PDMO

Public Debt Management Office|Sri Lanka

MEDIUM TERM DEBT MANAGEMENT STRATEGY 2026-2030

AND

ANNUAL BORROWING PLAN - 2026

Public Debt Management Office
Ministry of Finance, Planning and Economic Development

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MEDIUM TERM DEBT MANAGEMENT STRATEGY

ROAD MAP FOR STRATEGIC AND PRUDENT DEBT MANAGEMENT

2026 -2030

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Content

1. Executive Summary

Sri Lanka has undertaken a major transformation to align its debt management practices with internationally recognized standards. Enactment of the Public Debt Management Act No. 33 of 2024 (PDMA) and the establishment of the Public Debt Management Office (PDMO) are the cornerstones for the initiative taken by the Government to strengthen debt management operations in Sri Lanka. Having a strong legal background and centralized institutional framework are imperative for achieving debt sustainability targets set out by the International Monetary Fund (IMF) under its debt sustainability analysis. The reforms relevant for enhancing debt management introduces international best practices, promoting transparency, efficiency, and strategic coordination in managing public debt.

Under the PDMA, the PDMO is mandated to prepare a Medium-Term Debt Management Strategy (MTDS) on a rolling five-year basis, and it shall be updated annually. The MTDS provides a structured roadmap for managing public debt sustainably, balancing cost and risk while meeting the Government's financing needs and supporting fiscal stability.

The MTDS 2026–2030, was developed in line with the above requirements. It focuses on strengthening debt sustainability and reducing vulnerabilities such as interest rate risks and refinancing risks. An analysis of the current debt portfolio identified refinancing risk, stemming from a high concentration of short-term Treasury bills, and interest rate risk, due to low average time to re-fixing (ATR), as key challenges. Interest payments as a share of Government revenue have also been recognized as a crucial cost indicator.

The MTDS 2026–2030 has been primarily designed to prudently manage both the cost and risk of Government debt portfolio through the above analysis. The MTDS 2026-2030 has been designed to finance 90 percent of its gross borrowing requirements through domestic borrowing, with the remaining 10 percent sourced from external borrowing in 2026. From 2027 to 2030, the share of domestic borrowing is expected to reduce to 85 percent with a discreet equilibrium with the external financing.

The strategy aims to reduce reliance on short-term debt, lowering Treasury bills' share from 10.7 percent at the end of 2025 to 5 percent of total debt by 2030; extend the average debt maturity from 6.8 to 8 years by 2030; and to decrease the interest payment-to-revenue ratio from 52.2 percent to 35 percent over the strategy period.

The Medium-Term Debt Management Strategy (MTDS) 2026–2030 thus establishes a clear framework for managing Sri Lanka's government debt over the next five years. Prudent composition of domestic and external financing, extending debt maturities, and mitigating refinancing and interest rate risks, the strategy seeks to strengthen debt sustainability, lower borrowing costs, and ensure timely debt servicing. The Government's commitment to revenue based fiscal consolidation, the development of the domestic debt market, implementation of liability management operations, and enhancement of investor confidence will collectively contribute to securing Sri Lanka's long-term debt sustainability.

2. Overview of the Public Debt Management in Sri Lanka

2.1 LEGAL FRAMEWORK

The Public Debt Management Act No. 33 of 2024 (PDMA), which was enacted on June 18, 2024 is a consolidated piece of legislation in line with international best practices. It provides modern techniques in the Public Debt Management, with a more streamlined, effective, and forward-looking framework for managing Sri Lanka's public debt, in place of fragmented legal provisions that were available across various pieces of legislations previously.

2.2 INSTITUTIONAL FRAMEWORK

The Public Debt Management Office (PDMO) was established on December 2, 2024, under the PDMA marking a major milestone in strengthening Sri Lanka's public debt management framework. Since its establishment, the PDMO has made a noteworthy progress in building institutional capacity, establishing regulatory foundations connected to PDMA, and developing modern debt management practices. All the functions relevant for the Public Debt Management, which were previously dispersed across multiple institutions, were brought under the PDMO.

2.3 DEBT MANAGEMENT OBJECTIVES

The Public Debt Management objectives are clearly defined under Section 3 of the Public Debt Management Act No. 33 of 2024 as;

a. to meet financing needs and debt payment obligations on a timely basis;
b. to borrow at the lowest costs as possible over the medium to long term, consistent with a prudent degree of risk, and
c. to promote the development of the domestic debt securities market.

3. Medium Term Debt Management Strategy (MTDS)

In pursuant to Section 11 of the PDMA, the PDMO shall formulate the Medium Term Debt Management Strategy (MTDS) on a rolling five year horizon and shall update the MTDS annually. MTDS shall be consistent with the Medium-Term Fiscal Framework (MTFF) of the Government and takes into account macroeconomic and financial market conditions, the cost and risks embedded in the current public debt portfolio, the availability of financing from various creditors, and vulnerabilities that could impact future borrowing requirements and debt service costs.

With the approval of the Cabinet of Ministers, the MTDS shall be tabled in Parliament not later than second reading of the Appropriation Bill of the year for which the strategy is prepared. The MTDS provides a strategic roadmap for managing the Government's financing requirements, emphasizing the need to achieve the most cost-effective borrowing while ensuring debt levels remain stable and sustainable.

3.1 DEBT COVERAGE UNDER MTDS

The Medium-Term Debt Management Strategy (MTDS) covers only the external and domestic Debt of the Government that falls under its direct control. The publicly guaranteed and non-guaranteed debt of State-Owned Enterprises (SOEs) and subnational entities are not included in the MTDS.

For the purpose of preparing the MTDS, external debt refers to debt contracted with parties outside Sri Lanka, as well as debt incurred domestically in foreign currencies. Domestic debt refers to debt incurred within Sri Lanka and denominated in local currency.

3.2 MEDIUM TERM DEBT MANAGEMENT STRATEGY 2025-2029 (MTDS 2025-2029)

In pursuant to comply with the legal requirement, the MTDS 2025-2029 was developed immediately after the establishment of the Public Debt Management Office. MTDS 2025-2029 assessed four strategies, and of which the strategy which is more focused on domestic market borrowing was selected with targeting the gradual reduction of the T-bills and increasing the maturity of the domestic debt portfolio. It also focused on increasing the fixed rate debt to minimizing the interest rate risk. To minimize the refinancing risk, it was targeted to reduce the debt refixing in one year.

