



First Session of the Tenth Parliament

Report of the Committee on Public Finance

on

Appropriation Bill for the Financial Year 2026 in terms of the Standing Order 121(5) (i) of Parliament

(On the fiscal, financial and economic assumptions used as the
basis in arriving at total estimated expenditure and revenue of the
Budget)

Presented to Parliament by

The Hon. (Dr.) Harsha de Silva

Chair of the Committee

Friday, the 14th of November 2025.

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Executive Summary

Budget 2026 stays well within the requirements of under the Public Financial Management (PFM) Act, Public Debt Management (PDM) Act, and the IMF program, as shown in Section 1. The pathway ahead for 2026 is also aided by the fact that 2025 is estimated to record a significant fiscal overperformance, with revenue being higher than budgeted by more than LKR 100 billion driven by the high revenue earned from taxes on vehicle imports. The external sector has also remained in surplus in 2025, despite the global economic volatilities.

Growth forecasting vital for fiscal planning

The Ministry of Finance makes macroeconomic assumptions, including on growth, for the Budget that seem broadly acceptable. But there are some points of concern that can affect actual outcomes. A particular concern from a fiscal targets point of view is the accuracy of GDP growth forecasts. As discussed in Section 2, accuracy is vital in the context of GDP linked fiscal targets, like the primary expenditure ceiling at 13% of GDP. A higher nominal GDP growth assumption allows to budget for higher primary expenditure. While this has not been a problem in 2025 due to lower than budgeted capital expenditure, this can become a problem in the future as implementation improves in the coming years.

Primary Balance Overperformance and Lagging Capital Expenditure

On the primary balance surplus target, the Budget 2026 hopes to continue the overperformance recorded since 2023, aiming for a 2.5% of GDP surplus compared to the 2.3% target. The primary balance overperformance has been a critical factor in the macroeconomic stabilization that Sri Lanka has achieved post-crisis, much faster than was expected by many. The fiscal performance has allowed the Treasury to reduce its borrowings from the domestic market and reduce domestic interest rates, providing the domestic financial sector more space to support credit to the private sector and households. The primary surpluses also supported the creation of a significant Treasury cash buffer that is as high as 3-4% of GDP, providing flexibility in managing the government's borrowing needs.

However, this positive also has a negative side to it. As explained at the end of Section 4, the primary surplus overperformance was driven predominantly by the lower than budgeted capital expenditure. The lower-than-expected capital expenditure creates an expectations gap between what the budgets promise, and the benefits received by the economy and society. Delays in implementing critical public investment can contribute to slowing down future productivity improvements, affecting the ability to sustain robust GDP growth rates. Section 4 explores some of the reasons highlighted by the Department of Project Monitoring and Management for the delays faced in major project implementation. Overcoming these will be vital to achieving the 4% of GDP in capital expenditure that is being budgeted for 2026 as well.

Revenue growth to slow down

Revenue growth across 2023 to 2025 was accelerated by the massive amounts of tax changes introduced, with significantly higher rates and removal of exemptions to increase the tax base.

Income taxes and VAT have been major sources of revenue growth in that period. 2025 was further boosted by the pent-up demand for vehicle imports despite the high tariffs on vehicles.

Heading into 2026, revenue growth is expected to be only 3.9% from 2025. Part of this is because revenue from vehicle imports is expected to contract from the highs of 2025, with less imports expected as explained in Section 3. Revenue expansion is expected to come mostly from VAT on domestic goods and services and corporate income taxes. The reduction in the VAT threshold from LKR 60mn to LKR 36mn a year would play a part in expanding VAT revenue.

Outside of this specific measure, revenue growth would increasingly depend on the buoyancy of the tax system to economic growth and on the improvements in tax administration to improve compliance. This would involve expanding the resources available to the main tax collecting agencies. Going beyond 2026, the repeated promise of phasing out paratariffs, if implemented, would also require expansion in tax collection outside of import taxes to replace over 1% of GDP in revenue from paratariffs.

Public sector expenses continue to dominate Primary Recurrent Expenditures

Salaries and Pensions of the public sector still account for over 40% of primary recurrent expenditures (excluding interest payments), with an ageing demographic, new budget proposals and implementation of past ones likely to keep the absolute cost of these ticking up. Pension costs are likely to continue to grow faster than Salary costs as future retirees do so at higher salary levels than in the past. The Treasury's strategy appears to be to keep salary and such recurrent costs contained as a share of GDP. That in turn allows any expansion in fiscal space to be allocated to new initiatives.

Budget 2026 proposals appear to make use of such space to focus in particular on extending concessional loan access to a varied variety of sectors, especially at the SME level, while also expanding welfare programs. From an economic growth and structural reform perspective, the initiatives to support digitization of the public sector and build up digital public infrastructure can be important if done in an integrated manner.

Public Debt Management remains key

The fiscal overperformance has given some breathing room for public debt management, especially in the context of the institutional transition to the PDMO that comes into force from 2026. Going into 2026, the PDMO hopes to reduce short-term T-bill stocks by utilizing the cash buffers and to issue dollar denominated T-bonds to meet the Treasury's foreign currency needs without excessive recourse to CBSL reserves. The space to finance and to bring down borrowing costs would be expanded if Sri Lanka is able to sustain its performance towards credit rating upgrades in the period ahead. That in turn could support higher investments from foreign and domestic investors, allowing growth to be sustained at robust levels. After all, the ability to sustain growth at levels above the 3% level of the IMF program projections will allow Sri Lanka to reduce its public debt ratio at a faster pace and to well below the 95% of GDP target for 2032.

Section 1: Introduction

Background for the Report

The Committee on Public Finance (CoPF) has formulated this report as mandated by Parliamentary Standing Orders 121(5) on the fiscal, financial and economic assumptions which are used as the basis for the total revenue and expenditure proposed for the year 2026.

The First Reading of the Appropriation Bill was held on 26 September 2025. The Bill authorizes any provisions made during the Financial Year from 01 January 2026 to 31 December 2026.

The report was compiled with information sourced from the (1) Budget Speech for 2026(Second Reading of the Appropriation Bill) presented in Parliament on 07 November 2025, (2) Budget Estimate Report 2026 submitted by the Ministry of Finance (MoF), and past estimate reports of the MoF. This document incorporates information referenced from various official publications of Central Bank of Sri Lanka, Department of Census and Statistics, Ministry of Finance and Departments under its purview, and the reports of the Auditor General, and information received by the Committee on Public Finance from relevant institutions. Legislations and other legal instruments related to the analysis, have also been cited.

Legislative Context for Public Finances and Fiscal Policy

Sri Lanka's public finances required substantial improvement following the 2022 economic crisis and sovereign default. As a result, fiscal, public finance, and public debt related reforms became a key pillar of the ongoing IMF Extended Fund Facility (EFF) program. While initially guided by the IMF program targets, from 2024 onwards the enactment of the Public Financial Management (PFM) Act and the Public Debt Management (PDM) Act have provided legislative backing for the ongoing fiscal improvements.

The Acts provide clear, quantifiable targets that can only be deviated from due to superseding economic or security crises. For example, the PFM Act Section 15(1) states that primary expenditure of the budget cannot exceed 13% of the nominal GDP of the corresponding financial year. Any deviations from the target must be explained to Parliament and should have the Medium-term Fiscal Framework revised accordingly to return towards the target in the subsequent period.

Table 1.1: Primary Laws Governing Public Financial Management

Legislation	Objective
Constitution of 1978 of the Democratic Socialist Republic of Sri Lanka.	Mandates Parliamentary approval in spending, withdrawal, collection and allocation of public finances. Also established the role of the Auditor-General to oversee the fiscal discipline of public entities and established the Consolidated Fund that holds public funds.

Public Financial Management Act No 44 of 2024	Imposition of a rule-based financial management Act with a specific ceiling for primary expenditure and mandating a medium-term fiscal framework under which revenue and primary balance targets are set in a manner to achieve and retain public debt sustainability.
Public Debt Management Act No. 33 of 2024	Established the Public Debt Management Office (PDMO) as the sole issuer and manager of public debt, at the lowest possible cost over the medium-to long term, consistent with a prudent degree of risk. PDMO has to support the budgetary process by establishing the annual borrowing plan (ABP).
Active Liability Management Act No.8 of 2018	Authorizes borrowing beyond current year expenditure needs to help manage upcoming financing needs and payment obligations at the lowest possible cost over the medium-to long term, consistent with a prudent degree of risk.
Annual Appropriation Acts /Supplementary Appropriation Acts	Authorizes expenditure allocations, borrowing and revenue raising for each Financial Year, in line with the existing legislation and practices.
Financial Regulations 1992	Governs the daily management of Government bodies, departments and ministries in compliance with existing legislation and practices.

Table 1.2: Other Laws Governing Public Financial Management

Legislation	Objective
Central Bank Act No. 16 of 2023	Offered legal cover for the Central Bank to operate independently in achieving price stability and financial sector stability.
Economic Transformation Act No. 45 of 2024	This legally enforced the National Economic Policy to adopt an export-oriented, digital economy, while achieving public debt sustainability.
Parliamentary Budget Office Act No. 06 of 2023	Established an independent institution within Parliament to oversee the management of capital and recurrent expenditure, raise the quality of debate, scrutiny, transparency and accountability. The office is yet to be established.
National Audit Act No.19 of 2018	Establishes the National Audit Office, with wider powers for the Auditor General, to ensure that public money is prudently and effectively managed by public institutions.

Accounting and Auditing Standards Act No. 15 of 1995	Established the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) to monitor auditing standards and uphold industry trust.
Public Contracts Act No. 33 of 1987	Investigation of any matters related to public contracts or people who tender with public bodies, via tribunals/panels.

Table 1.3. Main Legislation for Government Revenue

Inland Revenue Act No.24 of 2017	The primary law on direct taxation on income and assets
Value Added Tax (VAT) Act, No. 14 of 2002	Defines scope, exemptions, rates and administration of valued added tax on consumption goods and services from businesses above a minimum turnover threshold
Customs Ordinance	Defines the scope of administering tariffs and import duties
Excise Ordinance	Defines the scope of administering taxes and levies on alcohol
Excise (special provisions) Act, No. 8 of 1994(amended)	Manage duties imposed on special commodities, including tobacco, petroleum, and vehicles
Social Security Contribution Levy (SSCL) Act	Administer the levy on the turnover of businesses above a certain threshold, intended to support social security funds
Ports and Airport Development Levy (PAL) Act	Special levy imposed on imports to generate revenue for specific development purposes
Stamp Duty Act	Governs the duty charged on documents and transactions of property, bonds, and certain agreements.

The Public Debt Management Act No.33 of 2024

The PDMA 2024 was intended to centralize debt management functions, enhance transparency, and ensure the implementation of prudent borrowing practices to minimize cost and risk, thereby contributing to long-term fiscal health.

The Act established the Public Debt Management Office, which governs all forms of government borrowing, guarantees and on-lending borrowing. The sovereign guarantee that was earlier offered to Government Departments and Ministries in borrowing was removed by the 2024 Act. As per S12 of the Act, the State is not bound by any loan agreement entered into by any public entity other than the Ministry of Finance.

There are strong forms of checks and balances included in the Act such as a binding Annual Borrowing Plan, Medium-Term Fiscal Framework. These are approved by the Cabinet and the Parliament, subjecting the debt and borrowing to high scrutiny. Operationalizing of the PDMA and PDMO are discussed in the final section of the report.

Table 1.4: Key Sections of the Public Debt Management Act 2024

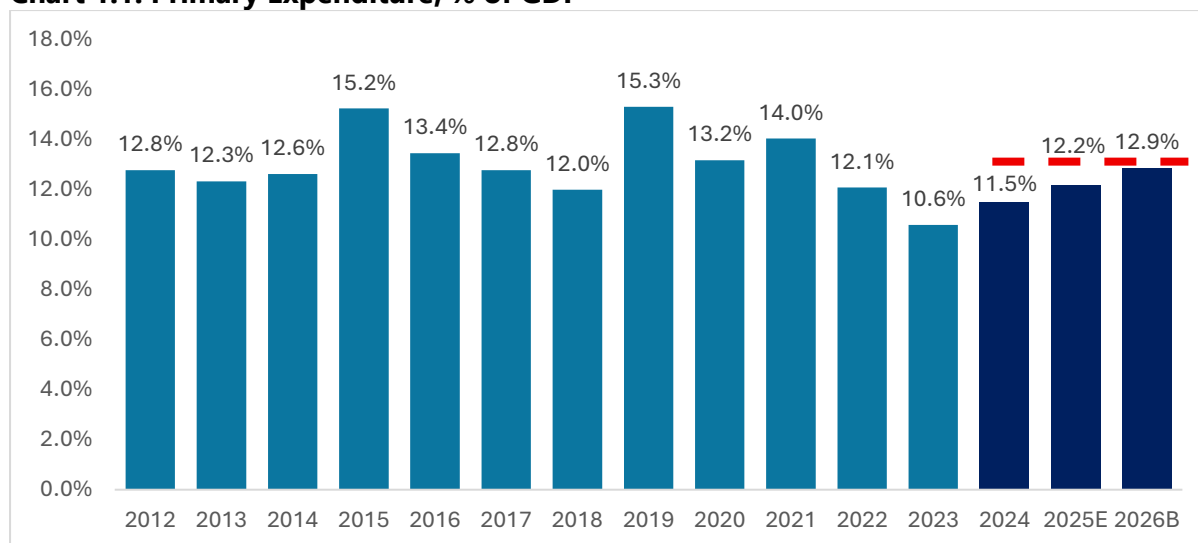
Section 4	Establishment of the Public Debt Management Office(PDMO)
Section 11	Mandates the compilation of a Medium-term Debt Management Strategy for the next five years
Section 12	Mandatory formulation of an Annual Borrowing Plan detailing purpose, sector, borrowing instruments etc
Section 16	The Minister of Finance is the sole borrower on behalf of the Government
Section 17	The PDMO must publish quarterly, monthly and annual reports on debt stock, risks and debt servicing

Compliance with PFM Act and IMF program targets

Under the PFM Act of 2024 there are two main fiscal rules that the Ministry of Finance has to follow in the budgetary process:

1. Primary Expenditure Ceiling of 13% of GDP

PFM Act stipulates that the government expenditure, excluding debt servicing, should not exceed 13% of GDP under this rule. This rule has been met in the revised figures for 2025 and the budgeted figures for 2026. As discussed in Section 2, this fiscal rule makes the accuracy of forecasting nominal GDP growth critical to identifying the actual fiscal space of the government. If the nominal GDP growth is less than the estimated amount, that could put pressure to curtail primary expenditure as the maximum amount of public expenditure depends on the GDP.

Chart 1.1: Primary Expenditure, % of GDP

Source: MoF Annual Reports

Alongside this specific quantitative target, the PFM Act also stipulates that the government revenue and primary balance need to be set in a manner that achieves the goals of public debt sustainability. This links the fiscal framework to push towards maintaining revenue in a manner to achieve a primary balance surplus.

2. Annual Budget Reserve does not exceed 2% of estimated primary expenditure

With primary expenditure allocation estimated at around LKR 4.44 trillion for 2026, the budget reserve can only be LKR 88.8 billion. The budget estimates show contingency services allocations of LKR 47.1 billion for recurrent and LKR 40.5 billion for capital expenditures, for a total reserve of LKR 87.6 billion, falling in line with the fiscal rule. Budget reserves which are synonymous to the contingency service allocations are the funds that are NOT allocated to a specific expenditure. This gives the Ministry of Finance the autonomy to spend money on items at their discretion without parliamentary approval. While this is useful in emergencies and natural disasters, In the past, excessively large discretionary funds can risk accountability. The PFM rule was introduced to prevent such mismanagement and enhance the accountability in public expenditure.

Medium-Term Fiscal Framework 2026-2030

Beyond the two quantitative fiscal targets, the PFM Act also requires a number of other actions to be met alongside the annual budget, especially on disclosures of information and public financial management. A critical part of this is the Medium-Term Fiscal Framework, which is established in the Fiscal Strategy Statement (FSS) in June of each year with the start of the annual budget compilation and updated for the latest performance in the Fiscal Position Report that accompanies the budget speech.

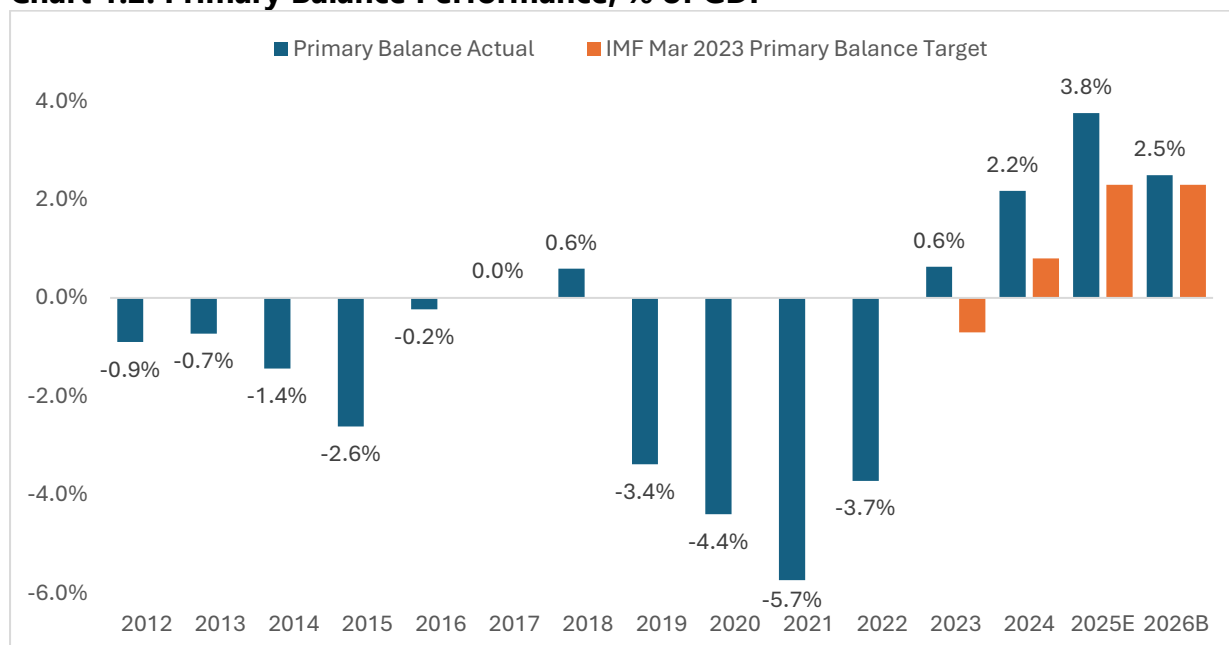
Indicator	As a percentage of GDP							
	2024	2025	2025	2026	2027	2028	2029	2030
	Provisional	Budget	Revised	Projection				
Total Revenue & Grants	13.7	15.1	15.9	15.4	15.5	15.5	15.5	15.5
Total Revenue	13.5	15.0	15.9	15.3	15.4	15.4	15.4	15.5
Tax Revenue	12.4	13.9	14.8	14.2	14.4	14.4	14.3	14.4
Income Tax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

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

Under the IMF program, the following key fiscal targets must be met:

1. Primary balance surplus of 2.3% of GDP from 2025 onwards

Sri Lanka has continued to over perform the IMF targets for primary balance since 2023, with 2025 seeing a significant over performance of the 2.3% target, driven by higher-than-expected revenue collection and lower than budgeted capital expenditure. Even in 2026 the budget targets a 2.5% surplus, which above the IMF target of 2.3%.

Chart 1.2: Primary Balance Performance, % of GDP

Source: MoF, Budget Speech 2026, IMF

2. Central Government Tax Revenue floor

The IMF program sets a quarterly target for the floor level for tax collection in LKR terms, to ensure momentum through the year to meet the expected tax to GDP level by end year. For end-2024, this target was LKR 3700 billion and was met with collections of LKR 3705 billion. For end-2025, the target is LKR 4350 billion and is expected to be comfortably met with estimated collections of LKR 4725 billion. The July 2025 IMF review document sets targets of LKR 850 billion for March 2026 and LKR 1850 billion for June 2026, on the way to reaching 14.2% of GDP in tax revenue for the full year. Given the full year target of LKR 4910 billion in tax collections and collections of LKR 985 billion and LKR 2152 billion achieved by March and June 2025, respectively, these targets should be comfortably met in 2026.

Beyond these two quantitative performance criteria targets that must be met, the program also sets two indicative targets that should ideally be met:

- social spending by the central government, which puts a floor on the spending allocated to the reformed social safety net expenditure driven by Aswesuma. The 2025 target was LKR 237 billion and is expected to be met with LKR 233 billion estimated to be spent on Aswesuma alone in 2025.
- ceiling on the accumulated expenditure arrears by the central government – that is delayed payments to suppliers and contractors. While it was earlier supposed to have been reduced to zero, the fourth review of the IMF program discovered that there was still about LKR 95 billion in arrears left at end-2024. This is expected to be fully paid down by end-2026.

The debt sustainability related targets of the IMF program are discussed in the final section of the report.

Section 2: Analysis of Key Economic and Financial Assumptions

There are several macroeconomic assumptions that affect Budget 2026, ranging from GDP growth, credit growth, exchange rate, interest rates, inflation, foreign currency earnings, import demand outlook, and global economic and financial conditions. This section provides an in-depth analysis of how these assumptions have been factored into Budget 2026 and whether there are any risks emanating from these assumptions for the fiscal outlook.

Economic Growth and Inflation

The Ministry of Finance expects real GDP growth to sustain at around 4.5% in 2025 and 2026. But nominal GDP growth is seen to be lower than earlier anticipated due to the low inflation environment leading to a smaller GDP deflator. As a result, the outlook for inflation becomes an integral part of the assumptions in GDP growth.

Table 2.1: Ministry of Finance assumptions for GDP growth

	2024	2025		2026
	Actual	Budget	Revised	Estimate
Real GDP growth, %	5.0%	4.5%	4.5%	4.5%
GDP Deflator, %	3.8%	5.7%	2.4%	3.2%
Nominal GDP growth, %	9.0%	10.4%	7.0%	7.8%
Nominal GDP, LKR Billion	29,899	33,000	32,000	34,500

Source: MoF presentation to COPF, 23rd Oct 2025

The MoF's assumptions on growth and deflator/inflation are significantly more optimistic when contrasted with the forecasts from multilateral institutions. While the World Bank notes that growth in 2025 was supported by a rebound in industry and services from the crisis period, its outlook for 2026 is lower due to heightened global uncertainty. The slowdown anticipated by the ADB is primarily due to external factors, such as the potential for US tariffs to weaken exports and dampen consumption due to potential job losses. The IMF views its lower forecast not as a weakness, but as the economy returning to its normal, long-term trend after a strong recovery.

Forecasting growth of an economy coming out of a deep economic crisis with substantial reforms to its pre-crisis economic and fiscal structure is not an easy task. This is reflected in the deviation in actual growth from the forecasts of varied parties in recent years.

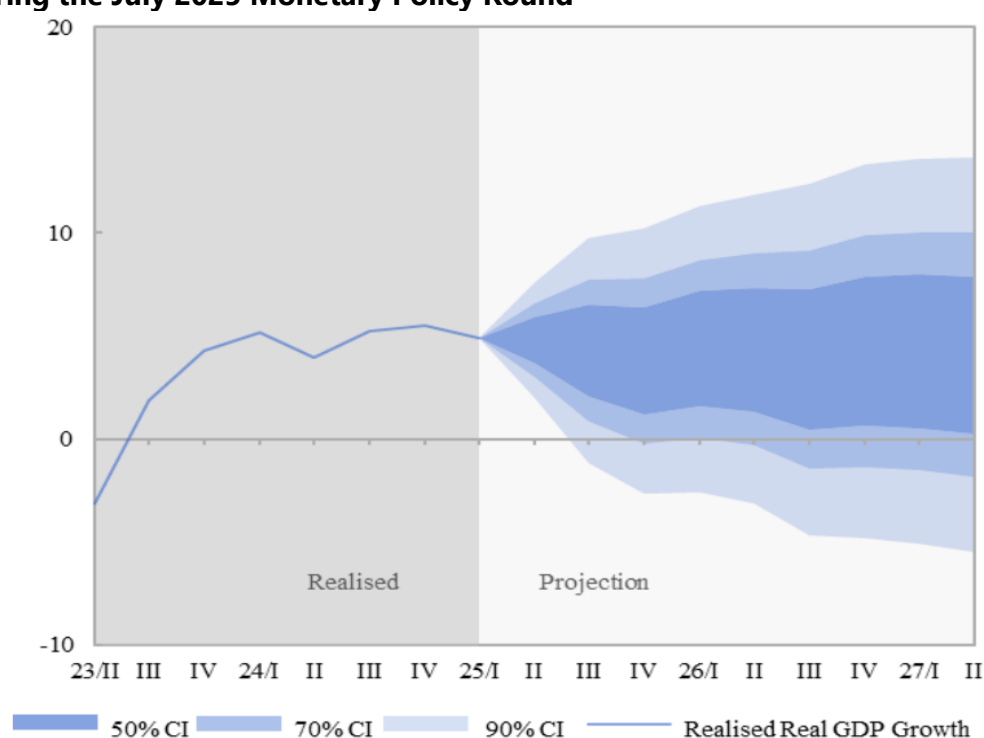
Table 2.2: Forecasts for GDP growth, GDP deflator and Inflation

	2025				2026			
	MOF	IMF	WB	ADB	MOF	IMF	WB	ADB
Real GDP Growth %	4.5	3.5	4.6	3.9	4.5	3.1	3.5	3.3
GDP Deflator	2.4	3.6			3.2	5.3		
Inflation (Annual Average %)			-0.2	0.5			3.7	4.5

Sources: IMF Fourth Review (July 2025), Budget, Economic and Fiscal Position Report - 2026, Asian Development Outlook – October 2025, World Bank Sri Lanka Development Update - October 2025

CBSL provides a fan chart with its latest quarterly real GDP growth outlook. It is possible to infer from the midpoint of the fan chart that CBSL expects quarterly growth to be stable or slightly falling from the 4.5-5% growth experienced in recent quarters.

