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Public Debt Management Office | Sri Lanka

MEDIUM TERM DEBT MANAGEMENT STRATEGY 2027-2031

AND

ANNUAL BORROWING PLAN 2027

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

2027 -2031

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Medium Term Debt Management Strategy 2027 -2031

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 of the country. 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 government debt sustainably, balancing cost and risk while meeting the Government's financing needs and supporting fiscal stability.

The MTDS 2027–2031 was developed in line with the above requirements. It focuses on strengthening debt sustainability and reducing vulnerabilities such as interest rate risks, refinancing risks and exchange rate risks. An analysis of the current debt portfolio identified refinancing risk, stemming from a high concentration of short-term Treasury bills, interest rate risk, due to low average time to re-fixing (ATR), and exchange rate risk associated with the high share of foreign currency-denominated debt in the total debt portfolio, as key challenges. Interest payments as a share of Government revenue have also been recognized as a crucial cost indicator.

The MTDS 2027–2031 has been primarily designed to prudently manage both the cost and risk of Government debt portfolio through the above analysis. Accordingly, it has been formulated to finance 88 percent of its gross borrowing requirements through LKR denominated debt instruments, with the remaining 12 percent sourced from foreign currency denominated debt instruments in 2027 and 2028. Thereafter, the share of LKR denominated borrowing is expected to reduce to 85 percent, maintaining a prudent balance with external financing.

The strategy aims to reduce reliance on short-term debt, lowering Treasury bills' share from 6.6 percent to 3.5 percent of total debt by 2031; extend the average debt maturity from 6.6 to 8 years by 2031; to reduce the FX debt share from 41 percent to 30 percent; and to decrease the interest payment-to-revenue ratio from 44.6 percent to 34 percent over the strategy period.

The Medium-Term Debt Management Strategy (MTDS) 2027–2031 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, interest rate and exchange 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. Almost all the key 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

As per the provision of the PDMA the public debt includes;

- Debt of the Government
- The publicly guaranteed and non-guaranteed debt of State-Owned Enterprises (SOEs), Provincial Councils and Local Government Authorities.

The Medium-Term Debt Management Strategy (MTDS) covers the external and domestic Debt of the Government that falls under its direct control. The debt of the Central Bank of Sri Lanka is also not considered for the MTDS.

3.2 MEDIUM TERM DEBT MANAGEMENT STRATEGY 2026-2030 (MTDS 2026-2030)

The Medium-Term Debt Management Strategy (MTDS) 2026–2030 was the second strategy prepared by the Public Debt Management Office (PDMO), and it prioritised domestic market borrowing, with domestic financing expected to account for approximately 88 per cent of the total gross borrowing requirement during 2026-2028. It also envisaged increasing foreign currency (FX) financing after 2029 to support the refinancing of maturing International Sovereign Bonds (ISBs).

The MTDS 2026–2030 continued to focus on gradually reducing the Treasury bill (T-bill) share, extending the maturity profile of the domestic debt portfolio, increasing the share of fixed-rate debt, and reducing debt refixing within one year to mitigate refinancing and interest rate risks.

Implementation of the strategy has contributed to improvements in several debt cost and risk indicators. The T-bill share declined from 10.1 percent at end-2025 to 6.6 percent at end-2026,

while debt refixing within one year decreased from 26.8 percent to 24.1 percent. Debt maturing within one year as a percentage of GDP also declined from 17.0 percent to 12.4 percent, and the interest payments-to-revenue ratio improved from 52.2 percent to 44.6 percent. The issuance of Treasury bonds in 2026 with maturities ranging from 3 to 15 years, with an average maturity of approximately 7.1 years up to 30 September 2026, contributed to a marginal increase in the average time to maturity (ATM) of the domestic debt portfolio from 4.6 years to 4.7 years. The 100 percent of new T-bonds issuances in 2026 contained fixed coupon rate T-bonds resulting a reduction of the interest rate risk of the domestic debt portfolio.

However, the increase in the foreign currency (FX) debt share, reducing the fixed rate debt share and reduction of the ATM of the FX debt portfolio and the slight reduction in the average time to maturity (ATM) of the total debt portfolio indicate that important vulnerabilities remain.

From the external front, 78.2 percent of new loan commitment at the third quartile of 2026 was in floating interest rate and the ATM of the new borrowings was 21.3 years. However the ATM of the external debt portfolio has been reduced to 8.9 years from 9.7 years resulting to the reduction of the ATM of the overall debt stock to 6.6 years from 6.8 years at the end 2025.

Overall, the end-2026 indicators demonstrate meaningful progress in reducing short-term refinancing risks and improving debt affordability. Nevertheless, further efforts are required to extend the maturity profile of the total debt portfolio, reduce foreign currency exposure, and achieve the medium-term cost and risk targets.

