MID-YEAR FISCAL POSITION REPORT 2026

Ministry of Finance, Planning and Economic Development
Sri Lanka

October 31, 2026



MID-YEAR
FISCAL POSITION REPORT 2026

Issued under Section 50 of the

Public Financial Management Act, No. 44 of 2024

Anura Kumara Dissanayake
Minister of Finance, Planning and Economic Development

October 31, 2026

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Issued by the Hon. Minister of Finance, Planning and Economic Development Under section 50 of the Public Financial Management Act, No. 44 of 2024

In terms of Section 50 of the Public Financial Management Act, No. 44 of 2024, the Minister of Finance is required to release the Mid-Year Fiscal Position Report to the public and publish 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 laps of the ten months from the date of the passing of the Appropriation Act of the relevant year, whichever is later and thereafter lay before Parliament.

The purpose of this report is 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.

The report contains the estimated and actual government revenue, expenditure, cash flows and borrowings for the first six months of 2026. The report also provides provisional budget outturn for the first six months of 2026 and updated information on macroeconomic performance, including monetary sector developments, inflation, foreign financing, government debt and official reserves as well as the performance of state-owned enterprises.

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Key Economic Indicators

Indicator	Period	Unit	Value	
			2025	2026 (Provisional)
REAL SECTOR				
Economic Growth	First Half	%	4.8	4.7
Agriculture	First Half	%	0.6	-0.6
Industry	First Half	%	7.9	7.2
Services	First Half	%	3.3	3.1
Inflation (Year on Year)(CCPI,2021=100)	End June	%	-0.6	6.8
Unemployment Rate	2nd Quarter	%	3.7	4.0
Labour Force Participation Rate	2nd Quarter	%	49.1	50.0
FISCAL SECTOR				
Budget Balance	Jan-Jun	Rs. Mn.	-405,603	9,509
Total Revenue	Jan-Jun	Rs. Mn.	2,321,719	2,954,189
Tax Revenue	Jan-Jun	Rs. Mn.	2,152,087	2,710,552
Non Tax Revenue	Jan-Jun	Rs. Mn.	169,632	243,637
Total Expenditure	Jan-Jun	Rs. Mn.	2,730,707	2,946,494
Recurrent Expenditure	Jan-Jun	Rs. Mn.	2,506,828	2,669,889
Public Investment	Jan-Jun	Rs. Mn.	228,064	280,071
Government Debt (Net basis)	End June	Rs. Bn.	29,635	31,278
EXTERNAL SECTOR				
Exports	Jan-Jun	USD Mn.	6,492	6,903
o/w Agriculture Exports	Jan-Jun	USD Mn	1,428	1,450
Industrial Exports	Jan-Jun	USD Mn	5,045	5,425
Textile and Garments	Jan-Jun	USD Mn	2,606	2,451
Other	Jan-Jun	USD Mn.	2,439	2,974
Mineral Exports	Jan-Jun	USD Mn.	10	18
Imports	Jan-Jun	USD Mn.	9,762	12,392
Consumer Goods	Jan-Jun	USD Mn.	2,316	3,037
Intermediate Goods	Jan-Jun	USD Mn.	5,576	7,059
o/w Petroleum Products	Jan-Jun	USD Mn.	1,996	3,168
Investment Goods	Jan-Jun	USD Mn.	1,863	2,284
Trade Balance	Jan-Jun	USD Mn.	-3,270	-5,489
Tourist Arrivals	Jan-Jun	No.	1,168,044	1,146,573
Earnings From Tourism	Jan-Jun	USD Mn.	1,713	1,511
Workers' Remittances	Jan-Jun	USD Mn.	3,738	4,605
Overall Balance of Payments (BOP)	Jan-Jun	USD Mn.	522	136
Gross Official Reserves	End Jun	USD Mn.	6,081	6,458
Exchange Rate (End Month)	End Jun	Rs. Per USD	299.97	336.66
Exchange Rate (Monthly Average)	Jan- Jun	Rs. Per USD	297.80	317.84
MONETARY SECTOR				
Standing Deposit Facility Rate (SDFR)	End Jun	%	7.25	8.25
Standing Lending Facility Rate (SLFR)	End Jun	%	8.25	9.25
Statutory Reserve Requirement (SRR)	End Jun	%	2.00	2.00
Commercial Bank Average Weighted New Lending Rate (AWNLR)	End Jun	%	10.28	12.13
Commercial Bank Average Weighted Lending Rate (AWLR)	End Jun	%	11.56	12.16
W.A. Yield Rate of Treasury Bills (91 Days)	End Jun	%	7.55	10.14
W.A. Yield Rate of Treasury Bills (364 Days)	End Jun	%	7.94	10.17
Growth in Money Supply (M_{2b})	Jun 2026/ Jun 2025	%	10.4	11.5
Growth in Credit to the Private Sector	Jun 2026/ Jun 2025	%	17.9	27.4

Sri Lanka: Selected Indicators

Indicator	Period	Unit	Value
Electricity			
Electrification Level	2016	%	99.3
Water			
Access to Safe Drinking Water	2025	% of Population	93.9
Access to Pipe borne Water	2025	% of Population	62.3
Roads			
Road Density	2025	Km/Km^2	0.19
Total Road Length	2023	Km	1 44,967
Communication			
Telephone Density including Cellular Phones	2025	Per 100 persons	147.6
Access to Internet	2025	Per 100 persons	109.6
Education			
General Education			
Primary Net Enrolment Ratio	2025	%	95.5
Student/Teacher Ratio (Government Schools)	2025	Number	15.5
Literacy Rate (Average)	2024	%	93.3
Computer Literacy Rate (First 06 months)	2025	%	38.4
University Education			
Student/Teacher Ratio	2025	Number	26.3
Age Specific Enrolment Ratio (Age 19–22 yrs) [a]	2025	%	10.9
Health			
Hospitals (Practicing Western Medicine)	2025	Number	628
Beds	2025	Number	89,141
Hospital Beds	2025	Per 1,000 persons	4.2
Persons per Doctor	2025	Number	905
Population			
Population Density	2025	Persons per sq. km	349
Population Growth	2025	%	-0.7
Life Expectancy at Birth	2017	Years	75.5
Infant Mortality Rate	2021	Per 1,000 live births	6.0
Maternal Mortality Rate	2022	Per 1,000 live births	22.6
Crude Birth Rate	2025	Per 1,000 persons	9.9
Crude Death Rate	2025	Per 1,000 persons	7.9
Dependency Ratio	2025	%	49.8
Poverty			
Poverty Head Count Index	2019	%	14.3
Gini Coefficient of Household Income	2019	Coefficient	0.46
Poverty Gap Index	2019	%	2.8
Average Daily Calorie Intake	2019	Kilocalories	2,120
International Rankings			**Rank**
Human Development Index	2025	Rank out of 193 Countries	89
Corruption Perception Index	2025	Rank out of 182 Countries	107
Global Competiveness Index	2019	Rank out of 141 Countries	84
Economic Freedom Index	2025	Rank out of 184 Countries	144
Global Peace Index	2026	Rank out of 163 Countries	67
e-Government Development Index	2024	Rank out of 193 Countries	98

[a] *Only includes internal enrolment of students*

CHAPTER 1

Economic Perspectives

1.1 Overview

The Sri Lankan economy remained resilient amid significant twin shocks: Cyclone Ditwah and the energy crisis arising from the conflict in Middle East. Economic activity expanded by 4.7 percent in the first half of 2026, supported by strong consumption and investment, making twelve consecutive quarters of growth. Headline inflation as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI, 2021=100) remained in single digit but trended upward, driven by higher fuel prices, and stood at 8.0 percent in September 2026. The Central bank of Sri Lanka (CBSL) expects inflation to remain below 5 percent level from the second half of 2027 onwards. Gross Official Reserves (GOR) reached USD 6.9 billion at the end of August 2026 equivalent to more than 3.0 months of imports. Reflecting the normalization in credit extension to both vehicle financing and corporate lending, credit to the private sector has increased by 24.5 percent in the first eight months of 2026, following an expansion of 20.5 percent in 2025. Tax revenue increased by 20.0 percent to Rs. 3,683 billion in the first eight months of 2026 from Rs. 3,068 billion in the same period of 2025, reflecting the improved revenue administration and stronger economic activity. In addition, debt restructuring has been largely concluded.

Sri Lanka has recorded noticeable improvements across several major international index rankings and global assessments in 2025 and 2026, driven by macro-stabilization and structural reforms.

Key Improvements in Global Rankings:

- **Corruption Perceptions Index (2025/2026):** Released by Transparency International Sri Lanka improved by 14 places to rank **107th globally**, raising its score from 32 to 35 out of 100.
- **Investor Relations and Debt Transparency (2026):** Ranked **4th globally** for top-performing improvements in investor relations and 5th in debt transparency by the Institute of International Finance.
- **Sovereign Credit Rating (2026): Fitch Ratings** upgraded Sri Lanka's Long-Term IDRs to **'B-' from 'CCC+'** on the back of improved fiscal balances and reserve position.
- **Travel and Tourism Development Index (2026):** The World Economic Forum ranked Sri Lanka **10th worldwide** for the fastest improvement, with its index score rising by 4.33 percent compared to 2024.
- **Global Peace Index (2026):** Sri Lanka climbed 14 places to rank **67th globally** (up from 97th in 2025) and secured the second position in South Asia.

The Government remains committed to the economic reform agenda supported by the International Monetary Fund's Extended Fund Facility (IMF-EFF). An IMF team concluded the Seventh Review and the 2026 Article IV Consultation and reached Staff-level Agreement on October 04, 2026. Upon approval of the review by the IMF Executive Board, USD 345 million will become available in financing.

All sectors of the economy except for the agriculture sector expanded during the first half of 2026. The industry sector grew by 7.2 percent, mainly driven by significant growth in construction, the manufacture of food, beverages and tobacco products, and mining and quarrying. The services sector grew by 3.1 percent, supported by expansion in wholesale and retail trade, transportation of goods and passengers, and financial service activities. Taxes less subsidies on goods

expanded by 13.5 percent, an acceleration of 2.8 percentage points from the 10.7 percent expansion recorded in the corresponding period of 2025. Meanwhile, the agriculture sector contracted by 0.6 percent, mainly due to contractions in animal production, rice cultivation, marine fishing, and marine aquaculture sub sectors.

Headline inflation as measured by the year-on-year change in the CCPI (2021=100), increased to 8.0 percent in August and September 2026 from 7.3 percent in July 2026, while headline inflation, as measured by the year-on-year change in the National Consumer Price Index (NCPI, 2021=100), increased to 8.1 percent in August 2026 from 7.2 percent in July 2026. Both increases were mainly due to higher domestic energy and food prices. Near-term inflation is projected to remain above the 5 percent target before moderating steadily towards it. Meanwhile, year-on-year core inflation, which reflects underlying inflation trends in the economy, remained at 5.1 percent (CCPI, 2021=100) in August 2026. Core inflation is projected to rise over the coming period, aligning closely with the inflation target. Although inflation is set to experience a temporary, short-term uptick, medium-term inflation expectations remain broadly anchored to the target.

The Central Bank of Sri Lanka (CBSL) tightened monetary policy in May 2026. Together with other policy measures taken by the Government and the Central Bank, this tightening is expected to feed through to the economy gradually, helping to slow credit growth and ease the buildup of demand pressures in the period ahead. The CBSL raised the Overnight Policy Rate (OPR) by 100 basis points to 8.75 percent in May 2026, in view of the elevated inflation forecast, the potential second-round effects of energy price adjustments on headline inflation, continued expansion in private sector credit fueling import demand, pressures on the external sector, and the risk of de-anchoring inflation expectations. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), which are linked to the OPR, increased to 8.25 percent and 9.25 percent, respectively.

The stock market performed strongly, with the All Share Price Index (ASPI, 1985 = 100) rising by 23.5 percent year-on-year to 22,263.3 points, and the Standard & Poor's Sri Lanka 20 Index (S&P SL20, 2004 = 1,000) rising by 15.9 percent year-on-year to 6,205.1 points at the end of June 2026.

Sri Lanka's external sector came under pressure in the first eight months of 2026, as the intensification of the conflict in the Middle East raised import expenditure through higher global fuel prices and weighed on tourism earnings. The current account recorded a deficit of USD 291 million during the first eight months of 2026, compared to a surplus in the corresponding period of 2025, reflecting the impact of the Middle East conflict. The trade deficit also widened to USD 7.2 billion during the first eight months of 2026, from USD 4.3 billion in the corresponding period of 2025, as higher import expenditure more than offset the increase in export earnings. Merchandise exports during the first eight months increased by 3.3 percent to USD 9.4 billion, compared to USD 9.1 billion in the same period of 2025. Merchandise imports during the first eight months rose by 24.1 percent to USD 16.6 billion, compared to USD 13.3 billion in the same period of 2025, driven mainly by higher expenditure on crude oil and vehicle imports.

Workers' remittances increased significantly, by 19.8 percent to USD 6.1 billion in the first eight months of 2026, compared to USD 5.1 billion in the same period of 2025. However, earnings from tourism declined by 10.0 percent to USD 2.1 billion in the first eight months of 2026, compared to USD 2.3 billion in the same period of 2025, mainly due to a 2.0 percent decline in tourist arrivals and the downward revision of average per day tourist spending.

By the end of August 2026, GOR stood at USD 6.9 billion, including the swap facility with the People's Bank of China (PBOC). The Sri Lankan rupee depreciated by 5.5 percent against the US dollar year-to-date as at the end of August 2026.

The following sections present developments in the first six months of 2026, in accordance

with Section 50 of the Public Financial Management Act, No. 44 of 2024.

1.2 Inflation

Headline inflation, as measured by the year-on-year (Y-O-Y) change in the Colombo Consumer Price Index (CCPI, 2021 = 100), increased sharply to 6.8 percent in June 2026, from 2.3 percent in January 2026. Headline inflation remained low in February and March 2026, at 1.6 percent and 2.2 percent respectively, before accelerating markedly to 5.4 percent in April 2026. This acceleration was mainly due to the pass-through of continued upward adjustments to domestic energy prices, reflecting the surge in global commodity prices, particularly petroleum, arising from heightened tensions in the Middle East. The upward trend persisted through May and June 2026. The increase in June was driven largely by the Food category, which contributed 1.4 percentage points to the 2.1 percent month-on-month rise in the CCPI, owing mainly to higher prices of fish and vegetables.

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), also trended upward during the first half of 2026. It increased to 4.0 percent in June 2026 from 2.3 percent in January 2026.

TABLE 1.1 | Movements in Inflation (%)

Year	Month	CCPI				NCPI			
		Headline Inflation		Core * Inflation		Headline Inflation		Core* Inflation	
		Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average
2025	January	-4.0	0.4	1.2	3.2	-4.0	0.7	-0.2	2.3
	February	-4.2	-0.5	0.7	3.0	-3.9	0.0	-0.6	2.0
	March	-2.6	-0.8	0.7	2.8	-1.9	-0.4	-0.6	1.7
	April	-2.0	-1.1	0.8	2.6	-0.8	-0.7	-0.1	1.4
	May	-0.7	-1.2	1.2	2.4	0.6	-0.8	0.3	1.2
	June	-0.6	-1.4	1.5	2.1	0.3	-0.9	0.6	0.9
	July	-0.3	-1.6	1.6	1.9	0.7	-1.1	0.9	0.7
	August	1.2	-1.5	2.0	1.8	1.5	-1.0	1.5	0.7
	September	1.5	-1.4	2.0	1.7	2.1	-0.9	1.9	0.7
	October	2.1	-1.2	2.2	1.6	2.7	-0.6	2.1	0.7
	November	2.1	-0.8	2.4	1.6	2.4	-0.2	2.2	0.8
	December	2.1	-0.5	2.7	1.6	2.9	0.2	2.6	0.9
2026	January	2.3	0.0	2.3	1.7	2.4	0.7	2.2	1.1
	February	1.6	0.5	2.1	1.8	1.6	1.2	2.2	1.3
	March	2.2	0.9	2.5	2.0	2.4	1.5	2.7	1.6
	April	5.4	1.6	3.8	2.2	4.7	2.0	4.4	2.0
	May	5.5	2.1	3.9	2.4	5.4	2.4	4.5	2.3
	June	6.8	2.7	4.0	2.6	6.5	2.9	5.0	2.7
	July	7.3	3.3	4.4	2.9	7.2	3.5	6.0	3.1
	August	8.0	3.9	5.1	3.1	8.1	4.1	6.3	3.5
	September	8.0	4.5	5.4	3.4	8.1	4.5	6.4	3.9

Source: Department of Census and Statistics

**CCPI and NCPI Core Inflation (Bace Year 2021=100) – Excluding Volatile Food, Energy and Transport*

Headline inflation, as measured by the Y-O-Y change in the National Consumer Price Index (NCPI, 2021 = 100), increased to 6.5 percent in June 2026 from 2.4 percent in January 2026, having eased to 1.6 percent in February before accelerating from March onwards. Non-food inflation rose sharply from 1.6 percent in January 2026 to 9.3 percent in June 2026, while food inflation eased slightly from 3.4 percent to 3.3 percent over the same period. Core inflation, as measured by the NCPI (2021 = 100), also increased from 2.2 percent in January 2026 to 5.0 percent in June 2026.

The CBSL expects headline inflation to remain above the 5.0 percent target in the near term, and then to ease gradually and stabilize around the target over the medium term, supported by the monetary policy tightening in May 2026 and other policy measures taken by the Government and the CBSL. Nevertheless, amid the volatile situation in the Middle East and its far-reaching spillovers to both global and domestic economic activity, the outlook for domestic inflation remains highly uncertain.

1.3 Money and Credit

The CBSL raised the Overnight Policy Rate (OPR) by 100 basis points to 8.75 percent in May 2026, from 7.75 percent at the beginning of the year, thereby tightening monetary policy in view of the elevated inflation outlook and the risk of de-anchoring inflation expectations. Accordingly, the SDFR and the SLFR, which are linked to the OPR with pre-determined margins of ±50 basis points, increased to 8.25 percent and 9.25 percent, respectively. As a result, most market interest rates increased, including short-term rates and lending rates such as the Average Weighted Prime Lending Rate (AWPR), which rose to 10.34 percent in June 2026, along with other key deposit and lending rates.

Treasury Bill yields across all maturities in the primary auctions increased during January-June 2026, and longer-term Treasury Bond yields also rose in both the primary and secondary markets. The 91-day yield increased to 10.1 percent by June 24, 2026 up by around 240 basis points from end 2025. The Statutory Reserve Ratio (SRR) remained unchanged at 2.0 percent during the first half of 2026. However, with effect from April 01, 2026 the CBSL introduced refinements to the SRR framework to strengthen reserve management and improve the effectiveness of monetary operations. These include phased reductions in the recognition of till cash as a reserve asset, a two-week reserve maintenance period, a minimum daily reserve maintenance requirement of 75 percent, and a revised penalty mechanism linked to the OPR.

Broad Money Supply (M2b) increased to Rs. 16,918.0 billion at the end of June 2026, from Rs. 16,069.0 billion at the end of January 2026, a growth of 5.3 percent, supported by the expansion in private sector credit. Credit to the private sector increased to Rs. 11,281.5 billion at the end of June 2026, from Rs. 10,294.8 billion at the end of January 2026. Credit extended to the private sector by licensed commercial banks recorded year-on-year growth of around 27.4 percent at the end of June 2026. Net Foreign Assets increased to Rs. 1,264.9 billion at the end of June 2026, from Rs. 1,066.8 billion at the beginning of January 2026, supported by the Central Bank's purchases of foreign exchange from the domestic market.

