

First Session of the Tenth Parliament

Report of the Committee on Public Finance

on

Appropriation Bill for the Financial Year 2027
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 20th of November 2026.

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Executive Summary

The Committee on Public Finance (COPF) presents this report under Standing Order 121(5)(i) of Parliament. It examines the fiscal, financial and economic assumptions on which the total estimated revenue and expenditure in the Appropriation Bill for 2027 are based. It draws on the Budget Speech of 12 November 2026, the Budget Estimates and reports of the Ministry of Finance (MoF), the Fiscal Strategy Statement 2027 (FSS 2027), official publications and information submitted to the Committee.

Budget 2027 is the last budget prepared during the IMF Extended Fund Facility (EFF), which concludes in 2027, and is framed by the fiscal rules of the Public Financial Management Act, No. 44 of 2024 (PFMA) and the Public Debt Management Act, No. 33 of 2024 (PDMA). It is presented from a strong fiscal position, despite a year in which Cyclone Ditwah and the conflict in the Middle East tested both the economy and the new fiscal framework. The Committee's overall assessment is that the Budget's headline fiscal targets are attainable and that, on recent evidence, revenue and the primary balance are more likely to exceed than to fall short of them. The principal uncertainties lie in the capacity of the state to deliver an expanded capital expenditure programme, the growing use of in-year reallocation even from capital to recurrent, and the economy's exposure to shocks ranging from climate to geopolitical impacts.

The fiscal position entering 2027

The primary balance has exceeded the IMF programme floor in every year since 2023, by a cumulative LKR 1.74 trillion over 2023–2025. The primary surplus reached 5.4% of GDP in 2025 against a target of 2.3%, reflecting strong revenue, driven by LKR 897 billion in taxes on vehicle imports, and primary expenditure of only 11.4% of GDP. 2026 is also expected to overperform, with a 3.6% of GDP primary surplus. Public debt has fallen from about 99% of GDP at end-2025 to an estimated 91% by mid-2026, already below the 95% benchmark set for 2032, and Fitch upgraded Sri Lanka to B- in September 2026. The Treasury cash buffer allowed the Treasury to assume the LKR 500 billion post-Ditwah relief package would be financed without new borrowing but was not utilized. Overperformance of this scale, however, also reflects weaknesses in forecasting and capital budget execution, and one-off sources such as pent-up vehicle import demand that are unlikely to recur.

Key economic assumptions

The MoF assumes real GDP growth of 4.5% in 2027, revised up from the FSS 2027 and above the latest World Bank, ADB and IMF projections. But slower than expected capital expenditure risks putting downward pressure on future growth. The GDP deflator for 2027 has been lowered to 3.7% from 4.6%. The resulting nominal GDP of LKR 39,000 billion (8.3% YoY growth) anchors the 13% primary expenditure ceiling and every fiscal ratio in the Budget. Externally, the current account moved into deficit in January–September 2026 and the rupee depreciated by 6.8% year-to-date by end-October. This raised the rupee value of FX debt despite contained borrowing, while also increasing taxes raised on imports. In response to higher energy prices driving up inflation, the policy rate was raised by 100 basis points to 8.75%, lifting government securities yields by some 180–190 basis points since December 2025.

Revenue

Revenue and grants are projected at 15.8% of GDP in 2027, down from 16.6% in 2026 and 16.7% in 2025, with total revenue growth expected to be just 3.3% YoY (3.8% for tax revenue), less than half the pace of nominal GDP. The MoF attributes this to the expected normalisation of vehicle imports and slowdown in the revenue impact of measures taken in previous years. Several compliance measures have been deferred, including the mandatory TIN requirement (now April 2027), point-of-sale reporting and VAT on non-resident digital services, and the phase-out of CESS and PAL will be revenue neutral only if offsetting gains materialise. The 2027 Budget's own tax changes reduce tax revenue by LKR 21 billion.

While it is likely that the 2025–2026 vehicle surge will not be repeated on the same scale, tax revenue excluding the vehicle windfall still grew three times faster than nominal GDP in 2025. VAT revenue rises with prices and the exchange rate, and a range of compliance measures being implemented can help drive tax revenue without changes to rates. Revenue could therefore again exceed the estimates in 2027, which would in turn help attain the tax revenue target of 17% of GDP by 2031 (relative to 15.4% in 2025) set by the new Medium-Term Revenue Strategy (MTRS) targets. The MTRS estimates that there is a VAT compliance gap of 3.6% of GDP, leaving space for revenue gains from compliance measures.

Expenditure and the fiscal rule

Primary expenditure in the Appropriation Bill is LKR 5,030 billion, or 12.9% of GDP. A further LKR 260 billion supplementary estimate for continued Ditwah relief and reconstruction raises this to 13.6% of GDP, which would require the PFMA escape clause to be invoked for a second consecutive year. But only about LKR 70 billion of the LKR 500 billion provided for 2026 had been used by September 2026, keeping primary expenditure well below the 13% ceiling and requiring a second consecutive supplementary estimate in 2027 for the same purposes. Overall, only 32% of 2026's overall capital allocations had been utilised by September, indicating weak execution. Capital expenditure of close to LKR 2 trillion (5.1% of GDP) assumes execution well above recent experience; even the 2026 revised estimate requires fourth-quarter spending to be 69% above the 2025 record. Recurrent spending assumes that subsidies and transfers (excluding pensions) fall from an estimated 2.9% to 2.3% of GDP as post-conflict energy subsidies are not automatically extended into 2027. Should revenue track nominal GDP and capital spending increase to reach 80% of its allocation, the primary surplus could exceed 4% of GDP, compared to 2.3% budgeted.

Supplementary estimates and budget credibility

Nine supplementary estimates were presented for FY 2026, eight of which reallocated approved funds, often from delayed capital projects to recurrent relief. Section 7 of the 2027 Appropriation Bill introduces new provisions to allow unspent allocations to be moved between Heads with the prior approval of Parliament by Resolution. The Committee considers it important that this procedure be set out in Financial Regulations consistent with the PFMA and not become a substitute for realistic estimates. The Committee also notes that the MoF should ensure that all capital projects are reported under a Public Investment Programme document under section 41 of the PFMA, without limiting to a major investment projects document covering only projects over LKR 250 million.

Financing, debt service and debt sustainability

The borrowing limit is LKR 3,800 billion. With LKR 2,300 billion of Treasury bills to be rolled over, the gross financing requirement is about LKR 6,100 billion, to be met mainly through Treasury bonds. But borrowing could be LKR 700–800 billion lower than planned if the primary surplus ends up being above 4% of GDP in 2027. Foreign borrowing of about USD 2 billion is expected, including USD 1 billion of project loans, where disbursements have consistently fallen short due to the project implementation delays. Shortfalls can lead to delays in expected capex – affecting growth - and higher requirement to purchase FX via CBSL reserves. Foreign debt service of about USD 2.5 billion a year is set to rise above USD 3 billion from 2028 as grace periods of restructured debt come to an end. The Ditwah supplementary will again be funded from the Treasury cash buffer (LKR 936 billion in August 2026), a valuable cushion that carries an estimated opportunity cost of about LKR 20–40 billion a year per trillion rupees held. Gross financing needs are projected to fall to about 16% of GDP in 2027 under the MoF budgeted figures, still above the 13% benchmark for 2027–2032. But it could fall further if the primary surplus overperforms.

Fiscal risks

The FSS 2027 identified macroeconomic uncertainty and climate-related disasters as the most serious fiscal risks, each rated probable and each capable of causing fiscal impacts exceeding 1% of GDP. Disaster costs are estimated at about 0.5% of GDP in an average year and over 1.5% in a 1-in-30-year event. While Budget 2027 makes allocations for specific aspects like an LKR 5 billion contingent reserve for El Niño impacts, expansion of flood management infrastructure, and an Upper Watershed Area Management Authority for the Central Highlands, more general measures such as a national disaster insurance scheme are not covered. This could mean reallocation of expenses could still be needed if specific weather events have larger impacts.

