of Machinery and Equipment	59,181	50,229	53,372	54,145	23,679	24,729	7.3	4.4
29	Manufacture of Furniture	60,837	56,089	61,740	63,528	40,272	43,454	9.9	7.9
30	Other Manufacturing and Repair and Installation of Machinery and Equipment	79,088	66,747	72,427	68,239	39,205	37,416	-7.5	-4.6
31	Electricity, Gas, Steam and Air Conditioning Supply	178,059	174,017	184,480	201,472	99,754	106,867	7.0	7.1
32	Water Collection, Treatment and Supply	14,059	11,590	11,900	12,584	6,824	7,306	2.3	7.1
33	Sewerage, Waste, Treatment and Disposal Activities	28,070	27,955	28,319	30,612	13,955	14,258	6.2	2.2
34	Construction	927,319	734,823	882,411	963,935	458,911	528,238	9.0	15.1
	Services	**7,217,485**	**7,256,690**	**7,431,130**	**7,676,443**	**3,706,256**	**3,819,622**	**3.3**	**3.1**
35	Wholesale and Retail Trade	1,675,528	1,677,941	1,697,914	1,722,223	865,521	878,458	1.4	1.5
36	Transport of Goods and Passenger including Warehousing	1,364,677	1,428,381	1,461,417	1,505,214	738,577	763,808	3.6	3.4
37	Postal Courier Activities	19,780	20,349	21,416	23,320	11,585	12,144	10.5	4.8
38	Accommodation, Food and Beverage Service Activities	166,030	209,106	276,975	311,444	147,677	154,387	14.2	4.5
39	Programming and Broadcasting Activities and Audio Video Productions	37,350	36,551	37,760	38,502	19,629	19,969	1.6	1.7
40	Telecommunication	140,524	137,078	142,540	146,976	72,160	75,547	3.0	4.7
41	IT Programming Consultancy and Related Activities	238,455	232,331	246,185	277,594	136,313	153,808	12.5	12.8
42	Financial Service Activities and Auxiliary Financial Services	529,744	475,201	491,206	543,449	263,987	290,922	11.1	10.2
43	Insurance, Reinsurance and Pension Funding	78,187	103,519	88,934	101,901	47,456	54,394	4.5	14.6
44	Real Estate Activities, Including Ownership of Dwelling	554,456	521,463	543,273	562,911	285,695	295,459	3.8	3.4
45	Professional Services	248,467	254,360	263,382	269,829	120,504	122,344	2.7	1.5
46	Public Administration and Defence; Compulsory Social Security	629,031	618,542	600,314	592,529	274,576	269,540	-2.5	-1.8
47	Education	302,435	307,712	314,759	318,736	163,462	165,157	1.2	1.0
48	Human Health Activities, Residential Care and Social Work Activities	237,677	236,087	234,361	241,337	102,979	104,221	2.7	1.2
49	Other Personal Service Activities	995,147	998,069	1,010,693	1,020,480	456,137	459,467	0.9	0.7
	Gross Value Added (GVA), at basic prices	**11,437,311**	**11,171,510**	**11,685,332**	**12,203,438**	**5,955,772**	**6,195,030**	**4.4**	**4.0**
	(+) Taxes less Subsidies on Products	**723,576**	**742,640**	**823,623**	**925,140**	**429,461**	**487,289**	**10.7**	**13.5**
	Gross Domestic Product(GDP) at market prices	**12,160,886**	**11,914,150**	**12,508,954**	**13,128,577**	**6,385,234**	**6,682,319**	**4.8**	**4.7**

Source : Department of Census and Statistics

[a] *Provisional*

[b] *Revised*

FIGURE 3.4 | Composition of Agriculture Sector – First Half of 2026[a]



Source : Department of Census and Statistics
[a] Constant Prices

Rice

The growing of rice subsector contracted by 11.2 percent in the first half of 2026, compared to a growth of 9.6 percent in the corresponding period of 2025. Nevertheless, based on a gross sown extent of 831,105 hectares and after accounting for crop losses, paddy production in the 2025/26 Maha season is estimated at 2.82 million metric tonnes, an increase of 2.7 percent compared to 2.75 million metric tonnes in the 2024/25 Maha season, despite the severe impact of Cyclone Ditwah, which struck at the beginning of the season. For the 2026 Yala season, based on a gross sown extent of 508,793 hectares reported as at end-June 2026, paddy production is forecast at 2.01 million metric tonnes, 12.9 percent lower than the 2.31 million metric tonnes produced in the 2025 Yala season. To ease the burden on farmers from the rise in input costs arising from the conflict in the Middle East, the Government provided an additional fertilizer subsidy of Rs. 5.5 billion for the 2026 Yala season, as part of a temporary relief package.

Reflecting the shortage of Samba and Keeri Samba varieties, the average retail price of Keeri Samba rice increased by 38.4 percent year-on-year to Rs. 370.21 per kilogram in January 2026 and rose further to Rs. 375.11 per kilogram in April 2026. In view of an anticipated severe shortage by May 2026, the Government permitted the importation of GR 11 rice and similar substitute varieties during April 2026 to meet consumer demand and stabilise prices. Subsequently, the average retail price of Keeri Samba declined by 22.5 percent from its April level to Rs. 290.69 per kilogram in August 2026.

Tea, Rubber and Coconut

The growing of tea subsector contracted by 2.6 percent in the first half of 2026, compared to the growth of 7.0 percent in the corresponding period of 2025. Tea production declined by 3.3 percent to 131.2 million kg, compared to 135.8 million kg in the corresponding period of 2025. This was mainly due to dry weather conditions in March and April 2026 and reduced fertilizer application. The growing of rubber subsector contracted by 8.5 percent in the first half of 2026, compared to the contraction of 9.1 percent in the corresponding period of 2025. Rubber production declined by 4.7 percent to 32.6 million kg, compared to 34.2 million kg in the corresponding period of 2025, mainly due to adverse weather conditions, as the dry weather that prevailed in the early months of the year affected latex yields, while the increase in rainy days during May 2026 reduced tapping operations. However, the growing of oleaginous fruits (coconut, king coconut and oil palm) subsector expanded significantly by 30.8 percent in the first half of 2026, compared to the contraction of 12.5 percent in the corresponding period of 2025. Accordingly, coconut production increased by 30.1 percent to 1,747 million nuts, compared to 1,343 million nuts in the corresponding period of 2025, reflecting the recovery from the relatively low production recorded in 2025.

Cereals, Vegetables, Fruits, Spices and Pharmaceutical Crops

The growing of cereals (except rice) subsector recorded a marginal growth of 0.5 percent in the first half of 2026, compared to the growth of 5.0 percent in the corresponding period of 2025. The growing of vegetables subsector expanded by 2.2 percent, compared to the contraction of 7.6 percent in the corresponding period of 2025, while the growing of fruits subsector expanded by 2.1 percent, compared to the growth of 3.8 percent in the corresponding period of 2025. The growing of spices, aromatic, drug and pharmaceutical crops subsector expanded by 3.9 percent, compared to the contraction of 0.4 percent in the corresponding period of 2025.

Fisheries and Livestock

The marine fishing and marine aquaculture subsector contracted by 19.1 percent in the first half of 2026, compared to the growth of 5.2 percent in the corresponding period of 2025. Marine fish production declined by 19.0 percent to 128.6 million kg, compared to 158.8 million kg in the corresponding period of 2025. This reflects rising sea surface temperatures and higher fuel prices. The freshwater fishing and freshwater aquaculture subsector contracted significantly by 50.8 percent, compared to the contraction of 46.8 percent in the corresponding period of 2025, partly reflecting the depletion of fish stocks in reservoirs. Meanwhile, the animal production subsector contracted by 1.3 percent in the first half of 2026, compared to the growth of 15.8 percent in the corresponding period of 2025, partly reflecting the loss of poultry and livestock caused by Cyclone Ditwah.

Industry and Manufacturing

The Industry sector, which accounts for 26.6 percent of GDP at current prices, grew by 7.2 percent in the first half of 2026, compared to the growth of 7.9 percent in the corresponding period of 2025. This was mainly supported by the expansion in construction (15.1 percent), mining and quarrying (18.5 percent), manufacture of food, beverages and tobacco products (4.9 percent), manufacture of other non-metallic mineral products (13.0 percent), manufacture of basic metals and fabricated metal products (14.4 percent), manufacture of chemical products and basic pharmaceutical products (9.3 percent), and electricity, gas, steam and air conditioning supply (7.1 percent) subsectors.

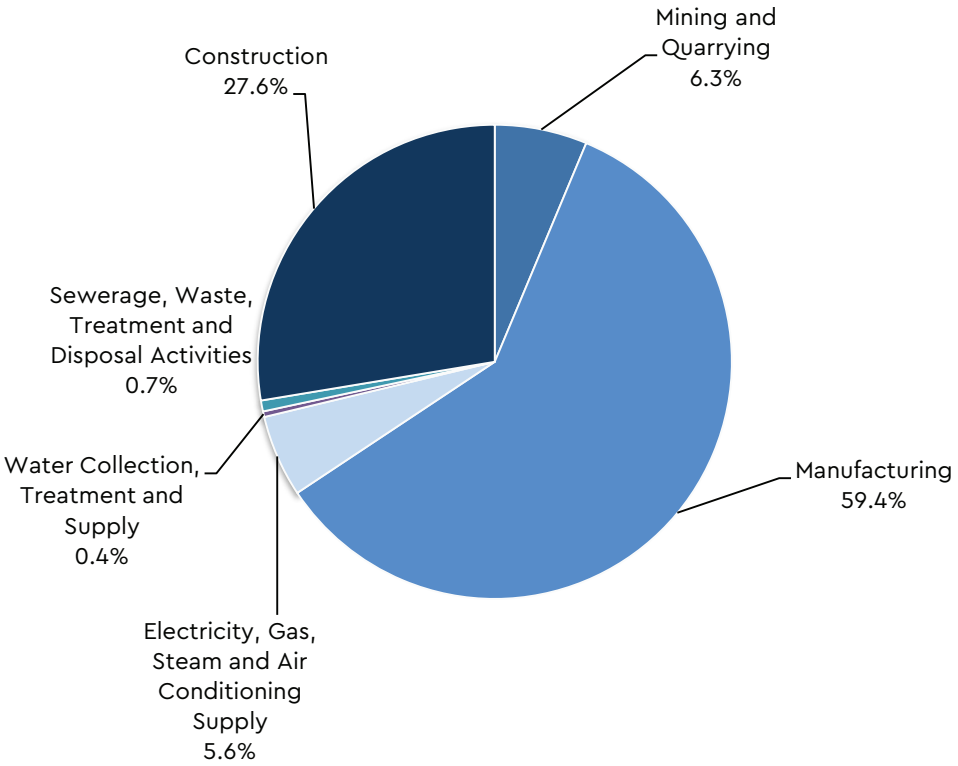
The manufacture of wood and products of wood and cork, except furniture (7.8 percent), the manufacture of furniture (7.9 percent), the manufacture of machinery and equipment (4.4 percent), the manufacture of paper products, printing and reproduction of media products (2.5

percent), water collection, treatment and supply (7.1 percent), and sewerage, waste treatment and disposal activities (2.2 percent) also expanded in the first half of 2026.

However, some subsectors contracted in the first half of 2026. The manufacture of textiles, wearing apparel and leather related products contracted by 2.9 percent, compared to the growth of 13.4 percent in the corresponding period of 2025, reflecting the decline in export earnings from textiles and garments amid subdued external demand. The manufacture of coke and refined petroleum products contracted by 8.4 percent, reflecting lower crude oil import volumes for refining amid supply disruptions associated with the conflict in the Middle East. The manufacture of rubber and plastic products contracted by 9.2 percent, and other manufacturing, and repair and installation of machinery and equipment contracted by 4.6 percent.

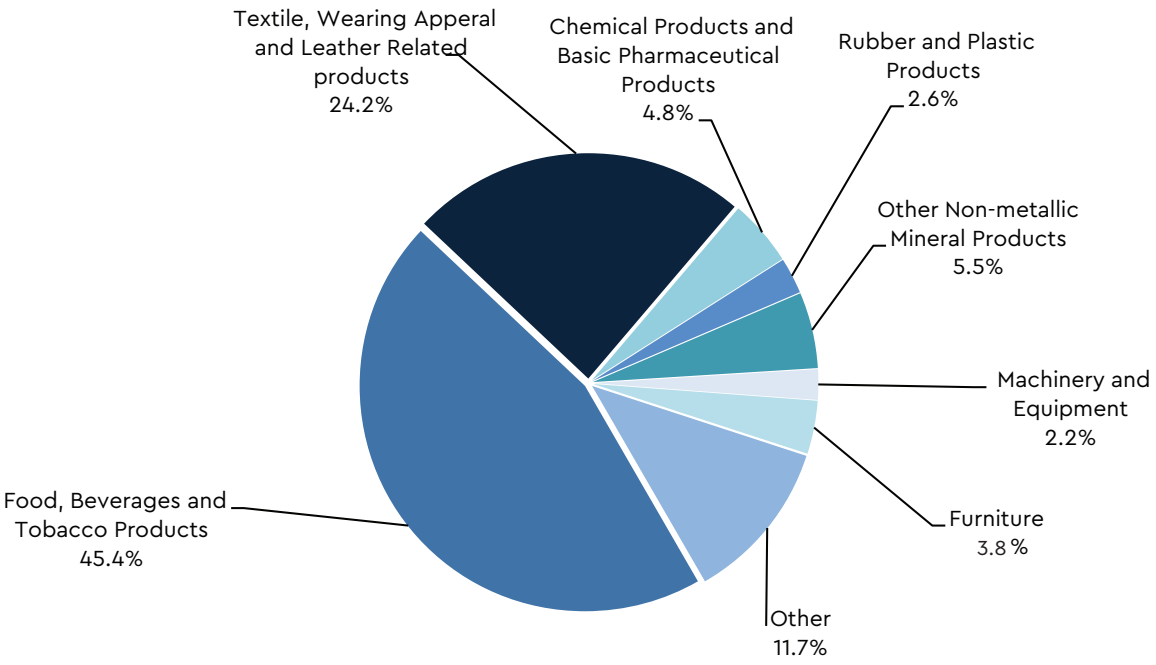
Total power generation increased by 7.1 percent to 9,304 GWh in the first half of 2026, compared to 8,688 GWh in the corresponding period of 2025. Electricity generation through hydropower declined by 22.9 percent to 2,294 GWh, compared to 2,975 GWh in the corresponding period of 2025, while generation from wind declined by 16.3 percent to 139 GWh. However, generation from fuel oil increased significantly by 62.3 percent to 1,004 GWh and coal-based generation increased by 4.7 percent to 2,809 GWh. Electricity generation by the private sector increased significantly by 36.2 percent to 3,058 GWh in the first half of 2026, compared to 2,245 GWh in the corresponding period of 2025, with electricity generation from non-conventional renewable energy sources increasing by 16.6 percent to 2,158 GWh. The sale of electricity to industries increased by 4.7 percent to 2,426 GWh, compared to 2,316 GWh in the corresponding period of 2025, consistent with the expansion in industrial activities.

FIGURE 3.5 | Composition of Industry Sector – First Half of 2026[a]



Source : Department of Census and Statistics
[a] Constant Prices

FIGURE 3.6 | Composition of Manufacturing Sector: First Half of 2026[(a)]



Source : Department of Census and Statistics
[(a)] Constant Prices

Services

The Services sector, which accounts for 53.5 percent of GDP at current prices, grew by 3.1 percent in the first half of 2026, compared to the growth of 3.3 percent in the corresponding period of 2025. The growth was mainly driven by the expansion in financial service activities and auxiliary financial services (10.2 percent), insurance, reinsurance and pension funding (14.6 percent), transportation of goods and passengers, including warehousing (3.4 percent) and IT programming, consultancy and related activities (12.8 percent).

The telecommunication (4.7 percent), postal and courier activities (4.8 percent), accommodation, food and beverage service activities (4.5 percent) and real estate activities, including ownership of dwellings (3.4 percent), subsectors also expanded in the first half of 2026. Wholesale and retail trade (1.5 percent), professional services (1.5 percent), programming and broadcasting activities and audio video productions (1.7 percent), human health activities, residential care and social work activities (1.2 percent), education (1.0 percent) and other personal service activities (0.7 percent) recorded marginal growth. However, the public administration and defence; compulsory social security subsector contracted by 1.8 percent in the first half of 2026.