Chart 2.1: Projected Quarterly Real GDP Growth (yoy, %) - Based on the Projections during the July 2025 Monetary Policy Round



Source: Central Bank Staff Projections

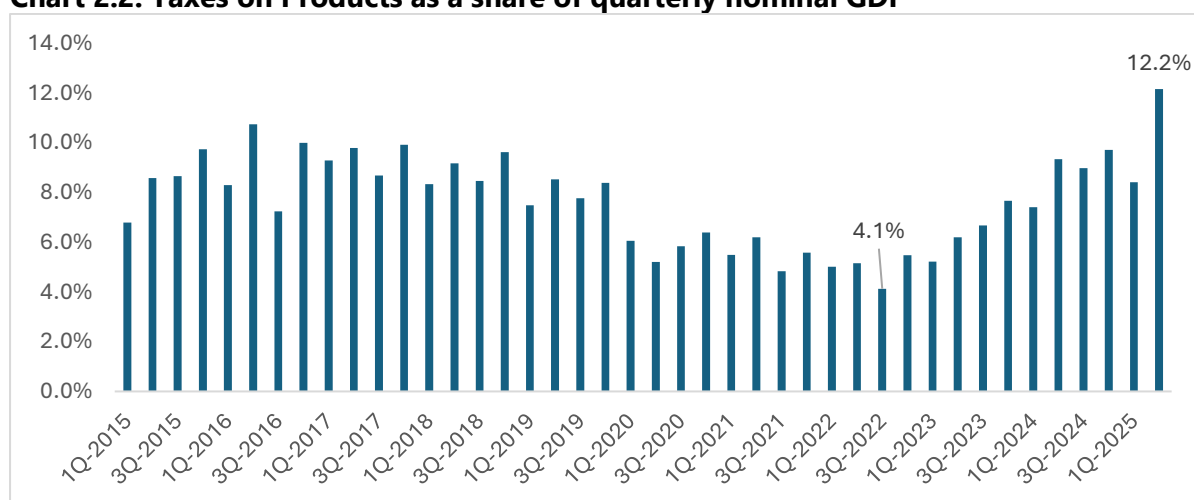
While the rebound from Sri Lanka's deep economic crisis provides space for an upswing in growth recovery, what is important is whether the ongoing growth can be sustained above the 3% real GDP growth level factored into the IMF program. In that context there are two key challenges. Firstly, from an expenditure point of view, can the government boost capital expenditure in a growth enhancing manner. Secondly, from a revenue perspective, growth can help sustain revenue growth without burdening the economy too much. On top of this, sustaining growth is also critical for debt sustainability as discussed in the final section of the report.

Factors to keep in mind in terms of GDP growth outlook

1. Impact of sharp increase in indirect taxes on GDP growth:

Following several revenue-enhancing reforms, the “taxes on products” component of GDP has risen significantly and reduction in subsidized pricing of fuel, energy etc. has led to ‘subsidies on products’ reducing in recent quarters. For instance, in the second quarter of 2025, this component increased by 44% year-on-year, closely matching the 45% rise in indirect tax revenue. This contributed to higher nominal GDP figures. However, this improvement mainly reflects price effects from higher indirect taxes rather than a real expansion in production and other economic activity. Gross value addition (GVA) reflects economic activity in the production approach of GDP estimation. The GDP deflator does factor in the price impact of indirect taxes, reducing the impact of higher indirect taxes and lower subsidies on real GDP growth relative to their impact on nominal GDP growth.

Chart 2.2: Taxes on Products as a share of quarterly nominal GDP



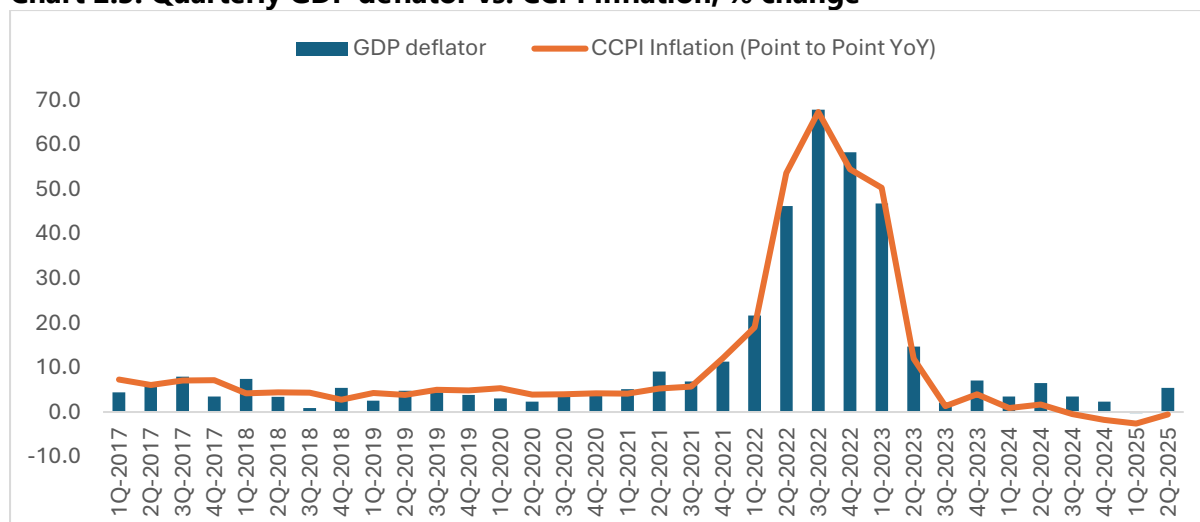
Source: DCS

2. GDP deflator can differ from CCPI inflation, though direction of movement tends to be similar

While they do go alongside each other, the GDP deflator and CCPI inflation refer to two different concepts. CCPI inflation measures the changes in prices of an average basket of consumer goods and services in the Colombo city region.¹ GDP deflator measures the impact of price changes in the final market value of economic activity measured in GDP estimates. The price changes affecting GDP deflator would be of greater variety than is found in the CCPI basket. As a result, during periods of price volatility, the movements in inflation and deflator can differ somewhat. This is quite visible in the recent period where CCPI inflation has been negative, but GDP deflator has largely remained positive.

¹ Harischandra et al. 2023. Investigating Factors Affecting the Target Level of Inflation: The Case of Sri Lanka. CBSL. Staff Studies. Volume 53.

Chart 2.3: Quarterly GDP deflator vs. CCPI Inflation, % change



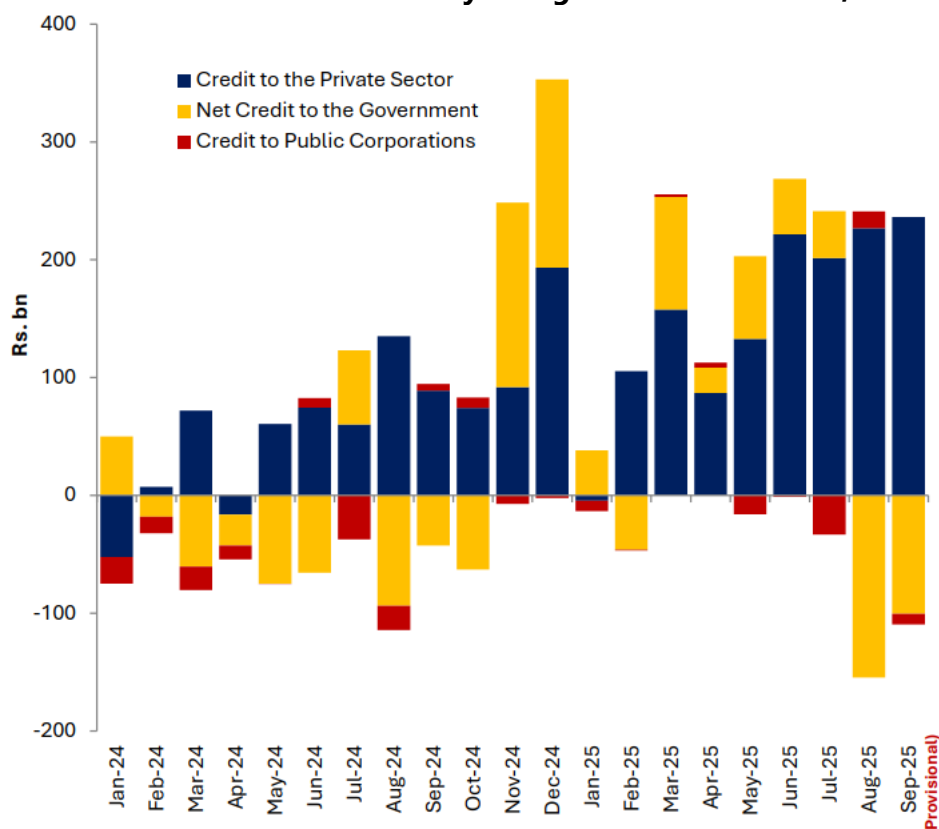
Note: CCPI inflation data spliced to be consistent across base years. Source: Calculated from DCS

3. Recovery in credit creation by financial sector

Credit expansion towards the private sector and households by banks and non-bank financial institutions (NBFIs) over the past year or so has continued to accelerate, with year-on-year growth in bank lending to private sector rising to 22% by September 2025. A key question that the members of CoPF have presented to CBSL officials is whether this ongoing credit growth is supporting productive investments in the economy or whether its expanding consumption in an economy that has historically had a high propensity for import demand.

Despite this concern, the recovery in credit to the private sector is happening in the context of significantly lower credit demand by the public sector due to positive fiscal balances. It is creating an environment for private sector led growth in a manner that has not been seen in Sri Lanka for a while. This is supported by the improvement in capital adequacy and balance sheets of the banking system compared to the crisis period. CBSL should continue to monitor credit creation carefully to ensure that it does not lead to an erosion of financial system stability in the future, at which point such risks could in turn carry a risk to the fiscal balance sheet.

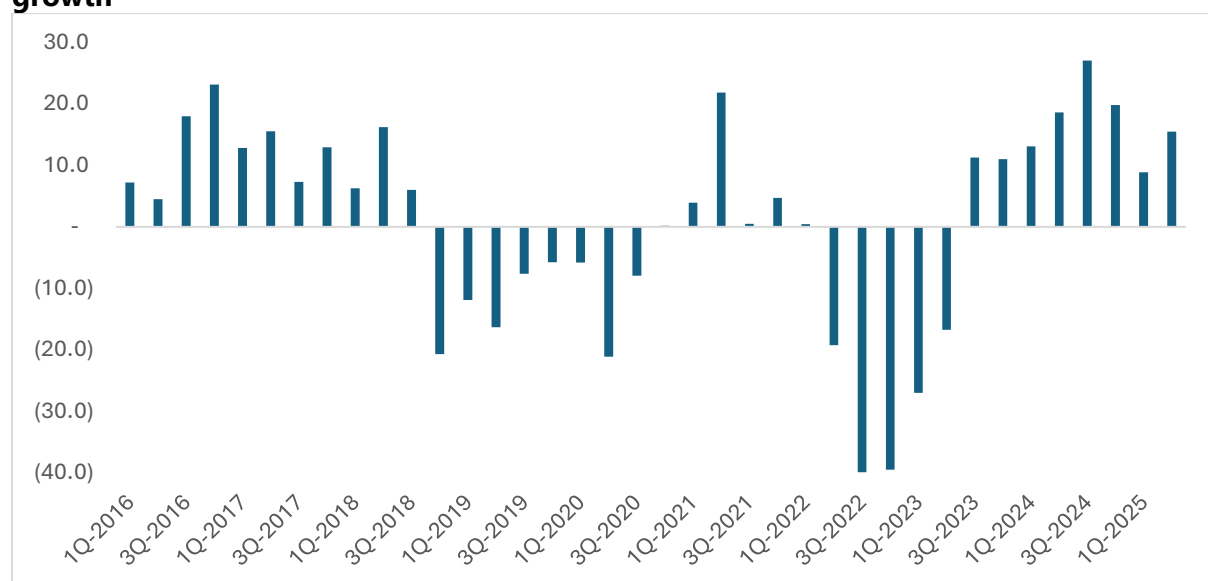
Chart 2.4: Contribution to monthly change in domestic credit, LKR billion



Source: CBSL presentation to CoPF, 04th Nov 2025

4. Sustaining productive investments in the economy

The rebound in the economy since 2023 has coincided with expansion in industrial, manufacturing, and service sector activities as indicated by high frequency indicators like the Purchasing Managers' Index (PMI) and Index of Industrial Production (IIP). The expenditure approach to GDP also shows that gross fixed capital formation (GFCF) has been recovering in this period back towards pre-2018 levels. In the context of limited public capital expenditure, this expansion in GFCF points to private sector-led expansion in capital expenditure in the economy. Indicators like increases in the import of machinery and equipment within investment goods support this.

Chart 2.5: Growth in Gross Fixed Capital Formation component of real GDP, % YoY growth

Source: DCS

The gradual recovery in FDI flows will also be part and parcel of this private sector led investment revival. The Board of Investment (BOI) has highlighted that the first nine months of 2025 saw about USD 827 million in FDI inflows, with an expectation for it to reach USD 1.1 billion for the full year. That would be the highest level reached since 2019. However, even then FDI remains around the 1% of GDP level and the flows remain dependent on a few large projects that have been in the investment pipeline for several years, such as the West Container Terminal and the City of Dreams casino.

5. Productivity enhancing structural reforms

The assessments of the IMF, World Bank, and ADB have pointed to the need for Sri Lanka to sustain measures to remove structural impediments to growth. This includes areas such as tariff policies, improvement in land related issues, and digitization. Budget 2026 points to measures intended to address some of these aspects, such as the continued push digital public infrastructure (DPI) and commitment to implement the national tariff policy (NTP). There are also measures intended to support improvement in agricultural productivity such as utilization of cold-storage facilities such as those already built in Dambulla. However, these individual measures alone would not constitute structural reform if simply implemented within silos. They need to be implemented in an integrated, holistic manner so that these can have impacts that go beyond the sum of their individual parts.

6. Impact of volatility in global economic conditions

The growth outlooks of the IMF, World Bank, and ADB all point to the potential for volatile global economic conditions causing slower growth conditions across regions. In particular, the impact of the higher US tariffs affecting global trade. For Sri Lanka in particular, the US is its largest export market accounting for around 25% of merchandise exports. Even if the lower tariff impact faced by Sri Lanka, relative to some of its peers, provides some relief, it is

important to keep in mind that the overall uncertainty can affect behavior of consumers in export markets and the willingness of investors to proceed with their earmarked investments.

7. Fiscal over performance and Sovereign Credit Ratings

All three major credit rating agencies, Fitch, Moody's and S&P, have highlighted that sustained over performance in fiscal balances would be critical in their future decisions on upgrading Sri Lanka's sovereign credit rating from the current CCC equivalent. The sustained over performance is seen as evidence that Sri Lanka has commitment to moving away from a history of weak fiscal management. Credit rating upgrades in the coming years towards the B range would help increase market access of Sri Lanka firms, financial institutions, and the government to raise financing in the international market, while also increasing the willingness of foreign investors to invest in Sri Lankan assets whether direct or portfolio investments. If this happens in time, it will help balance concerns about the external sector, where recovery in imports and debt repayments makes it harder to accumulate foreign currency reserves.

Inflation outlook

CCPI headline inflation has remained persistently below the lower bound of the inflation target band of 5% with plus or minus 2 percentage points for six consecutive quarters up to 3Q-2025. From mid-2023 to mid-2024 headline inflation was negative, driven by lower energy and fuel prices amidst lower global prices and impact of appreciation of the Sri Lankan Rupee. Inflation moved out of being negative in August 2025 and was 2.1% by October, driven by some statistic effects of lower inflation a year earlier rather than due to a sudden uptick in prices. CBSL currently expects CCPI headline inflation to gradually increase towards the 5% target by mid-2026 and remain at moderated levels within the inflation target band.

Table 2.3: Forecasts for GDP deflator and Inflation

	2025				2026			
	MOF	IMF	WB	ADB	MOF	IMF	WB	ADB
GDP Deflator, %	2.4	3.6			3.2	5.3		
Inflation, %			-0.2	0.5			3.7	4.5

Sources: IMF Fourth Review (July 2025), Budget, Economic and Fiscal Position Report - 2026, Asian Development Outlook – September 2025, World Bank Sri Lanka Development Update - October 2025

Factoring in the CBSL's outlook, the MoF has assumed inflation would reach the 5% target in 2026, as specified in the Fiscal Position Report. But as mentioned in its presentation to CoPF, the MoF assumes only a 3.2% GDP deflator for 2026. This is significantly lower than the 5.3% deflator in the July 2025 IMF review report. But the World Bank and ADB expect inflation in 2026 to be at 3.7% and 4.5%, respectively, indicating that across most months, inflation is expected to be below 5%. In such a context, the MoF's GDP deflator assumption being 3.2% does make sense, further supported by the lack of significant additional indirect taxes added on in 2026 that would affect final prices.

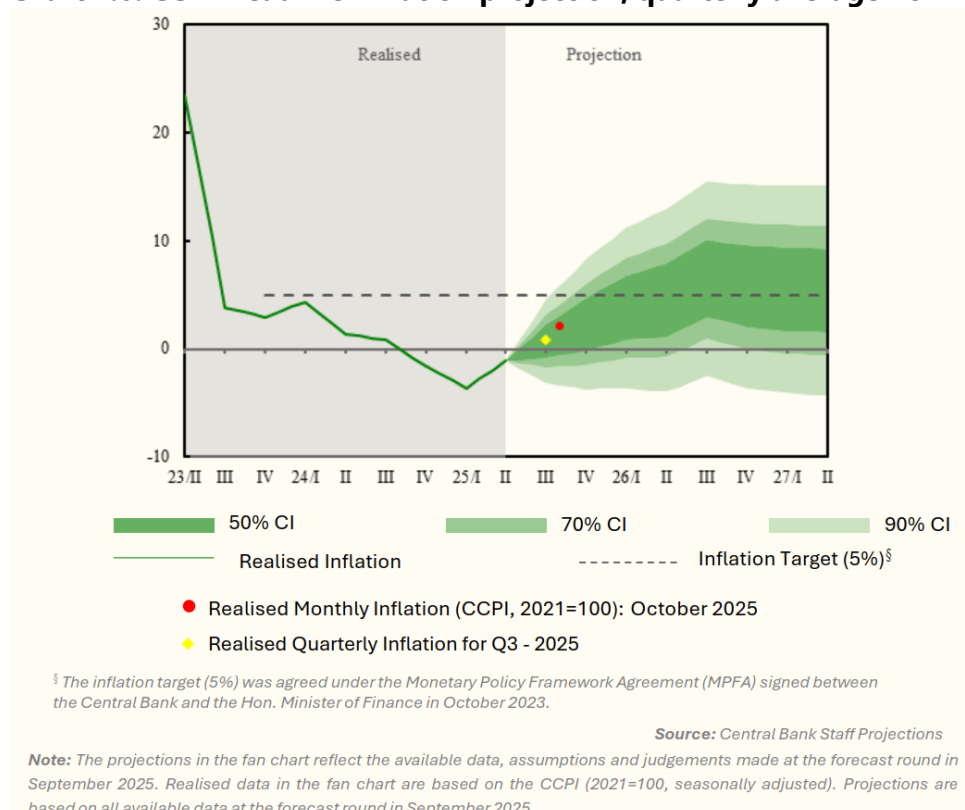
According to the World Bank, policy choices such as currency depreciation could lead to higher food prices, putting upward pressure on inflation. The Asian Development Bank's forecast is

based on the view that the deflationary pressures of 2025 are temporary and will fade, leading to a gradual rise in the inflation rate in 2026. This aligns with the Central Bank's own projections, which expect inflation to gradually climb back towards its 5% target by mid-2026 as the impact of the earlier supply-side impacts diminish.

A key factor that will affect inflation outlook and inflation expectations going forward will be currency movements. Across 2023 and 2024, the appreciation of the currency reduced imported costs in rupee terms. But with 3.9% depreciation against the USD so far in 2025, that benefit would no longer be available. This means that the inflation targeting framework indirectly causes an incentive to keep depreciation contained. Another source of uncertainty is the electricity tariff mechanism, where the tussle between CEB and PUCSL over cost estimations leads to delays in tariff changes, which can result in sudden large changes in tariffs. That can cause swings in inflation in some periods, causing uncertainty about being within the inflation target band.

President Anura Kumra Dissanayake mentioned a desire to keep inflation average around 3% in the long term, in the Budget speech. But as CBSL's technical paper on inflation target explains,² it will take time for the staff to be confident that they can sustainably use monetary policy tools to keep inflation at a lower target range than the current target range in a country where supply side factors dominate inflationary impacts.

Chart 2.6: CCPI Headline Inflation projection, quarterly average YoY %



² Harischandra et al. 2023. [Investigating Factors Affecting the Target Level of Inflation: The Case of Sri Lanka](#). CBSL. Staff Studies. Volume 53.

GDP based fiscal targets make GDP forecasting accuracy critical

The assumptions made on GDP growth has become more important following the enactment of the PFM Act under which Sri Lanka has to keep primary expenditure below 13% of GDP. The other two fiscal targets coming from the IMF program and Medium-Term Fiscal Framework (MTFF), revenue and primary balance, are also as a share of GDP. Getting the nominal GDP growth right becomes vital to the budget preparation. A large deviation in actual nominal GDP for the year compared to the forecast can significantly change the fiscal performance.

For example, in Budget 2025, there was an assumption for nominal GDP growing by 10.5% YoY in 2025 to LKR 33 trillion. But actual nominal GDP is now likely to be only around LKR 32 trillion, with nominal growth of only around 7%. This slower than expected nominal growth is due to the GDP deflator being an estimated 2.4% in 2025 compared to the 5.7% assumption in Budget 2025. Real GDP growth is still expected to be around the estimated figure of 4.5% in 2025, with real growth in the Jan-Jun 2025 period being 4.8% already. The LKR 1 trillion deviation in nominal GDP in 2025 meant that the primary expenditure ceiling needed to be reduced by LKR 180 billion. If the primary expenditure allocations for 2025 had been fully spent, then the government would be in breach of the primary expenditure ceiling of 13% of GDP stipulated in the PFM Act.

However, actual primary expenditure for 2025 is expected to be lower than the budgeted amount by approximately LKR 330 billion, driven by much lower capital expenditure than budgeted. Therefore, lower capital expenditure in 2025, driven by delay of recommencing infrastructure projects such as Central Expressway Phase 1, helped the government to keep primary expenditure around 12.2% of GDP, remaining below the primary expenditure ceiling. However, the risk of breaching primary expenditure ceiling limit due to the changes between estimated and actual nominal GDP remains. Thus, nominal GDP assumption/estimates of the MOF should not deviate substantially in 2026, to avoid forced primary expenditure cuts towards late 2026.

Table 2.4: Deviation of Fiscal Targets in 2025 due to GDP assumption changes if primary expenditure was spent according to Budget 2025 allocations

	Budget 2025 LKR Bn	NGDP = 33 trillion % of GDP	NGDP = 32 trillion % of GDP
Primary Expenditure	4,240	12.8%	13.3%
Revenue	4,990	15.1%	15.6%
Primary Balance	750	2.3%	2.3%

Source: MoF presentation to COPF, 23rd Oct 2025

External Sector Outlook

The Fiscal Position Report mentions that there is an expectation for the external sector to remain positive, with continuation of the current account surpluses that have been recorded in all quarters since mid-2022. Exports of goods and services are also expected to grow, supported by the "implementation of the National Export Development Plan (2025-2029) and the introduction of a National Tariff Policy aimed at establishing a simplified, transparent, and

predictable tariff framework.” However, for revenue purposes the MoF has assumed that vehicle imports will be lower in 2026. Based on these assumptions, the report also takes the view that the exchange rate will also remain stable in 2026.

The aggregate performance of exports of goods and services and remittances so far in 2025 does support a view that the external sector can continue to improve, with an overall improvement of 9.4% in these foreign currency earnings compared to the same period in 2024. Interestingly, merchandise exports have performed better in this period than service exports, likely supported by an acceleration of shipments ahead of higher US tariffs from August. Service exports have also seen contraction in IT/BPO services and Air Transport services, being offset by expansion in port services and other business services. Remittances have been the key growth area, seeing 20% YoY growth.

Table 2.5: Foreign Currency Earnings Performance for Jan-Sept 2025

	2024 Jan - Sep USD mn	2025 Jan - Sep USD mn	Change (%)
Total Exports & Remittances	19,482	21,316	9.4
Total exports	14,638	15,504	5.9
Merchandise exports	9,518	10,215	7.3
Industrial exports	7,442	7,854	5.5
Garments	3,479	3,714	6.7
Textiles	224	218	-2.6
Agriculture exports	2,036	2,324	14.1
Tea	1,059	1,163	9.8
Mineral exports	20	18	-7.7
Service Exports	5,120	5,289	3.3
Tourism	2,348	2,473	5.3
Port services	821	1,062	29.3
Air transport services	493	348	-29.4
Computer & IT/BPO related services	636	621	-2.4
Other Business Services	369	506	37
Remittances	4,844	5,812	20

Source: CBSL

However, the dependence of foreign currency earnings growth on few key sectors like remittances, garment exports and port service exports does expose Sri Lanka's external sector to impacts from sector specific risks.