TABLE 1.2 | Reserve Money, Broad Money and Private Sector Credit

Rs. Billion

Item	2025						2026						
	January	February	March	April	May	June	January	February	March	April	May	June	2026 June/ 2025 June Growth (%)
Reserve Money	1,567.0	1,589.6	1,668.6	1,677.7	1,651.1	1,660.1	1,789.7	1,848.8	1,970.0	1,939.2	1,917.6	1,889.1	13.8
Broad Money (M2b)	14,439.1	14,543.8	14,777.7	14,931.9	14,965.5	15,175.8	16,069.0	16,276.3	16,585.7	16,660.4	16,761.4	16,918.0	11.5
Private Sector Credit	8,151.4	8,256.9	8,414.6	8,501.6	8,634.6	8,856.1	10,294.8	10,439.1	10,697.5	10,798.1	11,036.0	11,281.5	27.4

Source : Central Bank of Sri Lanka

1.4 Stock Market

Sri Lanka's stock market was considerably volatile in the first half of 2026. The All Share Price Index (ASPI, 1985 = 100), which reflects overall market performance, rose by 23.5 percent year-on-year to 22,263.3 points at the end of June 2026, from 18,026.7 points at the end of June 2025. The Standard & Poor's Sri Lanka 20 Index (S&P SL20, 2004 = 1,000), which represents the most liquid stocks, also rose by 15.9 percent year-on-year to 6,205.1 points at the end of June 2026, from 5,352.5 points at the end of June 2025. These gains were supported by improved investor sentiment and selective investor interest in listed equities, despite continued market volatility and net foreign investor outflows during the first half of 2026.

The market capitalization of the Colombo Stock Exchange (CSE) increased by 25.3 percent to Rs. 8,063.7 billion at the end of June 2026, from Rs. 6,438.0 billion at the end of June 2025. The average daily turnover rose by 9.4 percent to Rs. 4,468.2 million in the first half of 2026, compared to Rs. 4,085.5 million in the same period of 2025.

1.5 External Sector Developments

Sri Lanka's external sector came under renewed pressure in the first half of 2026. The sharp escalation of the conflict in the Middle East since late February 2026 triggered a spike in global crude oil prices, which gradually raised the country's import bill. This was compounded by a resurgence in vehicle imports following the earlier removal of import restrictions. Together, these factors outweighed the continued resilience of workers' remittances and drove the current account into deficit for the first time in four years.

In the first half of 2026, workers' remittances increased significantly, by 23.2 percent to USD 4,604.8 million, while tourism earnings declined by 11.8 percent to USD 1,511.1 million, against a decline of only 1.8 percent in tourist arrivals. The sharper fall in earnings relative to arrivals partly reflects the Sri Lanka Tourism Development Authority's (SLTDA) revised methodology for estimating tourism earnings, including a downward revision of average daily tourist spending, which limits comparability with the 2025 figures. A decline in arrivals, particularly from longer-staying European markets amid disruptions caused by the Middle East conflict, also contributed to the lower earnings.

Earnings from exports increased by 6.3 percent to USD 6,903.2 million, while expenditure on imports increased by 26.9 percent to USD 12,392.3 million, widening the trade deficit to USD 5,489.1 million. The terms of trade deteriorated compared to the corresponding period of 2025, as import prices rose faster than export prices. Gross official reserves stood at USD 6.5 billion at the end of June 2026, providing an import cover of 3.2 months.

The current account recorded a deficit of USD 245.4 million in the first half of 2026, compared to a surplus of USD 1,444.4 million in the same period of 2025. This mainly reflected the widened trade deficit and a moderation in the services account surplus, which declined by 22.4 percent to USD 1,598.7 million.

Net outflows from the Colombo Stock Exchange (CSE) amounted to USD 101.1 million in the first half of 2026, compared to a net outflow of USD 39.2 million in the same period of 2025. The government securities market recorded a net outflow of USD 21.8 million, compared to a net inflow of USD 90.1

TABLE 1.3 | Movements in the Capital Market

Indicators	2022	2023	2024	2025	End June	
					2025	2026
All Share Price Index (1985=100)	8,490	10,594	15,945	22,624	18,027	22,263
S & P SL 20 Index	2,636	3,010	4,862	6,157	5,353	6,205
Market Capitalization (Rs. Bn.)	3,847	4,261	5,696	8,069	6,438	8,064
No. of Listed Companies in Trading	290	290	284	288	286	290
Daily Average Turnover (Rs.Mn.)	2,972	1,697	2,240	7,844	4,085	4,468
Foreign Sales (Rs. Mn.)	36,863	37,088	58,492	95,559	37,999	56,429
Foreign Purchases (Rs. Mn)	67,488	41,451	48,013	56,931	26,214	22,732
Net Purchases (Rs. Mn)	30,625	4,363	-10,479	-38,628	-11,785	-33,697

Source: Colombo Stock Exchange

TABLE 1.4 | External Trade: January-June 2026

USD Million

Category	2025	2026	% Change
Exports	**6,492.1**	**6,903.2**	**6.3**
Agricultural Exports	**1,427.5**	**1,450.4**	**1.6**
Tea	743.1	700.8	-5.7
Rubber	14.7	14.8	0.7
Coconut	248.7	288.2	15.9
Other Agricultural Products	421.0	446.6	6.1
Industrial Exports	**5,044.5**	**5,424.6**	**7.5**
Food, Beverages & Tobacco	407.6	461.0	13.1
Textile and Garments	2,605.8	2,451.0	-5.9
Petroleum Products	465.3	720.8	54.9
Rubber Products	453.1	477.5	5.4
Machinery & Mechanical Appliances	225.4	321.9	42.8
Other Industrial Products	887.3	992.4	11.8
Mineral Exports	**10.1**	**18.2**	**79.5**
Unclassified Exports	**9.9**	**10.1**	**1.4**
Imports	**9,762.2**	**12,392.3**	**26.9**
Consumer Goods	**2,315.5**	**3,036.5**	**31.1**
Food and Beverages	1,094.5	1,113.8	1.8
Other Consumer Goods	1,221.0	1,922.7	57.5
Intermediate Goods	**5,575.6**	**7,058.7**	**26.6**
Petroleum	1,995.7	3,168.4	58.8
Fertilizer	94.1	109.5	16.4
Textiles and Textiles Articles	1,336.4	1,303.3	-2.5
Chemical Products	488.6	575.5	17.8
Plastic & Articles there of	298.3	340.6	14.2
Other Intermediate Goods	1,364.5	1,561.4	14.4
Investment Goods	**1,862.6**	**2,284.0**	**22.6**
Machinery and Equipment	1,208.0	1,422.8	17.8
Transport Equipment	173.7	364.7	110.0
Building Material	479.1	493.9	3.1
Other Investment Goods	1.9	2.6	38.1
Unclassified Imports	**8.5**	**13.1**	**54.3**
Trade Balance	**-3,270.1**	**-5,489.1**	

Source: Central Bank of Sri Lanka

million in the same period of 2025. Despite these developments, the overall Balance of Payments (BoP) recorded a surplus of USD 136 million in the first half of 2026, compared to a surplus of USD 522 million in the same period of 2025. The Sri Lankan rupee depreciated by 7.9 percent against the US dollar on a year-to-date basis by the end of June 2026.

Exports

Earnings from exports increased by 6.3 percent to USD 6,903.2 million in the first half of 2026, compared to USD 6,492.1 million in the same period of 2025. The increase was driven mainly by higher petroleum product export earnings amid elevated global fuel prices, alongside gains in machinery, food and beverages, and agricultural exports, which more than offset declines in textiles and garments and tea. Industrial exports accounted for 78.6 percent of total export earnings, while agricultural and mineral exports accounted for 21.0 percent and 0.2 percent, respectively.

Earnings from industrial exports increased by 7.5 percent to USD 5,424.6 million in the first half of 2026, from USD 5,044.5 million in the same period of 2025. This was driven mainly by petroleum products, which rose by 54.9 percent to USD 720.8 million; machinery and mechanical appliances, which increased by 42.8 percent to USD 321.9 million; and food, beverages and tobacco, which grew by 13.1 percent to USD 461.0 million. However,

earnings from textiles and garments, the largest industrial export category, declined by 5.9 percent to USD 2,451.0 million in the first half of 2026, from USD 2,605.8 million in the same period of 2025, amid subdued external demand.

Earnings from agricultural exports increased by 1.6 percent to USD 1,450.4 million in the first half of 2026, from USD 1,427.5 million in the same period of 2025, as higher earnings from coconut and seafood offset the decline in tea earnings. Coconut earnings increased notably, by 15.9 percent to USD 288.2 million, while seafood earnings grew by 17.6 percent to USD 122.5 million. However, tea earnings, the largest agricultural export category, declined by 5.7 percent to USD 700.8 million, from USD 743.1 million in the same period of 2025, owing to lower export volumes and moderating auction prices. Meanwhile, mineral export earnings increased notably, by 79.5 percent to USD 18.2 million, while unclassified export earnings increased by 1.4 percent to USD 10.1 million.

Imports

Expenditure on imports increased by 26.9 percent to USD 12,392.3 million in the first half of 2026, compared to USD 9,762.2 million in the same period of 2025. The increase was due to higher import expenditure across all major categories, driven mainly by elevated global fuel prices amid the conflict in the Middle East and a significant rebound in personal vehicle imports. Intermediate goods, consumer goods and investment goods accounted for 57.0 percent, 24.5 percent and 18.4 percent of total import expenditure, respectively.

Import expenditure on intermediate goods increased by 26.6 percent to USD 7,058.7 million, from USD 5,575.6 million in the same period of 2025, mainly due to a significant increase in fuel import expenditure. Fuel imports rose by 58.8 percent to USD 3,168.4 million, driven by increases in refined petroleum imports 78.7 percent to USD 2,538.6 million, crude oil imports by 7.5 percent to USD 479.5 million, and coal imports by 16.1 percent to USD 150.4 million. However, monthly fuel import expenditure moderated from USD 886 million in April 2026 to USD 536 million in May 2026, and further to USD 465 million in June 2026. Meanwhile, import expenditure on textiles and textile articles declined by 2.5 percent to USD 1,303.3 million. However, chemical product imports increased by 17.8 percent to USD 575.5 million.

Import expenditure on consumer goods increased sharply, by 31.1 percent to USD 3,036.5 million, from USD 2,315.5 million in the same period of 2025, driven primarily by non-food consumer goods, which rose by 57.5 percent to USD 1,922.7 million. This was mainly attributable to a substantial rebound in personal vehicle imports, which increased by 169.7 percent to USD 972.2 million, from USD 360.5 million in the same period of 2025. Import expenditure on food and beverages increased marginally, by 1.8 percent to USD 1,113.8 million.

Import expenditure on investment goods increased by 22.6 percent to USD 2,284.0 million, from USD 1,862.6 million in the same period of 2025, mainly due to a 110.0 percent increase in transport equipment imports to USD 364.7 million, of which commercial vehicle imports rose by 146.0 percent to USD 281.6 million. Import expenditure on machinery and equipment increased by 17.8 percent to USD 1,422.8 million, while expenditure on building materials increased by 3.1 percent to USD 493.9 million.

Workers' Remittances and Earnings from Tourism

Workers' remittances grew by 23.2 percent to USD 4,604.8 million in the first half of 2026, compared to USD 3,738.0 million in the same period of 2025, partly reflecting remittance-linked inflows received following Cyclone Ditwah, which were directed toward disaster relief and rebuilding efforts. Tourist arrivals declined marginally, by 1.8 percent to 1,146,573 persons, compared to 1,168,044 persons in the same period of 2025, while earnings from tourism declined by 11.8 percent to USD 1,511.1 million, compared to USD 1,712.6 million. The sharper decline in earnings relative to arrivals partly reflects the revised methodology adopted by the SLTDA for estimating tourism earnings, together with a decline in arrivals from longer-staying

TABLE 1.5 | A Snapshot of the World – 2025

Country	2025				
	GDP Growth (Annual percent change)[a]	Inflation (Percent)[a]	Unemployment (Percent)[b]	Fiscal Balance (Percent of GDP)[b]	Gross Debt (Percent of GDP)[b]
Argentina	4.5	41.9	7.4	-1.1	80.3
Australia	2.0	2.8	4.2	-2.6	51.0
Brazil	2.3	5.0	6.0	-3.0	93.3
Canada	1.9	2.1	6.9	-0.9	113.5
Chile	2.5	4.2	8.5	-2.3	41.8
China	5.0	0.0	5.1	3.7	99.2
France	0.9	0.9	7.6	-0.4	116.0
Germany	0.2	2.3	3.8	4.4	62.9
Greece	2.1	2.9	8.9	-5.7	145.7
India	7.8	2.0	4.9	-0.9	84.1
Indonesia	5.1	1.9	4.9	-0.1	41.0
Italy	0.5	1.6	6.1	1.2	137.1
Japan	1.2	3.2	2.5	4.8	206.5
Korea	1.1	2.1	2.8	6.6	52.3
Malaysia	5.2	1.4	3.0	1.6	70.7
Mexico	0.5	3.8	2.6	-0.4	61.8
Russia	1.0	8.7	2.2	1.6	17.2
Singapore	5.0	0.9	2.0	16.7	171.3
South Africa	1.1	3.2	32.4	-0.5	78.6
Spain	2.6	2.7	10.5	2.9	100.4
Sri Lanka	5.0	-0.5	3.9	-2.3	91.6
Thailand	2.4	-0.1	1.0	3.1	64.7
United Kingdom	1.2	3.4	4.9	-3.1	102.3
United States	2.3	2.7	4.3	-3.6	123.9
Vietnam	8.0	3.3	2.2	6.7	30.3
Venezuela	9.0	252.0	...	2.6	308.7

Source: [a]World Economic Outlook, IMF, October 2026, [b] World Economic Outlook, IMF, April 2026, Fiscal Monitor, IMF, April 2026, Annual Report 2025- Ministry of Finance
... Not available

European markets, amid the conflict in the Middle East. India, the United Kingdom, the Russian Federation, China, Germany and Australia were the leading source markets for tourist arrivals during the first half of 2026.

1.6 Global Economic Perspectives[1]

Global economic conditions remained more resilient than expected in 2026, despite the continuing conflict in the Middle East and ongoing trade tensions. Higher energy prices and conflict-related supply disruptions weighed on global economic activity, while strong investment in artificial intelligence (AI) and technology-related exports provided an important offset. As a result, growth became increasingly uneven across countries, with economies linked to the technology value chain or benefiting from higher energy prices performing better than energy-importing economies.

Global headline inflation rose again in August 2026, as energy prices increased after the temporary halt in the conflict in the Middle East ended. Oil prices nearly doubled in the early months of the conflict, before settling at levels around 20 to 40 percent above pre-conflict levels. Global trade growth is expected to slow from the pace recorded in 2025, mainly due to tariffs and the gradual adjustment of trade linkages, even as technology-related trade flows continued to grow strongly. Financial conditions remained broadly accommodative by historical standards, though this mainly reflected strong equity valuations, while government bond yields rose in many economies amid renewed inflation and concerns over fiscal sustainability.

1 Based on World Economic Outlook (October 2026, IMF)

Global Growth

Global growth was estimated at 3.5 percent in 2025 and is projected to moderate to 3.1 percent in 2026. Growth in advanced economies is projected to rise slightly to 2.1 percent in 2026, as higher energy prices weigh on net energy importers, unless they are supported by technology-related activity. The United States (US) is expected to grow by 2.3 percent, driven by robust private consumption, supportive fiscal policy, accommodative financial conditions and continued technology-related investment, with only a limited direct impact from the conflict as the country is a net energy exporter. Meanwhile, growth in the Euro area is projected at 1.1 percent in 2026, as elevated energy costs and subdued consumer sentiment continue to weigh on activity. Japan's growth is projected to moderate to 0.7 percent in 2026, as higher energy prices weigh on activity, only partly offset by fiscal support measures.

Growth in emerging market and developing economies is expected to slow to 3.7 percent in 2026, from 4.5 percent in 2025. Small island developing states are expected to experience slower growth, driven by higher energy costs and weaker tourism and remittances. China's growth is projected to slow to 4.5 percent in 2026, as higher global oil prices, along with prolonged uncertainty and structural headwinds, weigh on activity. India is projected to grow by 7.0 percent in 2026, remaining among the fastest-growing major economies, driven by strong domestic demand and services activity. Malaysia, Thailand and Vietnam are projected to grow by 5.2 percent, 2.1 percent and 8.4 percent, respectively, in 2026, benefiting from their close integration into the global technology value chain. Global growth is expected to recover to 3.4 percent in 2027, on the assumption that the reopening of the Strait of Hormuz begins in March 2027 and conditions return broadly to pre-conflict levels by October 2027.

Inflation

Inflationary pressures re-emerged in 2026, pausing the steady decline in global inflation, mainly due to the supply shock caused by the conflict in the Middle East. Global headline inflation is projected to rise to 4.7 percent in 2026, from 4.1 percent in 2025, driven mainly by higher energy and food prices. Core inflation remained moderate in most countries, although prices of some core goods in advanced economies started to reflect the rapidly rising cost of memory chips, while core inflation in the US increased due to a rebound in travel services prices. Inflation is expected to remain uneven across countries, owing to differences in exchange rate pass-through, the persistence of services inflation, labour market conditions, policy credibility and administered pricing systems. Core inflation is projected to return to 2 percent only gradually in major economies, with Japan and the United Kingdom reaching it by end-2027, and the euro area and the United States by mid-2028.

Global headline inflation is projected to ease to 4.1 percent in 2027 from 4.7 percent in 2026, contingent on the reopening of the Strait of Hormuz proceeding as assumed. Inflation is projected at 3.1 percent in advanced economies and 5.7 percent in emerging market and developing economies in 2026. Risks to the inflation outlook include a prolonged stalemate or further escalation of conflicts in the Middle East or Ukraine, which could keep commodity prices higher and more volatile for longer, as well as extreme weather events linked to the ongoing El Niño episode, which could push up food prices.

Commodity Markets

Commodity prices rose sharply in 2026, reversing the decline in oil prices recorded in 2025. The average petroleum spot price is projected at around USD 96 per barrel for the year, an increase of 41.3 percent over 2025, reflecting disruptions to flows through the Strait of Hormuz that were only partly offset by higher production outside the Gulf and drawdowns in global inventories. Oil prices peaked at USD 126 per barrel in late March 2026 and briefly fell to USD 68 per barrel following a memorandum of understanding between Iran and the United States in mid-June, while prices of refined petroleum products remained 70 to 95 percent above pre-conflict levels. Natural gas prices in Europe are projected at USD 20 per million British thermal units in 2026, an increase of 48 percent over 2025, reflecting damage to

TABLE 1.6 | International Commodity Prices

Item	Unit	Actual		Projection	
		2024	2025	2026	2027
Energy					
Coal, Australia	$/MT	136.1	108.4	130.0	115.0
Crude oil, Brent	$/bbl	80.7	69.0	86.0	70.0
Natural gas, US	$/MMBTU	2.2	3.5	3.8	4.0
Non-energy					
Agriculture					
Beverages					
Cocoa	$/kg	7.33	7.80	3.80	4.20
Coffee, robusta	$/kg	4.41	4.86	4.00	3.90
Tea	$/kg	3.04	2.91	2.85	3.00
Food					
Fats and Oils					
Palm oil	$/MT	963	1,007	1,089	1,096
Soybean meal	$/MT	442	366	359	363
Soybeans	$/MT	462	414	441	446
Grains					
Maize	$/MT	191	203	211	214
Rice	$/MT	588	408	401	413
Wheat	$/MT	269	243	253	260
Other food					
Sugar	$/kg	0.45	0.37	0.35	0.34
Raw Materials					
Cotton	$/kg	1.91	1.71	1.65	1.75
Rubber	$/kg	1.75	1.77	1.90	1.95
Sawn wood	$/cum	697	718	725	730
Metals and Minerals					
Aluminium	$/MT	2,419	2,632	3,200	3,000
Copper	$/MT	9,142	9,947	12,000	11,000
Nickel	$/MT	16,814	15,162	17,000	17,500

Source: World Bank Pink Sheet – June 2026

Qatar's energy infrastructure and low gas stocks in Europe, while prices in the United States remained insulated from the conflict.

