2026

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 7, 2025

BUDGET, ECONOMIC AND FISCAL POSITION REPORT – 2026

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

November 07, 2025

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

Printed at the Government Press, No. 118, Dr Danister De Silva Mawatha, Colombo 08, and published by the Ministry of Finance, Planning and Economic Development, The Secretariat, Colombo 01, Sri Lanka.

CONTENTS

Page

Key Economic Indicators vii

Reporting Requirements under the Public Financial Management Act, No. 44 of 2024 viii

Compliance – 2025 x

PART I

01. Medium-Term Fiscal Strategy Statement

1.1 Overview 5

1.2 Macro Fiscal Performance 9

1.3 Fiscal Stratergy in the Medium Term 12

PART II

02. Fiscal Developments, Treasury Operations and Foreign Financing

2.1 Overview 23

2.2 Government Revenue 26

2.3 Government Expenditure 39

2.4 Performance of the Cash Flow of the General Treasury 42

2.5 Management of Government Debt 43

2.6 Foreign Financing 43

03. Economic Perspectives

3.1 Overview 49

3.2 Economic Growth 50

3.3 Monetary Sector Developments 59

3.4 Stock Market 62

3.5 External Sector Developments 62

3.6 World Economic outlook 66

04. Performance of State-Owned Enterprises

4.1 Overview 71

4.2 Review of the 10 Major SOBEs 71

05. Basis Used for Preparation of 2026 Budget

5.1 Overview 79

5.2 Gross Domestic Product 79

5.3 Consumer Prices 79

5.4 Employment and Unemployment 79

5.5 External Sector 80

5.6 Monetary Appregates 80

5.7 Revenue 80

5.8 Expenditure 80

5.9 Borrowings 81

5.10 Sensitivities to the Estimates 81

Page

TABLES

PART I

TABLE 1.1	Medium-Term Fiscal Framework: 2025 – 2030	15

PART II

TABLE 2.1	Summary of Fiscal Operations	23
TABLE 2.2	Estimated and Actual Revenue and Expenditure – 2025	25
TABLE 2.3	Summary of Performance of Government Revenue	28
TABLE 2.4	Performance of Income Tax	29
TABLE 2.5	Performance of VAT	30
TABLE 2.6	Performance of Excise Duty	30
TABLE 2.7	Motor Vehicle Imports and New Registration of Vehicles	32
TABLE 2.8	Coverage of Products and Value of Imports/Exports under Free Trade Agreements	32
TABLE 2.9	CESS Revenue from International Trade	32
TABLE 2.10	Variance Analysis of Government Revenue	33
TABLE 2.11	Performance of Government Expenditure	39
TABLE 2.12	Behaviour of Yield Rates on Government Securities and Exchange Rate – (2024 to 2025)	40
TABLE 2.13	Welfare Expenditure	41
TABLE 2.14	Government Treasury Cash Flow Operations	42
TABLE 2.15	Gross Domestic Borrowings January to August 2025	43
TABLE 2.16	Disbursements of Foreign Loans and Grants (January 2025 – August 2025)	44
TABLE 3.1	Sectoral Composition of GDP at Constant (2015) Prices	51
TABLE 3.2	Selected Indicators of Services Sector	57
TABLE 3.3	Performance of Tourism Sector	58
TABLE 3.4	Sectoral Distribution of GDP Growth (%)	59
TABLE 3.5	Consumer Price Inflation (Base : 2021=100)	61
TABLE 3.6	Movements in Capital Market	62
TABLE 3.7	External Trade	65
TABLE 3.8	Key Indicators of World Economy – 2025 (Projections)	67
TABLE 4.1	Composition of Electricity Generation and Capacity	73
TABLE 4.2	Profitability of 52 State Owned Enterprises	75
TABLE 4.3	Levy/Dividend Income from State Owned Enterprises	77

FIGURES

PART I

FIGURE 1.1	Interest Payment as a % of Total Revenue	6
FIGURE 1.2	Key Fiscal Aggregates 2022–2024	12

		Page
PART II		
FIGURE 2.1	Composition of Total Revenue (%) – (January to August 2025)	27
FIGURE 2.2	Tax Revenue by Sources – (January to August 2025)	28
FIGURE 2.3	Performance of Excise Duty – (January to August 2025)	30
FIGURE 2.4	Disbursements – 1st January to 31st August 2025, as per the Development Partners/ Lending Agencies (USD Mn.)	44
FIGURE 2.5	Disbursements from 1ST January to 31st August 2025, as further the Major Economic Sector (USD Mn.)	45
FIGURE 3.1	GDP Growth	49
FIGURE 3.2	Composition of GDP – First Half of 2025	49
FIGURE 3.3	Composition of Agriculture Sector – First Half of 2025	53
FIGURE 3.4	Composition of Industry Sector – First Half of 2025	55
FIGURE 3.5	Composition of Manufacturing Sector – First Half of 2025	55
FIGURE 3.6	Composition of Services Sector – First Half of 2025	56
FIGURE 3.7	Labour Force Participation Rate and Unemployment Rate	59
FIGURE 3.8	Yield Rates, Monetary Aggregates Money Supply and Private Sector Credit Growth	60
FIGURE 3.9	Movements in Headline, Core and Food Inflation	61
FIGURE 3.10	Trade Balance and Exchange Rate Movements	63
FIGURE 3.11	Composition of Exports	64
FIGURE 3.12	Composition of Imports	65
BOXES		
BOX 1.1	Economic Impact of Shifting Age Structure and Increasing Dependency of Sri Lanka	8
BOX 2.1	Major Fiscal Measures: (January 2025 – September 2025)	36
ANNEXES		
ANNEX I	The Outstanding List of Treasury Guarantees & Letters of Comfort Issued by the General Treasury up to 31.08.2025	83
ANNEX II	Macroeconomic Indicators	85
ANNEX III	Assumptions for Revenue Estimates – 2025	93

Key Economic Indicators

Indicator	Period	Unit	Value 2024	Value 2025
REAL SECTOR				
Economic Growth	First Half	%	4.6	4.8
Agriculture	First Half	%	1.8	0.6
Industry	First Half	%	10.5	7.9
Services	First Half	%	2.3	3.3
Inflation (Year on Year) – CCPI (2021=100)	End Sep	%	-0.5	1.5
Inflation (Average) – CCPI (2021=100)	End Sep	%	2.4	-1.4
Unemployment Rate	1st Quarter	%	4.5	3.8
Labour Force Participation Rate	1st Quarter	%	47.1	49.7
FISCAL SECTOR				
Budget Deficit	Jan-Aug	Rs. Bn.	911	411
Total Revenue	Jan-Aug	Rs. Bn.	2,558	3,295
Tax Revenue	Jan-Aug	Rs. Bn.	2,349	3,068
Non Tax Revenue	Jan-Aug	Rs. Bn.	209	226
Total Expenditure	Jan-Aug	Rs. Bn.	3,477	3,712
Recurrent Expenditure	Jan-Aug	Rs. Bn.	3,042	3,381
Public Investment	Jan-Aug	Rs. Bn.	455	339
Government Debt	End Sep	Rs. Bn.	28,563	29,635
EXTERNAL SECTOR				
Exports	Jan-Aug	USD Mn.	8,506	9,077
Agriculture Exports	Jan-Aug	USD Mn.	1,804	2,030
Industrial Exports	Jan-Aug	USD Mn.	6,666	7,015
Textile and Garments	Jan-Aug	USD Mn.	3,365	3,595
Other	Jan-Aug	USD Mn.	3,301	3,420
Imports	Jan-Aug	USD Mn.	12,073	13,341
Consumer Goods	Jan-Aug	USD Mn.	2,176	3,295
Intermediate Goods	Jan-Aug	USD Mn.	7,750	7,437
o/w Petroleum Products	Jan-Aug	USD Mn.	2,897	2,521
Investment Goods	Jan-Aug	USD Mn.	2,140	2,597
Trade Balance	Jan-Aug	USD Mn.	-3,566	-4,264
Tourist Arrivals	Jan-Aug	No.	1,362,668	1,566,523
Earnings From Tourism	Jan-Aug	USD Mn.	2,167	2,290
Workers' Remittances	Jan-Aug	USD Mn.	4,288	5,116
Portfolio Investments (Net)	End Jun	USD Mn.	-26	557
Overall Balance of Payments (BOP)	Jan-Jun	USD Mn.	1,761	522
Gross Official Reserves	End Aug	USD Mn.	5,654	6,178
Exchange Rate (End Month)	End Sep	Rs. per USD	299.36	302.61
Exchange Rate (Monthly Average)	Jan-Sep	Rs. per USD	301.15	302.20
MONETARY SECTOR				
Standing Deposit Facility Rate (SDFR)	End Aug	%	8.25	7.25
Standing Lending Facility Rate (SLFR)	End Aug	%	9.25	8.25
Statutory Reserve Ratio (SRR)	End Sep	%	2.00	2.00
Commercial Bank Weekly Average Weighted Prime Lending Rate (AWPR)	End Aug	%	9.13	8.10
Weighted Average Yield Rate of Treasury Bills (91 Days)	End Aug	%	9.49	7.58
Weighted Average Yield Rate of Treasury Bills (364 Days)	End Aug	%	10.01	8.03
Growth in Money Supply (M_{2b})	Aug 2024/Aug 2025	%	9.3	10.7
Growth in Credit to the Private Sector	Aug 2024/Aug 2025	%	8.7	20.5

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 – 2025

- **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, 2025.

- **Fiscal Strategy Statement – 2026**

  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 30, 2025. The FSS was published on the official website of the Ministry of the Minister of Finance on June 30, 2025 with the announcement made by the Minister of Finance.

- **Mid-Year Fiscal Position Report – 2025**

  Status of the fiscal and economic position of the first six months of 2025 was released to the public on October 31, 2025 and was tabled in Parliament on November 07, 2025.

- **The Budget, Economic and Fiscal Position Report – 2026**

  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 07, 2025.

Budget, Economic and Fiscal Position Report – 2026

This Report contains two parts: Part I presents the Medium Term Fiscal Strategy Statement 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

Macroeconomic stability was restored in the first eight months of 2025, as evidenced by the macroeconomic indicators, supported by the implementation of decisive and far-sighted policy reforms by the Government. The economy expanded by 4.8 percent of GDP in the first half of 2025. Inflation turned positive in August and September 2025, after eleven months of deflation. The external sector remained resilient amidst US tariff policy uncertainties and geopolitical tensions. Gross official reserves reached USD 6.2 billion at the end of September 2025. The tax-to-GDP ratio is expected to reach 14.8 percent in 2025, with the highest primary surplus ever recorded in history, supported by domestic VAT collections, income taxes and, in particular, taxes on motor vehicles. The overperformance in the primary surplus target of 2.3 percent set by the International Monetary Fund (IMF) has helped reduce debt servicing costs while improving debt dynamics. The debt restructuring process has largely concluded towards achieving debt sustainability. The Government's comprehensive anti-corruption drive has enhanced transparency and accountability, assuring a more predictable policy environment that supports faster economic recovery and stability.

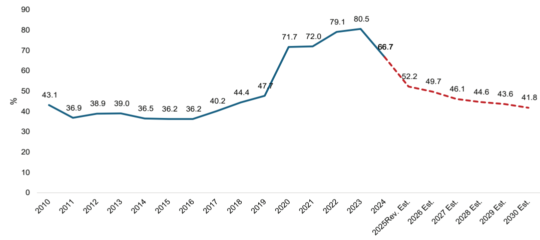
The Government has made remarkable strides in revitalizing Sri Lanka's economy, political, and governance structures within a year since assuming office in September 2024. Through steadfast commitment to swift reforms, it has not only met but often exceeded the expectations of citizens and international development partners. This unprecedented commitment of the Government has transformed Sri Lanka's economic landscape into a new political and economic model within a remarkably short period. As such, all stakeholders of the economy are now reaping the benefits of these reforms, which are expected to bear fruit much more in the medium to long term.

The Government remains fully committed to reducing corruption vulnerabilities, which have been identified as a major bottleneck for economic growth and prosperity. According to the extant literature, the reduction of corruption vulnerabilities has a positive effect on economic growth. Hence, the Government has embarked on a comprehensive series of reforms to ensure transparency and accountability in the areas of fiscal governance, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), the Anti-Corruption measures, and the rule of law. The Government has completed most of the key recommendations from the Governance Diagnostic Assessment (GDA) conducted by the IMF. The initiated governance reforms are expected to improve Sri Lanka's income distribution and debt dynamics. The reforms cover fiscal governance, a merit-based and independent process for appointing members to the Commission to Investigate Allegations of Bribery or Corruption (CIABOC), an effective and publicly accessible asset declaration system, and a transparent procurement process. The asset declaration system has been enhanced to make declarations publicly accessible, publish non-filers, expand disclosure requirements, and provide more transparent account and asset information. The Proceeds of Crime Act, No. 5 of 2025, empowers authorities to freeze, confiscate, and manage criminal assets. The National Anti-Corruption Action Plan (NACAP) 2025–2029 outlines preventive, educational, and legal reforms, while the independence of the CIABOC has been strengthened. With the highest political support for the durable success of governance reforms, the expected benefits are likely to be sustained over the medium to the long term.

Comprehensive fiscal and structural reforms have been implemented alongside targeted social support measures to cushion the burden on vulnerable populations due from the impact of the reforms. The Government increased the Aswesuma payments for low-income families and raised allowances for the elderly and kidney patients, along with the provision of stationery allowances for the school children of such families. This increased targeted assistance helped achieve social spending milestones under the Extended Fund Facility of the International Monetary Fund (IMF-EFF) for the first time, with the end-March 2025 target met and the end-December 2025 target on track. Such social spending is projected to reach Rs. 230 billion or 0.7 percent of GDP by end-2025. Ongoing recertification of beneficiaries, targeted for completion by May 2026, will further enhance transparency, eliminate duplication, and ensure that benefits reach those most in need. Meanwhile, Mahapola scholarships and bursaries were enhanced to support students, reflecting a strong focus on human capital development. Social protection remains central to the reform agenda, and the National Social Protection Strategy will provide a long-term, integrated framework for welfare delivery. In line with the Government's commitment to uplift the livelihoods of the vulnerable population, total welfare expenditure, including all household subsidies including pensions, Aswesuma, fertilizer, pharmaceuticals increased significantly by 16.2 percent to Rs. 731.7 billion in the first nine months of 2025 compared to Rs. 629.8 billion in the same period of 2024.

Fiscal consolidation efforts have yielded tangible results. Interest payments as a share of total revenue declined from 79.1 percent in 2022 to 66.7 percent in 2024, with projections to reach around 42 percent by 2030. This improvement reflects robust revenue-enhancing measures and disciplined expenditure management. The primary surplus has risen steadily, supporting a decline in the central government debt-to-GDP ratio from 114.2 percent in 2022 to 96.1 percent in 2024, with expectations to reach about 87.0 percent by 2030. These achievements are expected to strengthen external balances, improved the current account position, eased domestic credit pressures, and restored confidence in fiscal sustainability. Transparent debt restructuring process and macroeconomic stability measures have improved sovereign ratings, enhanced creditworthiness, and strengthened investor confidence.

FIGURE 1.1 : Interest Payment as a % of Total Revenue



Source : Department of Fiscal Policy

Ongoing revenue administration reforms, such as digitalization of the Inland Revenue Department, repeal of the SVAT scheme, establishment of a fully functional VAT refund mechanism for exporters, and enhanced risk-based audits of high-wealth individuals, are expected to improve tax compliance and fairness while avoiding tax evasions. Digitalization of revenue administration at Sri Lanka Customs and the Excise Department is expected to increase tax compliance. In addition, the Government has enacted the Gambling Regulatory Authority Act, No. 17 of 2025, establishing a framework to regulate gambling activities, strengthen revenue collection, and promote transparency, while supporting tourism, employment, and economic development through responsible and fair gambling practices.

Governance reforms have advanced significantly, particularly in State-Owned Enterprises (SOEs) restructuring and public asset management. The new SOE Law will strengthen oversight, enhance transparency, and improve accountability. Audited financial statements for 36 SOEs were published, and the remaining major SOEs have committed to publishing their audited statements annually by the end of June. The mandates of key SOEs will be clarified through Statements of Corporate Intent, and their Boards of Directors will be held accountable for delivering satisfactory results based on Key Performance Indicators (KPIs). Energy sector reforms include cost-recovery-based electricity pricing, unbundling of the Ceylon Electricity Board (CEB), strengthened regulatory oversight, and gradual settlement of legacy debts of CEB, CPC, and SriLankan Airlines. Measures were also taken to ensure that the Boards of Directors of

State-Owned Banks (SOBs) have between nine and thirteen members, with independent directors forming the majority.

The Public Procurement Law and the Public Asset Management Bill are expected to modernize procurement and asset allocation, reducing inefficiencies and corruption. The Companies (Amendment) Act, No. 12 of 2025 introduced a beneficial ownership framework in line with international standards, improving corporate transparency and compliance.

The Government aims to attract approximately USD 2 billion in Foreign Direct Investment (FDI) in the coming year, focusing on strategic partnerships with China, India, Japan, and the United Arab Emirates (UAE). Investment incentives are expected to be granted through transparent and rule-based mechanisms under the amended Strategic Development Projects Act (SDP) and Colombo Port City Economic Commission Act. Through trade policy reforms including para-tariff rationalization, customs modernization, and export diversification, combined with the National Export Strategy and ongoing free trade negotiations, Sri Lanka will deepen its integration into regional and global markets.

Significant progress has been made in advancing the digital economy, including initiatives such as GovPay, the National Cyber Security Operations Centre, digital vouchers for schoolbooks and fertilizer, and online access to citizen documents via embassies. The rollout of 5G technology will transform connectivity, spur innovation, and enable the creation of advanced digital services. The Government envisions a fully cashless, paperless, and inclusive digital economy, improving access to services and growth opportunities for all citizens.

The Government is fully committed to achieving the objectives of the Economic Transformation Act, No. 45 of 2024, supported by focused and growth-driven amendments to the Act. Meanwhile, the Public Private Partnership Law is expected to introduce to create a legal framework for private sector active involvement in infrastructure and public services. The PPP law will streamline the process for public-private projects, enhance transparency while attracting private capital for much needed priority areas of developments. The Government has already taken initiatives to promote inclusive growth, sustainable development, and economic resilience by targeting strong GDP growth, low unemployment, higher female labor force participation, export-oriented growth, sustainable fiscal balances, modernizing agriculture, expanding the digital economy, achieving net-zero emissions by 2050, and reducing poverty.

Through these reforms, the Government targets a sustainable growth rate of 6–8 percent over the medium term, driven by enhanced productivity, diversified exports, and a vibrant private sector. Labor market reforms aim to increase flexibility, encourage formal employment, and align education and vocational training with emerging industry needs, particularly in technology, manufacturing, logistics, and renewable energy. Investments in renewable energy, digital infrastructure, and innovation will expand the green economy while enhancing fiscal and environmental sustainability.

These comprehensive measures are laying the foundation for a resilient, inclusive, and forward-looking economy. By upholding fiscal discipline, strengthening institutions, and promoting broad-based growth, the Government is ensuring that every Sri Lankan benefits from the nation's renewed growth momentum.

BOX 1.1 : Economic Impact of Shifting Age Structure and Increasing Dependency of Sri Lanka

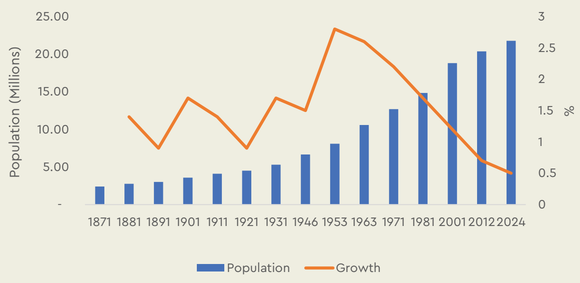
(i) Introduction

According to the "15th Census of Population and Housing 2024" conducted by the Department of Census and Statistics, the population of Sri Lanka increased to 21.8 million people in 2024 from from 20.4 million people in 2012, reflecting the lowest average annual growth rate of 0.5 percent. This slowdown from the previous rate of 0.7 percent highlights a significant demographic transition and indicates profound economic implications for the future.

(ii) Analysis

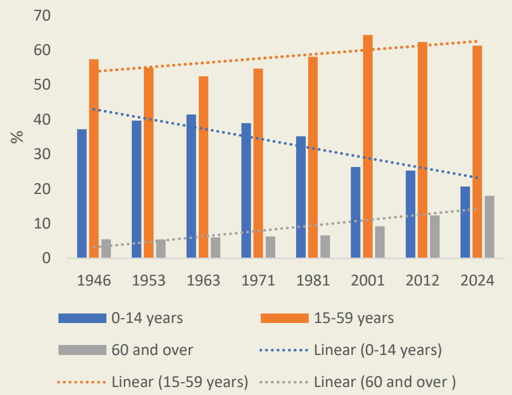
The analysis highlights the trends in demographic transition and the subsequent economic challenges and opportunities.

Figure 1 : Size of the Population and Population Growth (1871 – 2024)



Source : Department of Census and Statistics

Figure 2 : Change in Age Structure (1946 – 2024)



Source : Department of Census and Statistics

Long-Term Demographic Transition of Sri Lanka (1946–2024)

Age Group	Share in 1946 (%)	Share in 2024 (%)	Trend Analysis	Economic Implications
Children (0–14 years)	40–42%	≈20%	Steady, Sharp contraction	Narrowing future labour supply
Working Age (15–59 years)	≈52%	≈61%	Peaked, currently stabilizing	End of the Demographic Dividend and required to pay more attention to productivity enhancement
Elderly (60+ years)	≈5%	≈18%	Rapid, accelerating growth in post-2001	Increasing old-age dependency will increase the burden on fiscal space

(a) Significant contraction of the youth base (0–14 years)

Figure 2 demonstrates a sharp and persistent decline in the proportion of children aged 0–14 years. The continuous fall in fertility rates, delayed marriages along with societal advancements such as improved education are the root causes of this demographic trend. Fewer children entering the population today is an indication of fewer entrants to the labour force in the coming decades. This results reduction of momentum of labour supply growth, which in turn constrains expansion of the overall economy, if not addressed by productivity enhancement.

BOX 1.1 : Economic Impact of Shifting Age Structure and Increasing Dependency of Sri Lanka (Contd..)

(b) Stabilization of the working age population (15–59 years)

Recent data from 2012 to 2024 demonstrates a distinct and consequential stabilizing trend in working-age population of Sri Lanka. This group accounted for 62.4 percent of the population in 2012 and slightly decreased to 61.3 percent in 2024. This stabilization trend confirms that Sri Lanka is nearing the end of its demographic dividend, which the country experienced from the 1960s to the 2000s. With the closure of demographic dividends, high savings, capital accumulation, and labour-driven economic expansion will also diminish rapidly. Accordingly, immediate attention for structural modernization is required to minimize the risk of "Growing Old Before Becoming Rich."

(c) Acceleration of the Elderly Population (60+ years)

The share of the elderly population increased from a minimal 5 percent in 1946 to nearly 18 percent in 2024. Figure 2 illustrates a sharply upward trajectory of elderly population growth, with a noticeable acceleration after 2001. This trend has been primarily driven by increased life expectancy. The feminization of aging, where women over 70 years of age continue to have higher longevity than men, is increasing over time, and this trend increases the long-term cost burden on the government, causing fiscal strains. The overall aging trend will substantially influence the economic landscape by increasing old-age dependency, reducing the labour force participation rate, and inflating future pensions and health care expenditure.

Conclusion

The immediate challenge arising from this demographic shift is the rapid acceleration of the old age dependency ratio, which will place an unprecedented fiscal pressure on social security and healthcare systems, thereby threatening to erode national savings. Sri Lanka must urgently implement proactive and integrated reforms to achieve sustainable development and mitigate the structural slowdown posed by aging. Such reforms should include the deployment of underutilized female labour reserves, the recognition of care workers as essential economic infrastructure and the encouragement of strategic investments in emerging "age-driven marketplace focused entirely on the needs of seniors – silver economy".

1.2 Macro-fiscal performance

The economy expanded by 4.8 percent in the first half of 2025 compared to the 4.6 percent growth recorded in the same period of 2024. The growth was supported by positive performance across all major sectors: agriculture, industry, services, and taxes less subsidies. The agriculture sector marginally increased by 0.6 percent in the first half of 2025, compared to 1.8 percent growth in the same period of 2024. The industry sector expanded by 7.9 percent in the first half of 2025, compared to 10.5 percent in the same period of 2024. Meanwhile, the services sector recorded moderate growth of 3.3 percent in the first half of 2025, compared to 2.3 percent recorded in the same period of 2024. Taxes less subsidies on products increased by 10.6 percent in the first half of 2025, compared to 6.4 percent in the same period of 2024. Sri Lanka's Purchasing Managers' Index (PMI) for August 2025 reflected a notable expansion in the economy, with the Manufacturing PMI at 55.2, the Services

PMI at 68.9, and the Construction PMI at 61.1, highlighting strong growth across all three sectors.

Global economic growth is expected to moderate in the near term, mainly due to the slowing of higher tariffs adjustments during the year, despite the high volatility in the long term. As such, the October 2025 World Economic Outlook (WEO) has revised the global growth projections upward relative to the April 2025 WEO. Global growth is anticipated to slow to 3.2 percent in 2025 and 3.1 percent in 2026, with growth expectations of around 1.5 percent for advanced economies and above 4 percent for emerging market and developing economies. The global economy is heightened with uncertainty stemming from the US tariff and fiscal and financial vulnerabilities with higher debt accumulation and labour supply shocks hampering the anticipated growth. Global inflation is expected to decline, with some variation across economies. The October 2025 WEO highlights the importance of having a sustainable policy in all areas with rebuilding fiscal buffers to withstand unforeseen shocks while doubling the ongoing structural reforms to restore confidence and face shocks.

Sri Lanka continued its revenue-based fiscal consolidation process in 2025. Government revenue improved significantly in the first eight months of 2025, driven by higher revenue collections from Value Added Tax (VAT), income taxes, and taxes on motor vehicles. This impressive revenue collection was primarily driven by the impact of tax policy reforms together with the implementation of administrative reforms, and rise in economic activities and the enforcement of anti-corruption measures, including digitalization initiatives by the three key revenue-collecting agencies.

Efforts were made to enhance revenue mobilization by tracking and monitoring the performance of the IRD through the introduction of Key Performance Indicators (KPIs), such as risk-based audits, audit effectiveness, increased compliance measures for High Worth Individuals (HWI) unit, tax return filing compliance among large and non-large taxpayers, management of collectible debt, and VAT registration. The IRD, Sri Lanka Customs, and the Excise Department have introduced significant anti-corruption initiatives to strengthen institutional integrity and transparency. The IRD has introduced automation and digitalization, adopted a formal code of conduct, and enhanced its risk management capacity. Sri Lanka Customs has implemented targeted reforms, including the introduction of the Automated Risk Management System, establishment of internal oversight units, and development of digital platforms such as the CUSDEC Tracking System and Vehicle Verification Portal. Meanwhile, the Excise Department, in collaboration with the CIABOC, has undertaken coordinated measures such as appointing an integrity officer, launching awareness programmes, and establishing internal affairs, risk management, and financial investigation units.

The Simplified VAT (SVAT) system was repealed with effect from October 01, 2025, shifting to a standard VAT refund process for eligible exporters and their suppliers to improve VAT compliance. With the continuation of the compliance improvement programme in the first eight months of 2025, the number of VAT registrations increased by 44.5 percent to 31,134 by end-September 2025, from 21,542 at end-December 2024. Registrations of resident and non-resident companies also improved by 18.2 percent, reaching 118,678 by end-September 2025, compared to 100,409 at end-December 2024.

Government revenue, including grants, increased by 28.7 percent in the first eight months of 2025 to Rs. 3,301.5 billion from Rs. 2,565.9 billion in the same period of 2024. The tax revenue collection significantly improved to Rs. 3,068.5 billion, exceeding the QPC set under the IMF-EFF Programme for end-September 2025 by Rs. 318 billion. Revenue from income taxes increased by 12.4 percent to Rs. 702.4 billion in the first eight months of 2025, from Rs. 624.7 billion in the same period of 2024. This was a 60.2 percent realization of the annual revenue estimate. Revenue from taxes on goods and services increased by 36.4 percent to Rs. 1,939.1 billion in the first eight months of 2025, from Rs. 1,421.3 billion in the same period of 2024. This was mainly due to the increase in revenue collected from VAT by 28.7 percent to Rs. 1,084.2 billion and the increase in revenue collected from Excise Duty (Special Provisions) particularly on motor vehicles by 57.6 percent to Rs. 607.9 billion which surpassed the full-year excise duty revenue target of Rs. 598.5 billion. The receipts from taxes on external trade increased by 41.2 percent to Rs. 427.0 billion. VAT on domestic activities increased by 21.1 percent to Rs. 567.5 billion in the first eight months of 2025, from Rs. 468.8 billion in the same period of 2024 due to the resumption of domestic economic activities. VAT revenue from imports increased significantly by 38.3 percent to Rs. 516.8 billion in the first eight months of 2025, from Rs. 373.7 billion in the same period of 2024. This increase in VAT revenue on imports was primarily driven by the higher VAT revenue collection from imported vehicles, following the removal of import restrictions on all categories of vehicles with effect from February 1, 2025.