It is also important to keep note of the fact that despite a 16% increase in tourist arrivals, earnings from tourism grew only 5.3% up to September. It indicates that per tourist spending remains low, with measures needed to attract more tourists to reach the ambitious targets of reaching USD 5 billion or more in tourism earnings in the coming years. There also needs to be an improvement in the data on tourism earnings, given the current estimates are based on a survey of tourists at the airport. Some estimate that the actual tourism earnings could be up to 20% below the figures estimated through this survey.³

Total imports of goods and services have expanded by about 11.2% in the first nine months of 2025 to about USD 17.8 billion – still USD 3.5 billion lower than the earnings from exports and remittances. However, the faster growth in imports – driven by vehicles – alongside the restarting of external debt repayments does create a challenge for the external sector going forward. In September 2025, the rising trade deficit contributed to a monthly current account deficit for the first time in 2025. The sustained growth in credit to the private sector will contribute to further expansion in imports.

Table 2.6: Import performance for Jan-Sept 2025

	2024 Jan - Sep US \$ mn	2025 Jan - Sep US \$ mn	Change (%)
Total Imports	16,040	17,831	11.2
Total Merchandise imports	13,718	15,390	12.2
Consumer goods	2,457	3,816	55.4
Food and beverages	1,357	1,565	15.3
Personal vehicles	56	933	1562
Intermediate goods	8,790	8,617	-2.0
Fuel	3,273	2,961	-9.5
Textiles and textile articles	2,081	2,037	-2.1
Investment goods	2,465	2,944	19.4
Machinery & equipment	1,666	1,848	10.9

³ [Understanding tourism earnings for better macro-economic forecasting – Frontier Research – DailyFT – 18 March 2024](#)

Transport Equipment	111	354	220
Services Imports	2,319	2,441	5.3

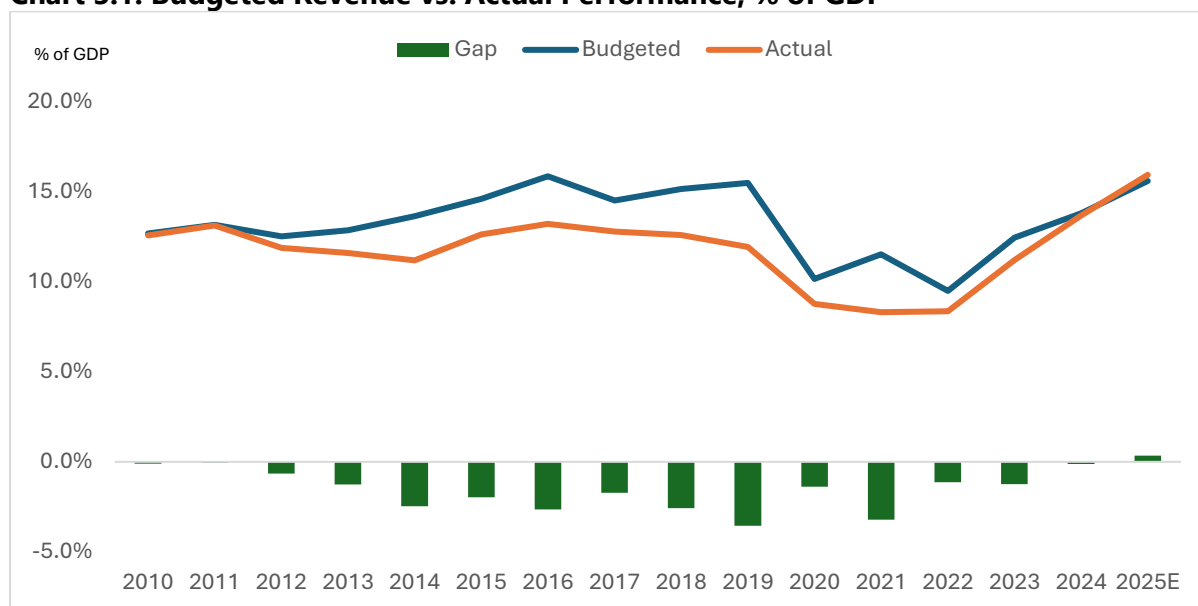
Source: CBSL

From a fiscal point of view, the rise in imports has contributed to a rise in revenue from import taxes, with vehicle taxes leading the way. However, as discussed in detail in the final section of the report, narrowing of external current account surpluses due to rising imports can put pressure on the Treasury's ability to source foreign currency for its foreign debt repayments amidst lower disbursements from foreign creditors. The depreciation of the USD/LKR exchange rate by about 3.9% so far in 2025 is also an indication the tighter external sector conditions in 2025 compared to the immediate post crisis years of 2023 and 2024. As discussed earlier, improvement in Sri Lanka's credit rating and ability to attract foreign investments would help manage this tightening in the period ahead.

Section 3: Revenue Estimates

Sri Lanka has a history of overestimating revenue. But in 2025 Sri Lanka has ended up with the opposite happening. Actual revenue collection is estimated to be 15.9% of GDP, compared to the 15.1% expected in Budget 2025. This overperformance was driven by a lower nominal GDP expansion and higher-than-expected collection of taxes from vehicle imports. The Treasury has acknowledged that such an overperformance is unlikely to recur in 2026 and expects only 15.4% of GDP in revenue in 2026.

Chart 3.1: Budgeted Revenue vs. Actual Performance, % of GDP



Source: Budget Speeches, MoF Annual Reports, DCS

Having surpassed the government revenue level above 15% of GDP more comfortably than expected a few years back, President Anura Kumara Disanayake mentioned in the Budget Speech that the long-term target is to increase government revenue to 20% of GDP. Such an increase is vital if the public expenditure ceiling is to be revised upwards in the future. But that would also require sustainable sources of revenue increase.

The President also mentioned the long-term desire to shift the indirect to direct tax revenue ratio from 80:20 to 60:40. But revenue increases in 2025, and proposed increases expected in 2026 are mostly from indirect taxation. Sustaining improvements in direct taxes without affecting the existing narrow base would require further improvements in tax collection and administration.

In this context, this section focuses on where the revenue increases in 2025 and 2026 are estimated to come from, whether those are based on effective assumptions, and discuss aspects of tax buoyancy and tax administration that ought to be considered for sustainable revenue expansion.

Overall Revenue Estimates

The overperformance in 2025 is a one-off due to the vehicle tax revenues being higher than expected, resulting in a reduction in revenue as a share of GDP when moving into 2026. Yet, the LKR value of revenue collected is expected to increase from LKR 5.1 trillion to LKR 5.3 trillion (a 3.9% increase). Most of this increase is expected to come through increases in income tax and indirect taxes, especially VAT.

Table 3.1: Revenue, % of GDP

Category	2024	Budget 2025	2025 Estimates	Budget 2026	2025 Budget vs Estimates	2026 change
Revenue & Grants	13.7%	15.1%	15.9%	15.4%	+0.8	-0.5
Tax Revenue	12.4%	13.9%	14.8%	14.2%	+0.9	-0.6
Income Taxes	3.4%	3.5%	3.5%	3.5%	-	-
Taxes on Goods & Services	7.4%	8.4%	9.2%	8.9%	+0.8	-0.3
Taxes on External Trade	1.6%	2.0%	2.0%	1.9%	-	-0.1
Non-Tax Revenue	1.1%	1.1%	1.1%	1.0%	-	-0.1

Source: Budget Speeches

Taxes from Vehicle Imports

The LKR 1 trillion in tax revenue increase in 2025 was about LKR 110 billion higher than expected, driven by taxes on vehicle imports. Against an expectation for about LKR 450 billion in vehicle tax revenues in 2025, the Ministry of Finance now expected about LKR 650 billion to be collected, a near LKR 600 billion increase from 2024.

But such collection is expected to reduce to around LKR 550 billion in 2026. This is because only around USD 1.2 billion in vehicles are expected to be imported in 2026, compared to the more than USD 1.5 billion expected to be imported in 2025. By late October 2025, the Ministry estimated that there was about USD 1.8 billion in vehicle import LCs opened, with about \$1.2 billion in imports cleared. Some of the LCs will likely be cleared in 2026.

About 71% of just over LKR 700 billion of the LKR 1 trillion increase in tax revenue in 2026 (Little over LKR 700 billion) was driven by the increase in import duties, VAT on Imports, Excise duty on motor vehicle imports, Luxury vehicle tax and vehicle entitlement levy. Close to LKR 600 billion of the increase in these taxes, likely came from vehicle imports.

In contrast, the 2026 budget estimates expect these tax categories to actually contract, with excise duty on vehicles expected to fall by LKR 130 billion, while the others remain stable.

According to the budget estimates, excise duty on vehicles is estimated to be LKR 266 billion in 2026, reducing from an expected LKR 396 billion in 2025. The customs import duty imposed on vehicle imports also included a 50% surcharge on top of the 20% duty. This surcharge made effective custom duty on vehicle imports 30% and was effective for a year from 01 February 2025. So far, there has not been a decision to extend that surcharge beyond February 2026. If the surcharge is not extended, effective custom duty on vehicles will fall to 20% from 30% entailing revenue loss.

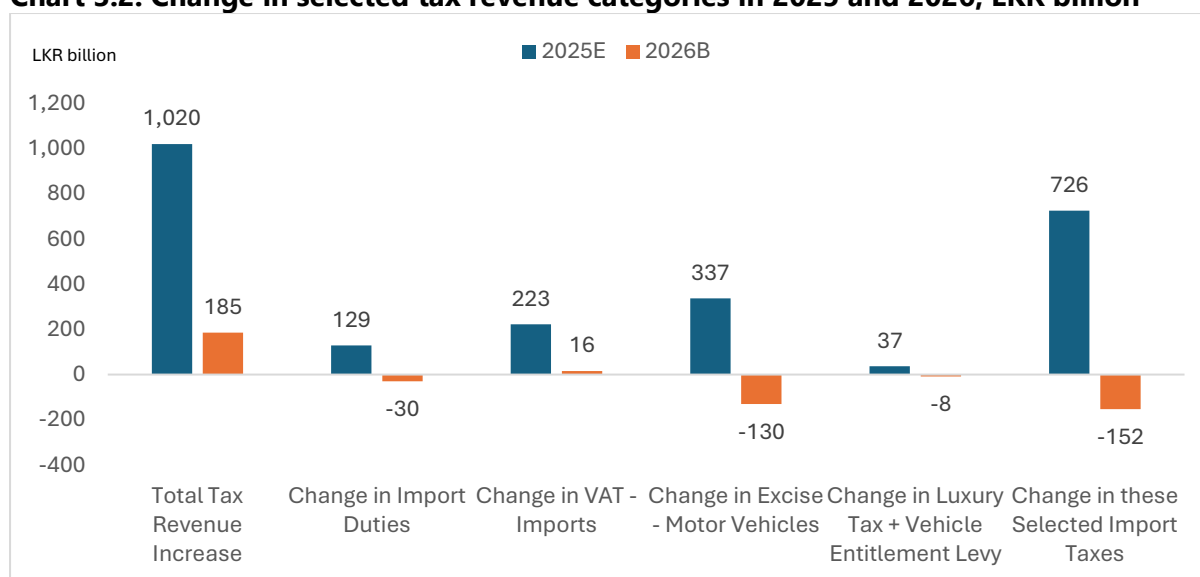
However, the decision in Budget 2026 to impose SSCL on vehicle imports from April 2026 onwards could be an indication that the surcharge is being replaced with SSCL. Given SSCL is a turnover tax that is imposed on top of the other taxes, for higher CIF value and engine/battery capacity vehicles the impact of SSCL could more than offset the impact of the import duty surcharge being potentially phased out. Although the SSCL is 2.5%, the tax base for SSCL is substantially higher than the tax base for custom duty. Such higher tax base coupled with SSCL being a turnover tax would help the government to collect a tax revenue that will help to offset revenue loss from not having surcharge on custom duty on vehicles.

It is important to keep in mind that revenue from vehicle imports is an uncertain source to rely on. Varied market factors could affect the actual collection adversely, for example:

- The pent-up demand that existed for new vehicle imports in 2025 could be exhausted going into 2026.
- The reduction in the Loan-to-value (LTV) ratio on motor vehicles on 7th November from 60% to 50% would also reduce import demand to some extent.
- Even if demand continues, it is possible that the average CIF value of vehicles is lower in 2026, especially if the high-net worth consumers have already bought their vehicles in 2025.
- There has been a buildup of significant stocks of vehicles with importers, which could sustain part of the consumer demand in 2026.

Therefore, it is important for other taxes to remain resilient sources of increased revenue.

Chart 3.2: Change in selected tax revenue categories in 2025 and 2026, LKR billion

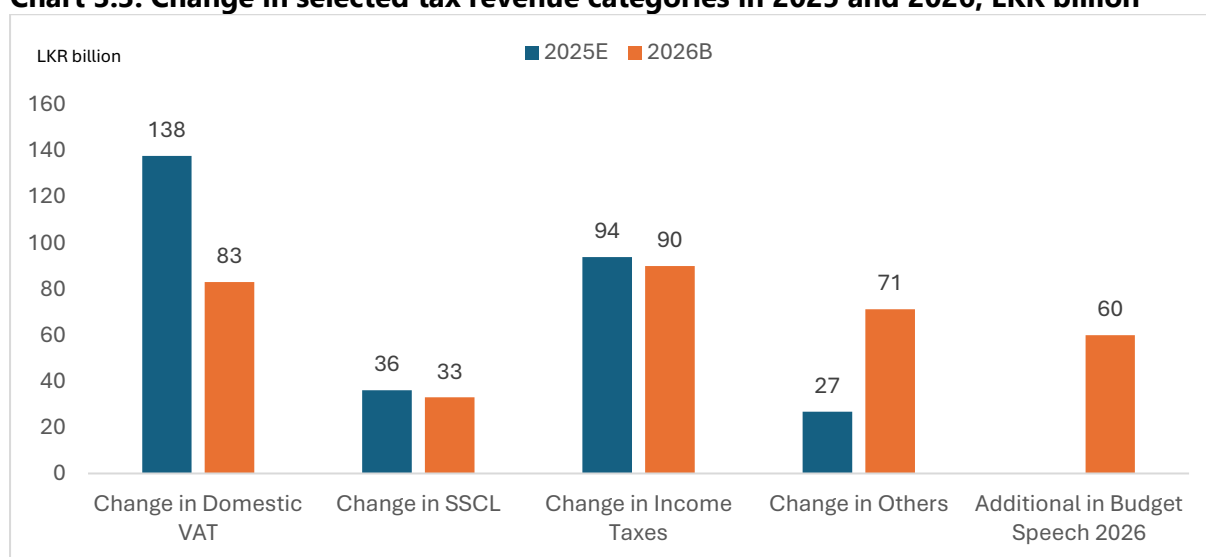


Source: Budget Estimates 2026

Other Tax Contributors

Budget estimates indicate that in 2025 taxes not related to vehicle imports rose by close to LKR 300 billion, driven mostly by increase in VAT on domestic goods and services and income taxes. Going into 2026, with vehicle import tax collection expected to reduce by LKR 100 billion or more, other tax sources are expected to rise by about LKR 337 billion, to ensure overall tax revenue increases by around LKR 185 billion. This includes the potential impact of the main revenue raising measure in Budget 2026 – the reduction in VAT and SSCL threshold from LKR 60 million annual turnover to LKR 36 million. Income tax is also expected to continue to grow by about LKR 90 billion.

Chart 3.3: Change in selected tax revenue categories in 2025 and 2026, LKR billion



Source: Budget Estimates 2026, Budget Speech 2026

Impact of reducing VAT and SSCL threshold

The reduction in the threshold from LKR 60mn to LKR 36mn has been presented as a measure to create a more level playing field in the domestic market where businesses that are able to maintain turnover below LKR 60 million have been able to price their goods and services without charging 18% VAT on the final price. A business with daily turnover of LKR 100,000 would have to register for VAT. This should help increase the number of active VAT paying entities.

In the near term, this should help improve VAT and SSCL revenues, especially from the non-financial services sectors like retail, F&B, and professional services. In smaller service sectors it has been easy enough to create additional companies to keep turnover of each company below the LKR 60 million threshold. But at lower thresholds this might not be as convenient, given the overheads to maintaining separate companies. While this proposal does expand the VAT base, it will be important to consider whether the cost of compliance can be minimized for both the new VAT paying firms and for the IRD through improvements to processes.

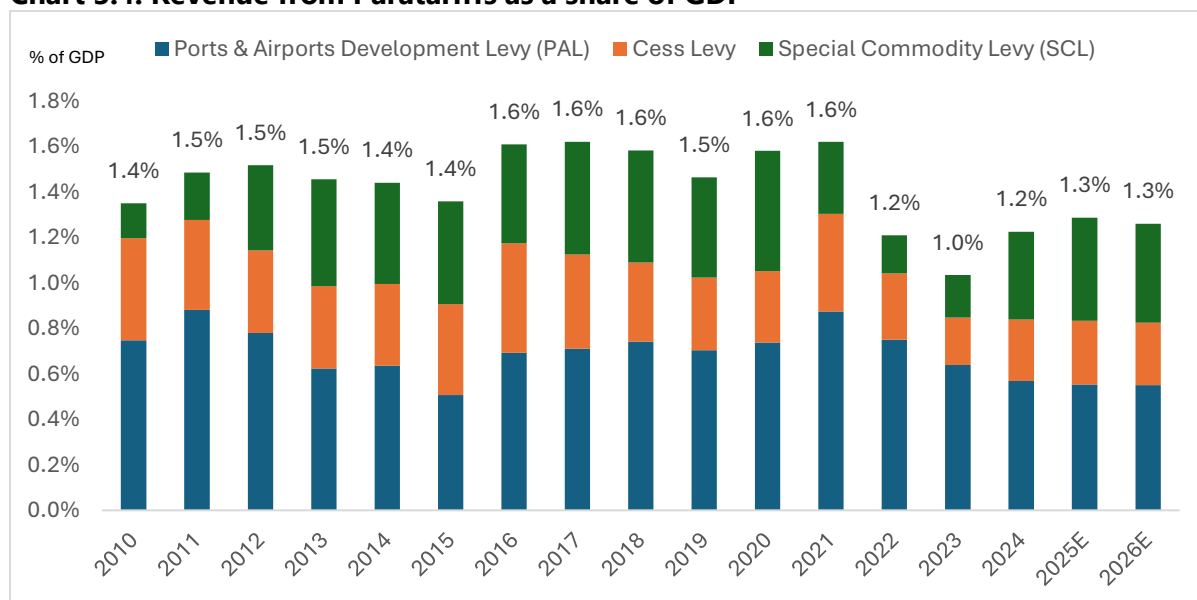
Unfortunately, the budget speech did not contain an estimate for the revenue improvement expected from the measure. However, the budget speech has a revenue estimate that is LKR 60 billion higher than the budget estimates document and the MoF's presentation to CoPF in late October, which might provide an indication of the revenue increases expected from the proposals in the budget speech.

Implementation of National Tariff Policy (NTP)

The Budget speech made reference to the implementation of the National Tariff Policy (NTP), which was adopted by the Cabinet of Minister in mid-2024 and was expected to be fully operational from January 2025. Due to the change in government the timeline of this implementation has shifted, but the procedural aspects of the NTP are being implemented, with changes in paratariffs rates happening through the National Tariff Policy Committee (NTPC) set up under the NTP.

A key part of the NTP is to gradually phase out the paratariffs of Special Commodity Levy (SCL) and CESS Levy from 2025 onwards. Alongside the Port and Airport Development Levy (PAL), these paratariffs account for over 1% of GDP in revenue. From a rupee revenue perspective, the three paratariffs are expected to provide an additional LKR 23 billion in revenue in 2026, following an estimated LKR 45.7 billion growth in 2025. Given that import duty imposition is limited by the World Trade Organization (WTO) and bilateral trade commitments, these paratariffs have acted as a means to maintain high effective import duties on a wide range of goods.

Chart 3.4: Revenue from Paratariffs as a share of GDP



Source: MoF, CBSL, DCS

However, this is not the first time that a budget speech has referred to paratariffs being phased out. Budget 2023 also referred to this, providing a five-year timeline to fully phase out the paratariffs, with the existing import duty band meant to help in that transition. But the phase out has not been fully implemented since then. There are challenges in sustaining momentum in that direction. On the one hand, they still account for about 10% of government tax revenue,

so new tax sources should be found. On the other hand, some sectors of the economy have come to depend on the tariff protection offered by these to maintain their price competitiveness vis-à-vis imports. Government appears to be taking two approaches in this transition to try to manage these challenges:

1. When it comes to imports which are subjected to CESS and/or SCL but not VAT, there is the possibility of making that replacement. The Budget speech has done this for both coconut and palm oil imports and for import of fabrics, adding VAT (and SSCL in case of the oil) instead.
2. Another measure being implemented is to shift the import duty bands from 0%, 15%, 20% to 0%, 10%, 20%, 30% from April 2026. This allows some tariffs to be reduced to lower 10% rate, while also retaining ability to impose higher 30% rate on goods that are deemed to require higher protection by government policy even in the absence of paratariffs in the future.

There is no estimation of revenue impacts from these measures in 2026 in the budget speech. The Secretary to Treasury has been quoted at the Deloitte post-budget forum saying he expects the overall transition from paratariffs to be revenue neutral.⁴ Such an assumption would require imports to continue to increase overall.

Based on current CIF of coconut oil and fabric, replacing the existing CESS and SCL with VAT appears to retain a similar rate of taxation on these imports. But unlike CESS and SCL, VAT registered firms in the supply chain are able to obtain a tax credit for the VAT paid for the imports and retain a level playing field with domestic supplies that are subject to VAT. With the revocation of SVAT, this is an important aspect for manufacturers, especially regarding fabric imports for the apparel sector.

Growth in Income Tax revenue

In 2022-2023 income tax revenue grew significantly. But its growth has slowed down substantially in 2024-2025 and is expected to grow by around LKR 90 billion in 2026. From a share of GDP perspective, income taxes would remain around 3.5%, remaining around the levels reached since 2023.

Corporate income taxes are expected to be main driver of higher income tax revenue in 2026. The 9.1% expansion in corporate income taxation in 2026 is likely on the assumption that a growing economy would be reflected in higher corporate earnings.

Companies listed in the Colombo Stock Exchange (CSE) have continued to record increases in profitability by mid-2025. Reports by stockbrokers estimated 57.4% YoY increase in profitability in 1Q-2025⁵ and 56% YoY increase in 2Q-2025 for listed firms.⁶ While listed firms

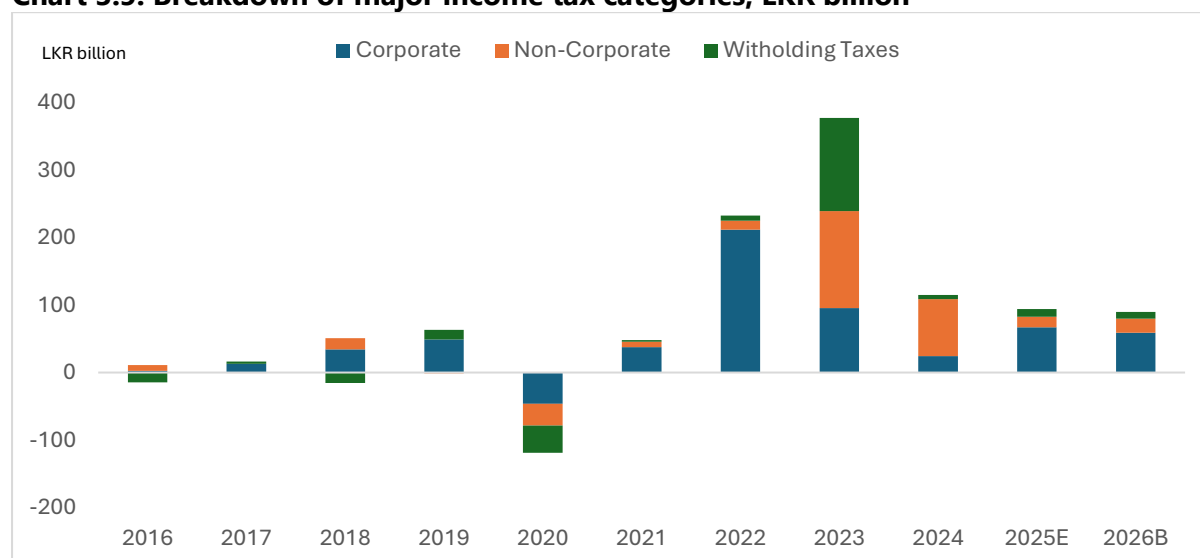
⁴ [Sri Lanka para-tariff removal to be revenue neutral, may start 1Q : Treasury Secy - EconomyNext - 8 Nov 2025](#)

⁵ [March 2025 Quarter Listed Company Earnings Up 57% - Echelon - 15 July 2025](#)

⁶ [Corporate earnings jump 56% in Q2 - The Morning - 27 Aug 2025](#)

only account for a small share of firms in Sri Lanka, they provide a proxy to understand private sector profitability.