4. EXISTING GOVERNMENT DEBT PORTFOLIO

4.1 COMPOSITION OF GOVERNMENT DEBT

As of end June 2026, Sri Lanka's total Government debt stock stands at LKR 31,999 billion, comprising both domestic and external debt obligations. The domestic debt accounts for the majority share, representing approximately 60 percent of total debt as at end June 2026 comparing to the 64 percent during the corresponding period of the previous year. The share of external debt has increased to 40 percent at the end June 2026 comparing to 36 percent at the end of June 2025. This is mainly because of reduction of domestic debt stock by LKR 452 billion during the period resulted from redemption of T-bills using the cash flows and parity effect for the external debt stock.

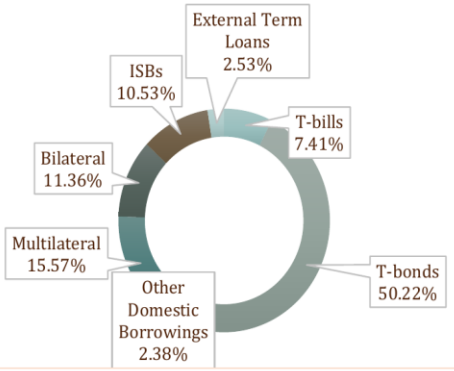
Table 01: Composition of the Existing Government Debt Stock (LKR billion)

	At the end June 2025	At the end June 2026
Domestic Debt	**19,655**	**19,203**
T-bills	3,921	2,372
T-bonds	15,039	16,069
Other	695	762*
External Debt	**11,140**	**12,796**
Multilateral	4,035	4,983
Bilateral	3,300	3,635
Market Borrowings	3,805	4,178
Total	**30,795**	**31,999**

*Including LKR 17 billion of Domestic Dollar Bond

The composition of the Government debt stock by instruments as of end June 2026 is depicted in Figure 01.

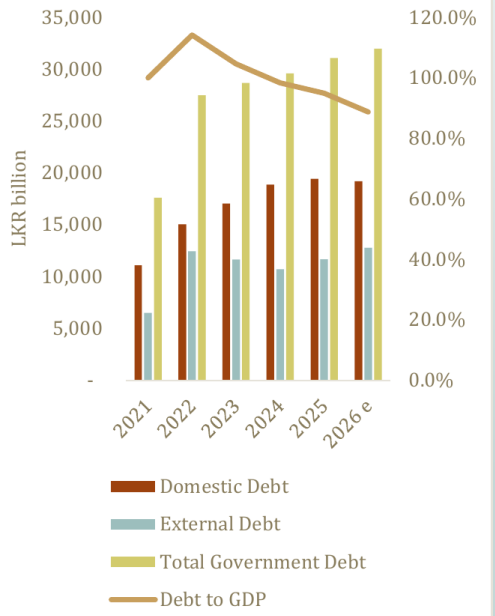
Figure 01- Outsanding Governemnt Debt Stock - by Instruments as of End June 2026



Source: Public Debt Management Office

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

Figure 02: Government Debt Stock as Percent of GDP



Source: Department of Census and Statistic, Public Debt Management Office and Fiscal Policy Department
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), and the prudent debt management practices, the debt to GDP ratio was reduced to 94.9 percent (gross basis) at the end 2025 and a further reduction up to 89 percent is expected at the end 2026.

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 2026 are estimated at LKR 2,300 billion and is scheduled for redemption in 2027 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, 2025 and 2026 also the T-bills stock was at LKR 4,092 billion, LKR 4,070 billion and LKR 3,138 billion respectively and the Government has refinanced or redeemed those amounts susscessfully.

Figure 03 - Redemption Profile of the Existing Government Debt - End 2026 – (estimates 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 a higher concentration of bond redemptions falling in 2027-2035. 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 smoothen out bunching effect of 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 from 2028 and peak in 2038, due to commencement of capital repayment of restructured external debt and will reduce gradually thereafter until 2046.

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- forecasted of End of 2026

Risk Indicators		FX Denominated debt	DX Denominated debt	Total debt
Amount (in billions of LKR)		13,139.7	18,891.2	32,030.9
Amount (in billions of USD)		38.1	62.1	100.2
Nominal debt as percent of GDP		36.5	52.5	89.0
PV as percent of GDP[1]		34.7	52.5	87.1
Cost of debt[2]	Interest payment as percent of GDP[3]	1.4	6.0	7.4
	Interest Payment as percent of Revenue[3]	8.4	36.2	44.6
	Weighted Av. IR (percent)	3.8	11.3	8.2
Refinancing risk[2]	ATM (years)	8.9	4.7	6.6
	Debt maturing in 1yr (percent of total)	3.6	20.5	12.8
	Debt maturing in 1yr (percent of GDP)	1.6	10.8	12.4
Interest rate risk[2]	ATR (years)	7.2	4.5	5.7
	Debt refixing in 1yr (percent of total)	24.6	23.6	24.1
	Fixed rate debt incl T-bills (percent of total)	78.0	96.5	88.1
	T-bills (percent of total)	0.0	12.2	6.6
FX risk	FX debt (percent of total debt)			41.0
	ST FX debt (percent of reserves)			19.7

Source: Public Debt Management Office, Derived from IMF/WB MTDS AT

[1] 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.

