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MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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Supplementary Estimate 2026

Parliament has approved a Supplementary Estimate on 19-12-2025 to arrange additional allocation of Rs. 500 Billion required for year 2026, in order to restore the disrupted life of the people and reconstruct the destroyed infrastructure due to the disaster.

(i). A Statement of Circumstances (Section 16(4)(a) of Public Financial Management Act No. 44 of 2024)

It is expected through this Supplementary Estimate to arrange budgetary provisions further required for the expenditure pertaining to the following needs while exceeding the Primary Expenditure Ceiling of 13 percent of GDP,

- Assistance for House Cleaning - (onetime payment)
 - Purchase of Essential Household Equipment - (onetime payment)
 - Monthly financial assistance for families who have lost their source of income due to the cyclone - for 03 months
 - Monthly house rent for families who lost house s- for 06 months
 - Replanting of affected paddy fields, maize, vegetables, fruits, and other crops
 - Supporting affected livestock farms registered with veterinary office/Fishing boats
 - Financial assistance for affected single, small, and micro enterprises
 - Compensation for fully damaged houses
 - Compensation for the purchase of land for rebuilding houses lost due to landslides
 - Compensation for partially damaged houses
 - Compensation for business premises damaged
 - Supporting affected school children to purchase educational materials
 - Compensation for the relatives of deceased persons
- This budgetary allocation requirement arising from a calamity of extremely high magnitude cannot be met through “Contingency Fund” since its balance is of mere Rs. 0.35 billion.
 - Provision of Rs. 54 billion approved by the Appropriation Act No. 23 of 2025 for Annual Budget Reserve is also not sufficient for this purpose.

(ii). Recovery Plan (Section 16(4)(b) of PFM Act)

- It has been proposed to use the over performance of primary surplus of 1.5 percent of GDP expected to be achieved in year 2025 for financing the disaster relief measures.

- Additional annual revenue of 0.3 percent of GDP is expected from new revenue proposals announced during Budget Speech 2026, to strengthen the revenue based fiscal consolidation while meeting the Governance Linked Bonds Parameters.
- 2027 onwards, the Primary Expenditure will be maintained at 13 percent of GDP. Further, the Primary Surplus will be maintained at the 2.6 percent of GDP on 2027 and onwards.

(iii). Supplementary Estimate Proposal (Section 16(4)(c) of PFM Act)

a. Overview of the recent macroeconomic and fiscal developments

Macro-economic Developments

- The Sri Lankan economy recorded a positive growth of 4.8 percent in the first half of 2025, bearing the fruits of the decisive and far-sighted policy adjustments implemented by the government. All major sectors of the economy; Agriculture, Industry, Services, and Taxes less subsidies recorded a positive performance, confirming the strengthening of the economic rebound.
- The agriculture sector recorded a marginal growth of 0.6 percent in the first half of 2025, mainly due to the expansion in the growing of cereals, marine fishing and marine aquaculture, plant propagation, and animal production sub-sectors. Overall, industrial activities recorded a growth of 7.9 percent in the first half of 2025, mainly due to the expansion in construction, mining and quarrying, and manufacturing activities. The services sector recorded a positive growth of 3.3 percent in the first half of 2025, mainly due to the expansion in accommodation, food and beverage service activities, IT programming, consultancy and related activities, and financial service and auxiliary financial service activities.
- The headline inflation as measured by the Colombo Consumer Price Index (CCPI, 2021=100) on a Year-on-Year (YOY) basis, increased to 2.1 percent in November 2025 from -4.0 percent recorded in January 2025, reflecting the easing of supply-side deflation and adjustments to energy prices. The core inflation, which reflects the underlying inflation trends of the economy, as measured by the YOY change in the CCPI (2021=100), decreased to 2.4 percent in November 2025 from 2.7 percent in November 2024.
- The external sector showed improved performance in the first ten months of 2025, mainly due to the increase in inflows from workers' remittances and earnings from tourism. Earnings from exports increased by 6.4 percent to USD 11,364.5 million in the first ten months of 2025, due to the increase in earnings from industrial and agricultural exports resulting from economic revival and resilience to global volatilities. Merchandise imports also increased by 13.8 percent to USD 17,546.2 million in the first ten months of 2025, and as a result, the merchandise trade deficit widened to USD 6,181.8 million during this period.
- Workers' remittances increased by 20.1 percent to USD 6,523.7 million in the first ten months of 2025, mainly due to the receipt of remittances through formal channels.
- Earnings from tourism increased by 4.9 percent to USD 2,659.0 million in the first ten months of 2025, due to strong and diversified recovery in the tourism sector. Tourist arrivals reached 1,890,687 persons during this period.

- Gross official reserves amounted to USD 6.0 billion by end-November 2025, supported by improved external sector inflows.
- Unemployment declined to 3.8 percent in the second quarter of 2025, compared to 4.5 percent a year earlier, supported by expanded economic activity. Labour force participation increased to 49.3 percent in the second quarter 2025, with notable improvements among both men and women.

Fiscal Developments

Fiscal operations improved significantly, supported by strong revenue growth and disciplined expenditure management.