Chart 3.5: Breakdown of major income tax categories, LKR billion



Source: CBSL and Budget Estimates 2026

Driving Tax Revenue beyond rate and threshold changes

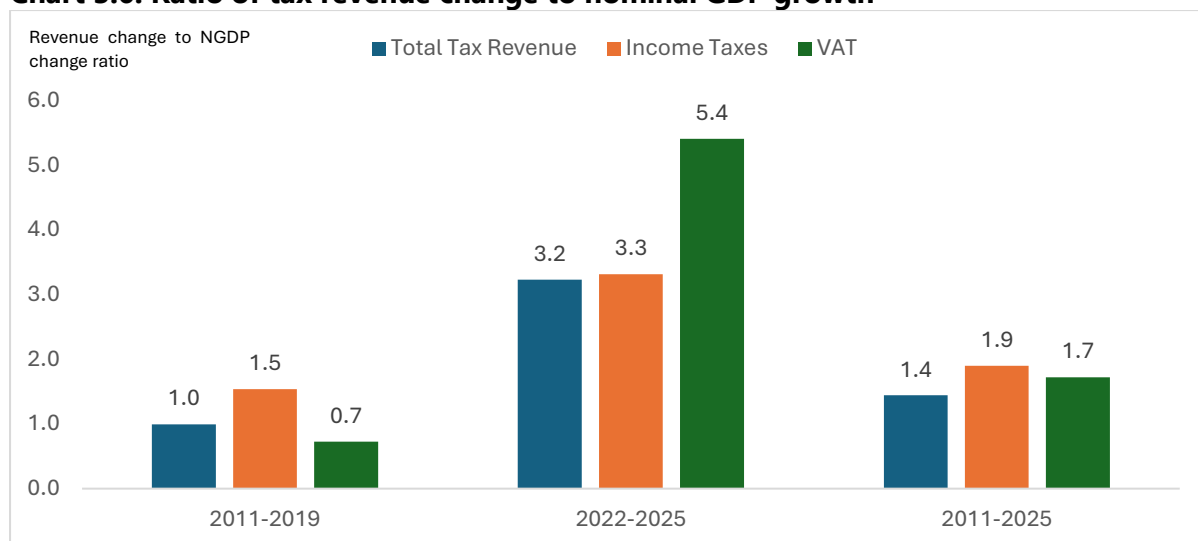
Beyond a few specific tax measures, a majority of the tax revenue increase in 2025 is expected to come from an expanding tax base as economic activity grows and from improvements in tax administration. In this regard, tax buoyancy and capacity of tax collecting agencies become key factors in sustainable revenue expansion.

Tax Buoyancy

As the tax structure stabilizes, future expansion in tax revenue will rely more on the tax base expanding with the growth of the economy and improvements in tax administration. Tax buoyancy is a way to measure whether tax revenues are keeping up with economic growth. If tax buoyancy is a value of 1 or more, it means that for each unit of nominal GDP growth, tax revenue is growing by an equal proportion or more.

Unfortunately, due to frequent changes in the tax system, tax buoyancy has been quite volatile. Regardless, on average tax buoyancy has been above 1 in the 2011 to 2024 period. This has not been consistent however. In periods like 2014 and 2020-2021, tax cuts contracted the tax base and led to tax revenue growth being negative or slower than nominal GDP growth (tax buoyancy below 1 or even negative). In contrast, periods like 2015 and 2023-2024 saw higher taxes and reforms allowing tax revenues to grow and catch up with nominal GDP growth.

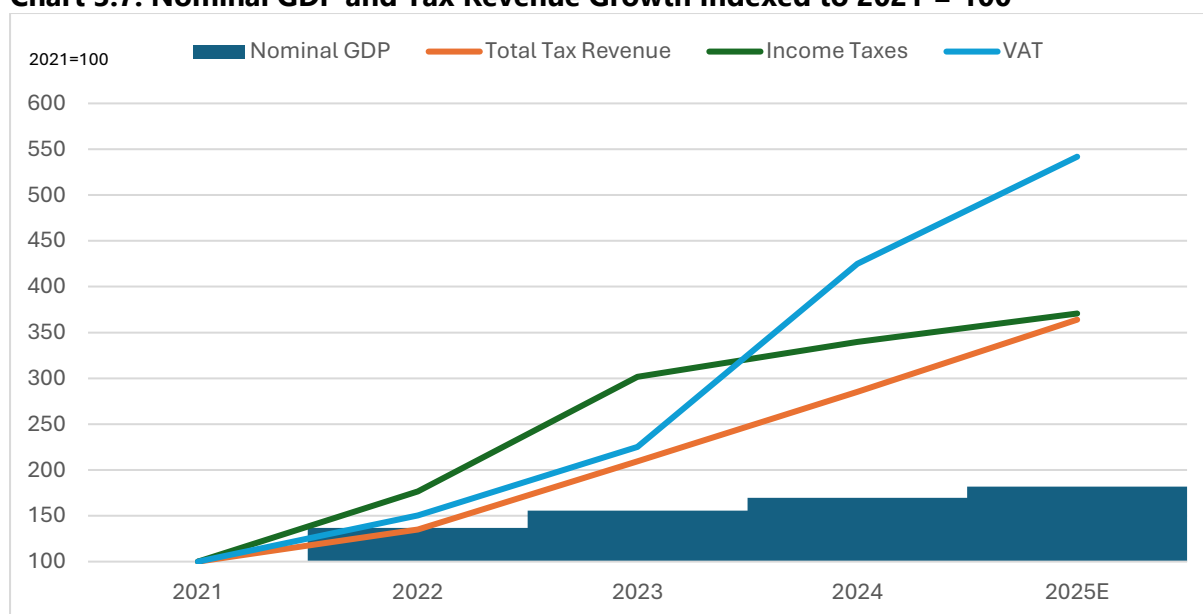
Chart 3.6: Ratio of tax revenue change to nominal GDP growth



Source: Calculated from MoF data

During the 2022-2025 period, NGDP increased by an estimated 82% compared to 2021, while overall tax revenue increased by 264%, with VAT alone growing by 442%. If the taxes grew simply with a tax buoyancy of 1, that is proportionate to nominal GDP, then tax revenue would only have risen by about 82% across this period – far too little to meet the level of fiscal consolidation achieved across the past four years.

Chart 3.7: Nominal GDP and Tax Revenue Growth Indexed to 2021 = 100



As summarized in the table, 69% of tax revenue increase during 2022-2025 period can be assumed to have come from changes to tax rates, thresholds and improved administration. It is larger for VAT at 81% given the massive reduction in VAT threshold and removal of many exemptions.

Table 3.2: Decomposition of NGDP vs. Tax changes in Tax Revenue increase

	2022-2025 Increase LKR Bn	via NGDP growth		via changes to taxes & administration	
		LKR Bn	Share of total increase	LKR Bn	Share of total increase
Total Tax Revenue	3,427	1,060	31%	2,367	69%
Income Taxes	818	247	30%	571	70%
VAT	1,362	252	19%	1,110	81%
Other Taxes	1,247	562	45%	686	55%

Source: Calculated from MoF and DCS data

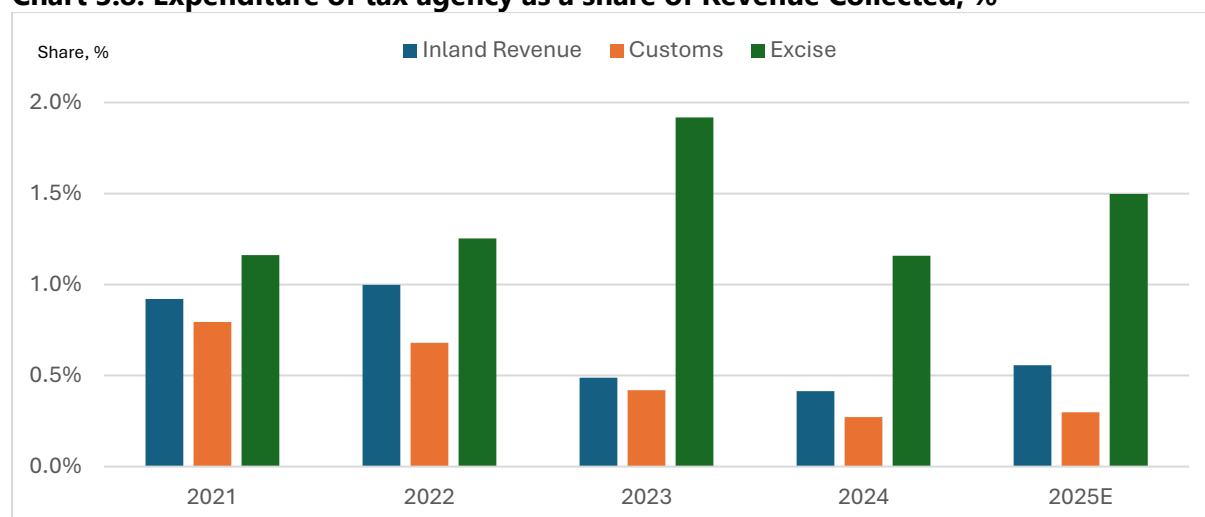
However, going forward tax revenue increases would be more dependent on tax buoyancy and improvements in tax administration to expand the tax base without increases in tax rates. This shift appears to have been factored into the 2026 tax revenue estimates. While the MoF assumes 7.8% in nominal GDP growth in 2026, tax revenue is expected to increase only by about 3.9%. That is a tax buoyancy of only 0.5, below the long-term average of 1.4 for 2011-2025.

Capacity of Tax Agencies

All most all tax revenue collection is handled by the Inland Revenue Department, Sri Lanka Customs and Excise Department. However, expenditure allocations to these institutions remain quite low. With the massive increase in taxes collected by IRD and Customs has meant that the expenditure as a share of the revenue collected has fallen to about 0.5%. Excise Department, as the smaller of the three, has a higher expenditure relative to revenue collection.

Their expenditures have not increased substantially in the past, other than the 2022 onwards increase to account for the impact of inflation. This means that the resources available for them to hire necessary skilled employees and to invest in better infrastructure are limited. Professor Mick Moore has highlighted that in other developing countries, effective tax agencies have expenditures of about 2-3% of their revenue collection.

Chart 3.8: Expenditure of tax agency as a share of Revenue Collected, %



Source: MoF Annual Reports and Budget Estimates

Budget 2026 has made several proposals to improve the capacity of these agencies and improve their services to taxpayers:

- Improving tax audit processes
- Development of National Electronic Invoicing System to improve digital tax payments and assessments
- Establishment of IRD head office operations in a single location.

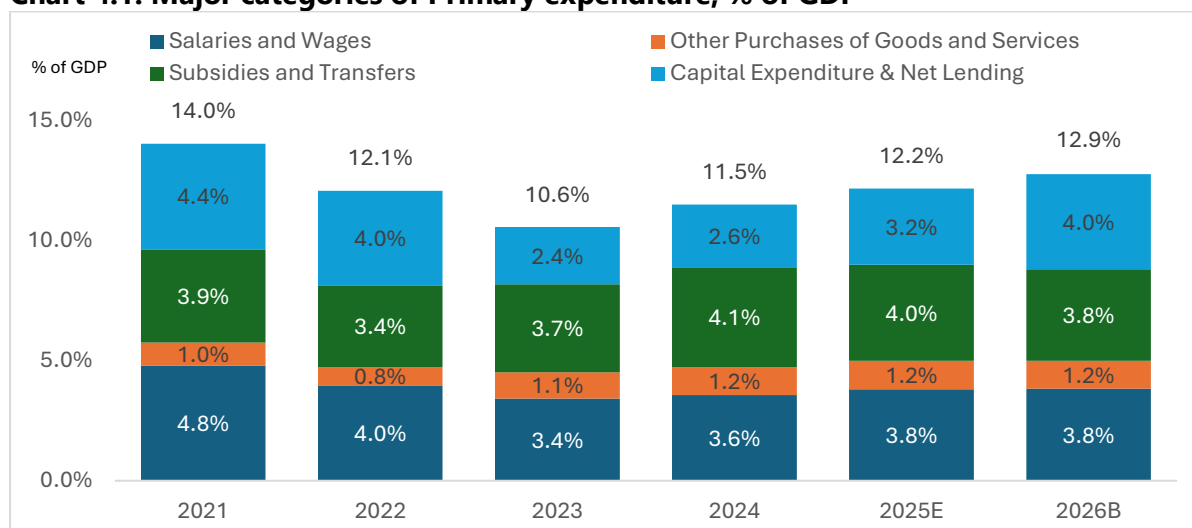
IRD in particular received higher expenditure allocations in 2025, rising by 52%, and is expected to rise by another 22% in 2026.

Section 4: Primary Expenditure Allocations

In the context of the PFM Act imposing a 13% of GDP ceiling on primary expenditure, this section analyses the budgetary allocations for expenditure excluding debt service payments.

Budget 2026 allocates about 8.9% of GDP to primary recurrent expenditure (that is excluding interest payments), maintaining it at the level it has been at since 2024. This stability in primary recurrent expenditure as a share of GDP has been the case despite increases in public sector salaries, pensions, and welfare spending. Once again, the budget allocates 4% of GDP to capital expenditure (and net lending), as has been the case in the past two years. But actual capex has been much lower in recent years due to varied reasons, bringing to question whether the 2026 capex allocations will meet a similar fate.

Chart 4.1: Major categories of Primary expenditure, % of GDP



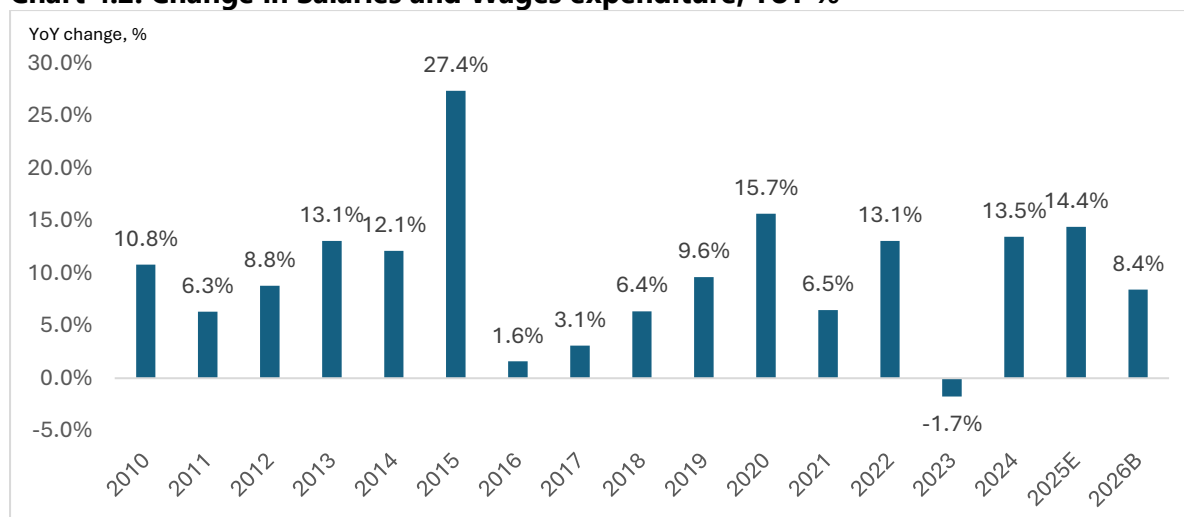
Source: MoF, Budget Speech 2026

Primary Recurrent Expenditure

The three main categories of primary recurrent expenditure are Salaries and Wages, Subsidies and Transfers, and Purchases of Other Goods and Services.

Salaries and wages

Expenditure on salaries and wages continue to expand in LKR terms, with some form of increase happening in both 2024 and 2025. The salary increase proposed in Budget 2025 involves higher payments coming into effect in three phases across 2025 to 2027. As a result, the next phase is effective from January 2026 with an estimated cost of LKR 110 billion according to the Budget Speech. However, the estimated increase in total salary and wage costs from 2025 to 2026 is only LKR 103 billion. This creates a question on how both the salary increases and proposed new hires to the public sector would be accommodated within this allocation.

Chart 4.2: Change in Salaries and Wages expenditure, YoY %

Source: MoF, Budget Speech 2026

The MoF has mentioned that the salary expenditure is estimated on the assumption of 1.3 million public sector employees, without significant increases in that number through new hires. The Budget Speech indicated that about 75,000 new hires into the public sector will be needed to fill critical vacancies created by retirements and lack of formal recruitment for many years. In October 2025, cabinet approved the hiring of 8547 to fill vacancies.

There are some additional measures announced in Budget 2026 that could add to the salary expenditure including the increased allowances for teachers in remote service and principal, increase in allowances for gatekeepers at unsafe railways crossings, and permanent appointments for 9800 employees hired on temporary or contract basis. Setting up a Salaries and Pensions Commission to resolve salary anomalies can also lead to increases in wage costs. As a result, there could be some underestimation of the increased cost of salaries and wages, unless there is a large cohort of retirees from the public sector in 2026, causing the net increase to be contained within the LKR 103 billion increase allocated.

Pensions

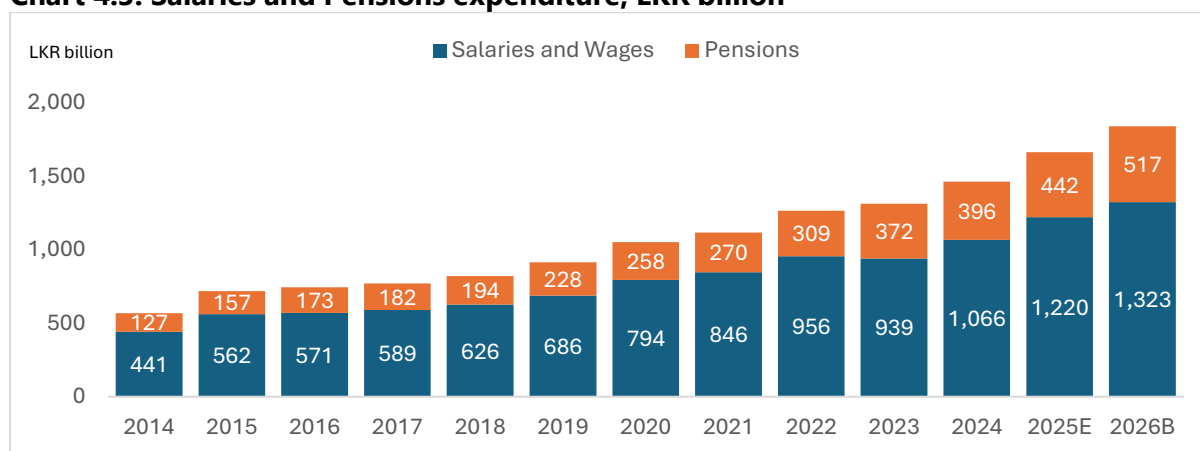
The retirements from the public sector have been such that pensions expenditure is growing at a faster pace than salaries and wages. This trend is likely to continue given the overall ageing and retirements happening at a higher salary level than in previous years. In combination salaries and pensions will account for 60% of primary recurrent expenditure and 41% of all primary expenditure in 2026 allocations, limiting fiscal space for other primary expenditures.

Budget 2026 has also brought in measures that will raise the future cost of pensions including the LKR 20 billion for rectification of pension anomaly from July 2026 and absorbing all government officers recruited into the public service since 2016 into the existing pension system.

Given the large cost of salaries and pensions, and additional costs such as the purchase of vehicles at a cost of LKR 12.5 billion, there is a need for the government to carefully consider

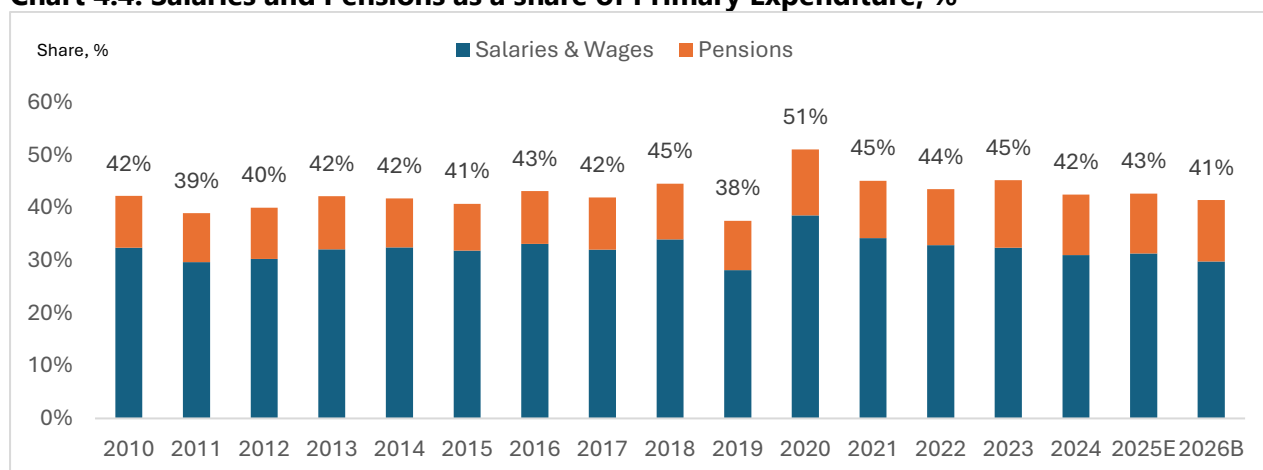
how future increases in the public sector can be contained by introducing efficiency improvements including the ongoing digitization of public services.

Chart 4.3: Salaries and Pensions expenditure, LKR billion



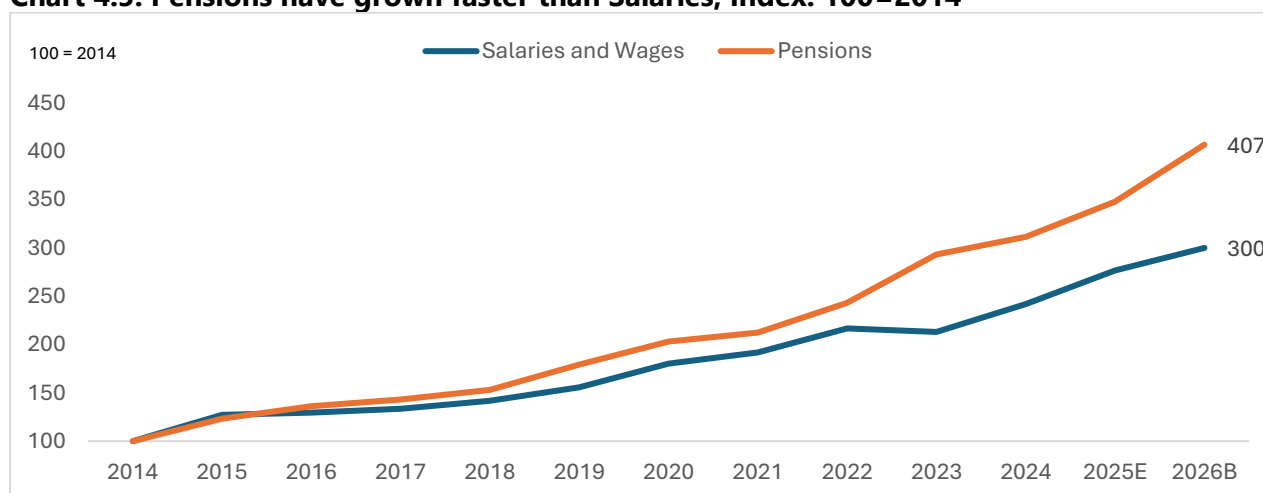
Source: MoF, Budget Estimate 2026

Chart 4.4: Salaries and Pensions as a share of Primary Expenditure, %



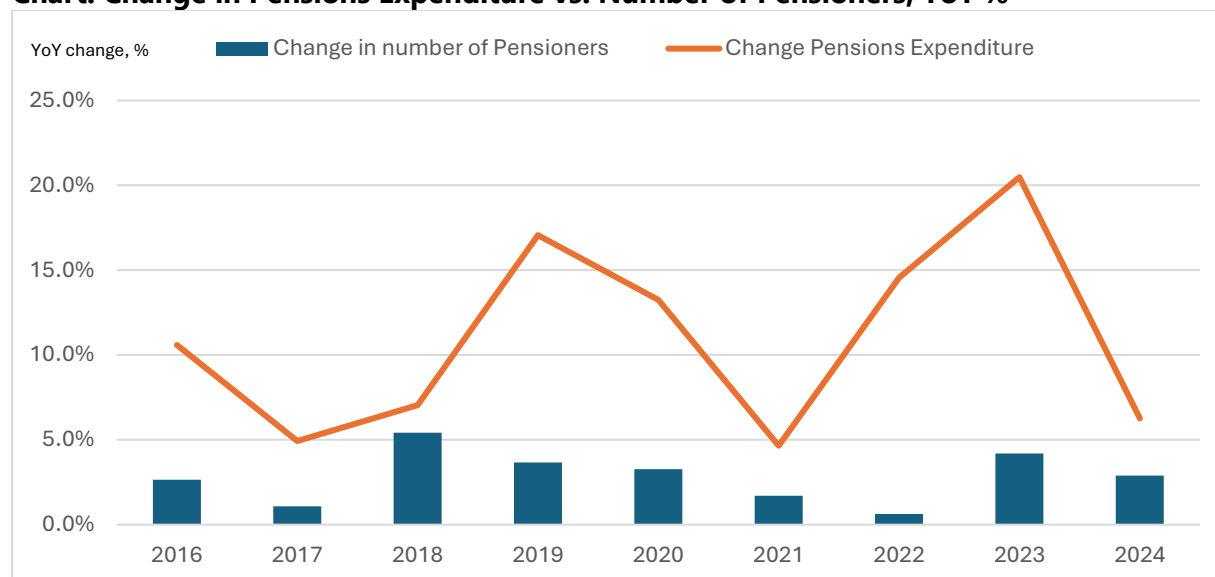
Source: MoF, Budget Estimate 2026

Chart 4.5: Pensions have grown faster than Salaries, Index: 100=2014



Source: MoF, Budget Estimate 2026

Chart: Change in Pensions Expenditure vs. Number of Pensioners, YoY %

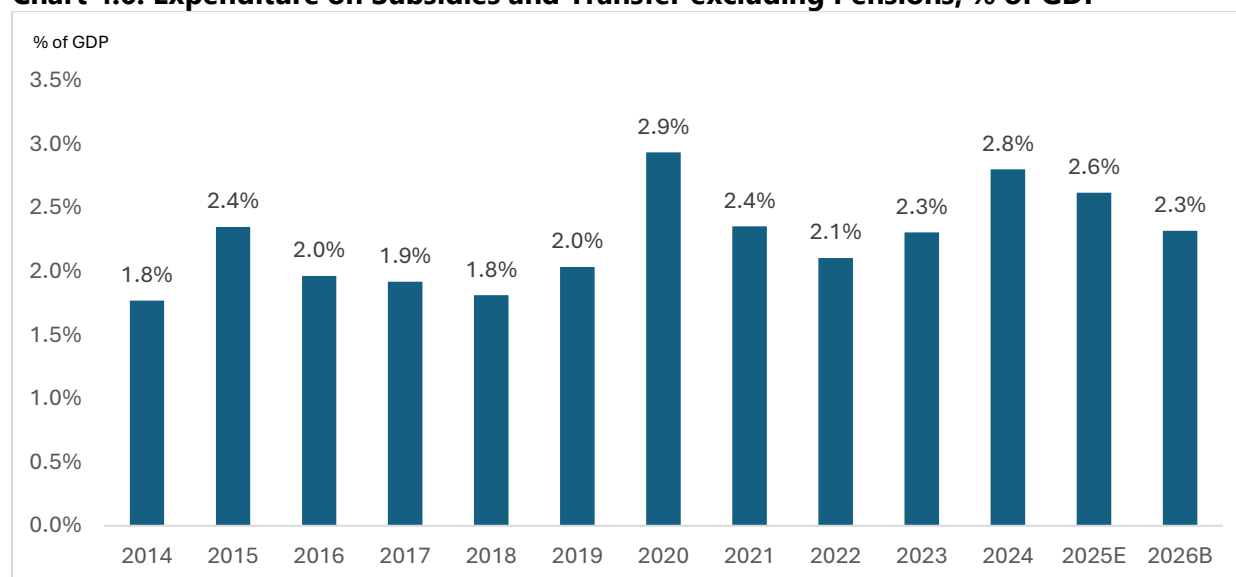


Source: MoF Annual Reports

Other Subsidies and Transfers

Outside of Pensions, the Subsidies and Transfers category contains expenditure on a wide variety of expenditures, including Aswesuma, fertilizer subsidies and transfers for recurrent expenditures of public institutions, provincial councils and local governments. Such expenditures amount to over 2% of GDP, having increased to 2.8% in 2024 and expected to reduce to 2.3% in 2026.