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

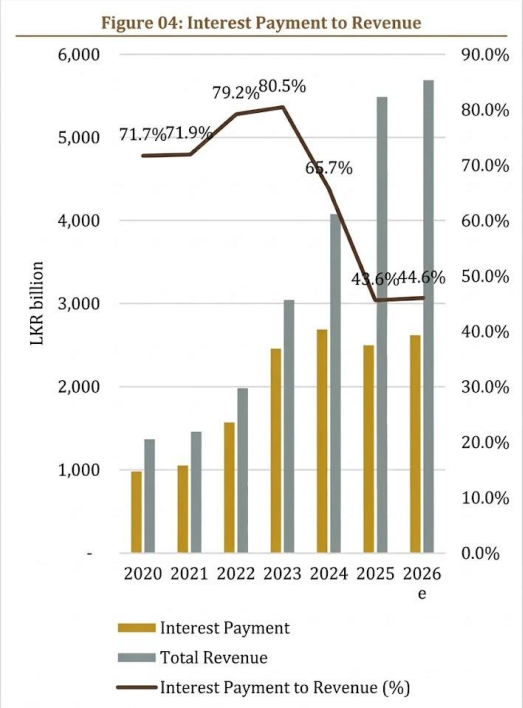
[3]Interest payment as percent of GDP/Revenue are calculated by dividing interest payment on outstanding debt in 2026 to estimated GDP/Revenue in 2026.

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 external shocks, the nominal interest payments have shown a significant increase from around LKR 980 billion in 2020 to an estimated LKR 2,617 billion in 2026. At the end of 2025, the interest payment was reported as LKR 2,501 billion and it is a sharp reduction of the interest payment comparing to End 2024. This is due to reduction of interest rates in the domestic market. However, there is a growing debt servicing costs when comparing with 2026 estimates. The interest payments for external debt for 2026 includes USD 1,041 million (approximately LKR 343 billion) of which USD 670 million (approximately LKR 200 billion) has already been paid up to 31.08.2026.

Figure 04: Interest Payment to Revenue



Source: Public Debt Management Office, Department of Fiscal Policy, Department of National Budget.

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 44.6 percent by end 2026 (projected).

At the beginning of 2025 it is projected that the interest payment-to-revenue ratio will remain at 52.2 percent. However, as it was projected to still representing more than half of Government revenue, strategically aimed to reduce it to less than 50 percent of revenue. As a combined effect of revenue enhancement and the reduction of domestic market cost of borrowings, at the end of 2025 it was successfully reduced to 45.6 percent of revenue. 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 7.4 percent of T-bills and 50.2 percent of T-bonds as end of June 2026. 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 2026, the T-bills shows negative LKR 700 billion net borrowing, significantly reducing the refinancing risk of the debt portfolio. The market preference has shown a shift towards medium- to long-term Government securities, reflecting improvement in the market confidence. However, due to external shocks arisen from the Middle East crisis from the second quarter of 2026, the market condition reflects less favourable towards long term maturities more than 10 years.

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 about 7.4 percent of the total debt portfolio as of end June 2026 down from 10.1 percent at the end of 2025, but still 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.

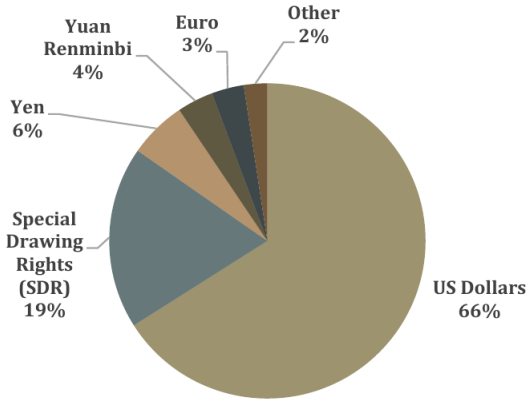
In contrast, the external debt profile, although it includes a slightly higher share of floating-rate instruments amounting to 22 percent of external debt portfolio, benefits from a significantly longer ATR, reducing the frequency of refinancing or repricing needs. Going forward, maintaining a strategic focus on extending the ATR, prioritizing fixed-rate borrowings as well as undertaking interest rate hedging will be critical to strengthening resilience against potential interest rate shocks.

4.4.4 Currency Risk

Structural FX risk is high, given the sizeable share of foreign currency-denominated debt (41.0 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) as at End June 2026



Source: Public Debt Management Office

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.