Debt data used for the MTDS 2025-2029 was primarily obtained from the relevant Treasury Departments and the Central Bank of Sri Lanka (CBSL). Several assumptions on the external and domestic debt restructuring process were used considering the ongoing data reconciliation process at the time of preparing the MTDS. As forecasted at the end 2025, it is noticed that the amount of T-bills was successfully reduced to 10.7 percent of the total debt portfolio from 13.9 percent at the end of 2024 in accordance with the expected target. Further, Debt Maturing in one year as a percentage of total debt has been reduced by 2.90 percent by end 2025 from 19.1 percent at the end of 2024. The ATM of the total debt portfolio has also indicated a positive direction.

4. Structure of the Existing Government Debt Portfolio

4.1 COMPOSITION OF GOVERNMENT DEBT

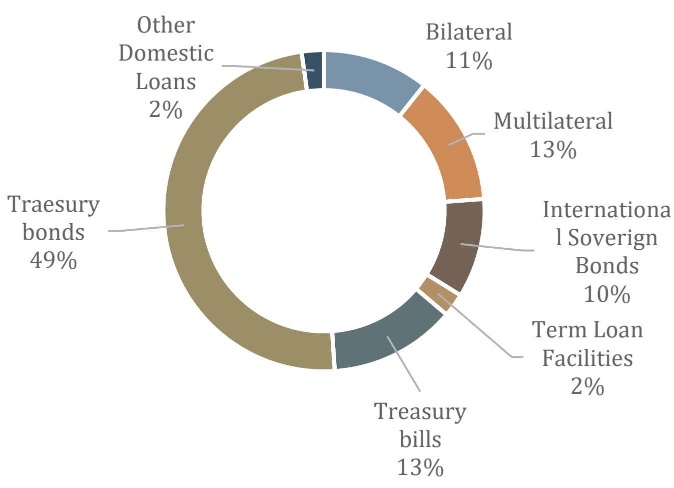
As of end June 2025, Sri Lanka's total Government debt stock stands at LKR 30,795 billion, comprising both domestic and external debt obligations. The domestic debt accounts for the majority share, representing approximately 64 percent of total debt, while external debt represents the remaining 36 percent.

Table 01: Composition of the Existing Government Debt Stock as of end June 2025

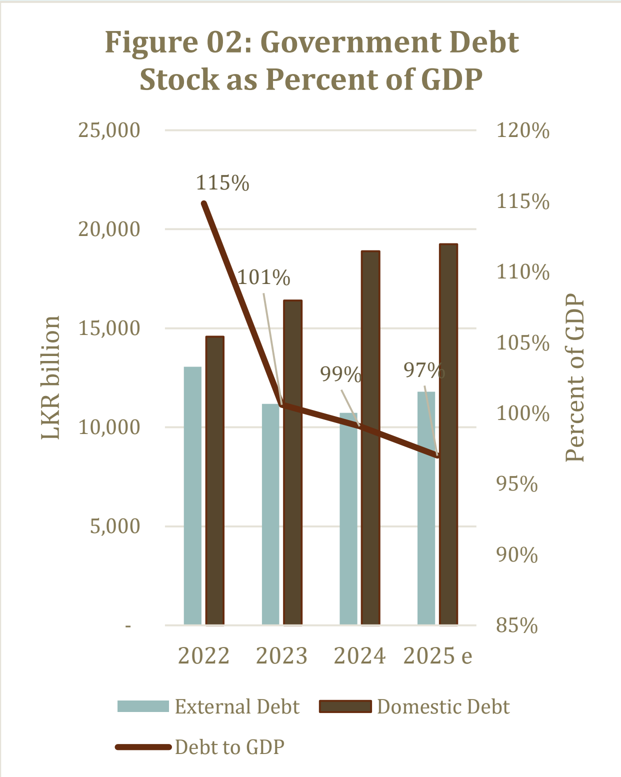
	LKR Billion
Domestic Debt	**19,655**
T-bills	3,921
T-bonds	15,039
Other	695
External Debt	**11,140**
Multilateral	4,035
Bilateral	3,300
Market Borrowings	3,805
Total	**30,795**

The composition of the government debt stock by instruments as of end June 2025 is depicted in Figure 01.

Figure 01- Outsanding Governemnt Debt Stock - by Instruments as of End June 2025



4.2 GOVERNMENT DEBT AS PERCENT OF GROSS DOMESTIC PRODUCT (GDP)



Source: Department of Census and Statistic and Public Debt Management Office
e- Estimate

Over the past seven decades, Sri Lanka's total Government debt stock has increased sharply, with the debt-to-GDP ratio rising from 17 percent in 1950 to 114.2 percent in 2022.

Following the economic liberalization in 1977, the Government's reliance on foreign borrowings grew rapidly, pushing the foreign debt-to-GDP ratio above 30 percent, compared to an average of around 10 percent during 1950–1976. By the 1990s, Sri Lanka's external debt-to-GDP ratio had risen to around 50 percent.

Since early 2000s, the proportion of domestic debt within the total debt stock has gradually increased. The overall debt stock expanded substantially between 2010 and 2018, and consequently, by 2022, Sri Lanka's debt-to-GDP ratio reached its highest level in history.