Additional insights from the Annexes

- **Pensions (Annex 2):** Pension expenditure rose by 171% between 2015 and 2025 to LKR 401 billion, driven mainly by higher payments per pensioner rather than more pensioners, while the real value of the average pension fell by 13.5% amidst high inflation. The scheme remains non-contributory apart from the W&OP, whose contributions cover about 15% of the pension bill, and the number of public pensioners per 100 employed persons has risen from 7.2 to 9.2.

- **Public procurement (Annex 3):** Procurement-related issues are a principal cause of project delays and capital under-spending. There is still no procurement law, half of the National Procurement Commission's posts are vacant, and procurement delays affected 22 mega projects in mid-2026, up from 9 a year earlier.

- **State-owned enterprises (Annex 4):** Key SOEs returned to profit after 2022, but profits are concentrated in the state banks. Over 2021–2025 the Treasury received LKR 231 billion in levies and dividends from SOEs, while providing LKR 785 billion in budgetary support and absorbing about LKR 1.6 trillion of SOE debt.

Section 1: Introduction

1.1. 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 2027.

The First Reading of the Appropriation Bill was held on 07 October 2026. The Bill authorises any provisions made during the Financial Year from 01 January 2027 to 31 December 2027.

The report was compiled with information sourced from the (1) Budget Speech for 2027 (Second Reading of the Appropriation Bill) presented in Parliament on 12 November 2026, (2) Budget Estimate Report 2027 submitted by the Ministry of Finance (MoF), and past estimate reports of the MoF, and other reports submitted alongside the budget speech. This report incorporates information referenced from various official publications of the 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. Legislation and other legal instruments related to the analysis have also been cited.

1.2. 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) programme. Although these reforms were initially guided by IMF programme targets, since 2024 the enactment of the Public Financial Management Act (PFMA) and the Public Debt Management Act (PDMA) has provided legislative backing for ongoing fiscal improvements.

The Acts set clear, quantifiable targets from which deviation is permitted only in the event of overriding economic or security crises. For example, Section 15(1) of the PFMA states that the primary expenditure of the budget cannot exceed 13% of the nominal GDP of the corresponding financial year. Any deviation from the target must be explained to Parliament, and the Medium-Term Fiscal Framework should be revised accordingly to return towards the target in the subsequent period.

Table 1.1: Primary Laws on Public Finance Oversight

Legislation	Objective
Constitution of the Democratic Socialist Republic of Sri Lanka (1978)	Mandates Parliamentary approval for the spending, withdrawal, collection and allocation of public finances.
Public Financial Management Act No. 44 of 2024	Imposes a specific ceiling on primary expenditure and mandates a medium-term fiscal framework, under which revenue and primary balance targets are set to achieve and maintain public debt sustainability.
Public Debt Management Act No. 33 of 2024	Establishes the Public Debt Management Office (PDMO) as the sole issuer and manager of public debt. The PDMO is required to support the budgetary process by preparing the annual borrowing plan (ABP).
Active Liability Management Act No. 8 of 2018	Authorises 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	Authorises expenditure allocations, borrowing and revenue raising for each Financial Year, in line with existing legislation and practices.
Standing Orders of Parliament	Specifies the process through which Parliament handles its Constitutional responsibility over Public Finances.
Parliamentary Budget Office Act, No. 6 of 2023	Intended to create a Parliamentary Budget Office to provide technical support for Parliament's oversight over public finances. Not operational as of yet.
Financial Regulations 1992	Governs the daily management of the financial processes of Government bodies, departments and ministries in compliance with existing legislation and practices.

Table 1.2: Other Laws Governing Public Finance Oversight

Legislation	Objective
Economic Transformation Act No. 45 of 2024	Gives legal effect to the National Economic Policy of building an export-oriented, digital economy while achieving public debt sustainability.
National Audit Act No. 19 of 2018	Establishes the National Audit Office to ensure that public money is prudently and effectively managed by public institutions.
Accounting and Auditing Standards Act No. 15 of 1995	Establishes 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	Provides for the investigation, through tribunals or panels, of matters related to public contracts or persons who tender with public bodies.

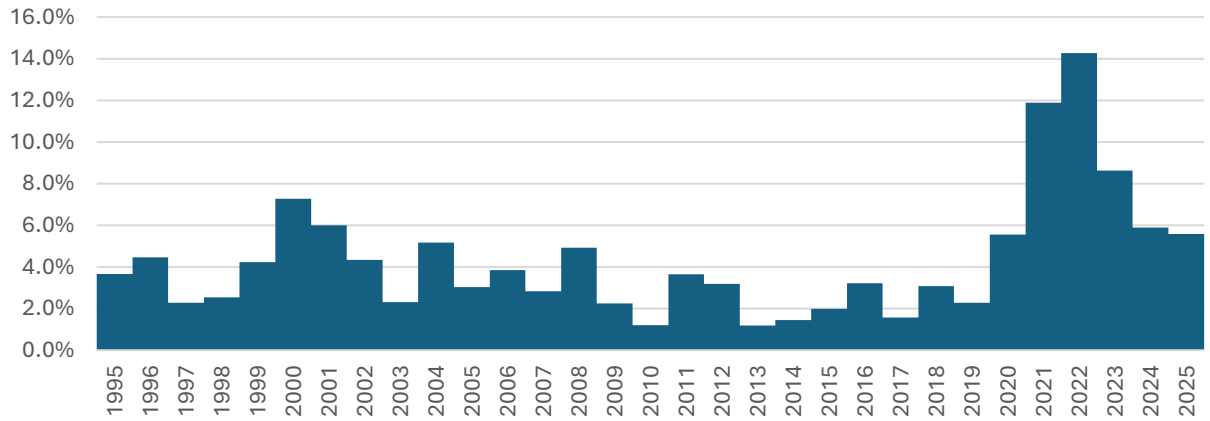
Table 1.3: Main Legislation for Government Revenue

Legislation	Scope
Inland Revenue Act No. 24 of 2017	The primary law on direct taxation of income and assets.
Value Added Tax (VAT) Act, No. 14 of 2002	Defines scope, exemptions, rates and administration of value 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 (as amended)	Manages duties imposed on special commodities, including tobacco, petroleum, and vehicles.
Social Security Contribution Levy (SSCL) Act	Administers 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.

1.3. Independence of the Central Bank of Sri Lanka

Under the former Monetary Law Act No. 58 of 1949, the Central Bank of Sri Lanka (CBSL) was closely intertwined with fiscal policy. The Secretary to the Treasury sat on the Monetary Board, the CBSL managed public debt through its Public Debt Department, and it was permitted to extend provisional advances to the Government and to purchase Treasury bills in the primary market. These arrangements gave the Government considerable flexibility in financing its operations, but they also blurred the separation between monetary and fiscal policy. In the period leading up to the 2022 crisis, there was large-scale central bank financing of the budget deficit.

Figure 1.1: Outstanding Net Credit to Government by CBSL, % of GDP



Source: CBSL

The Central Bank of Sri Lanka Act No. 16 of 2023, which repealed the Monetary Law Act in September 2023, redefined the CBSL's mandate and strengthened its institutional autonomy. The Act establishes domestic price stability as the CBSL's primary objective, with financial system stability as a further objective. The Secretary to the Treasury is no longer a member of the CBSL's decision-making bodies, board members are appointed for six-year terms, and their removal is subject to specified statutory grounds and the approval of the Constitutional Council. The separation was extended in 2024, when the Public Debt Management Act established the Public Debt Management Office (PDMO) as the sole issuer and manager of public debt (Table 1.1), a function previously performed largely by the CBSL.

For public finances, the most significant change is the prohibition on monetary financing under Section 86 of the Act. The CBSL may not, directly or indirectly, grant credit to the Government or to other public entities, nor incur costs on the Government's behalf. A limited exception under Section 127 permits provisional advances within the first month of a financial year, repayable within six months and capped at ten per cent of revenue for the first four months of the preceding financial year; according to the CBSL's financial statements, no such advances were made in 2025. The IMF programme reinforces these provisions through a continuous performance criterion prohibiting CBSL purchases of government securities in the primary market and a ceiling on the CBSL's net credit to the Government. As a result, the budget deficit must now be financed through market borrowing, external financing or the drawdown of Treasury cash buffers, which places greater weight on the credibility of fiscal targets and on the PDMO's Annual Borrowing Plan.