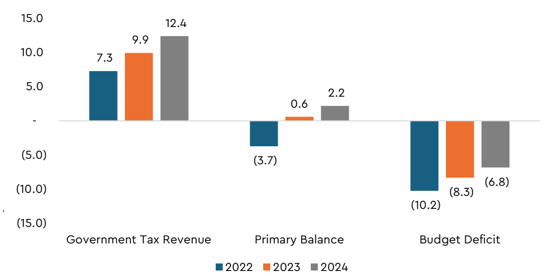
Revenue from excise duty on motor vehicles increased significantly by 234.0 billion to Rs. 270.5 billion in the first eight months of 2025, from Rs. 36.5 billion in the same period of 2024, following the lifting of import restrictions on motor vehicles. Revenue from import duties increased remarkably by 117.5 percent to Rs. 151.0 billion in the first eight months of 2025, from Rs. 69.4 billion in the same period of 2024. Revenue from the Ports and Airports Development Levy (PAL) and the Commodity Export Subsidy Scheme (CESS) increased by 1.7 percent to Rs. 115.9 billion and 8.8 percent to Rs. 56.5 billion, respectively. The increase in revenue from PAL was primarily due to higher import volumes. The increase in CESS revenue was driven by the removal of import restrictions on CESS-levied items and the increase in CESS rates on selected imported goods. Revenue from non-tax sources increased moderately by 8.1 percent to Rs. 226.2 billion in the first eight months of 2025, from Rs. 209.3 billion in the same period of 2024. This was a 61.1 percent realization of the annual revenue estimate.

Government expenditure increased marginally by 6.8 percent to Rs. 3,712.5 billion in the first eight months of 2025, from Rs. 3,476.9 billion in the same period of 2024. Government expenditure remained on track, achieving a 51.6 percent execution rate against the annual estimate of Rs. 7,190.0 billion for 2025. Recurrent expenditure, which accounted for approximately 91 percent of total expenditure, increased by 11.2 percent to Rs. 3,381.3 billion in the first eight months of 2025 from Rs. 3,041.6 billion in the same period of 2024. Interest payments increased moderately by 8.2 percent to Rs. 1,466.5 billion in the first eight months of 2025, from Rs. 1,559.7 billion in the same period of 2024. Interest payments on domestic borrowing in the first eight months of 2025, which constituted 87 percent of total interest expenditure, increased slightly by 0.5 percent to Rs. 1,687.6 billion, while interest payments on foreign borrowing increased significantly by 121.1 percent to Rs. 221.1 billion in the first eight months of 2025. The significant increase in interest payments on foreign borrowings was mainly driven by the resumption of actual interest payments on loans from the China Development Bank, the Government of Japan, the Export-Import Bank of India, and International Sovereign Bonds (ISBs) following debt restructuring. Expenditure on salaries and wages of public servants increased by 15.3 percent to Rs. 760.7 billion in the first eight months of 2025, due to the basic salary revision implemented in the public sector with effect from April 1, 2025. Expenditure on goods and services increased slightly by 6.1 percent to Rs. 210.6 billion in the first eight months of 2025, from Rs. 198.6 billion in the same period of 2024.

The Government recorded a primary surplus of Rs. 1,276.5 billion in the first eight months of 2025, surpassing the end-September 2025 Quantitative Performance Criterion (QPC) of Rs. 300 billion set under the IMF-EFF Programme, and expanded by Rs. 627.8 billion, from Rs. 648.8 billion in the same period of 2024. The Government intends to maintain the budget deficit around 5.1 percent of GDP in 2026, to ensure sustained macroeconomic stability. The budget deficit, in nominal terms, narrowed to Rs. 411.0 billion in the first eight months of 2025, from Rs. 911.0 billion in the same period of 2024, reflecting the success of revenue-based fiscal consolidation and expenditure rationalization. In the medium term, the primary balance and overall balance are expected to improve with the full implementation of revenue-based fiscal consolidation measures and the expected completion of the debt restructuring process. Due to restricted access to international financial markets, the Government primarily relied on domestic sources to finance the fiscal deficit. Net domestic financing amounted to Rs. 462.9 billion and net foreign financing amounted to minus Rs. 51.8 billion in the first eight months of 2025 due to the exceeding repayments over disbursments. Public investment will be strategically prioritized in the medium term in alignment with the Public Financial Management (PFM) Law, incorporating recommendations from the IMF's Public Investment Management Assessment (PIMA) to enhance efficiency and support sustainable growth.

Outstanding central government debt increased by 5.2 percent to Rs. 30,928 billion as at end September, 2025 compared to Rs. 29,402 billion recorded as at end September 2024. The total outstanding domestic debt increased by 9.5 percent to Rs. 19,660 billion, whereas the outstanding foreign debt fell by 1.6 percent to Rs. 11,268 billion by the end of September 2025 compare to end of September 2024.

FIGURE 1.1 : Key Fiscal Aggregates 2022-2024



The Sri Lankan rupee depreciated by 3.3 percent year-to-date against the US dollar as of end-September 2025. Inflation has turned positive recording 1.5 percent in September and 2.1 percent in October 2025, following nearly a year of deflation. The inflation was largely driven by a gradual recovery of demand due to accomodating monetary policy stance, and increase in food inflation. Headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI, 2021=100), increased to 2.1 percent in October 2025 from 1.5 percent in September 2025, following 11 months of deflation. Food inflation (Y-o-Y) accelerated to 2.9 percent in September 2025, while non-food inflation (Y-o-Y) remained steady at 0.7 percent. Given the country's positive economic outlook, inflation is projected to move towards its target.

In January 2025, the Central Bank of Sri Lanka (CBSL) decided to maintain the Overnight Policy Rate (OPR) at 8.00 percent, where it had remained since November 2024. In May 2025, the OPR was reduced by 25 bps to 7.75 percent, thus easing monetary policy further. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), which are linked to the OPR with pre-determined margins of ± 50bps, were reduced to 7.25 percent and 8.25 percent, respectively. The policy rate has since been maintained at this level, as the current monetary stance is deemed consistent with guiding inflation towards the 5 percent medium-term target while supporting the ongoing economic recovery.

Reflecting significant progress in debt restructuring and improvements in macro-fiscal performance, Sri Lanka's sovereign credit ratings were upgraded by the three major international credit rating agencies. Fitch Ratings, Moody's Investors Service, and S&P Global Ratings raised the country's ratings to CCC+, Caa1, and CCC+, respectively, signaling enhanced investor confidence and a positive outlook on the nation's fiscal and economic management.

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 (PFMA), which came into effect in August 2024.

Full implementation of the PFMA is expected to be completed by the end of December 2025 with the publication of PFM regulations. The Act provides a legal framework to achieve key objectives such as maintaining public debt at a sustainable level, building and preserving fiscal buffers to safeguard against future shocks, managing and mitigating fiscal risks, and ensuring discipline, transparency, and accountability in fiscal management. Further, it mandates a legally binding requirement of publication of an annual fiscal strategy statement and a rolling five-year medium-term fiscal framework.

The debt reduction objective of the Act is monitored through the primary balance target and the primary expenditure ceiling set at below 13 percent of GDP, which will be established under the medium-term fiscal framework in the Fiscal Strategy Statement. By managing non-interest expenditure, this framework ensures fiscal discipline and allows revenue-enhancing measures to strengthen the primary balance and support debt reduction.

Government revenue is projected to exceed 15.9 percent of GDP in 2025, while government expenditure is projected to remain around 20.5 percent of GDP. Hence, it is expected to achieve a primary balance of around 3.8 percent of GDP and to contain the budget deficit to 4.5 percent in 2025.

1.3.1 Fiscal Strategy

The Government's fiscal strategy is guided by the Medium-Term Fiscal Framework (2025–2030), as outlined in the Fiscal Strategy Statement 2026 and governed by the fiscal rules stipulated under the PFMA. The Government is committed to achieving a primary surplus of not less than 2.3 percent of GDP in 2026. To this end, the Government has implemented several revenue measures aimed at raising government revenue to 15.1 percent of GDP in 2025 as per the budget estimates. However, owing to the effective implementation of these measures and higher than expected revenue from motor vehicle imports, the Government has revised its 2025 revenue estimate upward from 15.1 percent of GDP to 15.9 percent of GDP. Despite these improvements, government revenue is projected to remain at 15.4 percent of GDP in 2026, while the primary surplus is expected to stay at least 2.3 percent of GDP. A number of measures are already underway to strengthen tax administration, focusing on increasing tax compliance, reducing corruption vulnerabilities, digitalization and modernization of tax administration, and effective management and governance, thereby augmenting the government revenue over the medium term.

While enhancing the government revenue, the Government is committed to maintaining prudent levels of government spending and primary expenditure below 13 percent of GDP in line with the PFMA. The Government has committed to ensuring that adequate funds are allocated to key priority sectors of the economy while strengthening the social safety nets programme. The fiscal strategy will be supported by overall economic stabilization measures including pro-growth measures, ensuring price and financial stability, and strengthening governance.

The Government remains committed to restoring debt sustainability in line with the debt sustainability targets under the IMF-EFF Programme. The Government has concluded all components of the Domestic Debt Optimization while the External Debt Restructuring (EDR) process is nearing completion. In 2025, Sri Lanka achieved significant progress in public debt management with the establishment of the Public Debt Management Office (PDMO) under the Public Debt Management Act, No. 33 of 2024. The PDMO published the Medium-Term Debt Management Strategy (MTDS) for 2025–2029, outlining the Government's Annual Borrowing Plan (ABP) and strategic direction over the medium term. The revised MTDS and ABP are submitted with the budget 2026. The medium-term debt management strategy emphasizes limiting new external borrowings to bilateral and multilateral sources, while strengthening domestic financing. Following the successful completion of debt restructuring with the Official Creditor Committee in June 2024, Sri Lanka finalized bilateral agreements with its major creditors in late 2024 and early 2025. As a result, disbursements for foreign-funded projects by some of the bilateral lenders have commenced. Throughout this period, multilateral funding continued uninterrupted, providing stable support for the country's financing requirements.

As per Section 11 (3) of the PFMA, the Fiscal Strategy Statement, including the Medium-Term Fiscal Framework, was published on June 30, 2025, to provide a strategic roadmap for the preparation of Budget 2026.

The fiscal path for 2025 – 2030 and the macroeconomic direction towards fiscal sustainability are indicated below:

Fiscal Path:

- Achieving a primary surplus of at least 2.3 percent of GDP in 2025 and in subsequent years through strong revenue-enhancing efforts and rationalizing government expenditure.

- Increasing revenue to GDP ratio above 15 percent of GDP in 2025 and beyond through tax policy reforms and strengthening of tax administration.

- Changing direct-to-indirect tax ratio from 25:75 to 40:60 over the medium term to long term in line with the standards of the emerging and medium income countries.

- Improving tax compliance of core taxes, especially through the Value Added Tax (VAT) compliance improvement programme and establishment of a fully functional VAT refund system to ensure the full repeal of the Simplified VAT (SVAT) system.

- Monitoring the Inland Revenue Department under Key Performance Indicators (KPIs) related to payment, filing, reporting and registration.

- Modernizing the Inland Revenue Department by introducing the RAMIS 3.0.

- Managing primary expenditure below the primary expenditure ceiling set under the Medium-Term Fiscal Framework, which needs to be below 13 percent of GDP as per the PFMA.

- Continuing to strengthen the Social Safety Net Programmes to provide relief to the most vulnerable segments of society.

- Maintaining public investment of over 4 percent in 2026 and beyond.

- Carefully prioritizing public investment and selection of projects and programmes to be funded under the budget, while ensuring that expenditure is adequately allocated for priority sectors such as health, education, infrastructure, and social protection.

- Use ITMIS to make central government payments; cheque payments and electronic funds transfers by 2026, and integrate the e-GP system with ITMIS, when the system is ready.

- Integrate revenue administration systems at IRD, Customs and proposed RASED at the Excise Department to the ITMIS.

- Containing budget deficit gradually to be less than 5 percent of GDP from 2026 and beyond and thereby reduce the gross financing needs of the Government.

- Eliminating the accumulation of arrears over 3 months as per the arrears clearance strategy.

- Reducing the issuance of government guarantees to maintain the aggregate stock of outstanding Government guarantees at the end of each financial year to not exceed 7.5 percent of the average GDP of the relevant financial year and preceding two financial years with a view to limiting fiscal risks emanating from government guarantees.

- Continuing the implementation of automatic fuel and electricity pricing mechanisms to ensure sound financial performance of Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC).

- Carrying out structural reforms of the State-Owned Enterprises (SOEs) to improve their financial viability and strengthen their governance.

- Maintaining an inflation target at 5 percent over the medium term, as announced by the Central Bank of Sri Lanka.

As outlined above, the fiscal path is primarily based on revenue raising strategies focusing on tax policy, revenue administration and prudent management of government expenditure. The fiscal outlook will be supported by SOE restructuring efforts, a strong institutional framework, digitalization and integration of digital systems and data, improved governance and growth and the stability of the economy.

1.3.2 Medium Term Fiscal Framework

The Medium-Term Fiscal Framework rests on the following:

- Increasing government revenue exceeding 15 percent of GDP in 2025 and increasing it over the medium term.

- Maintaining primary expenditure under 13 percent of GDP and maintaining public investments over 4 percent of GDP.

- Achieving a primary surplus of at least 2.3 percent in 2025 and maintaining the same level or above over time.

TABLE 1.1 : Medium-Term Fiscal Framework 2025–2030

As a percentage of GDP

Indicator	2024	2025	2025	2026	2027	2028	2029	2030
	Provisional	Budget	Revised	Projection				
Total Revenue & Grants	**13.7**	**15.1**	**15.9**	**15.4**	**15.5**	**15.5**	**15.5**	**15.5**
Total Revenue	**13.5**	**15.0**	**15.9**	**15.3**	**15.4**	**15.4**	**15.4**	**15.5**
Tax Revenue	**12.4**	**13.9**	**14.8**	**14.2**	**14.4**	**14.4**	**14.3**	**14.4**
Income Tax	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.7
Taxes on Goods & Services	7.4	8.4	9.2	8.9	8.9	8.9	8.7	8.7
Taxes on External Trade	1.6	2.0	2.0	1.9	1.9	1.9	2.0	2.0
Non-Tax Revenue	**1.1**	**1.1**	**1.1**	**1.0**	**1.0**	**1.1**	**1.1**	**1.1**
Grants	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Total Expenditure	**20.5**	**21.8**	**20.5**	**20.5**	**20.0**	**19.8**	**19.6**	**19.4**
Recurrent	**17.9**	**17.8**	**17.3**	**16.5**	**15.9**	**15.7**	**15.5**	**15.2**
Salaries & Wages	3.6	3.7	3.8	3.8	3.8	3.8	3.8	3.8
Goods & Services	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Interest	9.0	8.9	8.3	7.6	7.1	6.9	6.7	6.5
Subsidies & Transfers	4.1	3.9	4.0	3.9	3.8	3.8	3.7	3.7
Capital and net lending	**2.6**	**4.0**	**3.2**	**4.0**	**4.0**	**4.1**	**4.2**	**4.2**
o/w Public Investments	2.7	4.0	3.2	4.0	4.1	4.1	4.2	4.2
Current Account Balance	**(4.4)**	**(2.8)**	**(1.4)**	**(1.2)**	**(0.5)**	**(0.3)**	**(0.0)**	**0.3**
Primary Balance	**2.2**	**2.3**	**3.8**	**2.5**	**2.6**	**2.6**	**2.6**	**2.6**
Budget deficit	**(6.8)**	**(6.7)**	**(4.5)**	**(5.1)**	**(4.5)**	**(4.3)**	**(4.1)**	**(3.8)**

Sources : Department of Fiscal Policy, Department of National Budget, International Monetary Fund (IMF) Programe Parameters.

- Containing the budget deficit to less than 5 percent of GDP by 2026 and beyond.

- Reducing central government debt gradually to bring down the debt to a sustainable level from 96.8 percent of GDP in 2026 to 87 percent of GDP in 2030.

1.3.3 Justification of Deviations from the Fiscal Framework Target

Government Revenue:

The target was to increase government revenue to 15 percent of GDP in 2025 and continue its growth over the medium term. The table 1.1 shows that the revised revenue estimate for 2025 has increased to 15.9 percent of GDP, exceeding the initial budget target. This positive deviation is attributable to higher-than-expected performance in tax revenue, particularly from goods and services (9.2 percent of GDP) and motor vehicle imports, reflecting effective revenue measures and compliance improvements. The upward revision aligns with efforts to broaden the tax base and strengthen revenue administration.

Primary Surplus:

The framework aimed for a primary surplus of 2.3 percent of GDP in 2025. The revised table shows a primary surplus of 3.8 percent of GDP for 2025, exceeding the target. This positive deviation is largely due to higher revenue mobilization combined with low execution of capital expenditure, indicating stronger than expected fiscal performance.

Budget Deficit:

The goal was to contain the budget deficit below 5 percent of GDP by 2026. The revised deficit for 2025 stands at 4.5 percent of GDP, reflecting accelerated fiscal consolidation. Early attainment of this target demonstrates the effectiveness of revenue enhancing measures and prudent management of expenditure.

PART II

Budget, Economic and Fiscal Position Report – 2026

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.

Fiscal Developments, Treasury Operations and Foreign Financing

02

2.1 Overview

The government's fiscal operations noticeably improved in the first eight months of 2025, due to the impressive growth in government revenue, aided by the implementation of far-sighted policy reforms, coupled with the prudent management of government recurrent expenditure, rejuvenated by the anti-corruption drives of the government. However, execution of capital expenditure remained low due to the conduct of budgetary operations in the first four months under the Vote on Account. The primary surplus in the Budget has improved significantly to Rs. 1,276.5 billion in the first eight months of 2025, from Rs. 648.8 billion in the same period of 2024, surpassing the Quantitative Performance Criterion (QPC) for the primary balance September target of Rs. 300 billion set under the Extended Fund Facility of the International Monetary Fund (IMF-EFF) Programme. The increased primary surplus helped cushion the borrowing constraint of the government, keeping a large buffer for debt service payments. The primary surplus is expected to exceed the 2025 target of 2.3 percent of GDP, which will ensure a path towards long-term debt sustainability. While improving debt dynamics, the overall budget deficit reduced by 54.9 percent to Rs. 411.0 billion in the first eight months of 2025, from Rs. 911.0 billion in the same period of 2024.

The total government revenue, including grants increased by 28.7 percent to Rs. 3,301.5 billion in the first eight months of 2025, from Rs. 2,565.9 billion in the same period of 2024. This was a 66.2 percent achievement against the annual estimate of Rs. 4,990 billion. The tax revenue increased by 30.7 percent to Rs. 3,068.5 billion while non-tax revenue increased by 8.1 percent to Rs. 226.2 billion in the first eight months of 2025.

The surge in government revenue in the first eight months of 2025 was mainly driven by the increase in VAT revenue,

TABLE 2.1 : Summary of Fiscal Operations

Rs. Mn.

Item	Jan. – Aug.	
	2024	2025 [(a)]
Revenue and Grants	**2,565,921**	**3,301,459**
Revenue	2,557,792	3,294,740
Tax	2,348,529	3,068,495
Non Tax	209,263	226,244
Grants	8,129	6,720
Expenditure	**3,476,885**	**3,712,492**
Current	**3,041,565**	**3,381,309**
Salaries	659,502	760,687
Interest Payments	1,559,721	1,687,571
Other	822,342	933,051
Public Investments	454,744	338,846
Other	-19,424	-7,663
Revenue Deficit (-)/Surplus (+)	**-483,773**	**-86,569**
Primary Deficit (-)/Surplus (+)	**648,757**	**1,276,538**
Overall Budget Deficit (-)/Surplus (+)	**-910,965**	**-411,033**
Financing	**910,965**	**411,033**
Foreign Financing (Net)	168,551	-51,849
Domestic Financing (Net)	742,414	462,882

Source: Department of Fiscal Policy
[(a)] *Provisional*

income taxes, and taxes on motor vehicles, with a comprehensive tax policy and administrative measures geared towards broadening the tax base. Total tax revenue increased by 30.7 percent to Rs. 3,068.5 billion in the first eight months of 2025 from Rs. 2,348.5 billion in the same period of 2024. This has surpassed the end September tax revenue QPC of Rs. 2,750 billion by Rs. 318.5 billion set under the IMF-EFF programme. The improved revenue was supported by the expansion of economic activities of the country, together with policy and administrative adjustments conducted in the first eight months of 2025. Revenue from VAT increased by 28.7 percent to Rs. 1,084.2 billion in the first eight months of 2025, from Rs. 842.5 billion in the same period of 2024. VAT accounted for 35.3 percent of total tax revenue representing the largest share and this growth was largely driven by the resumption of domestic economic activities, the full impact of the VAT rate increases from 15 percent to 18 percent and the reduction of the VAT registration threshold from Rs. 80 million to Rs. 60 million per annum, and higher VAT revenue collection from imported motor vehicles following the removal of import restrictions. With a 22.9 percent share of total tax revenue, income tax was the second-largest contributor, followed by excise taxes, which accounted for 19.8 percent of total tax revenue. The revenue from income tax increased due to the expansion of economic activities, the salary hikes in the informal private sector followed by the increase in compliance stemming from the strengthening tax administration at the Inland revenue Department (IRD). Revenue from excise taxes increased due to higher revenue collections from motor vehicles, liquor, and other excisable articles.

In 2025, the IRD, Sri Lanka Customs, and the Department of Excise continued with implementation of major administrative reforms to enhance revenue mobilization, compliance, transparency, and to reduce corruption vulnerabilities. In addition, these three key revenue-collecting agencies have undertaken anti-corruption measures in line with the IMF reform agenda. Quarterly progress reports on the implementation of the measures undertaken to reduce corruption vulnerabilities have been published on the Ministry of Finance website since in August 2025. The IRD has implemented anti-corruption measures such as automation and digitalization, the development, and adoption of a formal code of conduct, and the enhancement of capacity of the existing risk management unit. Sri Lanka Customs implemented several targeted anti-corruption measures, including the development of the Automated Risk Management System (ARMS), establishment of an internal affairs unit, establishment of a digitalization cluster, and introduction of CUSDEC Tracking System and Vehicle Verification Portal. The Excise Department has undertaken a series of coordinated initiatives, in collaboration with the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) to prevent, detect, and respond to corruption risks within the institution. Key measures, included the appointment of an integrity officer, the implementation of awareness and prevention programmes, the establishment of an internal affairs unit, a risk management unit, and a financial investigation unit.

The Simplified VAT (SVAT) system has been repealed effective from October 01, 2025 shifting to a standard VAT refund process for eligible exporters and their suppliers to improve VAT compliance. Meanwhile, Key Performance Indicators (KPIs) have been introduced to track and monitor the IRD performance.

In the same vein, the VAT compliance improvement programme continued in 2025. As a result, the number of VAT registrations has increased by 44.5 percent to 31,134 by end September 2025, from 21,542 by end December 2024. The VAT compliance improvement plan together with the medium term IRD modernization strategy and implementation plan have been introduced to improve the compliance. Meanwhile, the High Worth Individuals (HWI) Unit is expected to conduct tax audits and increase the coverage of HWI.

During the first eight months of 2025, total government expenditure moderately increased by 6.8 percent to Rs. 3,712.5 billion, from Rs. 3,476.9 billion in the same period of 2024. Recurrent expenditure increased by 11.2 percent to Rs. 3,381.3 billion in the first eight months of 2025, from Rs. 3,041.6 billion in the same period of 2024. This was mainly due to the increased spending on interest payments by 8.2 percent to Rs. 1,687.6 billion, salaries and wages by 15.3 percent to Rs. 760.7 billion driven by the basic salary revision implemented in the public sector with effect from April 1, 2025, subsidies and transfers by 15.8 percent to Rs. 722.4 billion and subsidies to households by 16.5 percent to Rs. 647.2 billion and goods and services by 6.1 percent to Rs. 210.6 billion. Interest payments on domestic borrowing in the first eight months of 2025, which constituted 86.9 percent of total

TABLE 2.2 : Estimated and Actual Revenue and Expenditure – 2025

Rs. Bn.

Item	Annual Estimate	Jan.-Aug. Provisional	Achievement (%)
Total Revenue	**4,960.0**	**3,294.8**	**66.4**
Tax Revenue	**4,590.0**	**3,068.5**	**66.9**
Inland Revenue Department			
Tax on Income and Profit	1,167.0	702.4	**60.2**
VAT – Domestic (Net)	825.0	567.5	**68.8**
SSCL (Domestic)	190.0	145.8	**76.7**
Other	13.2	10.7	**80.8**
Sub Total	**2,195.2**	**1,426.3**	**65.0**
Customs Department			
VAT – Imports (Net)	790.0	516.8	65.4
SSCL (Import)	74.0	45.0	60.9
Ports & Airports Development Levy (PAL)	185.0	115.9	62.6
Cess Levy	100.0	56.5	56.5
Special Commodity Levy	126.0	103.6	82.3
Import Duty	240.0	151.0	62.9
Excise Special Provisions			
Cigarettes	130.0	61.9	47.6
Petroleum	230.0	120.8	52.5
Motor Vehicles & Other	239.0	278.6	116.6
Other	1.0	6.1	592.5
Sub Total	**2,115.0**	**1,456.3**	**68.9**
Excise Department			
Liquor/Tobacco	242.0	146.6	60.6
Sub Total	**242.0**	**146.6**	**60.6**
Other			
Telecommunication Levy	18.0	10.6	58.6
Licence Tax & Other	19.7	28.8	145.7
Sub Total	**37.7**	**39.3**	**104.2**
Non Tax Revenue	**370.0**	**226.2**	**61.1**
Total Expenditure	**7,190.0**	**3,712.5**	**51.6**
Current Expenditure	**5,886.0**	**3,381.3**	**57.4**
Salaries and Wages	1,230.0	760.7	61.8
Interest Payments	2,950.0	1,687.6	57.2
Pension Payments	442.0	282.9	64.0
Transfers to Public Corporations & Institutions	172.0	75.2	43.7
Other	1,092.0	575.0	52.7
Capital Expenditure and Net Lending	**1,304.0**	**331.2**	**25.4**

Sources: Department of Treasury Operations and Department of Fiscal Policy interest expenditure, increased slightly by 0.5 percent to Rs. 1,687.6 billion, while interest payments on foreign borrowing in the first eight months of 2024 increased significantly by 121.1 percent to Rs. 221.1 billion. The significant increase in interest payments on foreign borrowings was mainly driven by the resumption of actual interest payments on loans from the China Development Bank, the Government of Japan, the Export-Import Bank of India, and International Sovereign Bonds following the debt restructuring. Expenditure on salaries and wages of public servants increased by 15.3 percent to Rs. 760.7 billion in the first eight months of 2025.

Expenditure on public investments declined by 25.5 percent to Rs. 338.8 billion in the first eight months of 2025, from Rs. 454.7 billion in the same period of 2024, reflecting slower execution of the capital expenditure due to the conduct of budgetary operations on a Vote on Account during the first four months of 2025. The achievement of public investment against the annual estimate remained substantially low at 25.8 percent. To address this situation, several measures such the establishment of Public Investment Committee, the preparation of a rolling medium-term Public Investment Programme, strengthened project monitoring and evaluation and enhanced transparency and reporting have been introduced within the provisions of the Public Financial Management Act.

The overall budget deficit narrowed significantly by 54.9 percent to Rs. 411.0 billion in the first eight months of 2025, from Rs. 911.0 billion in the same period of 2024. This improvement was largely driven by strong revenue performance, with total revenue increasing by 28.8 percent to Rs. 3,294.7 billion, supported by strong tax collections across income tax, goods and services, and external trade. Meanwhile, continued efforts have been made to rationalize recurrent expenditure amidst the increase in recurrent expenditure due to salary increase in 2025, while capital expenditure and net lending remained subdued at Rs. 331.2 billion.

2.2 Government Revenue

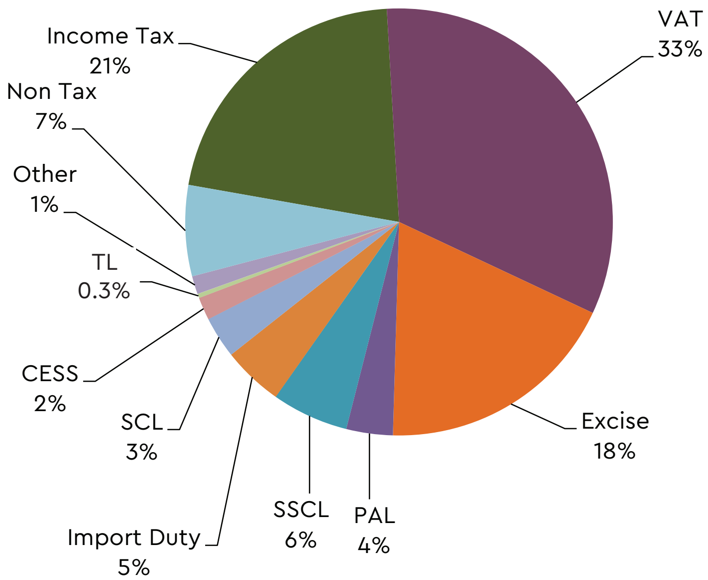
Total Government Revenue excluding grants significantly increased by 28.8 percent to Rs. 3,294.7 billion in the first eight months of 2025 compared to Rs. 2,557.8 billion in the same period of 2024, with the realization of 66.4 percent of the 2025 revenue estimate. This surge in revenue was mainly due to the increase in tax revenue by 30.7 percent to Rs. 3,068.5 billion in the first eight months of 2025 from Rs. 2,348.5 billion recorded in the same period of 2024. The collection of tax revenue contributed to 93.1 percent of the total revenue and was an achievement of 66.9 percent of the estimate for 2025.

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

1. Income taxes by 12.4 percent or Rs. 77.7 billion as a result of the tax policy changes implemented with effect from April 1, 2025 on the Personal Income Tax (PIT) and Corporate Income Tax (CIT), Advanced Personal Income Tax (APIT) and Withholding Tax (WHT), the impact of increased wages in both the public and informal private sectors, positive impact of the increased economic activities and positive impact of tax administration measures;

2. VAT by 28.7 percent or Rs. 241.8 billion driven by increase of VAT on imports by 38.3 percent to Rs. 516.8 billion due to relaxation of import of all types of motor vehicles with effect from February 2025 and the increase of VAT on domestic activities by 21.1 percent to Rs. 567.5 billion resulted from expansion of domestic activities, the full impact of the increase of the VAT rate to 18 percent from 15 percent and the reduction in the VAT registration threshold from Rs. 80 million per annum to Rs. 60 million per annum and administrative measures reflecting an increase of VAT registrations by 49.9 percent to 29,960 files excluding financial services in the first eight months of 2025, compared to the 19,987 files in the same period of 2024

FIGURE 2.1 : Composition of Total Revenue (%) – (January to August 2025)



Key :	VAT	–	Vaue added Tax
	PAL	–	Ports and Airports Development Levy
	SSCL	–	Social Secuity Contribution Levy
	SCL	–	Special Commodity Levy
	TL	–	Telecommunication Levy

Source : Department of Fiscal Policy

3. Excise duty on Motor vehicles by 640.5 percent or Rs. 234.0 billion driven by the increase in importation of motor vehicles with the release of import restrictions for all types of motor vehicles with effect from February 2025 together with increased Excise duty rates on motor vehicles by 5.9 percent with the application of inflation adjusted indexation with effect from January 11, 2025.