Chart 4.6: Expenditure on Subsidies and Transfer excluding Pensions, % of GDP



Source: MoF, Budget Speech 2026, DCS

Welfare programs

Table 4.1: Expenditure on Selected Existing Welfare programs, LKR billion

	2023	2024	2025E	2026B
Aswesuma/ Samurdhi	173	186	233	240
Fertilizer Subsidy	54	25	35	37
Compensation for Death and Injured Soldiers	43	47	49	55
Nutrition Programmes	25	34	49	50
School Textbooks	23	9	16	16
School Uniforms/Shoes	4	11	6	7
Mahapola and Bursaries	2	3	5	5
Total	324	315	393	410

Note: These figures pre-date the budget speech and do not reflect final allocations, some of which were increased by the Budget Speech as reflected in Table 4.2 below

Source: MoF Presentation to CoPF, 23rd Oct 2025

A significant portion of these transfers go to provincial councils and local governments, with the major welfare and social safety programs receiving about 1.2-1.5% of GDP in allocations led by Aswesuma. Adding on top of these existing programs are new programs such as the LKR 5 billion allocation to provide an additional LKR 200 allowance per day per plantation worker⁷ and the LKR 25 billion allocation to the new Prajashakthi poverty eradication program. With new welfare programs being set up, it will be important to understand the efficiency of these programs – that is overhead costs to value to beneficiaries ratio.

Table 4.2: Additional Welfare measures in Budget Speech 2026

Program	Allocation, LKR billion
Contributory pension scheme for migrant workers	2
Rs. 200 daily attendance incentive for estate workers	5
Wage subsidy of 50% (up to Rs. 15,000 per month for 24 months) will be provided to private employers hiring the differently abled	0.5
Stationary for school students of Aswesuma beneficiaries	9
Monthly allowance of Rs. 5,000 for each differently abled child from low-income families	0.05
Monthly higher education allowance of Rs. 5,000 for differently abled from low-income families	0.05
Mahapola, bursary, and “Nipunatha Sisu Diriya” allowances will each be increased by Rs. 2,500	2.75
Monthly allowance of Rs. 10,000 to low-income thalassemia patients – replacing Provincial Councils	0.25
Higher education scholarships and technical support for journalists	0.1
Increase in allocation for Praja Shakthi Program	20.75
Total of Above	40.5

⁷ The exact mechanism for this payment is not yet been clarified and is expected to be discussed at the committee stage of the Budget debate.

Concessional Loan schemes

The Budget speech also introduces several new concessional loan schemes to help SMEs and other groups to obtain credit facilities, with the government bearing the cost of concessional interest rates. Overall, the budget speech mentioned that LKR 80 billion will be spent on providing concessional loans across varied schemes.

Table 4.3: Concessional Loan schemes in Budget Speech 2026

Program	Allocation LKR billion
Concessional rate working capital and investment loans for SME entrepreneurs (LKR 15-25Mn)	25
Loans of up to LKR 50 Mn to SMEs	5.9
New Comprehensive Rural Credit Scheme (NCRCS) (up to LKR 3 Mn at 5% interest subsidy)	1.7
Small and Medium Enterprise Development Loan Scheme (Up to LKR 50 Mn at concessional rates)	7.7
Concessional interest rate program for the development of agricultural value chains	6.2
Pledge Loan Scheme for small and medium-scale paddy mill owners (Up to LKR 50 Mn)	15
Establish a Sustainable Farmers' Loan Fund	0.8
Property Loan Scheme for Public Employees (4% up to LKR 3Mn and 2% for portion up to LKR 5Mn)	0.5
Total of Above	62.8

Recurrent Transfers to Local Governments

Local government employee salaries have been covered by transfer from the central government and there was an initiative to reduce such transfers by pushing the local governments to boost their own revenue collection. However, dependence on central government transfers differs by each local government, with larger, urban ones almost self-reliant. The Budget Speech announced that a formal system of providing transfers will be put in place, taking into account their budgetary situations. If they face budget deficits, the government transfers will aim to cover their capital expenditure needs.

This goes in line with the decision of the government to not go ahead with the imputed rental income tax and instead support the expansion of Assessment Tax revenue collection by local governments. LKR 2.5 billion has been allocated to expand capacity of local government, including on revenue collection.

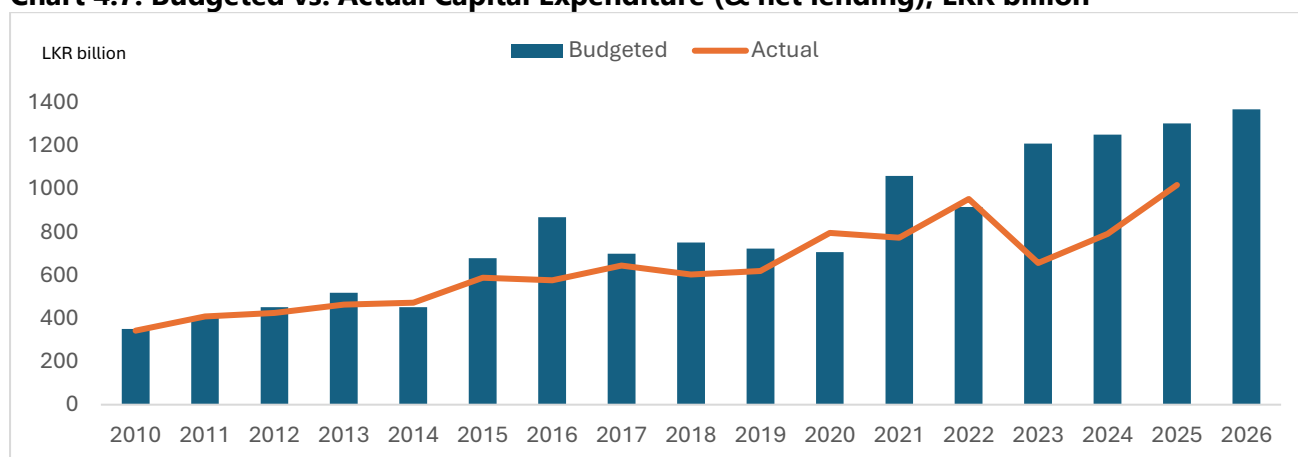
While not affecting the 2026 budget, over the next few years, the improvement in local government revenue collection could reduce the size of future transfers to local governments. However, that does not directly increase fiscal space for the government. The 13% of GDP primary expenditure ceiling applies at the general government level including the provincial

councils and local governments. But as nominal GDP expands, it means that there will still be space for higher nominal spending by the central government for other areas.

Capital Expenditure

Actual capital expenditure has historically been below budgeted amounts. But the deviation has increased significantly in the post-crisis period since 2023. During 2010-2019 such deviations averaged about 0.3% of GDP. But in 2023 the deviation was as large as 2% of GDP, reducing to 1.7% in 2024 and 1% in 2025. So, there is expected to be improvement in 2025, despite the delays in implementation amidst the full budget only coming through in April.

Chart 4.7: Budgeted vs. Actual Capital Expenditure (& net lending), LKR billion



Source: Budget Speeches and MoF Annual Reports

Even if capital expenditure overall is rising, it is important to understand the actual breakdown of the expenditure.

- Construction of physical structures and infrastructure is found under Other Capital Expenditure and Acquisition of Capital Assets. But purchases of vehicles would also fall under capital assets.
- Capital Transfers is mostly to finance projects implemented by public institutions (like RDA), provincial councils and local governments.
- Acquisition of Financial Assets includes the equity contributions to SOEs which help cover their losses, such as with Sri Lankan Airlines, and on-lending to SOEs. Such on-lending is mostly when the Treasury borrows from bilateral and multilateral creditors for projects and then on-lends to the SOE to implement the project.

Table 4.4: Capital Expenditure by sub-category, LKR billion

	2021	2022	2023	2024	Average Share for 2021-2024
Other Capital Expenditure	433	355	388	228	39.5%
Acquisition of Financial Assets	79	439	290	110	25.8%
Acquisition of Capital Assets	124	75	96	341	17.9%
Capital Transfers	119	121	114	76	12.1%
Rehabilitation and Improvement of Capital Assets	29	19	39	58	4.1%
Capacity Building	6	6	6	4	0.6%
Total	790	1,014	933	817	

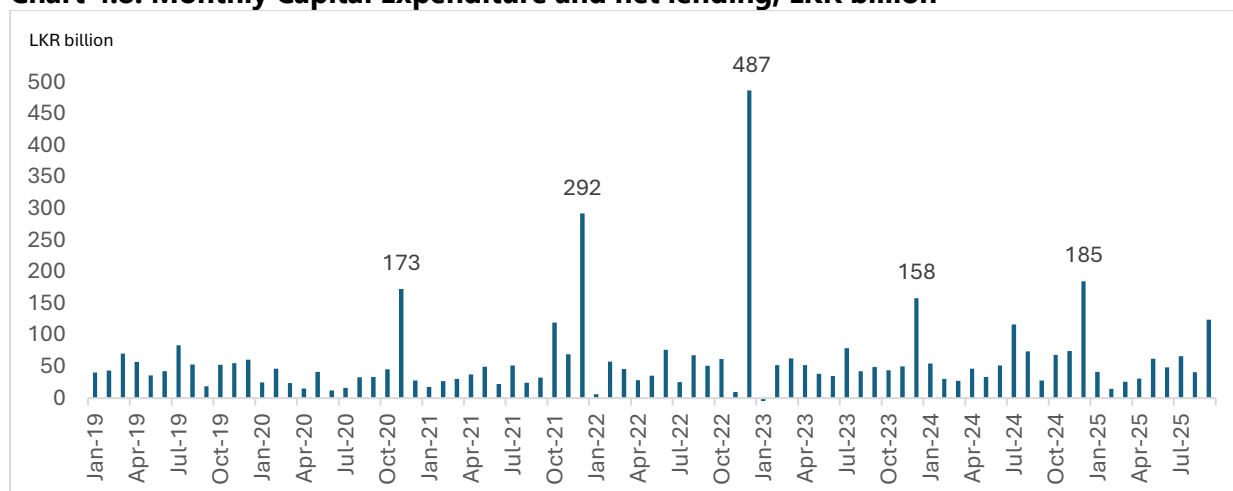
Source: Budget Estimate documents

For 2025 it is important for the Ministry of Finance to explain how capital expenditure is expected to increase from just LKR 455 billion by September 2025 to LKR 1018 billion by end-2025. In particular how much of it is going to pay for actual public investments versus for transfer to pay down the debt of public institutions. For instance, the Road Development Authority (RDA) was allocated an additional LKR 54 billion from unutilized public investment provisions to pay down loans taken from local banks. While this reduction in public debt is positive, it is not actual capital expenditure. The Budget speech also proposes to support public institutions to reduce their treasury guaranteed debt and loans under letters of comfort that are due prior to end-2026. At end-June 2025, such loans amounted to about LKR 215 billion.

Since 2020 the increase in full year capital expenditure has tended to happen towards year end, with spikes in recorded capital expenditure in December. Such spikes indicate the use of remaining fiscal space at year end to make payments to contractors and allocations to pay down debt or losses of SOEs. This can lead to re-allocation to programs that can be more easily implemented before year end. For instance, Budget Speech 2026 mentions that LKR 8 billion in unutilized capital expenditure allocation from 2025 is already being used to purchase vehicles for solid waste management at local governments.

This makes monitoring of implementation progress of major public investment projects very important to understand the actual economic impact of the capital expenditure allocations made for the year. Due to the use of cash-based accounting, the capital expenditure is recorded by the Treasury only when they pay bills raised by contractors. But the projects are built across the year, just paid for towards year end.

Chart 4.8: Monthly Capital Expenditure and net lending, LKR billion



Source: CBSL

Issues in Public Investment project implementation

According to the Department of Project Management and Monitoring (DPMM) report for the second quarter of 2025, the major projects portfolio faced significant execution challenges. By June 2025, actual expenditure from the total allocation of LKR. 678.3 billion for 211 mega-scale projects amounted to only LKR 136.5 billion, representing just 20.1% of the total annual allocation. The DPMM report clarifies that while there were no delays in the release of funds from the General Treasury, expenditures were lower than expected due to the non-submission of payment bills, largely caused by delays in project implementation.

Table 4.5: Categorization of progress of major projects at June 2025

Category of progress	Colour Code	No. of projects
Work completed in 2025		06
Being implemented successfully		12
Being implemented properly		20
Expected results could be achieved through interventions		36
Need special attention (Several Time Extension / Cost Overrun / Many Issues)		40
Critical projects		91
Foreign funds are temporarily suspended		06
Total		211

Source: Department of Project Management and Monitoring

A concerning 43% of the portfolio (91 projects) are classified as "Critical," facing severe delays. The DPMM report explicitly identifies the direct causes for these implementation delays across the portfolio.

Reasons for Project Delays

1. Poor Performance of Contractors: This is the most cited issue, directly impacting 24 projects.
2. Delays in Third-Party Approvals: The process of getting approvals from other government or regulatory agencies has delayed 20 projects.
3. Insufficient Staff and Technical Delays: A lack of project staff and delays in receiving technical assistance have affected 12 projects.
4. Delays in Land Acquisition: This remains a critical bottleneck, directly halting progress on 10 major projects.
5. Procurement-Related Delays: The procurement process itself has caused delays for 9 projects.
6. "Other Reasons" (including Funding Suspension): The report groups issues like "climate and weather changes, disbursement suspended, and price escalation" together, which have impacted 16 projects.

This performance in 2025 directly informs the strategic allocations in the 2026 budget, which prioritizes unblocking stalled projects and addressing these root causes of implementation delays.

Table 4.6: Status of Major "At-Risk" and "Delayed" Projects (for 2Q-2025)

Project Name	Status	Physical Progress	Key Issue Identified in the Report
Central Expressway - Section 1	Critical	44.38%	Halted due to the suspension of loan funds by the "financial source"; Rs. 57.6 billion in unpaid bills.
Central Expressway - Section 3	Critical	69.85%	Progress is significantly behind target. The project was scheduled to be 100% complete but had only achieved 69.85%
Urban Regeneration Programme	Critical	83.04%	Project has stalled, with only 0.06% progress during the quarter.
Port Access Elevated Highway	Critical	89.51%	Project has overrun its completion date. The project was scheduled for completion by June 2025 but was not finished.
Fiscal Management Efficiency Project (FMEP)	At-Risk (Amber)	96.00%	Project has an extreme time extension. A 140-month

			extension has been granted for this project, started in 2010.
Electronic National Identity Card (e-NIC)	At-Risk (Amber)	84.70%	Project has an extreme time extension. A 112-month extension has been granted for this project, started in 2012.

Source: Department of Project Management and Monitoring

Other Sectoral Allocations

The allocations for critical sectors such as education and health have been expanded in the budget, with the MoF indicating total allocations to education at 1.9% of GDP and 2% of GDP to healthcare (both including transfers to provincial councils).

Table: Expenditures on Education and Health, LKR billion

	Education			Health		
	Recurrent	Capital	Total	Recurrent	Capital	Total
2023	401	40	441	406	40	446
2024	438	50	488	445	41	486
2025E	507	86	593	525	106	631
2026B	606	99	704	543	111	654

Source: MoF presentation to CoPF, 23rd Oct 2025 and Citizens Budget for 2026

Beyond these, the budget also took measures towards further supporting digitization measures both in the broader economy but also within the public sector. While the overall allocations here are not significant relative to overall primary expenditure, this can be a critical part of public sector support for improvements in economic efficiency and productivity.

Table: Key Digitization measures in Budget Speech 2026

Digital ID and Cashless Transactions
A digital unique identifier card by the third quarter of 2026
Service fees waived off for payments made to Government Institutions
Transaction fee for QR payments less than LKR 5000 has been removed
1LKR billion to implement online pay for all Government Institutions
Digital Infrastructure
RAMIS 3.0, a new Revenue Management System will be implemented
National E-Invoicing System for VAT
Tax for newly built Telecommunication Towers will be suspended for five years

Telecommunications Levy Act No.21 of 2011 will be amended so the levy can be adjusted for bad debt
Digitizing Export Sector
LKR 2.5 billion for Trade National Single Window to facilitate paperless trade.
Ports Community System-a single data management system
1 billion LKR to establish Virtual Digital Export Service zones.

Primary Balance

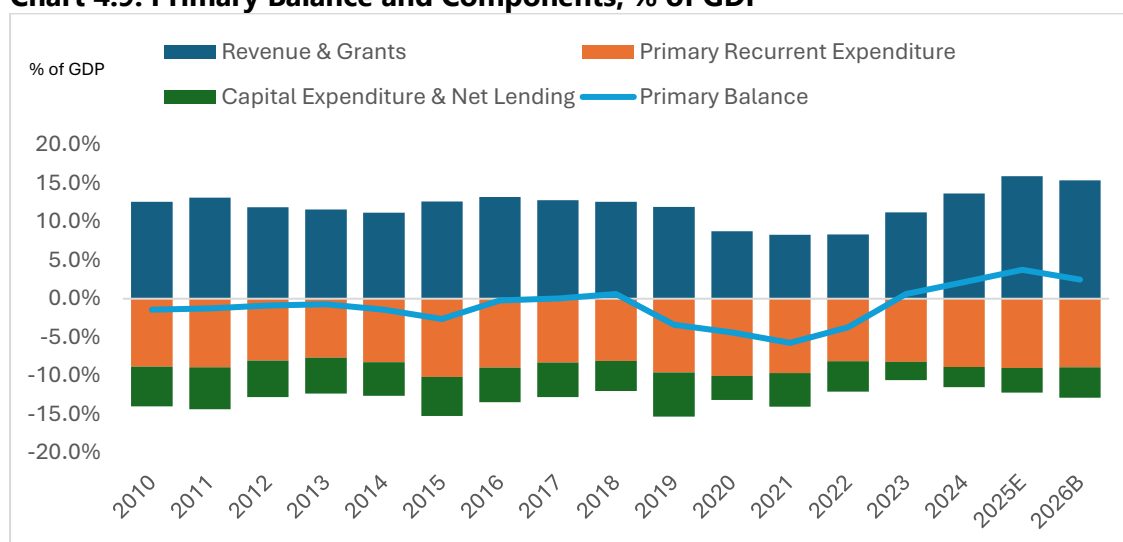
Across 2023 to 2025 the primary balance is overperforming budgeted levels by about 1.4 to 1.5 percentage points. While revenue overperformance by 0.6 to 0.8 percentage points played a role in both 2024 and 2025, underspending on capital expenditure was the largest contributor to the primary balance overperformance across the 2023 to 2025 period.

Table 4.7: Difference between Budgeted vs. Actual performance, % of GDP

	2023			2024			2025E		
	Budget	Actual	Gap	Budget	Actual	Gap	Budget	Actual	Gap
Revenue	11.3	11.2	-0.1	13.1	13.7	0.6	15.1	15.9	0.8
Primary Recurrent Expenditure	-8	-8.2	-0.2	-8.4	-9	-0.6	-8.9	-9	-0.1
Capital Expenditure & Net Lending	-4	-2.4	1.6	-4	-2.6	1.4	-4	-3.2	0.8
Primary Balance	-0.7	0.7	1.4	0.8	2.2	1.4	2.3	3.8	1.5

Source: MoF, Budget Speech 2026, DCS

Chart 4.9: Primary Balance and Components, % of GDP



Source: MoF, Budget Speech 2026, DCS

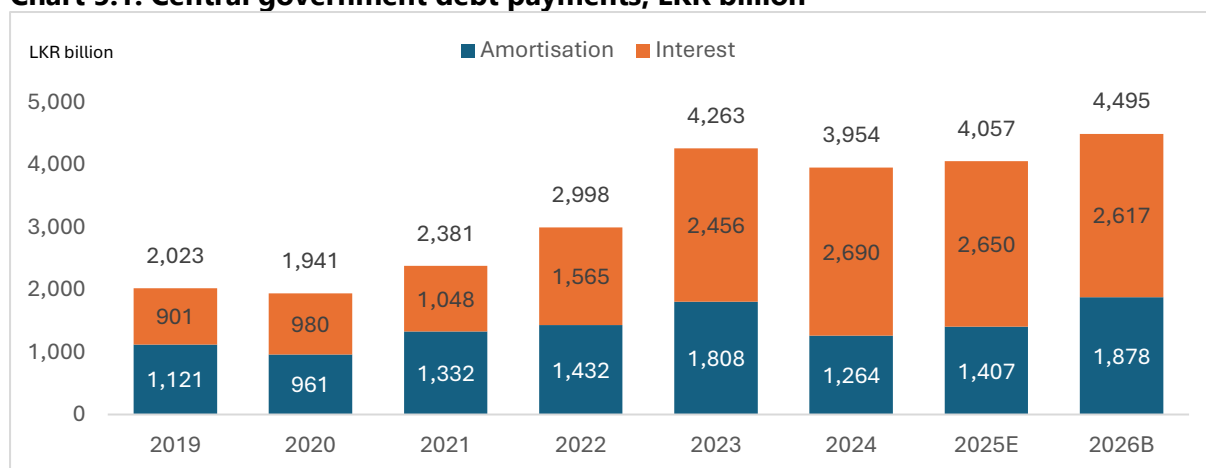
Section 5: Debt Servicing

This section explores the situation with regards to public debt servicing. In turn this links in to Section 6 which discusses deficit financing and public debt management in context of debt sustainability.

Debt Servicing

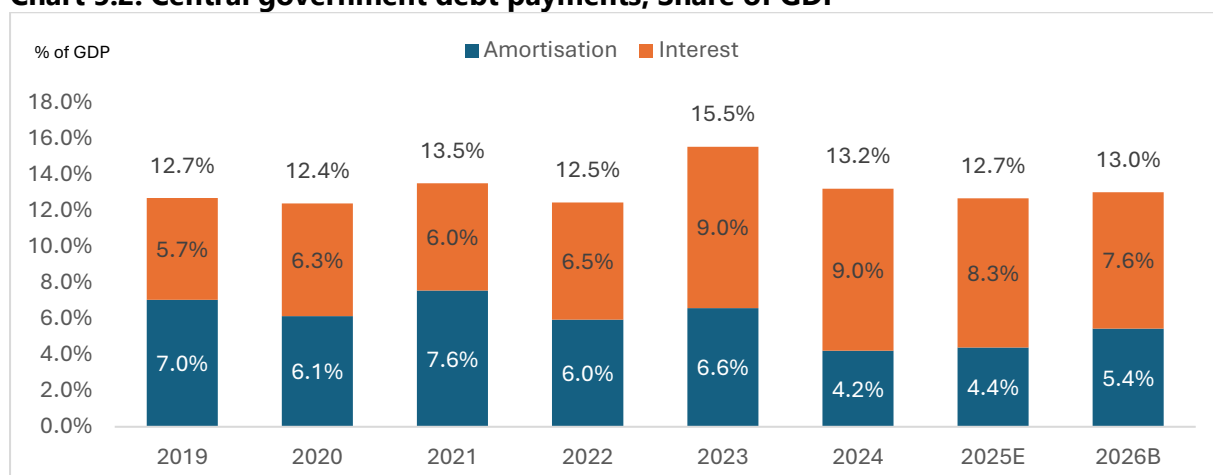
Government debt service payments (that is handled by Ministry of Finance) have remained around or above LKR 4 trillion since 2023.⁸ As a share of GDP, debt payments have reduced to around 13% of GDP after 2023, driven by the reduction in interest payments as a share of GDP.