Independence does not, however, mean that the CBSL's operations have no bearing on the budget. Several channels continue to link the two. First, the CBSL remains banker and fiscal agent to the Government, and transitional provisions under Section 132 allow it to continue acting as the Government's agent. Second, under Section 96, the CBSL's distributable earnings are transferred to the Government, making CBSL profits a source of non-tax revenue. Third, the CBSL's own holdings of government debt were restructured under the 2023 Domestic Debt Optimisation, when provisional advances of LKR 345 billion and Treasury bills of LKR 2,368 billion were converted into Treasury bonds and bills with a stepped-down coupon profile. Fourth, monetary policy decisions affect the Government's interest costs, the rupee cost of foreign-currency debt service and tax revenue, through their effects on prices and economic activity. Conversely, fiscal and administered-price decisions, such as changes to VAT, electricity tariffs and fuel prices, directly affect measured inflation and therefore the CBSL's ability to meet its target. Coordination between the two institutions therefore remains important, even as their mandates are kept separate.

Greater autonomy has been accompanied by formal accountability to Parliament and the public. Section 80 of the Act requires the CBSL to inform the public on the implementation of monetary policy at least once every six months; requires the Governor, members of the Governing Board and the Monetary Policy Board, and Deputy Governors, at the request of Parliament, to be heard by Parliament or any of its committees once every four months; and requires an annual report on the state of the economy and the CBSL's policies to be laid before Parliament through the Minister of Finance within four months of the end of each financial year. Parliamentary oversight is intended to hold the CBSL to account for its performance

against its statutory mandate and for the reasoning behind its decisions, while the choice and calibration of policy instruments is reserved to the CBSL's Boards.

Although the Act refers to Parliament or any of its committees rather than to a specific committee, in practice the COPF has become the principal parliamentary forum for this engagement. The Committee has deliberated on each of the CBSL's reports on deviations from the inflation target and has engaged the CBSL on monetary policy, macroprudential measures and banking supervision. In these discussions, the CBSL has drawn on its statutory independence to define the limits of its role, for example when questioned on its decision to maintain a low Loan-to-Value (LTV) ratio for vehicle leasing and on its supervision of the banking sector during the 2026 NDB fraud. During the Committee's inquiry into the fraudulent payment from the Treasury, the CBSL maintained that it acts only as a 'banker' to the Government and is not responsible for advising the Treasury on foreign debt servicing[1].

The principal benchmark against which the CBSL's performance is assessed is the Monetary Policy Framework Agreement (MPFA), signed between the Minister of Finance and the CBSL on 3 October 2023 under Section 26(1) of the Act. The MPFA sets a target of 5% for quarterly headline inflation, as measured by the Colombo Consumer Price Index (CCPI), with a margin of ±2 percentage points. The target is thus agreed between the Government and the CBSL, while the CBSL retains discretion over the instruments used to achieve it. Under Section 26(5) of the Act, if inflation deviates from the target by more than the specified margin for two consecutive quarters, the Monetary Policy Board must submit a report to Parliament through the Minister of Finance, setting out the reasons for the deviation and the measures to be taken to return inflation to target. The report must also be made available to the public.

Since the MPFA came into force, headline inflation has remained outside the target band for extended periods, triggering this requirement on several occasions. The first report, covering the second and third quarters of 2024, when inflation averaged 1.4% and 0.8% respectively, was tabled in Parliament on 10 January 2025 and deliberated at the COPF on 23 January 2025. By late 2026, the CBSL had submitted seven such reports, all relating to inflation below the lower bound. The CBSL attributed these deviations to a combination of factors, including reductions in electricity tariffs and domestic fuel prices, lower food prices, the appreciation of the rupee, and the pace of credit growth and monetary policy transmission. Several of these drivers stem from administered-price and fiscal decisions rather than from monetary policy, which illustrates the interdependence. In 2026 the balance of risks shifted, with headline inflation rising to 8.0% in September following higher global oil prices. Under the CBSL Act, the inflation target must be reviewed and updated every three years. Accordingly, the Ministry of Finance and CBSL signed a new three-year inflation target agreement, retaining the existing 5% +/- 2 percentage points target (3-7% effective target range).

[1]Committee on Public Finance. (2026). *Report of the Committee on Public Finance on The Fraud Linked to Cybercrime in the US Dollar 2.5 Million Debt Repayment to Australia*. Parliament of Sri Lanka. https://www.parliament.lk/uploads/businessdocs/english/24058_english_2026-07-10.pdf

1.4. Triggering the Escape Clause: Breach of the Primary Expenditure Ceiling

To bring much-needed fiscal discipline to the country, Section 15 of the PFMA mandates that the primary expenditure of the Government shall not exceed thirteen per centum of GDP. Section 16, however, provides an escape clause under which the ceiling may be breached in the case of unanticipated events or natural disasters that pose significant threats to national security, national economic security or the public health and safety of the country, and that necessitate additional, temporary and targeted public expenditure beyond any contingency.

Section 16(2) of the PFMA 2024 allows the Government to exceed the ceiling in the event of a natural disaster. Section 26(1)(a) of the PFMA states that any deviation from the Budget may be submitted for approval in the event of an unforeseen natural disaster. Further, under Section 26(1)(b), the Contingencies Fund, the Virement Procedure or the Annual Budget Reserve should be the first options considered, failing which a supplementary estimate must be submitted to Parliament.

Table 1.4: Exhaustive List of Options to be Considered before a Budget Supplement under Section 26(1)(b)

Option	Details
Contingencies Fund	• Created under Article 151 of the Constitution to provide for unforeseen circumstances for which no budget allocation has been made. • It is a statutory fund established by the Contingencies Fund Act, No. 35 of 1979. • It is funded by the Consolidated Fund.
Virement Procedure	• Section 24 PFMA 2024 • Budget reallocation within a Head of Expenditure. Transfers from one Head to another, or from Capital Expenditure to Recurrent Expenditure, are not permitted (Section 24(2)). • Any such reallocation should be reported to Parliament within six months of such transfer.
Annual Budget Reserve	• Section 25 PFMA 2024 • A fund to cover urgent, unforeseen and unavoidable circumstances. • This shall not exceed two per cent of the proposed primary expenditure. • Any allocation from the reserve shall be reported to Parliament within two months.

A Parliamentary request to exceed the ceiling must contain a Statement of Circumstances, Recovery Plan, Supplementary Estimate in line with Section 26, and an updated Medium-Term Fiscal Framework. Following Cyclone Ditwah in late November 2025, the Government of Sri Lanka implemented a comprehensive subsidy, grant and financial relief package to assist affected households and businesses. As the primary expenditure had already been determined and approved by Parliament for 2026, within the 13% limit, the Government put forward a Supplementary Estimate of LKR 500 billion for the post-cyclone relief efforts. This raised

estimated primary expenditure to 14.3% of GDP, above the 13% mandated by the PFMA 2024, and the primary surplus to 1% of GDP – well below the 2.3% IMF target.

As the Treasury had recorded a significantly larger primary surplus of 5.4% of GDP in 2025, mainly from the overperformance of vehicle import revenue, there was no decision made to adjust the borrowing limit upwards for 2026 to facilitate the relief spending. The Government took a policy decision to fund the relief from Treasury cash surplus, without any new debt issuance. The Ministry of Finance expected the country to return to the 13% expenditure target by 2027, with the primary surplus at 2.6% in 2027[2].

Table 1.5: Compliance with Sections 16(4)(a) to (d) of the PFMA

Sections 16(4)(a) to (d)	Content of the December 2025 Request
(a) Explanation of the change in circumstances	Nature of the disaster and resulting losses explained.
(b) Recovery plan	Additional revenue from new revenue proposals (e.g., lowering the VAT threshold)
	Over-performance of the primary surplus
(c) Supplementary Estimate with justifications	Submitted.
(d) Updated Medium-Term Fiscal Framework	Updated to reflect the changes to Total Expenditure.