TABLE 3.2 | Selected Indicators of Service Sector

Indicator	2021	2022	2023	2024	2025	2025	2026[a]
Port Services						**Jan-Aug**	**Jan- Aug**
Vessels Arrived (No)	4,180	4,073	4,809	4,562	5,120	3,334	3,527
Total Cargo Handled (MT '000)	109,356	100,376	103,794	120,203	125,383	84,580	90,110
Total Container Handled (TEU '000)	7,249	6,862	6,950	7,792	8,301	5,435	5,995
Transshipment (TEU '000)[c]	6,050	5,832	5,754	6,623	6,587	4,353	4,828
Telecommunication Sector						**End June**	**End June**
Fixed Telephone Lines (No.'000)	2,852	2,651	2,308	2,122	2,627	3,473	2,708
Cellular Phones (No.'000)	29,959	28,838	28,986	28,820	29,490	29,027	29,419
Wireless Phones (No.'000)	1,587	1,388	1,163	1,046	1,564	2,393	1,660
Internet and E-mail Subscribers (No. '000)	22,106	21,668	22,864	23,149	23,855	23,686	23,882
Health Sector							
Private Hospitals	243	250	n.a.	n.a.	n.a.	n.a.	n.a.
Public Hospitals	618	617	n.a.	n.a.	688	n.a.	n.a.
No. of Beds (Government)	78,228	78,228	n.a.	n.a.	91,551	n.a.	n.a.
No. of Doctors (Government)	20,209	21,045	n.a.	n.a.	25,055	n.a.	n.a.
No. of Nurses (Government)	39,091	40,775	n.a.	n.a.	51,067	n.a.	n.a.
Financial Sector						**End June**	**End June**
Bank Branches and Other Outlets	7,369	7,378	7,522	7,613	7,968	7,652[b]	7,570
Credit Cards in Use	2,054,985	2,054,896	1,987,857	1,990,271	2,165,600	2,093,738	2,274,221
						End June	**End June**
Licensed Finance Companies[g]	39	37	33	32	32	32	30
Specialised Leasing Companies	3	1	1	1	1	1	–
Tourism Sector						**Jan – Aug**	**Jan – Aug**
Tourist Arrivals	194,495	719,978	1,487,303	2,053,465	2,362,521	1,566,523	1,535,122
Tourist Earnings (USD Million)	507	1,136	2,068	3,169	3,219	2,290	2,061
Room Occupancy Rate	18.6	30.4	39.0	n.a.	n.a.	n.a.	n.a.
Transport Services (New Registration)						**Jan-Aug**	**Jan- Aug**
Buses	281	404	685	146	2,096	853	3,105
Cars	3,495	1,489	1,816	1,644	68,047	26,894	81,801
Goods Transport Vehicles[d]	2,593	940	523	1,284	3,792	1,700	5,728
Motor Cycles	8,011	9,060	20,200	65,289	254,817	127,745	308,292
Three Wheelers	2,093	36	60	94	17,332	5,967	31,925
Tractors and Trailers[e]	12,616	5,285	4,020	5,070	9,079	5,139	6,790
Other [f]			586	883	6,937	3,283	7,694

Sources : Central Bank of Sri Lanka, Department of Motor Traffic, Telecommunications Regulatory Commission of Sri Lanka, Sri Lanka Ports Authority, Ministry of Health,Sri Lanka Tourism Development Authority

[a] *Provisional*

[b] *Revised*

[c] *Including re-stowing (2021–2024)*

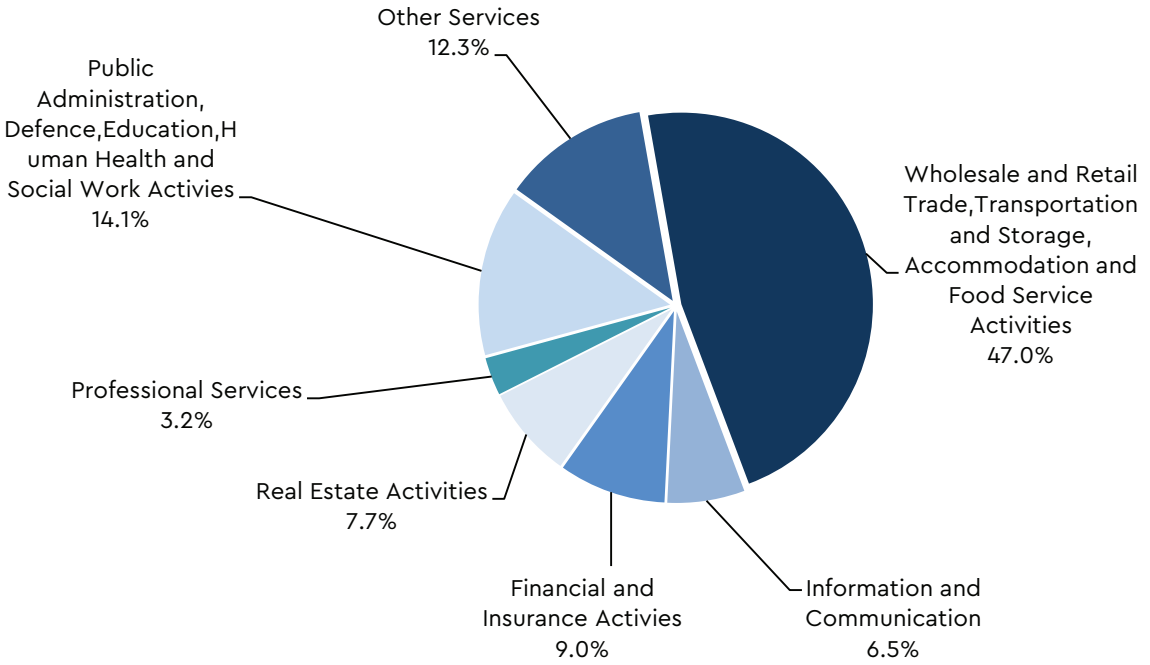
[d] *Includes special purpose vehicles, motor lorry and lorry others*

[e] *Includes land vehicles and Lorry Trailers*

[f] *Includes Vans, double cabs, single cabs,quadricycles and motor homes*

[g] *Excluding ETI Finance Limited (2021–2024)*

FIGURE 3.7 | Composition of Services Sector: First Half of 2026[(a)]



Source : Department of Census and Statistics
[(a)] Constant Prices

Transportation and Port Services

The transportation of goods and passengers, including warehousing subsector expanded by 3.4 percent in the first half of 2026. New registrations of motor vehicles increased significantly by 256.1 percent to 342,029 in the first half of 2026, compared to 96,056 in the corresponding period of 2025, reflecting the high volume of vehicle imports following the relaxation of import restrictions on motor vehicles with effect from February 2025. Registrations of motor cycles, which accounted for 68.5 percent of total new registrations, increased by 223.6 percent to 234,354, while registrations of motor cars increased by 383.4 percent to 66,344 and three wheelers by 718.8 percent to 23,523. Registrations of buses, dual purpose vehicles and goods transport vehicles also increased by 380.1 percent, 256.2 percent and 299.8 percent, respectively.

Port activities expanded in the first half of 2026. Total container handling at the Port of Colombo increased by 11.9 percent to 4.44 million Twenty-foot Equivalent Units (TEUs) in the first half of 2026, compared to 3.97 million TEUs in the corresponding period of 2025. Transshipment container handling, which accounted for 80.1 percent of total container handling, increased by 11.9 percent to 3.56 million TEUs. Domestic container handling increased by 8.3 percent to 0.68 million TEUs and re-stowing container handling by 24.6 percent to 0.20 million TEUs. Total cargo handled at the Ports of Colombo, Galle, Trincomalee and Hambantota International Port increased by 6.8 percent to 67.4 million metric tonnes, compared to 63.0 million metric tonnes in the corresponding period of 2025. Within this, cargo discharged increased by 8.7 percent to 37.9 million metric tonnes and cargo loaded by 4.6 percent to 29.4 million metric tonnes. Meanwhile, ship traffic increased by 6.1 percent to 2,605 vessels.

Telecommunication

The telecommunication subsector grew by 4.7 percent in the first half of 2026. The number of cellular mobile subscriptions increased by 1.4 percent to 29.4 million as at the end of the second quarter of 2026, compared to 29.0 million as at the end of the second quarter of 2025, while the number of internet subscribers, including

mobile internet subscriptions, increased by 0.8 percent to 23.9 million. However, the number of fixed telephone lines declined by 22.0 percent to 2.7 million, mainly due to the decline in Wireless Local Loop connections by 30.6 percent to 1.7 million, while wireline connections declined by 3.0 percent to 1.0 million. Accordingly, telephone penetration, including cellular mobile subscriptions, declined to 146.2 per 100 persons as at the end of the second quarter of 2026, from 149.4 per 100 persons as at the end of the second quarter of 2025.

Unemployment

In the second quarter of 2026, the unemployment rate increased marginally to 4.0 percent, compared to 3.8 percent recorded in the second quarter of 2025. The unemployment rate among females and males was 6.1 percent and 2.8 percent, respectively. The youth unemployment rate (ages 15–24 years) was 17.8 percent, the highest across all age groups, with rates of 22.4 percent for females and 15.5 percent for males. The unemployment rate among those with GCE (A/L) and higher qualifications was 6.7 percent, with a significantly higher rate among females (9.6 percent) than among males (3.9 percent). Female unemployment remained higher than male unemployment among all age groups and levels of education.

Meanwhile, the labour force participation rate also increased slightly to 50.0 percent in the second quarter of 2026, compared to 49.3 percent in the second quarter of 2025. The rate among males and females was 70.3 percent and 32.7 percent, respectively. The total number of employed persons was estimated at 8.2 million, of which 49.2 percent were engaged in the Services sector, 27.3 percent in the Industry sector and 23.4 percent in the Agriculture sector.

TABLE 3.3 | Performance of Tourism Sector

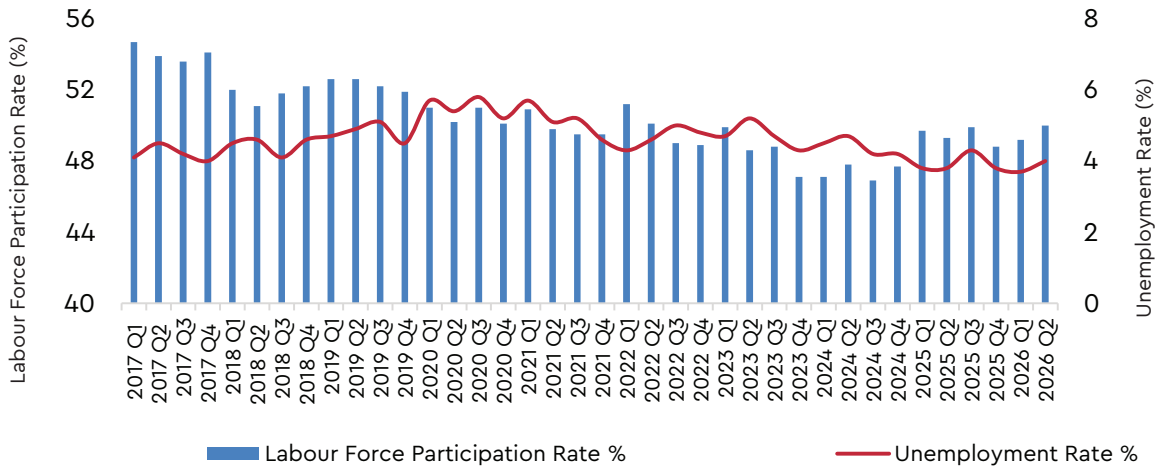
Month	Tourism Arrivals					Tourism Earning (USD Million)				
	2022	2023	2024	2025[b]	2026 [a]	2022	2023	2024	2025[b]	2026 [a]
January	82,327	102,545	208,253	252,761	277,327	151.7	153.5	341.8	400.7	413.8
February	96,507	107,639	218,350	240,217	279,328	169.4	161.6	345.7	367.6	381.4
March	106,500	125,495	209,181	229,298	183,979	161.2	188.8	338.4	354.0	244.8
April	62,980	105,498	148,867	174,608	135,643	108.7	148.2	225.7	256.7	164.3
May	30,207	83,309	112,128	132,919	145,745	43.5	100.0	154.0	164.1	155.7
June	32,856	100,388	113,470	138,241	124,551	45.0	122.9	151.1	169.5	151.1
July	47,293	143,039	187,810	200,244	196,845	85.0	219.0	328.3	318.5	285.5
August	37,760	136,405	164,609	198,235	191,704	67.9	210.5	282.1	258.9	264.4
September	29,802	111,938	122,140	158,971	158,557	40.5	152.2	181.0	182.9	185.6
October	42,026	109,199	135,907	165,193		54.9	136.7	185.6	186.1	
November	59,759	151,496	184,158	212,906		81.0	205.3	272.9	251.6	
December	91,961	210,352	248,592	258,928		127.4	269.3	362.1	308.6	
Total	**719,978**	**1,487,303**	**2,053,465**	**2,362,521**	**1,693,679**	**1,136.3**	**2,068.0**	**3,168.6**	**3,219.2**	**2,246.6**

Source : Sri Lanka Tourism Development Authority

[a] *Provisional*

[b] *Revised*

FIGURE 3.8 | Labor Force Participation Rate and Unemployment Rate



Source : Department of Census and Statistics

3.3 Monetary Sector Developments

During 2026, monetary conditions evolved from an accommodative stance towards a tighter monetary policy stance in response to the re-emergence of inflationary pressures. The Central Bank of Sri Lanka (CBSL) maintained the Overnight Policy Rate (OPR) at 7.75 percent during the first part of 2026. In May 2026, the OPR was increased by 100 basis points to 8.75 percent, reflecting concerns over higher global energy prices, upward adjustments in domestic energy prices, continued expansion in private sector credit and the associated risks to inflation expectations. The OPR was subsequently maintained at 8.75 percent at the Monetary Policy Review of September 2026, with the Monetary Policy Board expecting the earlier tightening to transmit to the economy in the period ahead. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) consequently stood at 8.25 percent and 9.25 percent, respectively. The Statutory Reserve Ratio (SRR) remained at 2.00 percent.

Following the monetary policy tightening, market interest rates adjusted upwards from the low levels observed during the preceding period. The Weekly Average Weighted Prime Lending Rate (AWPR) was 11.23 percent for the week ending 30 October 2026, compared with 9.86 percent at end-March 2026. The Average Weighted New Lending Rate stood to 12.65 percent in September 2026 compared with 11.33 percent in March, while the rate applicable to new SME lending was 13.17 percent. These developments indicate a gradual transmission of the tighter monetary policy stance to lending conditions.

Monetary expansion continued during 2026, although the pace of expansion reflected both credit conditions and external-sector developments. By end-September 2026, broad money (M_{2b}) had increased to approximately Rs. 17,189.2 billion, recording year-on-year growth of 11.1 percent. Outstanding credit to the private sector increased to approximately Rs. 11,768.7 billion by end-September 2026, with year-on-year growth easing to 23.6 percent. Net foreign assets of the banking system also strengthened during this period. The continued expansion of private sector credit remained an important source of monetary expansion, while the tightening measures introduced in May 2026 were expected to moderate credit growth over time.

TABLE 3.4 | Sectoral Distribution of GDP Growth (%)

Sector	2022	2023	2024[b]	2025[b]	First Half	
					2025[b]	2026[a]
Agriculture	**-4.1**	**1.6**	**1.2**	**1.4**	**0.6**	**-0.6**
Growing of Tea	-15.7	-1.5	1.7	1.4	5.9	-2.6
Growing of Rice	-11.8	17.1	3.1	5.3	2.4	-11.2
Growing of Rubber	-9.8	-7.7	2.2	-6.0	-17.1	-8.5
Growing of Cereal	-24.8	2.5	10.9	0.2	5.5	0.5
Growing of Vegetables	-5.5	2.9	2.8	-7.1	-0.8	2.2
Animal Production	-11.4	0.3	14.1	10.5	16.3	-1.3
Forestry and Logging	14.8	-7.3	-2.1	10.7	6.8	12.5
Fishing	-10.5	3.0	1.9	-0.1	5.1	-19.1
Industry	**-16.0**	**-9.2**	**11.0**	**7.8**	**7.9**	**7.2**
Mining and Quarrying	-31.0	-22.3	19.4	16.9	14.5	18.5
Manufacturing Activities	-12.2	-3.2	7.6	6.2	7.0	33.3
Other Industries	-4.3	-3.0	5.9	8.9	4.8	6.6
Construction	-20.9	-20.8	19.4	9.2	9.6	15.1
Services	**-2.6**	**-0.2**	**2.4**	**3.3**	**3.3**	**3.1**
Wholesale and Retail Trade	0.0	0.1	1.3	1.4	1.5	1.5
Transportation and Storage	3.0	4.3	2.9	3.0	3.2	3.4
Accomodation and Food Service Activities	27.0	26.0	31.4	12.4	12.7	4.5
Information and Communication	6.5	-2.2	4.2	8.6	3.0	9.3
Financial and Insurance Activities	-11.1	-10.3	-1.2	11.2	13.5	10.9
Real Estate Activities	-12.1	-6.0	4.2	3.6	3.2	3.4
Professional Services	-17.7	2.4	3.5	2.4	2.7	1.5
Education, Human Health and Social Work Activities	-2.0	0.7	1.0	2.0	1.4	1.0
Public Administration and Defence	1.2	-1.7	-2.9	-1.3	-2.5	-1.8
Other Services (Excluding Own-services)	0.3	0.3	1.5	1.0	0.9	0.7
GDP	**-7.3**	**-2.3**	**5.0**	**5.0**	**4.8**	**4.7**

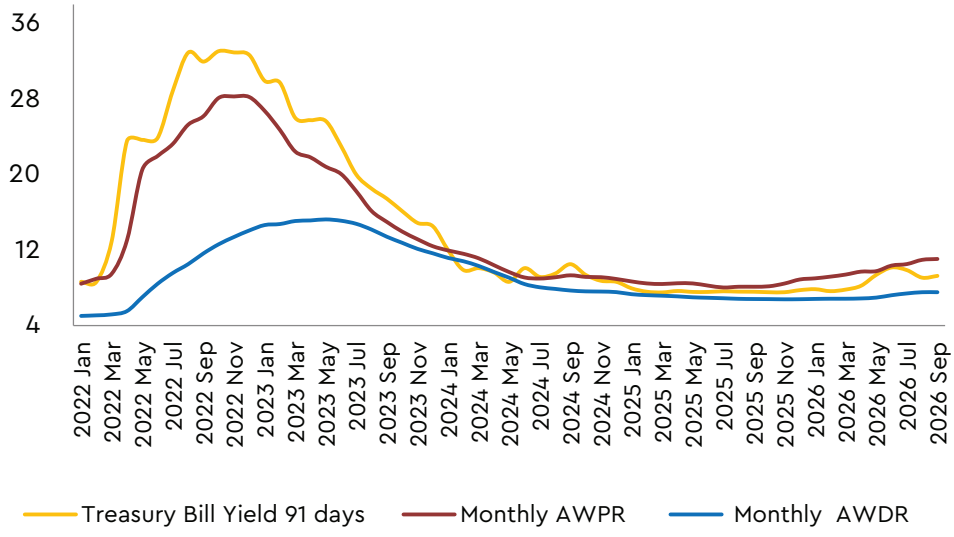
Source : Department of Census and Statistics