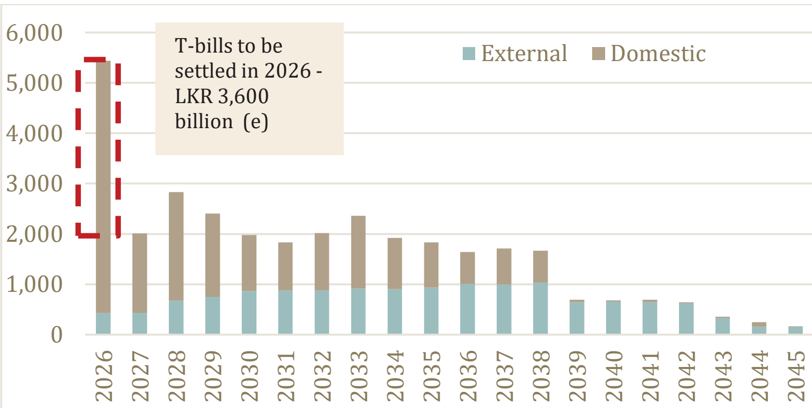
Reflecting the lingering effect of the debt restructuring and the ongoing revenue based fiscal consolidation under the Extended Fund Facility (EFF) program supported by the International Monetary Fund (IMF), the Debt to GDP ratio was reduced to 99.1 percent (gross basis) in 2024 and a further reduction is expected in 2025.

4.3 REDEMPTION PROFILE OF THE EXISTING GOVERNMENT DEBT

The redemption profile of the existing Government debt details breakdown of the maturity structure of the existing Government debt, typically showing when and how much of the debt will be paid back or redeem over the period of time.

Outstanding Treasury bills (T-bills) at the end of 2025 are estimated at LKR 3,600 billion and is scheduled for redemption in 2026 highlighting short-term refinancing risk as depicted in Figure 03. It can be mitigated through effective revenue and cash flow management. At the beginning of 2024 and 2025 also the T-bills stock was at LKR 4,092 billion and LKR 4,070 billion respectively and governmnet has refinnaced those amounts.

Figure 03 - Redemption Profile of the Existing Government Debt as estimated for End 2025 – in billions of LKR



Source: Public Debt Management Office
External debt includes loans contracted in FX within Sri Lanka
Domestic debt represent debt contracted in LKR
e- Estimated

Separately, the domestic redemption profile is largely dominated by Treasury bonds (T-bonds), with a moderate increase in maturities expected in 2028 amounting to LKR 2,155 billion. In response to the 2022 economic crisis, the issuances have been concentrated on short term to medium term segments of the yield curve, resulting to a higher concentration of bond redemptions falling in 2027-2033. However, with recent improvements in fiscal performance, market stability, and macroeconomic indicators, investor interest is gradually shifting toward medium- and long-term maturities.

On the external front, the external debt restructuring with the Official Creditor Committee (OCC) has resulted to evenly spread out future repayments, reducing the concentration of external debt redemptions in the near term. The new International Sovereign Bonds issued under the bond exchange follow an amortizing structure with varying triggers and coupon rates, contributing to a diversified debt portfolio. As shown in Figure 03, foreign exchange (FX) debt repayments are expected to rise gradually and peak in 2038, due to commencement of capital repayment of restructured external debt and will reduce gradually thereafter until 2045.

4.4 COST AND RISK EMBEDDED IN EXISTING DEBT PORTFOLIO

The cost and risk associated with the existing Government debt portfolio has been assessed through key risk and cost indicators.

Table 02: Cost and Risk Embedded in Existing Government Debt Portfolio- forecast of End of 2025

Risk Indicators		External debt[1]	Domestic debt[2]	Total debt
Amount (in LKR billions)		11,801	19,238	31,039
Amount (in USD billions)		38.1	62.1	100.1
Nominal debt as percent of GDP		36.9	60.1	97.0
PV as percent of GDP[3]		34.2	60.1	94.4
Cost of debt[4]	Interest payment as percent of GDP	1.3	6.9	8.2
	Interest Payment as percent of revenue	11.8	40.4	52.2
	Weighted Av. IR (percent)	3.4	11.5	8.5
Refinancing risk[4]	ATM (years)	9.7	4.6	6.8
	Debt maturing in 1yr (percent of total)	2.9	26.1	16.2
	Debt maturing in 1yr (percent of GDP)	1.3	15.7	17.0
Interest rate risk[4]	ATR (years)	7.9	4.4	5.9
	Debt refixing in 1yr (percent of total)	23.1	29.6	26.8
	Fixed rate debt including T-bills (percent of total)	78.7	96.1	88.7
	T-bills (percent of total)	0.0	18.7	10.7
FX risk	FX debt (percent of total debt)			37.8
	Short Term FX debt (percent of reserves)			0.0192

Source: Public Debt Management Office, Ministry of Finance, Planning and Economic Development

[1] External debt includes loans contracted domestically in FX

[2] Domestic debt includes LKR denominated debt contracted domestically

[3] PV as percent of GDP is calculated based on projected debt service payments where discount rate of 5% is applied to those instruments on concessional or semi-concessional terms.

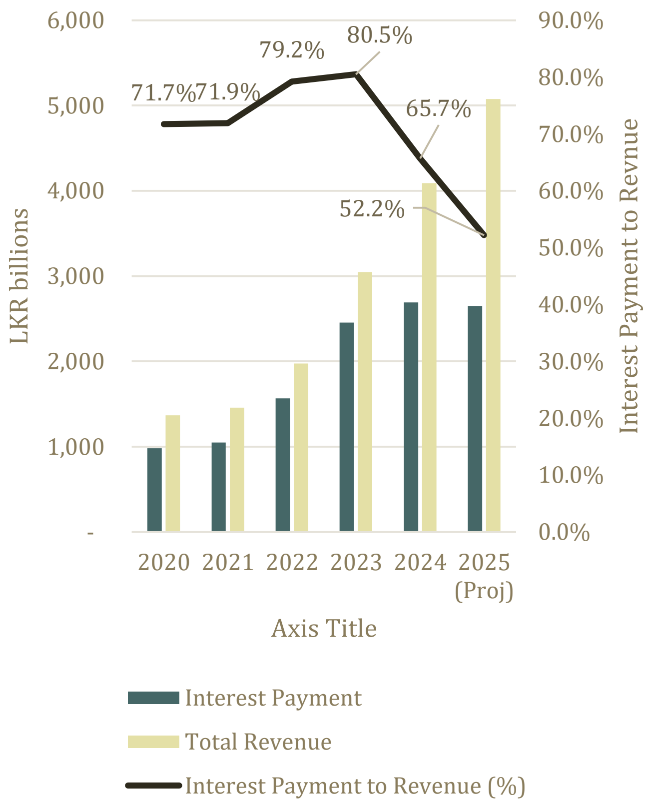
[4] Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.