Table 1.6: Compliance with Section 26 of the PFMA

	Content of the December 2025 Supplementary Estimate
An overview of recent macroeconomic and fiscal developments	Fiscal improvements and growth in remittances, gross reserves and the external sector are presented.
Updated forecast of revenue and expenditure	Total Expenditure revised from 20.5% of GDP to 21.9% of GDP
	Subsidies and transfers increased from 3.9% to 4.3% (higher Recurrent Expenditure)
	Capital Expenditure raised from 4% to 5%
Explanation of changes to individual Heads of Expenditure	To be decided by the National Budget Department.
Virement Procedure	Not possible
Contingency Fund	Insufficient; only LKR 0.35 billion
Annual Budget Reserve	Insufficient; only LKR 54 billion (Recurrent: LKR 37.3 billion + Capital: LKR 16.6 billion)
Source of additional financing	Use of existing cash buffer; no change to borrowing limit

1.5. Utilisation of Supplementary Estimates

A supplementary estimate asks Parliament to authorise spending that was not provided for in the annual Appropriation Act. Under the Public Financial Management (PFM) Act, it is meant to be a last resort for genuinely unforeseen needs, used only after virements, the Annual Budget Reserve and the Contingencies Fund have been exhausted.

[2] Ministry of Finance, The Fiscal Strategy Statement 2027 (FSS 2027)

In FY 2026, however, at least eight supplementary estimates have been brought before Parliament within eleven months, with a ninth (Highways, LKR 31.8 bn) presented on 13 November. A further LKR 260 bn estimate for Ditwah reconstruction in 2027 was tabled alongside the 2027 Budget.

The IMF has repeatedly cautioned Sri Lanka that supplementaries should be exceptional. In its December 2025 Letter of Intent, the Government committed to meet recovery needs primarily through reprioritisation and contingency allocations before turning to a supplementary budget. Frequent supplementary estimates create two problems. First, there is unpredictability. When the budget is reopened repeatedly, the approved Appropriation Act stops being a reliable statement of what the State will spend. Ministries, contractors and markets cannot plan around a figure that keeps changing. Second, the erosion of the budget's credibility**.** Frequent amendment signals weak forecasting at the planning stage and makes the annual budget less useful as an instrument of control and accountability.

Since June, the supplementary estimates have been presented as reallocations that leave the overall expenditure ceiling and borrowing limit unchanged, using savings from the disaster allocation or line-ministry provisions unlikely to be spent. This means there is no impact on the primary expenditure and borrowing limits.

Of the nine supplementary estimates, eight involve reallocation of expenditure already approved for other purposes. Funds approved by Parliament for one purpose, often capital projects, are diverted to recurrent subsidies, like fuel subsidies. The repeated identification of large "unutilised" provisions also suggests that the original estimates were overstated without due regard for implementation capacity.

The LKR 500bn in new spending approved for Cyclone Ditwah-related relief and reconstruction efforts was the largest amongst the sources of funds for reallocation, especially for the post-Middle East crisis relief measures. Several delayed foreign-funded projects also had their allocations moved to other purposes. This indicates a slower-than-expected progress of foreign-funded projects, reducing the foreign currency disbursements received by the Consolidated Fund.

It is important to note that despite being labelled supplementary estimates, only the post-Cyclone Ditwah LKR 500 bn supplementary estimate followed the full process set out in the PFM Act. The others have not followed this process, given their role in reallocating existing allocations, rather than adding new expenditure to the budget as a whole. The PFM Act provides no stated path at the moment for such a reallocation, other than through a supplementary estimate, as the virement procedure under section 24 of the PFM Act applies only to transfers within a Head of Expenditure, and section 24(2) prohibits transfers between Heads and from capital to recurrent expenditure.

Table 1.7: Supplementary Estimates on Appropriations Act for 2026

Date	Subject / Purpose	Value, LKR Bn	Source of Reallocated Funds
Ministry of Finance Dec-2025	Disaster Relief & Reconstruction for Ditwah	500	New Expenditure to be financed from Treasury Cash Surplus. Raised the 2026 expenditure envelope (primary spending ~1.3% of GDP above the PFM Act's 13% ceiling). Allocated under Development Activities Programme of the Department of National Budget to be disbursed as required.
Ministry of Finance June-2026	Subsidies announced following Middle East conflict	20	• Government vehicle purchases: LKR 8 bn withdrawn from the LKR 12.5 bn allocation (deferring purchase of 1,700 double-cab vehicles) • Ministry of Highways: LKR 12 bn, incl. LKR 2 bn from Central Expressway Section 2
Ministry of Finance July-2026	Subsidies announced following Middle East conflict and replenishing Budget Reserve utilised for earlier subsidy payments	71.7	Anticipated unutilised portion from the LKR 500bn disaster-relief allocation. Transfer between projects of the Dept. of National Budget.
Ministry of Agriculture, Livestock, Land & Irrigation Aug-2026	Expanding 2026 Yala Paddy Procurement & Purchasing	7.5	Reallocation from unutilised portions of two foreign funded projects: Mahaweli Water Security Investment Programme Phase II (LKR 6bn) and Integrated Watershed & Water Resources Management Project (LKR 1.5bn) within Ministry of Agriculture, Livestock, Land & Irrigation
Ministry of Energy Sept-2026	Electricity Bill Relief Financial assistance to provide direct tariff relief for domestic electricity consumers.	17.2	Reallocation of unspent capital budget of Ministry of Digital Economy, Ministry of Finance (including Department of Census), Ministry of Cultural Affairs, Ministry of Water Supply
Ministry of Finance Oct-2026	Expanding Re-MSME concessional loans scheme under the Department of Development Finance	7.5	Reallocation from delayed ADB funded Agriculture Supply Value Chains project (LKR 6 bn) and underutilised portion of Senior Citizens Interest Subsidy (LKR 1.5 bn). Both within Department of Development Finance.

Date	Subject / Purpose	Value, LKR Bn	Source of Reallocated Funds
Ministry of Finance Nov-2026	Fuel Relief & Aswesuma additional relief	47	Reallocation of existing budgetary provisions from other sectors; Government states no additional expenditure. Donor heads not yet itemised publicly.
Ministry of Defence Nov-2026	Sri Lanka Air Force UAV system procurement	4.3	Reallocation within Air Force capital allocations from refurbishment of helicopters to acquisition of UAVs
Ministry of Transport, Highways & Urban Development Nov-2026	Ruwanpura Expressway Section I (Kahathuduwa–Ingiriya) Central Expressway Section IV Phase I (Kurunegala–Galewela)	31.8	Reallocation within the Ministry of Transport of unutilised allocations, including from foreign funded projects facing delays.

The 2027 Appropriation Bill: making reallocation routine

The Appropriation Bill for 2027 (gazetted on 18 September 2026) makes one substantive change from previous Appropriation Acts (2022 to 2026) through section 7. It allows money allocated to a Programme that has not been spent, or is not likely to be, to be moved to a Programme under any other Head, with the prior approval of Parliament by Resolution. Section 2(2) of the Bill has been revised to match: the First Schedule allocations now apply "subject to any of the variations referred to in sections 5, 6 and 7".

Section 7 describes almost exactly what several of the nine 2026 estimates did, reallocating from one head to another. They had to come to Parliament as supplementary estimates because s.24(2)(a) of the Public Financial Management Act bars moving unspent allocations between Heads, and Financial Regulation 66 bars moving foreign-funded balances even within a Head. Section 7 would make reallocation between heads a standard practice.

Given that Resolutions under Appropriation Acts have so far been applied to changes in Advance Account limits, with Parliamentary and Cabinet approval, there is existing precedent and process to follow. However, it is also important to include this practice in detail within the new Financial Regulations to be published to be in line with the PFM Act, given a current reading of the PFM Act appears to prevent reallocations between heads.

1.6. Fiscal Risk Assessment

The Fiscal Strategy Statement 2027 (FSS 2027, previously the Fiscal Risk Statement) rates macroeconomic and climate risks as the two most serious threats to the fiscal path: both are probable, and both would exceed 1% of GDP if they materialise. The risk posed by state-owned enterprises (SOEs) through Treasury guarantees and capital infusions is explained in detail in Annex 4. The risks arising from public-private partnerships (PPPs) and from climate change

and natural disasters are summarised in the table below, and the Budget 2027 measures on climate and disaster risk are discussed after it.