[a] *Provisional*

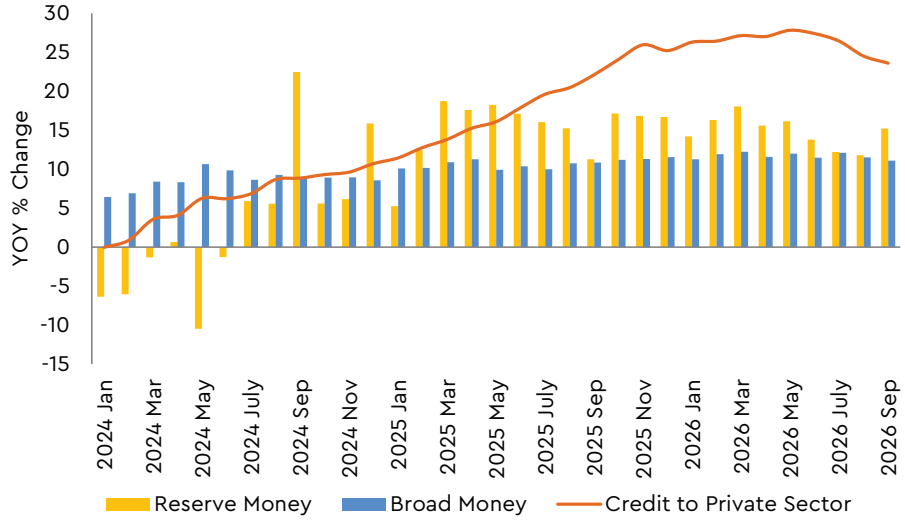
[b] *Revised*

FIGURE 3.9 | Yield Rates, Monetary Aggregates, Money Supply and Private Sector Credit Growth

Percent



Source : Central Bank of Sri Lanka



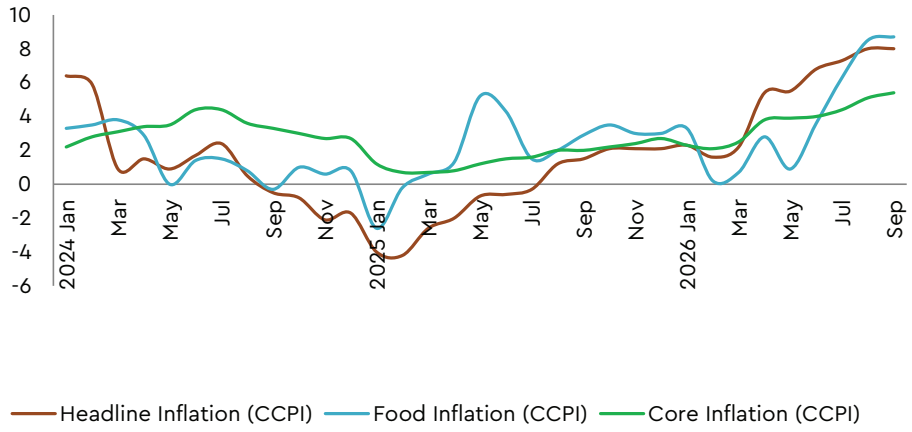
Source : Central Bank of Sri Lanka

Inflation

Inflationary conditions changed significantly during 2026. Colombo Consumer Price Index (CCPI, 2021=100) based headline inflation, which had remained at low levels during the earlier part of the year, accelerated to 8.3 percent in October 2026 from 8.0 percent in September 2026, primarily due to the statistical base effect in food inflation. According to the Department of Census and Statistics (DCS), the CCPI for October 2026 was 209.9. The increase in inflation during 2026 was mainly associated with the pass-through of higher energy prices and related second-round effects, together with base effects and developments in food prices.

Food inflation under the CCPI increased to 8.8 percent in October 2026 from 8.7 percent in September, while non-food inflation increased to 8.0 percent in October from 7.7 percent in September. Core inflation also increased, reaching 5.6 percent in October 2026 from 5.4 percent in September, indicating that the inflationary pressures were increasingly broad-based. The DCS reported National Consumer Price Index (NCPI, 2021=100) based inflation of 8.1 percent in September 2026, the latest available month, with the NCPI at 224.2.

FIGURE 3.10 | Movements in Headline, Core and Food Inflation (Base : 2021=100)
Percent



Source : Department of Census And Statistics

TABLE 3.5 | Inflation (Base : 2021=100)

Month	2025 (base year 2021=100)				2026 (base year 2021=100)			
	Headline Inflation (YoY)		Core Inflation (YoY)		Headline Inflation (YoY)		Core Inflation (YoY)	
	CCPI	NCPI	CCPI	NCPI	CCPI	NCPI	CCPI	NCPI
January	-4.0	-4.0	1.2	-0.2	2.3	2.4	2.3	2.2
February	-4.2	-3.9	0.7	-0.6	1.6	1.6	2.1	2.2
March	-2.6	-1.9	0.7	-0.6	2.2	2.4	2.5	2.7
April	-2.0	-0.8	0.8	-0.1	5.4	4.7	3.8	4.4
May	-0.7	0.6	1.2	0.3	5.5	5.4	3.9	4.5
June	-0.6	0.3	1.5	0.6	6.8	6.5	4.0	5.0
July	-0.3	0.7	1.6	0.9	7.3	7.2	4.4	6.0
August	1.2	1.5	2.0	1.5	8.0	8.1	5.1	6.3
September	1.5	2.1	2.0	1.9	8.0	8.1	5.4	6.4
October	2.1	2.7	2.2	2.1	8.3	-	5.6	-
November	2.1	2.4	2.4	2.2				
December	2.1	2.9	2.7	2.6				

Source : Department of Census and Statistics

Based on the projections made at the July 2026 monetary policy round, the CBSL expects headline inflation to remain above the 5 percent target in the near term before easing and stabilizing around the target over the medium term, conditional on the effects of the Middle East tensions and their spillovers proving temporary. The Monetary Policy Report of August 2026 also noted that medium-term inflation expectations remained broadly anchored, although risks to the outlook are skewed to the upside owing to global volatility. Monetary policy is therefore expected to remain data-dependent, with the CBSL continuing to assess inflationary pressures, credit conditions and external-sector developments in determining the appropriate policy stance.

3.4 Stock Market

The Colombo Stock Exchange (CSE) remained at elevated levels during 2026, although the market traded in a relatively narrow range during August. As at 30 September 2026, the All Share Price Index (ASPI) stood at 20,812.9 points, while the S&P Sri Lanka 20 (S&P SL20) stood at 5,894.2 points. The market capitalisation as at end October was Rs. 7,548.2 billion. On 30 October 2026, daily market turnover amounted to approximately Rs. 958.6 million.

The stock market performance during 2026 reflected changing investor sentiment in response to monetary policy developments, corporate performance, the domestic economic recovery and global and geopolitical developments. Market activity remained measured during October 2026, with the ASPI recording a marginal decline of about 3.5 percent over the month. Foreign investor participation decreased, with a net foreign outflow of about Rs. 72.3 million recorded on 30 October 2026.

The performance of the CSE will continue to be influenced by the trajectory of economic growth, corporate earnings, interest rates, inflation expectations, sovereign risk perceptions and foreign investor participation. Continued macroeconomic stabilisation and improvements in investor confidence are expected to remain important factors in supporting the development of the domestic capital market.

TABLE 3.6 | Movements in Capital Markets

Indicators	2020	2021	2022	2023	2024	2025	End Sep.	
							2025	2026[a]
All Share Price Index (1985 = 100)	6,774	12,226	8,490	10,654	15,945	22,624	21,779	20,813
S&P SL 20 Index	2,638	4,233	2,636	3,068	4,862	6,157	6,127	5,894
Market Capitalization (Rs. Billion)	2,961	5,489	3,847	4,249	5,696	8,069	7,752	7,548
No. of Listed Companies in Trading	283	296	290	290	284	288	289	289
Annual Average Turnover (Rs.Billion)	397	1173	687	411	538	1867	904	672
Foreign Sales (Rs. Million)	104,165	86,689	36,863	37,088	58,492	95,560	73,847	87,258
Foreign Purchases (Rs. Million)	52,889	39,410	67,488	41,451	48,013	56,931	46,755	30,416
Net Purchases (Rs. Million)	-51,276	-47,279	30,625	4,363	-10,479	-38,629	-27,092	-56,842

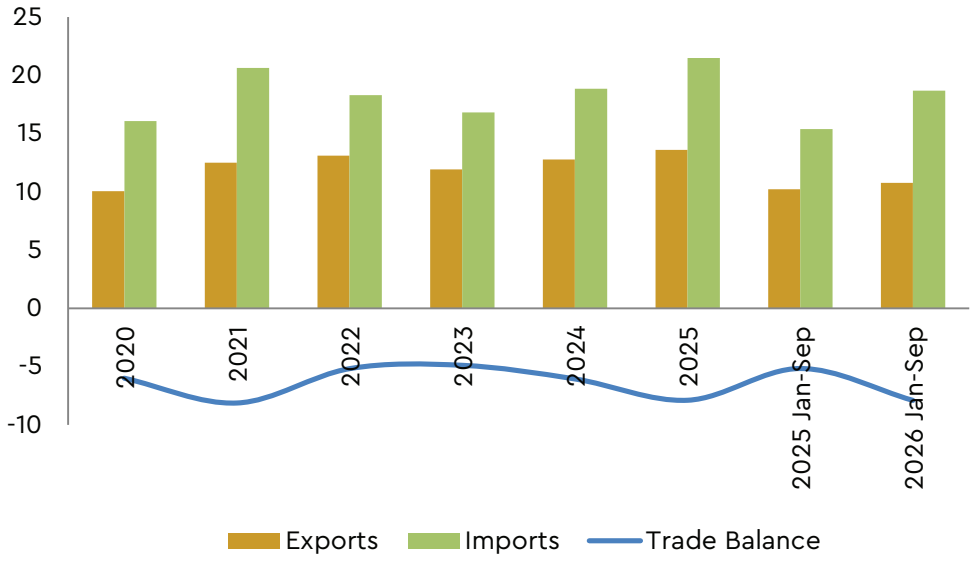
Sources : Colombo Stock Exchange and Central Bank of Sri Lanka

[a] *Provisional*

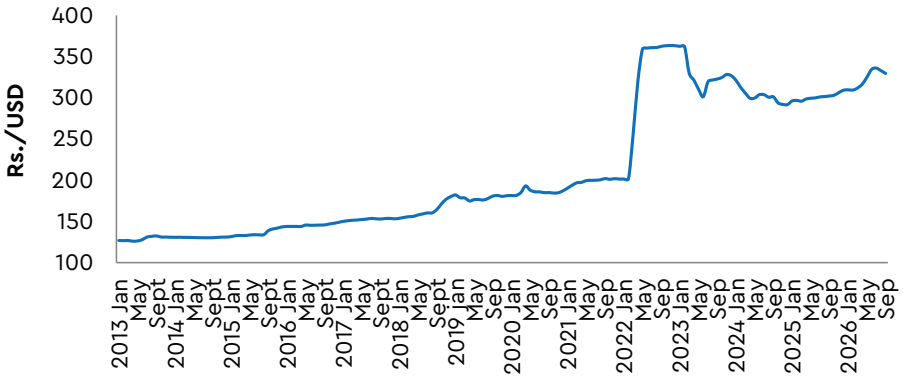
3.5 External Sector Developments

Sri Lanka's external sector came under renewed pressure in the first nine months of 2026, mainly as the heightened conflict in the Middle East pushed up global crude oil prices and the fuel import bill, compounded by a resurgence in vehicle imports, despite support from higher export earnings and increased inflows from workers' remittances. Export earnings increased by 5.3 percent to USD 10,754.2 million, while expenditure on imports rose by 21.3 percent to USD 18,665.7 million, resulting in a wider trade deficit of USD 7,911.5 million in the first nine months of 2026, compared to USD 5,174.4 million in the corresponding period of 2025. Workers' remittances increased by 18.1 percent to USD 6,865.4 million in the first nine months of 2026, from USD 5,811.7 million in the corresponding period of 2025. Meanwhile, earnings from tourism decreased by 9.2 percent to USD 2,245.2 million in the first nine months of 2026 from USD 2,472.9 million in the corresponding period of 2025, owing to a decrease in tourist arrivals amid travel disruptions caused by the conflict in the Middle East.

FIGURE 3.11 | Trade Balance and Movements in Exchange Rates
(USD Billion)



Source : Central Bank of Sri Lanka



Source : Central Bank of Sri Lanka

The current account recorded a deficit of USD 420.4 million in the first nine months of 2026, compared to a surplus of USD 1,853.2 million in the corresponding period of 2025. This was mainly due to the wider trade deficit and the lower surplus in the services account. The overall Balance of Payments (BoP) recorded a surplus of USD 136 million in the first half of 2026, compared to a surplus of USD 522 million in the corresponding period of 2025. The Colombo Stock Exchange (CSE) recorded a net outflow of USD 170.2 million in the first nine months of 2026, compared to a net outflow of USD 84.6 million in the corresponding period of 2025. Net flows to the government securities market were recorded as an inflow of USD 167.8 million in the first nine months of 2026, compared to a net inflow of USD 178.0 million in the corresponding period of 2025. Gross Official Reserves (GOR) stood at USD 6.9 billion by end September 2026, including the swap facility from the People's Bank of China, providing an import cover of 3.3 months. Meanwhile, the Sri Lankan rupee depreciated by 6.8 percent against the USD on a year to date basis by end October 2026.

Exports

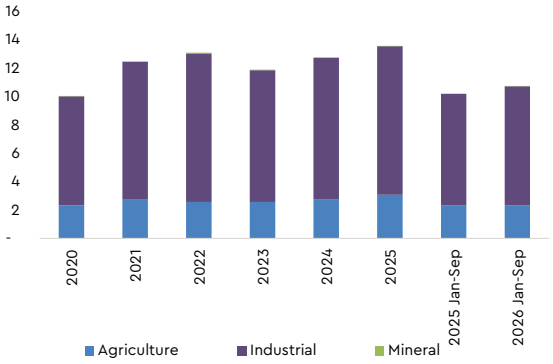
Earnings from merchandise exports increased by 5.3 percent to USD 10,754.2 million in the first nine months of 2026, compared to USD 10,215.1 million in the corresponding period of 2025, mainly due to the increase in earnings from industrial exports, particularly petroleum products, Rubber products and machinery and mechanical appliances. Industrial exports continued to account for the largest share of export earnings, representing 78.1 percent of the total, while agricultural and mineral exports contributed 21.5 percent and 0.2 percent, respectively.

Earnings from industrial exports increased by 6.9 percent to USD 8,398.3 million in the first nine months of 2026, from USD 7,854.2 million in the corresponding period of 2025, mainly due to increased export earnings from petroleum products, rubber products, food, beverages and tobacco products and machinery and mechanical appliances. Export earnings increased from petroleum products by 52.1 percent to USD 1,094.8 million, rubber products by 9.2 percent to USD 752.9 million, food, beverages and tobacco products by 6.1 percent to USD 702.6 million and machinery and mechanical appliances by 45.8 percent to USD 516.0 million in the first nine months of 2026. However, export earnings from textiles and garments, the main contributor to industrial export earnings, decreased by 5.6 percent to USD 3,797.0 million in the first nine months of 2026, from USD 4,021.4 million in the corresponding period of 2025.

Earnings from agricultural exports decreased marginally by 0.3 percent to USD 2,317.4 million in the first nine months of 2026, from USD 2,323.6 million in the corresponding period of 2025, with lower earnings from tea, minor agricultural products, seafood, vegetables and rubber. Earnings from tea exports decreased by 6.8 percent to USD 1,083.6 million in the first nine months of 2026, from USD 1,163.0 million in the corresponding period of

2025. In addition, export earnings declined from seafood by 2.0 percent to USD 180.8 million, minor agricultural products by 19.4 percent to USD 126.2 million, vegetables by 20.4 percent to USD 21.1 million and rubber by 12.0 percent to USD 21.0 million. However, export earnings increased from coconut by 3.6 percent to USD 441.0 million, spices by 30.4 percent to USD 423.2 million and unmanufactured tobacco by 9.7 percent to USD 20.6 million in the first nine months of 2026. Meanwhile, mineral export earnings increased by 35.1 percent to USD 24.5 million in the first nine months of 2026 from USD 18.1 million in the corresponding period of 2025.

FIGURE 3.12 | Composition of Exports
(USD Billion)



Source : Central Bank of Sri Lanka

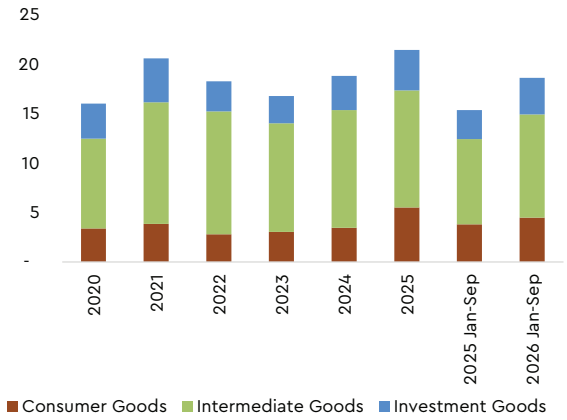
Imports

Expenditure on imports increased by 21.3 percent to USD 18,665.7 million in the first nine months of 2026, compared to USD 15,389.5 million in the corresponding period of 2025, due to the increase in import expenditure on consumer, intermediate and investment goods, driven mainly by higher fuel import expenditure amid elevated import prices following the Middle East conflict, and increased vehicle imports. Consumer, intermediate and investment goods accounted for 24.0 percent, 56.0 percent and 19.9 percent of total import expenditure in the first nine months of 2026, respectively.

Import expenditure on consumer goods increased by 17.5 percent to USD 4,484.6 million in the first nine months of 2026, compared to USD 3,816.4 million in the corresponding period of 2025, mainly due to higher import expenditure on non-food consumer goods. Import expenditure on food and beverages increased by 3.4 percent to USD 1,617.7 million in the first nine months of 2026, from USD 1,565.1 million in the corresponding period of 2025, with the increased import expenditure recorded mainly from dairy products, seafood, and cereals and milling industry products. Expenditure on non food consumer goods imports increased notably by 27.3 percent to USD 2,866.9 million from USD 2,251.3 million due to the increase in import expenditure mainly on personal vehicles, medical and pharmaceuticals, home appliances and telecommunication devices.