Food prices are projected to rise by 5 percent in 2026, reflecting elevated energy and fertilizer costs as well as more expensive transport and insurance. Fertilizer prices are projected to rise by 10 percent in 2026, while wheat prices rose by 22.7 percent between March and August 2026 amid disruptions to Black Sea grain flows and heat waves in Europe. Further increases in energy and food prices could have severe effects on poverty and food security, especially in the most vulnerable low-income economies.

1.7 Global Trade

World trade growth is expected to slow to 4.6 percent in 2026 from 5.0 percent in 2025. This slowdown reflects the impact of tariffs and the gradual adjustment of trade linkages and production chains through trade reconfiguration and the substitution of suppliers, although technology-related trade is expected to remain strong. Export growth of advanced economies is projected to increase to 5.1 percent in 2026 from 3.6 percent in 2025, while export growth of emerging market and developing economies is projected to slow sharply to 3.6 percent from 7.1 percent, amid disruptions to energy output and transport in the Middle East.

Technology-related trade continued to expand rapidly. Net trade in AI-related hardware increased sharply as a share of world GDP, driven mainly by higher prices rather than higher volumes. The four major net exporters of AI-related hardware, namely Korea, Malaysia, Thailand and Taiwan Province of China, saw their growth prospects revised upward, with Korea's growth projected to rise to 3.3 percent in 2026, supported by strong

international demand for semiconductors. Cross-border trade, however, continued to face challenges from tariffs, as both the effective US tariff rate and the tariffs imposed by other countries on US imports are slightly higher than assumed in April 2026. Firms have redirected a large share of trade toward alternative destinations, which has reduced the short-term damage from higher trade barriers, but resulting duplication of activities and higher costs may lower efficiency in the long run.

In the period ahead, world trade volume growth is projected to stabilize at 4.7 percent in 2027, as conditions in the Strait of Hormuz are assumed to normalize progressively and trade linkages and production chains adjust further. However, trade tensions could rise again, especially if they become linked to ongoing conflicts or if trade rerouting becomes more disruptive. Prolonged disruptions to energy markets and strategic supply chains, or unbalanced trade, could lead more countries to raise tariffs or impose other trade restrictions. Restrictions on energy, critical minerals and other key production inputs could cause supply bottlenecks and higher prices. If countries retaliate, these costs could grow further. On the other hand, new regional and bilateral trade agreements could lower trade barriers and support global activity.

1.8 Monetary and Financial Sector

Monetary policy remained cautious during 2026, as central banks weighed domestic growth momentum against the possibility of a lasting inflationary impact from the conflict. Monetary policy is expected to provide less support than assumed in April, as inflationary pressures have become more evident while economic activity has slowed only modestly. Policy rates in the euro area and the US are projected to increase in real terms, while the policy rate in Japan is expected to gradually move toward a neutral level. The short-lived ceasefire in the Middle East has been replaced by a low-intensity conflict that has expanded to the Red Sea, keeping energy prices volatile. In this context, the IMF emphasizes that central banks should avoid reacting too strongly to short-term movements in headline inflation driven by energy prices, but to respond if higher inflation starts to feed into inflation expectations or wage setting.

Financial markets largely remained calm during the period, despite volatility driven by the conflict and developments related to artificial intelligence (AI). Global financial conditions remained relatively accommodative in historical terms, supported by strong corporate earnings and high equity valuations, particularly in technology stocks, which offset tighter conditions elsewhere. Government bond yields rose in many economies due to a resurgence of inflation, the expected path of short-term policy rates and concerns about fiscal sustainability, with benchmark interest rates in advanced economies climbing to multidecade highs and pushing up borrowing costs for emerging markets. Exchange rates were highly volatile, particularly in Asia, leading authorities to intervene, including through a joint operation by Japan and the US. Meanwhile, gold prices declined by 9.1 percent between March and August 2026, as higher interest rates increased the cost of holding non-yielding assets.

Although financial conditions remained accommodative by historical standards, financial stability risks persisted. These centred on stretched equity valuations and the increasing concentration of equity markets in AI-related stocks, and the possibility of a sharp correction should expectations regarding AI-related profitability and productivity gains be revised downward, as shown by recent bouts of volatility in technology stocks in Korea and the United States. They also centred on elevated public debt and large refinancing needs in several major economies, which leave sovereign markets exposed to sudden changes in financial conditions. Public debt is projected to rise from 108 percent of GDP in 2025 to 115 percent of GDP in 2031 in advanced economies, and from 74 percent to 84 percent of GDP in emerging market and developing economies. Managing these risks depends on rebuilding fiscal space through credible fiscal adjustment plans, prudent debt management and financial regulation, alongside stronger safeguards against cyberattacks, including those facilitated by AI, on critical infrastructure and financial services.

CHAPTER 2

Fiscal Developments

2.1 Overview

Fiscal performance continued to strengthen during the first half of 2026, supported by sustained revenue mobilization, ongoing revenue-based fiscal consolidation, strengthened anti-corruption measures, and greater macroeconomic stability. The revenue-based fiscal adjustments undertaken since 2022 have contributed to a sustained recovery of government revenue, with the tax-to-GDP ratio rising from 7.3 percent in 2022 to 15.4 percent in 2025. Building on these gains, the Government remains committed to sustaining revenue mobilization and improving expenditure management to support fiscal sustainability, equitable economic growth, and post-disaster recovery. To this end, continued efforts are being directed towards improving expenditure efficiency, accelerating the execution of capital expenditure on priority projects, supporting recovery following Cyclone Ditwah, increasing the contribution of direct taxation, advancing the digitalization of tax administration, and strengthening the targeting of social safety net programmes.

Reflecting the continued fiscal consolidation efforts, the primary surplus increased to Rs. 1,244.1 billion in the first half of 2026, compared to Rs. 859.0 billion recorded in the same period of 2025, mainly supported by higher revenue collection and lower execution of capital expenditure. The primary surplus substantially exceeded the end-June 2026 Quantitative Performance Criterion (QPC) of Rs. 72 billion set for the first half of 2026 under the IMF-EFF programme. The overall budget balance also turned into a surplus of Rs. 9.5 billion in the first half of 2026, from a deficit of Rs. 405.6 billion in the same period of 2025.

TABLE 2.1 | Summary of the Budget: January-June 2026

Rs. Million

Item	2025	2026 (Provisional)
Revenue and Grants	**2,325,104**	**2,956,003**
Revenue	2,321,719	2,954,189
Tax Revenue	2,152,087	2,710,552
Non Tax Revenue	169,632	243,637
Grants	3,385	1,813
Expenditure	**2,730,707**	**2,946,494**
Recurrent	2,506,828	2,669,889
Interest Payments	1,264,591	1,234,580
Other	1,242,237	1,435,309
Public Investment	228,064	280,071
Other	-4,185	-3,467
Current Account Surplus(+)/Deficit(-)	**-185,109**	**284,301**
Overall Budget Surplus(+)/Deficit(-)	**-405,603**	**9,509**
Financing	**405,603**	**-9,509**
Foreign Financing	-120,042	32,559
Borrowing	137,715	304,535
Repayments	-257,757	-271,976
Domestic Financing	525,645	-42,068
Borrowing	1,312,750	835,707
Repayments	-787,104	-877,774

Source: Department of Fiscal Policy

In the first half of 2026, total government revenue and grants increased by 27.1 percent to Rs. 2,956.0 billion, while total revenue excluding grants increased by 27.2 percent to Rs. 2,954.2 billion, achieving 56.1 percent of the annual estimate by end June 2026. The strong revenue performance was mainly driven by the higher tax revenue, which increased by 25.9 percent to Rs. 2,710.6 billion, supported by higher collections from income taxes, taxes on goods and services and taxes on external trade. Sri Lanka Customs and the Inland Revenue Department were the main contributors to the increase in tax revenue, reflecting stronger collections from both import-related and domestic taxes. Non-tax revenue also increased significantly by 43.6 percent to Rs. 243.6 billion, while grants declined by 46.4 percent to Rs. 1.8 billion.

Income tax revenue increased by 16.3 percent to Rs. 568.4 billion, supported by higher collections from corporate and non-corporate income taxes and withholding taxes. Taxes on goods and services increased by 29.6 percent to Rs. 1,769.0 billion, mainly reflecting higher Value Added Tax (VAT), excise duty and Social Security Contribution Levy (SSCL) collections. VAT revenue increased by 25.4 percent to Rs. 987.6 billion, supported by higher domestic and import-related collections, as well as improvements in tax administration and the continued digitalization of tax administration aimed at strengthening compliance and collection efficiency. Revenue from taxes on external trade increased by 25.1 percent to Rs. 373.2 billion, mainly due to increase of the value of imports and higher import duties on motor vehicles.

Total government expenditure increased by 7.9 percent to Rs. 2,946.5 billion, while recurrent expenditure increased by 6.5 percent to Rs. 2,669.9 billion in the first six months of 2026. The increase in recurrent expenditure was mainly due to the impact of public sector salary revisions and higher expenditure on welfare programmes, retirement benefits and transfers. Expenditure on goods and services declined by 5.8 percent, reflecting tighter controls on operational expenditure, while interest payments also declined by 2.4 percent. Salaries and wages increased by 12.0 percent to Rs. 621.7 billion, while subsidies and transfers increased by 25.6 percent to Rs. 666.3 billion.

Capital expenditure and net lending increased by 23.6 percent to Rs. 276.6 billion, while public investment increased by 22.8 percent to Rs. 280.1 billion, compared to Rs. 228.1 billion in the same period of 2025, reflecting continued progress in development activities.

The improved fiscal position was also reflected in the Government's financing position. Total financing recorded a negative Rs. 9.5 billion during the first half of 2026, consistent with the overall budget surplus. Net foreign financing amounted to Rs. 32.6 billion, comprising gross foreign borrowings of Rs. 304.5 billion and repayments of Rs. 272.0 billion. Meanwhile, net domestic financing recorded a negative Rs. 42.1 billion, compared to positive domestic financing of Rs. 525.6 billion in the same period of 2025. These developments indicate a reduced reliance on domestic financing during the period, in line with the improved fiscal position.

Overall, the fiscal developments during the first half of 2026 indicate continued progress in fiscal consolidation, supported by stronger revenue performance, expenditure management and improved financing

TABLE 2.2 | Estimated and Actual Revenue and Expenditure: January-June 2026

Rs. Billion

Item	Estimated (Annual)	Actual (Provisional)	Achievement (%)
Total Revenue	**5,270**	**2,954**	**56.1**
Tax Revenue	4,910	2,711	55.2
Non – Tax Revenue	360	244	67.7
Total Expenditure	**7,557**	**2,946**	**39.0**
Recurrent Expenditure	5,838	2,670	45.7
Capital Expenditure and Net Lending	1,719	277	16.1

Source: Department of Fiscal Policy

conditions, while maintaining support for priority public investment and targeted social protection.

2.2 Government Revenue

Total government revenue including grants increased by 27.1 percent to Rs. 2,956.0 billion in the first half of 2026, compared to Rs. 2,325.1 billion in the same period of 2025 mainly due to the increase in tax revenue by 25.9 percent to Rs. 2,710.6 billion in the first half of 2026, compared to Rs. 2,152.1 billion recorded in the same period of 2025.

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

1. Excise Duty on motor vehicles by 106.2 percent or Rs. 137.2 billion due to increase of motor vehicle imports by 256 percent to 313,480 for the period from January to June in 2026 with the relaxation of import of all type of motor vehicles with effect from February 2025;

2. VAT expanded by 25.4 percent or 200.3 billion driven by increase of VAT on imports by 25.3 percent to Rs. 443.7 billion due to relaxation of import of all type of motor vehicles with effect from February 2025 together with imposition of VAT on imported fabric with effect from April 01, 2026 and increase of VAT on domestic by 25.5 percent to Rs. 543.9 billion resulted from expansion of domestic activities and administrative measures reflecting increase of VAT registrations including VAT on financial services by 34.2 percent to 37,027 files in the first half of 2026, compared to the first half of 2025;

3. Customs Import Duty (CID) by 63.6 percent or Rs. 59.8 billion mainly due to application of CID on motor vehicles together imposition of 50 percent Surcharge on applicable CID on motor vehicles and increase of import value of goods by 26.9 percent to USD 12,392.3 million in the respective period;

4. Income Taxes by 16.3 percent or Rs. 79.9 billion mainly due to increase of corporate income tax by 21.7 percent to Rs. 314.5 billion reflecting increase in tax rate to 45 percent from 40 percent on the liquor, tobacco and betting and gaming industries and introduction of 15 percent tax on the gains and profit earned or derived from any foreign source with effect from April 01, 2025. Revenue from withholding tax (WHT) increased by 21.0 percent to Rs. 104.2 billion reflecting the increase of WHT on interest rate to 10 percent from 5 percent with effect from April 01, 2025. Meanwhile, improvements in tax administration, reflected in a 12 percent increase in total income tax file registrations to 1,406,497 as at end-June 2026, compared to end-June 2025, also contributed to this revenue growth;

5. SCL by 7.2 percent or Rs. 5.6 billion driven by the rate increases for importation of Potatoes and Onions together with measures to facilitate rice imports;

6. SSCL by 21.5 percent or Rs. 30.5 billion driven by expansion of domestic and external activities together with improved tax administration measures reflecting growth of number of SSCL file registrations by 31.2 percent to 18,332 in the first half of 2026.

7. Excise Duty on liquor by 27.1 percent or Rs. 29.3 billion mainly due to increase of liquor production by 13.3 percent to 19.7 million absolute litres during first half of 2026

8. PAL by 10.6 percent or Rs. 9.0 billion due to the increase in imports.

The increase of non-tax revenue by 43.6 percent or Rs. 74.0 billion in the first half of 2026 also contributed to the escalation in revenue. This was mainly led by transfer of Central Bank Profit of Rs. 42.1 billion and the increase in revenue from fines, fees and charges by Rs. 20.3 billion. Meanwhile, revenue from interest income and social security contributions also positively contributed to the escalation of this non-tax revenue.

TABLE 2.3 | Annual Estimate and Actual Tax Revenue: January-June 2026

Rs. Billion

Item	Annual Estimate	Actual (Provisional)
Department of Inland Revenue		
Tax on Income	1,210	568
VAT – Domestic	937	544
SSCL -Domestic	236	125
IRD Other	18	10
Sub Total	**2,401**	**1,248**
Sri Lanka Customs		
Import Duty	235	154
VAT – Imports	875	444
SSCL -Import	97	47
Ports and Airports Development Levy	190	94
Import/Export Cess	90	42
Special Commodity Levy	129	83
Excise Special Provisions	589	424
Cigarettes	105	57
Petroleum	205	96
Motor Vehicles & Other	279	272
Other	1	2
Sub Total	**2,206**	**1,290**
Department of Excise		
Liquor/Tobacco	245	138
Sub Total	**245**	**138**
Other		
Telecommunication Levy	17	7
License Tax & Other	41	28
Sub Total	**58**	**35**
Total Tax Revenue	**4,910**	**2,711**

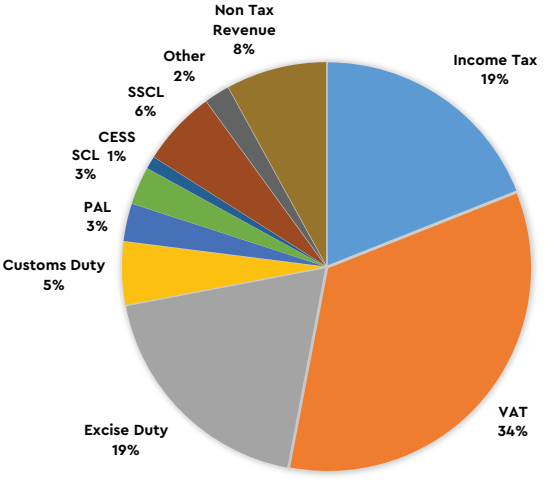
Source : Department of Fiscal Policy

Tax Revenue

The government tax revenue increased to Rs. 2,710.6 billion, accounting 91.8 percent of government total revenue in the first half of 2026. Benefiting from the higher collection of VAT, Excise Duty and external trade taxes, direct to indirect tax ratio declined to 21:79 percent in the first six months of 2026, compared to 23:77 percent in the same period of 2025. By mid-2026, tax revenue collection had reached 55.2 percent of the annual estimate of Rs. 4,910.0 billion.

Tax revenue based on domestic consumption increased by 24.2 percent, reaching Rs. 869.6 billion during the first six months of 2026, compared to Rs. 700.0 billion recorded during the corresponding period of 2025. Meanwhile, revenue from import-based taxes increased by 32.3 percent to

FIGURE 2.1 | Composition of Government Revenue: January-June 2026



Source: Department of Fiscal Policy

TABLE 2.4 | Performance of Government Revenue: January-June 2026

Rs. Million

Item	2025	2026 (Provisional)	Growth %
Tax Revenue	**2,152,087**	**2,710,552**	**25.9**
Income Tax	488,506	568,356	16.3
Domestic Consumption Based Tax	699,990	869,643	24.2
Value Added Tax	433,364	543,931	25.5
Social Security Contribution Levy	108,561	125,058	15.2
Excise Duty	158,023	200,627	27.0
Nation Building Tax	43	27	-36.1
Import Based Tax	926,988	1,226,015	32.3
Customs Duty	93,952	153,712	63.6
Value Added Tax	353,967	443,690	25.3
Nation Building Tax	405	2	-99.6
Ports & Airports Development Levy	85,431	94,455	10.6
Special Commodity Levy	77,579	83,163	7.2
Social Security Contribution Levy	33,061	47,046	42.3
Excise Duty	241,136	362,057	50.1
Cess	41,456	41,890	1.0
License Taxes and Other	36,604	46,537	27.1
Non Tax Revenue	**169,632**	**243,637**	**43.6**
Total Revenue	**2,321,719**	**2,954,189**	**27.2**

Source : Department of Fiscal Policy

Rs. 1,226.0 billion, compared to Rs. 927.0 billion recorded in the first six months of 2025.

Income Tax

Revenue from income taxes rose by 16.3 percent to Rs. 568.4 billion in the first six months of 2026, from Rs. 488.5 billion in the same period of 2025. The increase was driven mainly by higher Corporate Income Tax (CIT) and Withholding Tax (WHT) collections.

Revenue from CIT rose significantly, by 21.7 percent, to Rs. 314.5 billion in the first six months of 2026, compared to Rs. 258.3 billion in the corresponding period of 2025. The increase was mainly attributable to the expansion of domestic economic activities, the increase in the CIT rate applicable to the liquor, tobacco, and betting and gaming industries from 40 percent to 45 percent, and the introduction of a 15 percent tax on gains and profits earned or derived from foreign sources effective April 01, 2025. In addition, a broader tax base, supported by improved tax administration efforts, contributed to the growth in CIT revenue.