Table 1.8: Key Fiscal Risks Identified in the FSS 2027

Category	How it reaches the budget	Headline exposure in FSS 2027
Macroeconomic uncertainty	Weaker growth, exchange-rate and interest-rate moves, and commodity prices hit revenue and debt service	Debt was 98.3% of GDP in 2025. The import bill rose 25.2% to USD 8.2 bn in Jan–Apr 2026 after the Middle East conflict began. The PFMA escape clause was invoked in 2026 to provide subsidies.
State-owned enterprises (SOEs)	Losses, capital injections, guarantee calls and quasi-fiscal activity	12 major non-financial SOEs assessed with the IMF SOE Health Check Tool. Pressure is concentrated in energy, water and aviation.
Public debt, guarantees and on-lending	Guaranteed SOE debt or on-lent loans falling back on the Treasury	Guaranteed SOE debt is LKR 1,080.18 bn (about 3.6% of GDP). Expected loss on the analysed part is LKR 169.04 bn (0.52% of GDP). On-lending is LKR 234.1 bn (0.71% of GDP).
Climate change and natural disasters	Relief and reconstruction spending, lost revenue, SOE and insurer losses	About 0.5% of GDP in an average year, rising above 1.5% of GDP in a 1-in-30-year event. Cyclone Ditwah alone left LKR 1,022 bn in recovery needs.
Public-private partnerships (PPPs)	Called guarantees, offtake and availability payments, renegotiation or termination	36 projects, 25 of them costed at about USD 6.1 bn (energy USD 4.1 bn). One guarantee has already been called (Sampur 50 MW solar JV).
Financial sector	Recapitalising state banks, deposit-insurance shortfalls, losses on banks' sovereign holdings, NITF reinsurance	The deposit insurance fund (SLDIF) is small relative to deposits. NITF's reinsurance arm is below its minimum capital ratio and has had no retrocession cover since Feb 2023. FATF evaluation results are due in early 2027.

Budget 2027 addresses climate and disaster risk mainly through specific allocations. The Budget Speech 2027 provides an LKR 5 billion contingent reserve for El Niño impacts, funds the expansion of flood management infrastructure, and proposes an Upper Watershed Area Management Authority for the Central Highlands. However, broader risk-financing measures, such as a national disaster insurance scheme, are not covered, so in-year reallocations or supplementary estimates may still be needed if weather events have larger impacts than provided for.

Although not quantified, cybersecurity risks are also noted in the FSS 2027. In 2026, the COPF probe into the fraudulent payment of USD 2.5 million from the Treasury revealed deficiencies in IT infrastructure and lapses in system controls within the Treasury. This is a critical risk to factor in, as high-value transactions, including bond issuance, take place through the Treasury systems.

Table 1.9: Comparison of FRS 2026 and FSS 2027

Category	FSS 2027 (Likelihood/Impact)	FRS 2026 (Likelihood/Impact)	Status for 2027
Macroeconomic uncertainty	Probable / High	Probable / High	Unchanged; Middle East conflict and oil prices are the live drivers
Climate change and natural disasters	Probable / High	Probable / Medium	Impact raised; now quantified at 0.5–1.5%+ of GDP
State-owned enterprises	Possible / High	Possible / Medium	Impact raised; energy, water, aviation
Public debt, guarantees and on-lending	Possible / Medium	Possible / Medium	Unchanged; guarantee ceiling halved to 7.5% of GDP
Public-private partnerships	Possible / Low	Possible / Low	Emerging: one guarantee called; renegotiation costs not yet quantified
Financial sector	Not rated	Not covered	New category in 2027

1.7. Overperformance on Primary Surplus Target

The primary balance has been the central fiscal anchor of the IMF programme. At approval in March 2023, the EFF envisaged a turnaround from a primary deficit of 5.7% of GDP in 2021 to a surplus of 2.3% of GDP from 2025 onwards, with the end-year primary balance monitored against a floor set in rupees. In each year of the programme so far, the Government has exceeded this floor by a wide and growing margin (Table 1.10).

Table 1.10: Central Government Primary Balance – IMF Programme Target and Actual Outturn, 2023–2025

Year	IMF target (% of GDP)	Actual (% of GDP)	IMF target (LKR bn)	Actual surplus (LKR bn)	Overperformance (LKR bn)
2023	–0.7	0.6	–209.0	173.3	382.3
2024	0.8	2.2	300.0	649.6	349.6
2025	2.3	5.4	750.0	1,756.0	1,006.0
Cumulative 2023–2025	**–**	**–**	**841.0**	**2,578.9**	**1,737.9**

Source: IMF Country Reports No. 23/408, 24/161 and 26/111; CBSL Annual Report 2024; Fiscal Strategy Statement 2027. Rupee targets are the end-December programme floors.

The overperformance has been driven mainly by revenue. In 2023 and 2024, revenue-based consolidation measures, including the increase in the VAT rate to 18% and the broadening of the VAT base in 2024, lifted collections above programme projections, while restraint in spending, particularly on capital expenditure, also contributed. In 2025, the primary surplus reached 5.4% of GDP, the highest on record and 3.1 percentage points above the target. This reflected the strong revenue yield from the resumption of vehicle imports and primary expenditure of only 11.4% of GDP, well below the 13% ceiling under the PFMA.

Over 2023–2025, the Government generated primary surpluses of about LKR 1.74 trillion more than the programme required. This has had clear benefits: it hastened the decline in the public debt ratio and built up the Treasury cash buffer, which allowed the relief package after Cyclone Ditwah to be financed without new borrowing. However, the Committee notes that persistent overperformance of this size also points to weaknesses in budget forecasting and execution. Surpluses achieved through under-spending on capital projects, or through one-off revenue such as the pent-up demand for vehicle imports, are unlikely to recur.

1.8. Arrears payment issues

USD 2.5 million cyber fraud on foreign debt repayment

Between November 2025 and January 2026, a cyber fraud led to the diversion of about USD 2.5 million that the Treasury meant to pay Export Finance Australia under the bilateral debt restructuring signed on 27 October 2025. The fraud happened in the middle of the 18-month move of debt functions from CBSL's Public Debt Department to the PDMO. It also began about a month after ERD's old Microsoft Exchange 2016 server stopped getting security updates on 14 October 2025. The first warning came on 6 January 2026, when JPMorgan blocked a fraudulent payment meant for India's EXIM Bank. That led to checks that also caught fake invoices for the UK, Germany and Belgium. The Australian loss only came to light on 23 March 2026, when the lender complained that it had not been paid. Besides the stolen money, the government accumulated foreign arrears due to Australia, requiring additional expenditure.

Key findings and recommendations. The Committee on Public Finance (COPF) report, presented to Parliament on 10 July 2026, calls this a system-wide failure across several institutions rather than a one-off lapse:

- **Governance:** The Secretary to the Treasury and the CBSL Governor are responsible for running the PDMO transition without an agreed terms of reference, KPIs or MoU. The MoU was signed only on 9 March 2026. The two had also told COPF in April 2026 that their coordination was adequate.
- **Procedure:** The Directors General of the ERD and PDMO showed "absolute dereliction of duty." They did not require lender invoices to be checked against the loan agreements, did not use verified communication channels, and did not keep the IT systems up to date. Final payment approval sat with a single Director, with no regular delegation of authority under the Financial Regulations.
- **Operations:** Mid-level staff were negligent. They missed the changed email domains, did not copy PDMO counterparts on lender emails, and CBSL Public Debt Department officers did not escalate the anti-money-laundering concerns that CBSL's Finance Department raised in November 2025.

The 11 recommendations include:

- a National Audit Office special audit of the whole foreign debt repayment process
- recovering losses from responsible officials under FR 105 once investigations are complete
- revised Financial Regulations under the PFM Act within three months

- an independent external review of debt management
- a secure lender database
- urgent talks on the arrears with Export Finance Australia
- bringing all MoF IT systems under the Department of IT Management
- enforcement of SL-CERT recommendations by the Ministry of Digital Economy
- amendments to the FTRA on CBSL's role as banker to the government
- a public-sector whistleblower policy

MoF also changed the foreign debt repayment process:

- the PDMO now handles all lender coordination
- lender details must be checked through at least two channels, including diplomatic ones
- the monthly debt service forecast goes to the Secretary to the Treasury at least 10 days before payment
- the Treasury Operations Department now checks details before releasing funds
- bank details in the NRM system can't be overwritten without authorisation
- SL-CERT and NCSOC are helping secure MoF systems

COPF called these baseline controls that should already have existed. It also notes that only four mid-level staff have faced action, despite failures across the system. The report shows the PDMO's procurement of its own servers was still under way in late June, and the Australian arrears were still unresolved when the report was presented.