4. Excise duty on liquor by 9.1 percent or Rs. 12.1 billion, mainly driven by the increase of Excise duty rates by 5.9 percent with the application of inflation adjusted indexation with effect from January 11, 2025

5. Special Commodity Levy (SCL) by 54.2 percent or Rs. 36.4 billion due to the upward revision of duty rates of potatoes and B'onions and the increase in the volume of imports in the major commodities liable for SCL;

6. Social Security Contribution Levy (SSCL) by 18.8 percent or Rs. 30.2 billion driven by the increase in economic activities and improved tax administration measures reflecting the increase of SSCL file registrations by 34.4 to 14,898 files in the first eight months of 2025 compared to 11,083 files in the same period of 2024;

7. Customs Import Duty (CID) by 117.5 percent or Rs. 81.6 billion mainly due to the application of 20.0 percent of CID on motor vehicles together with an increase in the import of goods in the respective period; and

8. CESS by 8.8 percent or Rs. 4.6 billion driven by the increase in imports liable for CESS.

The increase in non-tax revenue by 8.1 percent or Rs. 17.0 billion in the first eight months of 2025 also had a positive impact on the revenue. This was mainly due to the increase in revenue from interest income, rent income, fines, fees and charges and social security contribution.

TABLE 2.3 : Summary of Performance of Government Revenue

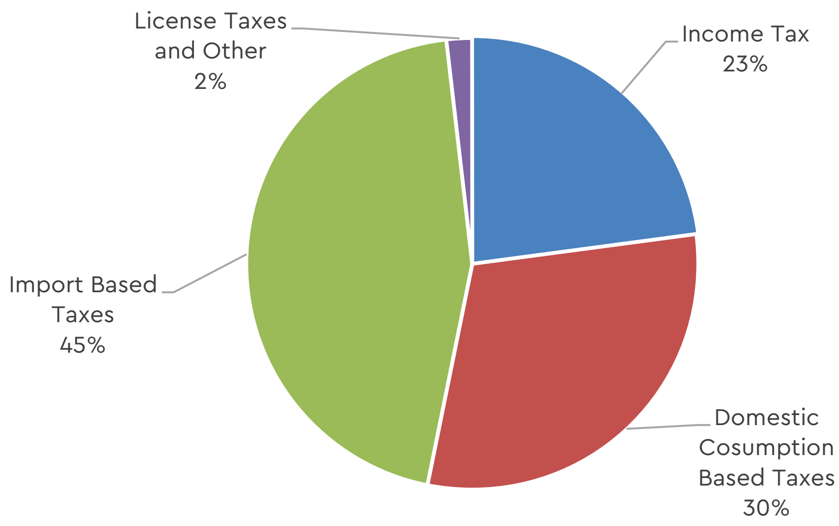
Rs. Mn.

Item	Jan. – Aug. 2024	Jan. – Aug. 2025 [a]	Change (%)
Tax Revenue	**2,348,529**	**3,068,495**	**30.7**
Income Tax	**624,670**	**702,351**	**12.4**
Domestic Consumption Based Tax	**801,586**	**929,865**	**16.0**
VAT	468,759	567,470	21.1
Excise Tax	209,910	216,614	3.2
SSCL	122,917	145,781	18.6
Import Based Tax	**889,813**	**1,380,169**	**55.1**
Import Duty	69,419	150,988	117.5
VAT	373,728	516,778	38.3
SSCL	37,737	45,032	19.3
Ports & Airports Development Levy (PAL)	113,926	115,886	1.7
Special Commodity Levy (SCL)	67,222	103,641	54.2
Excise Tax	175,830	391,313	122.6
Cess	51,951	56,529	8.8
Licence Taxes and Other	**32,460**	**56,110**	**72.9**
Non-Tax Revenue	**209,263**	**226,244**	**8.1**
Total Revenue	**2,557,792**	**3,294,740**	**28.8**

Source: Department of Fiscal Policy

[a] *Provisional*

FIGURE 2.2 : Tax Revenue by Source (%) – (January to August 2025)



Source : Department of Fiscal Policy

Income tax

Revenue from income taxes increased by 12.4 percent to Rs. 702.4 billion in the first eight months of 2025, compared to Rs. 624.7 billion recorded in the same period of 2024. This reflects a realization of 60.2 percent of the annual estimate, supported by enhanced compliance measures and the removal of certain exemptions.

Revenue from Advance Personal Income Tax (APIT) showed a growth of 7.4 percent to Rs. 143.9 billion in the first eight months of 2025 compared to Rs. 134.0 billion in the same period of 2024. The revenue collection from APIT in the first eight months of 2025 was equivalent to 92.3 percent of the annual estimate.

Personal income tax revenue incresed by 36.2 percent in the first eight months of 2025 compared to the same period of 2024, largely supported by increase in wage levels, including substantial salary revisions in the public sector implemented from January 2025, and the upward adjustment of minimum wages in the private sector from April 2025. The corporate tax revenue increased by 15.1 percent to Rs. 397.3 billion in the first eight months of 2025, from Rs. 345.3 billion in the same period of 2024. The upward adjustment of the CIT rate from 40 percent to 45 percent for the liquor, tobacco, betting, and gaming industries effective from April 01, 2025 together with the imposition of a 15 percent tax on the export of services, is expected to further strengthen collections in the forthcoming periods by broadening the tax base and capturing a sector with growing foreign exchange earnings.

The revenue from WHT/AIT increased by 3.9 percent to Rs. 117.9 billion in the first eight months of 2025 from Rs. 113.4 billion in the same period of 2024. This is an achievement of 51.3 percent of the annual estimate of Rs. 230.0 billion. The increase primarily reflects the raising of he WHT/AIT rate from 5.0 percent to 10 percent, effective from April 2025.

TABLE 2.4 : Performance of Income Tax

Rs. Mn.

Tax Base	Jan. – Aug.		Growth (%)
	2024	2025 [a]	
Corporate and Non Corporate	377,003	440,494	16.8
PAYE	133,974	143,949	7.4
Tax on Interest Income	113,446	117,890	3.9
Economic Service Charge	248	19	-92.3
Total	**624,670**	**702,351**	**12.4**

Source: Department of Fiscal Policy
[a] *Provisional*

Value Added Tax (VAT)

Revenue from VAT increased significantly by 28.7 percent to Rs. 1,084.2 billion in the first eight months of 2025 compared to Rs. 842.5 billion in the same period of 2024. VAT revenue from both domestic and import activities increased in the first eight months of 2025. VAT on domestic activities increased by 21.1 percent to Rs. 567.5 billion in the first eight months of 2025 from Rs. 468.8 billion in the same period of 2024 due to expansion of domestic economic activities. VAT revenue from imports increased significantly by 38.3 percent to Rs. 516.8 billion in the first eight months of 2025, from Rs. 373.7 billion in the same period of 2024. This was mainly attributable to the increase in VAT revenue from imported vehicles with the removal of import restrictions on all categories of vehicles with effect from February 01, 2025. Accordingly, the VAT revenue contributed 32.9 percent of the overall revenue performance of the first eight months of 2025. The realization of revenue from VAT was 67.1 percent in the first eight months of 2025 from the annual estimate of Rs. 1,615.0 billion.

Excise Duty (Special Provisions)

Revenue generated from Excise Duty increased by 57.6 percent to Rs. 607.9 billion in the first eight months of 2025, compared to Rs. 841.0 billion in the same period of 2024. This growth was mainly driven by higher revenue from motor vehicles, liquor, and other excisable articles, despite a decline in revenue from petroleum and cigarettes. Revenue from Excise Duty accounted for 19.8 percent of total tax revenue and 18.5 percent of total revenue collection during the first eight months of 2025, while achieving 72.3 percent of the annual estimate.

TABLE 2.5 : Performance of VAT

Rs. Mn.

Tax Base	Jan. – Aug.		Growth (%)
	2024	2025 [(a)]	
Domestic	468,759	567,470	21.1
Imports	373,728	516,778	38.3
Net Revenue	**842,488**	**1,084,248**	**28.7**

Source : Department of Fiscal Policy
[(a)] Provisional

Revenue from Excise Duty on motor vehicles increased sharply by 640.5 percent to Rs. 270.5 billion in the first eight months of 2025, compared to Rs. 36.5 billion in the same period of 2024, mainly due to the lifting of temporary restrictions on motor vehicle imports with effect from February 1, 2025.

Revenue from petroleum products declined significantly by 13.3 percent to Rs. 120.8 billion during the first eight months of 2025, compared to Rs. 139.3 billion in the same period of 2024. This decline was mainly driven by reductions in global fuel prices, lower diesel imports volumes, and the modest appreciation of the rupee.

Revenue from excise duty on liquor increased by 9.1 percent to Rs. 145.7 billion in the first eight months of 2025, compared to Rs. 133.6 billion in the same period of 2024, contributing 24.0 percent to the total Excise duty revenue. Excise duties on liquor increased by 5.9 percent with effect from January 01, 2025 as per the policy of inflation indexation of Excise taxes. The realization of revenue from tax on liquor in the first eight months of 2025 was 60.7 percent of the annual estimate for 2025. The overall production of alcohol increased by 11.5 percent to 23.9 million absolute litres in the first eight months of 2025 compared to 21.4 million absolute litres in the same period of 2024. Hard liquor production increased by 15.9 percent to 14.1 million absolute litres and beer production increased marginally by 4.1 percent to 9.6 million absolute litres during the first eight months of 2025 compared to the same period of 2024.

Meanwhile, revenue from Excise Duty on other excisable items, including sweetened beverages, refrigerators, palm oil, and fatty acids, increased sharply by 72.9 percent to Rs. 8.1 billion in the first eight months of 2025, compared to Rs. 4.7 billion in the same period of 2024. This growth was mainly attributable to the upward revision of Excise Duty rates by 5.9 percent, effective from January 11, 2025, under the annual inflation-adjusted indexation mechanism, as well as higher imports driven by elevated demand and strengthened economic activity during the first eight months of 2025. However, revenue from cigarettes declined by 12.3 percent to Rs. 62.8 billion during the first eight months of 2025, compared to Rs 71.6 billion in the same period of 2024.

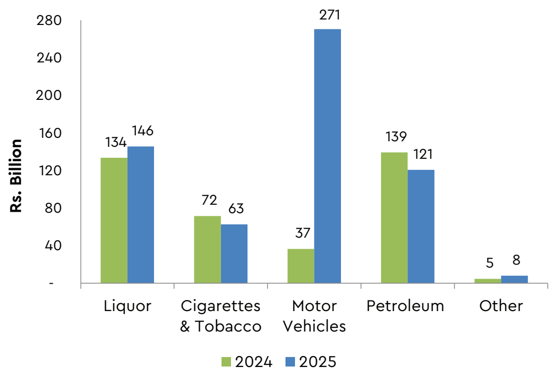
TABLE 2.6 : Performance of Excise Duty

Rs. Mn.

Tax Base	Jan. – Aug.		Growth (%)
	2024	2025 [(a)]	
Liquor	133,584	145,698	9.1
Cigarettes and Tobacco	71,637	62,810	-12.3
Motor Vehicles	36,532	270,526	640.5
Petroleum	139,298	120,787	-13.3
Other	4,689	8,105	72.9
Total	**385,740**	**607,927**	**57.6**

Source : Department of Fiscal Policy
[(a)] Provisional

Figure 2.3 : Performance of Excise Duty (January – August 2025)



Source : Department of Fiscal Policy

Social Security Contribution Levy (SSCL)

Revenue from SSCL increased by 18.8 percent to Rs. 190.8 billion in the first eight months of 2025, from Rs.160.7 billion in the same period of 2024. This was driven by expansion of the domestic and external activities together with improved tax administration measures reflecting growth in the number of SSCL file registrations by 34.5 percent to 14,898 as of August 31, 2025. The realization of revenue from SSCL was 72.3 percent in the first eight months of 2025.

Customs Import Duty (CID)

Revenue collected from CID significantly increased by 117.5 percent to Rs. 151.0 billion in the first eight months of 2025 compared to Rs. 69.4 billion in the same period of 2024. The increase is mainly attributable to the removal of import restrictions on the majority of imported items and impose of 20 percent CID on motor vehicles.

Special Commodity Levy (SCL)

Revenue collection from SCL increased notably by 54.2 percent to Rs. 103.6 billion in the first eight months of 2025 compared to Rs. 67.2 billion recorded in the same period of 2024. This was mainly due to the increase in the volume of imports of the major commodity items.

Commodity Export Subsidy Scheme (CESS)

Revenue collected from CESS increased by 8.8 percent to Rs. 56.5 billion in the first eight months of 2025, compared to Rs. 52.0 billion in the same period of 2024. The increase is mainly attributable to the increase of import volume of the goods subject to CESS with the removal of import restrictions on most imported items.

Ports and Airports Development Levy (PAL)

The total revenue collected from PAL increased marginally by 1.7 percent to Rs. 115.9 billion in the first eight months of 2025, compared to Rs. 113.9 billion recorded in the same period of 2024. This was mainly due to the increase in the volume of imports with the release of import restrictions.

Telecommunication Levy (TL)

Revenue generated from TL marginally decreased by 5.9 percent to Rs. 10.6 billion in the first eight months of 2025, from Rs. 11.2 billion in the same period of 2024 due to value of supply of non-internet telecommunication services is reducing whereas value of services of internet services which is telecommunication levy does not apply, is increasing.

Luxury Motor Vehicle Tax and Other Tax

Revenue generated from Luxury Motor Vehicle Tax and other tax significantly increased by 113.3 percent to Rs. 45.1 billion in the first eight months of 2025, from Rs. 21.1 billion in the same period of 2024. Revenue from luxury motor vehicle tax increased by 1,115.7 percent to Rs. 22.3 billion in the first eight months of 2025 compared to Rs. 1.8 billion in 2024 and motor vehicle entitlement levy by 3,705.5 percent to Rs. 5.7 billion in the first eight months of 2025, compared to Rs.0.15 billion recorded in the same period of 2024. This was mainly due to the relaxation of restriction on motor vehicle from February 2025. Meanwhile, revenue from betting and gaming decreased by 47.1 percent to Rs. 6.0 billion in the first eight months of 2025, compared to Rs. 11.4 billion recorded in the same period of 2024. Revenue from share transaction levy significantly increased by 212.5 percent to Rs. 4.5 billion in the first eight months of 2025, compared to Rs. 1.5 billion recorded in the same period of 2024. This was mainly due to increase of value and volume of share transactions as a result of economic recovery.

TABLE 2.7 : Motor Vehicle Imports

Item	Imports Jan. – Aug.			
	2024	2025	Change	%
Motor Cars	925	36,691	35,766	3,866.6
Passenger Vans & Buses	18	1,069	1,051	5,838.9
Three Wheelers	62	9,454	9,392	15,148.4
Motor Cycles	11,411	97,952	86,541	758.4
Goods Transport Vehicles [a]	274	4,834	4,560	1,664.2
Land Vehicles [b]	3,224	4,302	1,078	33.4
Other [c]	19,840	22,912	3,072	15.5
Total	**35,754**	**177,214**	**141,460**	**396**

Sources: Sri Lanka Customs
[a] *Lorries, other Goods Transport Vehicle and Special Purpose Vehicle*
[b] *Tractor, Hand Tractor, Bowser and Other Land Vehicles*
[c] *Single cab, Dual Purpose vehicle, Quardycycles ,Motor Homes*

TABLE 2.8 : Coverage of Product and Value of Imports/Exports Under Free Trade Agreements

Free Trade Agreement	Jan. – Aug. 2025		
	No. of Products Subject to Tariff Concessions (HS 8 Digit)	Import value (CIF/Rs. Mn)	Export Value (FOB/Rs. Mn)
Asia – Pacific Trade Agreement (APTA)	808	5,771	44,920
India – Sri Lanka Free Trade Agreement (ISFTA)	5,329	84,707	124,672
Pakistan – Sri Lanka Free Trade Agreement (PSFTA)	6,200	3,557	9,310
South Asia Free Trade Agreement (SAFTA)	5,932	3,661	20,410
Singapore Sri Lanka Free Trade Agreement (SSFTA)	4,334	1,008	19
Total	**22,603**	**98,704**	**199,331**

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

TABLE 2.9 : CESS Revenue from International Trade

Rs. Mn.

Item	Jan. – Aug.	
	2024	2025 [a]
CESS on Exports	**1,416**	**954**
Tea-under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	331	241
Rubber-under Rubber Replanting Subsidy Act	10	1
Coconut-under Coconut Development Act	138	127
EDB CESS- under Sri Lanka Export Development Act	937	587
CESS on Imports- under Sri Lanka Export Development Act	50,534	55,575
Total	**51,951**	**56,529**

Source: Department of Fiscal Policy
[a] *Provisional*

Non-Tax Revenue

Non-tax revenue moderately increased by 8.1 percent to Rs. 226.2 billion in the first eight months of 2025, compared to Rs. 209.3 billion in the same period of 2024. Revenue from non-tax contributed 6.9 percent to the total revenue. This was mainly due to an increase in revenue generated from fines, fees and charges, interest income and social security contributions. Accordingly, revenue from interest increased by 25.8 percent to Rs. 43.4 billion in the first eight months of 2025, compared to Rs. 34.5 billion in the same period of 2024. Revenue from fines, fees, and charges increased by 9.5 percent to Rs. 112.6 billion in the first eight months of 2025, compared to Rs. 102.8 billion in the same period of 2024, mainly due to the upward revision of 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 32.2 percent to Rs. 36.6 billion in the first eight months of 2025, compared to Rs. 27.7 billion in the same period of 2024 due to increase of contribution rate up to 8 percent for all Government Employees. Revenue from rent also increased by 15.0 percent to Rs. 3.9 billion in the first eight months of 2025, from Rs. 3.3 billion in the same period of 2024. Meanwhile, non-tax revenue from profits and dividends from State Owned Enterprises (SOEs) decreased by 45.3 percent to Rs. 14.6 billion in the first eight months of 2025, from Rs. 26.8 billion in the same period of 2024. The realization of non-tax revenue was 61.1 percent in the first eight months of 2025, as against the annual estimate of Rs. 370 billion.

TABLE 2.10 : Variance Analysis of Government Revenue

Item	Rs. Bn.			Major Reasons for Variance
	2024 Jan – Aug	2025 (Annual Estimate)	2025 Jan-Aug[(a)]	
Income Taxes	624.7	1,167.0	702.4	Revenue collection from Income Taxes increased by 12.4 percent to Rs 702.4 billion in the first eight months of 2025 compared to the same period of 2024. The realization of income tax revenue was 60.2 percent in the first eight months of 2025 against the annual estimate for the year. This performance was mainly attributable to: - Increased wages of the public and private sector; - Expanded economic activities; - Increased WHT rate on interest to 10 percent from 5 percent with effect from 01.04.2025; and - Increased number of tax file registrations by 16.3 percent to 1,270,851 as at end August of 2025 from 1,093,134 files registered in end 2024 with the improved tax administration measures.

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

Item	Rs. Bn. 2024 Jan – Aug	2025 (Annual Estimate)	2025 Jan-Aug[(a)]	Major Reasons for Variance
Value Added Tax (VAT)	842.5	1,615.0	1,084.2	Revenue from VAT increased significantly by 28.7 percent to Rs. 1,084.2 billion in the first eight months of 2025 from Rs. 842.5 billion in the same period of 2024, a realization of 67.1 percent of the annual estimate. The significant increase in revenue from VAT was mainly driven by: - Lifted import restrictions on motor vehicles; - Increased total imports by 10.5 percent; - Expanded domestic economic activities; and - Increased number of tax file registrations by 40.6 percent to 30,298 as at end August of 2025 from 21,542 files at end 2024 due to the improved VAT compliance.
Excise Duty	385.7	841.0	607.9	Revenue from Excise Duty showed a significant increase of 57.6 percent to Rs. 607.9 billion in the first eight months of 2025, compared to the same period of 2024, achieving 72.5 percent of the annual budget estimate. This outperformance was primarily driven by: - Increased revenue from Excise Duty on motor vehicles, following relaxation of import restrictions on all type of motor vehicle imports with effect from February 2025; - Increased Excise Duty rate on excisable articles including motor vehicles, cigarettes, sugar based beverages etc. under Excise (Special Provisions) Act, No. 13 of 1989 by 5.9 percent based on an annual inflation indexation; - Increased Excise Duty rate on liquor by 5.9 percent based on an annual inflation indexation; and - Increased revenue from other excisable articles such as sugar based beverages, refrigerates, palm oil and fatty acids by 72.9 percent to Rs. 8.1 billion. However, a decline in revenue from petroleum products by 13.3 percent and cigarettes by 12.3 percent negatively contributed to the overall performance of excise duty revenue.
Import Duties	69.4	240.0	151.0	The realization of CID was 62.9 percent as against the annual budget estimate for 2025 mainly due to: - Imposed Customs Import Duty of 20 percent on importation of motor vehicles with effect from 28.01.2025; - Imposed a surcharge of 50 percent on Import Duties for the importation of Motor Vehicles with effect from 01.02.2025; and - Increased imports by 10.5 percent in the first eight months of 2025.

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

Item	Rs. Bn. 2024 Jan – Aug	2025 (Annual Estimate)	2025 Jan-Aug[(a)]	Major Reasons for Variance
Port and Airport Development Levy (PAL)	113.9	185.0	115.9	The revenue collection from PAL marginally increased by 1.7 percent to Rs. 115.9 billion in the first eight months of 2025, realizing 62.6 percent of the annual budget estimate. This performance was mainly driven by; - Increased imports by 10.5 percent in the first eight months of 2025.
Special Commodity Levy (SCL)	67.2	126.0	103.6	The revenue from SCL significantly increased by 54.2 percent to Rs. 103.6 billion with realization of 82.3 percent from annual estimate in the first eight months of 2025. This was mainly due to: - The upward revision of duty rates on potatoes, rice, salt and B'onions; and - The increased value of imports of major commodity items by 16.9 percent including dairy products, Cereals and milling industry products, oils and fats etc.
Social Security Contribution Levy (SSCL)	160.7	264.0	190.8	The realization of SSCL in the first eight months of 2025 was 72.3 percent as against the annual estimate. This was achieved mainly due to: - Increased imports by 10.5 percent in the first eight months of 2025; and - Expanded domestic economic activities.
Other Taxes	84.4	152.0	112.6	The revenue from Other Taxes increased by 33.4 percent to Rs. 112.6 billion in the first eight months of 2025 from Rs. 84.4 billion recorded in the same period of 2024. The realization of other taxes revenue was 74.1 percent of the annual estimate for 2025. This was primarily driven by: - CESS Levy increased by 8.8 percent owing to the increase in imports; and - Increased revenue from Luxury Tax on motor vehicles to Rs. 22.3 billion in the first eight months of 2025 compared to Rs. 1.8 billion in the same period of 2024 with the relaxation of restrictions on motor vehicle imports. However, revenue from Telecommunication Levy dropped by 5.9 percent reflecting lower usage of fixed line telecommunication services.
Non-Tax Revenue	209.3	370.0	226.2	The revenue collected from Non-Taxes increased by 8.1 percent to Rs 226.2 billion in the first eight months of 2025, mainly due to the increased revenue from interest income, rent, fines, fees, and charges and receipts from the Social Security Contribution. It was a realization of 61.1 percent of the estimate. However, the receipts from Profits and Dividends declined in the first eight months of 2025.
Total	**2,557.8**	**4,960.0**	**3,294.7**	

Compiled by the Department of Fiscal Policy
[(a)] *Provisional*

BOX 2.1 : Major Fiscal Measures (January – September, 2025) (Contd..)

Effective Date	Measures
Income Tax- Amendments to the Inland Revenue Act, No. 24 of 2017	
01.04.2025	Inland Revenue (Amendment) Act, No. 2 of 2025

1) **Personal Income Tax (PIT) Rate Structure**
To increase personal income tax relief of an individual to Rs. 1,800,000/- per annum and to revise the tax rates applicable on the taxable income of an individual as follows,

	Annual Taxable Income (Rs.) (Rs. Mn.)	
Marginal Tax Rate (%)	**Previous Tax Slabs**	**Current Tax Slabs**
0	Up to 1.2	Up to 1.8
6	1.2 – 1.7	1.8 – 2.8
12	1.7 – 2.2	-
18	2.2 – 2.7	2.8 – 3.3
24	2.7 – 3.2	3.3 – 3.8
30	3.2 – 3.7	3.8 – 4.3
36	Over 3.7	Over 4.3

2) **Revision of CIT Rates**
(i) To increase the income tax rate applicable on the gains and profits from the manufacture and sale or import and sale of any liquor or tobacco product other than the export of such product and the gains and profits from conducting betting and gaming from 40 percent to 45 percent.

(ii) To impose income tax on the gains and profit earned or derived from any service rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka, where the payment for such services is received in foreign currency and remitted through a bank to Sri Lanka at the rate of 15 percent.

(iii) To impose income tax on the gains and profit earned or derived from any foreign source where such gain and profit are earned or derived in foreign currency and remitted through a bank to Sri Lanka at the rate of 15 percent.

3) **Advance Income Tax rate (WHT rate)**

To increase Advance Income Tax rate (WHT rate) applicable on interest or discount paid from 5 percent to 10 percent.

Stamp Duty- Stamp Duty (Special Provisions) Act, No. 12 of 2006	
01.04.2025	Gazette Notification No. 2429/39 of 27.03.2025 - To increase the Stamp Duty applicable on any instrument relating to the lease or hire of any property from Rs. 10/- to Rs. 20/- for every Rs. 1,000/- or part thereof of the aggregate lease or hire including any premium, payable for the whole term comprised in the lease or hire Agreement (other than a hire purchase agreement).
Gambling Regulatory Authority – Gambling Regulatory Authority Act No. 17 of 2025	
03.09.2025	To establish a Gambling Regulatory Authority with the purview, a. To regulate and control gambling activities; b. To ensure the collection of revenue in relation to gambling; c. To ensure transparency and good governance in the conduct of gambling; d. To promote public confidence in the integrity of the gambling industry; e. To ensure that gambling is conducted in a fair and transparent manner

BOX 2.1 : Major Fiscal Measures (January – September, 2025) (Contd..)

Effective Date	Measures
Value Added Tax (VAT)- Value Added Tax Act, No. 14 of 2002	
	Value Added Tax (Amendment) Act, No. 4 of 2025
01.01.2024	1) To avoid the unintended effects of the removal of exemptions from the Value Added Tax Act, No. 14 of 2002, to maintain clarity and to ensure smooth implementation of the VAT reforms introduced by the Value Added Tax (Amendment) Act, No. 32 of 2023.
11.04.2025	2) To issue the permanent VAT Registration Certificate when the import/export is done for commercial purposes, disregarding the facts that the goods are exempted from VAT or the importer/exporter is below the VAT registration threshold.
11.04.2025	3) To issue instructions by the Commissioner General of Inland Revenue to file VAT Returns in respect of the VAT exempt supplies/purchases as well.
11.04.2025	4) To exempt the supply of locally produced liquid milk and yoghurt from VAT.
w.e.f. 01.10.2025	5) To impose VAT on the supply of services by the Non-residents through an electronic platform with effect from October 01, 2025.
w.e.f. 01.10.2025	6) To repeal the Simplified VAT (SVAT) system, with effect from October 01, 2025 and to introduce a risk-based refund mechanism to expedite the refund process.
Excise (Special Provisions) Duty – Excise (Special Provisions) Act, No. 13 of 1989	
11.01.2025	Gazette Notification No. 2418/43 of 10.01.2025 - To increase Excise Duty for all excisable articles with unit rates by 5.9 percent based on an annual inflation adjustment indexation.
01.02.2025	Gazette Notification No. 2421/42 of 31.01.2025 - To increase the Excise Duty on Electric Vehicles by 100 percent.
29.04.2025	Gazette Notification No. 2434/04 of 28.04.2025 - To impose Excise Duty for the newly created National Sub Divisions for electric motor vehicles with engine used (petrol, diesel or semi-diesel) only for charging the electric accumulator, not capable of being charged by plugging to external source of electric power.
Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)	
11.01.2025	Excise Notification No.01/2025 (Gazette Notification No. 2418/42 of 10.01.2025) - To increase the Excise Duty on liquor by 5.9 percent based on an annual inflation adjustment indexation.
Tobacco Tax – Tobacco Tax Act, No. 08 of 1999	
02.04.2025	Gazette Notification No. 2430/16 of 01.04.2025 - To increase tobacco tax applicable on a stick of Beedi from Rs. 2/- per stick to Rs. 3/- per stick.
CESS Levy – Securities & Exchange Commission of Sri Lanka Act, No.19 of 2021	
01.08.2025	Gazette Notification No. 2443/49 of 02.07.2025 - To impose a CESS levy of 0.006% on the value of transaction in Listed High Yield Corporate Debt Securities and to revise CESS levy of 0.01% divided by 3 on the total value of transaction in Corporate Debt Securities.
Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962	
28.01.2025	Revenue Protection Order No. 01/2025 (Gazette Notification No. 2421/05 of 27.01.2025) - To impose Customs Import Duty of 20 percent or 20 percent with a Specific Rate of Duty (Mixed Rate of Duty) on importation of motor vehicles.
29.04.2025	Revenue Protection Order No. 02/2025 (Gazette Notification No. 2434/02 of 28.04.2025) - To create new National Sub Divisions (NSD) for electric motor vehicles with engine used (petrol, diesel or semi-diesel) only for charging the electric accumulator, not capable of being charged by plugging to external source of electric power.