Revenue from Pay-As-You-Earn (PAYE)/ Advance Personal Income Tax (APIT) increased by 4.5 percent to Rs. 118.4 billion in the first six months of 2026. This reflected the combined effects of the increase in the annual tax-free threshold from Rs. 1.2 million to Rs. 1.8 million, the structural changes to tax rates effective April 1, 2025, and the increase in salaries and wages over the period.

TABLE 2.5 | Revenue from Income Tax: January-June 2026

Rs. Million

Tax Base	2025	2026 (Provisional)	Change %
Corporate and Non Corporate	289,055	345,751	19.6
PAYE/APIT	113,364	118,448	4.5
Economic Service Charge	17	8	-53.7
Withholdings Tax	86,070	104,150	21.0
Total	**488,506**	**568,356**	**16.3**

Source : Department of Fiscal Policy

Revenue from individual income tax rose marginally, by 1.7 percent, to Rs. 31.3 billion in the first six months of 2026, compared to Rs. 30.8 billion in the same period of 2025. Despite the impact of the higher tax-free threshold, improved tax administration contributed positively to collections, as reflected in a 10.8 percent increase in the number of individual tax files, to 1,266,976 as at end-June 2026, compared to end-June 2025.

Revenue from Withholding Tax (WHT) rose significantly, by 21.0 percent, to Rs. 104.2 billion in the first six months of

2026, compared to Rs. 86.1 billion in the corresponding period of 2025. The increase mainly reflected the rise in the WHT rate on interest income from 5 percent to 10 percent, effective April 1, 2025, together with higher interest rates.

Value Added Tax (VAT)

In nominal terms, VAT revenue rose significantly, by 25.4 percent, to Rs. 987.6 billion in the first half of 2026, compared to Rs. 787.3 billion in the same period of 2025, representing 54.5 percent of the annual estimate for 2026. Domestic VAT revenue increased by 25.5 percent to Rs. 543.9 billion, supported by the expansion of domestic economic activity and enhanced tax administration measures. VAT revenue from imports grew by 25.3 percent to Rs. 443.7 billion, driven mainly by higher import volumes across all categories of vehicles.

TABLE 2.6 | Revenue from Value Added Tax: January-June 2026

Rs. Million

Tax Base	2025	2026 (Provisional)	Growth %
Domestic	433,364	543,931	25.5
Imports	353,967	443,690	25.3
Total Revenue	**787,331**	**987,622**	**25.4**

Source : Department of Fiscal Policy

Excise Duty

Revenue from Excise Duty rose by 41.0 percent to Rs. 562.7 billion in the first half of 2026, compared to Rs. 399.2 billion in the same period of 2025. The growth was driven mainly by higher revenue from motor vehicles, cigarettes, and liquor, partly offset by a decline in revenue from petroleum and other excisable articles. Excise Duty accounted for 20.8 percent of total tax revenue and 19.0 percent of total revenue collection in the first half of 2026, and achieved 67.5 percent of the annual estimate.

Revenue from Excise Duty on motor vehicles increased sharply, by 106.2 percent, to Rs. 266.4 billion in the first half of 2026, compared to Rs. 129.1 billion in the same period of 2025. This was mainly due to higher vehicle import volumes, reflecting the full-year effect of the removal of temporary restrictions on motor vehicle imports, effective February 01, 2025.

Revenue from cigarettes rose significantly, by 31.1 percent, to Rs. 57.7 billion in the first half of 2026, compared to Rs. 44.0 billion in the same period of 2025. This was primarily attributable to an increase in the number of cigarette sticks measuring 60 mm to 67 mm in length, despite a decline in the number of sticks in other length categories.

TABLE 2.7 | Revenue from Excise Duty: January -June 2026

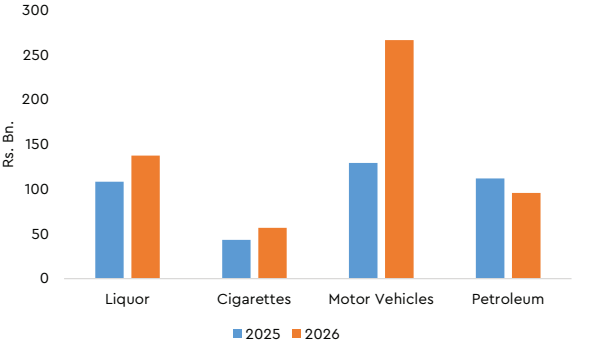
Rs. Million

Tax Base	2025	2026 (Provisional)	Growth %
Liquor	108,240	137,520	27.1
Cigarettes / Tobacco	44,023	57,721	31.1
Motor Vehicles	129,146	266,360	106.2
Petroleum	111,990	95,697	-14.5
Other	5,760	5,386	-6.5
Total	**399,159**	**562,684**	**41.0**

Source : Department of Fiscal Policy

In contrast, revenue from petroleum declined by 14.5 percent to Rs. 95.7 billion in the first half of 2026, compared to Rs. 112.0 billion in the same period of 2025. This was mainly attributable to reduction in diesel import volumes compared to the same period of 2025. Revenue from Excise Duty on other excisable articles, including sweetened beverages, refrigerators, palm oil, and fatty acids, also decreased, by 6.5 percent, to Rs. 5.4 billion in the first half of 2026, compared to Rs. 5.8 billion in the same period of 2025.

FIGURE 2.2 | Performance of Excise Duty: January-June 2025 /2026



Source: Department of Fiscal Policy

Revenue from liquor increased by 27.1 percent to Rs. 137.5 billion in the first half of 2026, compared to Rs. 108.2 billion in the same period of 2025. This was due to the introduction of new rules on the timing of duty payments on liquor production, the levying of fees, and higher production volumes. Total liquor production rose by 13.3 percent to 19.7 million absolute litres in the first half of 2026, from 17.4 million absolute litres in the same period of 2025. Revenue from Excise Duty on liquor achieved 56.6 percent of the annual estimate in the first half of 2026.

Other Taxes

Revenue from other taxes increased by 24.1 percent to Rs. 591.9 billion in the first half of 2026, compared to Rs. 477.1 billion in the same period of 2025.

Revenue from the Customs Import Duty (CID) increased notably, by 63.6 percent, to Rs. 153.7 billion in the first half of 2026, compared to Rs. 94.0 billion in the same period of 2025. This was mainly due to higher motor vehicle import volumes and the imposition of a 50.0 percent surcharge on CID rates applicable to motor vehicles.

Revenue from the CESS levy increased marginally, by 1.0 percent, to Rs. 41.9 billion in the first half of 2026, compared to Rs. 41.5 billion in the same period of 2025. Despite the phased removal of CESS, revenue from imports remained unchanged at Rs. 40.8 billion. Meanwhile, CESS revenue from exports increased significantly, by 59.0 percent, to Rs. 1.0 billion, in the first half of 2026, compared with Rs. 0.6 billion in the same period of 2025. Revenue from the CESS levy represented 46.5 percent of the annual estimate of Rs. 90.0 billion for 2026.

Revenue from the Ports and Airports Development Levy (PAL) increased by 10.6 percent to Rs. 94.5 billion in the first half of 2026, compared to Rs. 85.4 billion in the same period of 2025, representing 49.7 percent of the annual estimate of Rs. 190.0 billion for 2026. This was mainly due to broader import-value growth, reflecting increased economic activity.

Revenue from the Special Commodity Levy (SCL) increased by 7.2 percent to Rs. 83.2 billion in the first half of 2026. This was contributed by the increase in the applicable tax rate on importation of potatoes and Big onions, and measures to facilitate rice imports.

Revenue from the Social Security Contribution Levy (SSCL) rose by 21.5 percent to Rs. 172.1 billion in the first half of 2026, compared to Rs. 141.6 billion in the same period of 2025, reflecting growth in both imports and domestic economic activity. Revenue from the Telecommunication Levy declined by 17.3 percent to Rs. 6.6 billion, compared to Rs. 8.0 billion in the same period of 2025, reflecting lower consumption of telecommunication services. Revenue from the Luxury Motor Vehicle Tax, the betting and gaming levy, the share transaction levy, and other levies increased significantly, by 39.6 percent, to Rs. 40.0 billion in the first half of 2026, compared to Rs. 28.6 billion in the same period of 2025, representing 66.5 percent of the annual estimate of Rs. 60.0 billion for 2026.

Non-Tax Revenue

Non-tax revenue increased by 43.6 percent to Rs. 243.6 billion in the first half of 2026, compared to Rs. 169.6 billion in the same period of 2025. The growth was mainly due to higher revenue from Central Bank profit transfers, fines, fees and charges, interest income, profits and dividends from State-Owned Enterprises (SOEs), and Social Security Contributions.

Revenue from fines, fees and charges increased by 24.9 percent to Rs. 101.9 billion in the first half of 2026, from Rs. 81.6 billion in the same period of 2025. The Department of Motor Traffic remained one of the major contributors to non-tax revenue, accounting for 15.4 percent of total revenue from fines, fees and charges, driven primarily by increased demand for its services, particularly the registration of newly imported vehicles. Non-Tax Revenue from the Department of Immigration and Emigration and the Department of Registration of Persons also increased slightly.

Interest income increased by 12.6 percent to Rs. 37.7 billion in the first half of 2026, compared to Rs. 33.5 billion in the same period of 2025. Profit and dividend receipts from SOEs rose by 3.7 percent to Rs. 12.7 billion, compared to Rs. 12.2 billion in the same period of 2025. Revenue from Social Security Contributions grew by 11.5 percent to Rs. 33.0 billion, compared to Rs. 29.5 billion in the same period of 2025. Revenue from rent income increased by 45.6 percent to Rs. 3.9 billion, compared to Rs. 2.7 billion in the same period of 2025. Overall, non-tax revenue collected in the first half of 2026 amounted to 67.7 percent of the annual estimate of Rs. 360.0 billion for 2026.

TABLE 2.8 | Variance Analysis of Government Revenue

Rs. Billion

Item	2025 Jan – June	2026 Annual Estimate	2026 Jan-June[a]	Major Reasons for Variance
Income Taxes	488.5	1,210.0	568.4	Income tax increased by 16.3 percent to Rs. 568.4 billion realizing 47.0 percent of the annual estimate in the first six months of 2026, mainly driven by: – Increase in the Corporate Income Tax (CIT) rate on the liquor, tobacco, and betting and gaming industries from 40 percent to 45 percent, effective from April 01, 2025; – Imposition of a 15 percent income tax on gains and profits earned or derived from any foreign source, effective from April 01, 2025; – Increase in the Withholding Tax (WHT) rate on interest from 5 percent to 10 percent, effective from April 01, 2025; – Increase in wages in the public and private sectors; – Gross Domestic Product (GDP) growth of 4.7 percent in the first half of 2026, reflecting the expansion of economic activity; and – Broadening of the tax base through stronger tax administration measures, reflected in a 12.0 percent increase in the number of income tax file registrations, to 1,406,497 as at end-June 2026, from 1,255,384 as at end-June 2025. Despite a 4.5 percent increase in APIT revenue in the first six months of 2026 compared to the corresponding period of 2025, the combined effect of raising the annual tax-free threshold from Rs.1.2 million to Rs. 1.8 million and broadening the 18 percent tax slab, effective from April 01, 2025, contributed to lower overall income tax collection.

Rs. Billion

Item	2025 Jan – June	2026 Annual Estimate	2026 Jan-June[a]	Major Reasons for Variance
Value Added Tax (VAT)	787.3	1,812.0	987.6	VAT revenue increased significantly by 25.4 percent to Rs. 987.6 billion in the first six months of 2026, from Rs. 787.3 billion in the same period of 2025, achieving 54.5 percent of the annual estimate for 2026. This performance was mainly driven by: – Removal of the zero-rating of VAT on imported fabric and application of the standard VAT rate, effective from April 01, 2026; – Increase in total imports by 26.9 percent to USD 12.4 billion in the first six months of 2026, compared to the same period of 2025; – GDP growth of 4.7 percent in the first half of 2026, reflecting the expansion of economic activity; – Increase in the number of motor vehicles imported by 255.7 percent to 313,480 units in the first six months of 2026, compared to the same period of 2025; and – Increase in the number of registered VAT taxpayers by 34.2 percent to 37,027 as at end-June 2026, from 27,596 as at end-June 2025, reflecting improved VAT compliance supported by tax administration measures.
Excise Duty	399.2	834.0	562.7	Excise Duty revenue increased by 41.0 percent to Rs. 562.7 billion in the first six months of 2026, compared to the same period of 2025, reaching 67.5 percent of the annual budget estimate. This strong outperformance was primarily driven by: – Increase in liquor production by 13.3 percent to 19.7 million absolute litres in the first six months of 2026, compared to the same period of 2025; – Higher revenue from Excise Duty on motor vehicles, following the relaxation of import restrictions on all types of motor vehicles, effective from February 2025; – Increase in the number of motor vehicles imported by 255.7 percent to 313,480 units in the first six months of 2026, compared to the same period of 2025; and – Increase in revenue from Excise Duty on cigarettes by 31.1 percent, owing to a 2.4 percent increase in the sale of cigarette sticks to 921.7 million sticks during the review period. However, revenue from Excise Duty on petroleum and other excisable articles, such as sugar-based beverages, refrigerators, and palm oil fatty acids, declined by 14.5 percent and 6.5 percent, respectively during the review period, which negatively affected overall Excise Duty revenue performance.

Rs. Billion

Item	2025 Jan – June	2026 Annual Estimate	2026 Jan-June[a]	Major Reasons for Variance
Customs Import Duties	94.0	235.0	153.7	Customs Import Duty (CID) recorded a strong performance in the first six months of 2026, reaching 65.4 percent of the annual budget estimate for 2026. This was supported mainly by: – Introduction of CID on motor vehicles, together with a 50 percent surcharge on the applicable CID rates; – Increase in the number of motor vehicles imported by 255.7 percent to 313,480 units in the first six months of 2026, compared to the same period of 2025; – Introduction of a four-band CID structure, revising the existing rates of 0 percent, 15 percent, and 20 percent to 0 percent, 10 percent, 20 percent, and 30 percent, effective from April 01, 2026; and – Increase in imports by 26.9 percent in the first six months of 2026, compared to the same period of 2025.
Ports and Airports Development Levy (PAL)	85.4	190.0	94.5	Revenue from the Ports and Airports Development Levy (PAL) increased by 10.6 percent to Rs. 94.5 billion in the first six months of 2026, compared to the same period of 2025, realising 49.7 percent of the annual budget estimate for 2026. This was primarily driven by: – Increase in total imports by 26.9 percent to USD 12.4 billion in the first six months of 2026, compared to the same period of 2025.
Special Commodity Levy (SCL)	77.6	129.0	83.2	Revenue from Special Commodity Levy (SCL) grew modestly, by 7.2 percent, to Rs. 83.2 billion in the first six months of 2026, compared to the same period of 2025, reaching 64.5 percent of the annual budget estimate for 2026. This growth was mainly attributable to: – Upward revision of the duty rates on big onions from Rs. 10 per kg to Rs. 50 per kg, and on potatoes from Rs. 60 per kg to Rs. 80 per kg, effective from August 26, 2025
Social Security Contribution Levy (SSCL)	141.6	333.0	172.1	Social Security Contribution Levy (SSCL) revenue realised 51.7 percent of the annual budget estimate for 2026 in the first six months of 2026. This was mainly driven by: – GDP growth of 4.7 percent in the first half of 2026, reflecting the expansion of economic activities; – Imposition of SSCL at the point of importation of motor vehicles effective from May 01, 2026; and – Increase in total imports by 26.9 percent to USD 12.4 billion in the first six months of 2026, compared to the same period of 2025.

Rs. Billion

Item	2025 Jan – June	2026 Annual Estimate	2026 Jan-June[a]	Major Reasons for Variance
Other Taxes	78.5	167.0	88.5	Revenue from other taxes increased by 12.7 percent to Rs. 88.5 billion in the first six months of 2026, compared to the same period of 2025, realising 53.0 percent of the annual estimate for 2026. This was primarily driven by: – Increase in CESS Levy revenue by 1.0 percent, owing to higher imports; and – Increase in revenue from the Luxury Tax on motor vehicles to Rs. 21.9 billion in the first six months of 2026, from Rs. 11.4 billion in the same period of 2025, following the relaxation of restrictions on motor vehicle imports. However, revenue from the Telecommunication Levy declined by 17.3 percent in the first six months of 2026, reflecting lower consumption of telecommunication services, which partly offset the overall performance of other taxes.
Non-Tax Revenue	169.6	360.0	243.6	Non-tax revenue rose sharply, by 43.6 percent, in the first six months of 2026 compared to the same period of 2025, reaching 67.7 percent of the annual estimate for 2026. This strong performance was mainly supported by profit transfers from the Central Bank, interest income, social security contribution receipts, fines, fees and charges, rent, and profits and dividends of State-Owned Enterprises (SOEs).
Total	**2,321.7**	**5,270.0**	**2,954.2**	

Compiled by the Department of Fiscal Policy

[a] *Provisional*

Box 2.1 I Major Fiscal Measures: January–June 2026

Effective Date	Measures
Income Tax- Amendments to the Inland Revenue Act, No. 24 of 2017	
03.06.2026	Inland Revenue (Amendment) Act, No. 11 of 2026 - The Inland Revenue (Amendment) Act, No. 11 of 2026 was enacted to give effect to the tax revisions proposed in the Budget 2025 and 2026. • To remove the requirement of filing the Statement of Estimated Tax payable (SET) with effect from the Year of Assessment 2025/2026. • To calculate the amount of each instalment of tax payable by a person for a year of assessment based on the income tax payable by such person for the previous year of assessment. • To exempt payments made by the Sri Lanka Air Force to non-residents for aircraft, software licenses, or related services from income tax.

Box 2.1 I Major Fiscal Measures: January–June 2026 (Contd..)