Chart 5.1: Central government debt payments, LKR billion⁹



Sources: 2019-2023 CBSL, 2024-2026 MoF and PDMO

Chart 5.2: Central government debt payments, Share of GDP



Sources: 2019-2023 CBSL, 2024-2026 MoF presentation and PDMO

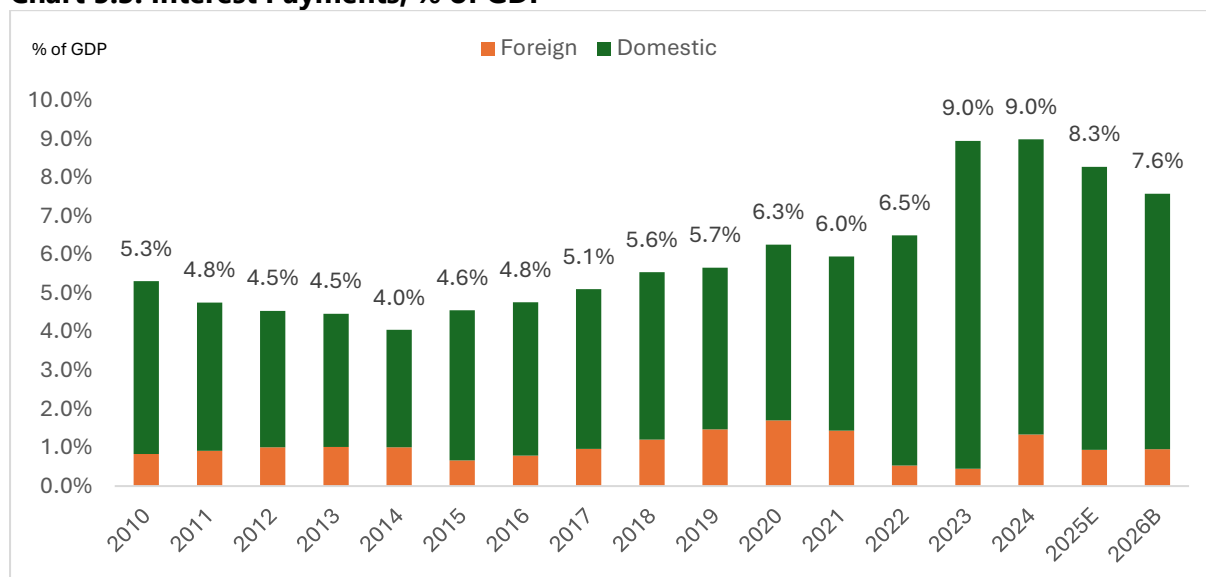
⁸ While T-bill discounts are included under interest payments, refinancing of the principal amounts of T-bills is not considered within the debt amortizations.

⁹ Amortization payments here exclude any transactions done in the process of implementing the debt restructuring process, only actual settlement of principal amounts.

Interest Payments

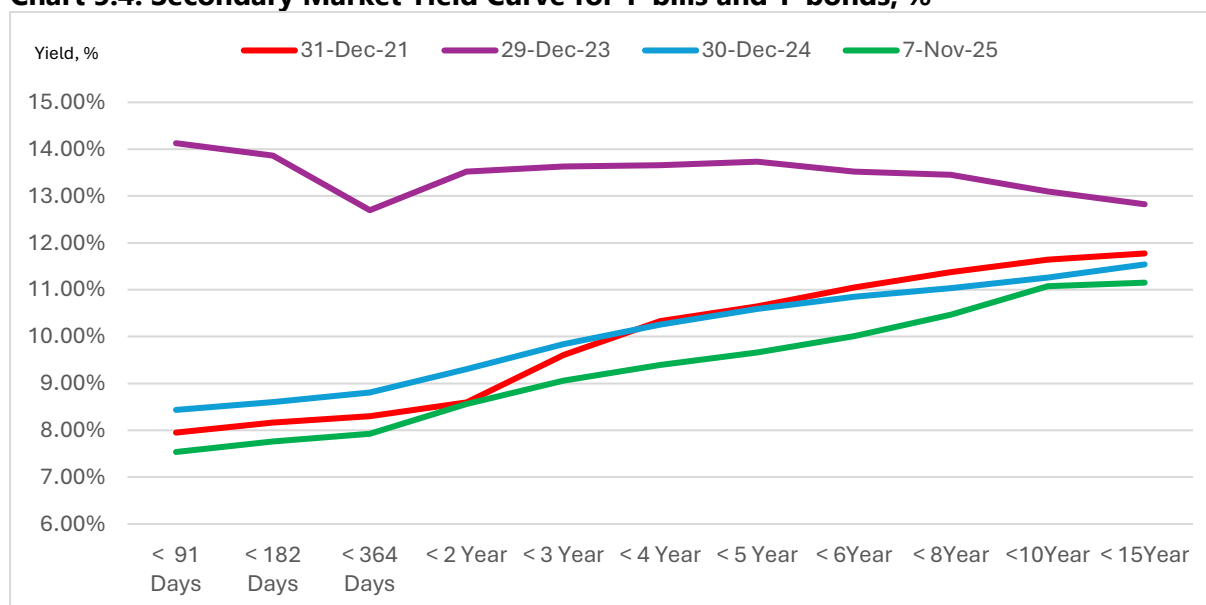
Interest costs have historically been dominated by domestic interest payments and this increased further during the crisis as the dependence on domestic debt increased and debt was issued at high interest rates. However, while foreign interest payments have picked up post-restructuring, domestic interest payments are gradually reducing as domestic interest rates reduce, and the fiscal performance allows space to pay down T-bills. From a peak of 9% of GDP, interest payments are expected to be around 7.6% of GDP in 2026.

Chart 5.3: Interest Payments, % of GDP



Source: Calculated based on MoF and DCS data

Chart 5.4: Secondary Market Yield Curve for T-bills and T-bonds, %



Average of Bid-Offer yields Source: CBSL.

The interest cost on foreign debt remains low due to the concessional rates on the multilateral debt that has continued to be serviced, and the impact of lower interest rates provided in the external debt restructuring process.

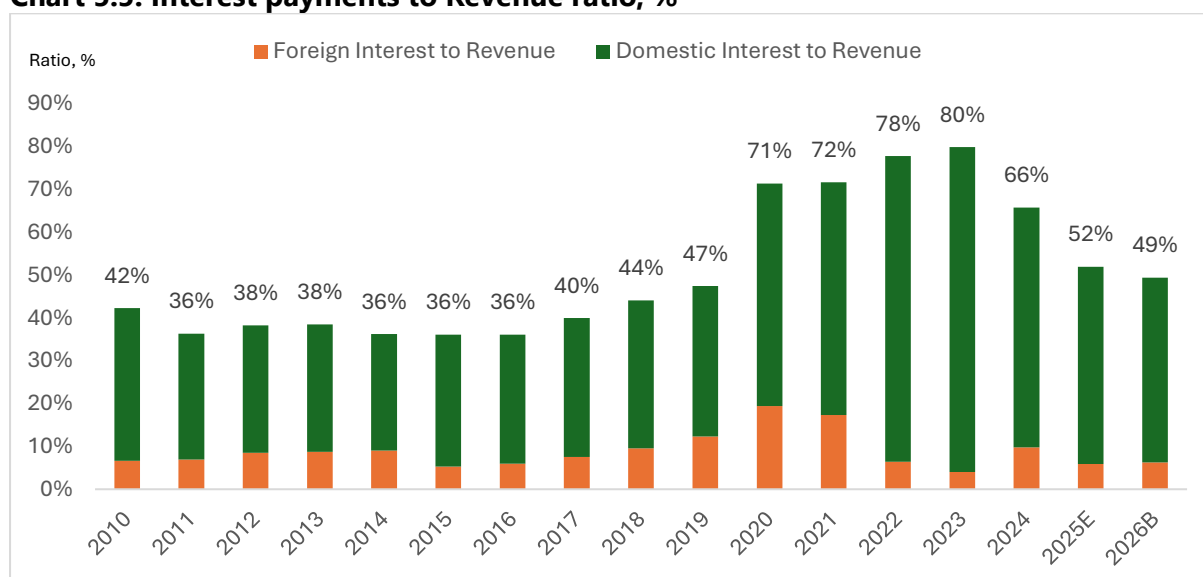
Table 5.1: Weighted Average Yield/Interest Rate on Central Government Debt at June 2025

	Debt Outstanding as at 30/06/2025, LKR billion	Weighted Average Yield or Interest Rate (%)
T-Bill	3,921	8.38
T-Bond¹⁰	15,039	14.03
Other Domestic Debt	695	6.35
Total Domestic	19,655	12.63
Total External	11,140	3.28
All Debt	30,795	9.25

Source: PDMO

A key benchmark in assessing the fiscal situation is the interest payments to revenue ratio. Sri Lanka has a record high ratio in this regard due to the combined effect of high debt and low revenue. During the crisis period, the interest payments to revenue ratio peaked at over 80%. When the ratio is so high it means that interest is being repaid by taking on more debt, which can lead to a rapid increase in debt levels, as was seen during Sri Lanka's crisis period. With the increase in revenues and the gradual moderation in interest payments, the ratio has continued to reduce, and it expected to be 49% in 2026.

Chart 5.5: Interest payments to Revenue ratio, %



Source: Calculated based on MoF data

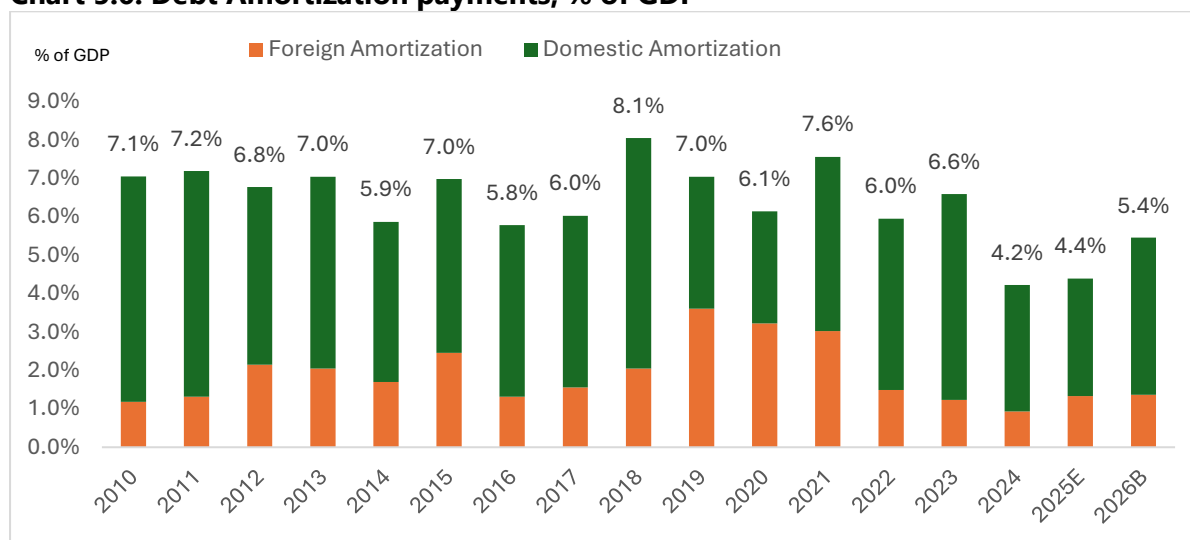
¹⁰ Refer to Annex 3 for Treasury Bond stock as at end-September 2025

Principal or Amortization Payments

The external debt payment suspension kept foreign amortization payments limited from 2022 onwards and domestic amortization payments reduced in 2024 and 2025 helped by the impact of the domestic debt optimization. But with settlement of the Past Due Interest (PDI) bonds and higher Treasury Bond (T-bond) maturities, total amortization payments are estimated to rise in 2026.

It is important to note that foreign debt amortization reduced in 2022, 2023 and 2024 as Sri Lanka suspended debt repayments to all external creditors except the multilaterals to which Sri Lanka continued to make repayments. However, in late 2024, Sri Lanka started repaying the interest payment for some bilateral creditors alongside international bondholders. What is yet to start is capital repayment to bilateral creditors which are scheduled to be started in 2028.

Chart 5.6: Debt Amortization payments, % of GDP

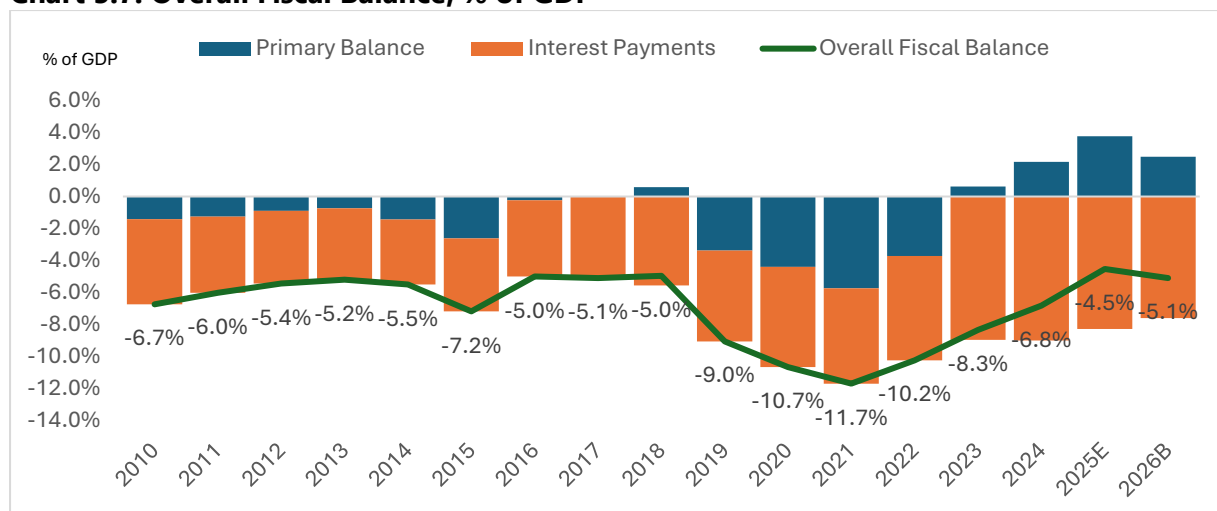


Source: Calculated based on MoF data

Overall Fiscal Balance

The overall fiscal balance is the sum of the primary balance and interest payments. Since the shift to a primary surplus since 2023, the fiscal deficit has been driven by the interest payments. The deficit has been reducing as a share of GDP to 4.5% in 2025 due to both the reduction in interest and the overperformance in primary balance. But in 2026, the overperformance in primary surplus is expected to moderate to 2.5% of GDP, resulting in the fiscal deficit rising to 5.1%, despite an expected reduction in interest payments.

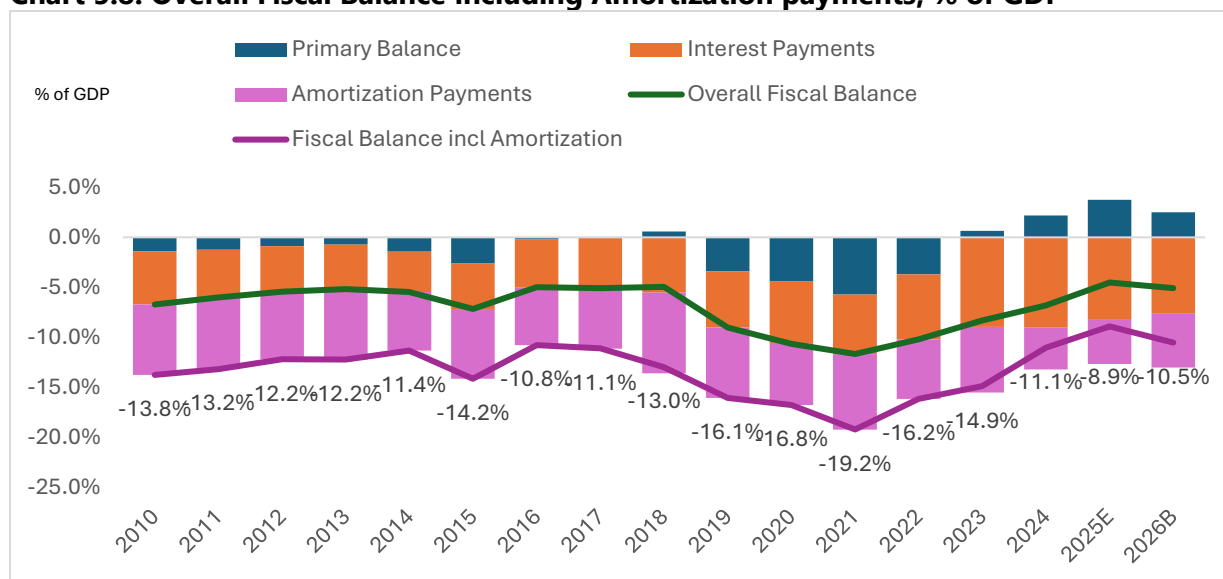
Chart 5.7: Overall Fiscal Balance, % of GDP



Source: MoF, Budget speech 2026, DCS

The fiscal balance does not cover the amortization payments on debt. If included as well, the expanded fiscal balance is a much larger deficit. But this is not typically viewed in this framing since amortization payments are expected to be made through refinancing – that is repaid with the proceeds of new debt issuances.

Chart 5.8: Overall Fiscal Balance including Amortization payments, % of GDP



Source: MoF, Budget speech 2026, DCS

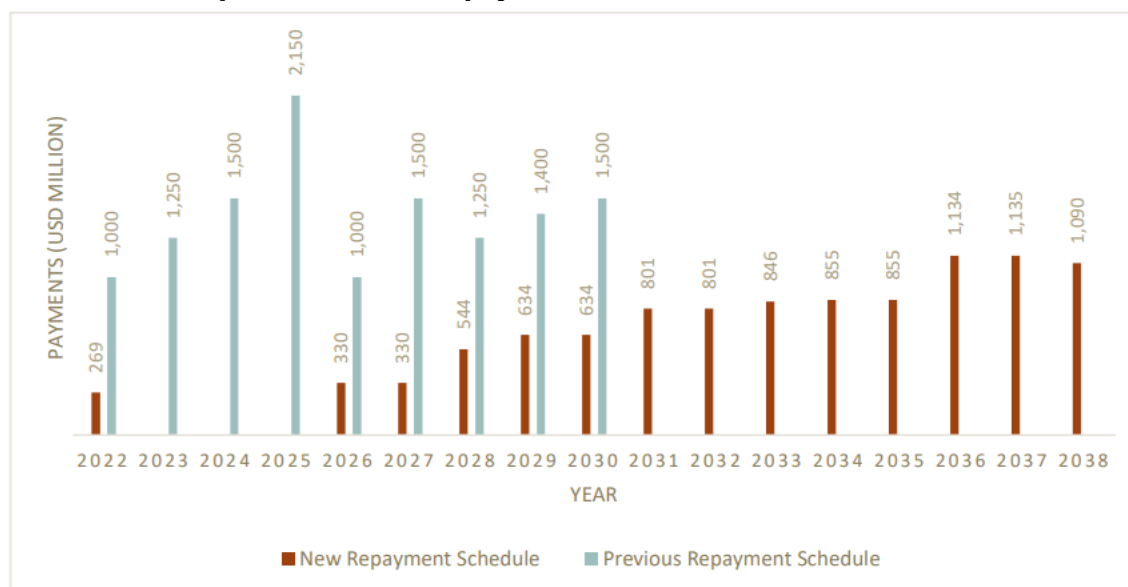
Foreign debt servicing

Foreign debt servicing by the central government is estimated to rise to USD 2.4 billion in 2025 following the finalization of most debt restructuring processes.¹¹ PDMO estimates indicate repayments remaining around \$2.5-2.6 billion across 2026 and 2027 and rises to around USD

¹¹ There are several bilateral and commercial creditors whose debt restructuring is still being finalized according to the IMF's July 2025 staff review, and information shared by PDMO. The list of such creditors is attached in Annex II.

3.2 billion in 2028 with the restart of principal repayments on bilateral and commercial debt. In particular the payments on the macro-linked bonds (MLBs) will start in 2028, very likely at one of the higher repayment scenarios on the back of higher than expected USD GDP performance of Sri Lanka - 2025 USD GDP is likely to be around USD 105 billion compared to IMF projections of USD 78 billion in its March 2023 report.

Chart 5.9: Principal/Amortization payments on restructured ISBs, USD million



Source: Public Debt Management Office

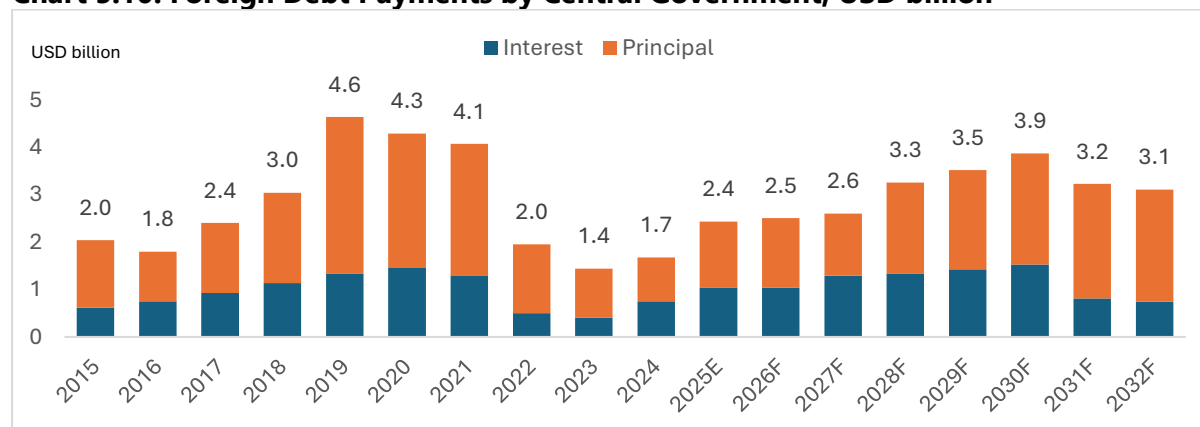
Note: 2022 includes the balance of USD 269 million to be restructured
ISBs have not been classified on the current resident/ non-resident basis of its holdings

Note: Above principal payments appear to be on IMF baseline scenario. Actual annual payments in higher repayment scenarios would be up to USD 70-100 million higher on average.

Source: PDMO – 2Q-2025 Quarterly Debt Bulletin

Payments on multilateral debt will continue to rise across the 2025 to 2030 period, including with the start of principal repayments to the IMF on the ongoing program loan from 2028 onwards. Repayments on ISBs will also rise in 2028 when the macro-linked bonds (MLBs) are activated.

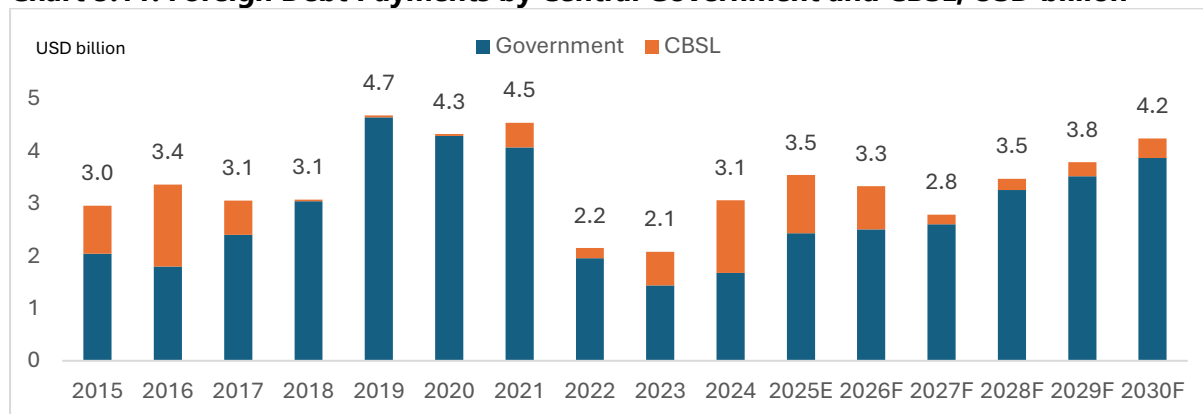
Chart 5.10: Foreign Debt Payments by Central Government, USD billion



Sources: 2019 to 2024 actual data from CBSL, 2025 to 2030 estimates by PDMO.

However, central government foreign debt payments are not the only major ones in the public sector. There are also significant payments handled by CBSL until 2026 on account of the repayment of the bilateral swaps obtained from India in 2022. Combined, the government and CBSL have USD 3.5 billion in repayments in 2025 and USD 3.3 billion in 2026. Beyond that CBSL will have to continue paying down the IMF loan obtained for the 2016-2019 program.