5.1.1. 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.

5.1.2. 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.

5.1.3. 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. The programme contributed to lowering the Government's debt-servicing costs and reducing refinancing risk through maturity extensions and a step-down coupon structure, thereby supporting debt sustainability and strengthening the medium-term debt profile.

These measures lowered domestic debt service by 1.2 percent of GDP annually between 2023-2027, averting a domestic financial crisis. (Sri Lanka's Sovereign Debt Restructuring: Lessons from Complex Processes, IMF, Sep, 2025).

5.1.4. Improved External Debt Sustainability and Reserve Position

The restructuring granted a debt service relief 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.

5.1.5. Progress in Completing the Restructuring

As of August 2026, Sri Lanka has reached agreement on terms with just under 99 percent of its external creditors and has fully implemented over 94 percent of its public external debt restructuring. The restructuring of the International Sovereign Bonds (ISBs), China Development Bank and China Exim Bank debt has been implemented, while eleven bilateral agreements with members of the Official Creditor Committee (OCC), covering about USD 4.3 billion, have been finalized, of which ten have been signed. The signing of the remaining bilateral agreements and the implementation of a few small remaining items are the final steps to close out the restructuring process (Table 03).

Restructuring at a glance (August 2026)

- Just under 99% of external creditors have agreed terms
- Over 94% of the public external debt restructuring fully implemented
- US$ 4.3 bn of OCC bilateral agreements finalised (10 of 11 signed); ISBs, China Exim and CDB concluded

Table 03: Status of the Public External Debt Restructuring (as of August 2026)

Creditor group	Outstanding at end-2025 (USD million)	Status
Official Creditor Committee (17 members)	5,812	Terms agreed; 11 bilateral agreements finalized (USD 4.3 bn), of which 10 signed; discussions ongoing with 6 members
China Exim Bank	4,225	Implementation concluded
Saudi Fund for Arab Economic Development and Kuwait Fund	291	Implementation concluded
International Sovereign Bonds	10,255	Implementation concluded
China Development Bank	3,222	Implementation concluded
SriLankan Airlines bonds	175	Implementation concluded
Other ECA-backed, bilateral and commercial loans	~235	Terms agreed for part of the amount; remaining discussions and loan agreement drafting ongoing
Non-participating ISB holder	~250+	Court proceedings ongoing

Source: Ministry of Finance, Planning and Economic Development and Central Bank of Sri Lanka (Investor Call, 10 August 2026). Amounts exclude past due interest and include SOE guaranteed debt.

5.2. SRI LANKA CREDIT RATINGS UPGRADES

Sri Lanka's credit ratings have seen significant upgrades in late 2024, 2025 and 2026, 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 Ratings, 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. Fitch's upgrade to "B-" on 22 September 2026 is the first move into the single-B category by any of the three agencies since the default.

5.2.1. Factors Driving the Credit Rating Upgrades

Strong Performance under the IMF Extended Fund Facility (EFF) Arrangement: The successful implementation of the 48-month IMF - EFF arrangement, approved in March 2023 with access to approximately USD 3 billion, has played a significant role in strengthening Sri Lanka's sovereign creditworthiness. The programme has supported macroeconomic stabilization through fiscal consolidation and critical structural reforms. Following the completion of the combined fifth and sixth reviews in May 2026, total IMF disbursements reached approximately USD 2.4 billion, while a staff-level agreement on the seventh review was reached in October 2026.

Successful Completion of the Debt Restructuring Process together with improved Macro Economic Fundamentals: The successful completion of the debt restructuring process has significantly improved Sri Lanka's debt sustainability prospects and strengthened investor confidence. The resulting debt service relief, together with improved macroeconomic fundamentals, has enhanced the country's capacity to meet its debt obligations.

5.2.2. 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. However, all three ratings remain in speculative-grade territory. Fitch estimates Government debt at 92.9 percent of GDP in 2026, well above the median for B-rated peers, and Moody's highlights weak debt affordability, with interest costs absorbing over 40 percent of Government revenue. Further progress in revenue-based fiscal consolidation, reserve accumulation and the completion of the restructuring will be key to future upgrades.

Table 04: Sri Lanka Sovereign Credit Ratings (as of October 2026)

Rating agency	Long-term foreign currency rating	Outlook	Latest action
Fitch Ratings	**B-**	Stable	Upgraded from CCC+ on 22 September 2026
Moody's Ratings	**Caa1**	Stable	Affirmed in August 2026; upgraded from Ca in December 2024
S&P Global Ratings	**CCC+**	Stable	Unchanged since upgrade from SD in September 2025

Source: Fitch Ratings, Moody's Ratings, S&P Global Ratings

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 2027-2031 has been developed align with the Macro Fiscal Framework defined under the Medium Term Fiscal Framework 2027-2031 and Annual Budget forecasts for the year 2027. 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 based on Bloomberg forecasts and the interest rates for domestic T-bills and T-bonds was forecasted considering the inflation targets of the country and movement of the market rate to the Official Policy Rate (OPR).