Effective Date	Measures
	• To clarify the chargeability of income tax on proceeds from life insurance policies. Accordingly, the amounts received under a life insurance policy by an individual upon, the death of the insured person, the maturity of the policy or the surrender of the policy was excluded in calculating assessable income. However, any annuity, pension, retirement, superannuation or similar payments made under the life insurance policy are not excluded from assessable income. • To treat the amount realized by transferring an asset as a gift or donation to the Government of Sri Lanka or to a university established or deemed to be established under the Universities Act, No. 16 of 1978, as equal to its net cost immediately before the transfer. • To increase the Capital Gains Tax rate applicable to individuals and partnerships from 10 percent to 15 percent. The Capital Gains Tax rate applicable to all other entities is 30 percent. • To revise Tax resident rules as follows: – i. Any individual holding a special residence visa is not consider a resident of Sri Lanka for income tax purpose. ii. An individual employed on a Sri Lanka-flagged vessel is consider as a resident of Sri Lanka only for the period they are employed on the vessel. iii. A foreign citizen working on a Sri Lanka-flagged vessel is only pay income tax solely on income derived from such employment, and not on any other foreign income. • To consider any unit trust or mutual fund that fails to provide the unit holders, with a certificate detailing income, exempt amounts, withholding tax, and other information as specified by the Commissioner General, as a company resident in Sri Lanka, and the provisions of the Act applicable to resident companies are apply accordingly. • To allow any donations to the Government or government established funds that cannot be fully deducted in the year of assessment to be carried forward as qualifying deductions in subsequent years. • To waive off the interest imposed under the provisions of the Inland Revenue Act, No. 24 of 2017, and the Surcharge Tax Act, No.14 of 2022. • To reduce the minimum investment required to qualify for enhanced capital allowances from USD 3 million to USD 250,000. • Other Administrative provisions In addition to the above amendments, various administrative reforms aimed at enhancing compliance, streamlining procedures, and strengthening the efficiency and effectiveness of tax administration have been incorporated in the IR Bill.
Stamp Duty- Stamp Duty (Special Provisions) Act, No. 12 of 2006	
24.02.2026	Gazette Notification No. 2477/22 dated 24.02.2026 - To exempt the Stamp Duty of Rs. 25/= levied on receipts issued for payments exceeding Rs. 25,000/= made by the Government to people affected by disasters.
Betting and Gaming Levy – Betting and Gaming Levy Act, No. 40 of 1988	
17.12.2025 w.e.f. 01.01.2026	Betting and Gaming Levy (Amendment) Act, No. 25 of 2025 - The Betting and Gaming Levy Act, No. 40 of 1988 was amended to give effect to the following revenue measures proposed in the Budget Speech 2025: • To increase the Gross Collection Levy from 15 percent to 18 percent; and • To increase the Casino Entrance Levy imposed on Sri Lanka citizens from USD 50 to USD 100.
Social Security Contribution Levy (SSCL) – Social Security Contribution Levy Act, No. 25 of 2022	
09.04.2026 w.e.f. 01.07.2026 w.e.f. 01.05.2026	Social Security Contribution Levy (Amendment) Act, No. 10 of 2026 • To reduce the annual turnover threshold for the registration of Social Security Contribution Levy (SSCL) from Rs. 60 million to Rs. 36 million with effect from July 01, 2026; and • To impose SSCL at the time of importation or manufacture and sale of motor vehicles, and to exempt motor vehicles from SSCL at the point of after-sales transactions, with effect from May 01, 2026.

Box 2.1 I Major Fiscal Measures: January–June 2026 (Contd..)

Effective Date	Measures
Value Added Tax (VAT)- Value Added Tax Act, No. 14 of 2002	
01.04.2026	Gazette Notification No. 2478/07 dated 03.03.2026 - To remove zero rate VAT on imported fabric and apply standard VAT rate.
30.06.2026	Value Added Tax (Amendment) Act, No. 14 of 2026 - Value Added Tax (Amendment) Act, No. 14 of 2026 was amended to give effect to the following key measures: • To postpone the effective date of the imposition of VAT on the supply of services through electronic platforms by the non-resident suppliers until July 01, 2026. • To introduce the provisions relating to the manner of registration, charging, collection, filing return, etc. relating to the imposition of VAT on the supply of services through digital platforms by non-resident suppliers; • To incorporate amendments to the VAT Act consequential to the removal of SVAT and to facilitate the refunding process; • To allow for the deduction of Entertainment tax charged by the local authorities in ascertaining the value of supply of film exhibition service; • To write off VAT arrears as per the records of Commissioner General of Inland Revenue in respect of projects carried out by construction contractors of Tsunami projects; • To disallow input tax deduction on the capital goods such as machinery, equipment or vehicles imported for projects on re-export basis where the Value Added Tax at the time of import is deferred, unless such goods are re-exported as agreed; • To mandate and operationalize the use of Point of Sale (POS) Machines by the VAT registered persons, within three months of the date so prescribed. • To combine the Social Security Contribution Levy (SSCL) and VAT on financial services and to charge as VAT at an increased rate of 20.5% on financial services; and • To introduce criminal proceedings and sanctions on the offences committed under the VAT Act. • To clarify the policy relating to the applicability of VAT on the supply of financial services, on Dividend Income.
Excise (Special Provisions) Duty -Excise (Special Provisions) Act, No. 13 of 1989	
01.04.2026	Gazette Notification No. 2478/06 dated 03.03.2026 - To impose Excise Duty on newly created National Subdivisions, with rates assigned based on the prevailing rate applicable to the relevant HS Heading/ Subdivision.
Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)	
12.12.2025	Excise Notification No.03/2025 (Gazette Notification No. 2466/22 dated 11.12.2025) - To revise the Annual Excise License Fee and the Security Deposit and to impose one-time fee for industry entry.
Ports and Airports Development Levy (PAL) – Ports and Airports Developments Levy Act, No. 18 of 2011	
01.04.2026	Gazette Notification No. 2478/05 dated 03.03.2026 - To impose PAL on newly created National Subdivisions, with rates assigned based on the prevailing rate applicable to the relevant HS Heading/ Subdivision.
CESS Levy – Sri Lanka Export Development Act, No. 40 of 1979	
01.04.2026	Gazette Notification No. 2478/04 dated 03.03.2026 - To impose CESS levy on newly created or amended National Subdivisions.
01.04.2026	Gazette Notification No. 2479/38 dated 10.03.2026 - To remove CESS levy on imported fabric as proposed in Budget Speech 2026. - To reduce CESS rate by 50 percent on intermediate input in line with the Development Policy Operation (DPO).

Box 2.1 I Major Fiscal Measures: January–June 2026 (Contd..)

Effective Date	Measures
Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962	
01.04.2026	Revenue Protection Order No. 01/2026 (Gazette Notification No. 2478/03 dated 03.03.2026) - To introduce a Four Band Customs, Import Duty Structure, revising the existing Customs Import Duty Rates of 0 percent, 15 percent, and 20 percent to 0 percent, 10 percent, 20 percent and 30 percent effective from April 01, 2026.
Customs Surcharge- Customs Ordinance (Chapter 235)	
01.02.2026	Gazette Notification No. 2473/31 dated 31.01.2026 - To continue the imposition of a 50 percent surcharge on the importation of Motor Vehicles till December 31, 2026.
01.04.2026	Gazette Notification No. 2479/55 dated 12.03.2026 - To remove the 50 percent of surcharge on the importation of Motor Vehicles considering the increase of CID from 20 percent to 30 percent with effect from April 01, 2026.
16.05.2026	Gazette Notification No. 2488/56 dated 15.05.2026 - To continue the imposition of a 15 percent of surcharge on the importation of Motor Vehicles with effect from May 16,2026 for a period of three months.
18.05.2026	Gazette Notification No. 2488/69 dated 17.05.2026 - To avert the manipulation of concession that has been granted the letter of credit established on or before May 15,2026 for importation of motor vehicles.
Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007	
01.01.2026	Gazette Notification No. 2469/12 dated 31.12.2025 - To extend the validity period of prevailing SCL on importation of 62 commodities till December 31, 2026.
01.04.2026	Gazette Notification No. 2482/09 dated 31.03.2026 - To extend SCL on importation of coconut chips and grant concessions for coconut chips used for local Coconut oil milling industry. Furthermore-imposed SCL on importation of salt with newly created HS Codes of Rock Salt and Other Salt, effective from April 01, 2026, to December 31,2026.
05.05.2026	Gazette Notification No. 2487/02 dated 04.05.2026 - To Increase SCL on importation of Maize, considering recommendation by Food Policy and Security Committee till December 31, 2026.
Imports & Exports (Control) Regulations- Imports and Exports (Control) Act, No. 01 of 1969	
23.03.2026	Imports and Exports (Control) Regulations No. 01 of 2026 (Gazette Extraordinary No. 2481/02 of 23.03.2026) - To allow Air Carriers of Sri Lanka providing international air services to import retreaded aircraft tires that confirm to the requirements specified by internationally accredited aviation authorities and are classified under HS Code 4012.13, subject to conditions.
01.04.2026	Imports and Exports (Control) Regulations No. 02 of 2026 (Gazette Extraordinary No. 2482/08 of 31.03.2026) - To update the Special Import License Regulations No. 01 of 2023, in accordance with the National Subdivisions of the Harmonized System Codes published by the Revenue Protection Order published in the Gazette Extraordinary No. 2478/03 dated March 03, 2026.
02.04.2026	Imports and Exports (Control) Regulations No. 03 of 2026 (Gazette Extraordinary No. 2482/12 of 02.04.2026) - To remove Import Control License (ICL) requirement on importation of rice variety known as GR 11 rice including Ponni Samba and Kiri/Paal Ponni rice considered to be substitutes to Samba and Keeri Samba, respectively and classified under Harmonized System (HS) Code of 1006.30.29, until April 30, 2026.

Box 2.1 I Major Fiscal Measures: January–June 2026 (Contd..)

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

2.3 Government Expenditure

Government expenditure increased by 7.9 percent to Rs. 2,946.5 billion in the first six months of 2026, compared to Rs. 2,730.7 billion in the same period of 2025. Recurrent expenditure rose by 6.5 percent to Rs. 2,669.9 billion, from Rs. 2,506.8 billion in the first six months of 2025. Capital expenditure and net lending increased by 23.6 percent to Rs. 276.6 billion, compared to Rs. 223.9 billion in the corresponding period of 2025.

TABLE 2.9 | Performance of Government Expenditure: January-June 2026

Rs. Million

Item	2025	2026 (Provisional)
Recurrent Expenditure	**2,506,828**	**2,669,889**
Salary	555,136	621,734
Pension	208,371	240,249
Interest Payments	1,264,591	1,234,580
Other	478,730	573,327
Capital Expenditure and Net Lending	**223,879**	**276,605**
Total	**2,730,707**	**2,946,494**

Source : Department of Fiscal Policy

Interest Payments

Expenditure on total interest payments, comprising interest payments on domestic and foreign debt, decreased by 2.4 percent to Rs. 1,234.6 billion in the first six months of 2026, from Rs. 1,264.6 billion in the same period of 2025. This was due to a 3.7 percent decrease in interest payments on domestic debt, from Rs. 1,117.5 billion to Rs. 1,075.8 billion, which more than offset an 8.0 percent increase in interest payments on foreign debt, from Rs. 147.1 billion to Rs. 158.8 billion, over the same period.

Salaries and Pensions

Expenditure on salaries and wages of public servants, including Provincial Councils, increased by 12.0 percent to Rs. 621.7 billion in the first six months of 2026, compared to Rs. 555.1 billion in the same period of 2025. This increase was mainly due to the increase in the basic salaries of public servants in accordance with Public Administration Circular No. 10/2025.

Expenditure on pensions also increased, by 15.3 percent to Rs. 240.2 billion in the first six months of 2026, compared to Rs. 208.4 billion in the same period of 2025. This was due to the Government's policy decision to rectify pension anomalies relating to those who retired before January 01, 2020.

Welfare Expenditure

During the first six months of 2026, the Government incurred Rs. 550.8 billion in expenditure on social welfare and social security programmes. This covered a range of welfare measures, including the Aswesuma household cash grant, allowances for elderly persons, financial assistance for kidney patients, allowances for low-income differently abled persons, assistance for differently abled military personnel, food packages for expectant mothers (Poshana Malla), school textbooks and school uniforms, as well as development assistance, including the fertiliser subsidy.

For 2026, Rs. 231 billion was allocated for social security expenditure under the Aswesuma programme and other categorical household cash grants. Of this allocation, Rs. 89.6 billion was spent during the first six months of 2026 to provide cash grants to low-income families.

Government expenditure on health and nutrition programmes, including the provision of medical supplies to government hospitals, amounted to Rs. 88 billion during the first six months of 2026. Expenditure on welfare programmes in the education sector, including free textbooks, school uniforms, and shoes for students in difficult schools, amounted to Rs. 2.7 billion during the same period.

In addition, the Government incurred Rs. 21.4 billion during the first six months of 2026 on subsidies for chemical fertiliser, supporting agricultural production and the livelihoods of farming communities.

TABLE 2.10 | Major Welfare Expenditure: January-June 2026

Rs. Million

Programme	2025	2026 Provisional
Social Welfare		
Medical supplies for Government Hospitals (including Ayurvedha)	44,740	88,042
Health insurance for school children (Suraksha)	444	386
Agrahara insuarance scheme for pensioners	486	602
Allowance for pre-school teachers	334	430
"Ranaviru Mapiya Rakawarana" allowance	699	705
Property loan interest to public servants	725	643
Subsidy for economically unprofitable routes, contribution of socially obligatory bus services (Sisu sariya, Gami seriya and Nisi seriya) and Armed Forces Bus Passes	1,985	1,778
"Suwasariya" – 1990 free ambulance service	1,162	1,392
Interest difference on senior citizens' accounts	10,000	1,638
World Food Programme	110	67
Other	906	6,410
Social Security		
Cash grant for low income families	75,329	89,692
Support for low-income differently abled persons	6,828	8,718
Financial support for elderly people	21,086	23,135
Financial support for kidney patients	2,296	2,606
Financial assistance to purchase school stationeries	2,815	2,377
Pension	208,371	240,249
Service compensation for death & injured soldiers	24,806	26,127
Pension for Farmers	2,630	2,518
Other	152	126
Health and Nutrition		
Thriposha programme	1,126	788
Nutritional food package for expectant mothers	3,058	2,794
School nutritional foods programme	12,215	12,722
Morning meal for pre-school children	767	805
Other	144	291
Education		
School texbooks	1,530	670
School uniforms	54	226
Shoes for students in difficult schools	2,474	1,884
Scholarships – grade 5 students	253	344
Mahapola and bursaries	2,405	2,678
Loan scheme for the students who are unable to get into the state universities	758	886
School & higher education season Tickets	5,900	6,400
Others	406	694
Development Assistance		
Fertilizer subsidy	21,997	21,401
Other	3,004	636
Total	**461,995**	**550,859**

Source: Department of National Budget

Sectoral Expenditure

School Education

During the first six months of 2026, Rs. 218 billion was spent on school education, of which Rs. 210 billion was recurrent expenditure and Rs. 8 billion was capital expenditure. Expenditure on this programme increased by 15.2 percent compared to the same period of 2025.

The Government continued its investment in welfare programmes, such as the school nutrition programme, the provision of school textbooks and school uniforms, and the provision of shoes for students in difficult schools, incurring Rs. 16.2 billion in the first six months of 2026.

An allocation of Rs. 50 million (Rs. 5,000 per student) has been made for 2026 as an allowance for students with disabilities, to provide financial assistance for the difficulties they face in their education and to ensure that they have better opportunities to continue their education without interruption.

TABLE 2.11| Expenditure on Major Activities of School Education: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Recurrent Expenditure		
Personnel emoluments for School – teachers and other staff	165,975	183,813
National	33,356	38,295
Provincial	132,619	145,518
Welfare Programs	16,971	16,235
Evaluation of examination	3,314	3,345
Capital Expenditure		
Rehabilitation/ Infrastructure Developments in School	362	2,077
Teacher development	94	279
Qualitative Development Reforms in Education	1	34
Provincial Education	2,873	5,745

Source: Department of National Budget

Expenditure on Teacher Colleges and the National Colleges of Education in the first six months of 2026 amounted to Rs. 279 million, an increase of 197 percent compared to the same period of 2025.

Capital expenditure of Rs. 8.1 billion was mainly spent on the rehabilitation and infrastructure development of schools, including those in the provincial education sector.

Higher Education

Expenditure on university education decreased by 2.3 percent to Rs. 46.9 billion in the first six months of 2026, compared to the same period of 2025. Recurrent expenditure increased by 14.3 percent to Rs. 42.4 billion, while capital expenditure amounted to Rs. 4.6 billion.

The Government increased the Mahapola scholarship for university students from Rs. 7,500 to Rs. 10,000 and the bursary from Rs. 6,500 to Rs. 9,000, incurring an expenditure of Rs. 2.7 billion on these allowances in the first six months of 2026.

TABLE 2.12 | Expenditure on Major Activities of Higher Education: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Recurrent Expenditure		
Personnel emoluments of universities & other higher educational institutions	29,928	33,783
Mahapola and Bursary payment	2,405	2,678
Capital Expenditure		
Improvement of facilities in universities and higher educational institutions	3,205	2,943
Building Complex for the Faculty of Health Care Science, Eastern University (GOSL-Kuwait)	121	672
Establishment of Faculty of Medicine at University of Sabaragamuwa – Phase ii (GOSL-Saudi)	222	270
Wayamba University Township Development Project (GOSL – Saudi)	133	22
Other Development Projects	174	151

Source: Department of National Budget

Skills Development and Vocational Education

In the first six months of 2026, total expenditure on Skills Development and Vocational Education amounted to Rs. 5,552 million, of which Rs. 4,828 million was recurrent expenditure and Rs. 724 million was

capital expenditure. Recurrent expenditure increased by 11.3 percent and capital expenditure increased by 70.7 percent, compared to the same period of 2025.

The monthly allowance (Nipunatha Sisu Diriya) for students pursuing vocational education was increased from Rs. 5,000 to Rs. 7,500, with an additional allocation of Rs. 350 million compared to 2025. Expenditure on this allowance amounted to Rs. 484 million in the first six months of 2026.

TABLE 2.13| Expenditure on Major Activities of Skills Development and Vocational Education: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Skills Development and Vocational Education	2,810	3,386
Technical Education and Training	1,258	1,435
Nipunatha Sisu Diriya	317	484
Modernization of 7 Colleges of Technology & Technical Colleges	54	11
Season Tickets for Vocational Students	53	48
Self-Employment Promotion Initiative (SEPI) Programme	34	89
Improvement of Vocational Training	3	82
Development of Vocational and Technological Training	8	17

Source: Department of National Budget

Science and Technology

In the first six months of 2026, total expenditure on Science and Technology amounted to Rs. 1,582.2 million, of which Rs. 1,369.5 million was recurrent expenditure and Rs. 212.7 million was capital expenditure.

TABLE 2.14 | Expenditure on major Activities of Science & Technology: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Science & Technology Collaboration under Bilateral and Multilateral cooperation	2.4	0.35
Facilitation of Research Projects	0.3	2.92
Science and Technology Policy formulation and Implementation	-	0.27

Source: Department of National Budget

Health

TABLE 2.15 | Expenditure on Major Activities of Health Sector: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Total Recurrent Expenditure	**190,152**	**264,388**
Service delivery expenditure	95,953	118,950
of which; salaries of medical personnel and support staff	75,753	99,463
Provision of Medicine	44,793	88,025
Provincial health	49,406	57,413
Public Investment Expenditure	**12,620**	**16,015**
Medical equipment	2,326	3,003
Health System Enhancement Project – ADB	903	686
Improvement of ETU- Facilities under Line Ministry Hospitals	79	46
Provision of High-Quality Radiotherapy for Cancer Patients in Sri Lanka with High Energy Radiation	495	1760
Establishment of a Bone Marrow Transplant Unit – TH Kandy	62	162
Construction of Heart Centre at Lady Ridgeway Hospital	184	113
Construction of 5 Storied Surgical Wards and Operation Theatre Complex – DGH Monaragala	71	27
Construction of a Ten-Storied Building at the PGH Badulla	98	–
Capacity building of Biomedical Engineering Service in Sri Lanka	267	271
Construction of Surgical Medical Unit – TH Karapitiya	59	100
Construction of Cardiac Care Complex-TH Rathnapura	43	54
Construction of Cancer Treatment Unit in NH Kandy	132	85
Expansion of Health Facilities Through the Construction of a Five-Storey Building – BH Kalawana	-	207
Construction of 8 storied Medical Ward Complex stage II – TH Kalutara	-	40
Primary Health Care System Enhancing Project (PHSEP) (GoSL_WB)	-	276
Other Capital Investments	7,505	6,565
Provincial Health Investment	396	2,620

Source: Department of National Budget

The total government expenditure on health, including the western and indigenous medicine sectors, increased by 38 percent to Rs. 280.4 billion in the first six months of 2026, compared to the same period of 2025. This covers both Provincial and

Central Government health expenditure. Of the total, recurrent expenditure amounted to Rs. 264.4 billion and capital investment to Rs. 16.0 billion. Medical supplies, one of the major categories of recurrent expenditure, accounted for Rs. 88.0 billion, covering pharmaceuticals, surgical items and laboratory items.