Import expenditure on intermediate goods increased by 21.3 percent to USD 10,456.2 million in the first nine months of 2026, from USD 8,617.2 million in the corresponding period of 2025, mainly due to higher expenditure on fuel. Imports expenditure on fuel increased by 51.5 percent to USD 4,487.2 million in the first nine months of 2026, with an increase in import expenditure on refined petroleum by 60.4 percent to USD 3,483.7 million, crude oil by 27.1 percent to USD 817.4 million and coal by 26.9 percent to USD 186.1 million. Import expenditure on textiles and textile articles decreased by 3.7 percent to USD 1,961.7 million in the first nine months of 2026, from USD 2,037.3 million in the corresponding period of 2025. Meanwhile, import expenditure on investment goods increased by 26.0 percent to USD 3,709.8 million in the first nine months of 2026, from USD 2,943.9 million in the corresponding period of 2025. This was mainly due to the increase in import expenditure on machinery and equipment by 26.3 percent to USD 2,332.9 million, building materials by 8.7 percent to USD 803.4 million and transport equipment by 60.8 percent to USD 569.8 million. The increase in transport equipment was largely driven by commercial vehicles, which rose by 60.7 percent to USD 435.8 million.

FIGURE 3.13 | Composition of Imports
(USD Billion)



Source : Central Bank of Sri Lanka

Tourism and Workers' Remittances

Tourist arrivals decreased by 1.8 percent to 1,693,679 persons in the first nine months of 2026, from 1,725,494 persons in the corresponding period of 2025. Accordingly, earnings from tourism decreased by 9.2 percent to USD 2,245.2 million in the first nine months of 2026, compared to USD 2,472.9 million in the corresponding period of 2025. This decline was mainly due to a decrease in tourist arrivals following the escalation of the conflict in the Middle East, and partly reflects a downward revision to average daily tourist spending under the revised methodology introduced by the

TABLE 3.7 | External Trade

USD Million

Category	2022	2023	2024	2025[b]	Jan-Sep	
					2025[b]	2026[a]
Exports	**13,106**	**11,911**	**12,772**	**13,581**	**10,215**	**10,754**
Agricultural Exports	**2,568**	**2,567**	**2,775**	**3,072**	**2,324**	**2,317**
Tea	1,259	1,310	1,436	1,507	1,163	1,084
Other Agricultural Products	1,309	1,257	1,339	1,565	1,161	1,234
Industrial Exports	**10,465**	**9,278**	**9,947**	**10,461**	**7,854**	**8,398**
Textile and Garments	5,952	4,879	5,061	5,314	4,021	3,797
Food, Beverages and Tobacco	520	539	652	896	662	703
Rubber Products	977	902	976	915	690	753
Machinery and Mechanical Appliances	581	598	486	492	354	516
Petroleum Products	568	539	1,064	971	720	1,095
Other Industrial Exports	1,868	1,820	1,710	1,874	1,407	1,535
Mineral Exports	**50**	**39**	**25**	**24**	**18**	**25**
Unclassified Exports	**23**	**28**	**26**	**24**	**19**	**14**
Imports	**18,291**	**16,811**	**18,841**	**21,480**	**15,390**	**18,666**
Consumer Goods	**2,813**	**3,044**	**3,466**	**5,518**	**3,816**	**4,485**
Food and Beverages	1,608	1,693	1,914	2,116	1,565	1,618
Other Consumer Goods	1,205	1,351	1,551	3,402	2,251	2,867
Intermediate Goods	**12,439**	**11,007**	**11,915**	**11,859**	**8,617**	**10,456**
Petroleum	4,897	4,703	4,354	4,043	2,961	4,487
Textiles and Garments	3,065	2,371	2,847	2,749	2,037	1,962
Wheat and Maize	303	338	383	398	253	257
Other	4,174	3,595	4,331	4,669	3,366	3,750
Investment Goods	**3,030**	**2,745**	**3,448**	**4,090**	**2,944**	**3,710**
Machinery and Equipment	1,969	1,868	2,363	2,513	1,848	2,333
Building Materials	926	775	927	1017	739	803
Transport Equipments	132	99	57	556	354	570
Other	3	3	3	4	3	4
Unclassified Imports	**9**	**28**	**13**	**13**	**12**	**15**
Trade Balance	**-5,185**	**-4,900**	**-6,069**	**-7,899**	**-5,174**	**-7,912**

Source : Central Bank of Sri Lanka
[a] Provisional
[b] Revised

Sri Lanka Tourism Development Authority (SLTDA) for estimating tourism earnings. India remained the largest source market for tourist arrivals, recording 437,414 arrivals in the first nine months of 2026, followed by the United Kingdom, China, Germany, Australia, Russia and France. Meanwhile, workers' remittances grew by 18.1 percent to USD 6,865.4 million in the first nine months of 2026, compared to USD 5,811.7 million in the corresponding period of 2025, particularly with the increased inflows of remittances for relief and recovery following Cyclone Ditwah.

3.6 World Economic Outlook[1]

After expanding by 3.5 percent in 2025, the global economy has performed better than initially anticipated in 2026, despite the Middle East conflict that erupted at the end of February 2026, the resulting closure of the Strait of Hormuz (which disrupted energy markets and key shipping routes), and continued trade tensions. Activity has also been supported by strong demand from the technology cycle, driven mainly by artificial intelligence (AI). The global economy continues to demonstrate resilience amid persistent uncertainty. However, growth remains uneven across countries, and there is limited room to respond to additional shocks. Countries with favorable terms of trade or strong participation in technology value chains have a cushion, while energy-importing economies face higher import bills and weaker demand. According to the International Monetary Fund's (IMF) October 2026 World Economic Outlook (WEO), global real GDP growth is projected to moderate to 3.1 percent in 2026, unchanged from the April projection, before recovering to 3.4 percent in 2027, an upward revision of 0.2 percentage points from the April 2026 WEO. Global headline inflation, which eased to 4.1 percent in 2025, is projected to rise to 4.7 percent in 2026, mainly reflecting higher energy and food prices, before easing to 4.1 percent in 2027, with notable variation across countries.

Global financial conditions tightened sharply earlier in 2026 before easing, and they remain relatively accommodative by historical standards, largely reflecting strong investor sentiment, particularly toward technology stocks. However, concerns about renewed inflation, expectations about the future path of policy rates, and fiscal sustainability have pushed up sovereign bond yields in many jurisdictions. Yields on long-term government bonds in advanced economies have climbed to multidecade highs, which in turn has raised borrowing costs for emerging markets. Exchange rates, especially in Asia, have been highly volatile, prompting intervention by authorities. Central banks remain cautious in their monetary policy decisions, weighing the strength of domestic economic activity against the risk of persistent war-related inflation. Meanwhile, fiscal policy remains expansionary in several major economies, where public debt continues to rise and budget deficits remain elevated by historical standards.

Global Trade and Commodity Markets

Global trade volume grew by 5.0 percent in 2025 and is projected to slow to 4.6 percent in 2026 before edging up to 4.7 percent in 2027. The October WEO projections reflect the drag from tariffs, the gradual adjustment of trade linkages and production chains through trade reconfiguration and supplier substitution, and brisk growth in technology-related trade flows.

The Strait of Hormuz, through which nearly 35 percent of global seaborne crude oil trade and about 20 percent of global LNG trade passes, remained mostly closed to Gulf oil exports until the end of August 2026, and a short-lived ceasefire has since been replaced by a low-intensity conflict that has expanded to the Red Sea.

1 Based on the World Economic Outlook October 2026, International Monetary Fund and World Bank Pink Sheet

Consequently, several key commodity prices, which were subdued in 2025, increased sharply in 2026. According to the World Bank, the energy price index rose from an average of 89.1 in the third quarter of 2025 to 125.4 in the corresponding period of 2026, and stood at 148.9 in September, well above the 2025 average. Brent crude oil averaged USD 97.1 per barrel in the third quarter, peaking at USD 120.4 in April, before easing to USD 83.4 in July and rising again to USD 116.8 in September, compared with an average of USD 69.0 in 2025. According to the IMF, refined petroleum product prices remain between 70 percent and 95 percent above pre-war levels. European natural gas prices increased to USD 25.42 per MMBtu in September from an average of USD 11.96 in 2025, while US natural gas prices remained comparatively subdued at USD 2.95 per MMBtu. Following a sharp increase to 188.2 in the second quarter of 2026, the fertilizer price index decline to 147.0 in the third quarter, below the 153.4 recorded in the corresponding period of 2025. In September; the index stood at 147.6. Food prices increased, led by grains, with the food price index reaching 124.1 in September compared to an average of 109.2 in 2025. Metal prices continued to rise, with the metals and minerals index at 147.5 in September compared with 112.2 in 2025, while gold averaged USD 4,319 per troy ounce in September, compared with USD 3,442 in 2025, having eased from USD 4,876 in the first quarter of 2026. Looking ahead, the IMF assumes an average oil price of USD 95.74 per barrel in 2026, 41.3 percent higher than in 2025, easing to USD 87.39 in 2027, while fertilizer prices are projected to rise by 10 percent and food prices by 5 percent in 2026.

Regional Developments

Growth in advanced economies is projected at 2.1 percent in 2026, up from 2.0 percent in 2025 and 0.3 percentage points higher than projected in April, before decelerating to 1.8 percent in 2027. However, economic performance is expected to vary across countries, with net energy-exporting countries benefiting partly from favorable terms-of-trade effects, while net energy-importing economies face greater economic pressures from elevated energy prices, unless offset by strong technology-related activity. The US economy is projected to grow by 2.3 percent in both 2026 and 2027, supported by robust private consumption, productivity strength and technology-related investment, with limited direct impact from the war given its net energy exporter status. Meanwhile, growth in the euro area, which is more exposed to energy market disruptions, is projected at 1.1 percent in 2026 and 1.2 percent in 2027. Growth in emerging market and developing economies (EMDEs) is projected to slow to 3.7 percent in 2026 from 4.5 percent in 2025, before recovering to 4.4 percent in 2027, with the outlook varying across countries according to their commodity dependence, exposure to the Middle East conflict, reliance on remittances and tourism receipts, and position in global technology value chains. Emerging and developing Asia is expected to remain the most resilient region, growing by 5.1 percent in 2026 and 4.9 percent in 2027, with India remaining the fastest-growing major economy at 7.0 percent in both years (on a fiscal year basis). Meanwhile, China's growth is projected to slow to 4.5 percent in 2026 and 4.0 percent in 2027. Growth in the Middle East and Central Asia region is projected to contract by 0.3 percent in 2026, a downward revision of 2.2 percentage points from April, before rebounding to 6.3 percent in 2027 as production, exports and logistics normalize following an easing of disruptions to shipping through the Strait, with Bahrain, Iraq, Kuwait and Qatar projected to experience double-digit contractions in 2026. Sub-Saharan Africa is projected to grow by 4.5 percent in both 2026 and 2027, while Latin America and the Caribbean are expected to grow by 2.3 percent in 2026 and 2.5 percent in 2027.

Global Economic Risks

Risks to the outlook remain tilted to the downside. A prolonged stalemate or further escalation of the Middle East conflict, or of the conflict in Ukraine, together with further disruptions to the Strait of Hormuz and Red Sea routes, could keep energy and food prices elevated and volatile for longer, as global oil inventories are being drawn down toward stress levels that could trigger nonlinear price adjustments and natural gas stocks in parts of Europe remain below seasonal norms ahead of winter. Persistently higher commodity prices could widen current account deficits, intensify exchange rate pressures and heighten food insecurity in energy-importing emerging market and developing economies with limited fiscal space and external buffers, while more persistent inflation could keep monetary policy restrictive for longer. Extreme weather events, including the ongoing El Niño episode, cyberattacks and renewed trade tensions could add further pressure. A reassessment of AI-related profitability and productivity prospects could also sharply reduce investment, trigger equity market corrections and tighten financial conditions, with spillovers to economies integrated into technology supply chains. On the upside, AI-related investment could prove more persistent, new trade arrangements could improve predictability and strengthen supply chain resilience, and a durable de-escalation and the resumption of normal shipping through the Strait of Hormuz would ease energy prices and inflationary pressures.

Impact of Global Outlook on the Sri Lankan Economy

As a small open economy, Sri Lanka is exposed to the global outlook through higher energy import costs, weaker tourist arrivals, and softer external demand in key export markets. Amid the Middle East conflict and related supply disruptions, as well as the surge in oil and fertilizer prices, Sri Lanka recorded growth of 4.2 percent in the second quarter of 2026, compared to growth of 5.0 percent in the corresponding period of 2025. October 2026 WEO projects Sri Lanka's growth at 4.0 percent in 2026 and 3.7 percent in 2027, compared with 5.0 percent in 2025, while inflation is projected to rise to 5.3 percent in 2026 and 5.4 percent in 2027 from -0.5 percent in 2025, mainly reflecting higher energy prices. In addition, Fitch Ratings upgraded Sri Lanka's Long-Term Issuer Default Rating (IDR) to 'B-' from 'CCC+', with a Stable Outlook, according to its latest rating action issued on September 22, 2026, which is expected to support investor confidence and help ease external financing pressures. However, elevated energy and fertilizer prices, and continued geopolitical uncertainty could exert pressure on the balance of payments, domestic prices and export competitiveness, particularly in the apparel sector. Accordingly, sustained prudent macroeconomic management, export and market diversification, and continued accumulation of external buffers will remain important to safeguard stability in an uncertain global environment

TABLE 3.8 | Key Economic Indicators of Selected Countries – 2026 (Projection)

Country	GDP Growth (Annual percent change)[a]	Inflation (Percent)[a]	Unemployment (Percent)[a]	Fiscal Deficit (Percent of GDP)[b]	Gross Debt (Percent of GDP)[b]
Argentina	2.1	32.5	7.6	0.5	70.4
Australia	1.9	3.9	4.4	-2.4	50.6
Brazil	2.2	4.4	6.2	-7.7	96.5
Canada	1.1	2.8	6.5	-2.7	110.7
Chile	0.6	3.7	9.5	-2.5	42.5
China	4.5	1.0	5.1	-8.2	106.9
France	0.4	2.4	8.4	-4.9	118.4
Germany	1.3	2.7	4.0	-3.8	64.6
Greece	1.8	4.2	8.0	0.6	136.9
India	7.0	5.0	5.0	-7.4	83.4
Indonesia	5.1	3.3	4.7	-2.9	41.5
Italy	0.8	3.3	5.6	-2.8	138.4
Japan	0.7	2.0	2.5	-2.0	204.4
Korea	3.3	2.7	2.8	-1.5	54.4
Malaysia	5.2	2.2	3.0	-3.3	69.5
Mexico	1.5	3.8	2.8	-4.4	62.7
Russia	0.9	6.1	2.2	-2.0	19.1
Singapore	5.0	2.3	2.1	3.3	171.9
South Africa	1.0	4.4	33.2	-4.9	78.9
Spain	2.5	3.7	9.8	-2.1	98.2
Thailand	2.1	2.1	1.0	-2.2	66.8
United Kingdom	1.3	3.3	5.3	-3.9	103.6
United States	2.3	3.6	4.2	-7.5	125.8
Vietnam	8.4	4.7	2.1	-2.0	29.8

Sources : [a]World Economic Outlook, IMF, October 2026, [b]Fiscal Monitor, IMF, April 2026.

Performance of State Owned Enterprises | 04

4.1 Overview

State-Owned Enterprise (SOE) sector operated amid heightened external uncertainty during 2026, particularly due to the escalation of the conflict in the Middle East. The resulting volatility in global energy prices and disruptions to trade and supply chains increased import costs, put pressure on the balance of payments and the Sri Lankan rupee and contributed to domestic inflationary pressures. These developments affected SOEs through higher fuel, energy and other imported input costs, increased foreign-currency-denominated obligations, and greater pressure on operating margins.

Nevertheless, the SOE sector recorded an overall improvement in financial performance. During the first eight months of 2026, the main 51 SOEs reported an aggregate profit of Rs. 366.9 billion, compared with Rs. 307.5 billion in the same period of 2025[1]. This was mainly due to stronger revenue performance among key SOEs, continued cost management initiatives, and the Government's ongoing efforts to enhance operational efficiency, governance, accountability and financial discipline across the sector. Meanwhile, revenue from levies and dividends collected from SOEs increased to Rs. 19.9 billion, from Rs. 14.6 billion in the same period of 2025.

During the first ten months of 2026, several state-owned companies were added to the SOE portfolio. These included six companies established to assume the functions of the Ceylon Electricity Board: Electricity Generation Lanka (Private) Limited (EGL), National Transmission Network Service Provider (Private) Limited (NTNSP), Electricity Distribution Lanka (Private) Limited (EDL), National System Operator (Private) Limited (NSO), Energy Ventures Lanka (Private) Limited, and CEB Employees Funds (Private) Limited, and Sky Care Hospital Management Limited and Multi Modal Transport Limited were also added.

1 With respect to Ceylon Electricity Board, Profit for the Period from 01.01.2026 to 09.03.2026 has been considered for 2026.

Marking a significant transformation in the public transport sector, Lanka Metro Transit (Private) Limited, a subsidiary of the Sri Lanka Transport Board, commenced its operations in March 2026 with an initial fleet of 10 low-floor buses imported under the Clean Sri Lanka project. The fleet has since expanded to 114 buses.

In line with the Government's policy on reforming the SOE sector, a dedicated unit was established under the Ministry of Finance, Planning and Economic Development in March 2026, following Cabinet approval. The unit is currently engaged in the liquidation of 33 selected SOEs. In the meantime, the final draft of the Public Commercial Enterprises Management Bill has been prepared and submitted for the clearance of the Hon. Attorney General. The objectives of the Bill include enhancing the quality, affordability, availability, competitiveness and accessibility of the goods and services provided by public commercial enterprises, as well as increasing the long-term value of the State's commercial assets.