Cost of the debt portfolio is measured by interest payments as a percentage of GDP and as a percentage of revenue. Meanwhile, the risks in the debt portfolio are evaluated in terms of refinancing risk, interest rate risk, and exchange rate risk which have been elaborated below;

4.4.1. Interest Cost of the Government Debt Portfolio

Due to excess borrowings, including borrowings at commercial rates, the nominal interest payments have shown a significant increase from around LKR 980 billion in 2020 to a projected LKR 2,650 billion in 2025. This reflects growing debt servicing costs. The interest payments for external debt for 2025 includes USD 1,032 million (approximately LKR 312 billion) of which USD 794 million (approximately LKR 240 billion) has already been paid up to 30.09.2025.

Figure 04: Intrest Payment as Percent of Revenue



Source: Ministry of Finance Planning and Economic Development

Interest Payment-to-Revenue ratio remains around 70–81 percent between 2020 and 2023, indicating that a substantial portion of Government income was used for interest payments. After 2023, due to fiscal improvement through stronger revenue growth and the reduction of interest payments during the debt restructuring process, the ratio shows a downward trend, falling to about 52.2 percent by 2025 (projected). However, it is still representing more than half of Government revenue. This highlights the significant fiscal constraints experienced during both the pre-crisis and immediate post-crisis periods. However, with the positive effects of ongoing fiscal reforms, this burden is gradually easing, and the interest payment-to-revenue ratio is showing signs of improvement.

4.4.2. Refinancing Risk

Out of the total debt portfolio, refinancing risk is highly concentrated in the domestic debt portfolio which consists of 12 percent of T-bills and 48 percent of T-bonds as end of September 2025. The shorter Average Time to Maturity (ATM) and the higher proportion of debt maturing within one year in the domestic segment present clear liquidity and rollover risks. In the post-crisis period, efforts have been made to extend the maturity profile of domestic debt. Notably, in the second half of 2025, the market preference has shown a shift towards medium- to long-term Government securities, reflecting improving market confidence.

In contrast, the external debt portfolio appears prudently managed, with longer maturities and lower near-term obligations, largely due to maturity extensions achieved through the external debt restructuring process. The external debt restructuring with official creditors including, Official Creditor Committee and the China Exim Bank restructuring eases Sri Lanka's short-term debt burden by deferring payments until its economy recovers. Sri Lanka gains substantial debt relief on such debt service due, during the IMF programme period. Sri Lanka received capital grace periods until 2028, reduced interest rates, and progressive amortization with final repayments in 2043. From the restructuring of International Sovereign Bonds (ISBs), Sri Lanka achieved an extension of the average maturity profile of around 6 years.

4.4.3. Interest Rate Risk

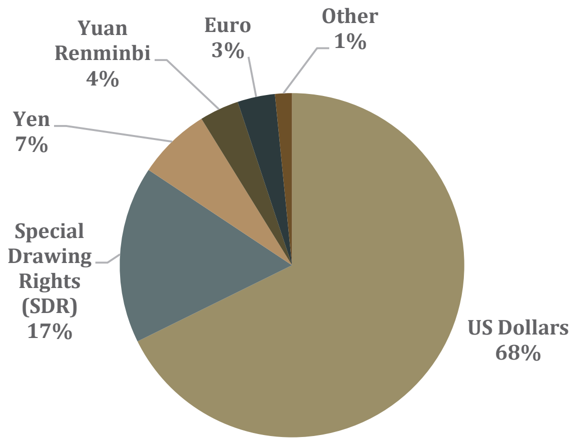
The domestic debt portfolio carries higher interest rate risk in comparison to the External debt portfolio, primarily due to its shorter Average Time to Refixing (ATR) and a larger share of debt requiring refixing within one year. This is largely driven by the high volume of Treasury bills (T-bills), which mature within a year. T-bills account for 10.7 percent of the total debt portfolio as forecasted to end 2025, contributing to both refinancing and interest rate risks. However, this exposure is partially mitigated by the substantial proportion of fixed-rate instruments in the domestic portfolio, which supports interest cost stability despite the short-term maturity structure.

In contrast, the external debt profile, although it includes a slightly higher share of floating-rate instruments amounting to 21.3 percent of external debt portfolio, benefits from a significantly longer ATR, reducing the frequency of refinancing or repricing needs. Going forward, maintaining a strategic focus on extending the ATR and prioritizing fixed-rate issuances will be critical to strengthening resilience against potential interest rate shocks.

4.4.4 Currency Risk

Structural FX risk is moderate, given the sizeable share of foreign currency-denominated debt (37.8 percent of total debt) as depicted in Table 02. Significant portion of the external debt portfolio is denominated in US Dollars, with smaller exposure to Japanese Yen, Chinese Yuan and Special Drawing Rights (SDRs). Prudent exchange rate management and hedging strategies where feasible are important to contain this risk. Continued efforts to manage the currency composition of debt, build reserves, and improve domestic debt market depth will further reduce FX-related vulnerabilities.

Figure 05: Composition of External Debt by Currency (Percent)



5. Debt Restructuring Programme and Its Impact on the Government Debt Sustainability

5.1 KEY ACHIEVEMENTS OF DEBT RESTRUCTURING PROCESS

Sri Lanka's debt restructuring process has played a critical role in the country's effort to stabilize its economy after the crisis in 2022. The restructuring provided both immediate financial relief and long-term benefits, significantly altering the trajectory of the country's public debt and offering a pathway toward fiscal and economic stability.

1. Immediate Financial Relief and Debt Reduction

The restructuring provided a 41 percent reduction in the Net Present Value (NPV) of the country's restructured debt, which significantly eased the debt burden. This reduction created fiscal space, enabling the Government to reallocate funds toward critical recovery and reform initiatives.

The restructuring also capped Sri Lanka's debt service in foreign currencies at 4.5 percent of GDP annually from 2027 to 2032, providing vital relief and allowing the Government to better manage its fiscal obligations. This reduction is crucial for avoiding default and enabling investments in essential sectors like social services and infrastructure.