BOX 2.1 : Major Fiscal Measures (January – September, 2025) (Contd..)

Effective Date	Measures
Customs Surcharge- Customs Ordinance (Chapter 235)	
01.02.2025	Gazette Notification No. 2421/43 of 31.01.2025 - To impose a surcharge on import duties for the importation of Motor Vehicles.
29.04.2025	Gazette Notification No. 2434/03 of 28.04.2025 - To impose 50 percent of surcharge for the newly created National Sub Divisions for electric motor vehicles with engine used (petrol, diesel or semi-diesel) only for charging the electric accumulator, not capable of being charged by plugging to external source of electric power.
Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007	
01.01.2025	Gazette Notification No. 2417/20 of 31.12.2024 - To extend the validity period of prevailing SCL duty on importation of 63 commodities including essential food items till December 31, 2025.
28.01.2025	Gazette Notification No. 2421/03 of 27.01.2025 - To grant Duty waiver of Rs.199/- per kg for the importation of Dates considering the Ramadan Festive season.
26.08.2025	Gazette Notification No. 2451/10 of 25.08.2025 - To increase the SCL rate on importation of Potatoes from Rs. 60/- per kg to Rs. 80/- per kg and importation of B' Onions from Rs. 10/- per kg to Rs. 50/- per kg considering local harvesting period.
Imports & Exports (Control) Regulations- Imports and Exports (Control) Act, No. 01 of 1969	
28.01.2025	Imports and Exports (Control) Regulations No. 01 of 2025 (Gazette Extraordinary No. 2421/04 of 27.01.2025) - To remove temporary suspension on importation of commercial or goods transport vehicles.
01.02.2025	Imports and Exports (Control) Regulations No. 02 of 2025 (Gazette Extraordinary No. 2421/44 of 31.01.2025) - To remove temporary suspension on importation of motor vehicles including personal usage motor vehicles (Cars, Vans, Sport Utility Vehicles, etc.) and to impose Import Control License (ICL) requirement for motor vehicles that exceeds maximum age limits.
19.03.2025	Imports and Exports (Control) Regulations No. 03 of 2025 (Gazette Extraordinary No. 2428/07 of 19.03.2025) - To appoint Bureau Veritas as an authorized inspector for all countries to issue export inspection certificates for used motor vehicles and authorize license banks to release export inspection certificates of motor vehicles received without the stamp of the bank in country of export (required by the Regulation No. 5 of the Gazette Extraordinary No. 1804/17 dated April 03, 2013), through online verification.
29.04.2025	Imports and Exports (Control) Regulations No. 04 of 2025 (Gazette Extraordinary No. 2434/12 of 29.04.2025) - To review the list of items for which the issuance of Import Control License has been suspended in terms of the Special Gazette No. 2312/77 dated 01.01.2023 and remove selected items from the list, and to remove the requirement of Import Control License on importation of electric motorcycles unregistered in any country (Brand-new).
05.05.2025	Imports and Exports (Control) Regulations No. 05 of 2025 (Gazette Extraordinary No. 2435/02 of 05.05.2025) - To Incorporate National Subdivisions of the Harmonized System Codes published for electric motor vehicles by the Extraordinary Gazette No. 2434/02 dated April 28, 2025 in the Imports and Exports (Control) Regulations applicable to the importation of Motor Vehicles.
19.05.2025	Imports and Exports (Control) Regulations No. 06 of 2025 (Gazette Extraordinary No. 2437/04 of 19.05.2025) - To remove the requirement of Import Control License (ICL) for the importation of raw non-iodized salt and edible iodized salt (powdered and granular salt), classified under the HS Code of 2501.00, until June 10, 2025.*

BOX 2.1 : Major Fiscal Measures (January – September, 2025) (Contd..)

Effective Date	Measures
15.08.2025	Imports and Exports (Control) Regulations No. 07 of 2025 (Gazette Extraordinary No. 2449/60 of 15.08.2025) - To extent the validity period of the Import and Export (Control) Regulations No. 07 of 2024 (Published in the Gazette Extraordinary No. 2384/34 of 17.05.2024) until 30.09.2025.*
Embarkation Levy – Finance Act, No. 25 of 2003	
31.01.2025	Gazette Notification No. 2421/30 of 31.01.2025 - To extend tax exemption period for persons leaving Sri Lanka by aircraft from Mattala Rajapaksa International Airport (MRIA) for three years from the date of commencement of operations by an International Airline or 28.12.2025 which ever comes first. - To extend the concessionary rate of USD 30 on Embarkation Levy for persons leaving Sri Lanka by aircraft from CIAR and JIA.
International Telecommunications Operators Levy – Finance Act, No. 11 of 2004	
01.04.2025	Gazette Notification No. 2430/14 of 01.04.2025 - To extend the current rate of levy payable on Incoming International Calls, Incoming International Calls on specific telephone numbers, Incoming Local Access Charge, Telecommunication Development Charge and Outgoing Local Access Charge for three years from January 01, 2025 to December 31, 2027.
Luxury Tax on Motor Vehicle – Finance Act, No.35 of 2018	
01.02.2025	Gazette Notification No. 2421/41 of 31.12.2024 - To revise Luxury Tax on Motor Vehicles threshold by Rs. 1.5 million for each fuel category except electric.
29.04.2025	Gazette Notification No. 2434/05 of 28.04.2025 - To impose Luxury Tax on motor vehicles for the newly created National Sub Divisions for electric motor vehicles with engine used (petrol, diesel or semi-diesel) only for charging the electric accumulator, not capable of being charged by plugging to external source of electric power.
The Colombo Port City Economic Commision Act, No. 11 of 2021	
20.09.2025	The Colombo Port City Regulations No. 01 of 2025 (Gazette Notification No. 2454/62 of 20.09.2025) - To provide guildlines on the grant of exemptions or incentives to businesses of strategic importance operating within the area of authority of the Colombo Port City.

* – This Gazette is currently not effective

2.3 Government Expenditure

Government expenditure during first eight months of 2025 amounted to Rs. 3,712.5 billion of which Rs. 3,381.3 billion was recurrent expenditure and Rs. 331.2 billion was capital and net lending. Government expenditure is required to be authorized by Parliament annually. Accordingly, the Appropriation Act, No. 03 of 2025, was passed by Parliament, enabling the government to incur expenditure in 2025.

TABLE 2.11 : Performance of Government Expenditure

Rs. Mn.

Item	Jan-Aug	
	2024	**2025[(a)]**
Recurrent Expenditure	**3,041,565**	**3,381,309**
Salaries	659,502	760,687
Pension	254,006	282,905
Interest	1,559,721	1,687,571
Other	568,336	650,146
Capital & Net Lending	**435,320**	**331,183**
Total Expenditure	**3,476,885**	**3,712,492**

Sources : Department of National Budget and 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 15.3 percent to Rs. 760.7 billion in the first eight months of 2025, from Rs. 659.5 billion in the same period of 2024. Meanwhile, expenditure on pension payments increased by 11.4 percent to Rs. 282.9 billion in the first eight months of 2025, compared to Rs. 254.0 billion in the same period of 2024. This increase was mainly triggered by increased basic salary of public servants and pension revisions in line with the 2025 Budget proposal.

Interest Payments

Interest payments on both domestic and foreign debt increased by 8.2 percent to Rs. 1,687.6 billion in the first eight months of 2025, compared to Rs. 1,559.7 billion in the same period of 2024. The interest payments on domestic debt increased by 0.5 percent to Rs. 1,466.5 billion in the first eight months of 2025, compared to Rs. 1,459.7 billion in the same period of 2024. Interest payments on foreign debt increased by 121.1 percent to Rs. 221.1 billion in the first eight months of 2025, from Rs. 100.0 billion in the same period of 2024.

Welfare expenditure

The government continued the strengthening of social safety net programmes 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 2025, the total welfare spending including social welfare, social security, education, health and nutrition, development assistance, and subsidies for production and labour market inclusion increased by 17.7 percent to Rs. 629.4 billion compared to Rs. 534.4 billion in the same period of 2024. Social welfare and social security expenditures amounted to Rs. 557.3 billion in the first eight months of 2025. This includes a spending of Rs. 112.6 billion for the "Aswesuma" programme, including categorical payments for elderly allowance, allowance for differently-abled persons and kidney patients' allowance which is a 27.2 percent increase compared to the same period of 2024.

TABLE 2.12 : Behaviour of Yield Rates on Government Securities and Exchange Rate (2024 – 2025)

Period		Treasury Bills (%)			Treasury Bonds (%)				Average Exchange Rate Rs/USD
		91 days	182 days	364 days	2 year	3 year	4 year	5 year	
2024	Jan	11.97	12.20	12.00	13.83	13.08	14.21	13.65	321.17
	Feb	9.87	9.95	10.05	–	10.81	–	11.90	312.58
	Mar	10.07	10.23	10.28	–	11.33	–	12.25	305.67
	Apr	9.61	9.89	9.99	–	11.44	11.72	12.37	299.42
	May	8.62	9.04	9.18	–	–	11.01	–	299.69
	Jun	10.07	10.19	10.31	–	10.69	11.90	11.78	303.81
	Jul	9.14	9.34	9.95	–	12.07	–	–	303.76
	Aug	9.49	9.84	10.01	–	–	–	12.98	300.69
	Sep	10.49	10.72	10.05	–	13.79	–	13.98	301.15
	Oct	9.35	9.68	9.95	–	11.79	11.84	–	293.79
	Nov	8.73	8.97	9.08	11.63	10.62	–	11.28	292.01
	Dec	8.62	8.77	8.96	–	–	10.42	10.75	291.68
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	10.22	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

Sources : Department of Treasury Operations, Department of Public Debt and Central Bank of Sri Lanka

Furthermore, government spending on health and nutrition related welfare programmes increased by 54 percent to Rs. 25.4 billion in the first eight months of 2025 from Rs. 16.4 billion in the same period of 2024 mainly due to the increase of spending for school nutrition programme with the increase of the coverage of the school children for the 'School Nutritional Food Programme' to all the primary schooling children.

TABLE 2.13 : Welfare Expenditure

Rs.Mn.

Programme	Jan.- Aug.	
	2024 Actual	2025 Provisional
Social Welfare	**76,784**	**94,426**
Medical supplies for Government Hospitals (including Ayurvedha)	45,780	74,952
Health insurance for school children (Suraksha)	1,166	1,376
Agrahara insuarance scheme for pensioners	689	486
Allowance for pre-school teachers	251	490
"Ranaviru Mapiya Rakawarana" allowance	1,451	916
Property loan interest to public servants	1,131	958
Subsidy for economically unprofitable routes, contribution of socially obligatory bus services (Sisu sariya, Gami seriya and Nisi seriya) and Armed Forces Bus Passes	2,169	2,606
"Suwasariya" – 1990 free ambulance service	1,514	1,686
Interest difference on senior citizens' accounts	20,000	10,000
World Food Programme	632	332
Other	2001	622
Social Security	**401,200**	**462,944**
Cash grant for low income families	97,819	98,132
Support for low-income differently abled persons	4,288	9,453
Financial support for elderly people	8,709	29,769
Financial support for kidney patients	1,852	3,166
Financial assistance to purchase school stationeries	-	2,833
Pension	254,006	282,631
Service compensation for death & injured soldiers	31,088	33,312
Pension for Farmers	3,284	3,523
Other	155	126
Health and Nutrition	**16,496**	**25,442**
Thriposha programme	1,551	1,750
Nutritional food package for expectant mothers	4,161	4,196
School nutritional foods programme	9,466	17,894
Morning meal for pre-school children	673	1,342
Other	645	260
Education	**15,326**	**18,931**
School texbooks	3,421	1,567
School uniforms	1,039	58
Shoes for students in difficult schools	570	2490
Scholarships – grade 5 students	616	824
Mahapola and bursaries	1,750	3,245
Loan scheme for the students who are unable to get into the state universities	1,228	1,335
School & higher education season Tickets	6,125	8,250
Others	577	1,162
Development Subsidies	**24,628**	**27,695**
Fertilizer subsidy	24,280	22,625
Other	348	5070
Total	**534,434**	**629,439**

Source: Department of National Budget

Public Investment

Public investment was under execution in the first eight months of 2025, due to various bottlenecks, including delays in the disbursement of some foreign loans, procurement, land, and environmental clearances, and donor concurrences for some adjustments of ongoing projects.

Public investments amounting to over Rs. 338.8 billion have been incurred for the following infrastructure development projects in the first eight months of 2025:

i. Rs. 121.5 billion for the maintenance, rehabilitation, and development of rural roads, bridges, highways, and expressways;

ii. Rs. 18.73 billion for the development and expansion of pipeborne water supply schemes, development of housing schemes, and facilities in urban areas;

iii. Rs. 9.96 billion for the rehabilitation and improvement of railway fleet, rail roads and improving transport network;

iv. Rs. 14.99 billion for the improvement of productivity and efficiency in the agriculture value chain by introducing modern technology;

v. Rs. 20.23 billion for ensuring water security for agriculture purposes, mainly by completing infrastructure development of North Central Province Cannel and constructing and maintaining other irrigation-related infrastructure;

vi. Rs. 21.8 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. 19.43 billion for the maintenance and development of hospitals and the provision of medical equipments to hospitals;

viii. Rs. 2.59 billion for the development of infrastructure related to provision of electricity; and

ix. Rs.42.72 billion as equity contribution to public enterprises, including National Water Supply and Drainage Board, resumption of water supply projects terminated due to debt restructuring, and Dr. Nevil Fernando Hospital.

2.4 Performance of the Cash Flow of the General Treasury

Cash inflows to the General Treasury by way of revenue and other receipts amounted to Rs. 3,187.5 billion in the first eight months of 2025, as against the estimation of Rs. 2,989.4 billion, achieving the 106.6 percent from the estimate. This was an increase of 27.6 percent, compared

TABLE 2.14 : Government Treasury Cash Flow Operations

Rs. Bn.

Item	Jan. – Aug. 2024 Actual	Jan. – Aug. 2025 Estimate	Jan. – Aug. 2025 Actual
Opening Cash balance	599.5	805.1	805.1
Total cash inflow from revenue and other receipts	2,496.8	2,989.4	3,187.4
Total cash outflow for recurrent payments	-3,065.0	-3,890.7	-3,292.4
Total cash outflow for capital payments	-599.7	-676.1	-327.7
Net cash surplus / (deficit)	-1,167.8	-1,577.5	-432.7
Gross borrowing	2,306.5	2,569.6	2,295.6
Debt repayment	-924.6	-1,286.7	-1,457.6
Net borrowing	1,382.0	1,282.8	838.0
Adjustment account balance (TEB, net deposits, Other Transfer etc.)	-53.5	–	-4.7
Closing Cash balance	**760.1**	**510.4**	**1,205.8**

Source: Department of Treasury Operations to Rs. 2,496.8 billion in the same period of 2024. Meanwhile, cash outflow for both recurrent and public investment amounted to Rs. 3,620.2 billion in the first eight months of 2025, representing a slight decline compared to Rs. 3,664.7 billion over the same period of 2024.

As of August 31, 2025, the net cash deficit fell significantly 62.9 percent to Rs. 432.7 billion, compared to Rs. 1,167.8 billion in the same period of 2024. This improvement was driven by impressive revenue collection and a substantial reduction in capital expenditure, reflecting better cash flow despite a moderate increase in recurrent spending. The closing positive cash balance as of August 31, 2025, increased significantly to Rs. 1,205.8 billion from Rs. 760.1 billion recorded as of August 31, 2024 reflecting an improved overall cash position in the country.The increase in cash inflows can be attributed to increased revenue collections and improved tax compliance. Also, a prudent financial management and expenditure controls contributed to the healthy cash balance. This upward trend indicates a positive fiscal outlook and enhances the government's capacity to meet its financial commitments, invest in development projects, and strengthen economic stability moving forward.

2.5 Management of Government Debt

The Parliament approved a total gross borrowing limit of Rs. 4,000 billion for the fiscal year 2025. Of this, Rs. 2,723.5 billion was allocated for the period from January 1 to August 31, 2025. The borrowing was sourced from both domestic and foreign markets, amounting to Rs. 1,847.8 billion and Rs. 281.8 billion respectively. The primary objectives of these borrowings were to meet debt service obligations and to fund various development initiatives.

As of the reporting date, approximately 86.8 percent of the total borrowings in the first eight months of 2025 were secured domestically. Treasury Bonds were exclusively utilized for domestic debt servicing. The utilization of the approved borrowing limit during this period was recorded at Rs. 2,129.6 billion, predominantly through the issuance of Treasury Bonds.

Furthermore, the data indicates a net negative issuance of Treasury Bills amounting to Rs. 240.2 billion. This suggests that outflows surpassed new issuances, implying that cash flow financing was employed to reduce the outstanding volume of Treasury Bill repayments during this period.

TABLE 2.15 : Gross domestic borrowings (January to August 2025)

Rs.Bn.

Instruments	Jan – Aug 2025
Treasury Bonds (Gross Borrowing)	1,847.8
Total	**1,847.8**

Sources : Department of Treasury Operations

Further, Treasury bill worth Rs. 4,735 billion were retired during the period, against which a sum of Rs. 4,495 billion was raised from the market, resulting in a net negative borrowing of Rs. 240 billion by way of treasury bills during the period.

2.6 Foreign Financing

Overview

Sri Lanka's debt restructuring process has now largely concluded, which is essential in the path to restoring debt sustainability and macroeconomic stability. Sri Lanka will gain approximately USD 9.5 billion in debt service payment reductions over the four-year IMF programme period, 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

During the period from 1st January to 31st August 2025, new commitments have not been entered into with bilateral, multilateral, or external commercial creditors.

Foreign Financing Disbursements and Utilization

During the period from 1st January to 31st August 2025, total foreign loan disbursements amounted to USD 938.8 million.

The largest share of disbursements was recorded under the International Monetary Fund's Extended Fund Facility (IMF-EFF), accounting for 73 percent of the total. This was followed by disbursements under loan agreements with the World Bank (11 percent) and the Asian Development Bank (7 percent). Following the signing of bilateral debt restructuring agreements with the main bilateral creditors, the disbursements were re-commenced, and during the period, disbursements from the bi-lateral creditors were recorded to USD 26.4 million.

In terms of sectoral allocation, the Budget Support sector accounted for the majority share, representing 65 percent of total disbursements, followed by the Humanitarian Assistance sector (7 percent) and the Water Supply and Sanitation sector (5 percent).

TABLE 2.16 : Disbursements of Foreign Loans and Grants (January – August 2025)

Development Partner/ Lending Agency	Disbursements* (USD Mn.)
	Loan
Bilateral	**26.4**
Japan	14.3
Saudi Fund	8.1
Co-op Centrale Netherlands	2.6
Korea	1.2
Multilateral	**912.4**
IMF	681.6
World Bank	107.5
Asian Development Bank	70.4
OPEC Fund	33.9
Asian Infrastructure Investment Bank	17.9
International Fund for Agricultural Development	1.0
Total	**938.8**

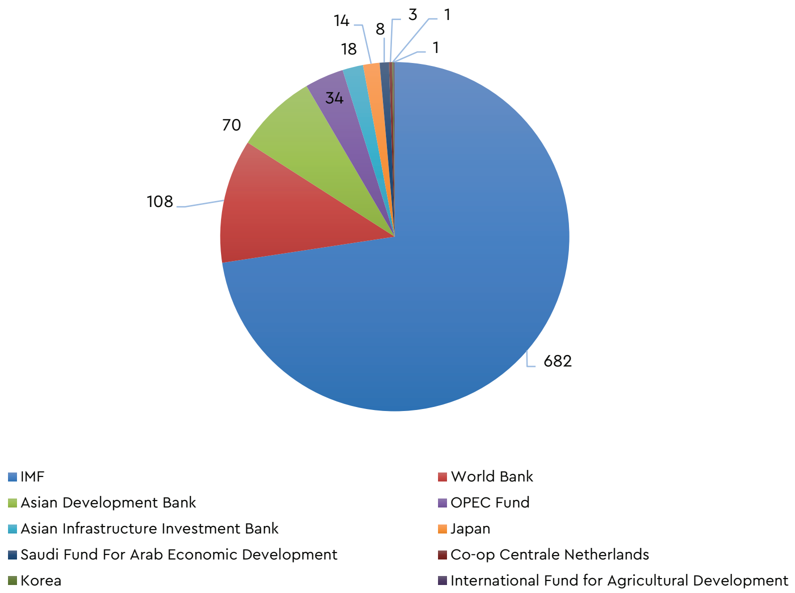
Source:Public debt Management Office

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, monthend exchange rate of SDR applied to the end of previous month published by CBSL have been used.

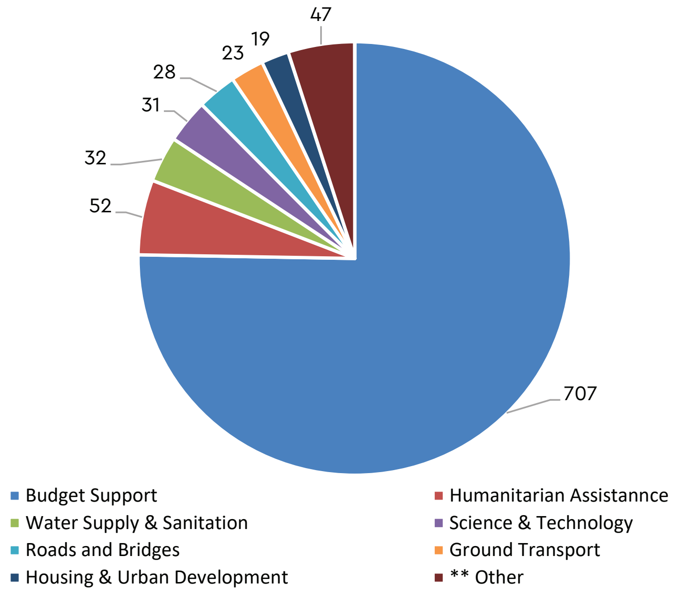
* *Provisional*

FIGURE 2.4 : Disbursements from 1st January to 31st August 2025, as per the Development Partners/ Lending Agency (USD Mn.)



Source: Public Dept Management Office

FIGURE 2.5 : Disbursements from 1st January to 31st August 2025, as per the Major Economic Sector (USD Mn.)



Source: Public Debt Management Office
*** Other = Agriculture, Education & Training, Health & Social Welfare, Land Development, Power & Energy, Rural Development*

External Debt Stock and External Debt Service Payments

External debt of the Government as of the end of August 2025 amounted to USD 37.3 billion[1]. Multilateral debt accounts for 36 percent of total government external debt, followed by commercial debt at 34 percent and bilateral debt at 30 percent. Approximately 81 percent of commercial debt comprises 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 represented over 83 percent of the total multilateral debt. With respect to bilateral debt, 61 percent was held by non-Paris Club creditors, while the remaining 39 percent was from Paris Club members.

Total debt service payments[2] from 1st January to 31st August in 2025 amounted to USD 1,745.0 million, of which USD 1,036.2 million was for principal repayments and the balance was in lieu of USD 708.8 million for the interest payments.

As of the end of August 2025, 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 at the time they are due, as specified in the contractual agreements, subject to any applicable grace period. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of programme monitoring. Arrears resulting from the non-payment of debt service, for which a rescheduling or restructuring agreement is being sought, are excluded from this definition[3].

---

[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*
[3] *Source: IMF Country Report No. 25/162, dated July 2025*

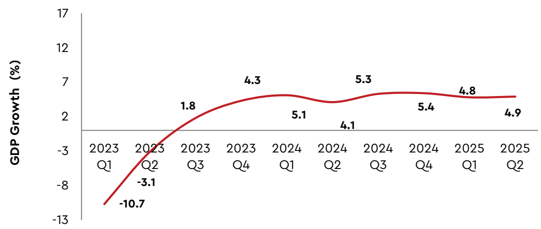
Economic Perspectives 03

3.1 Overview

In the first half of 2025, the Sri Lankan economy further strengthened with notable outcomes in all spectra of the economy while remaining resilient to both domestic and external headwinds. The economy grew by 4.8 percent in the first half of 2025, with a broad-based recovery across all sectors of the economy, including Agriculture, Industry, Services and Taxes less Subsidies. Inflation has turned to positive territory to 1.5 percent and 2.1 percent in September and October 2025, respectively, after remaining in negative territory for 11 months. Gross official reserves reached USD 6.2 billion at the end of September 2025. The external sector remained resilient to shocks amid heightened trade policy uncertainty and geopolitical headwinds. The current account balance in the external sector recorded a surplus of USD 2 billion in the first eight months of 2025, driven largely by the increased inflows from tourism and workers' remittances. The debt restructuring process has been largely concluded providing a path towards restoring debt sustainability. The government is on the track to address the structural bottlenecks of the economy to unlock the potential growth.

Broad and much-needed reform measures have been implemented to enhance transparency and accountability across all sectors, supported by a comprehensive anti-corruption drive, the improvements in macroeconomic conditions while preserving policy continuity with necessary adjustments. Fitch Ratings upgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC+' from 'RD' (Restricted Default), Moody's Investors Service raised its Long-Term Foreign-Currency Issuer Rating to 'Caa1' from 'Ca', and S&P Global Ratings upgraded the country's long-term and short-term foreign currency ratings to 'CCC+/C' from 'SD/SD', reflecting investors' confidence in Sri Lanka's economic recovery and reform efforts.

FIGURE 3.1 : GDP Growth



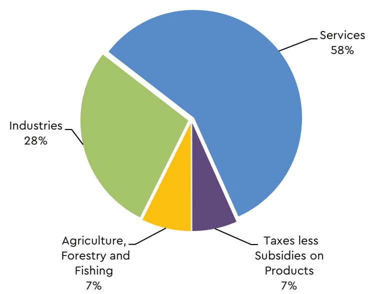
Source : Department of Census and Statistics

Easing monetary conditions, increased public and informal sector wages, increased credit to private sector, and the removal of vehicle import restrictions in February 2025, supported a strong recovery in domestic demand

Economic activities surged with the expansion of industrial sector supported by strong performances in manufacturing, mining and construction activities and the expansion of services sector, supported by robust growth in financial services, insurance, and the recovery of tourism sector.

The unemployment rate declined to 3.8 percent in the first quarter of 2025 compared to 4.5 percent recorded in the first quarter of 2024 due to the decline in in both male and female unemployment rates to 2.5 percent and 6.3 percent, respectively. Meanwhile, the labour force participation rate increased to 49.7 percent in the first quarter of 2025 compared to 47.1 percent in the first quarter of 2024 due to the increases in both male and female labour force participation rates to 70.1 percent and 32.0 percent, respectively.

FIGURE 3.2 : Composition of GDP – First Half of 2025



Source : Department of Census and Statistics

The Central Bank moved to a single policy interest rate mechanism with effect from November 27, 2024, replacing its dual policy interest rate mechanism and introduced the Overnight Policy Rate (OPR) as the primary monetary policy tool to signal and operationalize its monetary policy stance henceforth, which was initially set at 8.00 percent. The Central Bank maintained an accommodative monetary policy stance throughout 2025, reducing the OPR to 7.75 percent by end-May 2025. The policy rate has since been maintained at this level, as the current monetary stance is deemed consistent with guiding inflation towards the 5.0 percent medium-term target while supporting the ongoing economic recovery.

Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2021=100), rose to 2.1 percent in October 2025 from 1.5 percent in September 2025, following nearly a year of deflation. Food inflation (Y-o-Y) accelerated to 2.9 percent in September 2025, while non-food inflation (Y-o-Y) remained steady at 0.7 percent. Forward projections indicate a gradual pickup in inflation over the coming months, converging towards the medium-term target of 5 percent, supported by the continuation of appropriate monetary and fiscal policies. Meanwhile, core inflation (Y-o-Y), which reflects underlying inflationary trends, remained unchanged at 2.0 percent in September 2025.

Supporting the ongoing economic recovery, the stock market recorded a notable improvement in performance. The All Share Price Index (ASPI, 1985=100) increased by 48.4 percent (Y-O-Y), reaching 18,027 points, while the Standard & Poor's Sri Lanka 20 Index (S&P SL20, 2004=1,000) rose by 49.2 percent (Y-O-Y) to 5,353 points by end-June 2025, reflecting renewed investor confidence and improved market sentiment.

The external sector demonstrated improved performance during the first eight months of 2025. Merchandise exports grew by 6.7 percent to USD 9.1 billion, compared to USD 8.5 billion in the same period of 2024, reflecting stronger external demand and recovery in key export industries. Merchandise imports increased by 10.5 percent to USD 13.3 billion in the first eight months of 2025, up from USD 12.1 billion in the same period a year earlier, driven mainly by higher domestic demand and the relaxation of import restrictions. Consequently, the merchandise trade deficit widened to USD 4.3 billion in the first eight months of 2025, compared to USD 3.6 billion in the same period of 2024.

Workers' remittances recorded a substantial increase of 19.3 percent, reaching USD 5.1 billion in the first eight months of 2025, compared to USD 4.3 billion in the same period of 2024, reflecting stronger inflows from major migrant destinations. Tourism earnings also rose by 5.7 percent to USD 2.3 billion in the first eight months of 2025, up from USD 2.2 billion in the same period a year earlier, supported by higher tourist arrivals and improved spending per visitor. Consequently, net inflows from the services sector expanded to USD 2.7 billion during the first eight months of 2025, compared to USD 2.6 billion in the same period of 2024.

Gross Official Reserves (GOR) stood at USD 6.2 billion at the end of September of 2025, including the swap facility with the People's Bank of China (PBOC), despite ongoing debt service obligations. The Sri Lankan rupee had depreciated by 3.3 percent year-to-date against the US dollar as of end-September 2025.

3.2 Economic Growth

The economy expanded by 4.8 percent in the first half of 2025 benefiting from the positive growth in all sectors of the economy i.e., Agriculture, Industry, Services and Taxes less Subsidies. The Agriculture sector grew marginally by 0.6 percent in the first half of 2025, compared to the growth of 1.8 percent in the same period of 2024. The Industry sector expanded moderately by 7.9 percent in the first half of 2025, compared to the growth of 10.5 percent in the first half of 2024. The Services sector modestly expanded by 3.3 percent in the first half of 2025, compared to the growth of 2.3 percent in the same period of 2024. In value added terms, taxes less subsidies on products increased by 10.6 percent in the first half of 2025 compared to the increase of 6.4 percent in the same period of 2024.