4.2 Review of the ten Major State-Owned Business Enterprises (SOBEs)

Bank of Ceylon

The asset base of the Bank of Ceylon (BoC) increased by 3.8 percent to Rs. 5,675 billion as at end August 2026, from Rs. 5,468 billion as at end 2025. During the first eight months of 2026, the bank's deposit base increased by 4.3 percent to Rs. 4,576 billion, compared to Rs. 4,389 billion as at end 2025. Loans and advances increased by 8.4 percent to Rs. 2,571 billion as at end August 2026, from Rs. 2,372 billion as at end 2025. The stage III Impaired loan ratio of the bank has improved to 4.91 percent as at end August 2026, from 5.59 percent as at end 2025. The BoC recorded a Profit before Tax (PBT) of Rs. 82.8 billion in the first eight months of 2026, compared to Rs. 78.7 billion PBT reported in the same period of 2025, mainly due to a 9 percent increase in net interest income to Rs. 149 billion.

People's Bank

People's Bank's (PB) asset base increased by 3.5 percent to Rs. 3,839 billion as at end August 2026, from Rs. 3,708 billion as at end 2025. The Bank's deposit base stood at Rs. 3,230 billion as at end August 2026, broadly unchanged from Rs. 3,229.8 billion as at end 2025. Loans and advances increased by 11.7 percent to Rs. 1,933 billion as at end August 2026, from Rs. 1,731 billion as at end 2025. The stage III impaired loans ratio of the bank has improved to 6.6 percent as at end August 2026, from 7.66 percent as at end 2025. PB recorded a PBT of Rs. 44.5 billion in the first eight months of 2026, a significant increase of 17.7 percent, from Rs. 37.8 billion in the same period of 2025. This increase was primarily driven by a 20 percent increase in net interest income to Rs. 110.9 billion.

National Savings Bank

National Savings Bank's (NSB) asset base recorded a marginal increase to Rs. 1,880 billion as at end August 2026, from Rs. 1,831 billion as at end 2025. The bank's deposit base increased by 2 percent to Rs. 1,640 billion as at end August 2026, from Rs. 1,608 billion as at end 2025. The loans and advances increased by 10.7 percent to Rs. 610 billion as at end August 2026, compared to Rs. 551 billion as at end 2025. The stage III impaired loans ratio of the bank has improved to 2.1 percent as at end August 2026, compared to 2.52 percent as at end 2025. NSB's PBT decreased marginally to Rs. 30.1 billion in the first eight months of 2026, compared to Rs. 30.6 billion in the same period of 2025, mainly due to the increase in personnel expenses by 17.5 percent to Rs. 18.8 billion.

Sri Lanka Insurance Corporation Limited

Sri Lanka Insurance Corporation Limited (SLIC) reported total revenue of Rs. 3.5 billion in the first eight months of 2026, a decrease of 30 percent compared to Rs. 5 billion in the same period of 2025. The decline was mainly due to lower investment income and dividend income. SLIC recorded a PBT of Rs. 2.9 billion in the first eight months of 2026, compared to Rs. 4.4 billion in the same period of 2025. Total assets stood at Rs. 135.5 billion as at end August 2026, up from Rs. 133.4 billion at end of 2025, reflecting a strong financial position.

SLIC reported mixed performance across its two insurance subsidiaries for the first eight months of 2026. Sri Lanka Insurance Corporation Life Limited reported a marginal increase in PBT to Rs. 2.14 billion, compared to Rs. 2.11 billion in the same period of 2025. Sri Lanka Insurance Corporation General Limited, however, saw its PBT decline by 7.1 percent to Rs. 2.6 billion, from Rs. 2.8 billion a year earlier. This was mainly due to a 41.7 percent increase in net insurance claims and benefits to Rs. 10.2 billion.

Ceylon Electricity Board and the Successor Companies

As part of the structural reforms of the Ceylon Electricity Board (CEB), EGL, NTNSP, EDL, and the NSO continued to carry out their respective functions in the electricity industry, together with Energy Ventures Lanka (Private) Limited and CEB Employees Funds (Private) Limited.

At the third-quarter tariff review conducted in July 2026, the Public Utilities Commission of Sri Lanka (PUCSL) decided to maintain the existing end-user electricity tariff until the next tariff revision, taking into account the Government subsidy of Rs. 17,213 million provided to meet the vested liability of the NSO arising from the CEB. During the first eight months of 2026, the generation mix changed to 25:28:27:20 for hydro, thermal (coal), Non-conventional renewable energy (NCRE) including wind and rooftop solar, and thermal (fuel), respectively, compared with 35:29:25:11 during the same period of 2025. Total electricity generation increased by 7.4 percent to 12,893 GWh, reflecting the growth in demand, compared with 12,004 GWh a year earlier.Hydropower generation declined by 22.6 percent, from 4,169 GWh to 3,225 GWh. Rooftop solar generation rose substantially, by approximately 42 percent, from 1,195 GWh to 1,700 GWh, but this was not to offset the combined effect of higher demand and lower hydropower

TABLE 4.1 | Composition of Electricity Generation and Capacity

	2025 Jan. – Aug. Generation			2026 Jan. – Aug. Generation (Provisional)		
	Installed Capacity MW	% on Total Generation	Net Gen – GWh	Installed Capacity MW	% on Total Generation	Net Gen – GWh
CEB/EGL-Hydro	1,533	35	4,169	1,533	25	3,225
CEB/EGL -Thermal	801	7	849	801	11	1,326
Thermal – IPP	482	4	491	582	9	1,216
Thermal – Coal	900	29	3,466	900	28	3,635
NCRE & Wind	945	15	1,834	1,286	14	1,791
Rooftop Solar	1684	10	1,195	2,529	13	1,700
Total	**6,345**	**100**	**12,004**	**7,631**	**100**	**12,893**

Sources: Ceylon Electricity Board and Electricity Generation Lanka (Pvt) Limited

output. Consequently, thermal (fuel) generation increased by 89.6 percent, from 1,341 GWh to 2,543 GWh, to meet the supply requirement.

The revenue from sale of electricity increased significantly, by 19.9 percent to Rs. 325.4 billion during the first eight months of 2026, compared to Rs. 271.5 billion recorded by the CEB in the same period of 2025. The 2026 figure comprises Rs. 80 billion earned by the CEB up to March 09, 2026, and Rs. 245.4 billion earned by EDL for the remainder period. The CEB recorded a net profit of Rs. 1.48 billion for the period from January 1 to March 9, 2026.

Ceylon Petroleum Corporation

The net revenue of the Ceylon Petroleum Corporation (CPC) during the first eight months of 2026 increased by 43.1 percent to Rs. 796.7 billion, compared to Rs. 556.9 billion in the same period of 2025. However, CPC's cost of sales increased by 51.8 percent to Rs. 780.7 billion, compared to Rs. 514.3 billion in the same period of 2025. As the increase in cost of sales exceeded the growth in net revenue, gross profit declined by 62.4 percent to Rs. 16.0 billion, from Rs. 42.6 billion in the same period of 2025.

Despite the decline in gross profit, CPC recorded an operating profit of Rs. 20.9 billion in the first eight months of 2026, an increase of 56 percent from Rs. 13.4 billion in the same period of 2025. This was mainly due to the Rs. 41 billion subsidy received from the Government for the period from April to June 2026 to mitigate the adverse impact of the conflict in the Middle East on the daily lives of the general public and on the overall economy.

During the first eight months of 2026, CPC recorded a realized exchange loss of Rs. 5.2 billion, compared to a realized exchange gain of Rs. 91.3 million in the same period of 2025. This was partly offset by an unrealized exchange gain of Rs. 8.4 billion, compared to Rs. 4.8 billion in the same period of 2025. Consequently, PBT increased by 35.7 percent to Rs. 28.9 billion in the first eight months of 2026, compared to Rs. 21.3 billion in the same period of 2025. The contribution of subsidy income and exchange rate movements should be considered when assessing the sustainability of CPC's reported profitability.

SriLankan Airlines Ltd.

SriLankan Airlines Ltd. (SLA) continued to face financial challenges during the period under review, despite ongoing Government initiatives to facilitate its financial restructuring and improve operational sustainability. During the first five months of the 2026/27 financial year, the SLA recorded total revenue of Rs. 154.6 billion, compared to Rs. 114.6 billion in the same period of 2025/26. However, total expenditure rose by 35.2 percent to Rs. 160.4 billion, compared to Rs. 118.6 billion in the same period of 2025/26, mainly due to a sharp increase of 78.2 percent in aircraft fuel costs. Consequently, the company recorded an operating loss

of Rs. 5.8 billion. Financial performance was further affected by financing costs of Rs. 7.1 billion and foreign exchange losses of Rs. 11.9 billion. The Group recorded a net loss of Rs. 20.3 billion before one-off adjustments, which narrowed to Rs. 8.9 billion after the reversal of Rolls-Royce withheld discounts and suspended credits amounting to Rs. 11.4 billion.

The Government continued to facilitate the restructuring of the airline's outstanding financial obligations, including the restructuring of the USD 175 million sovereign-guaranteed bond that matured in 2024. It also took measures to address the airline's legacy debt through a settlement arrangement initiated in 2025, and provided short-term financial assistance of USD 30 million to support its immediate operational and liquidity requirements. These interventions are intended to ease the airline's financial constraints and support the continuation of its operations while longer-term restructuring measures are pursued.

Furthermore, in June 2026 the Cabinet of Ministers approved the establishment of a high-level Committee to undertake a strategic review and formulate a restructuring framework for SLA. The Committee is expected to identify measures to improve operational efficiency, strengthen financial sustainability and reduce the airline's dependence on continued Government support.

Meanwhile, heightened tensions in the Middle East in 2026 increased uncertainty in international aviation by disrupting flight operations, restricting airspace, forcing route diversions, and raising operating costs. Given SLA's exposure to Middle Eastern routes, these developments placed further pressure on its operations and financial position. Sustained restructuring, prudent cash-flow management, and greater operational efficiency will be essential to strengthen the airline's finances and minimize fiscal risks to the Government.

National Water Supply and Drainage Board

National Water Supply and Drainage Board (NWS&DB) recorded revenue of Rs. 58.7 billion in the first eight months of 2026, an increase of 4.6 percent compared to Rs. 56.1 billion in the same period of 2025. However, the cost of sales increased by 11.3 percent to Rs. 22.7 billion in the first eight months of 2026, from Rs. 20.4 billion, mainly due to higher production costs, particularly the high pumping cost driven by electricity charges. Consequently, the gross profit increased marginally to Rs. 35.9 billion, compared to Rs. 35.7 billion in the same period of 2025. Despite this marginal improvement, NWS&DB's PBT decreased by 4.8 percent to Rs. 24 billion in the first eight months of 2026, compared to Rs. 25.2 billion in the same period of 2025.

During the first eight months of 2026, the NWS&DB added 77,243 new connections to the system, thereby increasing the total to 3.33 million as at end August 2026. During the same period, the NWS&DB produced 594 million m^3 of water, compared to 568 million m^3 in the same period of 2025 and recorded a water sale of 448 million m^3, compared to 429 million m^3 in the same period of 2025. Further, Non-Revenue Water (NRW) deteriorated marginally to 24.57 percent from 24.52 percent during the period under review.

During the first eight months of 2026, the General Treasury contributed Rs. 10.8 billion as equity to the NWS&DB to repay loans and support the completion of the water supply projects.

Sri Lanka Ports Authority

The Port of Colombo continued its strong growth during 2026, handling 5.99 million twenty-foot equivalent units (TEUs) in the first eight months of 2026, an increase of 10.3 percent compared to 5.43 million TEUs in the same period of 2025. Growth was primarily driven by transshipment operations, which increased by 10.9 percent to 4.83 million TEUs.

Reflecting the growth in port activity, SLPA recorded an improved financial performance during the first eight months of 2026. Total revenue increased by 10.3 percent to Rs. 61.0 billion, compared to Rs. 55.3 billion in the same period of 2025. Consequently, operating profit increased to Rs. 40.3 billion from Rs. 37.3 billion, while PBT rose to Rs. 43.2 billion from Rs. 39.2 billion.

SLPA continued to pursue initiatives to enhance port capacity, operational efficiency and international competitiveness. The expansion of container handling infrastructure, engagement with major shipping lines and ongoing port modernization initiatives are expected to support future throughput growth and strengthen Colombo's position as a regional transshipment hub. Continued investment in infrastructure, digitalization and quality service will be important to accommodate rising volumes and sustain the Port's competitiveness. Meanwhile, escalating tensions in the Middle East during the period under review increased uncertainty in international shipping and maritime trade. Disruptions to shipping routes, higher marine fuel costs, changes in vessel-routing decisions and increased maritime security risks could affect vessel movements, shipping costs and global trade flows. Such developments may also create opportunities for Colombo through changes in regional vessel routes and transshipment demand. Accordingly, monitoring geopolitical changes and their implications for shipping patterns, operating costs and cargo volumes remains important in managing emerging risks.

Going forward, sustaining throughput growth, improving operational efficiency, advancing infrastructure development, and strengthening engagement with international shipping lines will be essential to maintaining SLPA's financial performance.

Airport and Aviation Services (Sri Lanka) (Private) Limited

Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) recorded strong financial performance during the first eight months of 2026. Total revenue remained broadly unchanged at Rs. 35.8 billion. Total operating expenditure amounted to Rs. 14.9 billion, resulting in an operating profit of Rs. 20.9 billion, which was also in line with the same period of 2025. Benefiting from the exchange rate movements, AASL recorded an exchange gain of Rs. 3.5 billion in the first eight months of 2026, compared to the exchange loss of Rs. 2.5 billion in the same period of 2025. Consequently, AASL recorded a profit before tax of Rs. 28.6 billion in the first eight months of 2026, an increase of 30 percent compared to Rs. 22 billion in the same period of 2025.

During the period under review, AASL continued to pursue initiatives to strengthen Sri Lanka's international air connectivity and enhance airport services. The introduction of an automated border-control e-gate at Bandaranaike International Airport (BIA) represented a further step towards improving passenger processing and operational efficiency. In addition, AASL floated an Expression of Interest (EOI) and conducted an investor-engagement programme at Mattala Rajapaksa International Airport (MRIA) to attract investments in aviation, logistics, cargo and related commercial activities.

Nevertheless, escalating tensions in the Middle East during 2026 created uncertainty for the global aviation industry, with potential implications for flight schedules, airspace availability, passenger movements and airline operating costs. These could affect airport traffic and the demand for aeronautical and non-aeronautical services, including passenger-related commercial activities. Accordingly, continued monitoring of international aviation trends and their implications for passenger and aircraft movements remains important in assessing AASL's performance. Xim ullate endit etur? Fuga. Itate nectesti opti corepratem fuga. Aquam, optaspi catendis sam accust,

TABLE 4.2 | Profit before Tax of 52 State Owned Enterprises

Rs. Million

	Enterprise	2024 Actual	2025 (Provisional)	2026 Jan.-Aug. (Provisional)
1	Bank of Ceylon	106,904	120,827	82,805
2	People's Bank	41,584	64,409	44,531
3	National Savings Bank	26,268	44,493	30,107
4	State Mortgage & Investment Bank	158	737	585
5	HDFC Bank***	64	10	205
6	Pradeshiya Sanwardena Bank	3,210	5,830	4,677
7	Employees' Trust Fund Board	63,177	68,510	49,468
8	Sri Lanka Insurance Corporation Limited	3,546	6,891	2,918
9	National Insurance Trust Fund	16,442	9,391	15,135
10	Sri Lanka Export Credit Insurance Corporation	560	592	723
11	Agriculture and Agrarian Insurance Board	-3,182	-1,907	536
12	Ceylon Electricity Board**	141,605	-38,740	1,479
13	Ceylon Petroleum Corporation	34,188	36,461	28,893
14	Sri Lanka Ports Authority	46,349	57,246	43,158
15	National Water Supply and Drainage Board	23,833	31,604	23,980
16	Airport and Aviation Services (SL)Ltd	28,671	33,658	28,648
17	Sri Lankan Airlines Ltd*	-7,595	-23,211	-12,640
18	Sri Lanka Transport Board	547	4,312	480
19	State Engineering Corporation	-773	-899	-182
20	Central Engineering Consultancy Bureau	607	395	60
21	State Development and Construction Corp.[a]	-1,217	-565	-259
22	Milco (Pvt) Ltd	-64	1,410	1,468
23	National Livestock Development Board	396	-143	380
24	Sri Lanka State Plantations Corporation	-69	-35	-73
25	Janatha Estates Development Board	-229	-222	-65
26	Kurunegala Plantations Ltd	415	635	332
27	Chilaw Plantations Ltd	219	650	301
28	Kalubovitiyana Tea Factory Ltd*	-7	84	30
29	Sri Lanka Cashew Corporation	14	17	2
30	Lanka Mineral Sands Ltd	-77	649	88
31	Lanka Phosphate Ltd*	465	459	121
32	Kahatagaha Graphite Lanka Ltd*	-1	14	-18
33	Development Lotteries Board	4,197	7,487	7,149
34	National Lotteries Board	6,203	8,177	7,207
35	State Pharmaceuticals and Manufacturing Corp.	3,083	2,478	2,083
36	Sri Lanka Ayurvedic Drugs Corporation	183	276	99
37	State Pharmaceuticals Corporation	2,474	3,772	1,694
38	Sri Jayawardenepura General Hospital	552	363	1,028
39	Independent Television Network Ltd	3	62	-55
40	Sri Lanka Rupavahini Corporation	-247	-191	-199
41	Sri Lanka Broadcasting Corporation	-176	-203	-90
42	Sri Lanka Handicraft Board	25	35	4
43	State Timber Corporation	825	1,139	153
44	STC General Trading Company*	370	429	146
45	Lanka Sathosa Ltd	-776	-536	-71
46	State Printing Corporation	284	145	-218
47	Ceylon Fisheries Corporation[a]	-53	132	1
48	Ceylon Fishery Harbour Corporation	-101	-376	276
49	Hotel Developers Lanka PLC	-268	139	64
50	Lanka Sugar Company Ltd	-1,944	-3,193	-535
51	Ceylon Fertilizer Company Ltd[b]	118	-	-
52	Colombo Commercial Fertilizer Company Ltd[b]	555	-	-
53	State Fertilizer Company Limited*	-	723	279
	Total	**541,316**	**444,421**	**366,889**