2. Economic Stabilization and Fiscal Discipline

The debt restructuring was aligned with the IMF's Extended Fund Facility (EFF), which helped set clear targets for fiscal discipline. Key objectives include reducing the public debt stock to 95 percent of GDP by 2032 and keeping Gross Financing Needs (GFN) below 13 percent of GDP annually from 2027 to 2032.

The introduction of Macro-Linked Bonds (MLBs) and Governance-Linked Bonds (GLBs) further ensured flexibility in debt servicing and incentivized fiscal reforms. MLBs link debt payments to economic performance, while GLBs offer additional relief if fiscal and governance reforms are achieved.

3. Domestic Debt Relief and Financial System Stability

The Domestic Debt Operation (DDO) in 2023 played a critical role in relieving pressure on domestic financing without destabilizing the financial system. Key actions include;

- Redenomination of foreign currency-denominated bonds to local currency bonds with variable coupons, providing liquidity relief.

- Reprofiling of Treasury bonds held by Provident Funds, reducing interest payments and easing pressure on domestic financial institutions.
- Restructuring of short-term Treasury bills into longer-term instruments, providing additional fiscal flexibility.

These measures reduced domestic debt service by 1.2 percent of GDP annually between 2023-2027, averting a domestic financial crisis.

4. Improved External Debt Sustainability and Reserve Position

The restructuring reduced Sri Lanka's external debt service by USD 17 billion from 2023-2027, which was crucial for easing balance of payments pressures and improving foreign exchange reserves. The IMF debt sustainability target on maintaining the Foreign Exchange (FX) Debt Service at a cap of 4.5 percent of GDP annually from 2027-2032, will help to sustain the external debt services and reserve position of the country.

5. Upgrades of Sri Lanka Credit Ratings

Sri Lanka's credit ratings have seen significant upgrades in late 2024 and 2025, following the country's successful sovereign debt restructuring and the approval of an IMF Extended Fund Facility (EFF). These upgrades from Fitch Ratings, Moody's Investors Service, and S&P Global Ratings reflect the country's efforts to stabilize its economy, reduce default risk, and implement fiscal reforms after its 2022 sovereign default.

Key Upgrades

- Fitch Ratings upgraded Sri Lanka's long term foreign currency issuer default rating from "Restricted Default (RD)" to "CCC+" in December 2024.
- Moody's Investor Service raised Sri Lanka's long term foreign currency issuer rating from "Ca" to "Caa1" with a stable outlook in December 2024.
- S&P Global Ratings upgraded Sri Lanka's long term foreign-currency rating from "Selective Default (SD)" to "CCC+ in September 2025.

Factors Driving the Credit Rating Upgrades

IMF Support: The approval of a USD 2.9 billion IMF loan under the Extended Fund Facility (EFF) assisted stabilizing the country's macroeconomic condition. The IMF program included crucial structural reforms and fiscal targets to restore debt sustainability.

Economic Stabilization: Sri Lanka managed to stabilize its currency and reduce inflation after the restructuring. Improved foreign exchange reserves and fiscal reforms have helped restore a degree of macroeconomic stability.

Impact of the Credit Rating Upgrades

These upgrades reduce the risk of future defaults and signal positive approach towards accessing international markets. The upgrades reflect an improved debt management outlook, with debt-to-GDP ratios expected to decline gradually over the next decade and have positively impacted investor sentiment, boosting confidence in Sri Lanka’s capacity to manage its debt and implement necessary reforms.

6. Baseline Macro Economic Assumptions

The feasibility of the Debt Management Strategy highly depends on a sound Macro-Economic Framework of the country that underpins projection of growth, inflation, interest rates, fiscal balances and exchange rates. Given the mutual interdependency between the Debt Management Strategy and the Macro Economic Framework, maintaining the consistency among both strategies is critical.

Therefore, the MTDS 2026-2030 has been developed align with Macro Fiscal Framework defined under the Medium Term Fiscal Framework 2026-2030 and Annual Budget forecasts for the year 2026. For the preparation of MTDS, it is assumed that the risk of the baseline macro-economic outlook and their potential impact on the Debt Management Strategy is constant throughout the strategic period. The exchange rate for the medium term was forecasted by using Purchase Power Parity Model, which takes the inflation forecast of USA and Sri Lanka in to account. SOFR rate was forecasted using the US treasury forecast and the interest rates for domestic T-bills and T-bonds was forecasted based on Average Weighted Prime Lending Rate (AWPR).

The Macro Fiscal Framework 2026-2030 has been developed align with the debt reduction and debt sustainability objectives defined under the Public Financial Management Act No. 44 of 2024. These targets are aligned with the debt sustainability targets given under IMF-EFF agreement.

1. Reducing the ratio of public debt to GDP to below 95 percent by 2032,
2. Maintaining the central Government's annual gross financing needs below 13 percent of GDP, on average, in 2027-32,
3. Maintaining the central Government's annual debt service in foreign currency below 4.5 percent of GDP in every year in 2027-32

In the macroeconomic context, the decreasing trend of the gross public debt to GDP ratio will allow the Government to give greater emphasis to the reduction of financing costs. As a combined outcome of ongoing fiscal reforms and the Debt Management Strategy, which focuses on securing financing from cost-effective sources while maintaining a prudent level of risk, the Government intends to realize the debt sustainability targets.

7. Medium Term Debt Management Strategy for 2026-2030 (MTDS 2026-2030)

The strategic framework for Public Debt Management in Sri Lanka is formulated based on the explicit risk tolerance and cost objectives of the Government debt portfolio. It incorporates measures aimed at deepening the domestic debt market and re-entering to the external financial market and is underpinned by medium-term macroeconomic projections, ensuring consistency with fiscal and monetary policy objectives.