Domestic Arrears on legacy Senior Citizens Special Interest Subsidy Scheme

The domestic arrears was related to the Senior Citizens' Special Interest Subsidy Scheme, which was introduced in the 2015 Interim Budget and guaranteed an interest rate of 15% on fixed deposits of up to LKR 1 million held by citizens aged 60 and above. Banks paid depositors the guaranteed rate and claimed the difference between that rate and prevailing market rates from the Treasury. Because the Government's liability rose as market interest rates fell, the cost of the scheme was open-ended and difficult to budget for. According to the IMF, its annual cost exceeded LKR 63 billion by 2022, when the scheme ended. Subsidy claims that were not settled accumulated as unpaid Treasury arrears to commercial banks, which the Ministry of Finance Annual Report 2024 placed at LKR 128.6 billion.

The full extent of these liabilities came to light during the IMF's Fourth Review of the EFF in 2025. In the course of a regular staff review of the 2025 budget appropriations, IMF staff and the authorities found that the stock of central government expenditure arrears had been under-reported to the IMF. The liabilities under the interest subsidy scheme had been disclosed in the Ministry of Finance Annual Report, and reports of the Auditor General had identified other liabilities accumulated by budgetary units, but neither had been reported to the IMF in the format required under the programme. The authorities attributed the discrepancy to weaknesses in the timely reporting of arrears by line ministries to the Ministry of Finance and to a misunderstanding of the definition of 'arrears' in the programme's Technical Memorandum of Understanding. The IMF Executive Board accepted that the inaccuracies were inadvertent, and the Auditor General was consulted in correcting the data.

Once the data were corrected, the stock of arrears was revised upwards at each programme test date (Table 1.11). As the programme set a ceiling of zero on this stock, the quantitative performance criterion was reassessed as not met, and IMF drawings made on the basis of the earlier data were classified as non-complying purchases. On 1 July 2025, taking into account the corrective actions adopted, the IMF Executive Board approved the authorities' request for a waiver of non-observance and completed the Fourth Review, allowing a disbursement of about USD 350 million. The IMF noted that the bulk of the arrears had accumulated before the EFF began and were owed mainly to the banking sector, and that the total identified stock stood at LKR 138 billion as of end-March 2025.

Table 1.11: Stock of Central Government Expenditure Arrears at IMF Programme Test Dates (LKR billion)

Test date	Ceiling	Initially reported	Revised	Revised (% of GDP)
End-June 2023 (First Review)	0	34.5	154.2	0.6
End-December 2023 (Second Review)	0	0	118.1	0.4
End-June 2024 (Third Review)	0	0	112.2	0.4
End-December 2024 (Fourth Review)	0	0	95.3	0.3

Source: IMF Country Report No. 25/162 (Fourth Review). Figures cover all central government expenditure arrears, not only the interest subsidy scheme. End-June 2024 was not formally assessed.

Following these findings, the Government committed to clearing the identified arrears by the end of the programme in March 2027 while continuing to meet the primary balance target, and the 2025 Budget included provisions for arrears clearance. An arrears clearance strategy, based on the verification, classification, prioritisation and liquidation of outstanding liabilities, has since been prepared and published. To prevent a recurrence, the Ministry of Finance is strengthening commitment controls through the Integrated Treasury Management Information System (ITMIS). Ministries, departments and agencies must record purchase orders and expense vouchers in ITMIS within 15 days, suppliers have been notified that from July 2026 only ITMIS-generated purchase orders will be accepted, and ITMIS is to produce a monthly report on the size, maturity and composition of arrears. An interim manual reporting system detected a further arrear of LKR 1.5 million incurred in the second quarter of 2025, which has since been cleared.

In its combined Fifth and Sixth Reviews, the IMF reported that no new expenditure arrears were incurred in the second half of 2025, and that the indicative target on the identified stock of arrears was met. The Government's Memorandum of Economic and Financial Policies states that the full settlement of the interest subsidy arrears will be completed by end-2027.

The episode carries two broader lessons for fiscal oversight. First, open-ended commitments whose cost depends on market variables, such as a guaranteed interest rate, can generate large liabilities outside the normal budget process unless they are capped, targeted and fully provided for in the budget. Second, although the liabilities were disclosed in public documents, they were not captured by the programme's monitoring framework, which underlines the importance of consistent definitions and complete, timely reporting of arrears across all spending units. The ITMIS-based reforms described above are intended to address these gaps.

Section 2: Analysis of Key Economic and Financial Assumptions

There are several macroeconomic assumptions that affect Budget 2027, 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 analysis of how these assumptions have been factored into Budget 2027 and whether there are any risks emanating from these assumptions for the fiscal outlook. This section checks whether the assumptions in the Fiscal Strategy Statement (FSS) published in June 2026, in line with the PFM Act, have been carried over into Budget 2027.

2.1. Economic Growth and Inflation

The Ministry of Finance has revised its real GDP growth assumption for 2026 upwards to 4.2% compared to 3.8% in the latest FSS, but downwards from the 4.5% assumed in Budget 2026. This comes on the back of 4.7% real GDP growth in 1H-2026 and CBSL expectations of growth remaining above 4% in 2H-2026. Nominal GDP growth is seen to be at 9.9% in 2026, more or less similar to the 10.0% in the FSS, due to a higher GDP deflator of 5.5% (6.0% in the FSS) compared to the 3.2% assumed in Budget 2026. These higher assumptions are supported by the 11.2% nominal growth in 1H-2026, and NCPI annual average inflation reaching 5.2% for January–September 2026.

For 2027, the Ministry expects real growth of 4.5%, adjusted upwards from 4.2% in the FSS. However, the GDP deflator assumption for 2027 has been lowered to 3.7%, from 4.6% in the FSS, and as a result nominal GDP growth is expected at 8.3%, compared to 9.0% in the FSS, with nominal GDP of LKR 39,000 billion, compared to LKR 39,294 billion in the FSS.

Table 2.1: Ministry of Finance assumptions for GDP growth

	2025	2026			2027	
	Actual (Prov.)	MoF to COPF in Oct'25	Revised (FSS 2027)	MoF to COPF in Oct'26	Estimate (FSS 2027)	MoF to COPF in Oct'26
Real GDP growth, %	5.0%	4.5%	3.8%	4.2%	4.2%	4.5%
GDP Deflator, %	3.6%	3.2%	6.0%	5.5%	4.6%	3.7%
Nominal GDP growth, %	8.8%	7.8%	10.0%	9.9%	9.0%	8.3%
Nominal GDP, LKR Billion	32,751	34,500	36,037	36,000	39,294	39,000

Source: MoF presentation to COPF, 23rd Oct 2025 (Budget 2026 COPF report) for 2026 Budget; Fiscal Strategy Statement 2027, June 2026 for 2026 Revised and 2027 Estimate; MoF presentation to COPF, 22nd Oct 2026 for 2025 and the latest 2026 and 2027 figures

The real GDP growth of 5.0% in 2025 exceeded the Budget forecast of 3.5%, underpinned by stronger-than-expected expansion across sectors. The economic outlook for 2026 was complicated by two shocks. Cyclone Ditwah inflicted severe damage on economic activity in late-2025, compelling the Government to make an additional provision of LKR 500 billion for

rebuilding and recovery. Since late February 2026, the conflict in the Middle East has worsened macroeconomic conditions through higher global energy and commodity prices, disruptions to tourism, and adverse impacts on key export destinations.

At the time of the Budget 2026 report, before Cyclone Ditwah and the Middle East conflict, the MoF expected growth of 4.5% in 2026, above the World Bank (3.5%), ADB (3.3%) and IMF (3.1%). The World Bank's lower outlook reflected heightened global uncertainty, while the ADB's reflected the potential for US tariffs to weaken exports and dampen consumption due to potential job losses. The IMF viewed its forecast as reflecting the economy's return to its long-term trend following a strong recovery.