Sources: SOEs and Department of Public Enterprises

[a]Provisional

[b]State Fertilizer Co. was incorporated by amalgamating these two companies

**2026 April – August*

***For 2026, PBT is for the period from 01.01.2026 to 09.03.2026*

****2026 January – June*

Table 4.3 | Levy/ Dividend Income from SOEs

Rs. Million

Enterprise	Actuals			Projections	
	2024	2025	Up to 31.08.2026	2027	2028
Levy	**33,190**	**47,332**	**16,002**	**50,286**	**50,505**
National Savings Bank	–	6,088	–	6,000	6,000
Bank of Ceylon	–	5,000	–	5,000	5,000
People's Bank	–	2,000	1,550	3,500	3,500
Regional Development Bank	–	–	–	500	500
Ceylon Petroleum Corporation	–	6,000	–	7,000	7,000
Telecommunication Regulatory Commission of Sri Lanka	9,000	3,000	5,000	10,000	10,000
National Water Supply and Drainage Board	–	200	–	1,000	1,000
State Timber Corporation	–	585	100	250	250
State Pharmaceuticals Manufacturing Corporation	300	779	200	535	588
National Insurance Trust Fund	2,919	4,973	602	2,000	2,000
Geological Survey and Mines Bureau	1,468	1,688	185	100	100
National Gem and Jewellery Authority	25	145	115	50	50
Board of Investment of Sri Lanka	928	1,150	–	1,269	1,396
National Lotteries Board	1,060	1,250	630	750	850
Sri Lanka Standards Institution	13	269	75	129	150
Sri Lanka Export Credit Insurance Corporation	300	150	–	342	377
Central Engineering Consultancy Bureau	–	15	5	10	10
Sri Lanka Tourism Promotion Bureau	500	1,000	2,000	525	525
Civil Aviation Authority	750	1,000	100	350	350
State Pharmaceutical Corporation	100	487	400	890	699
National Transport Medical Institute	850	280	150	325	350
Sri Lanka Bureau of Foreign Employment	–	5,000	–	825	825
National Transport Commission	250	300	250	300	300
Sri Lanka Tourism Development Authority	–	275	250	45	45
Sri Lanka Land Reclamation and Development Authority	–	100	–	50	50
Sri Lanka Ports Authority	607	2,000	3,607	6,967	6,967
National Medicine Regulatory Authority	880	751	300	475	475
Road Development Authority	1,749	2,128	–	–	–
Land Reforms Commission	15	100	–	1	1
Condominium Management Authority	–	10	15	10	10
National Institute of Business Management	85	30	50	105	110
Sri Lanka Ayurvedic Drugs Corporation	5	76	–	65	65
Post Graduate Institute of Management	4	30	28	28	30
Other SOEs	11,381	474	391	890	932
Dividends	**7,890**	**9,211**	**3,913**	**16,585**	**16,970**
Sri Lanka Insurance Corporation Ltd	1,271	1,987	4	2,000	2,200
Airport and Aviation Services (Sri Lanka) (Pvt) Ltd	1,286	2,931	–	6,622	6,622
Lanka Mineral Sands Ltd	158	–	–	200	200
Lanka Phosphate Ltd	75	125	–	100	100
Lanka Leyland Ltd	–	14	–	9	9
Rakna Arakshaka Lanka Ltd	75	–	111	100	100
Manthai Salt Ltd. (National Salt Ltd)	–	30	40	75	75
Ceylon Fertilizer Ltd	15	–	–	–	–
Colombo Commercial Fertilizer Ltd	30	–	–	–	–
Paranthan Chemicals Company Ltd	131	33	–	90	126
STC General Trading Company	50	116	–	90	101
Sri Lanka Telecom PLC	–	227	680	230	230
De La Rue Lanka (Pvt) Ltd	1,324	494	–	510	510
Lanka Electricity Company Ltd	436	436	–	440	440
Lanka Industrial Estates Ltd	98	101	–	–	–
Ceylon Agro Industries	202	226	131	–	–
Plantation Companies	559	214	264	421	433
State Fertilizer Limited	–	65	181	60	124
Lanka Thriposha Ltd	100	123	–	100	100
Other SOEs	2,080	2,090	2,503	5,538	5,600
Total	**41,080**	**56,543**	**19,916**	**66,871**	**67,475**

Sources: SOEs and Department of Public Enterprises

05 Basis Used for the Preparation of 2027 Budget

5.1 Overview

The macroeconomic and fiscal estimates in Budget 2027 are based on assumptions, analyses and judgements made at the time the Budget was prepared. This section sets out the key macroeconomic indicators considered in preparing the revenue and expenditure estimates, including Gross Domestic Product (GDP), inflation, unemployment and the external sector. It also covers global, financial sector and labour market developments, and highlights the sensitivities in the estimates.

5.2 Gross Domestic Product

Sri Lanka's economy grew by 5.0 percent in 2025, the second consecutive year of such growth, with per capita GDP surpassing USD 5,000. Despite the twin shocks of Cyclone Ditwah in late 2025 and the Middle East conflict from February 2026, the economy grew by 5.1 percent in the first quarter and 4.2 percent in the second quarter of 2026, averaging about 4.7 percent in the first half of the year. Growth moderated in the second quarter, mainly due to disruptions in fuel supply and a 2.3 percent contraction in Agriculture, while Industry expanded by 7.3 percent, led by construction. Under the baseline scenario, the economy is expected to grow by 4.0 percent in 2027, compared to an estimated 3.8 percent in 2026, supported by post-cyclone reconstruction, the recovery of domestic demand and the normalisation of energy supply.

Government policy for the Agriculture sector is to restore and enhance productivity, competitiveness and resilience following the damage caused by Cyclone Ditwah and the prolonged dry weather, while developing an export-driven, value-added sector. Key measures include rehabilitating irrigation infrastructure, supplying quality seeds, promoting the efficient use of water resources, and ensuring the timely availability of fertiliser at affordable prices amid elevated global prices. The Industry sector is projected to expand, particularly construction, supported by the reconstruction of damaged public infrastructure and public investment of 5.1 percent of GDP. Manufacturing is expected to benefit from export diversification and value addition.

The Services sector, which accounts for the largest share of GDP, is expected to expand steadily, supported by growth in finance, transport, IT, trade and real estate. Growth is expected to strengthen further as the digital economy, a key pillar of the country's development strategy, develops more rapidly. Meanwhile, the Government remains focused on sustaining tourism earnings amid regional uncertainty by improving infrastructure, diversifying source markets and strengthening measures to ensure the safety and satisfaction of tourists.

5.3 Consumer Prices

Headline inflation rose above the 5 percent target from mid-2026, reaching 8.3 percent in October 2026, compared to 2.2 percent at end-March 2026. The increase was driven by higher global oil prices following the Middle East conflict, successive revisions to domestic fuel prices and electricity tariffs, and supply disruptions in agriculture. By October 2026, food inflation stood at 8.8 percent, non-food inflation at 8.0 percent, and core inflation at 5.6 percent. In response, the Central Bank raised the Overnight Policy Rate (OPR) by 100 basis points to 8.75 percent in May 2026.

Inflation is expected to remain above the target in the near term before easing gradually towards the 5 percent target in the second half of 2027, supported by the tight monetary policy stance, prudent fiscal policy and the dissipation of the effects of the Middle East conflict. The GDP deflator is projected to remain at 4.0 percent in 2027. This outlook assumes a gradual normalisation of global energy and commodity prices, favourable agricultural production following recovery from the cyclone and dry weather, and continued exchange rate stability.

5.4 Employment and Unemployment

The unemployment rate declined to 3.9 percent in 2025 from 4.4 percent in 2024. However, it rose slightly to 4.0 percent in the second quarter of 2026, compared to 3.8 percent in the same period of 2025. The labour force participation rate increased marginally to 32.7 percent in the second quarter of 2026, compared to 31.7 percent in the same period of 2025, but remained low, reflecting continued low female participation and outward labour migration.

With the recovery of economic activity, post-cyclone reconstruction and the envisaged expansion of the Industry and Services sectors, the unemployment rate is expected to remain low in 2027. The Government will introduce targeted policies to encourage labour force participation, particularly among women and youth.

5.5 External Sector

Sri Lanka's external sector came under pressure in 2026 due to the Middle East conflict, following a current account surplus of USD 1.7 billion in 2025, the third consecutive annual surplus. The current account recorded a deficit of USD 290.6 million in the first eight months of 2026, compared to a surplus of USD 2,047.0 million in the same period of 2025, mainly due to higher fuel import expenditure. Fuel imports increased by 61.6 percent to USD 4,072 million, widening the merchandise trade deficit to USD 7.2 billion from USD 4.3 billion in the first eight months of 2025.

Tourism earnings declined by 10.0 percent to USD 2,061.1 million in January to August 2026, compared to USD 2,290.0 million in the same period of 2025. Workers' remittances continued to grow robustly, rising by 19.8 percent to USD 6,131.0 million in the first eight months of 2026, while merchandise exports increased by 3.3 percent to USD 9,376.9 million. Gross official reserves stood at USD 6.9 billion at end-August 2026, while the rupee depreciated by 6.3 percent against the US dollar on a year-to-date basis by end-September 2026.

The external sector is expected to recover gradually in 2027 as global energy prices normalise and tourism earnings and workers' remittances continue to support net inflows. Exports of goods and services are expected to expand in line with the National Export Development Plan (2025–2029) and the National Tariff Policy, which aims to establish a simplified, transparent and predictable tariff framework. The exchange rate is expected to remain broadly stable in 2027, reflecting improved external balances, a continued build-up of reserves and strengthened market confidence.

5.6 Monetary Aggregates

The money supply is expected to be maintained at an appropriate level, consistent with the Central Bank's objective of bringing inflation back towards the 5 percent target. With revenue and grants projected at 15.8 percent of GDP and the budget deficit at 3.8 percent of GDP in 2027, the Government's gross financing needs are expected to decline. This will ease pressure on domestic interest rates and create a more favourable environment for private sector credit and investment.

5.7 Revenue

Total revenue is estimated at 15.8 percent of GDP in 2027, with tax revenue at 14.6 percent of GDP, reflecting the normalisation of revenue following the one-off gains from the resumption of motor vehicle imports. Revenue gains are expected to be driven mainly by revenue administration measures under the Medium-Term Revenue Strategy (2027–2031). The assumptions underlying the revenue estimates are detailed in Annex III.

5.8 Expenditure

The expenditure estimates in Budget 2027 are prepared within the primary expenditure ceiling of 12.9 percent of GDP, or Rs. 5,030 billion. However, this ceiling is expected to be exceeded due

to the reallocation from 2026 to 2027 of unutilised allocations for reconstruction and rehabilitation following Cyclone Ditwah, which will be incorporated into the Supplementary Estimate for Budget 2027. The estimates are based on the following:

- **Salaries and Wages:** Estimates are based on a public sector workforce of approximately 1.3 million employees. The number of public sector employees is assumed not to increase considerably through new recruitment in 2027. Annual salary increments have been factored in, along with the final phase of the salary revision proposed in Budget 2025.

- **Pension Payments:** Estimates are based on an estimated 762,570 pensioners and the pension adjustments proposed in Budget 2025 and Budget 2026.

- **Interest Payments:** Interest expenditure is expected to decline to 6.8 percent of GDP in 2027 from 7.3 percent in 2026, reflecting the completion of debt restructuring and the declining debt stock. Higher domestic interest rates following the monetary tightening in 2026 may partly offset this.

- **Goods and Services:** Expenditure on goods and services is estimated at Rs. 409 billion.

- **Subsidies to Households:** Spending on social safety nets is expected to be rationalised, reflecting requirement-based allocations under the Aswesuma programme and other targeted programmes supporting the elderly, persons with disabilities and chronic kidney patients, as well as continued support for households affected by Cyclone Ditwah and higher energy prices. Funding for other major welfare programmes is also expected to continue, including support for differently-abled soldiers, nutrition programmes for expectant mothers, the supply of free medicines and fertiliser subsidies to ensure food security.

- **Transfers to Public Institutions and Corporations:** Transfers are expected to remain contained, supported by cost-reflective pricing in the energy sector and the ongoing restructuring of major State-Owned Enterprises (SOEs).

- **Public Investment:** Public investment will be around 5.1 percent of GDP in 2027, prioritising the reconstruction of infrastructure damaged by Cyclone Ditwah in line with the Post-Disaster Needs Assessment 2026, and investment in priority sectors, while reducing non-priority and non-essential expenditure. Funding for any Ditwah reconstruction activities not completed in 2026 will be determined following an assessment at the end of 2026.

- **Public Financial Management Act, No. 44 of 2024:** The Act is now largely in operation, and Budget 2027 is prepared in line with the Fiscal Strategy Statement 2027 tabled in Parliament in June 2026. The fiscal responsibility framework under the Act will continue to enhance transparency, accountability, discipline and efficiency in public financial management, including expenditure management.

- **IT and Digital Solutions:** Efforts to transform the country into a digital society, including the expansion of the 'GovPay' platform for the digitalisation of government payments, will enhance public service delivery and operational efficiency.

- **Agency Coordination and Monitoring:** Enhanced cooperation among public agencies and stronger oversight will ensure the effectiveness of budgetary allocations and avoid duplication.

- **Commitment Control Mechanisms:** The commitment control system established under the Public Financial Management Act, No. 44 of 2024 will strengthen fiscal and cash flow management.

5.9 Borrowings

The Government's gross borrowing requirement is projected at Rs. 3,800 billion in 2027. The budget deficit is expected to expand by 0.1 percentage points to 3.8 percent of GDP in 2027, compared to the revised estimate of 3.7 percent in 2026. However, in view of the Supplementary Budget to be submitted alongside Budget 2027, which will incorporate expenditure for the continuation of Cyclone Ditwah-related reconstruction and rehabilitation, the budget deficit is expected to widen to 4.5 percent of GDP in 2027. Public debt is projected to decline in 2027, and the Government remains committed to keeping average annual gross financing needs below 13 percent of GDP and foreign currency debt service below 4.5 percent of GDP over 2027–2032.

The Public Debt Management Office (PDMO), established under the Public Debt Management Act, No. 33 of 2024, is now fully operational. It is responsible for managing Government debt, issuing and managing loan guarantees, managing on-lending operations, and recording and reporting public debt. Borrowing in 2027 will be guided by the Medium-Term Debt Management Strategy and the Annual Borrowing Plan, with a focus on lengthening the maturity profile and reducing reliance on foreign currency debt.

5.10 Sensitivities to the Estimates

Fiscal and economic projections could be influenced by several risks and challenges, including the following:

- **Macroeconomic uncertainty:** Economic conditions are a major determinant of fiscal outcomes and the primary source of uncertainty in forecasting the fiscal position. The duration and intensity of the Middle East conflict, volatility in global oil, food and fertiliser prices, and tightening global financial conditions may cause actual revenue and expenditure outcomes to deviate from the Budget 2027 projections. Variables such as inflation, interest rates and exchange rates directly affect the cost of borrowing and the overall fiscal position, and remain vulnerable to sudden shifts.

- **External shocks:** As a net oil importer, Sri Lanka remains highly exposed to disruptions in global energy supply, including those arising from the effective closure of the Strait of Hormuz. A prolonged conflict could further raise import costs, weaken tourism earnings and remittance inflows from the Middle East, and reduce demand in key export markets, placing pressure on the exchange rate, inflation and economic growth.

- **Natural disasters and unfavourable weather conditions:** Cyclone Ditwah demonstrated the scale of fiscal risk from natural disasters, requiring a Supplementary Budget of Rs. 500 billion in 2026. The country remains exposed to floods, landslides, cyclones and droughts, any of which may occur within the coming year. Such events may necessitate unforeseen expenditure on relief, recovery and reconstruction, and adversely affect agricultural output, labour productivity and growth.

- **Administrative and procurement delays:** Bureaucratic hurdles, shortages of raw materials such as bitumen, and procurement delays could slow the implementation of public investment projects, including post-cyclone reconstruction, reducing their contribution to growth and employment. Delays can also increase project costs and create inefficiencies in public spending, placing additional pressure on the fiscal balance.

- **Legislative delays:** Delays in the approval of key fiscal-related legislation may create uncertainty in the timing and implementation of budgetary measures. Postponed

tax reforms or spending approvals can lead to revenue shortfalls and expenditure overruns, increase borrowing requirements and weaken the Government's ability to meet its fiscal targets.

- **State-Owned Enterprises (SOEs) performance:** SOEs are subject to operational risks, foreign currency exposure and commodity price shocks that may affect their profitability and financial sustainability. Weak SOE performance, delays in restructuring, or any reversal of cost-reflective pricing in the energy sector could lead to the realisation of contingent liabilities and challenge fiscal consolidation objectives.
- **Financial sector risks:** Stress in the financial system, including through the sector's exposure to sovereign debt and Government guarantees to state-owned financial institutions, could give rise to fiscal costs and affect the Government's financing conditions.