The Macro Fiscal Framework 2027-2031 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, from 2027 to 2032,
3. Maintaining the central Government's annual debt service in foreign currency below 4.5 percent of GDP in every year from 2027 to 2032

6.1 RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

Sri Lanka's economy has proved resilient to successive shocks, namely Cyclone Ditwah in November 2025 and the escalation of the Middle East conflict from late February 2026. Real GDP grew by about 5.0 percent in 2025, by 5.1 percent year-on-year in the first quarter of 2026 and by 4.2 percent in the second quarter of 2026, marking twelve consecutive quarters of growth. Sri Lanka expects to have 3.8 percent real economic growth at the end 2026 even though the higher energy prices and disruptions to tourism have weakened the 2026 outlook and recovering to 4.0 percent in 2027 and converging to around 4.1 percent in the medium term.

Headline inflation, which averaged -0.5 percent in 2025, rose to 8.0 percent year-on-year in August and September 2026 reflecting the pass-through of the energy shock across multiple sectors of the economy, above the 5 percent target of the Central Bank, although inflation expectations remain broadly anchored. Gross official reserves[4] stood at USD 6.9 billion at end August 2026 (USD 6.5 billion at end June 2026). On the fiscal side, the Central Government achieved a primary surplus of 5.4 percent of GDP

in 2025, well above the programme target of 2.3 percent. The primary surplus is projected at 3.6 percent of GDP in 2026, despite the temporary relief package and cyclone reconstruction spending, and at 3.0 percent of GDP over the medium term.

[4] Includes the international swap facility from the People's Bank of China (PBoC)

Macro snapshot

- Growth: 3.8% in 2026F (5.0% in 2025), recovering to 4.0 % in 2027
- Inflation: 8% y/y in Aug-Sep 2026 against a 5% target
- Reserves: USD 6.9 bn at end August 2026;
- Primary surplus: 3.6% of GDP in 2026

Table 05: Baseline Macroeconomic Assumptions

Indicator	2026 F	2027F	2028F	2029F	2030F	2031F
Real GDP growth (percent)[5]	3.8	4.0	4.1	4.1	4.2	4.2
Inflation, average (CCPI percent)[6]	5.4	4.7	5.1	5.0	5.0	5.0
Nominal GDP growth (percent)[5]	10.0	8.2	8.3	8.4	8.5	8.7
Primary Balance[5]	3.6	2.3	3.0	3.0	3.0	3.0
Gross International Reserves (USD mn)[7]	8,645	11,779	13,939	14,474	14,746	14,985

Source: Department of Fiscal Policy, Ministry of Finance, Planning and Economic Development, Central Bank of Sri Lanka

[5] based on the revised Medium Term Fiscal Framework

[6] based on information available as of 9 September 2026 at the CBSL.

[7] based on the IMF Staff Country Report, published in May 2026.

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 2027-2031 (MTDS 2027-2031)

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 2031

Table 06: DEBT MANAGEMENT TARGETS AT THE END OF 2031

Cost and Risk Indicators	Level (End 2025)	Target Level (End 2030)	Existing Level (End 2026)	Target Level (End 2031)	Tolerance
Average Time to Maturity					
Domestic Debt Portfolio	4.6Yrs	6Yrs	4.7 Yrs	6 Yrs	1+/-
Total Debt Portfolio	6.8Yrs	8Yrs	6.6 Yrs	8 Yrs	
T-bills Percentage to the Total Debt	10.1%	5%	6.6%	3.5%	1+/-
Debt Refixing in One Year (Percentage to the Total)	26.8%	22%	24.1%	20%	1+/-
Debt Maturing in one year (percent of GDP)	17%	10%	12.4%	9%	2+/-
Interest Payments to Revenue (As a percentage)	52.2%	35%	44.6%	34%	5+/-
FX debt as a Percentage of Total debt	37.8%	-	41.0%	30%	2+/-

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 external financing from

international financial institutions with long term maturities, 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 2027–2031.

7.2 FINANCING STRATEGY FOR 2027-2031

Financing strategy for 2027–2031 provides strategic guidelines for borrowing over the medium term, aimed at achieving the debt management targets outlined in Table 06. The key strategic directions are as follows:

a. **Borrowing Composition:** Maintain a borrowing composition of 88 percent from LKR denominated debt instruments in 2027-2028 and 12 percent from Foreign Currency denominated debt instruments. Thereafter, considering the market conditions and the investor's appetite and the behaviour, the borrowing strategy will change to 15 percent from foreign currency denominated debt instruments to strategically prepare to ensure the foreign currency liquidity requirement to repay the maturing foreign currency debt.

b. **Foreign Currency Financing Strategy:** As Sri Lanka has been upgraded to upper middle income country by the World Bank, the availability of concessional financing from the external bilateral and multilateral agencies will gradually become more limited over the medium term. However, Sri Lanka will explore the opportunities available with the international financial institutions for policy based or programme based financing with longer tenor maturities more than 20 years with a more than 5 years of grace period.