Agriculture

The agriculture sector contributing 8.8 percent to GDP, recorded a marginal growth of 0.6 percent in the first half of 2025, compared to the growth of 1.8 percent in the same period of 2024. This was mainly owing to the positive growth in sub-sectors such as growing of cereals (except rice), animal production, plant propagation, forestry and logging, and marine fishing and marine aquaculture. However, subsectors such as the growing of oleaginous fruits (coconut, king coconut, oil palm), growing of rubber, and freshwater fishing and fresh water aquaculture contracted significantly during the period.

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

Rs. Mn.

	Sector	2022[b]	2023[b]	2024[a]	First half		Growth (%)	
					2024[b]	2025[a]	2024[b]	2025[a]
	Agriculture, Forestry and Fishing	**911,252**	**925,822**	**937,104**	**466,927**	**469,935**	**1.8**	**0.6**
1	Growing of Cereals (except rice)	16,507	16,920	18,758	9,573	10,100	17.1	5.5
2	Growing of Rice	94,730	110,946	114,369	56,261	57,599	5.5	2.4
3	Growing of Vegetables	103,161	106,135	109,069	52,499	52,077	-0.1	-0.8
4	Growing of Sugar Cane, Tobacco and Other Non-perennial Crops	3,803	3,515	3,187	1,555	1,570	-11.3	1.0
5	Growing of Fruits	73,310	78,076	81,548	40,368	41,163	4.0	2.0
6	Growing of Oleaginous Fruits (Coconut, King Coconut, Oil Palm)	111,196	104,725	92,703	51,171	44,931	-1.5	-12.2
7	Growing of Tea (Green Leaves)	62,867	61,912	62,953	30,635	32,428	-6.4	5.9
8	Growing of Other Beverage Crops (Coffee, Cocoa etc,.)	1,229	1,136	1,110	555	596	-2.3	7.4
9	Growing of Spices, Aromatic, Drug and Pharmaceutical Crops	101,653	99,729	101,653	49,583	50,576	2.8	2.0
10	Growing of Rubber	23,871	22,024	22,503	11,942	9,903	-3.6	-17.1
11	Growing of Other Perennial Crops	27,533	29,440	25,949	12,942	12,862	-12.4	-0.6
12	Animal Production	83,307	83,587	95,363	45,455	52,860	9.2	16.3
13	Plant Propagation	965	728	626	311	339	-26.1	8.8
14	Agriculture supporting activities	33,062	32,888	31,868	17,659	18,256	-2.5	3.4
15	Forestry and Logging	50,931	47,221	46,209	22,378	23,892	-0.8	6.8
16	Marine Fishing and Marine Aquaculture	95,447	100,099	104,947	51,374	54,042	4.2	5.2
17	Fresh Water Fishing and Fresh Water Aquaculture	27,682	26,739	24,290	12,665	6,740	11.9	-46.8
	Industries	**3,308,573**	**3,002,968**	**3,333,008**	**1,654,609**	**1,785,503**	**10.5**	**7.9**
18	Mining and Quarrying	198,613	154,303	184,166	88,929	101,795	14.2	14.5
19	Manufacture of Food, Beverages and Tobacco Products	869,371	899,739	954,409	471,506	490,008	8.8	3.9
20	Manufacture of Textile, Wearing Apperal and Leather Related products	511,860	450,438	500,210	249,361	284,023	6.5	13.9
21	Manufacture of Wood and Products of Wood and Cork, except Furniture	29,758	23,807	24,975	11,646	11,766	12.1	1.0
22	Manufacture of Paper Products, Printing and Reproduction of Media Products	52,069	47,259	48,734	26,922	30,789	-0.2	14.4
23	Manufacture of Coke and Refined Petroleum Products	6,474	21,895	19,690	11,349	12,485	5.8	10.0

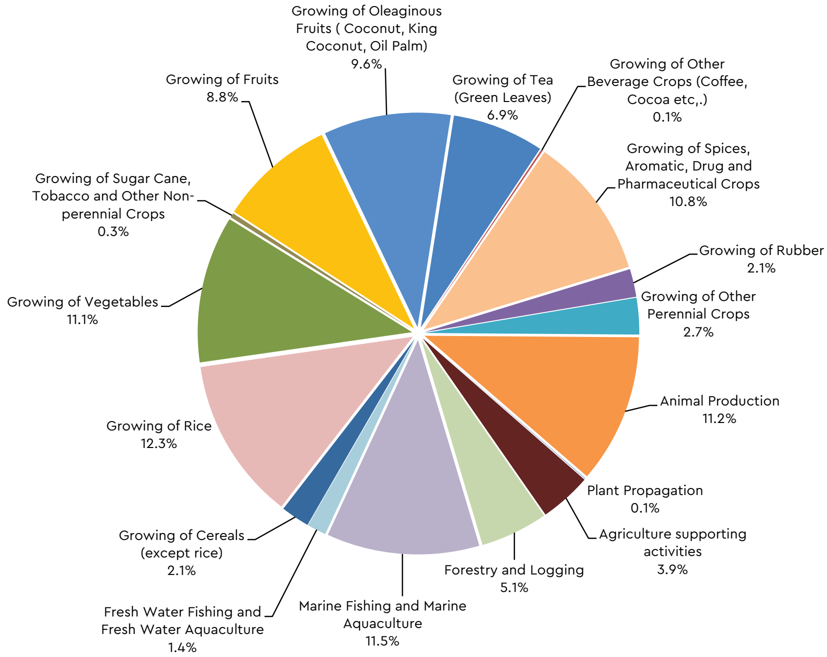
TABLE 3.1 : Sectoral Composition of GDP at Constant (2015) Prices (Contd..)

Rs. Mn.

	Sector	2022[b]	2023[b]	2024[a]	First half		Growth (%)	
					2024[b]	2025[a]	2024[b]	2025[a]
24	Manufacture of Chemical Products and Basic Pharmaceutical Products	82,349	82,949	90,994	50,241	48,742	21.5	-3.0
25	Manufacture of Rubber and Plastic Products	67,505	56,157	60,972	31,093	32,445	8.2	4.3
26	Manufacture of Other Non-metallic Mineral Products	85,182	84,670	86,813	45,546	54,727	4.3	20.2
27	Manufacture of Basic Metals and Fabricated Metal Products	58,780	60,303	70,963	31,080	34,076	39.2	9.6
28	Manufacture of Machinery and Equipment	59,181	50,229	53,372	22,068	23,503	3.2	6.5
29	Manufacture of Furniture	60,837	56,089	61,740	36,648	40,118	6.6	9.5
30	Other Manufacturing and Repair and Installation of Machinery and Equipment	79,088	66,747	72,427	42,375	39,275	9.7	-7.3
31	Electricity, Gas, Steam and Air Conditioning Supply	178,059	174,017	185,978	95,721	99,926	13.2	4.4
32	Water Collection, Treatment and Supply	14,059	11,590	11,906	6,504	6,818	5.2	4.8
33	Sewerage, Waste, Treatment and Disposal Activities	28,070	27,955	28,319	13,135	14,114	3.8	7.5
34	Construction	927,319	734,821	877,339	420,486	460,892	13.7	9.6
	Services	**7,217,485**	**7,206,496**	**7,381,059**	**3,560,132**	**3,677,533**	**2.3**	**3.3**
35	Wholesale and Retail Trade	1,675,528	1,677,941	1,700,232	853,201	865,889	1.1	1.5
36	Transport of Goods and Passenger including Warehousing	1,364,677	1,422,786	1,464,296	713,291	736,020	3.3	3.2
37	Postal Courier Activities	19,780	20,349	21,627	10,621	11,496	8.1	8.2
38	Accomodation, Food and Beverage Service Activities	166,030	209,172	274,921	128,642	144,995	34.4	12.7
39	Programming and Broadcasting Activities and Audio Video Productions	37,350	36,551	37,767	19,331	19,601	3.7	1.4
40	Telecommunication	140,524	137,403	143,109	70,575	72,675	4.0	3.0
41	IT Programming Consultancy and Related Activities	238,455	187,341	198,512	97,678	109,916	2.3	12.5
42	Financial Service Activities and Auxiliary Financial Services	529,744	475,201	482,557	233,540	264,876	-0.2	13.4
43	Insurance, Reinsurance and Pension Funding	78,187	103,519	89,030	45,378	51,623	-8.7	13.8
44	Real Estate Activities, Including Ownership of Dwelling	554,456	521,463	543,265	275,632	284,487	4.4	3.2
45	Professional Services	248,467	254,360	263,382	117,330	120,480	3.9	2.7
46	Public Administration and Defence; Compulsory Social Security	629,031	618,542	600,314	281,558	274,577	-3.7	-2.5
47	Education	302,435	307,712	314,755	161,451	162,759	2.4	0.8
48	Human Health Activies, Residential Care and Social Work Activies	237,677	236,087	234,358	100,252	102,569	-1.8	2.3
49	Other Personal Service Activies	995,147	998,069	1,012,933	451,649	455,567	1.1	0.9
	Gross Value Added (GVA), at basic prices	**11,437,311**	**11,135,286**	**11,651,170**	**5,681,668**	**5,932,971**	**4.5**	**4.4**
	(+) Taxes less Subsidies on Products	**723,576**	**742,270**	**821,299**	**386,605**	**427,676**	**6.4**	**10.6**
	Gross Domestic Product(GDP) at market prices	**12,160,886**	**11,877,556**	**12,472,469**	**6,068,273**	**6,360,647**	**4.6**	**4.8**

Source : Department of Census and Statistics
[a] *Provisional*
[b] *Revised*

FIGURE 3.3 : Composition of Agriculture Sector – First Half of 2025



Source : Department of Census and Statistics

Rice

The growing of rice subsector expanded marginally by 2.4 percent in the first half of 2025 compared to the 5.5 percent expansion in the same period of 2024. The paddy production for the 2024/2025 Maha season, based on the sown extent reported as of end-March 2025, was 2.62 million metric tons of paddy, a 3.8 percent decline from the 2023/2024 Maha season. This decline in production can be attributed to flood-related paddy damage, pest and disease infestations, and yellowing. However, the paddy production for the 2025 Yala season, based on the sown extent reported as of end-July 2025, was 2.2 million metric tons, which is an 11.7 percent increase from the 2024 Yala season. The increase in production during the Yala season can be attributed to the expansion of sown area due to sufficient water availability during the season.

Tea, Rubber and Coconut

The growing of tea subsector expanded by 5.9 percent in first half of 2025, compared to the contraction of 6.4 percent in the same period of 2024. The tea production in the first half of 2025, increased by 5.5 percent to 134.9 million kg compared to the production of 128.0 million kg in the first half of 2024. This increase can be mainly attributed to favourable weather conditions. The growing of rubber subsector contracted significantly by 17.1 percent in the first half of 2025, compared to the marginal contraction of 3.6 percent in the same period of 2024. Rubber production in the first half of 2025, dropped moderately by 12.4 percent to 32.4 million kg compared to 37.0 million kg in the same period of 2024. Further, the growing of oleaginous fruits (coconut, king coconut, and oil palm) subsector also contracted by 12.2 percent in the first half of 2025, compared to the contraction of 1.5 percent in the same period of 2024. Accordingly, coconut production contracted by 12.8 percent to 1,351 million nuts in the first half of 2025, compared to the coconut production of 1,549 million nuts in the same period of 2024.

Cereals, Vegetables, Fruits, Spices and Pharmaceutical Crops

The growing of cereals (except rice) subsector grew marginally by 5.5 percent in the first half of 2025, compared to the growth of 17.1 percent in the same period of 2024. Growing of vegetables subsector contracted by 0.8 percent in the first half of 2025, compared to the insignificant contraction of 0.1 percent in the same period of 2024, whereas growing of fruits subsector grew by 2.0 percent in the first half of 2025, compared to the 4.0 percent growth in the same period of 2024. Growing of spices, aromatic, drug, and pharmaceutical crops subsector also expanded by 2.0 percent in the first half of 2025 compared to the expansion of 2.8 percent in the same period of 2024.

Fisheries and Livestock

The marine fishing and marine aquaculture subsector expanded by 5.2 percent in the first half of 2025, compared to the expansion of 4.2 percent in the same period of 2024. However, the freshwater fishing and freshwater aquaculture subsector contracted significantly by 46.8 percent in the first half of 2025, compared to the growth of 11.9 percent in the same period of 2024. The total fish production (marine and inland) decreased to 186 million kg in the first half of 2025, compared to the production of 204 million kg in the same period of 2024, owing to the significant decline in inland fishing activities. The animal production subsector grew moderately by 16.3 percent in the first half of 2025, compared to the growth of 9.2 percent recorded in the same period of 2024.

Industry and Manufacturing

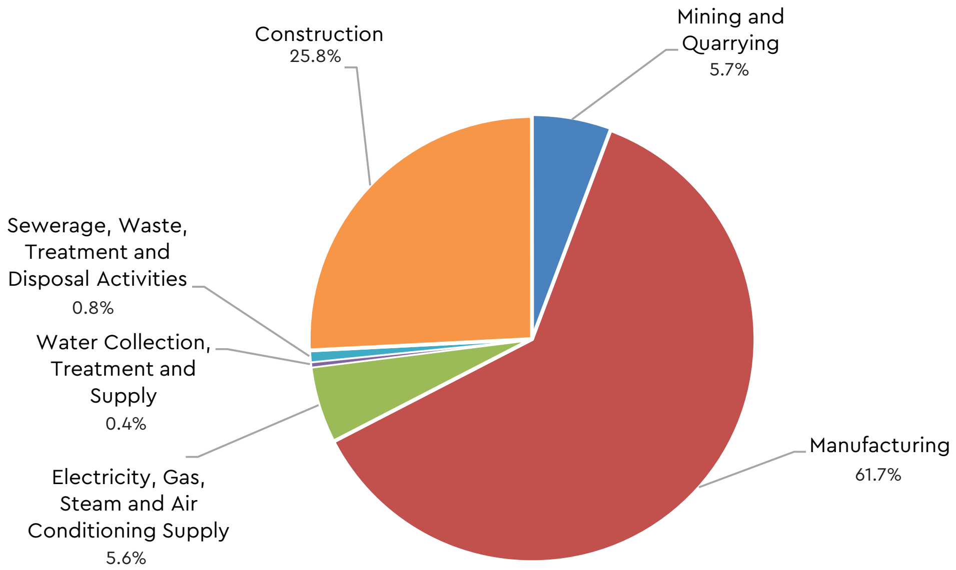
The Industry sector, which contributes 26.0 percent of the GDP, recorded a positive growth of 7.9 percent in the first half of 2025, compared to the positive growth of 10.5 percent recorded in the same period of 2024. This was largely attributable to the expansion in construction, mining and quarrying, manufacture of textiles, wearing apparel and leather related products, manufacture of other non-metallic mineral products, and electricity, gas, steam and air conditioning supply subsectors which recorded positive growth rates of 9.6 percent, 14.5 percent, 13.9 percent, 20.2 percent and 4.4 percent, respectively.

The subsectors such as the manufacture of food, beverages and tobacco products (3.9 percent), the manufacture of wood and products of wood and cork, except furniture (1.0 percent), the manufacture of paper products, printing and reproduction of media products (14.4 percent), the manufacture of coke and refined petroleum products (10.0 percent), the manufacture of rubber and plastic products (4.3 percent), the manufacture of basic metals and fabricated metal products (9.6 percent), the manufacture of machinery and equipment (6.5 percent), the manufacture of furniture (9.5 percent), water collection, treatment and supply (4.8 percent), and sewerage, waste treatment , and disposal activities (7.5 percent) also expanded in the first half of 2025, compared to the same period of 2024.

However, the manufacture of chemical products and basic pharmaceutical products subsector contracted by 3.0 percent in the first half of 2025, compared to the significant growth of 21.5 percent recorded in the same period of 2024. Further, the other manufacturing, and repair and installation of machinery and equipment subsector also contracted by 7.3 percent in the first half of 2025, compared to the growth of 9.7 percent in the same period of 2024.

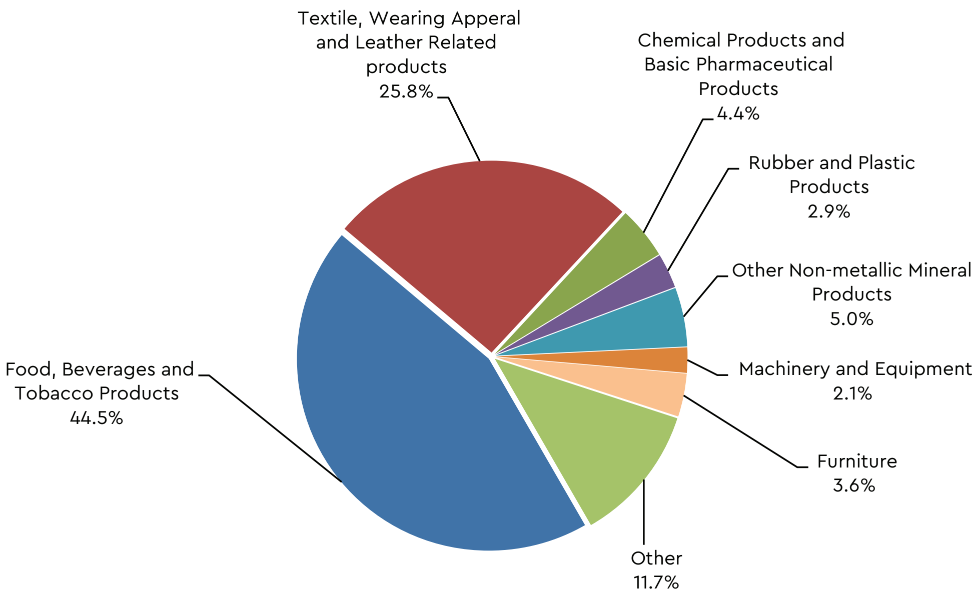
Total power generation increased by 4.7 percent to 8,675 GWh in the first half of 2025, compared to 8,284 GWh in the corresponding period of 2024. The sale of electricity to industries increased by 2.3 percent to 2,315 GWh in the first half of 2025, compared to 2,263 GWh in the same period of 2024, reflecting expansion in industrial activities.

FIGURE 3.4 : Composition of Industry Sector – First Half of 2025



Source : Department of Census and Statistics

FIGURE 3.5 : Composition of Manufacturing Sector – First Half of 2025



Source : Department of Census and Statistics

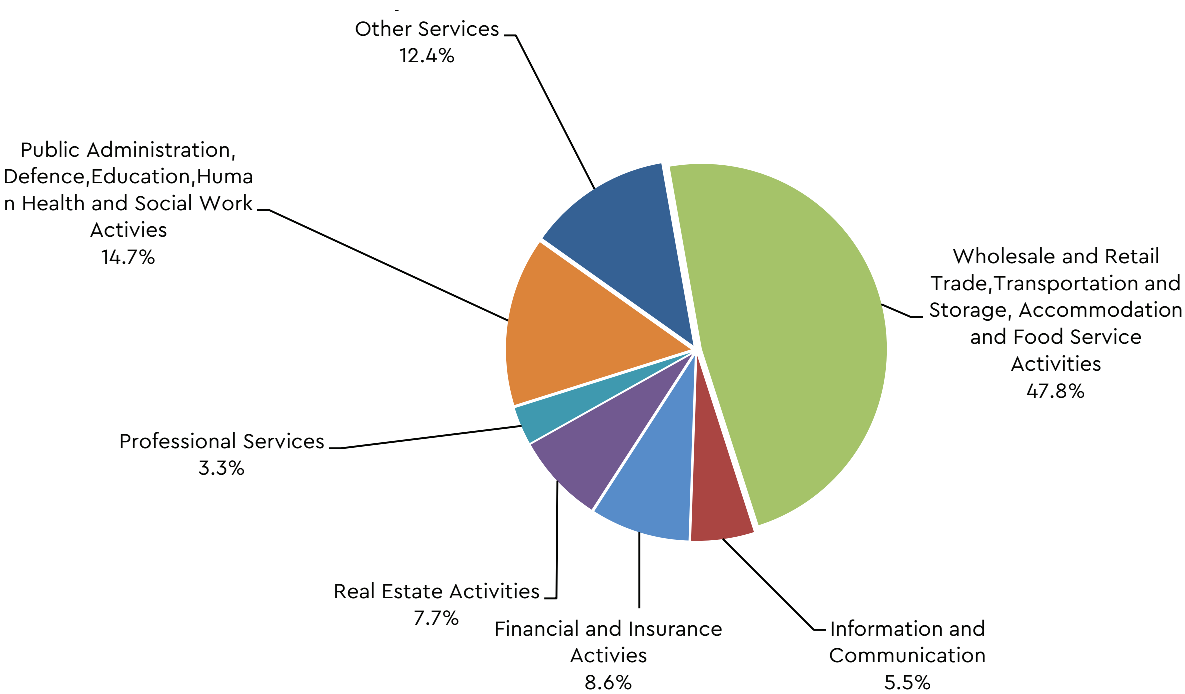
Electricity generation through hydropower increased moderately by 18.9 percent to 2,975 GWh in the first half of 2025, compared to 2,503 GWh in the same period of 2024. Electricity generation from wind also increased by 8.0 percent to 166 GWh in the first half of 2025, compared to 154 GWh in the same period of 2024. However, electricity generation from fuel oil declined significantly by 28.8 percent, while coal-based generation dropped moderately by 8.9 percent in the first half of 2025. In the first half of 2025, electricity generation by the private sector increased significantly by 23.1 percent to 2,233 GWh compared to 1,814 GWh in the same period of 2024.

Services

The Services sector, which accounted for 55.2 percent of GDP, recorded a marginal growth of 3.3 percent in the first half of 2025, compared to the marginal growth of 2.3 percent in the same period of 2024. The growth was primarily driven by notable expansions in accommodation, food and beverage service activities (12.7%), IT programming, consultancy and related activities (12.5%), and financial service and auxiliary financial service activities (13.4%).

Sub-Sectors of wholesale and retail trade (1.5 percent), transportation of goods and passengers, including warehousing (3.2 percent), postal and courier activities (8.2 percent), programming and broadcasting activities and audio video production (1.4 percent), telecommunication (3.0 percent), Insurance, reinsurance and pension funding (13.8 percent), real estate activities, including ownership of dwellings (3.2 percent), professional services (2.7 percent), education (0.8 percent), human health activities, residential care and social work activities (2.3 percent), and other personal service activities (0.9 percent), also expanded in the first half of 2025. However, the public administration and defense, compulsory social security subsector contracted by 2.5 percent in the first half of 2025.

FIGURE 3.6 : Composition of Services Sector – First Half of 2025



Source : Department of Census and Statistics

TABLE 3.2 : Selected Indicators of Services Sector

Indicator	2021	2022	2023	2024(a)	2024(a)	2025(a)
Port Services					**Jan-Aug**	**Jan- Aug**
Vessels Arrived (No)	4,180	4,073	4,809	4,562	2,987	3,335
Total Cargo Handled (MT '000)	109,356	100,376	103,794	120,203	80,713	82,370
Total Container Handled (TEU '000)	7,249	6,862	6,950	7,792	5,141	5,435
Transshipment (TEU '000)(b)	6,050	5,832	5,754	6,623	4,386	4,577
Telecommunication Sector					**End June**	**End June**
Fixed Telephone Lines (No.'000)	2,852	2,651	2,308	2,122	2,155	2,142
Cellular Phones (No.'000)	29,959	28,838	28,986	28,820	29,005	29,027
Wireless Phones (No.'000)	1,587	1,388	1,163	1,046	1,063	1,074
Internet and E-mail Subscribers (No. '000)	22,106	21,668	22,864	23,149	23,349	23,686
Health Sector						
Private Hospitals	243	250	n.a.	n.a.	n.a.	n.a.
Public Hospitals	618	617	n.a.	n.a.	n.a.	n.a.
No. of Beds (Government)	78,228	78,228	n.a.	n.a.	n.a.	n.a.
No. of Doctors (Government)	20,209	21,045	n.a.	n.a.	n.a.	n.a.
No. of Nurses (Government)	39,091	40,775	n.a.	n.a.	n.a.	n.a.
Financial Sector					**End June**	**End June**
Bank Branches and Other Outlets	7,369	7,378	7,522	7,613	7,602	7,489
Credit Cards in Use	2,054,985	2,054,896	1,987,857	1,990,271	1,926,931	2,093,738
					End Aug	**End Aug**
Licensed Finance Companies (e)	39	37	33	32	33	32
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	1,362,668	1,566,523
Tourist Earnings (USD Million)	507	1,136	2,068	3,169	2,167	2,290
Room Occupancy Rate	18.6	30.4	39.0	n.a.	n.a.	n.a.
Transport Services (New Registration)					**Jan-Aug**	**Jan- Aug**
Buses	281	404	685	146	111	853
Cars	3,495	1,489	1,816	1,644	964	26,894
Goods Transport Vehicles(c)	2,593	940	523	1,284	790	1,700
Motor Cycles	8,011	9,060	20,200	65,289	35,336	127,745
Three Wheelers	2,093	36	60	94	50	5,967
Tractors and Trailers(d)	12,616	5,285	4,020	5,070	3,190	5,176
Other (f)			586	883	642	3,246

Source : Central Bank of Sri Lanka, Department of Motor Traffic, Telecommunications Regulatory Commission of Sri Lanka, Sri Lanka Ports Authority
(a) Provisional
(b) Includes re-stowing
(c) Includes special purpose vehicles, motor lorry and lorry others
(d) Includes land vehicles and Lorry Trailers
(e) Excluding ETI Finance Ltd
(f) Includes dual purpose vehicles, quadricycles and motor homes

Transportation and Port Services

The transport sector expanded by 3.2 percent in the first half of 2025. The total number of new vehicle registrations increased dramatically by 264.6 percent to 96,056 in the first half of 2025, compared to 26,345 in the same period of 2024.

The registration of three-wheelers increased by 7,460.5 percent, motor cars increased by 2,110.1 percent, buses increased by 381.6 percent, dual-purpose vehicles increased by 301.4 percent, motorcycles increased by 226.1 percent, goods transport vehicles increased by 96.8 percent, and land vehicles increased by 56.7 percent in the first half of 2025.

Total containers handled increased by 2.1 percent in the first half of 2025 to 3.9 million Twenty-foot Equivalent Units (TEUs), compared to 3.8 million TEUs in the same period of 2024. Domestic container handling increased by 16.2 percent, and restowing container handling increased by 4.6 percent, whereas transshipment container handling decreased by 0.4 percent in the first half of 2025.

The total number of cargo handled increased by 2.1 percent to 60.8 million metric tons in the first half of 2025, compared to 59.5 million metric tons in the same period of 2024. Cargo discharge increased by 3.0 percent to 33.7 million metric tons in the first half of 2025, compared to 32.7 million metric tons in the same period of 2024. Cargo loaded also increased by 1.0 percent to 27.0 million metric tons in the first half of 2025 compared to 26.7 million metric tons in the same period of 2024.

Telecommunication

The telecommunication subsector recorded a growth of 3.0 percent in the first half of 2025. Telephone penetration, including cellular phones, decreased marginally by 1.0 percent to 141.8 per 100 persons as of end-June 2025, compared to 143.2 per 100 persons as of end-June 2024. Internet subscribers including, mobile internet connections increased by 1.4 percent to 23.7 million as of end-June 2025, compared to 23.3 million at end-June 2024. As of end-June 2025, the number of fixed-line telephones decreased marginally by 0.6 percent, while the number of cellular phones increased marginally by 0.1 percent as of end-June 2024 .

Unemployment

In the first quarter of 2025, the unemployment rate decreased to 3.8 percent, compared to 4.5 percent recorded in the first quarter of 2024. The unemployment rate among females and males in the first quarter of 2025 was recorded at 6.3 percent and 2.5 percent, respectively. Meanwhile, the youth unemployment rate (ages 15 – 24 years) for the first quarter of 2025 was recorded as 19.7 percent, marking the highest reported unemployment rate across all age groups. Among all age groups, unemployment among females is higher than that among males.

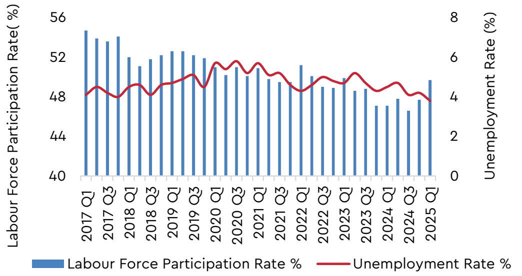
Meanwhile, the labour force participation rate increased slightly to 49.7 percent in the first quarter of 2025, compared to 47.1 percent in the first quarter of 2024. Labour force participation rate among females and males in the first quarter of 2025 was recorded at 32.0 percent and 70.1 percent, respectively.