- The primary surplus expanded to Rs. 1,628.9 billion at the end October 2025, almost doubling from 2024, and far exceeding the IMF-EFF December QPC of Rs. 730 billion. The overall budget deficit narrowed sharply by 57.0 percent to Rs. 455.8 billion compared to Rs. 1,060.7 billion in the same period of 2024.
- Performance reflects the impact of policy-driven fiscal consolidation, revived economic activity, and strengthened governance.
- Total revenue including grants increased by 33.2 percent to Rs. 3,301.5 billion, achieving 66.2 percent of the annual estimate. Tax revenue increased by 34.4 percent, driven primarily by VAT, income taxes, excise duties on motor vehicles, import duties, and Special Commodity Levy. Revenue performance exceeded all major IMF targets, including surpassing the end-September tax revenue QPC by Rs. 318.5 billion.
- As key drivers of revenue growth, VAT increased by 32.0 percent, Income Taxes increased by 10.8 percent, Excise Duties increased by 71.5 percent, CID increased by 113.9 percent, SCL increased by 55.5 percent, Non-Tax Revenue increased by 18.6 percent during the first ten months of 2025.
- Total expenditure increased by 11.0 percent to Rs. 4,805.8 billion, significantly slower than revenue growth, strengthening the fiscal balance. Recurrent expenditure increased by 11.3 percent, driven by salary revisions, higher welfare spending, and increased interest payments.
- Capital & net lending declined by 9.5 percent, reflecting implementation bottlenecks and delays under the Vote on Account. Interest payments increased by 10.2 percent to Rs. 2,084.7 billion, with a sharp rise in foreign interest payments (121.1 percent) as external debt service resumed post-restructuring. Aswesuma payments increased by 27.9 percent, improving coverage across vulnerable groups.
- Capital expenditure execution remained low at Rs. 591.4 billion (realization 45 %), In response, the Government introduced measures such as: Public Investment Committee, rolling Medium-Term Public Investment Program, strengthened monitoring and transparency under the PFM Act. The strong primary surplus moderated financing pressures, enabling smoother debt servicing, and borrowing remained primarily domestic, consistent with the strategy to limit external exposure.

As above Sri Lanka's recent macroeconomic and fiscal developments reflect a steady recovery supported by policy reforms, improved external inflows, and strong revenue performance. The reconstruction of infrastructure and livelihood support are expected to help mitigate the adverse effect of losses which in turn accelerate growth. Inflation is expected to increase in short run due to food supply disruptions however, the inflation will be normalized with the supply side improvements.

b. an updated forecasts of revenues and expenditures of the annual budget;

Cabinet Approval was granted by the Cabinet Decision No. 25/2297/804/257-II dated 10.12.2025, to present a Supplementary Estimate of Rs. 500 billion for year 2026, in relation to the following broader activities.

Table 1: Distribution of allocations among disaster relief activities

Description	Allocation (Rs. billion)
Restoration and Reconstruction of Damaged Houses	100
Restoration of damaged infrastructure including roads, bridges, railway lines, irrigation facilities, hospitals, schools, etc.	250
Provision of Livelihood Support	150
Total	500

Table 2: Updated forecast of revenue and expenditure - 2026

Indicator	<i>As a percentage of GDP</i>	
	2026 Approved Budget	2026 Budget with Supplementary Estimate
Total Revenue & Grants	15.4	15.4
Total Revenue	15.3	15.3
Tax Revenue	14.2	14.2
Income Tax	3.5	3.5
Taxes on Goods & Services	8.9	8.9
Taxes on External Trade	1.9	1.9
Non-Tax Revenue	1.0	1.0
Grants	0.1	0.1
Total Expenditure	20.5	21.9
Recurrent	16.5	16.9
Salaries & Wages	3.8	3.8
Goods & Services	1.2	1.2
Interest	7.6	7.6
Subsidies & Transfers	3.9	4.3
Capital and Net Lending	4.0	5.0
o/w Public Investments	4.0	5.0

c. Allocation of expenditure for major Expenditure Heads

Provisions will be allocated to the relevant expenditure spending heads by the National Budget Department.

d. Source of additional financing

Additional financing will be borne by using the existing cash buffer. The borrowing limit will remain at Rs. 3,740 billion as announced in Budget 2026.

(iv). Updated Medium-Term Fiscal Framework (Section 16(4)(d) of PFM Act)

Medium-Term Fiscal Framework 2025-2030

Indicator	As a percentage of GDP							
	2024	2025	2026	2026	2027	2028	2029	2030
	Provisional	Revised	Approved Budget	Budget with Supplementary Estimate		Projection		
Total Revenue & Grants	13.7	15.9	15.4	15.4	15.5	15.5	15.5	15.5
Total Revenue	13.5	15.9	15.3	15.3	15.4	15.4	15.4	15.5
Tax Revenue	12.4	14.8	14.2	14.2	14.4	14.4	14.3	14.4
Income Tax	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.7
Taxes on Goods & Services	7.4	9.2	8.9	8.9	8.9	8.9	8.7	8.7
Taxes on External Trade	1.6	2.0	1.9	1.9	1.9	1.9	2.0	2.0
Non-Tax Revenue	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1
Grants	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditure	20.5	20.5	20.5	21.9	20.0	19.8	19.6	19.4
Recurrent	17.9	17.3	16.5	16.9	15.9	15.7	15.5	15.2
Salaries & Wages	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Goods & Services	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest	9.0	8.3	7.6	7.6	7.1	6.9	6.7	6.5
Subsidies & Transfers	4.1	4.0	3.9	4.3	3.8	3.8	3.7	3.7
Capital and Net Lending	2.6	3.2	4.0	5.0	4.0	4.1	4.2	4.2
o/w Public Investments	2.7	3.2	4.0	5.0	4.1	4.1	4.2	4.2
Current Account Balance (Deficit(-)/Surplus(+))	-4.4	-1.4	-1.2	-1.6	-0.5	-0.3	0.0	0.3
Primary Balance (Deficit(-)/Surplus(+))	2.2	3.8	2.5	1.0	2.6	2.6	2.6	2.6
Budget Balance (Deficit(-)/Surplus(+))	-6.8	-4.5	-5.1	-6.5	-4.5	-4.3	-4.1	-3.8