Following Cyclone Ditwah and the Middle East conflict, the MoF revised its 2026 growth assumption to 3.8% in the FSS 2027 (June 2026), and has since revised it up to 4.2% in its presentation to the COPF in October 2026. The IMF projected 3.0% in May 2026, 0.1 percentage point lower than its pre-conflict outlook, with fuel imports, remittances, tourism and weaker external demand as the main transmission channels. The World Bank projected 3.6% in April 2026, broadly unchanged from its earlier forecast of 3.5%. The World Bank attributed the slowdown from 5% in 2025 to higher energy prices and a shift from recovery to a pace consistent with the economy's potential, and growth will be primarily driven by consumption and investment, supported by post-cyclone reconstruction activity. It revised its forecast up to 4.4% in October 2026, reflecting domestic resilience to the Middle East conflict.

The ADB projected growth of 4.0% for 2026 in April 2026, up from its earlier forecast of 3.3% at the time of the Budget 2026 Report, assuming the Middle East conflict would not escalate further or become protracted. The projection incorporated an estimated 0.4 percentage point drag from the conflict on growth, partly offset by post-Ditwah relief and rehabilitation. The ADB retained the forecast in July and September 2026, citing strong first-quarter growth led by industry and services, which was expected to moderate during the rest of the year.

For 2027, the MoF assumes growth of 4.5%, up from 4.2% in the FSS 2027. This is higher than the World Bank, which revised its forecast up to 4.2%, supported by improving macroeconomic stability, private consumption and reconstruction activity, while expecting El Niño-related weather disruptions to dampen agricultural output. The ADB initially projected growth to rebound slightly to 4.2% in 2027, assuming the Middle East conflict does not escalate further, but revised it down to 4.0% in July 2026, given the recent 100 basis point rate hike and its lagged impact on growth and retained that view in September 2026. The IMF projects growth of 3.2% in 2027.

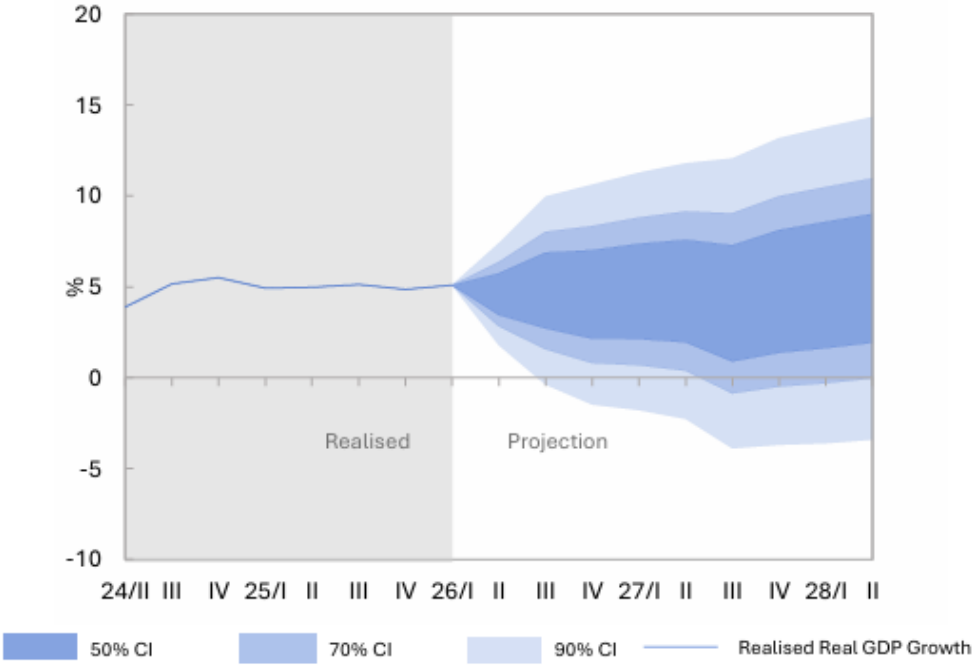
Table 2.2: GDP growth forecasts before and after Cyclone Ditwah and the Middle East conflict, %

	Year	MoF	IMF	ADB	WB
Before Ditwah & Middle East	2026	4.5	3.1	3.3	3.5
After Ditwah & Middle East	2026	3.8	3.0	4.0	3.6
Latest update	2026	4.2	3.0	4.0	4.4
	2027	**4.5**	**3.2**	**4.0**	**4.2**

Note: "Before" figures are those in the Budget 2026 report (MoF Oct 2025; IMF Jul 2025; ADB Sep 2025; WB Oct 2025). "After" and 2027 figures are the latest available: MoF FSS 2027 (Jun 2026) for mid-2026 and MoF presentation to COPF (22 Oct 2026) for the latest update and 2027; IMF Fifth and Sixth Reviews (May 2026); ADB Asian Development Outlook (July and Sep 2026); World Bank Sri Lanka Development Update (May and Oct 2026).

CBSL provides a fan chart with its latest quarterly real GDP growth outlook. The CBSL expects near-term growth prospects to remain broadly positive amid less severe-than-anticipated spillovers from the Middle East conflict, while medium-term growth is expected to gradually strengthen towards its potential, supported by improving domestic demand and continued macroeconomic stability. However, the pickup in domestic demand is expected to be somewhat gradual, partly reflecting the transmission of the recent monetary policy tightening.

Figure 2.1: Projected Quarterly Real GDP Growth (yoy, %) - Based on the Projections during the July 2026 Monetary Policy Round



Source: CBSL Monetary Policy Report – August 2026, Central Bank Staff Projections

Factors that can affect GDP growth outlook 2027

1. **Impact of volatility in global economic conditions, including the Middle East conflict**

The escalation of geopolitical tensions in the Middle East and the resulting disruptions to global trade and energy markets could adversely affect economic activity, with potential ramifications for global growth trajectories and cross-border trade flows. The CBSL similarly identifies an escalation of geopolitical tensions in the Middle East and heightened global trade and policy uncertainties as key downside risks to growth. For Sri Lanka in particular, as a net oil importer, the country remains highly vulnerable to these shocks, and its medium-term outlook will largely depend on the duration and intensity of the conflict and its consequent impact on global energy markets and supply chains. Higher fertiliser prices arising from commodity price volatility would also weigh on agricultural productivity.

2. **Weather-related risks**

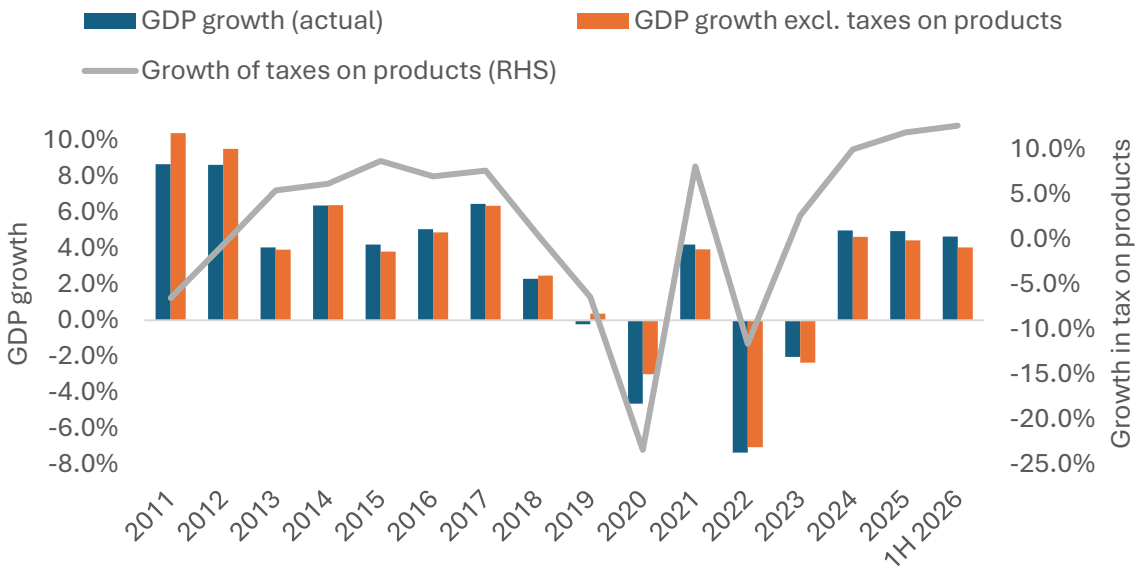
The CBSL notes that El Niño conditions could lead to adverse weather, including prolonged dry spells and irregular rainfall, which could weigh on economic activity across the agriculture, industry, and services sectors, and that recurrent adverse weather-related shocks could constrain medium- to long-term growth.