TABLE 3.3 : Performance of Tourism Sector

Month	Tourist Arrivals					Tourist Earnings (USD Mn.)				
	2021	2022	2023	2024	2025(a)	2021	2022	2023	2024(b)	2025(a)
January	1,682	82,327	102,545	208,253	252,761	4.4	151.7	153.5	341.8	400.7
February	3,366	96,507	107,639	218,350	240,217	8.8	169.4	161.6	345.7	367.6
March	4,581	106,500	125,495	209,181	229,298	11.9	161.2	188.8	338.4	354.0
April	4,168	62,980	105,498	148,867	174,608	10.9	108.7	148.2	225.7	256.7
May	1,497	30,207	83,309	112,128	132,919	3.9	43.5	100.0	154.0	164.1
June	1,614	32,856	100,388	113,470	138,241	4.2	45.0	122.9	151.1	169.5
July	2,429	47,293	143,039	187,810	200,244	6.3	85.0	219.0	328.3	318.5
August	5,040	37,760	136,405	164,609	198,235	13.1	67.9	210.5	282.1	258.9
September	13,547	29,802	111,938	122,140		35.3	40.5	152.2	181.0	
October	22,771	42,026	109,199	135,907		59.3	54.9	136.7	185.6	
November	44,294	59,759	151,496	184,158		115.4	81.0	205.3	272.9	
December	89,506	91,961	210,352	248,592		233.3	127.4	269.3	362.1	
Total	**194,495**	**719,978**	**1,487,303**	**2,053,465**	**1,566,523**	**506.8**	**1,136.3**	**2,068.0**	**3,168.6**	**2,290.0**

Source : Sri Lanka Tourism Development Authority
(a) *Provisional*
(b) *Rivised*

FIGURE 3.7 : Labour Force Participation Rate and Unemployment Rate



Source : Department of Census and Statistics

3.3 Monetary Sector Developments

In January 2025, the CBSL decided to maintain the Overnight Policy Rate (OPR) at 8.00 percent, where it had remained since November 2024. In May 2025, the OPR was reduced by 25 bps to 7.75 percent, thus easing monetary policy further. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), which are linked to the OPR with pre-determined margins of ± 50bps, were reduced to 7.25 percent and 8.25 percent, respectively. As a result, most market interest rates declined including short-term rates, lending rates such as the Average Weighted Prime Lending Rate (AWPR) and the Average Weighted New SME Rate (AWNSR), and other key market deposit and lending rates. Treasury bill yields across all maturities in the primary auctions declined by 90–100 bps during January-July 2025, and longer-term yields also declined in both the primary and secondary markets. However, a slight increasing trend in yields was observed since mid-June 2025. The Statutory Reserve Ratio (SRR) has remained unchanged at 2.00 percent this year, having no direct impact on liquidity, with monetary conditions primarily influenced by policy rate changes and market-based measures.

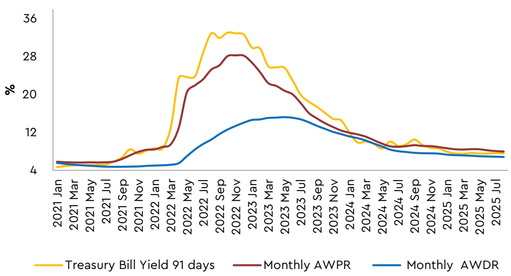
TABLE 3.4 : Sectoral Distribution of GDP Growth (%)

Sector	2020	2021	2022	2023[b]	2024[b]	First Half 2024[b]	First Half 2025[a]
Agriculture	**-0.9**	**1.0**	**-4.1**	**1.6**	**1.2**	**1.8**	**0.6**
Growing of Tea	-6.5	9.8	-15.7	-1.5	1.7	-6.4	5.9
Growing of Rice	7.7	-11.8	-11.8	17.1	3.1	5.5	2.4
Growing of Rubber	0.2	9.9	-9.8	-7.7	2.2	-3.6	-17.1
Growing of Cereal	59.8	2.8	-24.8	2.5	10.9	17.1	5.5
Growing of Vegetables	8.9	-1.7	-5.5	2.9	2.8	-0.1	-0.8
Animal Production	-3.7	8.2	-11.4	0.3	14.1	9.2	16.3
Forestry and Logging	-1.3	4.1	14.8	-7.3	-2.1	-0.8	6.8
Fishing	-17.0	1.5	-10.5	3.0	1.9	5.6	5.1
Industry	**-5.3**	**5.7**	**-16.0**	**-9.2**	**11.0**	**10.5**	**7.9**
Minning and Quarring	-10.9	1.4	-31.0	-22.3	19.4	14.2	14.5
Manufacturing Activities	-2.6	-46.2	-12.2	-3.2	7.6	8.8	7.0
Other Industries	-1.3	2.2	-4.3	-3.0	5.9	11.6	4.8
Construction	-9.4	4.4	-20.9	-20.8	19.4	13.7	9.6
Services	**-1.9**	**3.4**	**-2.6**	**-0.2**	**2.4**	**2.3**	**3.3**
Wholesale and Retail Trade	0.9	1.5	0.0	0.1	1.3	1.1	1.5
Transportation and Storage	-6.1	0.9	3.0	4.3	2.9	3.3	3.2
Accomodation and Food Service Activities	-40.8	1.7	27.0	26.0	31.4	34.4	12.7
Information and Communication	15.0	11.0	6.5	-2.2	4.2	4.0	3.0
Financial and Insurance Activities	9.2	7.0	-11.1	-10.3	-1.2	-1.7	13.5
Real Estate Activities	-1.0	4.4	-12.1	-6.0	4.2	4.4	3.2
Professional Services	-3.3	4.9	-17.7	2.4	3.5	3.9	2.7
Education, Human Health and Social Work Activities	2.5	3.7	-2.0	0.7	1.0	0.8	1.4
Public Administration and Defence	1.7	0.9	1.2	-1.7	-2.9	-3.7	-2.5
Other Services (Excluding Own-services)	-6.6	0.9	0.3	0.3	1.5	1.1	0.9
GDP	**-4.6**	**4.2**	**-7.3**	**-2.3**	**5.0**	**4.6**	**4.8**

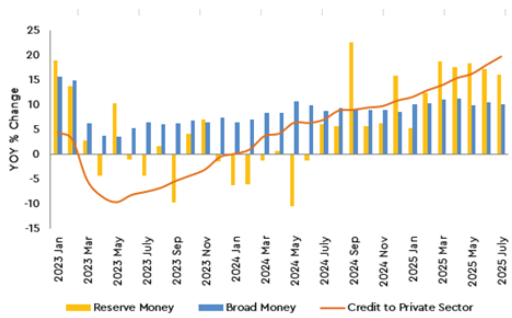
Source : Department of Census and Statistics
[a] *Provisional*
[b] *Revised*

With monetary policy easing and improvements in liquidity conditions, Broad Money Supply (M2b) increased to Rs. 15,175.8 billion at the end of June 2025, from Rs. 14,439.1 billion at the end of January 2025, supported by a notable rise in private sector credit and an expansion of net foreign assets. Credit flows to the private sector increased to Rs. 8,854.6 billion at the end of June 2025, from Rs. 8,149.8 billion at the end of January 2025. Reflecting improved external sector performance, Net Foreign Assets increased to Rs. 889.6 billion at the end of June 2025, from Rs. 747.4 billion at the end of January 2025.

FIGURE 3.8 : Yield Rates, Monetary Aggregates, Money Supply and Private Sector Credit Growth



Source : Central Bank of Sri Lanka



Source : Central Bank of Sri Lanka

Inflation

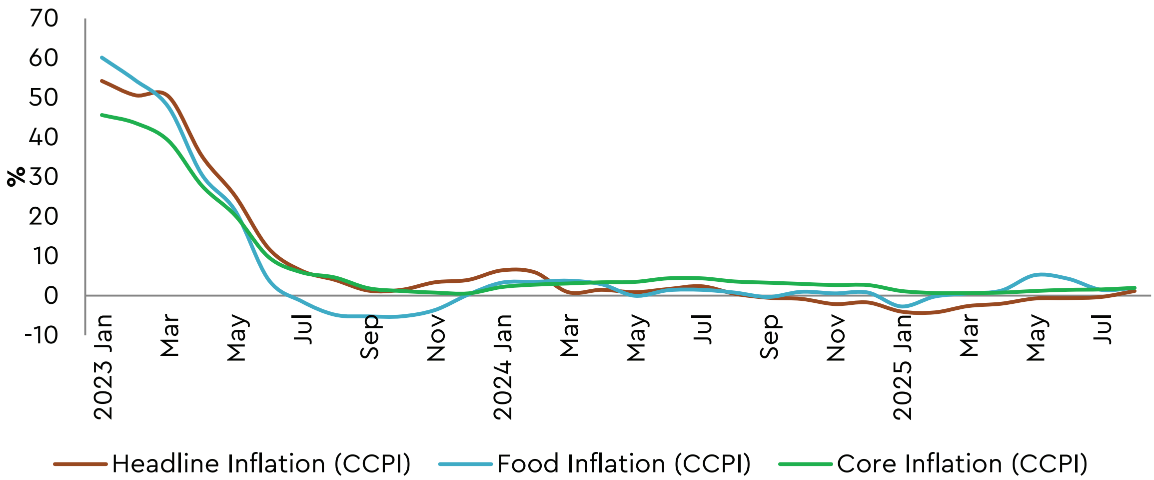
The headline inflation, as measured by the year-on-year (Y-O-Y) change of the Colombo Consumer Price Index (CCPI, 2021=100), increased to 2.1 percent in October 2025 from -4.0 percent recorded in January 2025. After entering negative territory in September 2024 (-0.5 percent), inflation reached its lowest point of -4.2 percent in February 2025 and returned to positive territory in August 2025 recording an inflation rate of 1.2 percent. The deflation was mainly due to supply-side factors, especially several rounds of downward revisions to electricity tariffs and fuel and LP gas prices, domestic supply-side improvements, and recovery in global supply chains. However, the deflationary trend began easing from March 2025, mainly due to the statistical base effect, with additional contribution from the upward revision to electricity tariffs in June 2025, highlighting the supply-driven nature of the deflationary episode.

Meanwhile, core inflation, which reflects underlying inflation trends in the economy by excluding volatile items such as food, energy, and transport, as measured by the Y-o-Y change in the CCPI (2021=100), remained positive throughout the first nine months of 2025. It increased to 2.2 percent in October 2025 from 1.2 percent recorded in January 2025. This relatively stable core inflation suggests that the deflation was not demand-driven, while the trend in core inflation reflects the second-round effects of revisions to energy prices.

Headline inflation, as measured by the Y-o-Y change in the National Consumer Price Index (NCPI, 2021=100), which also entered the negative territory in September 2024 (-0.2 percent), recorded its lowest point of -4.0 percent in January 2025. It returned to positive territory in May 2025, recording 0.6 percent, and gradually increased to 2.1 percent in September 2025. This early turnaround of the NCPI-based headline inflation reflects differences in consumption basket composition: the CCPI basket has a higher share of non-food items, whereas the NCPI basket places relatively greater weight on food. Similarly, core inflation, as measured by the NCPI (2021=100), entered negative territory in January 2025, recording -0.2 percent, returned to positive territory in May 2025, recording 0.3 percent, and gradually increased to 2.1 percent in September 2025.

While the deflation Sri Lanka experienced for several months provided some temporary relief to households and businesses recovering from prior inflationary shocks, the return of CCPI-based headline inflation into positive territory reduces the risk of deflationary expectations, which could delay spending and investment. This turnaround in August 2025, reflects that the economy has now absorbed the supply-side shocks. With the stabilization of energy and transport prices and the gradual improvement in demand conditions due to the ongoing accommodative monetary policy stance, the Central Bank of Sri Lanka expects inflation to remain positive for the remainder of 2025, gradually approaching the target of 5 percent.

FIGURE 3.9 : Movements in Headline, Core and Food Inflation



Source : Department of Census And Statistics
(2023 Jan Base Year 2013=100, from Feb 2023 base Year 2021=100)

TABLE 3.5 : Consumer Price Inflation (Base : 2021 = 100)

Month	2024 (base year 2021=100)				2025 (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	6.4	6.5	2.2	2.2	-4.0	-4.0	1.2	-0.2
February	5.9	5.1	2.8	2.7	-4.2	-3.9	0.7	-0.6
March	0.9	2.5	3.1	3.4	-2.6	-1.9	0.7	-0.6
April	1.5	2.7	3.4	3.0	-2.0	-0.8	0.8	-0.1
May	0.9	1.6	3.5	3.1	-0.7	0.6	1.2	0.3
June	1.7	2.4	4.4	3.9	-0.6	0.3	1.5	0.6
July	2.4	2.5	4.4	3.0	-0.3	0.7	1.6	0.9
August	0.5	1.1	3.6	2.3	1.2	1.5	2.0	1.5
September	-0.5	-0.2	3.3	1.9				
October	-0.8	-0.7	3.0	1.7				
November	-2.1	-1.7	2.7	1.5				
December	-1.7	-2.0	2.7	1.3				

Source : Department of Census and Statistics

3.4 Stock Market

Sri Lanka's stock market witnessed significant progress during the first eight months of 2025. The All-Share Price Index (ASPI, 1985 = 100), which measures the movement of share prices of all listed companies, increased significantly by 93.2 percent to 20,997 points as at end-August 2025, compared to 10,869 points as at end-August 2024. The Standard and Poor's Sri Lanka 20 (S&P SL20, 2004 = 1,000) index, which reflects the performance of 20 leading publicly traded companies listed on the Colombo Stock Exchange, also increased significantly by 98.7 percent to 6,077 points as at end-August 2025, from 3,059 points as at end-August 2024.

This upward trend was mainly driven by the increased participation from domestic investors, supported by reforms introduced by the Government aimed at improving the business environment and boosting investor confidence, stronger corporate performance, a positive economic outlook, and eased monetary conditions.

Market capitalization, which represents the total value of all listed companies on the Colombo Stock Exchange increased by 71.8 percent to Rs. 7,425 billion as at end-August 2025, compared to Rs. 4,321 billion recorded at end-August 2024. This growth in market capitalization reflects the expanding value of listed companies and the increasing attractiveness of the Sri Lankan stock market to investors. Moreover, the CSE recorded a remarkable increase in the daily turnover by 217.7 percent to Rs. 4,841 million as at end-August 2025, compared to Rs. 1,524 million recorded at end-August 2024. This reflects an exceptional surge in trading activity on the exchange, a substantial expansion of market liquidity, and enhancement in investor confidence and participation.

3.5 External Sector Developments

Sri Lanka's external sector demonstrated improved performance in the first eight months of 2025, benefitting from increased earnings from exports and higher inflows from workers' remittances and earnings from tourism. Export earnings increased by 6.7 percent to USD 9,076.6 million while expenditure on imports increased by 10.5 percent to USD 13,340.9 million, which in turn widened the trade deficit to USD 4,264.2 million in the first eight months of 2025, from USD 3,566.2 million in the same period of 2024. Earnings from tourism increased by 5.7 percent to USD 2,290.0 million in the first eight months of 2025 from USD 2,167.0 million in the same period of 2024 owing to an increase in tourist arrivals. Meanwhile, workers' remittances increased by 19.3 percent to USD 5,116.0 million in the first eight months of 2025 from USD 4,288.2 million in the same period of 2024.

The overall Balance of Payments (BoP) recorded a surplus of USD 522.5 million during the first half of 2025 compared to the surplus of USD 1,761.1 million in the same period of 2024. The Colombo Stock Exchange (CSE) recorded a net outflow of USD 69.1 million in the first eight months of 2025, compared to a net inflow of USD 43.6 million in the same period of 2024. Net

TABLE 3.6 : Movements in Capital Market

Indicators	2019	2020	2021	2022	2023	2024	End Aug 2024	End Aug 2025[(a)]
All Share Price Index (1985 = 100)	6,129	6,774	12,226	8,490	10,654	15,945	10,869	20,997
S&P SL 20 Index	2,937	2,638	4,233	2,636	3,068	4,862	3,059	6,077
Market Capitalization (Rs. Billion)	2,851	2,961	5,489	3,847	4,249	5,696	4,321	7,425
No. of Listed Companies in Trading	289	283	296	290	290	284	286	286
Annual Average Turnover (Rs.Billion)	171	397	1173	687	411	538	242	755
Foreign Sales (Rs. Million)	68,272	104,165	86,689	36,863	37,088	52,441	41,736	58,816
Foreign Purchases (Rs. Million)	56,537	52,889	39,410	67,488	41,451	42,524	35,926	36,527
Net Purchases (Rs. Million)	-11,735	-51,276	-47,279	30,625	4,363	-9,918	-5,809	-22,289

Sources : Colombo Stock Exchange and Central Bank of Sri Lanka
[(a)] *Provisional*

flows to the government securities market were recorded as an inflow of USD 140.2 million in the first eight months of 2025, compared to a net outflow of USD 251.4 million in the same period of 2024. Gross Official Reserves (GOR) stood at USD 6.2 billion by the end of August 2025, including the SWAP facility from the People's Bank of China. Meanwhile, the Sri Lankan rupee appreciated by 3.3 percent against the USD as of end-August 2025.

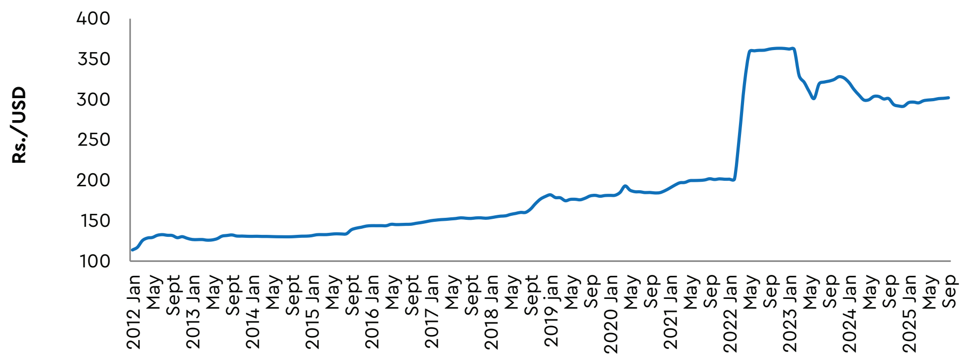
Exports

Earnings from exports increased by 6.7 percent to USD 9,076.6 million in the first eight months of 2025, compared to USD 8,506.3 million in the same period of 2024, mainly due to the increase in earnings from industrial and agricultural exports with the economic revival. Industrial export earnings contributed 77.3 percent of the total export earnings, while agricultural and mineral export earnings accounted for 22.4 percent and 0.2 percent of total export earnings, respectively.

Earnings from industrial exports increased by 5.2 percent to USD 7,015.4 million in the first eight months of 2025, from USD 6,665.8 million in the same period of 2024 mainly due to increased export earnings from textiles and garments and food, beverages, and tobacco products. Export earnings from textiles and garments increased by 6.9 percent to USD 3,595.3 million in the first eight months of 2025, from USD 3,364.8 million in the same period of 2024. Export earnings from food, beverages and tobacco products increased by 35.0 percent to USD 577.3 million while export earnings decreased from petroleum products by 7.8 percent to USD 654.7 million and from rubber products by 6.7 percent to USD 618.6 million in the first eight months of 2025.

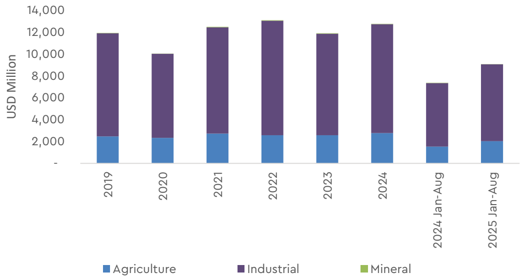
FIGURE 3.10 : Trade Balance and Exchange Rate Movements

Source : Central Bank of Sri Lanka



Source : Central Bank of Sri Lanka

FIGURE 3.11 : Composition of Exports



Source : Central Bank of Sri Lanka

Earnings from agricultural exports increased by 12.5 percent to USD 2,030.2 million in the first eight months of 2025, from USD 1,804.0 million in the same period of 2024, with increased earnings from tea, coconut, spices, minor agricultural products, vegetables, rubber, and unmanufactured tobacco. Earnings from tea exports increased by 8.9 percent to USD 1,026.0 million in the first eight months of 2025 from USD 942.3 million in the same period of 2024. In addition, an increase in export earnings was recorded from coconut by 35.0 percent to USD 367.5 million, spices by 4.8 percent to USD 282.6 million, and minor agricultural products by 26.5 percent to USD 132.8 million, while export earnings declined from seafood by 1.6 percent to USD 161.9 million in the first eight months of 2025. Meanwhile, mineral export earnings dropped by 23.8 percent to USD 14.3 million in the first eight months of 2025 from USD 18.8 million in the same period of 2024.

Imports

Expenditure on imports increased by 10.5 percent to USD 13,340.9 million in the first eight months of 2025 compared to USD 12,072.5 million in the same period of 2024 due to the increase in import expenditure on consumer and investment goods driven by increased demand, with the revival of economic activities, removal of import restrictions, and also with the impact of high commodity prices of the global markets. Import expenditure on consumer, intermediate and investment goods of the total import expenditure accounted for 24.7 percent, 55.7 percent, and 19.5 percent, respectively.

Import expenditure on consumer goods increased notably by 51.4 percent to USD 3,294.7 million in the first eight months of 2025, compared to USD 2,176.3 million in the same period of 2024, due to increased import expenditure on food and beverages and nonfood consumer goods. Import expenditure on food and beverages increased by 16.9 percent to USD 1,419.6 million in the first eight months of 2025, from USD 1,214.1 million in the same period of 2024, with the increased import expenditure recorded mainly from dairy products and oils and fats. Expenditure on non-food consumer goods imports increased notably by 94.9 percent to USD 1,875.0 million from USD 962.2 million due to the increase in import expenditure mainly on personal vehicles, medical and pharmaceuticals, clothing and accessories, telecommunication devices, and home appliances.

Import expenditure on intermediate goods decreased by 4.0 percent to USD 7,437.4 million in the first eight months of 2025 from USD 7,750.0 million in the same period of 2024 due to the decline in expenditure mainly on fuel and textiles and textile articles. Import expenditure on fuel declined by 13.0 percent to USD 2,520.6 million in the first eight months of 2025, with a decline in import expenditure on refined petroleum by 14.4 percent to USD 1,846.2 million, crude oil by 5.4 percent to USD 539.3 million and coal by 20.7 percent to USD 135.2 million. Import expenditure on textiles and textile articles decreased by 2.5 percent to USD 1,793.5 million in the first eight months of 2025, from USD 1,839.3 million in the same period of 2024. Import expenditure on investment goods increased by 21.3 percent to USD 2,597.2 million in the first eight months of 2025, from USD 2,140.3 million in the same period of 2024. This was mainly due to the increase in import expenditure on machinery and equipment by 15.3 percent to USD 1,658.4 million, building materials by 7.9 percent to USD 649.6 million, and transport equipment by 192.4 percent to USD 286.7 million due to the improvement in investment activities, with the revival of the economy.

Tourism and Workers' Remittances

Earnings from tourism increased by 5.7 percent to USD 2,290.0 million in the first eight months of 2025, compared to USD 2,167.0 million in the same period of 2024. This growth was supported by a strong and diversified recovery in the tourism sector, driven by Government initiatives such as visa fee waivers for selected countries, targeted international marketing campaigns and improved air connectivity. Accordingly, tourist arrivals increased by

FIGURE 3.12 : Composition of Impots

Source : Central Bank of Sri Lanka

TABLE 3.7 : External Trade

USD Mn.

Category	2022	2023	2024[(b)]	Jan-Aug 2024[(b)]	Jan-Aug 2025[(a)]
Exports	**13,106**	**11,911**	**12,772**	**8,506**	**9,077**
Agricultural Exports	**2,568**	**2,567**	**2,775**	**1,539**	**2,030**
Tea	1,259	1,310	1,436	818	1,026
Other Agricultural Products	1,309	1,257	1,339	722	1,004
Industrial Exports	**10,465**	**9,278**	**9,947**	**5,805**	**7,015**
Textile and Garments	5,952	4,879	5,061	2,920	3,595
Food, Beverages and Tobacco	520	539	652	376	577
Rubber Products	977	902	976	588	619
Machinery and Mechanical Appliances	581	598	486	293	313
Petroleum Products	568	539	1,064	616	655
Other Industrial Exports	1,868	1,820	1,710	1,012	1,256
Mineral Exports	**50**	**39**	**25**	**16**	**14**
Unclassified	**23**	**28**	**26**	**16**	**17**
Imports	**18,291**	**16,811**	**18,841**	**12,073**	**13,341**
Consumer Goods	**2,813**	**3,044**	**3,466**	**2,176**	**3,295**
Food and Beverages	1,608	1,693	1,914	1,214	1,420
Other Consumer Goods	1,205	1,351	1,551	962	1,875
Intermediate Goods	**12,439**	**11,007**	**11,915**	**7,750**	**7,437**
Petroleum	4,897	4,703	4,354	2,897	2,521
Textiles and Garments	3,065	2,371	2,847	1,839	1,794
Wheat and Maize	303	338	383	205	205
Other	4,174	3,595	4,331	2,810	2,918
Investment Goods	**3,030**	**2,745**	**3,448**	**2,140**	**2,597**
Machinery and Equipment	1,969	1,868	2,363	1,439	1,658
Building Materials	926	775	927	602	650
Transport Equipments	132	99	57	98	287
Other	3	3	3	2	3
Unclassified	**9**	**28**	**13**	**6**	**12**
Trade Deficit	**-5,185**	**-4,900**	**-6,069**	**-3,566**	**-4,264**

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

15.0 percent to 1,566,523 persons in the first eight months of 2025, from 1,362,668 persons in the same period of 2024. The highest tourist arrivals were recorded from India, the United Kingdom, Russia, Germany, China, France, and Australia. Meanwhile, workers' remittances grew by 19.3 percent to USD 5,116.0 million in the first eight months of 2025 compared to USD 4,288.2 million in the same period of 2024 due to the receipt of remittances through formal channels, with the government's policy measures to promote official remittance channels.

3.6 World Economic Outlook

The global economy is gradually stabilizing after the disruptions caused by the COVID-19 pandemic, the Ukraine-Russia conflict, policy uncertainty and the cost of living crisis, yet challenges continue to shape an uneven path forward. With increased trade tension, climate change, and heightened policy uncertainty contributing to a deterioration in the world's economies across most countries. However, the negative impact was minimized due to quick private sector adjustments and open global trade. According to the October Global Economic Outlook, issued by International Monitory Fund global real GDP is expected to stabilize 3.2, 3.1 in 2025 and 2026 respectively. Global inflation is projected to be 4.2% in 2025 and 3.7% in 2026, with notable variation across countries.

Global financial conditions have tightened on average in 2025 compared to last year, driven by market volatility and reduced risk appetite amid elevated trade policy uncertainty. However, most equity markets gains driven by a surge in Artificial Intelligence stocks. Emerging Markets and Developed Economies (EMDEs) financial conditions were tightened following the USA tariff announcements with outflows from equity, bonds, and other financial assets. While sovereign spread rose, but remained manageable, currencies generally appreciated against US Dollar. Monetary policy remained cautious in EMDEs, balancing inflation, capital flow risk, and high debt burden amid global uncertainties.

Global Trade and Commodity Markets

With the United States imposing tariffs on a wide range of countries, trade shocks were witnessed on advanced, emerging, and low-income economies. These tariffs together with the Russian-Ukraine war disrupted global supply chains and placed significant pressure on trade flows.

Commodity prices have eased in early 2025, due to slower growth, trade barriers, and policy uncertainty. Fuel prices are expected to decline by around 7.9 percent in 2025 and 3.7 percent in 2026, respectively, while metal prices including gold are rose by 12.8 percent between March and August 2025.

Regional Developments

Growth forecast for advanced economies in 2025, has been downgraded, to 1.6 percent primarily due to rising trade barriers together with policy uncertainty, financial market uncertainty, and weaker investor confidence. The U.S. economy is projected to slow sharply to 2.0 percent in 2025, following accelerated import demand, weaker consumption, and a weakening labor market. Euro region growth is set to 1.2 percent in 2025, 1.1 percent in 2026, mainly owing to tariffs, policy uncertainty, weaker external demand on trade, and investment. EMDEs growth is projected to 4.2 percent in 2025 and 4.0 percent in 2026. The growth is broad-based, affecting nearly 60 percent of EMDEs, and this reflects trade and financial vulnerabilities, high debt levels, limited capacity to absorb internal and external shocks. However, this growth is stronger than expected, driven by early gains in international trade and solid domestic consumption, boosted by fiscal expansion in 2025, despite the negative effects of rising uncertainty and tariffs. Growth in low-income countries is forecasted to 4.4 percent in 2025, rising to 5.0 percent in 2026–2027, but remains highly uncertain due to the ongoing trade war, high debt levels, and policy uncertainty.

Global Economic Risks

Downside risk continues to dominate the outlook, with elevated trade policy uncertainty representing the largest threat to global trade, investments, and growth.

Trade tensions, financial market deleveraging, and capital outflows from vulnerable EMDEs could weaken demand, investment, and employment, particularly in export-intensive sectors. Geographical conflicts and extreme weather events add further downside pressures. On the upside, global growth could be stronger if trade negotiations lead to tariff reductions, technology-led investment increases, or additional fiscal support, though these could also raise inflation and fiscal risks.

Impact of Global Outlook on the Sri Lankan Economy

Sri Lanka could achieve GDP growth of around 5.0 percent despite prevailing global vulnerabilities. In August 2025, U.S tariffs on Sri Lankan exports were reduced to 20 percent from earlier rates 44 percent and 30 percent. Despite the cut, the tariff remains high and continues to pressure key sectors such as apparel, as the U.S. is this industry's main market. This will reduce export earnings, threaten jobs, and slow GDP growth. With the upgrade of Sri Lanka's sovereign rating from default to CCC+, the country has regained access to global markets, which is expected to ease external financing pressures, investor confidence, and economic stability. Although Sri Lanka experienced disinflation up to July 2025, global risks such as trade policy uncertainty, financial market volatility, and geopolitical conflicts continue to pose challenges that could push inflation higher in the future.