   Sri Lanka further committed to continue the project financing from bilateral and multilateral agencies targeting economic development of the country under favourable terms and conditions.

   In addition, an issuance of FX-denominated bonds in the domestic market will be considered to meet FX financing requirements. Attracting domestic investors with FX liquidity into the Government securities market and diversifying the investor base will be further strengthened.

c. **Domestic Currency Financing Strategy:** On the domestic front, the financing strategy is fully focused on market based financing instruments, mainly, T-bills and T-bonds. This strategy intends to manage refinancing risk by gradually reducing reliance on T-bills to an optimum level. To extend the Average Time to Maturity and smooth the redemption profile, it is planned to issuance fixed-rate Treasury bonds with maturities of 3, 5, 8, 10, 12, and 15 years.

As per the MTDS, the projected levels of the cost and risk indicators as at end-2031, based on the implementation of the above strategy, are presented in Table 07.

Table 07: Cost and Risk Indicators- Baseline Scenario

Risk Indicators		2026 Current	As at end 2031
Nominal Government debt as percent of GDP		89.0	78.1
Present value debt as percent of GDP		87.1	76.6
Interest payment as percent of GDP		7.4	6.3
Interest Payment as percent of Revenue		44.6	40.0
Implied interest rate (percent)		8.2	8.7
Refinancing risk[2]	Debt maturing in 1yr (percent of total)	12.8	12.4
	Debt maturing in 1yr (% of GDP)	12.4	9.7
	ATM External Portfolio (years)	8.9	8.1
	ATM Domestic Portfolio (years)	4.7	4.7
	ATM Total Portfolio (years)	6.6	6.0
Interest rate risk[2]	ATR (years)	5.7	4.9
	Debt refixing in 1yr (percent of total)	24.1	23.3
	Fixed rate debt incl T-bills (percent of total)	88.1	88.3
	T-bills (percent of total)	6.6	3.8
FX risk	FX debt as % of total	41.0	35.8
	ST FX debt as % of reserves	19.7	5.9

Source: Public Debt Management Office, Derived from IMF/WB MTDS AT

In parallel with the Medium-Term Financing Strategy 2027–2031, the PDMO will pursue the following debt management strategies over the medium term to achieve the debt management targets set out in Table 06;

I. **Developing the Government domestic bond market**, by widening the investor

base and developing the local 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 in line with the international best practices.

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 required 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. The initial steps are taken to conduct non-deal road shows to increase the investors confidence and appetite to invest in Sri Lanka's government debt instruments. 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, mainly focusing to increase the ATM of the domestic debt portfolio.

    In addition, initiatives will be taken to carry out liability management operations for the external debt portfolio such as buy back, switches and currency and interest rate conversion with the objective to reduce the refinancing risk, currency risk and the interest rate risk of the debt portfolio. It will be considered to develop a hedging policy, analyzing the risk tolerance level of the government debt portfolio.

IV. **The possibilities are explored to develop a Disaster Risk Financing Strategy** to strengthen the Government's financial preparedness and resilience to natural disasters by establishing a comprehensive framework for identifying, assessing and managing disaster-related fiscal risks. In addition, contingent financing facilities are expected to be deployed, further broadening the Government's financing toolkit for disaster risk management. These initiatives will enhance the Government's capacity to mobilise timely financial resources in the event of disasters, mitigate fiscal pressures and strengthen overall fiscal resilience.

V. **Ensuring the governance and transparency of debt management** through refining and expanding the coverage of the public debt publications and engagement strategy. This includes the release of the Annual Report within 180 days following the each financial year, which will provide comprehensive insights into the management of public debt. In addition, the Quarterly Debt Bulletin and Semi- annual Debt Data Report, will be further upgraded in terms of both quality and coverage, ensuring availability of more detailed and timely information for stakeholders.

    Communication channels will be further strengthened through a dedicated website for the PDMO for easy access to centralized 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 2027-2031, 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.

VI. **Strategically utilizing the cash reserves** to supports the liquidity management, financing efficiency, and mitigate refinancing and interest rate risk. The cash buffer, which 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 provide necessary recommendations to the relevant authorities to 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 2027-2031

The MTDS 2027–2031 will be implemented by the PDMO in close coordination with key stakeholders, including fiscal and monetary policy makers. The detailed implementation plan of the first year of the MTDS 2027-2031 will be outlined in the Annual Borrowing Plan for 2027 (ABP-2027), which serves as the operational framework for the Government's borrowing strategy.