ANNEX I

The Outstanding List of Treasury Guarantees & Letters of comfort Issued by the General Treasury as at 31.08.2026

S. No.	Name of the Bank or Institution	Name of Institution	Issued Value Rs. Mn as at 31.08.2026		Outstanding Value Rs. Mn as at 31.08.2026	
1	Asian Development Bank	Ceylon Electricity Board	185,328.42	218,129.91	148,094.53	180,896.02
		Lanka Electricity Company (Pvt) Ltd	16,400.75		16,400.75	
		Regional Development Bank	16,400.75		16,400.75	
2	Asian Infrastructure Investment Bank (AIIB)	Bank of Ceylon & People's Bank	29,521.34	29,521.34	9,837.17	9,837.17
3	Bank of Ceylon	Building Materials Corporation Ltd	500.00	470,685.48	500.00	260,465.42
		Ceylon Electricity Board	4,540.00		11.18	
		Ceylon Petroleum Corporation	220,000.00		105,851.72	
		General Sir John Kotelawala Defence University	85.00		2.31	
		Janatha Estates Development Board	200.00		19.27	
		Lanka Coal Company (Pvt) Ltd	49,500.00		33,807.21	
		National School of Business Management Limited	8,600.00		3,765.00	
		National Water Supply & Drainage Board	64,863.64		28,342.41	
		Road Development Authority	118,970.03		84,875.72	
		State Development and Construction Corporation	1,126.81		990.61	
		State Engineering Corporation	2,300.00		2,299.99	
4	China Development Bank	National Water Supply & Drainage Board	115,595.70	115,595.70	61,719.28	61,719.28
5	China National Chemical Engineering No.14 Construction Co. Ltd	Ceylon Petroleum Corporation	14,358.85	14,358.85	5,825.54	5,825.54
6	Commercial Bank	National Water Supply & Drainage Board	968.36	968.36	298.53	298.53
7	DFCC Bank	National Water Supply & Drainage Board	6,026.24	11,026.24	2,381.81	5,642.68
		Road Development Authority	5,000.00		3,260.87	
8	Exim Bank of India	National Water Supply & Drainage Board	85,966.14	85,966.14	50,921.03	50,921.03
9	Hatton National Bank	Airport & Aviation Services (Sri Lanka) (Private) Limited	4,000.00	20,421.49	4,000.00	9,535.16
		National Water Supply & Drainage Board	16,421.49		5,535.16	
10	Hongkong & Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) (Private) Limited	14,477.91	14,477.91	9,673.16	9,673.16
11	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	13,767.57	13,767.57	8,702.24	8,702.24
12	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	31,541.21	31,541.21	30,323.73	30,323.73
13	International Air Transport Association(IATA)	SriLankan Airlines Limited	3,804.97	3,804.97	3,804.97	3,804.97

S. No.	Name of the Bank or Institution	Name of Institution	Issued Value Rs. Mn as at 31.08.2026		Outstanding Value Rs. Mn as at 31.08.2026	
14	Japan International Cooperation Agency (JICA)	Airport & Aviation Services (Sri Lanka) (Private) Limited	152,751.92	152,751.92	55,421.41	55,421.41
15	National Development Bank PLC	National Water Supply & Drainage Board	21,380.43	21,380.43	12,050.36	12,050.36
16	National Savings Bank	Ceylon Electricity Board	5,000.00	147,098.87	2,500.00	114,097.47
		General Sir John Kotelawala Defence University	33,896.09		24,211.49	
		National Water Supply & Drainage Board	32,710.61		24,304.24	
		Road Development Authority	75,492.17		63,081.74	
17	People's Bank	Ceylon Electricity Board	6,500.00	113,533.63	4,335.34	75,624.83
		Ceylon Petroleum Corporation	2,533.92		1,266.14	
		Ceylon Shipping Corporation Ltd	23,587.70		15,534.79	
		National System Operator Private Limited	20,560.00		20,523.18	
		National Water Supply & Drainage Board	4,563.98		2,144.98	
		Road Development Authority	53,398.03		31,256.25	
		Sri Lanka State Plantation Corporation	100.00		51.28	
		State Printing Corporation	2,290.00		512.87	
18	Sampath Bank	Road Development Authority	14,500.00	14,500.00	8,568.18	8,568.18
19	UniCredit Bank Austria AG	National Water Supply & Drainage Board	19,239.89	19,239.89	15,513.58	15,513.58
20	Paddy Marketing Board	Co-operative Wholesale Establishment	880.00	880.00	729.60	729.60
21	Export Development Board	Bank of Ceylon and Peoples Bank	60.00	60.00	60.00	60.00
		Grand Total	**1,499,709.91**	**1,499,709.91**	**919,710.37**	**919,710.37**

Note: The exchange rates published by the Central Bank of Sri Lanka (CBSL) as at 31 August 2026 were used to convert the amounts denominated in different currencies into Sri Lankan rupees (LKR).

Macroeconomic Indicators

TABLE 1 | Key Sectoral Growth Rate (%): 2024–2026

	2024	2025	2026	
			Q_1[(a)]	Q_2[(a)]
GDP	5.0	5.0	5.1	4.2
Agriculture	1.2	1.4	1.1	-2.3
Industry	11.0	7.8	7.2	7.3
Services	2.4	3.3	3.4	2.7
Inflation – GDP Deflator (2015=100)(%)	3.8	3.7	5.7	6.9
Unemployment Rate (%)	4.5	3.9	3.7	4.0

Source : Department of Census and Statistics

(a) Provisional

TABLE 2 | Quarterly Growth Rates of Key Sub-Sectors of Agriculture : 2024–2026

Sector	2024	2025[(a)]	2026[(a)]	
			Q1	Q2
Tea (Mn kg)	262.7	262.8	59.6	72.1
Growth %	2.6	0.0	-3.6	-1.9
Rubber (Mn kg)	69.2	66.5	16.2	14.7
Growth %	7.4	-3.9	-13.6	-2.2
Coconuts (Mn nuts)	2,790.1	3,040.3	944.8	834.3
Growth %	-12.0	9.0	64.8	6.2
Fish ('000 Mt)	411.0	364.2	75.6	67.0
Growth %	1.1	11.3	-26.8	-17.3
	2024/25	**2025**	**2025/26**	
	Maha	**Yala**	**Maha**	
Paddy ('000 Mt)	2,745.3	2,308.4	3,133.9	

Source : Central Bank of Sri Lanka

(a) Provisional

TABLE 3 | Performance in Industrial Sector: 2024–2026

Rs. Million

Description	2024	2025[(a)]	2026[(a)]	
			Q1	Q_2
Food, Beverages and Tobacco Products	954,409	1,004,413	304,409	210,923
Growth Rate	6.1	5.2	5.8	3.7
Textile, Wearing Apparel and Leather Related Products	500,210	540,558	173,671	101,017
Growth Rate	11.0	8.0	-3.7	-1.4
Chemical Products and Basic Pharmaceutical Products	90,994	93,549	21,887	32,116
Growth Rate	9.7	2.8	22.8	1.7
Rubber and Plastic Products	60,972	62,587	10,663	18,555
Growth Rate	8.6	2.6	-16.8	-4.2
Non-metallic Mineral Products	86,813	100,890	33,154	28,744
Growth Rate	2.5	16.2	12.9	13.1
Total Industrial Sector	**3,333,008**	**3,597,326**	**1,049,104**	**863,881**
Overall Industrial Growth	**11.0**	**7.8**	**7.2**	**7.3**

Source : Department of Census and Statistics

(a) Provisional

TABLE 4 | Performance in Electricity Generation and Services Sector: 2025–2026

Category	2025				2026[a]			
	Q_1	Q_2	June	Jan-Jun	Q_1	Q_2	June	Jan-Jun
Electricity Generation								
Total Generation (GWh)(Excluding Self Generation)	4,221	4,466	1,504	8,688	4,511	4,793	1,589	9,304
Growth Rate	2.4	7.3	9.6	4.9	6.9	7.3	5.6	7.1
Hydro (excluding mini hydro)	1,271	1,704	626	2,975	1,213	1,081	388	2,294
Growth Rate	1.0	37.0	33.7	18.9	-4.6	-36.6	-38.0	-22.9
Fuel Oil	754	259	46	1,014	954	950	213	1,904
Growth Rate	6.3	-56.3	-13.3	-22.2	26.4	266.2	360.4	87.8
Coal	1,383	1,299	359	2,682	1,362	1,447	484	2,809
Growth Rate	-6.2	-11.7	-23.3	-8.9	-1.5	11.4	34.6	4.7
NCRE (Including mini hydro)[b]	813	1,203	473	2,016	982	1,315	504	2,297
Growth Rate	19.9	40.6	23.6	31.4	20.8	9.2	6.5	13.9
Hydro: Fuel Oil: Coal: NCRE Ratio	30:18:33:19	38:6:29:27	42:3:24:31	34:12:31:23	27:21:30:22	23:20:30:27	24:13:30:32	25:20:30:25
Reservoir Water Level % (End Period Average)	75.5	65.3	72.7	70.4	68.4	44.5	51.2	56.4
Port Services	**Q1**	**Q2**	**Aug**	**Jan-Aug**	**Q1**	**Q2**	**Aug**	**Jan-Aug**
Total Cargo Handled ('000 MT)	30,850	32,186	10,847	84,580	32,292	35,060	10,970	90,110
Growth Rate	1.1	10.9	-9.4	4.8	4.7	8.9	1.1	6.5
Total Container Handled ('000 TEUs)[c]	1,936	2,036	741	5,435	2,154	2,290	776	5,995
Growth Rate	-3.6	8.2	16.8	5.7	11.2	12.5	4.7	10.3
Telecommunications Services (No. of Subscribers)[d]								
	Q1	**Q2**			**Q1**	**Q2**		
Fixed Lines ('000)	3,543	3,473			2,732	2,708		
Growth Rate	62.5	61.1			-22.9	-22.0		
Cellular ('000)	28,784	29,027			29,679	29,419		
Growth Rate	2.9	0.1			3.1	1.4		
Total Fixed Lines and Cellular ('000)	32,328	32,500			32,411	32,127		
Growth Rate	7.2	4.3			0.3	-1.1		
Internet and email ('000)	24,170	23,686			23,755	23,882		

Source : Central Bank of Sri Lanka

[a] *Provisional*

[b] *NCRE: Non Conventional Renewable Energy*

[c] *Port of Colombo only*

[d] *As at the end of the period*

TABLE 5 | Export Performance in 2025–2026

USD Million

Item	2025 Jan-Aug	2026 Jan-Aug[a]
Agricultural Products	**2,030.2**	**2,015.4**
Tea	1,026.0	948.5
Rubber	20.8	18.9
Coconut Products	367.5	389.6
Other Agricultural Products	615.9	658.5
Industrial Products	**7,015.4**	**7,327.1**
Textile and Garments	3,595.3	3,355.6
Petroleum Products	654.7	944.9
Other Industrial Products	2,765.4	3,026.5
Mineral Export	**14.3**	**22.2**
Other Exports	**16.8**	**12.3**
Total Exports	**9,076.6**	**9,376.9**

Source : Central Bank of Sri Lanka

[a] *Provisional*

TABLE 6 | Import Performance in 2025–2026

USD Million

Item	2025 Jan-Aug	2026 Jan-Aug [a]
Consumer Goods	**3,294.7**	**4,004.5**
Cereals and Milling Industry Products	90.9	120.6
Sugar	245.8	206.6
Other Food Products	1,082.9	1,120.6
Other Consumer Goods	1,875.0	2,556.6
Intermediate Goods	**7,437.4**	**9,334.2**
Fuel	2,520.6	4,072.1
Wheat and Maize	205.1	239.5
Fertilizer	164.8	129.5
Textile & textile articles	1,793.5	1,713.2
Other Intermediate Goods	2,753.4	3,179.8
Investment Goods	**2,597.2**	**3,203.6**
Other Imports	**11.6**	**14.8**
Total	**13,340.9**	**16,557.1**

Source : Central Bank of Sri Lanka

[a] *Provisional*

TABLE 7 | Balance of Payments – 2026

USD Millon

Item	2026	
	Q1[(a)]	Q2[(a)]
Current Account Balance	**704**	**-986**
Trade Balance	**-2,310**	**-3,179**
Exports	3,461	3,442
Imports	5,771	6,621
Services (net)	**1,125**	**507**
Receipts	2,016	1,512
Payments	891	1,005
Primary Income (net)	**-376**	**-586**
Receipts	164	144
Payments	540	730
Secondary Income (net)	**2,264**	**2,272**
Secondary income: credit	2,295	2,311
Secondary income: debit	31	39
Capital Account (net)	**-2**	**0**
Capital account: credit	2	3
Capital account: debit	3	3
Current and Capital Account (net)	**702**	**-985**
Financial Account (net)	**646**	**-668**
Direct Investment: Assets	**28**	**25**
Direct Investment: Liabilities	**204**	**201**
Portfolio Investment: Assets	**-0.3**	26
Debt securities	-0.3	26
Portfolio Investment: Liabilities	**-74**	**-351**
Equity and investment fund shares	-96	-39
Debt securities	22	-312
Financial Derivatives	**–**	–
Other Investment: Assets	**435**	**111**
Currency and deposits	195	-63
Trade credits and advances	-64	-86
Other accounts receivable	304	259
Other Investment: Liabilities	**-98**	**436**
Currency and deposits	21	-62
Loans	-196	407
Trade credits and advances	77	91
Other accounts payable	–	–
Special Drawing Rights (SDRs)	–	–
Reserve Assets	**215**	**-542**
Net Errors and Omissions	**-56**	**318**
Overall Balance	**456**	**136**

Source : Central Bank of Sri Lanka

(a) Provisional

TABLE 8 | International Reserves

USD Million

Item	End 2025	May 2026	Jun 2026	Jul 2026	Aug 2026
Total External Reserves	12,306	12,997	12,602	13,247	13,459
Months of Imports	6.9	6.5	6.3	6.5	6.5
Gross Official Reserves	6,838	6,881	6,458	6,600	6,929
Months of Imports	3.8	3.5	3.2	3.2	3.4

Source : Central Bank of Sri Lanka

TABLE 9 : Outstanding Debt of the Government

USD Million

Items	End August 2026 (Provisional)*
Central Government Foreign Debt and Domestic Debt	**96,948**
Central Government Foreign Debt [(a) (b)]	37,744
Central Government Domestic Debt denominated in local currency [(c) (d)]	56,925
Dollar Denominated Domestic Debt	**2,279**
Sri Lanka Development Bonds (SLDBs) [(a) (d)]	–
Domestic Dollar Bonds (DDBs) [(e)]	51
Loans Foreign Currency Banking Units (FCBUs)	–
Domestic Term Loans denominated in foreign currency [(e)]	2,184
Domestic project loans denominated in foreign currency [(d) (e)]	44

Source : Public Debt Management Office

[(a)] Only the Central Government outstanding Foreign Debt are depicted.Included unpaid Principal accumulated from the date of debt standstill policy was adopted. Non-resident holdings of T-bill / T-bonds are not included. Outstanding amounts of ISBs have not been classified on the current resident/ non-resident basis of their holdings.

[(b)] Foreign Project, Term and Syndicated Loan debt outstanding is compiled based on Meridian reports downloaded on [16.10.2026] (Cutoff – end August 2026).

[(c)] Includes T- Bonds, T- Bills, Suhurupaya Loans and Gratuity Loans outstanding as of 31 August 2026, based on recorded debt data as of 6 October 2026. Outstanding amounts of T-Bills & T- Bonds have not been classified on the current resident/ non-resident basis of their holdings.

[(d)] Includes borrowings from Domestic Banks from 2011 to 2019 to finance for development projects implemented by Roads Development Authority, Ministry of Health and National Water Supply & Drainage Board

[(e)] Domestic Dollar Bonds (DDBs) are included under Dollar denominated Domestic Debt. CS-DRMS as of August 21, 2026 (Cut-off date: June 30, 2026).

** Exchange rate used 1 US $ = 328.0149 (Date = 31 August 2026)*

TABLE 10 | Movements in Selected Exchange Rates (Against the USD)

Currency	Appreciation(+)/ Depreciation(-)	
	End 2024 – End 2025	End 2025 – End Aug 2026
Sri Lanka Rupee	-5.6	-5.5
Indian Rupee	-4.7	-5.9
Bangladesh Taka	-2.2	-0.7
Pakistan Rupee	-0.6	0.9
Singapore Dollar	5.8	0.9
Thailand Baht	8.7	-5.2
Taiwan Dollar	4.3	-0.6
Indonesian Rupiah	-3.6	-5.7
Philippine Peso	-1.7	-5.7
Korean Won	2.1	4.9
Japanese Yen	0.0	-2.1

Source : Central Bank of Sri Lanka

TABLE 11 | Central Bank Holdings of Government Securities

Rs. Billion

End Period	Gross (Face Value)	Net of Repos (Book Value)
2015	105	79
2016	331	330
2017	10	26
2018	46	274
2019	75	125
2020	725	737
2021	1,417	1,960
2022	2,598	3,187
2023	2,744	1,956
2024	2,516	1,551
2025	2,509	1,601
End of Aug 2026	2,493	1,274

Source : Central Bank of Sri Lanka

TABLE 12 | Commercial Banks' Loans and Advances to the Private Sector : January-August 2026 [(a)(b)]

Rs. Million

	Amount	as at % of Total
1. Agriculture & Fishing	**7,844,224**	**9.0**
of which...		
Tea	1,620,819	1.9
Rubber	507,139	0.6
Coconut	503,155	0.6
Paddy	726,172	0.8
Vegetable, Fruit Cultivation and Minor Food Crops	581,951	0.7
Livestock and Dairy Farming	682,867	0.8
Fisheries	470,160	0.5
2. Industry	**32,144,568**	**37.0**
of which...		
Construction	15,153,933	17.4
of which...		
— Personal Housing including Purchasing/Construction/Repairs	7,470,981	8.6
— Staff Housing	675,557	0.8
Food and Beverages	2,120,268	2.4
Textiles and Apparel	3,326,977	3.8
Wood and Wood Products including Furniture	292,031	0.3
Paper and Paper Products	510,631	0.6
Chemical, Petroleum, Pharmaceutical, Healthcare and Rubber and Plastic Products	2,047,116	2.4
Non-metallic Mineral Products	137,734	0.2
Basic Metal Products	640,093	0.7
Fabricated Metal Products, Machinery and Transport Equipment	2,550,957	2.9
Other Manufactured Products	401,935	0.5

Rs. Million

	Amount	as at % of Total
3. Services	**26,549,331**	**30.5**
of which...		
Wholesale and Retail Trade	8,965,716	10.3
Tourism	2,465,485	2.8
Financial and Business Services	7,258,760	8.4
Transport	675,490	0.8
Communication and Information Technology	1,061,295	1.2
Printing and Publishing	172,792	0.2
Education	503,042	0.6
Health	508,177	0.6
Shipping, Aviation, Supply and Freight Forwarding	372,742	0.4
4. Personal Loans and Advances[(c)]	**20,388,932**	**23.5**
of which...		
Consumer Durables	974,226	1.1
Pawning	8,438,093	9.7
Credit Card[(d)]	1,623,323	1.9
Personal Education	58,809	0.1
Personal Healthcare	30,005	0.03
Other	8,510,634	9.8
Total[(e)]	**86,927,054**	**100.0**

Source: Central Bank of Sri Lanka

[(a)] Includes loans, overdrafts, bills discounted and purchased and excludes cash items in the process of collection

[(b)] Provisional

[(c)] Excludes personal housing loans, which have been included under 'Construction' classified under 'Industry' and includes Safety Net Scheme related loans.