7.1 DEBT MANAGEMENT TARGETS AT THE END OF 2030

Table 3: DEBT MANAGEMENT TARGETS AT THE END OF 2030

Cost and Risk Indicators	Existing Level (End 2025)	Target Level (End 2030)	Tolerance
Average Time to Maturity			
• Domestic Debt Portfolio	4.6 Yrs	6 Yrs	1+/-
• Total Debt Portfolio	6.8 Yrs	8 Yrs	
T-bills Percentage to the Total Debt	10.7%	5%	1+/-
Debt Refixing in One Year (Percentage to the Total)	26.8%	22%	1+/-
Debt Maturing in one year (percent of GDP)	17.0%	10%	2+/-
Interest Payments to Revenue (As a percentage)	52.2%	35%	5+-

Source: Public Debt Management Office

Accordingly, four alternative financing strategies were tested, each with different borrowing compositions, to ensure an optimal trade-off between cost and risk. These strategies considered the availability, cost, and risk associated with each potential financing source. Key factors taken into account included the high reliance on T-bills in the domestic debt portfolio, the narrow maturity profile of domestic debt, the availability of concessional external financing, the potential to re-enter international financial markets, and the preference for issuing FX-denominated domestic debt securities. These considerations guided the selection of the optimal financing strategy for the period 2026–2030.

7.2 FINANCING STRATEGY FOR 2026-2030

Financing strategy for 2026–2030 provides strategic guidelines for borrowing over the medium term, aimed at achieving the debt management targets outlined in Table 2. The key strategic directions are as follows:

a. **Borrowing Composition:** Maintain a borrowing composition of 90 percent from domestic sources for 2026. Thereafter, decrease the domestic borrowing by 5 percent, with an intension to prudently balance the domestic and external borrowing composition to strategically prepare for the external debt service obligations in post 2028.
b. **External Financing Strategy:** Maximize low-cost concessional financing from bilateral and multilateral sources. Simultaneously, explore alternative low-cost financing opportunities available with official lenders, international financial institutions, and the international sovereign bond market.
c. **Domestic Market Strategy:** On the domestic front, aim to manage refinancing risk by gradually reducing reliance on T-bills. This will be supported by the planned issuance of fixed-rate Treasury bonds with maturities of 3, 5, 8, 10, 12, and 15 years, to extend the average maturity and smooth the redemption profile. In addition, a limited issuance of FX-denominated bonds in the domestic market is being considered, to attract domestic investors with FX liquidity into the Government securities market.

For the effective functioning of the MTDS, the Public Debt Management Office focuses on;

I. **Developing the Government domestic bond market**, by widening the investor base and seeking the possibility of developing the retail market for Government debt securities. A comprehensive analysis of the primary dealer system and domestic debt market will be conducted and appropriate measures will be undertaken accordingly.

II. **Road mapping to re-enter to international sovereign bond market**. The maturity structure of the newly issued International Sovereign Bonds denominated in US dollars, under the debt restructuring process, reflects significant redemptions starting from 2028. Accordingly, it is essential to initiate preparatory measures well in advance to re-enter in to the international sovereign bond market. While strong macroeconomic fundamentals and a favorable credit rating remain key prerequisites, enhancing investor relations and improving debt transparency will be equally critical. These preparatory actions will be proactively undertaken to ensure a smooth refinancing process.

III. **Undertaking liability management operations** to proactively manage the structure and the risk profile of the existing Government debt portfolio. Liability management activities are expected to be undertaken for the purpose of managing the refinancing risk of the existing debt portfolio, developing the domestic debt market, potentially lowering the debt servicing cost. In addition, initiatives will be taken to carry out liability management operations for the external debt portfolio such as currency SWAPs with the primary objective to reduce the currency risk of the debt portfolio.

IV. **Ensuring the governance and transparency of debt management** thorough refining and expanding the public debt publications and engagement strategy. This includes the release of the Annual Report, which will provide comprehensive insights into the management of public debt. In addition, existing publications, such as the Quarterly Debt Bulletin and Semi- annual Debt Data Report, will be upgraded in terms of both quality and coverage, ensuring more detailed and timely information for stakeholders.

A dedicated website for the Public Debt Management Office will also be established to centralize information, improve user access, and facilitate more interactive communication with the public and market participants. Furthermore, the Annual Borrowing Plan (ABP) will outline the Government's financing strategy for the coming year. This plan will be developed in alignment with the guidelines of the MTDS 2026-2030, ensuring that the Government's borrowing approach is consistent with long-term fiscal goals. The Domestic Debt Securities Auction Calendar will be aligned with the ABP and published on a rolling quarterly basis. This will ensure the market is consistently updated, with a three-month advance notice prior to any specific debt issuance.

V. **Strategically utilizing the cash reserves** to ensure financial stability, lower borrowing costs, and mitigate refinancing and interest rate risk. The cash buffer will be prudently deployed to repay maturing debt instruments, such as Treasury bills or short-term bonds, without incurring new debt or rolling over debt at potentially higher interest rates. The optimum level of Cash Buffer will be determined in due consideration for debt service obligations (liquidity risk), volatility in revenues or market access (shock absorption) and Contingency for emergencies, aiming to hold enough cash to cover short-term obligations while avoiding excessive idle funds. The PDMO will regulate utilization of cash buffer in a structured manner to mitigate interest rate and refinancing risks, ensuring a systematic approach and avoiding ad hoc practices.

7.3 IMPLEMENTATION PLAN OF THE MTDS 2026-2030

The MTDS 2026–2030 will be implemented by the Public Debt Management Office (PDMO) in close coordination with key stakeholders, including fiscal, monetary, policy makers. The detailed implementation plan for the MTDS 2026-2030 will be outlined in the Annual Borrowing Plan for 2026 (ABP-2026), which serves as the operational framework for the Government's borrowing strategy.

In preparing the ABP-2026, the PDMO will work closely with monetary policymakers and the cash managers of the Government to ensure alignment and facilitate seamless execution of the MTDS 2026-2030. This collaborative approach will enhance the coherence of debt management operations with overall fiscal and monetary policy, fostering a well-integrated approach.

The PDMO will conduct regular periodic reviews of the MTDS 2026-2030 to assess its progress and effectiveness. These reviews will be presented to the Public Debt Coordinating Committee, ensuring transparent oversight and ongoing alignment with national debt management objectives. If deviations from the planned strategy are identified, the PDMO will take proactive corrective measures to address any challenges and ensure that the targets of the MTDS 2026-2030 are met in a timely and efficient manner.