Chart 5.11: Foreign Debt Payments by Central Government and CBSL, USD billion



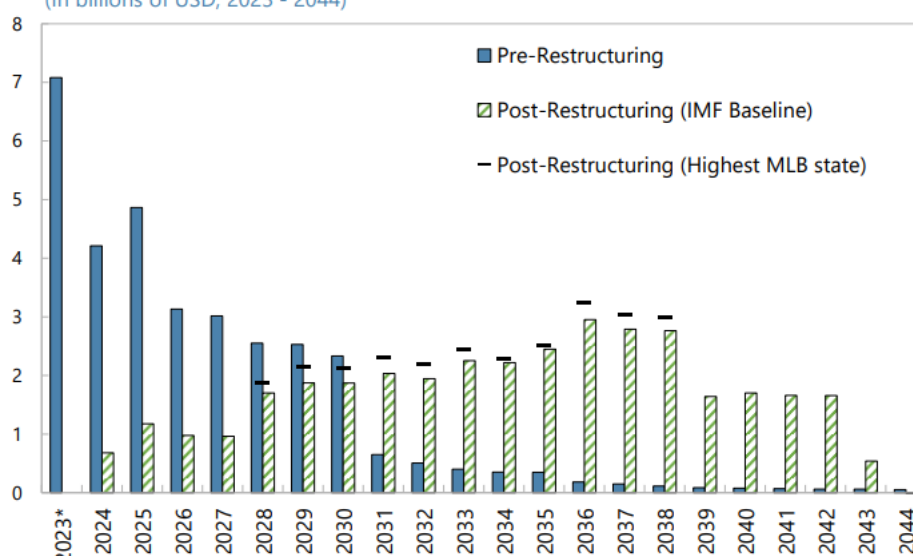
Sources: 2019 to 2024 actual data from CBSL, 2025 to 2030 estimates by PDMO and IMF

Overall, the impact of the external debt restructuring process has allowed Sri Lanka to extend the maturity of foreign debt and reduce the interest costs. This has been done in a manner to meet the target to maintain foreign currency debt repayments within the 4.5% of GDP ceiling for 2027-2032. Even if the highest repayment scenario of the Macro-linked bonds (MLBs) come through the repayments are expected to be within this ceiling.

Chart 5.12: Sri Lanka's foreign currency debt servicing outlook

Sri Lanka: Pre and Post Restructuring External Debt Service on Restructured Debt

(In billions of USD, 2023 - 2044)



* 2023 pre-restructuring debt service includes arrears for 2022-23.

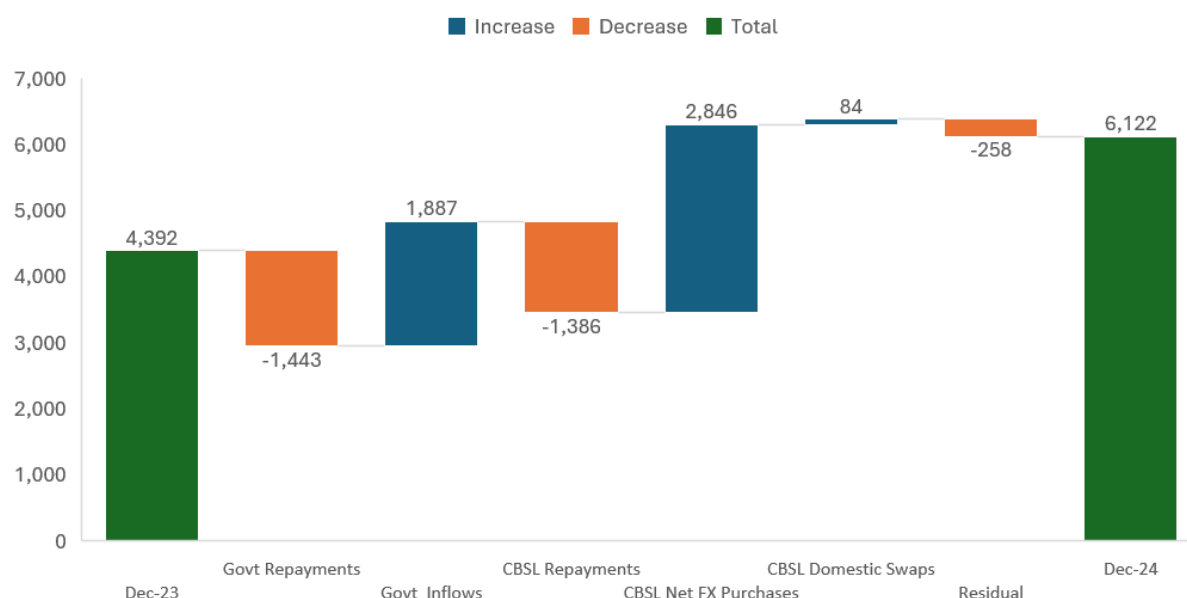
Source: Breuer, P., Dhungana, S., & Li, M. (2025). Sri Lanka's sovereign debt restructuring: Lessons from complex processes. IMF Working Papers, 2025(175)

Foreign Debt Servicing and Foreign Currency Reserves

The Treasury would like to be able to finance the foreign debt service payments through foreign currency inflows received by the Treasury, mostly in the form of foreign currency debt raised. While such debt is pre-dominantly from multilaterals at the moment, in the past ISBs, syndicated loans and Sri Lanka Development Bonds (SLDBs) used to be other sources. But in many periods when such inflows are lower than the debt service payments, the Treasury is dependent on CBSL to purchase foreign currency to meet the debt servicing. As a result, government foreign debt servicing can become a drain on CBSL foreign currency reserves.

Across 2023 and 2024 the lower debt servicing amidst the suspension of repayments and significant budgetary support loan inflows from multilateral lenders, the Treasury was able to manage the foreign debt servicing on its own. But in 2025, the increase in debt servicing and the lower than anticipated inflows from foreign creditors have meant dependence on CBSL reserves. This has contributed to CBSL reserves remaining around the USD 6 billion mark for much of 2025.

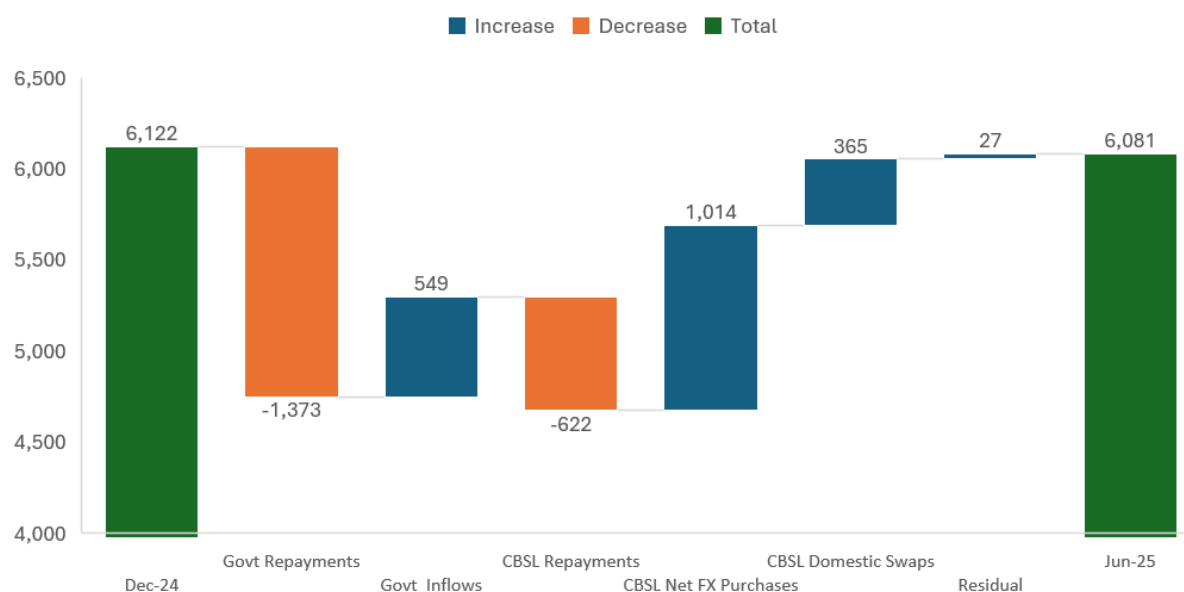
Chart 5.13: FX inflows to government > FX debt servicing in 2024, supporting reserve accumulation, Flow factors for CBSL Reserves in 2024, USD million



Residual refers to changes in reserves not explained by the factors shown, including valuation changes in the underlying reserve assets and cross currency exchange rate movements.

Source: Calculated using data from CBSL data sources

Chart 5.14: FX inflows to government < FX debt servicing in 1H-2025, affecting reserve accumulation, Flow factors for CBSL Reserves in 1H-2025, USD million



Residual refers to changes in reserves not explained by the factors shown, including valuation changes in the underlying reserve assets and cross currency exchange rate movements.

Source: Calculated using data from CBSL data sources

In 1H-2025, the Treasury only received about USD 550 million in loan inflows from multilaterals, forcing them to purchase over USD 800 million in foreign currency from CBSL to make foreign debt service payments of over USD 1.3 billion. Alongside the need to meet its own foreign debt payments, the CBSL was forced to balance the situation by relying more on domestic FX swaps with the local banking system to obtain foreign currency.

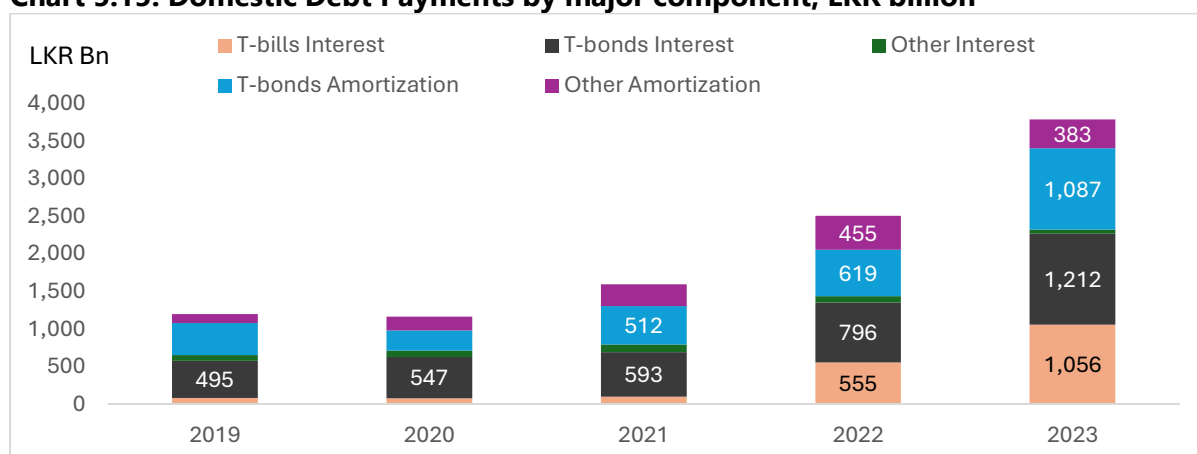
While the practice of domestic FX swaps with local banks helps manage short-term foreign currency liquidity needs, the IMF considers them liabilities on the CBSL's foreign reserves. As a result, the domestic FX swaps is a major reason for the IMF's calculation of Net International Reserves (NIR) being much lower than the CBSL calculation. CBSL only deducts its foreign liabilities (bilateral swaps and IMF loans) from gross reserves to calculate NIR. IMF makes more adjustments, include the deduction of domestic FX swap liabilities.

For 2026, the PDMO hopes to receive about USD 2.3 billion in foreign financing, predominantly from multilateral lenders (See Section 6). But there are USD 2.5 billion in foreign debt servicing payments in 2026. The PDMO hopes to bridge the gap with the issuance of USD 300 million in domestic dollar T-bonds. However, the experience of 2025 shows that disbursements of loans by multilateral and bilateral creditors can be slower than expected, increasing the Treasury's dependence on CBSL foreign reserves or requiring more dollar T-bonds.

Domestic debt servicing

Domestic debt payments rose significantly in rupee terms across the crisis period, peaking at LKR 3.8 trillion in 2023 driven by high domestic interest costs. The high coupons paid on Treasury Bonds (T-bonds) issued during 2022-2023 and the large increase in the Treasury Bill (T-Bill) stock were big reasons for this. Even though domestic interest rates have reduced substantially since the crisis, it is taking time for the total interest costs to reduce substantially, with the weighted average interest rates on the domestic debt stock being substantially high around 12.6%.

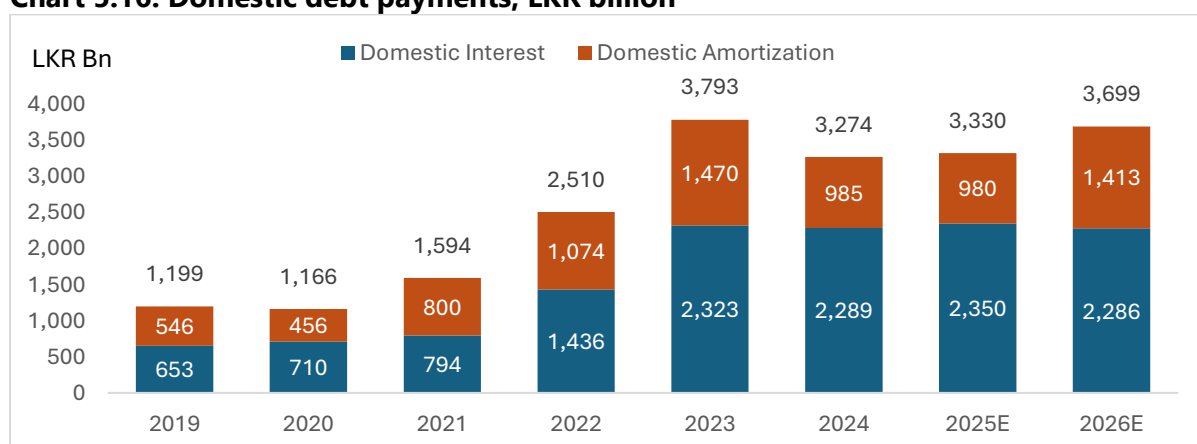
Chart 5.15: Domestic Debt Payments by major component, LKR billion



Note: Other domestic debt amortization was dominated by SLDBs. Source: CBSL Annual Report 2024

Despite the reduction in current interest rates, the MoF's estimated domestic interest payments for 2025 and 2026 remain high in absolute terms above LKR 2.2 trillion. While 2024 and 2025 benefitted from the impact of maturity extensions on T-bonds held by superannuation funds under the 2023 DDO, domestic amortizations increase back to above LKR 1.4 trillion in 2026.

Chart 5.16: Domestic debt payments, LKR billion



Source: 2019-2023 CBSL Annual Report, 2024-2026 MoF documents

In 2026 there is about LKR 1.38 trillion in T-bonds maturing and over LKR 1.5 trillion in T-bond coupon payments on the LKR 15.2 trillion in T-bonds outstanding as at end-September 2025.

As at end-September 2025, there was LKR 3.75 trillion in T-bills maturing over the next 12 months, including LKR 2.49 trillion that will mature from Jan-Sept 2026. The T-bill stock has been gradually reducing over the past year or so.

Section 6: Deficit Financing and Public Debt Management

Sri Lanka's public debt management and pathway to debt sustainability are guided by the debt targets set up under the IMF program and the Public Debt Management Act (PDMA). This section provides an assessment of these aspects, referencing the Annual Borrowing Plan (ABP) for 2026 and Medium-Term Debt Strategy (MTDS) for 2026-2030 compiled by the Public Debt Management Office (PDMO).

Annual Borrowing Plan for 2026

The Annual Borrowing Plan for 2026 details the source of financing that the PDMO hopes to utilize to meet the fiscal deficit, debt amortization, and other considerations. The combined LKR 3740 billion in borrowing requirement is met through LKR 3040 billion in domestic financing and LKR 700 billion foreign financing.

The ABP notes that beyond the financing mentioned in the budget speech, about LKR 3100 billion in Treasury Bills (which mature within a year) would also be refinanced in 2026. This raises the total borrowing to LKR 6840 billion or about 19.8% of GDP.

Table 6.1: Deficit Financing and Borrowing Limit for Budget 2026

Type	Creditor/Instrument	USD million	LKR billion	% of GDP
Foreign Financing	Others	630	700	2%
	IMF	700		
	ADB	830		
	World Bank	160		
Domestic Financing	USD T-bonds	300	100	0.2%
	Rupee T-bonds		2940	8.5%
Adjustment for Book/Cash value of Government Securities ¹²			105	0.3%
Borrowing Requirement (Budget Speech 2026)			3740	10.8%
Rupee T-bills to be refinanced			3100	9%
Total Borrowing Requirement (ABP 2026)			6840	19.8%

Source: PDMO

Return to Domestic Dollar Bond issuance

Of the domestic financing, about LKR 100 billion is expected to be raised through the issuance of \$300 million in USD denominated Treasury Bonds of maturities up to 3 years. This would in essence be similar to the Sri Lanka Development Bonds (SLDBs) that were restructured in 2023.

¹² Such an adjustment is required because debt securities (Tbills and T-bonds) are recorded under the face value of securities. But these securities are usually issued as a discount or premium, from that face value, resulting in the Treasury receiving less or more than the face value implies. Therefore, there needs to be an adjustment to account for this difference.

The return to domestic USD dollar debt issuance is due to the large foreign currency balances accumulated by the domestic banks across the last few years amidst current account surpluses. According to the CBSL data, at end-August 2025, domestic banks had about \$5.7 billion in foreign assets, part of which could be invested in this domestic dollar bond issuance. The US Dollars raised through such an issuance would help the Treasury meet its foreign currency needs, including debt servicing, without recourse to the CBSL's foreign reserves.

Foreign financing remains dominated by multilaterals

Of the LKR 700 billion or about USD 2.3 billion expected in foreign financing, almost 75% is expected from IMF, World Bank and ADB. However, Sri Lanka received less than expected disbursements from the multilateral and bilateral lenders in 2025. This was partly due to delays in implementing reforms expected and in kick starting stalled projects. Actual disbursements could therefore depend on the execution of projects and specific reforms in 2026.

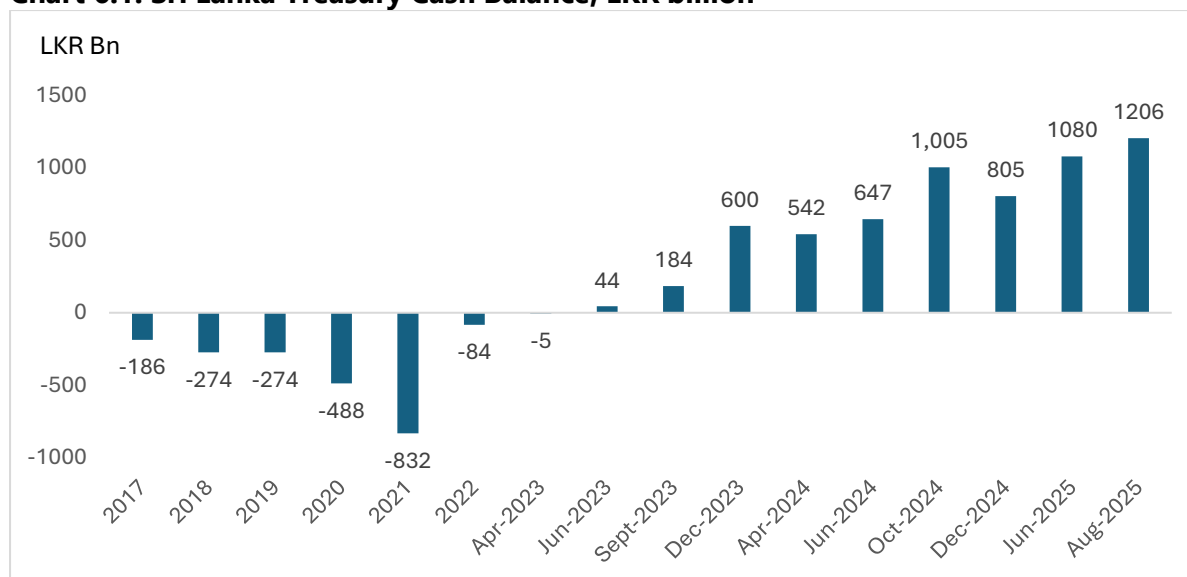
Managing Domestic Rupee debt

The PDMO is essentially hoping to do an 80% domestic to 20% foreign financing in 2026 (excluding T-bill refinance). In raising significant domestic financing, it has mentioned a hope to issue longer-tenure T-bonds of 10-years or more. However, in doing so the PDMO would have to carefully manage the interest cost, to avoid locking in higher interest rates, given the T-bonds already have a weighted average yield of around 14%.

The management of T-bill and T-bond yields at the lowered levels has been helped by the availability of a large cash buffer with the Treasury since late-2023. This buffer has allowed the Treasury to borrow less at government securities auctions and to even reject bids by primary dealers at higher yields than desired by Treasury. The PDMO hopes to utilize the cash buffer in 2026 to pay down about LKR 500 billion in T-bills, bringing down the T-bill stock from LKR 3600 billion to 3100 billion. Reducing the T-bill stock would help in achieving the Gross Financing Needs (GFN) target under the IMF program, as discussed later.

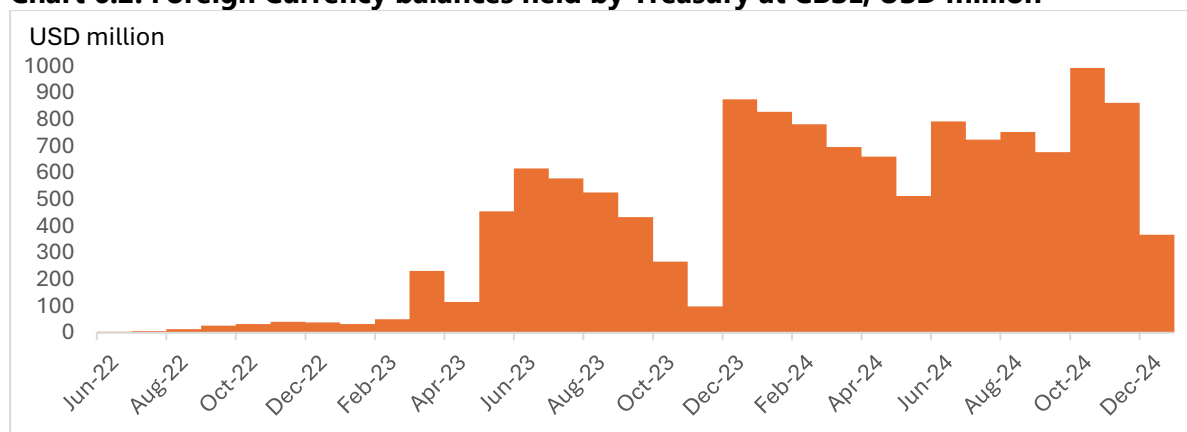
Treasury Cash Buffer Management

Historically the Treasury ran a cash deficit position, funded through overdraft facilities from state-owned banks. This deficit worsened to its worst position in 2021, reaching over LKR 800 billion. Since then, the cash balance has been improved to a surplus, initially through additional domestic borrowings in 2023 and then through the primary balance overperformance. By August 2025, the cash buffer was over LKR 1.2 trillion, close to 4% of GDP. The LKR component of these buffers is maintained as balances in Treasury accounts at state-owned banks, mostly as time and savings deposits.

Chart 6.1: Sri Lanka Treasury Cash Balance, LKR billion

Source: Ministry of Finance

While reported in LKR terms, the cash buffer also has foreign currency, sourced from disbursements of foreign currency, which helps meet Treasury's foreign currency requirements. In 2024, the FX held here was almost USD 1 billion at one point, but reduced to less than USD 400 million by end-2024 due to foreign debt servicing with end of ISB restructuring.

Chart 6.2: Foreign Currency balances held by Treasury at CBSL, USD million

Source: CBSL

In the past the Treasury's priority on cash management was to minimize the deficit it ran and look for cheaper sources of borrowing to replace the state-bank overdrafts. But when switching to maintaining a 3-4% of GDP cash buffer, the Treasury needs to consider several aspects as described in the IMF's guide to cash buffer management.¹³

¹³ Yasemin Hurcan, Emre Balibek, and Fatoş Koç. "How to Set Up A Cash Buffer: A Practical Guide to Developing and Implementing a Cash Buffer Policy", *IMF How To Notes* 2020, 004 (2020), accessed November 6, 2025, <https://doi.org/10.5089/9781513563848.061>

1. Maintaining a specified a minimum buffer level that is deemed necessary for Sri Lanka, based on the Treasury's regular payments, including debt servicing. This level of buffer ought to be the most liquid and readily available component.
2. Calculate a cost of carry for the cash buffer, based on applicable benchmarks for cost of funds
3. Following best practices for ensuring an acceptable return on excess funds beyond what is regularly required by the Treasury operations. Given the cash buffer consists of public funds, such investments must be in safe assets.

In addition, the cash buffer management should also consider the impact of the Treasury maintaining such large balances with the banking system. Experiences of other countries such as Brazil, Ireland and Italy show that Treasury cash buffer management also leads to the development of and deepening of financial instruments such as repos which provide safe and liquid investment instruments for the Treasury.¹⁴

The availability of the cash buffer has provided the Treasury with some leverage when managing its domestic borrowing costs. On several occasions over the last two years, it has utilized this leverage to reject higher yields demanded by the market at Treasury bill and bond auctions. While a prudent use of this leverage helps the Treasury smoothen out its borrowing costs in the face of changing domestic liquidity conditions and sentiment, overuse of the leverage can also prevent market signals from being factored into Treasury operations.

Public Debt sustainability

Under the IMF program framework, Sri Lanka's path to public debt sustainability is guided by four specific targets:

- Reduce public debt to GDP ratio to 95% by 2032
- Reduce the gross financing needs (GFN) of the government to an average of 13% of GDP for the 2027-2032 period.
- Maintain foreign currency debt servicing for the 2027-2032 period within a 4.5% of GDP ceiling
- Reduce foreign currency debt servicing by a cumulative USD 17 billion for the 2023-2027 IMF program period.