Agriculture

Expenditure on the agriculture sector, including plantation, livestock, fisheries and land development, increased by 18.6 percent to Rs. 70.4 billion in the first six months of 2026, compared to Rs. 59.4 billion in the same period of 2025.

TABLE 2.16 | Expenditure on Major Activities of Agriculture Sector Development: January-June 2026

Rs. Million

Description	2025	2026 (Provisional)
Food Crops Development	**46,835**	**55,867**
O/W Fertilizer Subsidy	*21,997*	*21,401*
Maintaining a buffer stock of paddy	-	*6,501*
Compensation for Paddy and Selected Other Crops Affected by Cyclone Ditwah	-	*4,021*
Livestock Developemnt	**616**	**2,134**
O/W Compensation for Losses of Selected Animals in Registered Livestock Farms Affected by Cyclone Ditwah	-	*1,379*
Plantation Industry	**3,948**	**4,996**
Fisheries and Aquatic Resources	**3,954**	**3,183**
Land and Land Development	**4,007**	**4,200**
Grand Total	**59,360**	**70,380**

Source: Department of National Budget

Water Supply and Sanitation

To ensure the provision of safe water supply and quality sanitation services to the public, the Government spent Rs. 6,091 million in the first six months of 2026. Of this, Rs. 517 million was recurrent expenditure and Rs. 5,574 million was capital expenditure.

With the objective of providing safe and clean drinking water to the majority of the population, special attention has been given to initiating new water supply projects, upgrading the capacity of existing water supply systems, and expediting the completion of ongoing projects. Accordingly, a number of projects in the water supply and sanitation sector are currently being implemented under both local funds and foreign financing facilities.

Through these investments, the Government's primary objective is to improve the health and living standards of the public by expanding access to safe drinking water across the island and improving sanitation facilities.

Roads and Bridges

During the period January to June 2026, total expenditure on roads and bridges amounted to Rs. 76,186 million, a reduction of approximately 2.7 percent compared with the corresponding period of the previous year.

The reduction was mainly attributable to lower spending on major road development activities and on the financing of commitments of the Road Development Authority. However, this decline was partly offset by increased expenditure on selected infrastructure activities, including road widening and improvement, construction of bridges and flyovers, and rural road development. In particular, the continued level of expenditure on road maintenance, widening and improvement, and the reconstruction of damaged or weak bridges on national highways highlights the importance of maintaining the existing road network and addressing infrastructure bottlenecks alongside the development of new infrastructure.

The significant reduction in expenditure under Gap Financing of the Road Development Authority's commitments was mainly due to the settlement of certain loan-related obligations in 2025. Therefore, lower expenditure under this category does not necessarily reflect a corresponding reduction in road-sector activities.

Furthermore, the Ditwah rehabilitation programme recorded relatively slower progress during the period under review, as most contracts were at the design and bidding stages. Consequently, both expenditure and physical progress remained

TABLE 2.17 | Expenditure on Roads and Bridges: January – June 2026

Rs. Million

Project/Programme	2025	2026 (Provisional)
1. Expressways Development	**15,793**	**15,534**
Central Expressway Project	14,577	10,220
Colombo – Rathnapura – Pelmadulla Expressway	523	502
Elevated Highway from New Kelani Bridge to Athurugiriya	3	–
Port Access Elevated Highway Project	690	2,547
Construction of System interchange at Kadawatha and 500m road towards Meerigama in Central Expressway Section I	–	2,265
2. Roads Development	**25,443**	**24,210**
Road Maintenance and Improvement	11,000	11,841
Colombo District Road Development Project	777	443
Western Province National Highways	124	93
Integrated Road Investment Programme (iRoad)	2,913	2,957
Rehabilitation of the A 17 Road Corridor Project (Rakwana – Suriyakanda)	378	564
Inclusive Connectivity and Development Project	3,830	3,827
Development of an alternative Road Network to Access Main Roads and Expressways and to ease the Traffic Congestion	5,588	1,581
Provincial Road Maintanance and Rehabilitation	389	2,040
Other Roads Development	444	864
3. Widening and Improvement of Roads	**704**	**3,700**
4. Construction of Bridges and Flyovers	**3,174**	**4,939**
Reconstruction of Damaged/ Weak Bridges on National Highways	230	1,196
Construction of Rural Bridges using old bridge components	151	156
Design and Construction of Flyovers in Kohuwala and Gatambe	81	3,409
Construction of Flyovers over the Railway Line at Utthārananda Mawatha and near the Slave Island Railway Station	2,576	–
Reconstruction of 25 Bridges on National Highways	136	52
Construction of Vadduvakal Bridge in Mullaitivu	–	126
5. Maganeguma Rural Road Development Programme	**388**	**4,494**
6. Lands & Land Improvements (Other projects excluding priority projects)	**3,235**	**1,739**
7. Gap Financing of the Road Development Authority's Commitments	**29,526**	**20,741**
8. Dithwa Rehabilitation	**–**	**829**
Total	**78,263**	**76,186**

Source: Department of National Budget

limited. Progress is expected to improve as the ongoing design and procurement processes are completed and the contracts move into the implementation stage.

Transport

Government expenditure on the transport sector increased by 9.1 percent to Rs. 33.5 billion in the first six months of 2026, compared to the same period of 2025, of which Rs. 22.2 billion was recurrent expenditure and Rs. 11.3 billion was capital expenditure. This increase was mainly driven by the rehabilitation of railway rolling stock and railway tracks, and the construction of the Kandy Multimodal Transport Terminal.

During the first six months of 2026, the Railway Department spent Rs. 8.7 billion on key infrastructure initiatives, including the Colombo Suburban Railway Project, the rehabilitation and maintenance of railway infrastructure, and the rehabilitation of the railway line from Maho to Omanthai.

In the first half of 2026, expenditure on bus transportation was Rs. 7.2 billion. This was spent on welfare services such as operating SLTB buses on economically unprofitable routes and issuing school and higher education season tickets. The Department of Motor Traffic spent Rs. 1.0 billion during this period on the implementation of the Motor Traffic Act.

Housing Development

To enhance the living standards of the people and ensure housing security, a total

of Rs. 9,195 million was spent during the first six months of 2026. Of this amount, Rs. 420 million was spent on recurrent expenditure and Rs. 8,775 million on capital expenditure.

In 2026, priority has been given to provide safe and adequate housing facilities for low-income and housing-deprived families under the "Thamangema Thenak – Lassana Jeewithayak" (A Place of One's Own – A Beautiful Life) programme. Under this programme, implemented by the Ministry of Housing, Construction and Water Supply, the construction of 10,500 housing units is targeted for 2026, and financial assistance amounting to Rs. 4,404 million was provided during the first six months of the year.

Concurrently, the Ministry of Plantation and Community Infrastructure has implemented a programme to construct 2,897 housing units to meet the housing needs of the plantation community, with an expenditure of Rs. 397 million incurred for this purpose during the period under review. Furthermore, with the aim of creating a safer and better living environment for low-income communities in urban areas, financial progress amounting to Rs. 2,297 million was achieved during the first six months of 2026 for the construction of 2,726 low-income housing units under the Urban Regeneration Programme and the Chinese Aid Programme.

Through these initiatives, the Government continues to strengthen housing security and improve the overall quality of life of vulnerable segments of society.

Urban Development

The total expenditure on urban development amounted to Rs. 1,380 million during the first six months of 2026. Of this amount, Rs. 838 million was spent on urban facilities development initiatives, mainly comprising the Siyak Nagara/Urban Infrastructure and Township Development Programme and the Development of Strategic Cities–Anuradhapura Programme.

Expenditure on waste management and environmental protection amounted to Rs. 542 million. Key projects and programmes implemented under this category included the Oliyamulla and Kolonnawa stormwater management programmes, as well as the maintenance and rehabilitation of existing canals, lakes, wetlands, and walkways.

Environment

During the first six months of 2026, total government expenditure on the environment sector amounted to Rs. 6.7 billion, of which Rs. 6 billion was incurred as recurrent expenditure and Rs. 649 million as capital expenditure. Of this total expenditure, Rs. 155 million was spent on environmental protection, Rs. 243 million on the expansion and protection of forest cover, and Rs. 213 million on mitigating human–elephant conflict, including the establishment of electric fences.

In addition, Rs. 117 million was utilized for implementing major activities related to coastal conservation and coastal resource management, while Rs. 27 million and Rs. 36 million were spent on the development of zoological gardens and botanical gardens, respectively. The remaining expenditure was utilized for operational and administrative activities associated with the implementation of programmes and policies relating to environmental protection, wildlife conservation, forest and coastal conservation, and the development of zoological and botanical gardens.

Irrigation and Water Management

During the first six months of 2026, expenditure on irrigation and water management amounted to Rs. 13.6 billion. Of the total expenditure, Rs. 7.5 billion was spent on the development and improvement of irrigation systems implemented by the Line Ministry and the Department of Irrigation. The remaining Rs. 6.1 billion was spent on the Mahaweli Water Security Investment Programme (Stage II).

2.4 Performance of the Cash Flow of the General Treasury

The General Treasury's cash flow operations during 2026 indicate a significant improvement in the Government's fiscal liquidity position compared with the budget estimates. Higher-than-anticipated cash

inflows, together with prudent expenditure management, significantly reduced the projected cash deficit and enabled the Treasury to maintain a healthy cash balance at the end of the period. These developments reflect the Government's continued efforts to strengthen revenue collection mechanisms, enhance fiscal discipline, and improve the efficiency of public financial management.

According to the Treasury Cash Flow Statement, total cash inflows from revenue and other receipts amounted to Rs. 2,877.5 billion, compared with the estimated inflow of Rs. 2,425.1 billion. This represents an increase of Rs. 452.4 billion, or 18.7 percent, above the estimate. This favourable performance reflects improved revenue mobilization and stronger-than-expected collections from government revenue sources and other receipts.

On the expenditure side, total cash outflows for recurrent payments amounted to Rs. 2,616.7 billion, compared with the estimated Rs. 3,166.7 billion. This represents a reduction of Rs. 550.0 billion from the budget estimate, indicating effective expenditure management and the containment of recurrent spending during the period under review. Similarly, cash outflows for capital payments amounted to Rs. 336.6 billion, compared with the estimated Rs. 545.8 billion, resulting in lower expenditure of Rs. 209.2 billion than the estimated amount. This outcome may be attributed to the phased implementation of development projects and the prioritization of public investment expenditure.

As a result of higher-than-estimated cash inflows and lower-than-estimated expenditure, the net cash deficit was substantially lower than originally anticipated. While a deficit of Rs. 1,287.3 billion had been projected, the actual deficit amounted to only Rs. 75.8 billion. This represents an improvement of Rs. 1,211.5 billion compared with the estimated position and highlights the positive impact of enhanced revenue performance and expenditure control measures on overall Treasury operations.

To finance its obligations, the Government raised gross borrowings amounting to Rs. 1,655.8 billion during the period, which was lower than the estimated borrowing requirement of Rs. 1,737.2 billion. Meanwhile, debt repayments amounted to Rs. 1,835.3 billion, compared with the estimated repayment requirement of Rs. 1,882.4 billion. Consequently, net borrowing recorded a negative balance of Rs. 179.6 billion, compared with the estimated negative net borrowing position of Rs. 145.2 billion, indicating that debt repayments exceeded new borrowings during the period. This reflects the Government's commitment to prudent debt management and the gradual reduction of its reliance on borrowing.

Consequently, the closing cash balance at the end of the period stood at Rs. 690.3 billion, significantly exceeding the estimated negative balance of Rs. 516.6 billion. Maintaining a substantial positive cash balance demonstrates the effectiveness of the Government's cash management strategies and provides an important liquidity buffer to meet future expenditure requirements and debt service obligations.

Overall, the General Treasury's cash flow performance in 2026 reflects a notable strengthening of fiscal operations, supported by robust revenue performance, expenditure control, and prudent debt management practices.

TABLE 2.18 | Government Treasury Cash Flow Operations: January-June 2026

Rs. Billion

Item	2026	
	Est	Act
Opening Cash balance year / month	**915.8**	**915.8**
Total cash inflow from revenue and other receipts	2,425.1	2,877.5
Total cash outflow for recurrent payments	-3,166.7	-2,616.7
Total cash outflow for capital payments	-545.8	-336.6
Net cash surplus / (deficit)	-1,287.3	-75.8
Gross borrowing	1,737.2	1,655.8
Debt repayment	-1,882.4	-1,835.3
Net borrowing	-145.2	-179.6
Adjustment account balance (TEB, net deposits, Other Transfer, etc...)	-	29.8
Closing Cash balance year / month end	**-516.6**	**690.3**

Source: Department of Treasury Operations

CHAPTER 3

Performance of State Owned Enterprises

3.1 Overview

Consistent with the operational headwinds seen across all other sectors of the economy, the State Owned Enterprise (SOE) sector faced similar challenges in the second quarter of 2026 as a result of the Middle East conflict, including rising input costs, supply chain disruptions, and order cancellations. Despite these challenges, the 51 major SOEs reported improved performance in the first six months of 2026, recording a total profit of Rs. 259.3 billion, compared to Rs. 227.8 billion in the same period of 2025[1].

During the period from April to June 2026, the General Treasury provided subsidies of Rs. 41 billion to the Ceylon Petroleum Corporation (CPC) and Rs. 15 billion to the National System Operator (Private) Limited (NSO), to mitigate the adverse impacts of the Middle East conflict on the public and the wider economy.

With the approval of the Cabinet of Ministers, a dedicated unit for the restructuring of SOEs was established in March 2026 under the Ministry of Finance, Planning and Economic Development. The unit is currently engaged in the liquidation of 33 selected SOEs. Further, in line with the 2026 Budget proposal, the General Treasury continued to settle long-outstanding liabilities of selected SOEs relating to Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) contributions and gratuity payments. By the end of August 2026, Rs. 2.8 billion had been settled out of the Rs. 5 billion allocated for this purpose.

Meanwhile, marking a significant milestone in the electricity sector, the functions of the Ceylon Electricity Board (CEB) were transferred to six fully government-owned companies, which officially commenced operations on March 9, 2026. In support of this reform, the General Treasury provided approximately Rs. 8 billion in equity to Electricity Generation Lanka (Private) Limited (EGL), National Transmission Network Service Provider (Private) Limited (NTNSP), Electricity Distribution Lanka (Private) Limited (EDL), and National System Operator (Private) Limited (NSO) to settle liabilities arising from the compulsory retirement scheme introduced for employees.

The collection of levies and dividends from the SOEs increased to Rs. 12.6 billion in the first six months of 2026, compared to Rs. 11.7 billion in the same period of 2025.

3.2 Review of the Ten Major State Owned Business Enterprises (SOBEs)

Bank of Ceylon

The asset base of the Bank of Ceylon (BoC) decreased marginally by 0.9 percent to Rs. 5,421 billion as at end June 2026, from Rs. 5,468 billion as at end 2025. Loans and advances increased by 6.6 percent to Rs. 2,529 billion as at end June 2026, from Rs. 2,372 billion as at end 2025. During the first six months of 2026, the deposit base of the bank decreased by 1.6 percent to Rs. 4,319 billion, compared to Rs. 4,389 billion as at end 2025. The impaired loans (Stage III) ratio of the bank improved to 5.01 percent as at end June 2026, compared to 5.59 percent as at end 2025. During the first six months of 2026, the BoC recorded a strong financial performance, with Profit before Tax (PBT) of Rs. 62.6 billion, compared to Rs. 59.4 billion in the same period of 2025. This increase was primarily driven by a 9.2 percent increase in total operating income to Rs. 131.4 billion in the first six months of 2026.

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

People's Bank

The asset base of People's Bank (PB) increased marginally by 1.2 percent to Rs. 3,754 billion as at end June 2026, from Rs. 3,708 billion as at end 2025. The deposit base of the bank decreased by 2.0 percent to Rs. 3,165 billion as at end June 2026, compared to Rs. 3,230 billion as at end 2025. Loans and advances increased by 9.7 percent to Rs. 1,899 billion as at end June 2026, compared to Rs. 1,731 billion as at end 2025. Impaired loans (Stage III) ratio of the bank has improved to 6.7 percent as at end June 2026, compared to 7.7 percent as at end 2025. PB recorded an all-time high profit before tax of Rs. 32.6 billion in the first six months of 2026, compared to Rs. 28 billion in the same period of 2025, mainly due to an 18.9 percent increase in net interest income to Rs. 82.4 billion.

National Savings Bank

The asset base of the National Savings Bank (NSB) recorded a marginal increase of 2.1 percent to Rs. 1,870 billion as at end June 2026, from Rs. 1,831 billion as at end 2025. The deposit base of the bank increased by 1.6 percent to Rs. 1,633 billion as at end June 2026, from Rs. 1,608 billion as at end 2025. Loans and advances increased by 9.0 percent to Rs. 601 billion as at end June 2026, compared to Rs. 551 billion as at end 2025. The impaired loans (Stage III) ratio of the bank has improved to 2.1 percent as at end June 2026, compared to 2.5 percent as at end 2025. NSB's PBT decreased by 6.2 percent to Rs. 22.6 billion in the first six months of 2026, compared to Rs. 24.1 billion in the same period of 2025, mainly due to a 10.0 percent increase in personnel expenses to Rs. 13.8 billion.

Sri Lanka Insurance Corporation Limited

Sri Lanka Insurance Corporation Limited (SLIC) recorded revenue of Rs. 3,067 million in the first six months of 2026, an increase of 8.3 percent compared to Rs. 2,833 million in the same period of 2025. The SLIC recorded an increase in PBT of 10.3 percent to Rs. 2,623 million for the period under review, compared to Rs. 2,378 million in the same period of 2025. Total assets of the SLIC increased by 2.5 percent, from Rs. 133,430 million as at end December 2025 to Rs. 136,750 million as at end June 2026.

SLIC's fully owned subsidiaries in insurance business, namely Sri Lanka Insurance Corporation Life Limited (SLICLL) and Sri Lanka Insurance Corporation General Limited (SLICGL), also recorded significant growth in revenue of 21.9 percent and 22.8 percent to Rs. 34,060 million and Rs. 14,669 million, respectively in the first six months of 2026. This was mainly due to increases in net earned premiums of 15.3 percent in SLICLL and 23.9 percent in SLICGL. As a result, SLICLL recorded an increase in PBT of 4.4 percent to Rs. 1,631 million in the first six months of 2026, compared to Rs. 1,563 million in the same period of 2025. Meanwhile, SLICGL recorded a significant increase in PBT by 20 percent to Rs. 2,504 million, compared to Rs. 2,087 million in the same period of 2025. As at end June 2026, total assets of the SLICLL and SLICGL increased marginally to Rs. 288,660 million and Rs. 64,616 million, respectively, compared to the total assets as at end December 2025.

Ceylon Electricity Board and the Successor Companies

As part of the major structural reforms introduced under the Sri Lanka Electricity Act, No. 36 of 2024, Extraordinary Gazette Notification No. 2478/41, dated March 05, 2026, was published declaring that March 09, 2026 as the "appointed date," marking the legal commencement of operations for the CEB's successor companies. In line with these reforms, six wholly government-owned companies undertook the distinct functions across the electricity value chain, including generation, transmission, distribution, system operation, and related support services namely EGL, NTNSP, EDL, NSO, Energy Ventures Lanka (Private) Limited (EVL), and CEB Employees Funds (Private) Limited (CEF).