7.4 LIMITATIONS AND CHALLENGES

While the preparation of the MTDS 2026–2030 provides a robust framework for guiding public debt management over the medium term, several limitations and challenges may affect both achieving the set targets and the effective implementation of the strategy. Key limitations and challenges of MTDS 2026-2030 are;

I. Availability, coverage, and reliability of debt data used in preparation of the MTDS 2026-2030. In the preparation of MTDS 2026-2030 only the government debt data has been captured. Through the acquisition of Commonwealth Meridian Debt Management System by the PDMO, current limitations of not having a single system will be addressed and it will provide a single debt database for all domestic and external debt data.

II. Exchange rate volatility and interest rate fluctuations introduce additional risks to external debt portfolios, which may be difficult to fully hedge or predict.

III. The baseline macroeconomic projections and assumptions used in the preparation of MTDS 2026-2030 may change over time. Uncertainties regarding economic growth, inflation, fiscal deficits, interest rates, and exchange rates can significantly influence the actual outcomes.

IV. Since the domestic debt market has not been developed to the optimum level, the domestic market remains shallow, with limited investor diversification and short maturities, restricting the government's ability to extend the yield curve or refinance maturing debt at low cost. External financing options are influenced by access to concessional resources and international market conditions, which may limit flexibility in borrowing choices.

V. Coordination gaps among key stakeholders such as departments of the Ministry of Finance, Planning and Economic Development, Central Bank of Sri Lanka, and line ministries, may lead to inconsistencies among key strategic approaches related to debt management, fiscal, and monetary policies.

8. Conclusion

The MTDS 2026–2030 represents a comprehensive and forward-looking approach to managing Sri Lanka’s government debt. By focusing on minimizing risks such as refinancing and interest rate exposure, the strategy aims to achieve long-term debt sustainability while reducing borrowing costs. A key element of the strategy is the continued emphasis on domestic market-oriented financing, with a planned decrease in reliance on short term T-bills over the time.

The MTDS 2026-2030 seeks to improve debt sustainability by reducing short-term debt, extending debt maturities, and lowering the interest payment-to-revenue ratio, which will enhance fiscal flexibility and reduce the burden of debt servicing.

To ensure the successful implementation of the MTDS 2026–2030, the PDMO will focus on expanding the domestic investor base, improving debt transparency, and enhancing governance in debt management. These efforts will strengthen investor confidence, supporting a more stable and sustainable debt management environment.

The MTDS 2026–2030 provides a robust framework for managing Sri Lanka's Government debt, supporting fiscal stability and resilience in the face of both domestic and global economic challenges. Its successful implementation of MTDS 2026-2030 will contribute significantly to prudently manage the Government debt portfolio, ensuring the debt sustainability of Sri Lanka.

PDMO

Public Debt Management Office|Sri Lanka

ANNUAL BORROWING PLAN

SINGLE YEAR FINANCING STRATEGY

2026

Public Debt Management Office
Ministry of Finance, Planning and Economic Development

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ANNUAL BORROWING PLAN 2026

CONTENT

LEGAL REQUIREMENT FOR THE PUBLICATION OF ANNUAL BORROWING PLAN (ABP)

The legal foundation for the preparation of the ABP has been established under the Public Debt Management Act No. 33 of 2024 (PDMA), which mandates that the ABP be formulated in alignment with the Medium Term Debt Management Strategy (MTDS). Accordingly, pursuant to Section 15 of the PDMA, the Public Debt Management Office (PDMO) is required to prepare an ABP for each financial year to meet the aggregate borrowing requirements of the Government of Sri Lanka in accordance with the Appropriation Act for that year. Furthermore, the PDMA stipulates that the borrowing plan must be reviewed at least semiannually.

1. INTRODUCTION

Preparation of a clear and actionable plan through an Annual Borrowing Plan (ABP) for the year ahead is a primary requirement to ensure effective implementation of the Medium-Term Debt Management Strategy (MTDS). The ABP serves as a single-year financing strategy designed to meet the Government's Gross Financing Needs (GFN) for the respective fiscal year.

The ABP supports the debt manager's primary objective to ensure that the Government's financing requirements, including debt service obligations, are met in a timely manner and at the lowest possible cost, subject to a prudent level of risk. Taking into account projections of revenues, expenditures, and debt service payments, the ABP outlines the financing strategy to meet the GFN for the upcoming year. In this regard, the ABP operationalizes the first-year implementation of the MTDS.

The ABP is a fundamental component of the Government's borrowing framework. It sets out the objectives, principles, and guidelines governing the Government's domestic and external borrowings for the given fiscal year.

The ABP - 2026 outlines the Government's borrowing strategy and proposed borrowing mix for the year 2026, focusing on meeting financing needs while minimizing borrowing costs and managing associated risks. The ABP - 2026 is fully aligned with the Medium-Term Debt Management Strategy for 2026–2030 (MTDS-2026-2030).

In compliance with the PDMA, a detailed version of ABP - 2026 including the tentative instruments to be used, sources of borrowing, and the indicative timing of borrowing operations will be published prior to the commencement of the 2026 financial year.

*As per Section 2 (b) of the Appropriation Bill, 2026, the difference between the total short-term borrowing raised during the financial year 2026 and the total settlement of short-term borrowing made during the financial year 2026 shall only be considered in deciding the volume of short-term borrowing for the purposes of calculating the borrowing made during the financial year 2026. Accordingly, the redemptions of T-bills has not been included for the amount required for the debt repayment.

** Excluding the T-bills to be matured within the year 2026. As per the estimation, there are LKR 3,600 billions of T-bills to be matured within the year 2026 and it has been considered in deciding the borrowing composition.