In preparing the detailed ABP-2027, 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 2027-2031. 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 quarterly reviews of the MTDS 2027-2031 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 2027-2031 are met in a timely and efficient manner.

7.4 LIMITATIONS AND CHALLENGES

While the MTDS 2027–2031 provides a robust framework for guiding Government's 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 2027-2031 are;

I. Availability, coverage, and reliability of debt data used in the preparation of the MTDS 2027–2031. Due to debt data transition process from the CSDRMS, which has been used to debt recording since 1985, to a new system, Commonwealth Meridian Debt Management System, there were challenges to debt data consolidation for the preparation of MTDS 2027-2031.

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 2027-2031 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 is yet to be 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.

8. CONCLUSION

The comparison of end-2025 and end-2026 indicators shows an improvement in Sri Lanka's public debt risk profile across most indicators. In particular, the reduction in the share of Treasury bills, the proportion of debt subject to refinancing or interest-rate resetting within one year, the amount of debt maturing within one year relative to GDP, and interest payments as a share of revenue indicates progress in managing short-term refinancing risks and improving debt affordability.

There is a significant improvement in the overall debt risk profile, despite the increase in the foreign currency (FX) debt share and a marginal decline in the average time to maturity (ATM) of the total debt portfolio, progress has been made in improving. Furthermore, the improvement in debt indicators by end-2026 compared with end-2025 reflects the positive impact of ongoing debt management efforts. Sustained implementation of the Medium-Term Debt Management Strategy (MTDS) remains essential to further strengthen debt sustainability and enhance the resilience of the debt portfolio.

The MTDS 2027–2031 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, exchange 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 2027-2031 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.

The key policy priority should be to consolidate the progress in reducing short-term refinancing risks while simultaneously improving the overall maturity profile, reducing currency exposure, and strengthening debt affordability. Achieving these objectives will require consistent implementation of the MTDS 2027-2031, supported by prudent borrowing decisions, appropriate issuance planning, effective liability management, and close monitoring of the cost and risk characteristics of the debt portfolio.

The MTDS 2027–2031 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. Successful implementation of MTDS 2027-2031 will contribute significantly to manage the Government debt portfolio prudently, ensuring the debt sustainability of Sri Lanka.

PDMO

Public Debt Management Office | Sri Lanka

ANNUAL BORROWING PLAN

SINGLE YEAR FINANCING STRATEGY OF SRI LANKA

2027

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PUBLIC DEBT MANAGEMENT OFFICE | SINGLE YEAR FINANCING STRATEGY OF SRI LANKA

ANNUAL BORROWING PLAN 2027

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1. INTRODUCTION

Legal requirement for the publication of the Annual Borrowing Plan (ABP)

The legal foundation for the preparation of the ABP is 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.

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 - 2027 aligns with the Government's financing strategy 2027-2031 and proposes borrowing mix for the year 2027, focusing on meeting financing needs while minimizing borrowing costs and managing associated risks. The ABP - 2027 is fully aligned with the Medium-Term Debt Management Strategy for 2027–2031 (MTDS 2027–2031).

In compliance with the PDMA, a detailed version of ABP - 2027 including the tentative instruments to be used, sources of borrowing, volume of T-bills to be issued during the year including inter year maturities and the indicative timing of borrowing will be published.

2. BORROWING REQUIREMENT

Total estimated expenditure of the Government is LKR 9,930 billion in 2027, to be financed through tax and non-tax revenues, grants and debt. Revenue and grants are projected at LKR 6,230 billion, leaving a deficit of LKR 3,800 billion with other accounting adjustments. This will be financed through external and domestic borrowings of LKR 730 billion and LKR 3,070 billion, respectively (Table 01).

Table 01: Gross Financing Needs - 2027

		2027 Estimate (LKR billion)
Primary Expenditure		**5,070**
Recurrent Expenditure	3,320	
Capital Expenditure	1,750	
Government Debt Servicing		**4,850**
Interest Payment	2,643	
Debt Repayment*	2,207	
Provisions for Advance Account Operations		**10**
Total Expenditure		**9,930**
Total Revenue		**6,230**
Adjustment for Book / Cash Value for Government Securities		**100**
Borrowing Limit**		**3,800**
Local Currency Financing	3,070	
Foreign Currency Financing	730	

* As per Section 2(b) of the Appropriation Bill, 2027, the difference between the total short-term borrowing raised during the financial year 2027 and the total settlement of short-term borrowing made during the financial year 2027 shall only be considered in deciding the volume of short-term borrowing for the purposes of calculating the borrowing made during the financial year 2027. Accordingly, the redemptions of T-bills have not been included for the amount estimated for the debt repayment.