The General Treasury also provided an equity contribution of Rs. 8,006 million to facilitate the implementation of the Voluntary Retirement Scheme (VRS) for CEB employees who did not opt to be assigned to the successor companies, as a part of the restructuring of the electricity sector.

During the first six months of 2026, two tariff revisions were approved by the Public Utilities Commission of Sri Lanka (PUCSL). At the Quarter 2 tariff review in April 2026, an overall average increase of 10.3 percent in end-user electricity tariffs was approved. Subsequently, following an extraordinary tariff review in May 2026, an additional 18.0 percent increase was approved for selected consumer categories, namely domestic, general-purpose and religious-purpose consumers whose monthly consumption exceeds 180 units; hotel consumers under H2 and H3 categories; Industrial consumers under I2 and I3 categories; and all Government entities. Meanwhile, the Government provided a subsidy of Rs. 15,000 million to NSO to support the remaining consumer categories, which represent approximately 95 percent of the total consumer base.

During the first six months of 2026, the generation mix changed to 25:30:24:21 for hydro, thermal (coal), NCRE, wind and rooftop solar, and thermal (fuel), respectively, compared with 34:31:23:12 in the same period of 2025. Total electricity generation, reflecting the growth in demand, increased by approximately 7.0 percent to 9,304 GWh. At the same time, hydropower generation declined by approximately 23.0 percent, from 2,975 GWh to 2,294 GWh. Although rooftop solar generation increased substantially by approximately 57.0 percent, from 711 GWh to 1,115 GWh, this increase was not sufficient to offset the combined impact of higher electricity demand and the reduction in hydropower generation. Consequently, thermal (fuel) generation increased by approximately 88.0 percent, from 1,014 GWh to 1,904 GWh, to meet the resulting supply requirement.

The revenue from sale of electricity increased significantly by 20.0 percent to Rs. 231.2 billion during the first six months of 2026. This comprises the revenue of CEB amounting to Rs. 80 billion up to March 09, 2026 and the revenue of EDL amounting to Rs. 151.1 billion for the rest of the period, compared with Rs. 192.5 billion recorded by the CEB during the first six months of 2025. This increase was mainly attributable to the 7.0 percent increase in electricity demand, which reached 9,304 GWh during the period under review, together with two consecutive upward revisions to electricity tariffs. As a result, the average sales revenue per unit increased to Rs. 31.9 per kWh during the first six months of 2026, compared to Rs. 24.6 per kWh during the same period of 2025. During the period from January 01 to March 09, 2026, CEB recorded a net profit of Rs. 1.48 billion.

Ceylon Petroleum Corporation

The net sales revenue of CPC in the first six months of 2026 increased by 40.4 percent to Rs. 576.6 billion, compared to Rs. 410.7 billion in the same period of 2025. This mainly reflected the increase in domestic fuel prices following the escalation of the Middle East conflict at the end of the first quarter of 2026. The conflict caused significant disruptions to global energy supply chains, including restrictions on the movement of petroleum shipments through the Strait of Hormuz, which contributed to an unusual increase in global crude oil and petroleum product prices, as well as higher shipping and insurance costs. Reflecting the increase in global petroleum prices and the increased cost of petroleum imports, CPC's total petroleum import bill rose sharply by 73.8 percent to USD 1,737.9 million in the first six months of 2026, compared with USD 999.9 million in the same period of 2025. Consequently, CPC's cost of sales increased by 50.2 percent to Rs. 567.6 billion, compared to Rs. 377.9 billion in the same period of 2025. As a result, CPC's gross profit declined by 72.9 percent to Rs. 8.9 billion, compared to Rs. 32.8 billion in the first six months of 2025.

To minimize the adverse impact of the conflict in the Middle East on the daily lives of the general public and on the overall economy, the government introduced measures to stabilize the petroleum industry. Accordingly, the General Treasury provided approximately Rs. 57 billion as fuel subsidies to the players in domestic petroleum market of which Rs. 41 billion was provided to the CPC for the period from April to June 2026.

Despite a significant decline in gross profit, CPC's operating profit increased to Rs. 23.9 billion, compared to Rs. 11.1 billion in the same period of 2025, mainly due to the subsidy

received for the period from April to June 2026. Further, CPC recorded an unrealized exchange gain of Rs. 7.2 billion, compared to Rs. 3.5 billion in the same period of 2025. Consequently, CPC's net profit increased by 71.8 percent to Rs. 29.2 billion in the first six months of 2026, compared to Rs. 17.0 billion in the same period of 2025.

SriLankan Airlines Limited

SriLankan Airlines Limited (SLA) recorded a significant financial loss during the first three months of the 2026/27 financial year. According to the unaudited management accounts submitted by the Company, total revenue during the period amounted to Rs. 82.8 billion, compared to Rs. 62.6 billion in the same period of 2025/26. During the period, the escalation of the conflict in the Middle East disrupted air connectivity, with SLA suspending flights to several Middle Eastern destinations and subsequently resuming services as airspace restrictions were eased. The disruption posed a significant risk to passenger and cargo revenue, particularly given the importance of Middle Eastern destinations to SLA's network. At the same time, the temporary diversion and rerouting of regional air traffic to Sri Lanka provided some additional aviation activity and passenger movements, partially mitigating the adverse impact on the sector.

Despite the increase in total revenue, during the first three months of the 2026/27 financial year, total expenditure rose by 40.4 percent to Rs. 95.2 billion, compared to Rs. 67.8 billion in the same period of 2025/26. This was mainly due to a sharp increase of around 93.0 percent in aircraft fuel costs, which rose to Rs. 41.2 billion. Consequently, the company recorded an operating loss before exchange movements of approximately Rs. 12.5 billion during the period.

The company's financial performance was further adversely affected by foreign exchange movements. Accordingly, the company recorded a loss before tax of Rs. 35.6 billion for the period under review, compared to the net loss of Rs. 12 billion in the same period of 2025/26. Due to the improved net income of Rs. 3.4 billion from the SriLankan Catering, the net loss recorded by the group reduced to Rs. 32.2 billion.

The above financial performance demonstrates that SLA continues to face significant structural financial and liquidity challenges. The substantial operating deficit, high fuel and maintenance costs, foreign exchange losses and finance costs continue to constrain the Company's ability to generate sufficient internal cash flows to meet its operational and financial obligations. This is particularly significant given the Company's existing debt burden and the continuing requirement for Government support to ensure uninterrupted operations.

The financial position of SLA remained highly leveraged. Total assets as at end June 2026 amounted to Rs. 209.9 billion, while total liabilities stood at Rs. 561.4 billion. Consequently, the company reported negative equity of Rs. 351.5 billion indicating that SLA continued to experience a serious loss of capital during the period review.

During the first six months of 2026, Government provided financial support to service the first and second instalments of selected Bank of Ceylon and People's Bank loans under the relevant tripartite arrangements. In addition, USD 30 million was released to meet SLA's short-term funding requirements. Further, following the restructuring of the USD 175 million guaranteed bonds, the restructured bond value of USD 126.5 million was absorbed into the Government debt stock with effect from March 20, 2026. These measures provide essential support to maintain the company's operations and address its immediate financial obligations amid continuing operational and external pressures. Moreover, in June 2026, the Cabinet approved the establishment of a Strategy and Restructuring Committee to undertake a comprehensive review of SLA, with the objective of strengthening its financial sustainability and commercial viability while minimizing the long-term fiscal burden on the Government.

National Water Supply and Drainage Board

During the first six months of 2026, the National Water Supply and Drainage Board (NWS&DB), added nearly 60,000 water connections to the system, thereby increasing the total number of connections to 3.31 million as at end June 2026. However, as

at end June 2026, piped-borne water supply coverage and safe drinking water coverage decreased to 62.8 percent and 94.5 percent, respectively, compared to 63.7 percent and 99.1 percent as at end June 2025. This was mainly due to differences in reporting methodologies, as coverage indicators were reported on a household basis in 2025 and on a population basis in 2026. Meantime, piped sewerage coverage increased marginally from 2.08 percent as at end June 2025 to 2.11 percent as at end June 2026.

The revenue of the NWS&DB for the first six months of 2026 increased by 5.1 percent to Rs. 43.6 billion, compared to Rs. 41.5 billion in the same period of 2025. However, the cost of sales increased by approximately 10.0 percent to Rs. 16.5 billion from Rs. 15 billion, mainly due to higher pumping costs and rent, rates and other taxes. As a result, the Board recorded a gross profit of Rs. 27.1 billion in the first six months of 2026, compared to Rs. 26.5 billion in the same period of 2025. Nevertheless, net profit decreased by 8.5 percent to Rs. 16.2 billion, compared to Rs. 17.7 billion in the same period of 2025. Meanwhile, during the period under review, the average unit cost was Rs. 88, an increase of Rs. 6 compared to Rs. 82 during the same period of 2025.

During this period, water production and water sales each increased by approximately 5.0 percent reaching 440.8 million m^3 and 333.5 million m^3, respectively, compared to 419.1 million m^3 and 317.6 million m^3, respectively, in the same period of 2025. However, Non-Revenue Water (NRW) deteriorated marginally to 24.4 percent from 24.2 percent during the period under review.

During the first six months of 2026, the Board completed two projects. In addition, the General Treasury has provided equity capital of Rs. 5.9 billion to facilitate the loan repayment and completion of the major water supply projects.

Sri Lanka Ports Authority

Amid heightened uncertainty in international trade and shipping arising from the escalation of tensions in the Middle East, Sri Lanka Ports Authority (SLPA) recorded total revenue of Rs. 53.1 billion in the first six months of 2026, a marginal increase of 2.1 percent compared to Rs. 52 billion in the same period of 2025. This performance was mainly due to a 9.0 percent increase in operational revenue to Rs. 44.1 billion. During this period, SLPA closely engaged with terminal operators and major shipping lines to ensure uninterrupted port operations and to manage potential disruptions to global shipping routes. The changing regional shipping environment therefore presented both risks and opportunities for the Port of Colombo, particularly given its role as a major transshipment hub connecting Asia, the Middle East, Africa and Europe. In terms of operational performance, containerized cargo handled during the period declined by 6.0 percent to 1.2 million TEUs, whereas conventional cargo increased by approximately 15.0 percent to 5.8 million MT.

During the first six months of 2026, total expenditure remained broadly unchanged at Rs. 23.7 billion, in line with the same period of 2025. As a result, SLPA generated an operating profit of Rs. 29.4 billion in the first six months of 2026, compared to Rs. 28.3 billion in the same period of 2025.

Net finance income increased to Rs. 2.4 billion in the first six months of 2026, compared to Rs. 1.7 billion in the same period of 2025 owing to a 25.0 percent increase in finance income. In addition, SLPA recorded a foreign exchange gain of Rs. 2.7 billion in the first six months of 2026, compared to the foreign exchange loss of Rs. 0.8 billion in the same period of 2025. Accordingly, profit before tax, after accounting for foreign exchange gains, increased to Rs. 34.5 billion, compared to Rs. 29.2 billion in the same period of 2025. After providing Rs. 5.4 billion for income tax, SLPA's profit recorded an increase of 19.0 percent to Rs. 29.1 billion, compared to Rs. 24.5 billion in the same period of 2025.

Overall, SLPA demonstrated improved profitability during the first six months of 2026, supported by higher operational revenue, stable expenditure, improved net finance income, and favorable foreign exchange movements. However, the decline in containerized cargo volumes and the changing global shipping environment

remain areas requiring close monitoring to sustain the Authority's financial performance.

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

Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) recorded strong financial performance during the first half of 2026. Total revenue increased by 15.0 percent to Rs. 27.5 billion in the first six months of 2026, compared to Rs. 23.9 billion in the same period of 2025. This was mainly driven by a 17.0 percent increase in non-aeronautical revenue to Rs. 23.4 billion. The growth in revenue was achieved despite significant disruptions to regional aviation following the escalation of the Middle East conflict. The temporary closure of airspace and suspension of flights to and from several Middle Eastern destinations led to a significant number of flight cancellations, including 115 cancellations at Bandaranaike International Airport in a single day. However, the diversion and rerouting of aircraft and passengers to Sri Lanka during the disruption provided an offsetting benefit to the country's aviation sector and supported airport-related activities.

Total expenditure of the company increased marginally by 1.8 percent to Rs. 11.3 billion in the first six months of 2026, compared to Rs. 11.1 billion in the same period of 2025. As a result, AASL increased its operational profit by 26.0 percent to Rs. 16.1 billion, compared to Rs. 12.8 billion in the same period of 2025.

AASL's financial performance was further strengthened by higher finance income and favorable foreign exchange movements. Finance income increased by 20.0 percent to Rs. 4.2 billion, while the company recorded an exchange gain of Rs. 5.6 billion, compared to the exchange loss of Rs. 4.3 billion in the same period of 2025. Consequently, AASL recorded a profit before tax of Rs. 24.9 billion in the first six months of 2026, an increase of 122.0 percent compared to Rs. 11.2 billion in the same period of 2025.

Overall, AASL recorded strong financial performance during the period under review. However, the continuing uncertainty in the Middle East, particularly its potential impact on flight connectivity and passenger movements, warrants close monitoring given the importance of Middle Eastern routes to Sri Lanka's aviation and tourism sectors.

TABLE 3.1 | Reform/ Key initiatives for Major SOEs

Institution	Reform/Key Initiatives
State-Owned Banks	• Strengthened the governance and effectiveness of Boards of Directors through an extraordinary procedure for selecting and appointing independent directors, with the objective of ensuring that independent directors constitute the majority of the Boards. • Expand access to and strengthen integration with platforms such as GovPay, the new government digital payment gateway, and LankaQR, to enhance financial inclusion and operational efficiency. • Enhance credit quality through strengthened monitoring mechanisms and improved collection processes. • Keep pace with the evolving regulatory landscape, implement necessary changes, and maintain transparent reporting practices. • Develop new products to assist the existing customers and attract new ones. • Expand financial services to underserved populations with the objective of promoting broader financial inclusion.
Ceylon Electricity Board and Successor Companies	• The six companies assigned with the functions of the CEB commenced their operations on March 09, 2026.
Ceylon Petroleum Corporation	• Provided approximately Rs. 57 billion in fuel subsidies to CPC and the other three petroleum market players during April–June 2026, including Rs. 41 billion to CPC, to mitigate the impact of global energy market disruptions on the day-to-day lives of the general public and the overall economy.
SriLankan Airlines Ltd	• Restructured the USD 175 million Guaranteed Bonds due in June 2024, with the bond value finalized at USD 126.5 million, and the Cabinet of Ministers approved the absorption of the restructured bond value into the Government debt stock with effect from March 20, 2026. • Provided USD 30 million in short-term funding to support the airline's immediate financing requirements, in accordance with the Cabinet Decision dated May 04, 2026.
Sri Lanka Ports Authority	• Approval was granted for the Schemes of Recruitment (SORs) for non-executive staff of SLPA, facilitating the formalization and streamlining of recruitment and staffing arrangements.

Source: SOEs and Department of Public Enterprises

TABLE 3.2 | Profit before Tax of 52 State Owned Enterprises

Rs. Million

	Enterprise	2024 (Actual)	2025 (Provisional)	2026 (Jan.-June) (Provisional)
1	Bank of Ceylon	106,904	120,827	62,655
2	People's Bank	41,584	64,409	32,639
3	National Savings Bank	26,268	44,493	22,572
4	State Mortgage & Investment Bank	158	737	405
5	HDFC Bank	64	10	205
6	Pradeshiya Sanwardena Bank	3,210	5,830	3,540
7	Employees' Trust Fund Board	63,177	68,510	36,520
8	Sri Lanka Insurance Corporation Limited	3,546	6,891	2,623
9	National Insurance Trust Fund	16,442	9,391	12,833
10	Sri Lanka Export Credit Insurance Corporation	560	592	507
11	Agriculture and Agrarian Insurance Board	-3,182	-1,907	335
12	Ceylon Electricity Board**	141,605	-38,740	1,479
13	Ceylon Petroleum Corporation	34,188	36,461	29,156
14	Sri Lanka Ports Authority	46,349	57,246	34,505
15	National Water Supply and Drainage Board	23,833	31,604	16,171
16	Airport and Aviation Services (SL)Ltd	28,671	33,658	24,854
17	Sri Lankan Airlines Ltd*	-7,595	-23,211	-35,588
18	Sri Lanka Transport Board	547	4,312	-471
19	State Engineering Corporation	-773	-899	-182
20	Central Engineering Consultancy Bureau	607	395	60
21	State Development and Construction Corp.[a]	-1,217	-565	-193
22	Milco (Pvt) Ltd	-64	1,410	999
23	National Livestock Development Board	396	-143	287
24	Sri Lanka State Plantations Corporation	-69	-35	-60
25	Janatha Estates Development Board	-229	-222	-26
26	Kurunegala Plantations Ltd	415	635	206
27	Chilaw Plantations Ltd	219	650	272
28	Kalubovitiyana Tea Factory Ltd*	-7	84	16
29	Sri Lanka Cashew Corporation	14	17	1
30	Lanka Mineral Sands Ltd	-77	649	254
31	Lanka Phosphate Ltd*	465	459	65
32	Kahatagaha Graphite Lanka Ltd*	-1	14	-5
33	Development Lotteries Board	4,197	7,487	5,343
34	National Lotteries Board	6,203	8,177	5,349
35	State Pharmaceuticals and Manufacturing Corp.	3,083	2,478	1,441
36	Sri Lanka Ayurvedic Drugs Corporation	183	276	31
37	State Pharmaceuticals Corporation	2,474	3,772	970
38	Sri Jayawardenepura General Hospital	552	363	723
39	Independent Television Network Ltd	3	62	-37
40	Sri Lanka Rupavahini Corporation	-247	-191	-166
41	Sri Lanka Broadcasting Corporation	-176	-203	-68
42	Sri Lanka Handicraft Board	25	35	6
43	State Timber Corporation	825	1,139	274
44	STC General Trading Company*	370	429	65
45	Lanka Sathosa Ltd	-776	-536	-89
46	State Printing Corporation	284	145	-185
47	Ceylon Fisheries Corporation[a]	-53	132	10
48	Ceylon Fishery Harbour Corporation	-101	-376	257
49	Hotel Developers Lanka PLC	-268	139	9
50	Lanka Sugar Company Ltd	-1,944	-3,193	-1,525
51	Ceylon Fertilizer Company Ltd[b]	118	–	–
52	Colombo Commercial Fertilizer Company Ltd[b]	555	–	–
53	State Fertilizer Company Limited*	-	723	234
	Total	**541,316**	**444,421**	**259,276**