2. Borrowing Requirement

TABLE 01: Gross Financing Needs -2026

		2026 Estimate LKR billion
Primary Expenditure		**4,485**
Recurrent Expenditure	3,105	
Capital Expenditure	1,380	
Government Debt Servicing		**4,495**
Interest Payment	2,617	
Debt Repayment*	1,878	
Provisions for Advanced Account Operations		**10**
Total Expenditure		**8,980**
Total Revenue		**5,355**
Adjustment for Book /Cash Value for Government Securities		**105**
Gross Financing Requirement**		**3,740**
Domestic Financing	3,040	
External Financing	700	
Gross Borrowing Limit as per the Appropriation Bill		**3,740**

According to Table 01, the government's total borrowing requirement for 2026 is estimated at LKR 3,740 billion, excluding the LKR 3,600 in Treasury bills (T-bills) maturing during the year. The Government plans to settle LKR 500 billion of these maturing T-bills using available cash reserves, thereby reducing the T-bills amount to be refinanced through the market to LKR 3,100 billion. Consequently, the total financing requirement, including the refinancing of maturing T-bills, is projected at LKR 6,840 billion for 2026.

Total estimated expenditure of the Government which is LKR 8,990 billion in 2026 to be financed through tax and non-tax revenues, grants and debt. Revenue and grants are projected at LKR 5,355 billion leaving a deficit of LKR 3,740 billion. This will be financed through external and domestic borrowings of LKR 700 billion and LKR 3,040 billion, respectively (Table 01).

The external gross borrowing of LKR 700 billion relates to projected disbursements on already contracted loans and new borrowing from multilateral and bilateral lending agencies, while domestic borrowing of LKR 3,040 billion relates to new debt to be raised from the domestic market through issuances of Government securities in 2026.

3. Borrowing Composition

Figure 01 : Borrowing Composition – 2026 (By Curruncy)

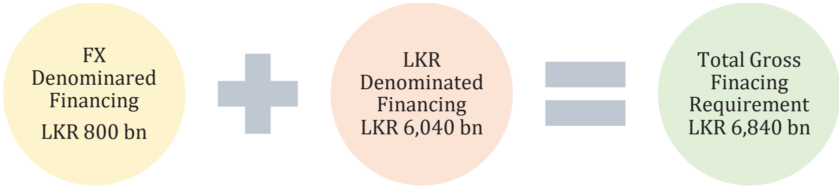


Figure 02 : Borrowing Composition – 2026 (By Residency)

External Financing

In 2026, the Government plans to finance LKR 700 billion, through external sources. Of this, the Government expects to receive LKR 490 billion from external multilateral and bilateral lending agencies including LKR 250 billion form Asian Development Bank, LKR 50 billion from the World Bank and LKR 190 billion from other bilateral and multilateral sources for project and program financing. The additional LKR 210 billion as the 7th and 8th tranches of the Extended Fund Facility from the International Monetary Fund (IMF).

Domestic Financing

In 2026, 90 percent of the total financing requirement, amounting to LKR 6,140 billion, is projected to be raised through domestic market. This financing will be secured via the issuance of Government securities through public auctions. Treasury bonds primarily will serve as the medium- and long-term domestic debt instrument for the year. The Government intends to raise LKR 2,940 billion by issuing LKR-denominated Treasury bonds in the domestic market, with maturities ranging from 3 years to 15 years. The Government also plans to issue LKR 100 billion worth of FX-denominated Treasury bonds in the domestic market during the year, with maturities of up to 3 years.Treasury bills, amounting to LKR 3,100 billion will serve as the short-term instruments with maturities of up to one year. The Government plans to issue Treasury bills with maturities of 91 days, 182 days, and 364 days in the domestic market.The auction calendar for 2026 will be developed and published by the Public Debt Management Office on a quarterly basis, with updates for each rolling three-month period. This calendar will cover both Treasury bills and Treasury bonds, and will be based on the annual borrowing plan and the cash flow forecast for the year 2026.

In line with the MTDS 2026–2030, the Government plans to meet 88 percent of its gross borrowing requirement through LKR denominated domestic debt instruments, with the remaining 12 percent to be financed through FX denominated debt instruments.

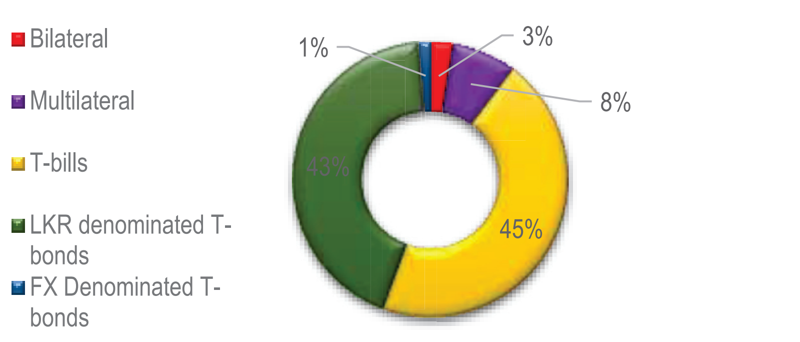
Accordingly, LKR 800 billion will be financed through FX denominated debt instruments in which LKR 100 billion (around USD 300 million) will be raised by issuing FX denominated T-bonds to the domestic market as depicted in Figure 03.

4. Proposed Borrowing Mix

Table 02

Source	**Amount (LKR bn)**	**Percentage**
Bilateral	175	3
Multilateral	525	8
T-bills	3100	45
LKR denominated T- bonds	2940	43
FX Denominated T- bonds	100	1
Total	**6840**	**100**

Figure 03: Proposed Borrowing Mix - 2026



Domestic Borrowings- LKR 6,140 billion		External Borrowing, LKR 700 billion	
Treasury bills	50%	Multilateral	75%
Treasury bonds	50%	Bilateral	25%

5. Monitoring &Reporting

The PDMO will monitor the execution of the ABP 2026 throughout the year, with quarterly reviews to ensure targets are met and any necessary adjustments are made.

6. Conclusion

ABP 2026 presents a strategic approach to meet the government's financing needs while ensuring debt sustainability. By focusing on domestic financing through Treasury bills and Traesury bonds and minimizing non-concessional external borrowing, the plan aims to achieve cost and risk targets set out under MTDS 2026- 2030. It plans to diversify financing sources, including multilateral and bilateral fixed debt and sovereign bonds, to mitigate external risks. With quarterly monitoring and a commitment to optimizing borrowing cost with prudent degree of risk, the ABP 2026 supports fiscal stability and risk management, fostering long-term debt sustainability.

PDMO

Department of Government Printing