[(d)] These balances may differ from the credit card outstanding balances reported in the Weekly and Monthly Economic Indicators of the Central Bank of Sri Lanka due to compilation and reporting differences.

[(e)] Total credit to the private sector as per the Monthly Survey differ from that in the Monetary Survey due to differences in the compilation methodologies.

Note:

The Economic Research Department (ERD) of the Central Bank of Sri Lanka (CBSL) commenced the Monthly Survey on Loans and Advances by Licensed Commercial Banks (LCBs) to the private sector, with a detailed breakdown of credit extended to the key sectors of the economy from April 2025. Accordingly, the existing Quarterly Survey on the Commercial Banks' Loans and Advances to the private sector (Quarterly Survey) was discontinued. The purpose of the new survey is to collect sector-wise credit data on a monthly basis, thereby enabling the monitoring and analysis of high-frequency movements in private sector credit. Accordingly, direct comparisons between the new Monthly Survey data and the earlier quarterly series are not appropriate, as variations in growth patterns across sub sectors during the transition period largely reflect reclassifications introduced at the bank level.

TABLE 13 | Interest Rate Movements in 2025–2026

Interest Rate	End Dec 2025	End May 2026	End June 2026	End July 2026	End Aug 2026
Policy Rates of the Central Bank					
Overnight Policy Rate [a]	7.75	8.75	8.75	8.75	8.75
Standing Deposit Facility Rate (SDFR)[a]	7.25	8.25	8.25	8.25	8.25
Standing Lending Facility Rate (SLFR)[a]	8.25	9.25	9.25	9.25	9.25
Weighted Average Call Money Rate (AWCMR)	8.04	9.10	9.23	9.01	8.85
Weighted Average OMO Auction Rate (Reverse Repo)-Overnight [b]	–	8.75	8.75	8.67	8.75
Treasury Bill Rates					
91-days	7.74	9.36	10.14	9.86	9.06
182-days	8.27	9.68	10.21	10.21	9.44
364 -days	8.45	9.83	10.17	10.20	9.89
Lending Rates					
Average Weighted Prime Lending Rate(AWPR) (weekly)	9.07	9.9	10.62	10.67	10.95
Average Weighted Prime Lending Rate (AWPR) (monthly)	8.87	9.75	10.34	10.50	10.88
Average Weighted Lending Rate(AWLR)	11.48	11.97	12.16	12.36	12.59
Deposit Rates					
Average Weighted Deposit Rate (AWDR)	6.78	6.95	7.20	7.39	7.52
Average Weighted Fixed Deposit Rate (AWFDR)	8.41	8.66	8.98	9.2	9.34

Source : Central Bank of Sri Lanka

[a] With effect from 27 November 2024, the OPR is defined as the policy interest rate of the Central Bank. SDFR and SLFR are linked to the OPR with a margin of ± 50 basis points

[b] Weighted average rate of the last overnight repo or reverse repo auction held during the month.

Assumptions for Revenue Estimates – 2027

The assumptions are made in line with Section 49 of the Public Financial Management Act, No. 44 of 2024 (PFMA).

The revenue estimates for 2027 are based on key factors including trend or long-run averages for growth rates, the actual revenue collected in 2025 and revenue progress in first eight months of 2026, revenue impact expected from the new measures, developments of the macro-economic variables, and the staff's best judgments on the performance of the revenue.

The broad assumptions are detailed as follows:

- The economy is expected to grow by 4 – 5 percent in 2027 supported by both domestic and external fronts. The growth is expected to expand in all three sectors of the economy ie. Industry, Services and Agriculture.
- The average inflation is expected to anchor the target of 5 percent by second quarter of 2027.
- Unemployment rate is expected to be below 5.0 percent in 2027.
- Exchange rate is expected to be relatively stable in 2027.
- Marginal decline in revenue from import taxes related to motor vehicles compared to 2026 due to the possible reduction of demand for the vehicles in 2027.
- Full implementation of the Public Financial Management (PFM) Act through the implementation of the PFM regulations to improve fiscal discipline for better macroeconomic management.
- Introduction of State-Owned Enterprises (SOE) Bill and Public Private Partnerships (PPPs) Bill and thereby ensure that PPPs are fully integrated into the public investment management process.
- Enhancing revenue mobilization by strengthening the revenue administration of the Inland Revenue Department (IRD), Sri Lanka Customs (SLC), and the Excise Department through digitalization, minimizing corruption risks, and improving the effectiveness of revenue administration strategies.
- Strengthening tax compliance at the IRD through mandatory e-filing for individuals, streamlining the tax refund process for export suppliers, enforcing the use of Point-of-Sale (POS) machines, and enhancing the efficiency of risk-based audits.
- Strengthening the effectiveness of the Gambling Regulatory Authority in regulating and monitoring the gambling industry, with a focus on enhancing revenue collection, transparency, accountability, and good governance.
- Establishment of the Medium-Term Revenue Strategy (2027–2031) in line with the identified medium-term revenue objectives, and implementation of targeted tax policy and revenue administration measures to mobilize the identified potential revenue gains.

TABLE 1 | Excise (Special Provisions) Duty Structure for Motor Vehicles (As at 31.10.2026)

Item / Engine Capacity	Rate
(i) Cars – Petrol	
Less than 1,000 cc	Rs.1,992,000/-per unit or Rs.2,450/-per cm ^{3}
1,001 cc -1,300 cc	Rs.3,850/-per cm ^{3}
1,301 cc -1,500 cc	Rs.4,450/-per cm ^{3}
1,501 cc -1,600 cc	Rs.5,150/-per cm ^{3}
1,601 cc -1,800 cc	Rs.6,400/-per cm ^{3}
1,801 cc -2,000 cc	Rs.7,700/-per cm ^{3}
2,001 cc -2,500 cc	Rs.8,450/-per cm ^{3}
2,501 cc -2,750 cc	Rs.9,650/-per cm ^{3}
2,751 cc -3,000 cc	Rs.10,850/-per cm ^{3}
3,001 cc -4,000 cc	Rs.12,050/-per cm ^{3}
Exceeding 4,000 cc	Rs.13,300/-per cm ^{3}
(ii) Cars – Diesel	
Less than 1,500 cc	Rs.5,550/-per cm ^{3}
1,501 cc -1,600 cc	Rs.6,950/-per cm ^{3}
1,601 cc -1,800 cc	Rs.8,300/-per cm ^{3}
1,801 cc -2,000 cc	Rs.9,650/-per cm ^{3}
2,001 cc -2,500 cc	Rs.9,650/-per cm ^{3}
2,501 cc -2,750 cc	Rs.10,850/-per cm ^{3}
2,751 cc -3,000 cc	Rs.12,050/-per cm ^{3}
3,001 cc -4,000 cc	Rs.13,300/-per cm ^{3}
Exceeding 4,000 cc	Rs.14,500/-per cm ^{3}
(iii) Cars – Hybrid / Petrol	
Less than 1,000 cc	Rs.1,810,900/-per unit
1,001 cc -1,300 cc	Rs.2,750/-per cm ^{3}
1,301 cc -1,500 cc	Rs.3,450/-per cm ^{3}
1,501 cc -1,600 cc	Rs.4,800/-per cm ^{3}
1,601 cc -1,800 cc	Rs.6,300/-per cm ^{3}
1,801 cc -2,000 cc	Rs.6,900/-per cm ^{3}
2,001 cc -2,500cc	Rs.7,250/-per cm ^{3}
2,501 cc -2,750 cc	Rs.8,450/-per cm ^{3}
2,751 cc -3,000 cc	Rs.9,650/-per cm ^{3}
3,001 cc -4,000 cc	Rs.10,850/-per cm ^{3}
Exceeding 4 000 cc	Rs.12,050/-per cm ^{3}
(iv) Cars – Hybrid / Diesel	
Less than 1,000 cc	Rs. 4,150/-per cm ^{3}
1,001 cc -1,300 cc	Rs. 4,150/-per cm ^{3}
1,301 cc -1,500 cc	Rs. 4,150/-per cm ^{3}
1,501 cc -1,600 cc	Rs.5,550/-per cm ^{3}
1,601 cc -1,800 cc	Rs.6,900/-per cm ^{3}
1,801 cc -2,000 cc	Rs.8,350/-per cm ^{3}
2,001 cc -2,500 cc	Rs.8,450/-per cm ^{3}
2,501 cc -2,750 cc	Rs.9,650/-per cm ^{3}
2,751 cc -3,000 cc	Rs.10,850/-per cm ^{3}
3,001 cc -4,000 cc	Rs.12,050/-per cm ^{3}
Exceeding 4,000 cc	Rs.13,300/-per cm ^{3}
(v) Electric Cars	
Car- Electric – Charged by External Electric Source	
Less than 50kW	Rs.18,100/-per kW
51kW -100kW	Rs.24,100/-per kW
101kW -200kW	Rs.36,200/-per kW
Exceeding 200kW	Rs.96,600/-per kW
Car- Electric – (ICE only for charging accumulator)	
Less than 50kW	Rs.30,770/-per kW
51kW -100kW	Rs.40,970/-per kW

Item / Engine Capacity	Rate
101kW -200kW	Rs.41,630/-per kW
Exceeding 200kW	Rs.111,090/-per kW
(vi) Vans	
13 -25 Persons/ Diesel	Rs. 5,432,650/-per unit
13 -25 Persons/ Petrol	Rs.2,100/-per cm ^{3}
Less than 13 Persons/ Diesel	200%
Less than 13 Persons/ Petrol	150%

Source : Department of Fiscal Policy

TABLE 2 | Excise (Special Provisions) Duty Structure for Cigarettes (As at 31.10.2026)

Category	Rs. per 1,000 Sticks
Cigarettes each not exceeding 60mm. in length	19,350
Cigarettes each exceeding 60mm. but not exceeding 67mm in length	50,150
Cigarettes each exceeding 67mm. but not exceeding 72mm in length	71,450
Cigarettes each exceeding 72mm. but not exceeding 84mm in length	81,000
Cigarettes each exceeding 84mm. in length	90,050

Source : Department of Fiscal Policy

TABLE 3 | Excise (Special Provisions) Duty Structure for Petroleum Products (As at 31.10.2026)

Item	Rs. Per litre
Petrol	72.00
Diesel – Auto	50.00
Diesel – Super	57.00

Source : Department of Fiscal Policy

TABLE 4 | Excise Duty Structure under Excise Ordinance (As at 31.10.2026)

Classifications	Duty Rate per liter/kg (Rs.)
Liquor (per absolute liter)	
Special Arrack	7,244
Molasses, Palmyrah, Coconut and Processed Arrack	7,752
Locally Manufactured Foreign Liquor	7,969
Malt Liquor of Five Per centum (5%) and below of absolute strength	5,735
Malt Liquor of more than Five Per centum (5%) of absolute strength	6,015
Wine	5,735
Sake	1,567
Milk Punch	3,982
Cider	4,347
Raw materials used for production of Ethanol	
Coconut Toddy (per bulk litre)	5
Molasses (per bulk kg)	10
Rice used for production of spirits by distillation (per bulk kg)	10
Maize used for production of spirits by distillation (per bulk kg)	10
Fruit used for production of spirits by distillation (per bulk kg)	10
Foreign liquor	
Imported Malt Liquor (Beer) (per bulk liter)	135
Imported Wine (per bulk liter)	230
Any other imported Foreign Liquor (which does not come under malt liquor or wine) (per bulk liter)	650
Non-potable Spirits (per bulk kg)	6

Source : Department of Fiscal Policy

TABLE 5 | Ports and Airports Development Levy (As at 31.10.2026)

Category	Rate
General Rate	10.0%
Concessionary Rates	7.5%, 5.0%, 2.5%

Source : Department of Fiscal Policy

TABLE 6 | Value Added Tax (VAT) (As at 31.10.2026)

Description	Item
Zero Rate	Export Goods/Services
Standard Rate (18%)	General Items
Exemptions	Goods and Services which are listed in the Part III of the first schedule of the VAT Act.

Source : Department of Fiscal Policy

TABLE 7 | Social Security Contribution Levy (SSCL) (As at 31.10.2026)

Description	Item
Rate (2.5%)	-
Exemptions	Articles and Services which are listed in Part IA and Part II of the SSCL Act

TABLE 8 | Customs Import Duty Tariff Structure (As at 31.10.2026)

Duty Rate	No of HS Codes
Free	3,724
15%	526
20%	2,659
Specific	852
Specific & Ad valorem (Mixed)	412

Source : Department of Trade and Investment Policy

TABLE 9 | Rent Income

Rs. Million

Item	2025 (Provisional)	2026 Revised	2027 Estimate
Rent on Government Buildings & Housing	2,213	2,399	2,645
Rent on Crown Forests	2,218	1,500	1,500
Rent from Land & Other	272	220	225
Lease Rental from Regional Plantation Companies	1,995	2,881	3,000
Others	1,146	1,500	1,630
Total Rent Income	**7,843**	**8,500**	**9,000**

Source : Department of Fiscal Policy

TABLE 10 | Fees and Charges

Rs. Million

	2025 Provisional	2026 Revised	2027 Estimate
Service Charges by Government Press	1,575	1,100	1,100
Fees of Passport, Visas and Dual Citizenship	44,882	42,000	45,000
Embarkation Levy	53,477	50,000	65,000
Fees under the Motor Traffic Act & other Receipts	20,301	24,000	25,000
Fees from other Various Sources	77,350	88,880	90,324
Total	**197,584**	**205,980**	**226,424**

Source : Department of Fiscal Policy

TABLE 11 | Special Commodity Levy Rates

Rs. per kg.

	Item	End Sept. 2025	End Sep. 2026
1	Sprats	100	100
2	Potatoes	80	80
3	Red Onions	50	50
4	B'onions	50	50
5	Garlic	50	50
6	Watana – Whole	5	5
	Watana – Split	10	10
7	Chickpeas – Whole	5	5
	Chickpeas – Split	10	10
8	Green gram	300	300
9	Lentils- Whole	25 Cents	25 Cents
	Lentils- Split	25 Cents	25 Cents
10	Chillies- Not Crushed or ground	100	100
	Chillies- Crushed or ground	125	125
11	Canned fish	200	200
12	Sugar	50	50
13	Black gram -Whole	300	300
	Black gram –Skinned	300	300
14	Cowpea	300	300
15	Kurakkan	300	300
	Millet/ Other	300	300
16	Maldive fish	302	302
17	Dried fish	100	100
18	Orange – fresh	600	600
19	Grapes – fresh	600	600
20	Apples	600	600
21	Coriander- Not Crushed or ground	26	26
	Coriander- Crushed or ground	52	52
22	Cumin	162	162
23	Fennel	162	162
24	Turmeric – Not Crushed or ground	102	102
	Turmeric – Crushed or ground	360	360
25	Mathe seeds	50	50
26	Kurakkan flour	150	150
27	Black gram flour	325	325
28	Ground nuts	220	220
29	Mustard seed	62	62
30	Palm oil / Other Veg. oil – Crude	250	250
	Palm olein	255	255
	Palm stearin	250	250
	Refine Palm oil	275	275
	Other Veg.oil Refine	275	275
	Palm Kernel – Crude	250	250
	Refine	275	275
	Coconut oil (Crude)	125	125
	Coconut oil (Refine)	150	150
31	Fish	10% or Rs. 400	10% or Rs. 400
32	Mackerel fish (Jac /Horse Mackerel)	6	6
33	Yogurt	2000	2000

Rs. per kg.

	Item	End Sept. 2025	End Sep. 2026
34	Butter	1500 (other 2000)	1500 (other 2000)
35	Margarine – Fat content 80%>	650	650
	Margarine – Fat content 80%<	650	650
36	Salt	40(Waiver-30)	40(Waiver-30)
37	Dates	200	200
38	Grapes – dried	600	600
39	Mangoesteen (fresh& dried)	200	200
40	Orange- dried	125	125
41	Pears	220	220
42	Cherries – Other	315	315
43	Plums and sloes	250	250
44	Kiwifruit	175	175
45	Pomegranate (Other)	600	600
46	Grated /powdered Cheese	600	600
47	Clementines – fresh	120	120
48	Clementines – dried	250	250
49	Other (citrus) fruits – fresh	120	Normal Duty Structure applied on 26.11.2025
50	Other(citrus) fruits – dried	250	250
51	Grapefruit –fresh	285	285
52	Grapefruit – dried	300	300
53	Lemon- fresh	350	350
54	Lemon- dried	400	400
55	Other citrus fruits – fresh	300	300
56	Other citrus fruits – dried	375	375
57	Quinces	350	350
58	Apricots	350	350
59	Cherries – Sour	330	330
60	Peaches and Nectarines	310	310
61	Vegetable fats and oils	160	160
62	Margarine – liquid	200	200
63	Rice	65	65
64	Maize	25	50

Source : Department of Trade and Investment Policy