Sources: SOEs and Department of Public Enterprises

[a] Provisional

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

**2026 April – June*

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

TABLE 3.3 | Levy/ Dividend Income from SOEs

Rs. Million

Enterprise	Actual 2024	2025	2026 (Jan.-June)
Levy	**33,190**	**47,332**	**8,923**
National Savings Bank	-	6,088	–
Bank of Ceylon	-	5,000	–
People's Bank	-	2,000	1,550
Ceylon Petroleum Corporation	-	6,000	–
Telecommunication Regulatory Commission of Sri Lanka	9,000	3,000	–
National Water Supply and Drainage Board	-	200	–
State Timber Corporation	-	585	–
State Pharmaceuticals Manufacturing Corporation	300	779	–
National Insurance Trust Fund	2,919	4,973	602
Geological Survey and Mines Bureau	1,468	1,688	185
National Gem and Jewellery Authority	25	145	90
Board of Investment of Sri Lanka	928	1,150	–
National Lotteries Board	1,060	1,250	315
Sri Lanka Standards Institution	13	269	–
Sri Lanka Export Credit Insurance Corporation	300	150	–
Central Engineering Consultancy Bureau	-	15	–
Sri Lanka Tourism Promotion Bureau	500	1,000	2,000
Civil Aviation Authority	750	1,000	–
State Pharmaceutical Corporation	100	487	200
National Transport Medical Institute	850	280	–
Sri Lanka Bureau of Foreign Employment	-	5,000	–
National Transport Commission	250	300	250
Sri Lanka Tourism Development Authority	-	275	250
Sri Lanka Land Reclamation and Development Authority	-	100	–
Sri Lanka Ports Authority	607	2,000	3,000
National Medicine Regulatory Authority	880	751	150
Road Development Authority	1,749	2,128	–
Land Reforms Commission	15	100	–
Condominium Management Authority	–	10	15
National Institute of Business Management	85	30	–
Sri Lanka Ayurvedic Drugs Corporation	5	76	–
Post Graduate Institute of Management	4	30	28
Other SOEs	11,381	474	288
Dividends	**7,890**	**9,211**	**3,731**
Sri Lanka Insurance Corporation Ltd	1,271	1,987	4
Airport and Aviation Services (Sri Lanka) (Pvt) Ltd	1,286	2,931	–
Lanka Mineral Sands Ltd	158	–	–
Lanka Phosphate Ltd	75	125	–
Lanka Leyland Ltd	-	14	–
Rakna Arakshaka Lanka Ltd	75	–	111
Manthai Salt Ltd. (National Salt Ltd)	-	30	40
Ceylon Fertilizer Ltd	15	–	–
Colombo Commercial Fertilizer Ltd	30	–	–
Paranthan Chemicals Company Ltd	131	33	–
STC General Trading Company	50	116	–
Sri Lanka Telecom PLC	-	227	680
De La Rue Lanka (Pvt) Ltd	1,324	494	–
Lanka Electricity Company Ltd	436	436	–
Lanka Industrial Estates Ltd	98	101	–
Ceylon Agro Industries	202	226	131
Plantation Companies	559	214	167
Lanka Thriposha Ltd	100	123	–
Other SOEs	2,080	2,155	2,598
Total	**41,080**	**56,543**	**12,654**

Sources: SOEs and Department of Public Enterprises

CHAPTER 4

Foreign Financing and Management of Government Debt

4.1 Overview

The debt position during the first half of 2026 was characterized by a continued reliance on domestic financing, which accounted for around 82 percent of total borrowing in the period, mainly through Treasury bonds. The reduction in Treasury bill issuance also indicates a shift away from short-term financing. External debt remained diversified across multilateral, and bilateral creditors, while borrowing limit utilization remained moderate at 24.9 percent of the annual limit.

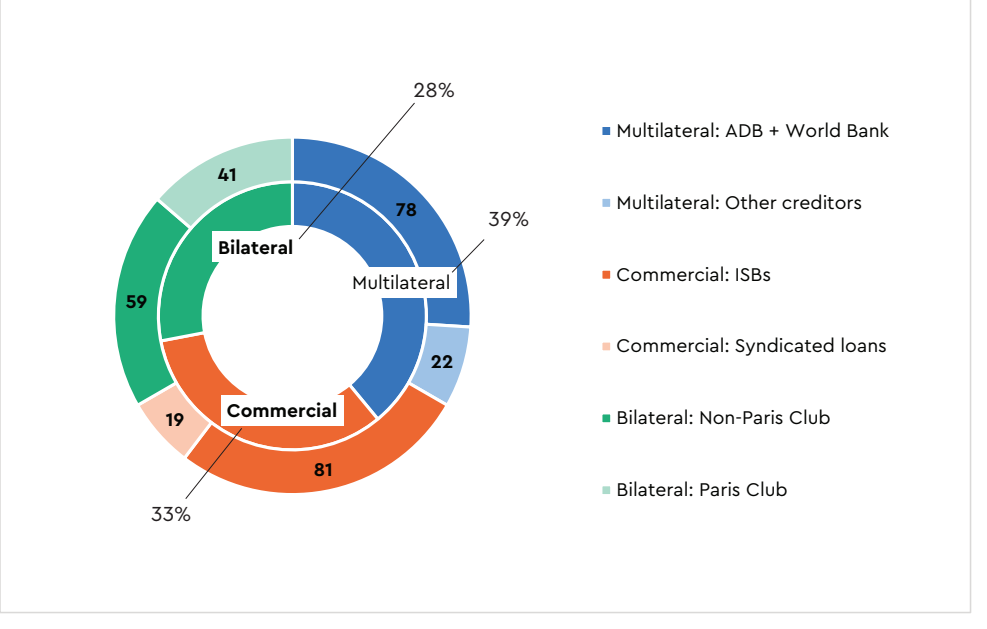
The external debt restructuring programme continued to make significant progress, with agreements covering 93 percent of the bilateral debt stock subject to restructuring concluded by end-June 2026. Foreign financing during the first half of 2026 amounted to USD 913 million, with the IMF accounting for the largest share. Some 77 percent of disbursements were directed towards budget support, highlighting the continued role of programme-related financing in meeting the Government's financing needs.

4.2 Government Debt Stock

The total government debt stock as at end June 2026 stood at Rs. 31,999 billion (equivalent to USD 95,047 million), representing 88.8 percent of the estimated GDP for 2026[1].

The external debt of the Government as of end of June 2026 amounted to USD 38 billion (equivalent to Rs. 12,796 billion). Multilateral debt accounted for 39 percent of total government external debt, followed by commercial debt at 33 percent and bilateral debt at 28 percent.

FIGURE 4.1 | Composition of External Debt by Creditor: End June 2026 (USD Billion)



Source: Public Debt Management Office

1 The GDP estimate for the Year 2026 is LKR 36,037 billion. (Fiscal Strategy Statement, 2027)

On the domestic front, domestic debt stock stood at Rs. 19,203 billion at the end of June 2026. Treasury bonds accounted for 84 percent of the total government domestic debt stock, followed by Treasury bills at 12 percent.

4.3 Borrowing Limit Utilization

The total gross borrowing limit approved by Parliament for fiscal year 2026 was Rs. 3,740 billion of which Rs. 1,954 billion was allocated for the period from January 1 to June 30, 2026. This comprised domestic and foreign borrowing of, Rs. 1,590 billion and Rs. 364 billion, respectively.

The primary purposes of these borrowings were to finance debt service obligations and support development projects. As at the reporting date, Rs. 1,353.7 billion had been raised through the issuance of Treasury bonds domestically and Rs. 297.4 billion through external financing sources. Accordingly, approximately 82 percent of the total borrowings in the first half of 2026 were sourced domestically, predominantly through Treasury bonds. Treasury bonds were used solely for domestic debt service payments.

The apparent negative net issuance of Treasury bills, amounting to Rs. 720.9 billion during this period, indicates that repayments exceeded new issuances, suggesting that cash flow financing was used to reduce the outstanding volume of the Treasury bills.

Accordingly, total borrowing limit utilization as at end June 2026 stood at Rs. 930.2 billion, representing 24.9 percent of the annual borrowing limit for 2026.

TABLE 4.1 | Gross Domestic Borrowing: January-June 2026

Instrument	LKR Billion
T- bonds	1,353.77

Source: Public Debt Management Office

TABLE 4.2 | Net Domestic Borrowing: January-June 2026

Instrument	LKR Billion
T-bills	-720.94

Source: Public Debt Management Office

4.4 Foreign Financing

4.4.1 Foreign Financing Commitments During the first half of 2026

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

4.4.2 Foreign Financing Disbursements and Utilization During the period from January 01 to June 30, 2026

Total foreign loan disbursements amounted to USD 913.03 million. The largest share was recorded under the International Monetary Fund's Extended Fund Facility, accounting for 76.1 percent of the total, followed by disbursements from the World Bank (10.5 percent) and the Asian Development Bank (7.3 percent).

TABLE 4.3 | Disbursements of Foreign Loans: January 01, 2026 to June 30, 2026

Development Partner	Loan amount (USD Million) (Provisional)
Government of Japan	13,454,277.10
Saudi Fund For Arab Economic Development	2,630,460.43
Export Import Bank of India	7,572,739.89
Asian Development Bank	66,323,966.92
Asian Infrastructure Investment Bank	23,279,115.37
World Bank	96,336,432.35
Int. Fund for Agricultural Development	3,500,000.00
International Monetary Fund EFF 23-26 Pr	695,143,845.51
OPEC Fund for International Development	4,790,373.40
	913,031,210.97

Source: Public Debt Management Office

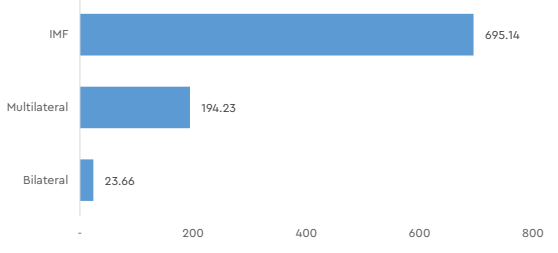
For conversion of disbursements made in different currencies into USD, the exchange rates prevailed on each disbursement date have been used.

For conversion of SDR into USD month end exchange rate of SDR apply to the end of previous month published by CBSL have been used.

In terms of the allocation of disbursements by purpose, the largest share was allocated to the budget support sector, accounting

for 77 percent of total disbursements, while the remainder was diversified among various economic sectors. The roads and bridges sector received the second largest allocation (7 percent), followed by ground transport (3 percent). The rest was allocated to other sectors, such as agriculture, health and social welfare, housing and urban development, humanitarian assistance, rural development, and water supply.

FIGURE 4.2 | Disbursements by Development Partners/Lending Agencies: January 01 to June 30, 2026 (USD Million)



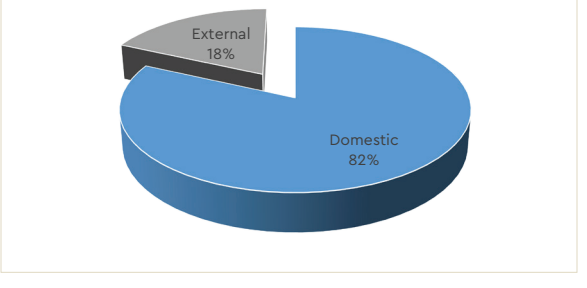
Source: Public Debt Management Office

4.5 Debt Service Payments

Total debt service payments from January 1 to June 30, 2026 amounted to Rs. 2,320 billion (excluding Treasury bills maturities), of which Rs. 1,125 billion was for the principal payments and Rs. 1,195 billion was for interest payments. Treasury bills redemptions in the first half of 2026, including inter year maturities, amounted to Rs. 3,083 billion.

The total external debt service amounted to USD 1,253.9 million , of which USD 812.0 million was for principal repayments and the remaining USD 441.9 million for interest payments.

FIGURE 4.3 | Composition of Debt Service Payments



Source: Public Debt Management Office

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

4.6 Progress of Debt Restructuring Programme

Sri Lanka has achieved substantial progress in restructuring its external debt following the declaration of the public debt service moratorium in April 2022, with significant milestones reached across both bilateral and commercial creditor categories.

On 26 June 2024, Sri Lanka finalized a debt treatment agreement with the members of the Official Creditor Committee (OCC), representing the country's major bilateral lenders. On the same date, Sri Lanka also concluded Bilateral Debt Treatment Agreements with the Export-Import Bank of China for loans owed to that institution. These agreements were implemented through the signing of amendment arrangements. Further, progress was achieved on December 24, 2024 with the signing of amendment agreements with the China Development Bank, concluding that restructuring process as well.

Meanwhile, Sri Lanka reached an agreement in principle with International Sovereign Bond (ISB) holders on September 19, 2024, regarding the restructuring of ISBs. The exchange of outstanding ISBs for new bonds was completed on December 16, 2024, with a participation rate of nearly 98 percent, facilitating the conversion of almost all defaulted ISBs into new International Sovereign Bonds.

Sri Lanka also made important gains in restructuring bilateral debt with Paris Club members. The signing of bilateral amendatory agreements with the Government of Japan, the Export-Import Bank of India, and the Government of the French Republic marked a series of key achievements. The restructuring process with Japan was concluded on March 24, 2025, followed by the signing of bilateral amendatory agreements with the Export-Import Bank of India on March 25, 2025 (Lines of Credit) and April 3, 2025 (Buyer's Credit Agreements). Sri Lanka also signed bilateral amendatory agreements with the Government of the French Republic on June 16, 2025, EXIM Bank of Hungary on July 1, 2025, the Saudi Fund for Development on July 14, 2025 and the United Kingdom on August 22, 2025. Bilateral amendatory agreements were also signed with the Government of Australia on October 27, 2025, and with the Government of Denmark on November 11, 2025. During the first half of 2026, the Government concluded bilateral debt restructuring agreements with the Governments of Belgium, Germany, Spain, and the Republic of Korea. Accordingly, as at June 30, 2026, agreements covering 93 percent of the bilateral debt stock to be restructured had been concluded, and the remaining portion is expected to be completed by the end of 2026.

Following the successful finalization of loan agreements, Sri Lanka has resumed regular debt servicing to the respective creditor partners. Meanwhile, the restructuring process with creditors from 13 countries remains ongoing. The Debt Advisors, in coordination with the Ministry of Finance, Planning and Economic Development and the respective creditors, are continuing the necessary discussions and processes to finalize the restructuring arrangements.

4.7 Government Guarantees

As at March 31, 2026, the total outstanding capital relating to Treasury Guarantees (TG) and Letters of Comfort (LC) amounted to Rs. 971,188.5 million. of this amount, LKR-denominated TGs and LCs accounted for Rs. 473,013.3 million, while foreign currency-denominated obligations, converted into LKR amounted to Rs. 498,175.2 million.

Foreign currency-denominated obligations therefore represented approximately 51.3 percent of the total outstanding amount, while LKR-denominated obligations accounted for approximately 48.7 percent. Among the foreign currency exposures, USD-denominated obligations were the largest, at Rs. 401,661.7 million, followed by Yen-denominated obligations at Rs. 53,471.1 million and Euro-denominated obligations at Rs. 43,042.4 million. Guarantee limit utilization as at June 30,2026 accounted for 3 percent of average gross borrowing limit.

TABLE 4.4 | The Outstanding List of Treasury Guarantees and Letters of Comfort Issued by the General Treasury up to June 30, 2026

Rs. Million

S. No	Name of the Bank or Institution	Name of Institution	Issued Value as at 30.06.2026		Outstanding Value as at 30.06.2026	
1	Asian Development Bank	Lanka Electricity Company (Pvt) Ltd	16,833.12	223,880.44	16,802.82	147,505.23
		CEB	50,499.35		50,405.08	
		Ceylon Electricity Board	134,664.92		60,733.88	
		Energy Activity Support Facility (CEB)	5,049.93		2,730.33	
		Regional Development Bank	16,833.12		16,833.12	
2	Asian Infrastructure Investment Bank (AIIB)	Bank of Ceylon & People's Bank	60,599.21	60,599.21	20,199.74	20,199.74
3	Bank of Ceylon	Building Materials Corporation Ltd	500.00	471,614.99	500.00	255,530.29
		Ceylon Electricity Board	4,540.00		51.18	

Rs. Million

S. No	Name of the Bank or Institution	Name of Institution	Issued Value as at 30.06.2026		Outstanding Value as at 30.06.2026	
		Ceylon Petroleum Corporation	220,000.00		92,203.64	
		General Sir John Kotelawala Defence University	85.00		3.26	
		Janatha Estates Development Board	200.00		28.55	
		Lanka Coal Company (Pvt) Ltd	49,500.00		34,774.77	
		National School of Business Management Limited	8,600.00		4,150.00	
		National Water Supply & Drainage Board	65,793.15		31,190.45	
		Road Development Authority	118,970.03		89,337.84	
		State Development and Construction Corporation	1,126.81		990.61	
		State Engineering Corporation	2,300.00		2,299.99	
4	China Development Bank	National Water Supply & Drainage Board	118,643.13	118,643.13	63,346.38	63,346.38
5	China National Chemical Engineering No.14 Constrution Co. Ltd	Ceylon Petroleum Corporation	14,737.39	14,737.39	6,642.35	6,642.35
6	Commercial Bank	National Water Supply & Drainage Board	968.36	968.36	363.08	363.08
7	DFCC Bank	National Water Supply & Drainage Board	6,026.24	11,026.24	2,701.08	6,179.34
		Road Development Authority	5,000.00		3,478.26	
8	Exim Bank of India	National Water Supply & Drainage Board	88,232.46	88,232.46	54,168.96	54,168.96
9	Export Development Board	Bank of Ceylon and Peoples Bank	60.00	60.00	60.00	60.00
10	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Limited	4,000.00	20,507.22	4,000.00	10,466.19
		National Water Supply & Drainage Board	16,507.22		6,466.19	
11	Hongkong & Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) Limited	14,859.58	14,859.58	9,928.17	9,928.17
12	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	14,130.53	14,130.53	8,931.65	8,931.65
13	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	31,844.90	31,844.90	27,379.46	27,379.46
14	International Air Transport Association	Sri Lankan Airlines Limited	3,905.28	3,905.28	3,905.28	3,905.28
15	Japan International Coorporation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Limited	154,463.05	154,463.05	53,471.12	53,471.12
16	National Development Bank PLC	National Water Supply & Drainage Board	20,306.30	20,306.30	11,883.47	11,883.47
17	National Development Bank PLC	National Water Supply & Drainage Board	1,074.13	1,074.13	991.43	991.43
18	National Savings Bank	Ceylon Electricity Board	5,000.00	147,098.87	2,500.00	118,920.71

Rs. Million

S. No	Name of the Bank or Institution	Name of Institution	Issued Value as at 30.06.2026		Outstanding Value as at 30.06.2026	
		General Sir John Kotelawala Defence University	33,896.09		26,632.64	
		National Water Supply & Drainage Board	32,710.61		24,304.24	
		Road Development Authority	75,492.17		65,483.83	
19	Paddy Marketing Board	Co-operative Wholesale Establishment	880.00	880.00	729.60	729.60
20	People's Bank	Ceylon Electricity Board	6,500.00	113,483.90	4,535.34	78,544.40
		Ceylon Petroleum Corporation	2,600.72		1,430.81	
		Ceylon Shipping Corporation Ltd	24,209.54		15,991.46	
		National System Operator Private Limited	20,560.00		20,524.25	
		National Water Supply & Drainage Board	4,563.98		2,313.09	
		Road Development Authority	53,784.66		33,241.94	
		Sri Lanka State Plantation Corporation	100.00		59.12	
		State Printing Corporation	1,165.00		448.39	
21	Reserve Bank of India	Central Bank of Sri Lanka	370,809.59	370,809.59	67,810.52	67,810.52
22	Sampath Bank	Road Development Authority	14,500.00	14,500.00	8,568.18	8,568.18
23	UniCredit Bank Austria AG	National Water Supply & Drainage Board	19,425.14	19,425.14	15,662.96	15,662.96
		Grand Total	**1,917,050.71**	**1,917,050.71**	**971,188.51**	**971,188.51**

Source: Public Debt Management Office