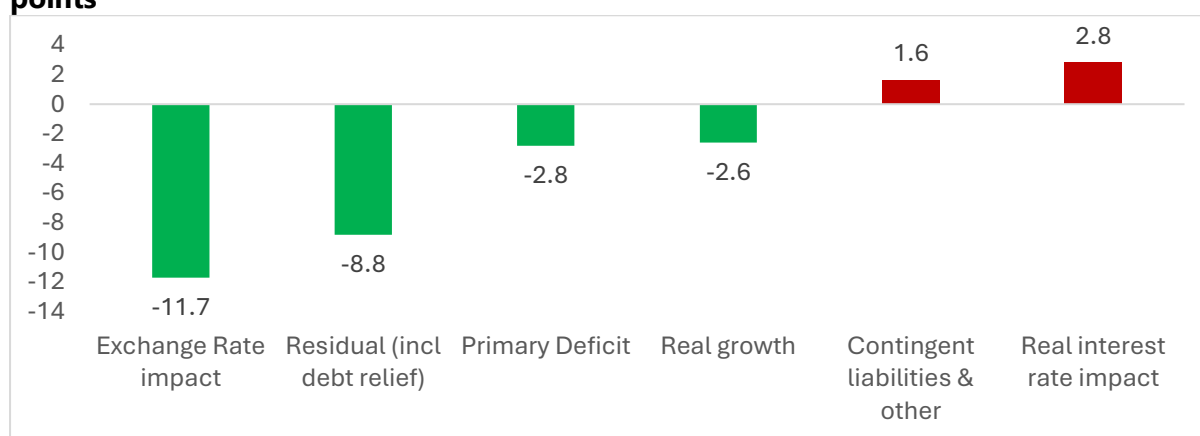
These are derived from the application of the IMF's Sovereign Risk and Debt Sustainability Framework (SRDSF) which is the debt sustainability framework applicable to market access countries like Sri Lanka which have historically raised public debt from international markets and have been at lower middle income level or higher for a prolonged period. Sri Lanka is so far the first and only country to go through a sovereign debt restructuring process under the SRDSF.

¹⁴ Public Debt Management Network. May 2025. Managing Government Cash – Countries' Evolving Approaches. <https://www.publicdebt.net.org/pdm/highlights-archive/highlight-detail/Summary-7th-Webinar-of-the-PDM-Network-Managing-Government-Cash-Countries-Evolving-Approaches/>

Reducing public debt to GDP ratio

Up to 2024, the reduction in the public debt ratio has overperformed expectations of the IMF program, reducing to 105% of GDP by end-2024 from the 126% of GDP level seen at end-2022. This significant 21 percentage point reduction in the debt ratio, which is more than what was expected by the IMF, was driven primarily by the impact of the currency appreciation experienced across 2023-2024 and the debt relief obtained under the debt restructuring process. While the recovery in real GDP growth and the primary balance surplus have also helped, their impact is much smaller in those two years relative to the exchange rate and debt relief impacts.

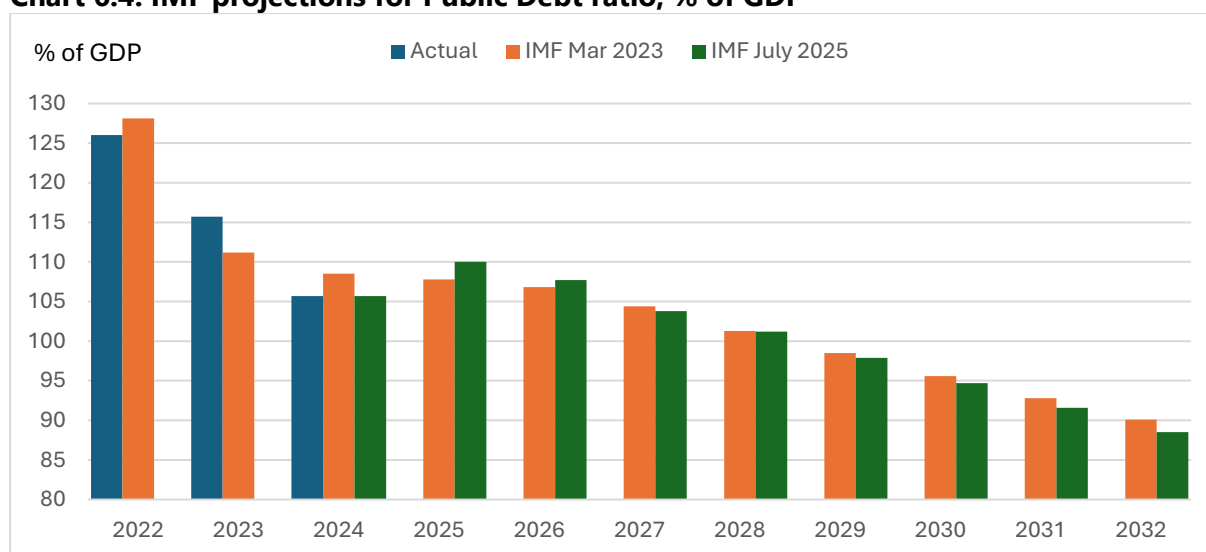
Chart 6.3: Contribution to reduction in Public Debt to GDP across 2023-2024, percentage points



Source: IMF Third and Fourth Reviews

The July 2025 fourth review of the IMF program expects the public debt ratio to rise to 110% of GDP in 2025, before falling again towards 95% of GDP from 2026 onwards. This is likely due to the IMF assumptions involving higher currency depreciation impacts than what is the case in reality so far for Sri Lanka.

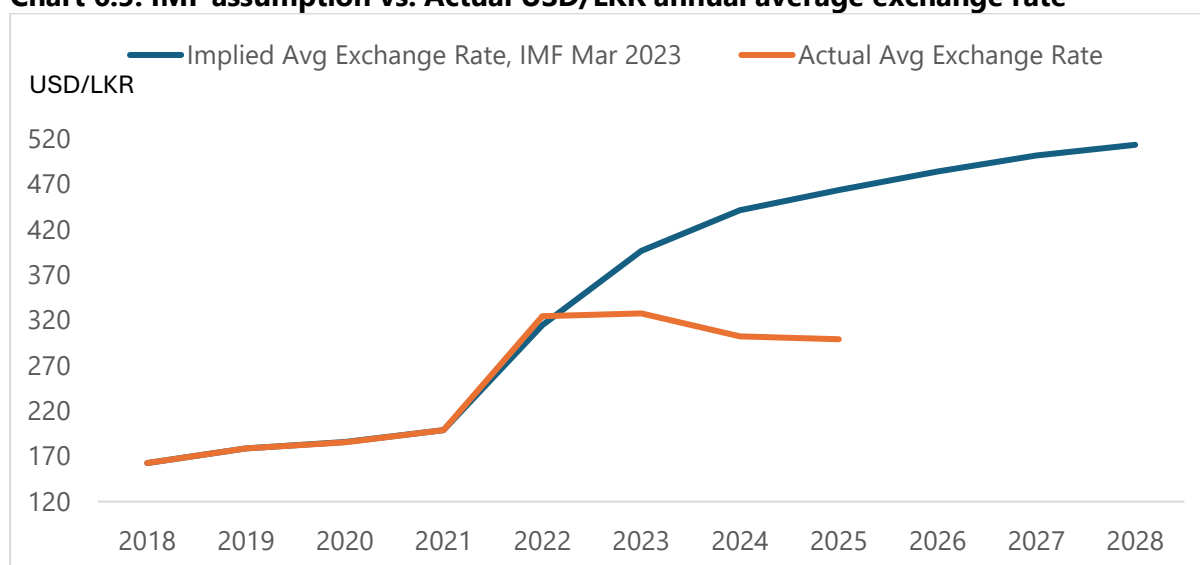
Chart 6.4: IMF projections for Public Debt ratio, % of GDP



Source: IMF program documents

It is important to keep in mind that the IMF's projections for the public debt ratio are affected by the macroeconomic assumptions that the IMF staff are utilizing. They maintain real GDP growth around 3.1% from 2026 onwards, while also assuming space for substantial currency depreciation. In reality, the exchange rate's appreciation in 2023-2024 and limited depreciation of about 3.9% so far in 2025 has left the exchange rate well below IMF program assumptions. As a result, there is substantial space for Sri Lanka to overperform on the IMF public debt ratio projections even if growth and other assumptions remain as moderated as the IMF currently assumes.

Chart 6.5: IMF assumption vs. Actual USD/LKR annual average exchange rate

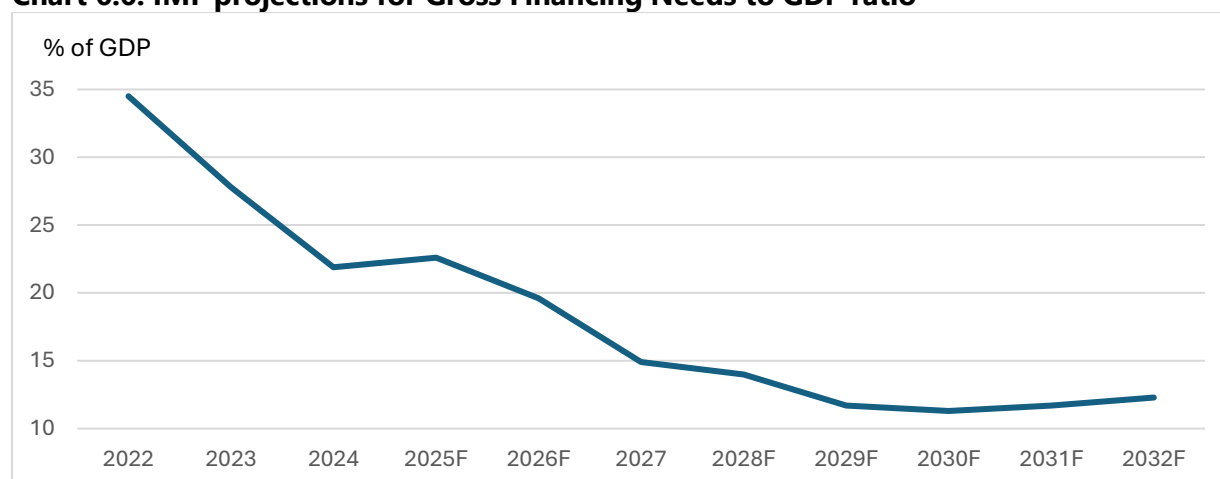


Source: IMF March 2023 staff report, CBSL

Reducing Gross Financing Needs (GFN)

GFN = Primary Deficit + Interest payments (excl T-bills discount) + Debt Amortizations + T-bills outstanding

The government's gross financing needs (GFN) was as high as 34.5% of GDP in 2022, with a significant primary deficit and high debt repayments. But this has reduced substantially across 2023 and 2024 to just over 20% of GDP, helped by the primary surplus and reduction in debt servicing due to debt restructuring and lower interest costs. However, the large T-bill stock of around 12% of GDP adds a significant part of the GFN. The PDMO's intention to reduce the T-bill stock to below 10% of GDP and issue more longer tenure T-bonds in 2026 is in line with the reduction in GFN.

Chart 6.6: IMF projections for Gross Financing Needs to GDP ratio

Source: IMF program fourth review, July 2025

Forming part of the GFN are foreign currency debt service payments, which are to be kept within a ceiling of 4.5% of GDP. Projections by IMF staff based on the outcomes of the debt restructuring process and plans for future borrowings indicate that this ceiling could be met. But given the foreign currency debt servicing is expected to rise to around 4% of GDP from 2030 onwards, the PDMO ought to carefully manage its future foreign currency financing plans, including the issuance of domestic dollar T-bonds and its preparation for potential issuance of ISBs from 2027/2028 onwards.

Table 6.2: Estimated Foreign Currency Debt Repayments for Sri Lanka, % of GDP

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Govt FX Debt Service	2.2%	2.9%	3.1%	3.1%	3.8%	3.9%	4%	4%	4%

Source: Breuer, P., Dhungana, S., & Li, M. (2025). Sri Lanka's sovereign debt restructuring: Lessons from complex processes. IMF Working Papers, 2025(175)

Annex 1 - Budget Outturn 2026

Summary of the Budget Estimates 2026

Item	2024	2025 Revised Estimates	Rs. Billion 2026
			Budget
Total Revenue and Grants	4,091	5,100	5,300
Total Revenue	4,031	5,075	5,270
Tax Revenue	3,705	4,725	4,910
Income Tax	1,026	1,120	1,210
Taxes on Goods and Services	2,201	2,953	3,056
Taxes on External Trade	477	652	644
Non-Tax Revenue	326	350	360
Grants	60	25	30
Total Expenditure	6,131	6,548	7,057
Recurrent	5,340	5,530	5,688
Salaries and Wages	1,066	1,220	1,323
Other Goods and Services	351	380	401
Interest	2,690	2,650	2,617
Subsidies and Transfers	1,234	1,280	1,347
Public Investment	817	1,033	1,380
Other	-26	-15	-11
Revenue Surplus (+)/Deficit(-)	-1,309	-455	-418
Primary Surplus (+)/Deficit(-)	650	1,202	860
Budget Surplus (+)/Deficit(-)	-2,040	-1,448	-1,757
Total Financing	2,040	1,448	1,757
Total Foreign Financing	333	200	235
Foreign Borrowings-Gross	3,967	650	700
Debt Repayment	-3,634	-450	-465
Total Domestic Financing	1,707	1,248	1,522
Non - Bank Borrowings (Net)	2,087	1,248	1,522
Bank Borrowings and Other (Net)	-381	-	-
Revenue and Grants/GDP (%)	13.7	15.9	15.4
Total Revenue/GDP (%)	13.5	15.9	15.3
Tax Revenue/GDP (%)	12.4	14.8	14.2
Non-Tax Revenue/GDP (%)	1.1	1.1	1.0
Grants/GDP (%)	0.2	0.1	0.1
Total Expenditure/GDP (%)	20.5	20.5	20.5
Recurrent Expenditure/GDP (%)	17.9	17.3	16.5
Non-Interest/ GDP (%)	8.9	9.0	8.9
Interest/ GDP (%)	9.0	8.3	7.6
Public Investment/ GDP (%)	2.7	3.2	4.0
Revenue Surplus (+)/Deficit (-) GDP (%)	-4.4	-1.4	-1.2
Primary Surplus (+)/Deficit (-) GDP(%)	2.2	3.8	2.5
Budget Surplus (+)/Deficit (-) GDP(%)	-6.8	-4.5	-5.1

Compiled by Department of Fiscal Policy

Source: Budget Speech 2026

Annex II – Foreign creditor loans remaining to be Restructured

Loans from following Creditors has to be restructured. (Approximately USD 1.5 Bn)

- Germany - KFW Germany
- USA - Export-Import Bank USA, Government of USA, Riggs National Bank USA
- Sweden - AB Sevnsk Export Credit
- Australia - ANZ Investment Bank (Australia), Export Finance Australia
- Spain - Banco Bilbao Vizcaya Argentaria (Spain), Kingdom of Spain
- Belgium - BNP PARIBAS, Fortis Bank SA/NV, KBC Bank NV
- Austria - ERSTE Group, Bank Austria Creditanstalt AG, Raiffesen Zentral Bank, UniCredit Bank
- Canada - Government of Canada
- Russia - Government of Russia
- Denmark - HSBC Denmark
- Netherlands - ING Bank N.V. (Netherlands), Co-op Centrale Raiffeisen (Netherlands)
- Korea - Government of Korea
- China - Government of China, HSBC HongKong China
- Pakistan - Government of Pakistan
- Kuwait - Government of Kuwait
- Iran - Export Development Bank Iran
- India - State Bank of India

Source: PDMO

Annex III – Outstanding Stock of Treasury Bonds at end-September 2025

Note that the data has been sorted by the size of the Coupon or Interest paid on the bonds. High Coupon bonds are those with rates higher than the weighted average yield on T-bonds of around 14% as at June 2025, which were mostly issued during the economic crisis. Floating rate bonds were issued with SLFR as the benchmark rate when restructuring SLDBs and other dollar debt. CBSL and Superannuation bonds were issued during the DDO.

Series	ISIN	Face Value (Rs Mn)	Coupon Rate, %	Share of Total Outstanding	Tag
22.50%2026A	LKB00426E154	145,061	22.5	1.0%	High Coupon
20.00%2027A	LKB00527I150	167,478	20	1.1%	High Coupon
20.00%2029A	LKB00729G156	58,057	20	0.4%	High Coupon
18.00%2027A	LKB00527E019	155,671	18	1.0%	High Coupon
18.00%2028A	LKB00628A153	87,654	18	0.6%	High Coupon
18.00%2031A	LKB00931E153	29,193	18	0.2%	High Coupon
18.00%2032A	LKB01032G014	96,222	18	0.6%	High Coupon
13.50%2044A	LKB03044A010	10,970	13.5	0.1%	
13.50%2044B	LKB03044F019	77,862	13.5	0.5%	
13.25%2033A	LKB02033G011	23,512	13.25	0.2%	
13.25%2034A	LKB02034A012	77,859	13.25	0.5%	
13.00%2029A	LKB01529A012	29,212	13	0.2%	
13.00%2029B	LKB01529E014	36,171	13	0.2%	
12.50%2045A	LKB03045C013	10,058	12.5	0.1%	
12.40%7.5%5%2029A	LKK00629C156	99,694	12.4	0.7%	CBSL DDO
12.40%7.5%5%2030A	LKK00730D150	99,694	12.4	0.7%	CBSL DDO
12.40%7.5%5%2031A	LKK00831E154	99,694	12.4	0.7%	CBSL DDO
12.40%7.5%5%2032A	LKK00932F157	99,694	12.4	0.7%	CBSL DDO
12.40%7.5%5%2033A	LKK01033A154	348,929	12.4	2.3%	CBSL DDO
12.40%7.5%5%2034A	LKK01134B158	348,929	12.4	2.3%	CBSL DDO
12.40%7.5%5%2035A	LKK01235C151	348,929	12.4	2.3%	CBSL DDO
12.40%7.5%5%2036A	LKK01336D155	348,929	12.4	2.3%	CBSL DDO
12.40%7.5%5%2037A	LKK01437E159	348,929	12.4	2.3%	CBSL DDO
12.40%7.5%5%2038A	LKK01538F151	348,929	12.4	2.3%	CBSL DDO
12.00%09.00%2027A	LKK00427C155	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2028A	LKK00528D158	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2029A	LKK00629E152	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2030A	LKK00730F155	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2031A	LKK00831A152	267,038	12	1.8%	Superannuation Fund DDO
12.00%2031A	LKB01031L016	214,629	12	1.4%	
12.00%09.00%2032A	LKK00932B156	267,038	12	1.8%	Superannuation Fund DDO

Assessment of the fiscal, financial and economic assumptions

12.00%09.00%2033A	LKK01033C150	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2034A	LKK01134D154	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2035A	LKK01235E157	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2036A	LKK01336F150	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2037A	LKK01437A157	267,038	12	1.8%	Superannuation Fund DDO
12.00%09.00%2038A	LKK01538B150	267,038	12	1.8%	Superannuation Fund DDO
12.00%2041A	LKB02541A016	29,870	12	0.2%	
11.75%2027A	LKB01027F156	200,583	11.75	1.3%	
11.75%2029A	LKB00529F152	273,461	11.75	1.8%	
11.50%2026A	LKB01026H014	244,502	11.5	1.6%	
11.50%2028A	LKB01528I017	252,611	11.5	1.7%	
11.50%2028B	LKB00528L152	266,200	11.5	1.7%	
11.50%2032A	LKB00832L158	173,250	11.5	1.1%	
11.50%2035A	LKB02035C155	164,565	11.5	1.1%	
11.40%2027A	LKB00827A151	232,484	11.4	1.5%	
11.25%2026A	LKB00326L151	219,800	11.25	1.4%	
11.25%2027A	LKB01027L154	202,966	11.25	1.3%	
11.25%2031A	LKB01231C151	274,731	11.25	1.8%	
11.20%2033A	LKB01533A154	238,900	11.2	1.6%	
11.00%2026A	LKB01226F014	229,046	11	1.5%	
11.00%2027A	LKB01027G212	5,000	11	0.0%	
11.00%2028A	LKB00428J159	225,500	11	1.5%	
11.00%2029A	LKB00629I154	235,505	11	1.5%	
11.00%2029B	LKB00529L150	291,500	11	1.9%	
11.00%2030A	LKB01530E152	208,216	11	1.4%	
11.00%2030B	LKB00730J158	184,255	11	1.2%	
10.75%2028B	LKB00428B156	230,000	10.75	1.5%	
10.75%2028A	LKB01028C151	246,181	10.75	1.6%	
10.75%2037A	LKB01237G019	42,851	10.75	0.3%	
10.70%2035A	LKB01035F159	68,033	10.7	0.4%	
10.50%2039A	LKB02039H156	25,000	10.5	0.2%	
10.35%2025A	LKB00825J156	73,408	10.35	0.5%	
10.35%2029A	LKB00529J154	290,600	10.35	1.9%	
10.30%2027A	LKB00827J152	222,414	10.3	1.5%	
10.25%2034A	LKB01534I155	247,800	10.25	1.6%	
09.75%2030A	LKB00530G018	96,366	9.75	0.6%	
09.00%2026A	LKB01326B011	223,499	9	1.5%	
09.00%2028B	LKB01528E016	256,168	9	1.7%	
09.00%2028A	LKB01628G019	269,855	9	1.8%	
09.00%2032A	LKB02032J017	256,445	9	1.7%	
09.00%2033A	LKB02033F013	205,794	9	1.4%	
09.00%2033B	LKB02033K013	202,561	9	1.3%	

Report of the Committee on Public Finance on Appropriation Bill for the Financial Year 2026 in terms of the Standing Order 121(5) (i) of Parliament

09.00%2043A	LKB03043F011	3,133	9	0.0%	
08.00%2032A	LKB02032A016	163,038	8	1.1%	
07.80%2027A	LKB00827H156	49,485	7.8	0.3%	
06.75%2026A	LKB00526A159	128,010	6.75	0.8%	
05.35%2026A	LKB01526C014	126,183	5.35	0.8%	
05.00%2026A	LKB01026L206	9,142	5	0.1%	
01.00%2026A	LKJ00226G155	52,517		0.3%	Floating Rate
01.00%2027A	LKJ00427G159	72,640		0.5%	Floating Rate
01.00%2028A	LKJ00428G157	52,517		0.3%	Floating Rate
01.00%2029A	LKJ00629G150	72,640		0.5%	Floating Rate
01.00%2030A	LKJ00630G158	52,517		0.3%	Floating Rate
01.00%2031A	LKJ00831G152	72,640		0.5%	Floating Rate
01.00%2032A	LKJ00832G150	52,517		0.3%	Floating Rate
01.00%2033A	LKJ01033G154	72,640		0.5%	Floating Rate
01.00%2034A	LKJ01034G152	52,515		0.3%	Floating Rate
0.50%2036A	LKJ01236C152	19,466		0.1%	Floating Rate
0.50%2037A	LKJ01337I155	19,466		0.1%	Floating Rate
0.50%2038A	LKJ01438I151	19,466		0.1%	Floating Rate
0.50%2039A	LKJ01539I156	19,466		0.1%	Floating Rate
0.50%2040A	LKJ01640I152	19,466		0.1%	Floating Rate
0.50%2041A	LKJ01741I158	19,466		0.1%	Floating Rate
0.50%2042A	LKJ01842I154	19,466		0.1%	Floating Rate
0.50%2043A	LKJ01943I150	19,466		0.1%	Floating Rate
Total Outstanding as at 30.09.2025		15,214,201			

Source: CBSL

Annex IV – Government Foreign Debt Service Outlook 2025 to 2032 – USD million

	2021	2022	2023	2024	2025E	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Interest	1299	499	409	749	1032	1041	1292	1337	1428	1530	813	741
Bilateral & Export Credit	209	94	56	85	210	220	168	193	203	217	157	151
Commercial	983	245	0	219	387	396	406	402	434	483	338	306
Multilateral	107	161	353	445	435	425	718	742	791	830	318	284
Principal	2773	1456	1031	925	1402	1463	1311	1922	2094	2341	2414	2364
Bilateral & Export Credit	1181	452	497	9	424	403	113	356	342	344	345	345
Commercial	1091	500	0	350	370	362	364	636	724	746	928	888
Multilateral	501	504	534	566	609	698	834	930	1028	1251	1141	1131
Total	4071	1956	1440	1674	2434	2504	2603	3259	3522	3871	3227	3105
Bilateral & Export Credit	1390	546	553	93	633	623	281	549	545	561	502	496
Commercial	2074	745	0	570	757	758	770	1038	1158	1229	1266	1194
Multilateral	608	665	887	1011	1044	1123	1552	1672	1819	2081	1459	1415

Note: Data as at end-Sept 2025. Forecast for remaining months of 2025 and for 2031-2042 does not include loans that have not been restructured. Projections for 2026-2030 have been generated by the MTDS tool based on selected strategy. Projected new disbursements have been considered. Source: PDMO

Appreciation

The Committee sincerely extends its gratitude to all Committee Members for their active engagement and invaluable contributions to the discussions on the Appropriation Bill 2026. Their insightful suggestions and constructive dialogue were instrumental in shaping a well-informed and comprehensive report. The Committee deeply appreciates the dedication and commitment demonstrated throughout this process, which ensured a thorough and meaningful outcome.

The Committee also wishes to convey its heartfelt appreciation to all Officials for their continued dedication and support in successfully completing this task. In particular, special acknowledgment is extended to the Consultants of the Committee on Public Finance for their exceptional commitment and professionalism in completing this work within a remarkably short timeframe. The Committee further acknowledges the Ministry of Finance, Planning and Economic Development for its unwavering cooperation and timely provision of information whenever requested.

Your collective efforts have been vital in bringing this important exercise to a successful conclusion.

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Hon. Wijesiri Basnayake, M.P.,
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Mrs. Sewwandi Amarasekara, Director

Department of Management Services

Mr. W.S.K. Liyanagama, Director General

And all officers who worked tirelessly to coordinate all the efforts.