TABLE 3.8 : Key Indicators of World Economy – 2025 (Projection)

Country	GDP Growth (Annual percent change)	Inflation (Percent)	Unemployment (Percent)	Fiscal Deficit (Percent of GDP)	Gross Debt (Percent of GDP)
Argentina	4.5	41.3	7.5	0.4	78.8
Australia	1.8	2.6	4.2	-2.7	51.0
Brazil	2.4	5.2	7.1	-8.4	91.4
Canada	1.2	2.0	6.9	-2.2	113.9
Chile	2.5	4.3	8.6	-2.1	42.7
China	4.8	0.0	5.1	-8.6	96.3
France	0.7	1.1	7.6	-5.4	116.5
Germany	0.2	2.1	3.7	-2.5	64.4
Greece	2.0	3.1	9.0	0.0	146.7
India	6.6	2.8	4.9	-7.1	81.4
Indonesia	4.9	1.8	5.0	-2.8	40.8
Italy	0.5	1.7	6.7	-3.3	136.8
Japan	1.1	3.3	2.6	-1.3	229.6
Korea	0.9	2.0	3.0	-1.5	53.4
Malaysia	4.5	1.6	3.0	-3.6	70.4
Mexico	1.0	3.9	2.9	-4.3	58.9
Russia	0.6	9.0	2.4	-2.7	23.1
Singapore	2.2	0.9	2.1	3.1	175.6
South Africa	1.1	3.4	32.7	-6.0	77.3
Spain	2.9	2.4	10.8	-2.7	100.4
Thailand	2.0	0.2	1.0	-2.6	64.9
United Kingdom	1.3	3.4	4.7	-4.3	103.4
United States	2.0	2.7	4.2	-7.4	125.0
Vietnam	6.5	3.4	2.3	-3.3	32.0

Sources : World Economic Outlook, IMF, October 2025, Fiscal Monitor, IMF, October 2024, Ministry of Finance and Central Bank of Sri Lanka

Performance of State Owned Enterprises | 04

4.1 Overview

The main 52 State-Owned Enterprises (SOEs) reported a total profit of Rs. 307.1 billion during the first eight months of 2025, of which eight SOEs have added Rs. 294.3 billion in profits to the SOE sector. The banking sector performance has improved significantly during the first eight months of 2025, as witnessed by an improvement in profit by Rs. 69.8 billion to Rs. 147.1 billion by the three largest state-owned banks, Bank of Ceylon, People's Bank, and National Savings Bank, compared to the same period in 2024.

The SOE sector is currently undergoing several reforms, including the proposed Public Commercial Enterprises Management Act, closure, restructuring or merger of several Non-Commercial SOEs as per the recommendations of the Cabinet-appointed committee to review Non-Commercial SOEs, and the approval of the Cabinet of Ministers to liquidate 33 SOEs that are not at a functional level. Among them, the proposed Public Commercial Enterprises Management Act is expected to manage all public commercial enterprises professionally, independently, productively, and according to commercial principles, while being subject to the highest standards of governance, accountability and scrutiny. Further, as per a 2025 Budget proposal, a company called "Lanka Metro Transit (Pvt) Ltd" was incorporated as a subsidiary of the Sri Lanka Transport Board, with the objective of operating a metro bus service for the mobility needs of the urban and suburban commuters.

The Committee with professionals, appointed as per the Cabinet-approved State-Owned Banks (SOB) Reform Policy submitted their recommendations for all SOBs to appoint independent directors, subject to fit and propriety clearance from the Central Bank of Sri Lanka. In the meantime, with the enactment of the Sri Lanka Electricity (Amendment) Act, No. 14 of 2025 in August 2025, four companies fully owned by the government were incorporated to facilitate the reform process of the Ceylon Electricity Board. These reforms are expected to improve efficiency, transparency, and accountability in the power sector.

The collection of levies and dividends from the SOEs decreased to Rs. 14.6 billion in the first eight months of 2025, compared to Rs. 26.7 billion in the same period of 2024.

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 9 percent to Rs. 5,433 billion as at end–August 2025, from Rs. 4,985 billion as at end-2024. During the first eight months of 2025, the deposit base of the bank increased by 7.7 percent to Rs. 4,535 billion, compared to Rs. 4,208 billion as at end-2024. Loans and advances increased marginally by 6.1 percent to Rs. 2,311 billion as at end-August 2025, from Rs. 2,178 billion as at end-2024. Stage III loan ratio of the bank has slightly deteriorated to 7.58 percent as at end-August 2025, compared to 7.20 percent as at end-2024. The BoC recorded a Profit before Tax (PBT) of Rs. 78.7 billion in the first eight months of 2025, a significant increase compared to Rs. 31.3 billion PBT reported in the same period of 2024. This growth was primarily driven by the increase in net interest income.

People's Bank

People's Bank's (PB) asset base increased by 9 percent to Rs. 3,598 billion as at end-August 2025, from Rs. 3,298 billion as at end-2024. The deposit base of the bank increased by 11.1 percent to Rs. 3,173 billion as at end-August 2025, compared to Rs. 2,855 billion as at end-2024. Loans and advances increased marginally to Rs. 1,610 billion as at end-August 2025, from Rs. 1,522 billion as at end-2024. Stage III loan ratio of the bank has improved to 9.3 percent as at end-August 2025, compared to 10.3 percent as at end-2024. PB recorded a profit before tax of Rs. 37.8 billion in the first eight months of 2025, a significant increase of 56.2 percent compared to Rs. 24.2 billion in the same period of 2024. This was mainly due to the substantial improvement in net interest income.

National Savings Bank

National Savings Bank's (NSB) asset base recorded a marginal increase to Rs. 1,821 billion as at end-August 2025, from Rs. 1,752 billion as at end-2024. The deposit base of the bank increased by 1.9 percent to Rs. 1,586 billion as at end-August 2025 from Rs. 1,556 billion as at end-2024. The loans and advances balance decreased by 2.4 percent to Rs. 519 billion as at end-August 2025, compared to Rs. 532 billion as at end-2024. Stage III loan ratio of the bank has improved to 2.82 percent as at end-August 2025, compared to 5.18 percent as at end-2024. NSB recorded a profit before tax of Rs. 30.5 billion in the first eight months of 2025, compared to Rs. 21.7 billion in the same period of 2024, mainly due to the significant increase in net interest income.

Sri Lanka Insurance Corporation Limited

Sri Lanka Insurance Corporation Limited (SLIC) reported a total revenue of Rs. 5 billion for the first eight months of 2025, compared to Rs. 3 billion in the same period of 2024, primarily driven by higher dividend income of Rs. 2.7 billion, up from Rs. 0.4 billion in the same period of 2024. SLIC recorded a profit before tax of Rs. 4.4 billion for the first eight months of 2025, marking a substantial increase from Rs. 1.8 billion reported during the same period of 2024. Total assets stood at Rs. 125.1 billion as at end-August 2025, rising from Rs. 115.2 billion at the end of 2024, reflecting a strengthened financial position.

SLIC's two subsidiaries in insurance business reported improved performance during the first eight months of 2025. Sri Lanka Insurance Corporation Life Limited reported a PBT of Rs. 21.3 billion for the first eight months of 2025, compared to Rs. 18.3 billion in the same period of 2024, demonstrating steady growth in its life insurance business. Meanwhile, Sri Lanka Insurance Corporation General Limited recorded a PBT of Rs. 2.8 billion, up from Rs. 2.3 billion during the same period of 2024, reflecting continued resilience in its general insurance operations.

Ceylon Electricity Board

The revenue from the sale of electricity decreased significantly by 32 percent to Rs. 271.5 billion in the first eight months of 2025, compared to Rs. 402.1 billion in the same period of 2024, despite the increase in demand for electricity by 5 percent to 10,647 GWh in the first eight months of 2025, against 10,119 GWh in the same period of 2024. This is mainly due to the reduction of average end-user tariffs, where the sales revenue per unit declined to Rs. 25.50 per kWh in the first eight months of 2025, compared to Rs. 39.74 per kWh in the same period of 2024.

However, the direct generation cost of the CEB declined by 7 percent to Rs. 194.2 billion in the first eight months of 2025, compared to Rs. 208 billion in the same period of 2024 primarily due to favorable weather conditions that reduced reliance on thermal generation. Despite the decline in generation cost, due to the reduction of average end-user tariffs in 2025, CEB recorded a gross loss of Rs. 2.7 billion in the first eight months of 2025, compared to the gross profit of Rs. 116.5 billion in the same period of 2024. As such, CEB recorded a net loss of Rs. 4.9 billion in the first eight months of 2025, against the net profit of Rs. 133.7 billion recorded in the same period of 2024, which included the gain of Rs. 26 billion on the disposal of shares of its subsidiary, Lanka Transformers Limited.

During the first eight months of 2025, the generation mix slightly changed to hydro: thermal (coal): NCRE, wind & rooftop: and thermal (fuel) at 35:30:24:11 in comparison to 31:35:20:14 in the same period of 2024. The expansion of hydro and renewable energy, particularly rooftop solar, helped reduce the generation cost. Accordingly, the cost per unit at the selling point decreased to Rs. 27.08 per kWh in the first eight months of 2025, compared to Rs. 30.76 per kWh in the same period of 2024.

As at end-August 2025, the trade payables of CEB recorded as Rs. 36.7 billion, of which 48 percent is due to be settled to independent power producers, amounting to Rs. 17.7 billion, compared to Rs. 14.1 billion as at end-2024.

Three tariff revision proposals for 2025 were submitted by the CEB to Public Utilities Commission of Sri Lanka, which resulted the end-user average tariff reduction of 20 percent in January, followed by an increase of 15 percent in June, and no change in October.

Meantime, amendments were proposed to the Sri Lanka Electricity Act, No. 36 of 2024, and accordingly, the Sri Lanka Electricity (Amendment) Act, No. 14 of 2025, was certified on 18 August 2025. Consequently, four government-owned companies were established for generation, transmission, distribution, and the National System Operator in line with the provisions of the Act.

TABLE 4.1 : Composition of Electricity Generation and Capacity

	2024 Jan- Aug Generation			2025 Jan -Aug (Provisional) Generation		
	Installed Capacity MW	Percentage on Total Generation	Net Gen-GWh	Installed Capacity MW	Percentage on Total Generation	Net Gen -GWh
Hydro	1,413	31	3,447	1,533	35	4,169
Thermal – CEB Oil	801	10	1,129	801	7	849
Thermal – IPP Oil	482	4	509	482	4	491
Wind – CEB	104	2	264	104	2	258
Thermal – Coal	900	35	3,875	900	30	3,466
NCRE & Wind	784	13	1,423	841	13	1,546
Rooftop Solar	937	5	523	1,684	9	1,027
Total	**5,421**	**100**	**11,169**	**6,345**	**100**	**11,805**

Source: Ceylon Electricity Board

Ceylon Petroleum Corporation

The revenue of Ceylon Petroleum Corporation (CPC) declined by 15.1 percent to Rs. 595 billion during the first eight months of 2025, compared to Rs. 701 billion recorded in the same period of 2024. As a result of lower revenue, despite a drop in cost of sales, CPC's gross profit decreased by 30 percent to Rs. 43.4 billion in the first eight months of 2025, compared to Rs. 62.4 billion in the same period of 2024.

CPC's net profit also declined by 19 percent to Rs. 22.1 billion during the first eight months of 2025, compared to Rs. 27.4 billion in the same period of 2024. This decrease in profitability was mainly driven by the drop in sales revenue, a significant decline of 60 percent in other operating income to Rs. 0.4 billion from Rs. 1.1 billion, and the sharp decline in realized exchange rate variation to Rs. 0.09 billion from Rs. 3.3 billion in the first eight months of 2024.

CPC's payables to National Iranian Oil Company (NIOC) decreased from USD 160.9 million as at end-2024 to USD 105.9 million as at end-September 2025. In addition, CPC's payables to BoC amounted to USD 80 million for import and modality bills as at end-August 2025.

The total outstanding trade debt of CPC increased by 38 percent to Rs. 13.7 billion as at end-August 2025, compared to Rs. 9.9 billion as at end-2024. This increase was mainly due to the enhanced credit facilities granted to dealers with effect from April 2025 and the recognition of Monthly Utility Fees (MUF) for the years 2024 and 2025, following a court decision. Furthermore, additional credit facilities extended to the West Coast Power Plant also contributed to the rise in trade receivables.

SriLankan Airlines Limited

During the period from April to August 2025, passenger revenue of SriLankan

Airlines (SLA) grew by 7 percent to Rs. 95.4 billion, supported by a strong recovery in passenger demand, with a load factor improvement to 82.6 percent from 76.4 percent and passenger volumes growth by 22 percent. However, cargo revenue declined by Rs. 1.8 billion and other income fell by Rs. 2.5 billion, resulting in limited overall revenue growth. Operating expenses increased by 3 percent during the period from April to August 2025, mainly due to higher aircraft maintenance, stations, and traffic costs, partly offset by reduced fuel expenses. The company reported a loss of Rs. 4.1 billion from air transportation, which converted to a profit of Rs. 4.9 billion after accounting for airport services and other income, including ground handling and training. However, for the period from April to August 2025, SLA recorded a group net loss of Rs. 12.6 billion, compared to the loss of Rs. 4.2 billion in the same period of 2024, largely due to significant exchange losses of Rs. 8.5 billion and higher finance costs, despite the improved net income of Rs. 2.6 billion from SriLankan Catering.

As at end-August 2025, total assets stood at Rs. 198.6 billion, an increase from Rs. 182 billion as at end March-2025, reflecting additions to right-of-use assets and receivables. The accumulated losses widened to Rs. 631.5 billion as at end-August 2025, continuing to weaken the balance sheet. The Cabinet of Ministers has approved a restructuring proposal addressing the airline's local debt obligations, enabling the conversion or deferment of selected government and state-owned bank loans. This measure is expected to ease liquidity pressures and improve the airline's financial stability, while broader restructuring efforts continue to address its long-term sustainability.

National Water Supply and Drainage Board

The National Water Supply and Drainage Board (NWS&DB), as at end-August 2025 was able to increase the piped-borne water and safe drinking water supply coverage in the country to 63.7 percent and 99.1 percent, respectively, compared to 62.4 percent and 98.1 percent, respectively as at end-August 2024.

During the first eight months of 2025, the NWS&DB recorded a revenue of Rs. 56.1 billion against the revenue of Rs. 57.2 billion in the same period of 2024. Meantime, the cost of sales during the first eight months of 2025, has also declined by 10 percent to Rs. 20.4 billion mainly due to the reduction in the pumping cost associated with the electricity tariff reduction in January 2025. Hence, the Board recorded a gross profit of Rs. 35.7 billion for the period under review, against Rs. 35.8 billion for the same period in 2024. Accordingly, the Board recorded a net profit of Rs. 25.2 billion against the net profit of Rs. 17.6 billion in the same period of 2024, due to the notable decline in the local interest rates.

Both the water production and water sales for the first eight months of 2025 increased by around 2 percent and stood at 568 million m^3 and 429 million m^3, respectively, compared to the same period of previous year. Further, Non-Revenue Water (NRW) improved slightly to 24.52 percent in the first eight months of 2025, compared to 24.69 percent in the same period of 2024.

Sri Lanka Ports Authority

The performance of the Sri Lanka Ports Authority (SLPA) for the first eight months of 2025, reflects strong operational growth and improved profitability compared to the same period in 2024. Revenue increased by 12.4 percent to Rs. 55.3 billion, supported by higher port throughput and operational efficiency, while direct expenses declined by 4.6 percent, resulting in a 28 percent rise in gross profit. During the first eight months of 2025, other operating income rose by 44 percent, reflecting improved returns from port-related services. Despite a moderate 6 percent increase in administrative expenses, operating profit grew by 41 percent to Rs. 37.3 billion during the period under review, compared to the same period in 2024. Favourable foreign exchange movements further strengthened performance, resulting in a 48 percent increase in profit before tax to Rs. 39.2 billion in the first eight months of 2025, compared to Rs. 26.4 billion in the same period of 2024.

On the financial position, total assets increased by 6.6 percent to Rs. 789.8 billion as at end-August 2025, mainly due to ongoing capital investments in port infrastructure. The Cabinet of Ministers has also approved the establishment of a new subsidiary to operate the East Container Terminal (ECT), and a substantial portion of SLPA's investment will be transferred to this entity once the process is completed. Equity strengthened by 7.8 percent owing to higher retained earnings. The Government has requested a levy of Rs. 10 billion from SLPA, of which Rs. 2 billion has already been remitted to the Consolidated Fund. Overall, SLPA remains financially sound with strong profitability, growing equity, and a healthy balance sheet position.

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

During the first eight months of 2025, Airport & Aviation Services (Sri Lanka) (Private) Limited (AASL) recorded a total revenue of Rs. 35.8 billion, marking a 25 percent increase compared to Rs. 28.5 billion in the same period of 2024. This growth was primarily driven by a 31 percent rise in non-aeronautical revenue, led by a near-doubling of income from the embarkation levy.

In the meantime, total operational expenditure decreased marginally to Rs. 14.8 billion in the first eight months of 2025, from Rs. 15.3 billion in the same period of 2024, largely due to a 31 percent reduction in depreciation. However, finance expenses increased by 45 percent to Rs. 1.2 billion during the period under review, and the company recorded a substantial exchange loss of Rs. 2.5 billion, in contrast to a gain of Rs. 876 million in the same period of 2024. Nevertheless, profit before tax increased to Rs. 21.9 billion, a 17 percent year-on-year growth. After accounting for a higher tax provision of Rs. 5.9 billion, net profit stood at Rs. 16.1 billion, up from Rs. 14.9 billion in the same period of 2024.

As at end-August 2025, AASL demonstrates a strong financial position with total assets amounting to Rs. 249 billion, underpinned by significant investments in property, plant, and equipment, and robust short-term investments over Rs. 113 billion. The company reported a healthy equity of Rs. 106.5 billion, primarily driven by retained earnings and revaluation reserves. However, total borrowings remain substantial at Rs. 102 billion as at end-August 2025, reflecting heavy infrastructure investments, notably in the airport development project.

TABLE 4.2 : Profit before Tax of 52 State Owned Enterprises

Rs.Mn.

	Enterprise	2023 Actual	2024 (Provisional)	2025 Jan.- Aug. (Provisional)
1	Bank of Ceylon	40,342	106,904	78,714
2	People's Bank	15,345	41,584	37,829
3	National Savings Bank	4,287	26,431	30,582
4	State Mortgage & Investment Bank	-1,165	158	364
5	HDFC Bank	2,650	412	315**
6	Pradeshiya Sanwardena Bank	1,183	3,210	2,855
7	Employees' Trust Fund Board	64,959	63,177	38,660***
8	Sri Lanka Insurance Corporation Limited	10,704	3,546	4,432
9	National Insurance Trust Fund	13,329	16,793	13,837
10	Sri Lanka Export Credit Insurance Corporation	1,056	852	472
11	Agriculture and Agrarian Insurance Board	-3,885	-3,182	574
12	Ceylon Electricity Board	57,633	144,394	-4,917
13	Ceylon Petroleum Corporation	120,346	33,265	22,130
14	Sri Lanka Ports Authority	40,359	46,734	39,174
15	National Water Supply and Drainage Board	5,235	23,945	25,238
16	Airport and Aviation Services (SL) (Pvt) Ltd	33,639	28,671	21,955

Rs.Mn.

	Enterprise	2023 Actual	2024 (Provisional)	2025 Jan.- Aug. (Provisional)
17	Sri Lankan Airlines Ltd	3,871	-7,595	-15,205*
18	Sri Lanka Transport Board	2,189	547	1,873
19	State Engineering Corporation[(a)]	-2,709	-1,041	-152
20	Central Engineering Consultancy Bureau	748	608	200
21	State Development and Construction Corporation	-2,246	-1,411	-279
22	Milco (Pvt) Ltd	-470	-43	956
23	National Livestock Development Board[(a)]	-136	281	4
24	Sri Lanka State Plantations Corporation	-93	-69	-72
25	Janatha Estates Development Board[(a)]	-156	-223	-68
26	Kurunegala Plantations Ltd	534	415	552
27	Chilaw Plantations Ltd	303	219	505
28	Kalubovitiyana Tea Factory Ltd	69	-11	66*
29	Sri Lanka Cashew Corporation	-5	14	-2
30	Lanka Mineral Sands Ltd	4,051	-77	94
31	Lanka Phosphate Ltd	363	465	230
32	Kahatagaha Graphite Lanka Ltd	28	24	18*
33	Development Lotteries Board	3,516	4,197	4,270
34	National Lotteries Board	845	1,693	1,417
35	State Pharmaceuticals and Manufacturing Corporation	2,173	3,083	2,007
36	Sri Lanka Ayurvedic Drugs Corporation	218	183	208
37	State Pharmaceuticals Corporation	1,268	2,474	992
38	Sri Jayawardenepura General Hospital	304	552	771
39	Independent Television Network Ltd	-205	3	-99
40	Sri Lanka Rupavahini Corporation	-360	-247	-224
41	Sri Lanka Broadcasting Corporation	-528	-158	-65
42	Sri Lanka Handicraft Board	57	85	44
43	State Timber Corporation	1,274	825	126
44	STC General Trading Company	1,501	367	62*
45	Lanka Sathosa Ltd	-695	-1,097	-332
46	State Printing Corporation	2,792	284	-164
47	Ceylon Fisheries Corporation[(a)]	-47	-20	13
48	Ceylon Fishery Harbour Corporation	640	-85	-122
49	Ceylon Fertilizer Company Ltd	61	-476	_****
50	Colombo Commercial Fertilizer Company Ltd	162	-41	_****
51	Hotel Developers Lanka Ltd	-784	-268	-279
52	Lanka Sugar Company Ltd	2,835	-1,945	-2,077
	Total	**427,385**	**538,408**	**307,482**

Source: SOEs and Department of Public Enterprises

(a)Provisional

** 2025 April – August*

*** 30th June 2025*

**** 31st July 2025*

***** Ceylon Fertilizer Company Ltd and Colombo Commercial Fertilizer Company Ltd was amalgamated in 2024 and the newly formed company, State Fertilizer Company has generated a profit of Rs. 337 Mn for April to August 2025.*

TABLE 4.3 : Levy/ Dividend Income from SOEs

Rs. Mn.

Enterprise	Actuals			Projections	
	2023	2024	As at 31.08.2025	2026	2027
Levy	**60,497**	**33,191**	**11,466**	**83,009**	**84,168**
People's Bank	–	-	–	12,100	12,100
Bank of Ceylon	–	-	–	18,600	18,600
National Savings Bank	–	-	–	6,650	6,650
Regional Development Bank	–	-	–	600	600
Ceylon Petroleum Corporation	5,000	10,000	–	10,700	10,700
Telecommunication Regulatory Commission of Sri Lanka	23,000	9,000	–	10,000	10,000
State Timber Corporation	641	-	447	100	100
State Pharmaceuticals Manufacturing Corporation	300	300	282	400	450
National Insurance Trust Fund	2,000	2,919	1,486	4,000	4,000
Geological Survey and Mines Bureau	2,000	1,468	1,688	2,150	2,200
National Gem and Jewellery Authority	390	25	120	50	50
Board of Investment of Sri Lanka	533	928	–	1,265	1,392
National Lotteries Board	1,000	1,060	350	1,000	1,000
Sri Lanka Standards Institution	40	13	64	154	169
Sri Lanka Export Credit Insurance Corporation	620	300	25	60	60
Sri Lanka Tourism Promotion Bureau	500	500	–	1,100	1,210
Civil Aviation Authority	4,000	750	500	100	100
State Pharmaceutical Corporation	–	100	–	150	150
National Transport Medical Institute	150	850	125	300	325
Sri Lanka Bureau of Foreign Employment	7,000	-	5,000	5,500	6,050
National Transport Commission	300	250	150	250	280
Sri Lanka Tourism Development Authority	75	-	–	220	242
Sri Lanka Land Reclamation and Development Corporation	500	-	–	-	20
Sri Lanka Ports Authority	8,066	607	–	5,764	5,764
National Medicine Regulatory Authority	646	880	716	300	350
Road Development Authority	75	1,749	–	-	-
Land Reform Commission	350	15	–	550	605
Condominium Management Authority	200	-	10	-	5
National Institute of Business Management	115	85	30	30	30
Post Graduate Institute of Management	25	4	30	30	30
Other SOEs	2,971	1,388	444	886	936
Dividends	**15,204**	**7,890**	**3,172**	**14,943**	**15,436**
National Savings Bank	30	-	–	-	-
Bank of Ceylon	173	-	–	-	-
People's Bank	158	-	–	-	-
Sri Lanka Insurance Corporation Ltd	2,272	1,271	–	4,700	4,700
Airport and Aviation Services (Sri Lanka)(Pvt) Ltd	5,500	1,286	–	5,969	5,969
Lanka Mineral Sands Ltd	2,500	158	–	500	700
Lanka Phosphate Ltd	220	75	25	75	75
Lanka Leyland Ltd	6	-	–	7	8

Enterprise	Actuals			Projections	
	2023	2024	As at 31.08.2025	2026	2027
Rakna Arakshaka Lanka Ltd	125	75	–	134	148
Manthai Salt Ltd. (National Salt Ltd)	120	-	–	60	60
Ceylon Fertilizer Ltd	22	15	–	-	-
Colombo Commercial Fertilizer Ltd	60	30	–	-	-
Paranthan Chemicals Company Ltd	305	131	–	60	60
STC General Trading Company	150	50	–	60	65
Sri Lanka Telecom PLC	223	-	227	227	227
De La Rue Lanka (Pvt) Ltd	–	1,324	494	544	598
Lanka Electricity Company Ltd	697	436	–	400	450
Lanka Industrial Estates Ltd	174	98	–	-	-
Ceylon Agro Industries	167	202	131	-	-
Plantation Companies	554	559	134	400	570
Lanka Sugar Company Limited	1,597	-	–	-	-
Lanka Thriposha Ltd	75	100	11	150	150
Other SOEs	75	2,080	2,150	1,657	1,657
Total	**75,701**	**41,081**	**14,639**	**97,952**	**99,604**

Source: SOEs and Department of Public Enterprises

Basis Used for the Preparation of 2026 Budget

05

5.1 Overview

The macroeconomic and fiscal estimates in the Budget 2026 are based on a series of assumptions, analyses, and judgements at the time of preparation of the Budget. This section provides key macroeconomic indicators considered for the preparation of the revenue and expenditure estimates, including Gross Domestic Product (GDP), inflation, unemployment, and the external sector, along with the global and financial sector developments, labour market developments, and highlights sensitivities in the estimates.

5.2 Gross Domestic Product

Sri Lanka's economy has recovered from the crisis, supported by improved political and macroeconomic stability, and has exhibited broad-based expansion across sectors such as Agriculture, Industry and Services. The economy grew by 4.8 percent in the first half of 2025. In 2026, the economy is expected to expand, with a projected GDP growth rate of 4 – 5 percent as per the baseline scenario. Broad-based growth is anticipated across all sectors, supported by the rebound in domestic economic activities, rising external demand, improved supply conditions, and the development of tourism and other key industries.

Government policy on the Agriculture sector is to enhance its productivity, competitiveness, and resilience which is to be an export-driven value-added sector. Key measures include the development of quality seeds, the efficient use of water resources in agriculture, and initiatives to bridge the gap between demand and supply in the market. In addition, the establishment of a comprehensive data and information system covering the entire value chain, from production to consumption is being prioritized. These efforts are expected to strengthen agricultural productivity, and thereby increasing overall production. The Industry sector is projected to expand significantly, particularly in construction and manufacturing, with an emphasis on value-added manufacturing and export diversification.

The Services sector, accounting for the largest share of GDP, is expected to expand steadily, supported by growth in key subsectors such as finance, transport, IT, trade, and real estate, alongside increased public investment in transport, automation, and digitalization. Growth in the services sector is expected to strengthen with the accelerated development of Sri Lanka's digital economy, which serves as a key pillar of the country's overall economic development strategy. Increased investment in innovations related to artificial intelligence, robotics, and other emerging technologies, along with the expansion of digital payment infrastructure, is anticipated to further enhance the sector's contribution to growth. Meanwhile, the Government remains focused on maximizing the value generated from tourism by improving the necessary infrastructure and strengthening measures to ensure the safety and satisfaction of tourists.

5.3 Consumer Prices

Sri Lanka returned to positive inflation territory in August and September 2025, after recording deflation for seven consecutive months since January 2025. The recent inflation is driven by price increases in food and non-alcoholic beverages, as well as revised utility and fuel tariffs. By September 2025, food inflation amounted to 2.9 percent, whereas non-food inflation was 0.7 percent.

It is expected that inflation in Sri Lanka will rise gradually toward the 5 percent target by mid-2026, driven by improving domestic demand, normalization of administered prices, and prudent monetary and fiscal policies. This outlook assumes stable global energy and commodity prices, favorable agricultural production, and continued exchange rate stability.

5.4 Employment and Unemployment

The unemployment rate has reduced to 3.8 percent in the first quarter of 2025, compared to 4.5 percent in the same period of 2024. Also, labour force participation rate has increased to 49.7 percent in the first quarter of 2025, compared to 47.1 percent in the same period of 2024.

With the gradual recovery of the economy and with the envisaged expansions of all three sectors of the economy, the unemployment rate is expected to further reduce in 2026.

5.5 External Sector

Sri Lanka's external sector is anticipated to strengthen in 2026, supported by the continuation of monthly current account surpluses recorded from January to August 2025, reflecting higher growth in export of goods and services during the period.

The current account recorded an increase of 26.1 percent to USD 2,039.5 million in the first eight months of 2025, compared to USD 1,618.0 million in the same period of 2024. Tourism receipts increased by 5.7 percent to USD 2,290.0 million from January to August, 2025, compared to USD 2,167.0 million in the same period of 2024. Workers' remittances demonstrated a robust growth of 19.3 percent, rising to USD 5,116.0 million in the first eight months of 2025. Meanwhile, net inflows in the services sector increased by 2.3 percent to USD 2.7 billion for the period from January to August 2025. The expansion in tourism earnings and workers' remittances observed in the first eight months of 2025, is expected to further widen net inflows in 2026. Moreover, the country's foreign reserve position is anticipated to improve with the expansion of exports of goods and services to global markets, in line with the implementation of the National Export Development Plan (2025–2029) and the introduction of a National Tariff Policy aimed at establishing a simplified, transparent, and predictable tariff framework. The exchange rate is also expected to remain broadly stable during 2026, reflecting improved external balances and strengthened market confidence.

5.6 Monetary Aggregates

The money supply is expected to be maintained at an appropriate level. With the expected revenue at 15.2 percent of GDP in 2026 and the anticipated budget deficit at 5.3 percent of GDP, it is expected to maintain to gross financing needs of the Government at a sustainable level. This will create a more favorable environment for private sector investment.

5.7 Revenue

The assumptions underlying the revenue estimates are detailed in Annex III.