** As per Section 2(b) of the Appropriation Bill 2027, the borrowing limit for the year 2027 has been estimated to LKR 3,800 billion, excluding the T-bills to be matured within the year 2027. As per the estimation, there are LKR 2,300 billion of T-bills to be matured within the year 2027 and it has been considered in deciding the borrowing composition.

The external gross borrowing of LKR 640 billion relates to projected disbursements on already contracted loans and new borrowing from multilateral and bilateral lending agencies, while domestic borrowing of LKR 3,160 billion relates to new debt to be raised from the domestic market.

According to Table 01, the Government's total borrowing requirement for 2027 is estimated at LKR 3,800 billion, excluding the LKR 2,300 billion in Treasury bills (T-bills) estimated to be maturing (without inter year maturities) during the year. Consequently, the total financing requirement, including the refinancing of maturing T-bills (without inter year maturities), is projected at LKR 6,100 billion for 2027.

Key figures at a glance

- LKR 3,800 bn borrowing requirement for 2027 as per the Appropriation bill -2027 (excluding maturing T-bills)
- LKR 2,300 bn of T-bills maturing within 2027
- LKR 6,100 bn total financing requirement including T-bill refinancing (without inter year maturities)

3. BORROWING COMPOSITION

In line with the MTDS 2027–2031, the Government plans to meet of its gross 88 percent borrowing requirement through LKR denominated domestic debt instruments, with the remaining12 percent to be financed through FX denominated debt instruments. Accordingly, LKR 730 billion will be financed through FX denominated debt instruments, in which LKR 90 billion (around USD 300 million) will be raised by issuing FX denominated T-bonds to the domestic market.

Figure 01: Borrowing Composition - 2027 (By Currency)



Figure 02: Borrowing Composition - 2027 (By Residency)



External Financing

In 2027, the Government plans to finance LKR 640 billion through external sources. Of this, the Government expects to receive LKR 640 billion from external multilateral and bilateral lending agencies including LKR 210 billion for policy based financing and LKR 315 billion from bilateral and multilateral sources for project financing. The additional LKR 115 billion is expected as the 8th tranche of the Extended Fund Facility from the International Monetary Fund (IMF).

Domestic Financing

In 2027, nearly 90 percent of the total financing requirement, amounting to LKR 5,460 billion (without inter year maturities of T-bills), is projected to be raised through the 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 3,570 billion by issuing LKR-denominated Treasury bonds in the domestic market, with maturities ranging from 3 years to 15 years while reducing the outstanding amount of T-bills by LKR 500 billion. The Government also plans to issue LKR 90 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 1,800 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.

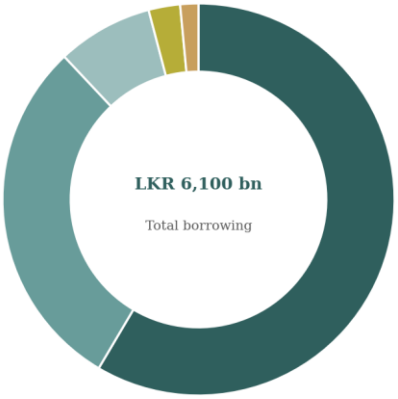
The auction calendar for 2027 will be developed and published by the Public Debt Management Office on a quarterly basis, with updates for each rolling three-month period. This calendar will cover both Treasury bills and Treasury bonds, and will be based on the annual borrowing plan and the cash flow forecast for the year 2027.

4. PROPOSED BORROWING MIX

Table 02: Proposed Borrowing Mix – 2027

Source	Amount (LKR bn)	Percentage
Bilateral	160	2.6
Multilateral	480	7.9
T-bills	1,800	29.5
LKR denominated T-bonds	3,570	58.5
FX denominated T-bonds	90	1.5
Total	**6,100**	**100**

Figure 03: Proposed Borrowing Mix - 2027



LKR denominated T-bonds	**58.5%**
T-bills	**29.5%**
Multilateral	**7.9%**
Bilateral	**2.6%**
FX denominated T-bonds	**1.5%**

Domestic Borrowings - LKR 5,460 billion	
Treasury bills	**33.0%**
Treasury bonds	**65.4%**
Domestic Dollar Bonds	**1.6%**

External Borrowing - LKR 640 billion	
Multilateral	**75%**
Bilateral	**25%**

5. MONITORING AND REPORTING

The PDMO will monitor the execution of the ABP 2027 throughout the year, with quarterly reviews to ensure targets are met and any necessary adjustments are made.

6. CONCLUSION

ABP 2027 presents a strategic approach to meet the Government's financing needs by focusing on domestic financing through Treasury bills and Treasury bonds and focusing on external financing from international financial institutions. The plan aims to achieve cost and risk targets set out under MTDS 2027–2031. It plans to diversify financing from domestic and external sources to borrow at the lowest possible cost with a prudent level of risk and supports fiscal stability and risk management.