5.8 Expenditure

The basis for the preparation of expenditure estimates is as follows:

- **Salaries and Wages:** Estimates are based on the public sector workforce of approximately 1.3 million employees. It is assumed that the number of public sector employees will not be considerably increased through new recruitments in 2026. Further, annual salary increments have been factored into the estimates, along with the wage increases proposed in Budget 2025 for public sector employees.

- **Pension Payments:** The expenditure estimates for pensions are based on the estimated number of pensioners of 745,000 and the increase of pension payments in 2026 as proposed in Budget 2025.

- **Interest Payments:** Expenditure on interest payment for 2026 is expected to reduce given the combined effect of restructuring of domestic debt and potential reduction in policy rates.

- **Goods and Services:** The expenditure on goods and services is envisaged to increase to Rs. 401.0 billion.

- **Subsidies to households:** Spending on social safety nets (SSNs) is expected to increase, reflecting higher allocations for key programmes such as Aswesuma and other targeted initiatives supporting the elderly, persons with disabilities, and chronic kidney patients. In addition, funding for other major welfare programmes, including assistance for schoolchildren through the provision of uniforms and textbooks, support for differently-abled soldiers, nutrition programmes for expectant mothers, the supply of free medicines, and fertilizer subsidies to ensure food security, is also expected to continue at enhanced levels.

- **Transfers to Public Institutions and Corporations:** There will be a moderate increase due to the restructuring of major State-Owned Enterprises (SOEs).
- **Public Investment:** In 2026, public investment will be around 4.0 percent of GDP, gearing investments to priority sectors while reducing non-priority and non-essential expenditure.
- **Public Financial Management Act, No. 44 of 2024:** The Act came into effect on August 8, 2024 and will be fully implemented by end December 2025. The structural, procedural and institutional amendments introduced under the Act will, inter alia, enhance the transparency, accountability, discipline, effectiveness, efficiency, and economy in the management of public finances, including expenditure management.
- **IT and Digital Solutions:** Efforts to transform the country into a digital society, along with the introduction of 'GovPay' platform for the digitalization of all government payments, will enhance public service delivery as well as operational efficiency.
- **Agency Coordination and Monitoring:** Enhanced cooperation among public agencies and stronger oversight will ensure effectiveness of budgetary allocations, while avoiding duplication.
- **Commitment Control Mechanisms:** The Public Financial Management Act, No. 44 of 2024 provides for the establishment of an effective commitment control system which will strengthen fiscal and cash flow management.

5.9 Borrowings

The estimates on Government gross borrowing requirements are projected to Rs. 3,800 billion in 2026. The Government budget deficit is expected to widen by 0.8 percentage points to 5.3 percent in 2026, compared to the estimated budget deficit of 4.5 percent in the revised Budget 2025. Further, the Public Debt Management Office (PDMO) has been established with the key responsibilities including the management of Government debt, issuance and management of loan guarantees, management of on-lending operations and recording and reporting of public debt. The PDMO will ensure implementation of efficient and transparent borrowing practices.

5.10 Sensitivities to the Estimates

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

Macroeconomic Uncertainty: Economic conditions create a major determinant of fiscal outcomes; however, they also represent a primary source of uncertainty in forecasting the fiscal position. Fluctuations in global commodity prices, on-going US tariff revisions, and heightened geo-political tensions in the global economy coupled with forcast global economic growth and domestic economic activity may lead to deviations of actual revenue and expenditure outcomes from initial projections. Moreover, unforeseen expenditure pressures, such as those arising from emergency responses or social assistance measures necessitated by unexpected economic shocks can further influence the anticipated fiscal projections as specified in the Fiscal Strategy Statement 2026. Variables such as inflation, interest rates, and exchange rates directly affect the cost of borrowing and the overall fiscal position. These variables are also vulnerable to sudden and unpredictable shifts in economic forces.

External shocks: Adjusting to global economic shocks which could arise from geo-political tensions such as the ongoing tariff disputes between the United States and the rest of the world will be challenging. These external shocks may impact domestic international trade, inflation, and overall economic growth.

Natural disasters and unfavorable weather conditions: Fiscal risks from natural disasters generally stem from the need to finance unforeseen expenditures related to disaster management, relief and recovery operations, and the reconstruction or rehabilitation of damaged public infrastructure. The country is exposed to a variety of natural hazards, including floods, landslides, cyclones, and droughts, each of which may occur within the coming year. Such events may adversely affect labor productivity and potential economic growth, thereby exerting negative pressure on the fiscal position of the country.

Administrative and procurement delays: Bureaucratic inefficiencies and delays could slow down economic progress and fiscal operations. It may slow the implementation of public investment projects, reducing their contribution to economic growth and employment. Delays can also increase project costs and create inefficiencies in public spending. Consequently, these factors can put additional pressure on the fiscal balance and revenue collection.

Legislative delays: Delays in the approval of key fiscal-related Acts 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. This uncertainty can weaken fiscal discipline, increase borrowing requirements, and ultimately threaten the government's ability to meet its fiscal targets.

State-Owned Enterprises (SOEs) performance: SOEs are subject to operational risks and broader market fluctuations that may affect their profitability and financial sustainability. Weak performance of SOEs, coupled with delays in restructuring initiatives, can impede economic efficiency and pose challenges to achieving fiscal consolidation objectives.

The Outstanding List of Treasury Guarantees & Letters of Comfort Issued by the General Treasury up to 31.08.2025

S. No	Name of the Bank or Institution	Name of Institution	Issued Value Rs.Mn as at 31.08.2025		Outstanding Value Rs.Mn as at 31.08.2025	
1	Asian Development Bank	Ceylon Electricity Board	170,882.27	201,126.92	94,776.45	109,903.31
		Lanka Electricity Company (Pvt) Ltd	15,122.33		4.54	
		Reginoal Development Bank	15,122.33		15,122.33	
2	Asian Infrastructure Investment Bank (AIIB)	Bank of Ceylon & People's Bank	54,440.37	54,440.37	30,244.65	30,244.65
3	Bank of Ceylon	Building Materials Corporation Ltd	500.00	428,667.04	500.00	259,677.63
		Ceylon Electricity Board	4,540.00		1,179.54	
		Ceylon Fisheries Corporation	250.00		158.62	
		Ceylon Petroleum Corporation	100,000.00		59,381.35	
		General Sir John Kotelawala Defence University	835.00		19.26	
		Janatha Estates Development Board	200.00		72.08	
		Lanka Coal Company (Pvt) Ltd	49,500.00		-	
		National School of Business Management Limited	8,600.00		4,880.00	
		National Water Supply & Drainage Board	65,662.15		36,292.40	
		Northsea Limited	38.63		37.41	
		Road Development Authority	147,102.33		105,923.53	
		Sri Lanka Rupavahini Corporation	93.00		23.71	
		Sri Lankan Airlines Limited	44,656.88		44,656.88	
		State Development and Construction Corporation	1,126.81		990.62	
		State Engineering Corporation	2,400.00		2,399.99	
		Mihin Lanka Limited	3,162.23		3,162.23	
4	China Development Bank	National Water Supply & Drainage Board	49,906.88	49,906.88	60,268.51	60,268.51
5	China National Chemical Engineering No.14 Constrution Co. Ltd	Ceylon Petroleum Corporation	13,239.60	13,239.60	7,158.91	7,158.91
6	Commercial Bank	National Water Supply & Drainage Board	968.36	5,724.29	427.65	5,183.58
		Road Development Authority	4,755.93		4,755.93	
7	DB Trustees (Hong Kong) Limited	Sri Lankan Airlines Limited	52,928.14	52,928.14	52,928.14	52,928.14
8	DFCC Bank	National Water Supply & Drainage Board	6,026.24	11,922.75	3,020.35	7,612.51
		Road Development Authority	5,896.51		4,592.16	
9	Exim Bank of India	National Water Supply & Drainage Board	77,638.02	77,638.02	47,115.12	47,115.12
10	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Limited	4,000.00	43,630.09	4,000.00	30,778.49
		Ceylon Electricity Board	3,721.35		-	
		National Water Supply & Drainage Board	15,775.58		6,694.49	
		Road Development Authority	20,133.15		20,084.00	
11	Hongkong & Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) Limited	13,349.37	13,349.37	8,922.17	8,922.17
12	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	12,694.41	12,694.41	8,023.91	8,023.91
13	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	29,253.20	29,253.20	25,151.18	25,151.18

S. No	Name of the Bank or Institution	Name of Institution	Issued Value Rs.Mn as at 31.08.2025		Outstanding Value Rs.Mn as at 31.08.2025	
14	International Air Transport Association(IATA)	Sri Lankan Airlines Limited	3,508.38	3,508.38	3,508.38	3,508.38
15	Japan International Coorporation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Limited	153,175.98	153,175.98	55,330.55	55,330.55
16	National Development Bank PLC	National Water Supply & Drainage Board	21,380.43	27,679.63	13,651.70	19,951.54
		Road Development Authority	6,299.21		6,299.84	
17	National Savings Bank	Ceylon Electricity Board	5,000.00	190,272.35	3,500.00	162,966.39
		General Sir John Kotelawala Defence University	33,896.09		31,474.94	
		National Water Supply & Drainage Board	32,710.61		27,106.37	
		Road Development Authority	114,415.66		99,201.08	
		Sri Lanka Land Reclamation & Development Corporation	3,500.00		934.01	
		Techno Park Development Company Private Limited	750.00		750.00	
18	People's Bank	Ceylon Electricity Board	15,333.33	176,429.93	8,191.89	131,798.09
		Ceylon Petroleum Corporation	2,336.40		1,403.35	
		Ceylon Shipping Corporation Ltd	21,749.07		14,381.33	
		Lanka Sathosa Limited	5,241.00		4,757.27	
		National Paper Corporation	140.00		72.34	
		National Water Supply & Drainage Board	7,252.88		3,199.33	
		Paddy Marketing Board	751.99		529.05	
		Road Development Authority	56,902.44		40,380.64	
		Sri Lanka Insurance Corporation	3,629.36		3,629.36	
		Sri Lanka State Plantation Corporation	100.00		78.48	
		Sri Lankan Airlines Limited	57,916.23		50,676.76	
		State Printing Corporation	1,165.00		685.13	
		Techno Park Development Company Private Limited	750.00		750.00	
		Mihin Lanka Limited	3,162.23		3,063.15	
19	Reserve Bank of India	Central Bank of Sri Lanka	333,123.32	333,123.32	333,123.32	333,123.32
20	Sampath Bank	Road Development Authority	14,500.00	14,500.00	9,886.36	9,886.36
21	Sri Lanka Savings Bank	Northsea Limited	60.00	60.00	54.76	54.76
22	UniCredit Bank Austria AG	National Water Supply & Drainage Board	17,844.22	17,844.22	14,388.23	14,388.23
23	Paddy Marketing Board	Co-operative Wholesale Establishment	880.00	880.00	729.60	729.60
24	Export Development Board	Bank of Ceylon and Peoples Bank	60.00	60.00	60.00	60.00
		Grand Total	**1,912,054.89**	**1,912,054.89**	**1,384,765.32**	**1,384,765.32**

Source : Public Debt Management Office

Macroeconomic Indicators

TABLE 1 : Key Sectoral Growth Rate % 2023-2025

	2023	2024	2025	
			Q1[(a)]	Q2[(a)]
GDP	-2.3	5	4.8	4.9
Agriculture	1.6	1.2	-0.7	2.0
Industry	-9.2	11	9.7	5.8
Services	-0.2	2.4	2.8	3.9
Inflation – GDP Deflator (%)	17.5	3.8	-0.3	5.4
Unemployment Rate (%)	4.7	4.5	3.8	

Source : Department of Census and Statistics
(a) Provisional

TABLE 2 : Quarterly Growth Rates of Key Sub-Sectors of Agriculture

Sector	2023[(a)]	2024[(a)]	2025[(a)]	
			Q1	Q2
Tea (Mn kg)	256.1	262.7	61.8	73.7
Growth %	1.7	2.6	5.6	6.0
Rubber (Mn kg)	64.4	69.2	15.7	14.3
Growth %	-9.2	7.4	-22.2	-10.8
Coconuts (Mn nuts)	3,169.7	2,790.1	563.1	784.4
Growth %	-6.4	-12.0	-28.5	3.4
Fish ('000 Mt)	406.6	411.0	103.7	83.5
Growth %	2.4	1.1	0.1%	-10.9
	2023	**2024**		
	Yala	**Maha**	**yala**	
Paddy ('000 Mt)	1,817.0	2,745.3	1976.5	

Source : Central Bank of Sri Lanka
[(a)] *Provisional*

TABLE 3 : Performance in Industrial Sector : 2023 – 2025

Rs. Mn.

Description	2023	2024[(a)]	2025[(a)]	
			Q1	Q2
Food, Beverages and Tobacco Products	899,777	954,409	287,256	202,751
Growth Rate	3.5	6.1	5.7	1.5
Textile, Wearing Apparel and Leather Related Products	450,498	500,210	181,093	102,929
Growth Rate	-12.0	11.0	16.5	9.6
Chemical Products and Basic Pharmaceutical Products	82,949	90,994	17,642	31,101
Growth Rate	0.7	9.7	1.7	-5.5
Rubber and Plastic Products	56,157	60,972	12,895	19,551
Growth Rate	-16.8	8.6	3.4	5.0
Non-metallic Mineral Products	84,671	86,813	29,335	25,392
Growth Rate	-0.6	2.5	22.9	17.1
Furniture	56,089	-		
Growth Rate	-7.8	-	-	-
Total Industrial Sector	**3,003,096**	**3,333,008**	**975,783**	**809,720**
Overall Industrial Growth	**-9.2**	**11.0**	**9.7**	**5.8**

Source : Department of Census and Statistics
[(a)] *Provisional*

TABLE 4 : Performance in Electricity Generation and Services Sector : 2024 – 2025

Category	2024 Q1	2024 Q2	2024 Jul	2024 Jan-Jul	2025[(a)] Q1	2025[(a)] Q2	2025[(a)] Jul	2025[(a)] Jan-Jul
Electricity Generaton								
Total Generation (GWh)(Excluding Self Generation)	4,120	4,164	1,462	9,746	4,220	4,459	1,583	10,261
Growth Rate	9.9	5.1	7.6	7.5	2.4	7.1	8.3	5.3
Hydro (excluding mini hydro)	1,259	1,244	508	3,010	1,271	1,704	628	3,604
Growth Rate	37.2	53.2	65.2	47.8	1.0	37.0	23.8	19.7
Fuel Oil	710	593	155	1,458	754	259	158	1,171
Growth Rate	-3.9	-40.4	-57.9	-30.6	6.3	-56.3	1.5	-19.7
Coal	1,474	1,471	428	3,372	1,383	1,299	381	3,063
Growth Rate	-3.0	8.4	17.4	4.1	-6.2	-11.7	-10.9	-9.2
NCRE (Including mini hydro) [(b)]	678	856	372	1,905	811	1,196	416	2,423
Growth Rate	18.4	7.0	16.8	12.7	19.7	39.7	11.9	27.2
Hydro: Fuel Oil: Coal: NCRE Ratio								
Reservoir Water Level % (End Period Aeverage)	81.2	56.8	75.5	69.9	75.5	65.3	70.1	70.4
Port Services	**Q1**	**Q2**	**Aug**	**Jan-Aug**	**Q1**	**Q2**	**Aug**	**Jan-Aug**
Total Cargo Handled ('000 MT)	30,504	29,032	11,971	80,713	29,523	31,284	10,866	82,370
Growth Rate	34.6	7.6	3.8	14.8	-3.2	7.8	-9.2	2.1
Total Container Handled ('000 TEUs) [(c)]	2,009	1,882	635	5,141	1,936	2,036	741	5,435
Growth Rate	24.0	2.4	1.3	9.2	-3.6	8.2	16.8	5.7
Telecommunications Services (No. of Subscribers) [(d)]								
	Q1	**Q2**			**Q1**	**Q2**		
Fixed Lines ('000)	2,181	2,155			2,084	2,142		
Growth Rate	-13.3	-11.7			-4.5	-0.6		
Cellular ('000)	27,977	29,005			27,214	29,027		
Growth Rate	-0.5	-0.2			-2.7	0.1		
Total Fixed Lines and Cellular ('000)	30,158	31,160			29,297	31,169		
Growth Rate	-1.6	-1.1			-2.9	0.03		
Internet and email ('000)	22,513	23,349			24,170	23,686		

Source : Central Bank of Sri Lanka
[(a)] *Provisional*
[(b)] *NCRE : Non Conventional Renewable Energy*
[(c)] *Part of Colombo only*
[(d)] *As at the end of the period*

TABLE 5 : Export Performance in 2024 – 2025

USD Mn.

Item	2024 Jan-Aug	2025 Jan-Aug(a)
Agricultural Products	**1,804.0**	**2,030.2**
Tea	942.3	1,026.0
Rubber	16.4	20.8
Coconut Products	272.2	367.5
Other Agricultural Products	573.2	615.9
Industrial Products	**6,665.8**	**7,015.4**
Textile and Garments	3,364.8	3,595.3
Petroleum Products	709.7	654.7
Other Industrial Products	2,591.3	2,765.4
Mineral Export	**18.8**	**14.3**
Other Exports	**17.7**	**16.8**
Total Exports	**8,506.3**	**9,076.6**

Source : Central Bank of Sri Lanka
(a) Provisional

TABLE 6 : Import Performance in 2024 – 2025

USD Mn.

Item	2024 Jan-Aug	2025 Jan-Aug(a)
Consumer Goods	**2,176.3**	**3,294.7**
Cereals and Milling Industry Products	87.0	90.9
Sugar	253.0	245.8
Other Food Products	874.1	1,082.9
Other Consumer Goods	962.2	1,875.0
Intermediate Goods	**7,750.0**	**7,437.4**
Fuel	2,896.5	2,520.6
Wheat and Maize	204.5	205.1
Fertilizer	102.9	164.8
Textile & Clothing	1,839.3	1,793.5
Other Intermediate Goods	2,706.8	2,753.4
Investment Goods	**2,140.3**	**2,597.2**
Other Imports	**5.9**	**11.6**
Total	**12,072.5**	**13,340.9**

Source : Central Bank of Sri Lanka
(a) Provisional

TABLE 7 : Balance of Payments – 2025

USD Mn.

Item	2025 Q1(a)	2025 Q2(a)
Current Account Balance	**926**	**501**
Trade Balance	**-1,540**	**-1,730**
Exports	3,347	3,145
Imports	4,887	4,875
Services (net)	**1,220**	**839**
Receipts	2,035	1,574
Payments	815	735
Primary Income (net)	**-527**	**-500**
Receipts	150	163
Payments	677	663
Secondary Income (net)	**1,773**	**1,891**
Secondary income: credit	1,815	1,924
Secondary income: debit	42	32
Capital Account (net)	**-2**	**-2**
Capital account: credit	1	1
Capital account: debit	3	3
Current and Capital Account (net)	**925**	**499**
Financial Account (net)	**629**	**197**
Direct Investment: Assets	**17**	**23**
Direct Investment: Liabilities	**135**	**179**
Portfolio Investment: Assets	**-71**	311
Debt securities	-71	311
Portfolio Investment: Liabilities	**12**	**-329**
Equity and investment fund shares	-80	-4
Debt securities	93	-326
Financial Derivatives	**–**	–
Other Investment: Assets	**883**	**-411**
Currency and deposits	451	-717
Trade credits and advances	90	57
Other accounts receivable	342	250
Other Investment: Liabilities	**414**	**-714**
Currency and deposits	145	-322
Loans	285	-357
Trade credits and advances	-16	-35
Other accounts payable	-	-
Special Drawing Rights (SDRs)	–	–
Reserve Assets	**361**	**-591**
Net Errors and Omissions	**-296**	**-301**
Overall Balance	**1,761**	**522**

Source : Central Bank of Sri Lanka
(a) Provisional

TABLE 8 : International Reserves

USD Mn.

Item	End 2024	May 2025	Jun 2025	Jul 2025	Aug 2025
Total External Reserves	11,230	11,981	11,752	11,666	NA
Months of Imports	7.2	7.3	7.1	7.0	NA
Gross Official Reserves	6,122	6,286	6,081	6,147	6178
Months of Imports	3.9	3.8	3.7	3.7	3.7

Source : Central Bank of Sri Lanka

TABLE 9 : Government Foreign Currency Debt Outstanding

USD Mn.

Items	End August 2025 (Provisional) *
Central Government Foreign Debt and Domestic Debt	**102,181**
Central Government Foreign Debt [a] [b]	37,308
Central Government Domestic Debt denominated in loacal currency [c] [d]	62,717
Dollar dominated Domestic Debt	2,156
Sri Lanka Development Bonds (SLDBs) [a] [d]	–
Loans Foreign Currency Banking Units (FCBUs)	–
Domestic Term Loans denominated in foreign currency	2,128
Domestic project loans denominated in foreign currency [d]	28

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 and Term Loan debt outstanding is compiled based on CS-DRMS reports downloaded on 27th September 2025 (Cutoff – end August 2025).*

[c] *Includes T- Bonds, T- Bills outstanding amounts published in CBSLwebsite. 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*

** Exchange rate used 1 US $ = 302.4465 (Date = 29 August 2025)*

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

Currency	Appreciarion (+)/Depreciation (-)	
	End 2023 – End 2024	End 2024 – End Aug 2025
Indian Rupee	(2.8)	(2.4)
Bangladesh Taka	(8.2)	(1.7)
Parkistan Rupee	1.4	(2.0)
Singapore Dollar	(3.0)	5.9
Thailand Bhat	0.1	5.9
Taiwan Dollar	(6.3)	7.2
Indonesian Rupiah	(4.3)	(1.6)
Philippine Peso	(4.3)	1.4
Korean Won	(12.6)	6.2
Japanese Yen	(9.6)	6.5

Source : Central Bank of Sri Lanka

TABLE 11 : Central Bank Holdings of Government securities

Rs. Bn.

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
End of Aug 2025	2,509	1,562

Source : Central Bank of Sri Lanka

TABLE 12 : Commercial Banks' Loans and Advances to the Private Sector – end August 2025 [(a)(b)]

Sector	Amount (Rs. Mn.)	as a % of Total
1. Agriculture & Fishing	**847,792**	**9.2**
of which...		
Tea	189,858	2.1
Rubber	55,518	0.6
Coconut	59,529	0.6
Paddy	81,205	0.9
Vegetable, Fruit Cultivation and Minor Food Crops	58,011	0.6
Livestock and Dairy Farming	67,532	0.7
Fisheries	50,464	0.5
2. Industry	**3,596,199**	**39.1**
of which...		
Construction	1,715,829	18.7
of which...		
— Personal Housing including Purchasing/Construction/Repairs	865,590	9.4
— Staff Housing	76,798	0.8

Sector	Rs. Mn. Amount	as a % of Total
Food and Beverages	239,167	2.6
Textiles and Apparel	416,725	4.5
Wood and Wood Products including Furniture	35,796	0.4
Paper and Paper Products	52,790	0.6
Chemical, Petroleum, Pharmaceutical, Healthcare and Rubber and Plastic Products	213,831	2.3
Non-metallic Mineral Products	16,889	0.2
Basic Metal Products	65,567	0.7
Fabricated Metal Products, Machinery and Transport Equipment	287,415	3.1
Other Manufactured Products	50,069	0.5
3. Services	**2,777,752**	**30.2**
of which...		
Wholesale and Retail Trade	970,576	10.6
Tourism	290,471	3.2
Financial and Business Services	618,426	6.7
Transport	79,638	0.9
Communication and Information Technology	143,250	1.6
Printing and Publishing	23,122	0.3
Education	50,844	0.6
Health	57,934	0.6
Shipping, Aviation, Supply and Freight Forwarding	51,847	0.6
4. Personal Loans and Advancse[(c)]	**1,968,998**	**21.4**
of which...		
Consumer Durables	75,206	0.8
Pawning	770,253	8.4
Credit Card	177,461	1.9
Personal Education	6,164	0.1
Personal Healthcare	1,419	0.0
5.Other	**879,121**	**9.6**
Total[(d)]	**9,190,741**	**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) 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 2024 – 2025

Interest Rate	End Dec 2024	End May 2025	End Jun 2025	End Jul 2025	End Aug 2025
Policy Rates of the Central Bank					
Standing Deposit Facility Rate (SDFR)	7.50	7.25	7.25	7.25	7.25
Standing Lending Facility Rate (SLFR)	8.50	8.25	8.25	8.25	8.25
Weighted Average Call Money Rate (AWCMR)	8.00	7.75	7.75	7.80	7.86
Weighted Average OMO Auction Rate (Reverse Repo)- Overnight	–	–	–	–	-
Treasury Bill Rates					
91-days	8.62	7.55	7.55	7.62	7.58
182-days	8.77	7.77	7.75	7.91	7.89
364 -days	8.96	7.98	7.94	8.03	8.03
Lending Rates					
Average Weighted Prime Lending Rate(AWPR) (weekly)	8.90	8.35	8.11	8.07	7.97
Average Weighted Prime Lending Rate (AWPR) (monthly)	8.92	8.45	8.22	8.02	8.10
Average Weighted Lending Rate(AWLR)	11.93	11.67	11.56	11.50	-
Deposit Rates					
Average Weighted Deposit Rate (AWDR)	7.53	6.98	6.93	6.88	-
Average Weighted Fixed Deposit Rate (AWFDR)	9.27	8.56	8.52	8.46	-

Source : Central Bank of Sri Lanka

Assumptions for Revenue Estimates – 2026

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

The revenue estimates for 2026 are based on key factors including trend or long-run averages for growth rates, the actual revenue collected in 2024 and revenue progress in first nine months of 2025, revenue gains 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 2026 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 gradually increase towards the target of 5 percent by mid-2026.
- Unemployment rate is expected to be below 5.0 percent in 2026.
- Exchange rate is expected to be stable in 2026.
- Marginal decline in import taxes related to motor vehicles compared to 2025 due to the normalization of demand for the vehicles in 2026.
- Full implementation of the Public Financial Management Act to improve fiscal policy for better macroeconomic management.
- Strengthening the revenue collection in the Inland Revenue Department (IRD), Sri Lanka Customs (SLC) and the Excise Department through digitalization efforts, reducing corruption vulnerabilities and enhancing the effectiveness of revenue administration strategies.
- Increase of tax compliance at IRD with introduction of mandatory e-filling for individuals, streamlining the refund process and removal of simplified Value Added Taxes (S-VAT), enforcement of usage of Point of Sales (POS) machines, introduction of e-invoicing system and increased risk-based audit efficiency.
- Establishment of Gambling Regulatory Authority to regulate and control gambling industry while ensure the collection of revenue and transparency and good governance in industry of gambling.

TABLE 1 : Excise (Special Provisions) Duty Structure for Motor Vehicles (As at 31.10.2025)

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
(i) 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
(ii) 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^4
2,751 cc -3,000 cc	Rs.9,650/-per cm^4
3,001 cc -4,000 cc	Rs.10,850/-per cm^5
Exceeding 4 000 cc	Rs.12,050/-per cm^5
(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

Item / Engine Capacity	Rate
(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 electric accumulator)	
Less than 50kW	Rs.30,770/-per kW
51kW -100kW	Rs.40,970/-per kW
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 31.10.2025)

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 31.10.2025)

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 31.10.2025)

Classifications	Duty Rate per liter/kg (Rs.)
Liquor	
Special Arrack (750ml)	7,244
Molasses, Palmyrah, Coconut and Processed Arrack (750ml)	7,752
Locally Manufactured Foreign Liquar (750ml)	7,969
Malt Liquor of Five Per centum (5%) and below of absolute strength (625ml)	5,735
Malt Liquor of more than Five Per centum (5%) of absolute strength (625ml)	6,015
Wine (625ml)	5,735
Sake (625ml)	1,567
Milk Punch (750ml)	3,982
Cider (750ml)	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)	135
Imported Wine	230
Any other imported Foreign Liquor (which does not come under malt liquor or wine)	650
Non-potable Spirits (per bulk kg)	6

Source : Department of Fiscal Policy

TABLE 5 : Ports and Airports Development Levy (As at 31.10.2025)

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 31.10.2025)

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 shedule of the VAT Act.

Source : Department of Fiscal Policy

TABLE 7 : Social Security Contribution Levy (SSCL) (As at 31.10.2025)

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

Source : Department of Fiscal Policy

TABLE 8 : Customs Import Duty Tariff Structure (As at 31.10.2025)

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

Source : Department of Trade and Investment Policy

TABLE 9 : Rent Income

Rs. Mn.

Item	2024 (Provisional)	2025 Revised	2026 Estimate
Rent on Government Buildings & Housing	1,804	2,100	2,250
Rent on Crown Forests	974	1,110	1,300
Rent from Land & Other	148	200	220
Lease Rental from Regional Plantation Companies	2,053	2,290	2,230
Others	1,450	1,000	1,500
Total Rent Income	**6,428**	**6,700**	**7,500**

Source : Department of Fiscal Policy

TABLE 10 : Fees and Charges

Rs. Mn.

	2024 Provisional	2025 Revised	2026 Estimate
Service Charges by Government Press	2,099	800	1,200
Fees of Passport, Visas and Dual Citizenship	38,012	38,000	31,000
Embarkation Levy	38,312	42,000	40,000
Fees under the Motor Traffic Act & other Receipts	14,464	17,000	16,000
From others Various Sources	61,844	58,200	60,600
Total	**154,731**	**156,000**	**148,800**

Source : Department of Fiscal Policy

TABLE 11 : Special Commodity Levy Rates

Rs. per kg.

	Item	End Sept. 2024	End Sept. 2025
1	Sprats	100	100
2	Potatoes	50	80
3	Red Onions	50	50
4	B'onions	10	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

	Item	End Sept. 2024	End Sept. 2025
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 olen	255	255
	Palm stearin	250	250
	Refine Palm oil	275	275
	Other Veg.oil Refine	275	275
	Plam Kernal – 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 (And Jac /Horse Mackerel Duty Waiver)	6	6
33	Yogurt	2000	2000
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	120
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	25

Source : Department of Trade and Investment Policy