Impact of tax expansion on GDP figures

As discussed in the 2026 edition as well, there continues to be a significant impact of taxes on products (via indirect taxes like VAT and import tariffs) on the overall GDP figures. Expansion in indirect tax collection has outpaced the expansion in GDP, allowing the overall revenue to GDP ratio to expand rapidly since the lows of 2022.

Sri Lanka's real GDP grew 4.7% year-on-year in the first half of 2026, but taxes on products supplied close to a fifth of that expansion. Taxes on products rose by about 12.6% in real terms over the period and contributed roughly 0.9 percentage points to growth; excluding them, the economy expanded by about 4.0%. This is the case across 2024 and 2025 as well. One of the reasons for higher-than-expected GDP growth in Sri Lanka over this period could also be the impact of faster-than-expected revenue growth. But while this aids the fiscal consolidation, it is not growth that is necessarily felt by the general population and industries, unless it is accompanied by significant expansion in fiscal expenditure.

Figure 2.2: Real GDP growth & Growth excluding Taxes on products, % YoY



Source: DCS

2.2. Inflation outlook

CCPI headline inflation remained below the lower bound of the inflation target band of 5% with plus or minus 2 percentage points for eight consecutive quarters between 2024 and early 2026. Following the outbreak of the Middle East conflict, headline inflation rose from 2.2% in March 2026 to 6.8% in June, mainly due to higher domestic energy and food prices, and was 8.0% in September 2026, exceeding the upper bound of the target band for the third consecutive month. As a result, 3Q-2026 was the first quarter since the inflation target came into being that the average quarterly headline inflation was above the 3-7% target range. Core inflation rose to 5.4% in August 2026. CBSL currently expects headline inflation to remain in high single digits through Q1-2027, before easing towards the 5% target in the rest of 2027.

Table 2.3: GDP deflator and inflation forecasts before and after Cyclone Ditwah and the Middle East conflict, %

	Year	MoF (annual deflator)	IMF (annual deflator)	ADB (avg annual inflation)	WB (avg annual inflation)
Before Ditwah & Middle East	2026	3.2	5.3	4.5	3.7
After Ditwah & Middle East	2026	6.0	6.2	5.2	5.4
Latest update	**2026**	**5.5**	**6.2**	**6.0**	**5.7**
	2027	**3.7**	**5.3**	**5.2**	**5.3**

Note: Inflation refers to annual average CCPI inflation. "Before" figures are from the Budget 2026 report, Mid-year: MoF FSS 2027 (Jun 2026); IMF Fifth and Sixth Reviews (May 2026); ADB ADO (Apr 2026); WB SLDU (May 2026). Latest and 2027: MoF presentation to COPF (22 Oct 2026); ADB ADO (Sep 2026); WB SLDU (Oct 2026).

The MoF raised its GDP deflator assumption for 2026 to 6.0% in June (FSS 2027), from 3.2% in Budget 2026, close to the 6.2% deflator in the IMF's May 2026 review report, and has since revised it to 5.5%. For 2027, the MoF assumes a GDP deflator of 3.7% (4.6% in the FSS 2027), lower than the IMF's 5.3%.

The World Bank and ADB expect inflation in 2026 to be at 5.7% and 6.0%, and in 2027 at 5.3% and 5.2%, respectively, both above the 5% target. The World Bank also points to the effects of a weaker rupee, while the ADB highlights electricity tariff hikes. The World Bank attributes this to second-order pass-through effects of price and wage increases, whereas the ADB attributes it to the continuation of cost-recovery pricing reform under the IMF programme. The IMF also cautions that the CBSL should stand ready to tighten monetary policy if significant second-round effects emerge, a risk consistent with the World Bank's view that second-order pass-through effects of price and wage increases will delay the return to the inflation target in 2027.

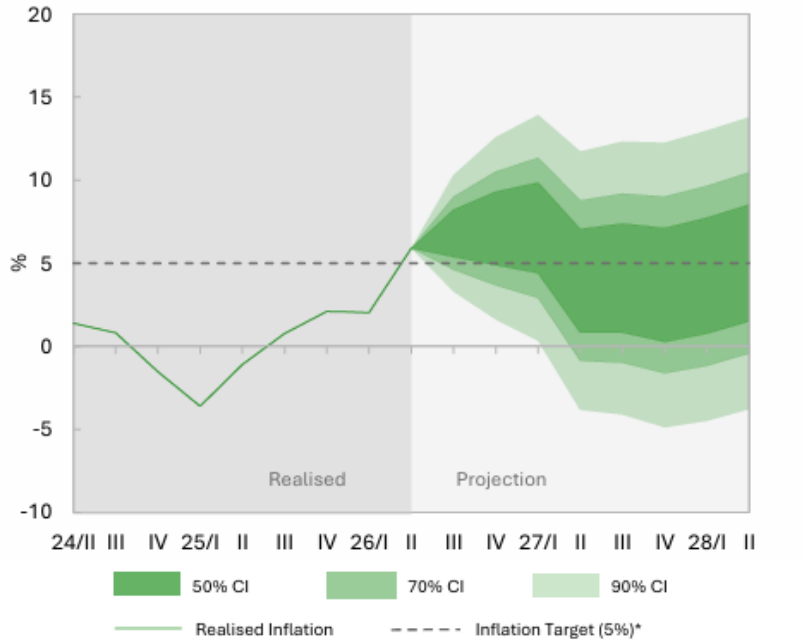
A key factor that will affect inflation outlook and inflation expectations going forward will be currency movements. The exchange rate depreciated sharply, by 6.3% against the US dollar on a year-to-date basis end of September, according to the CBSL, and the World Bank identifies the weaker rupee as one of the drivers of the increase in inflation in 2026. This means that exchange rate stability will be important for inflation to ease in 2027. Another source of uncertainty is energy pricing. In its May 2026 review, the IMF attributed the expected acceleration of inflation beyond the CBSL target, which it then projected to peak in the second quarter of 2026, to a sharp uptick driven by further fuel and electricity price increases to restore cost recovery. Such price adjustments can cause swings in inflation in some periods, adding uncertainty to the GDP deflator and, in turn, to nominal GDP, on which the fiscal targets are based.

On 1 October 2026, the President and the CBSL Governor signed a new Monetary Policy Framework Agreement (MPFA) for 2026–2029, maintaining the 5% inflation target and the ±2 percentage point tolerance band. After a technical review, the CBSL recommended keeping the target unchanged, and the Ministry of Finance accepted that recommendation, as a somewhat higher target can facilitate relative price adjustments, changing the target only three years after the introduction of inflation targeting could weaken its credibility, and lowering the target while inflation remains above it could require a tighter monetary policy stance, affecting growth, amid adverse supply shocks.[3]

CBSL's inflation projections are produced using its Quarterly Projection Model (QPM), which, as explained by the CBSL to the Committee, serves as a guide rather than an absolute predictor. The model incorporates global variables such as oil prices and US interest rates, expectations on the output and demand conditions of trading partners, and fiscal projections based on the IMF programme path and budget announcements. The CCPI currently uses a 2021 base year, but the consumer basket and expenditure patterns are based on 2019 data. This limits the accuracy of the inflation figures and is a result of the delay in the Household Income and Expenditure Survey (HIES) by the Department of Census and Statistics.

[3]World Bank. 2026. Sri Lanka Development Update, October 2026, Box 1.2 "The new Monetary Policy Framework Agreement keeps the inflation target at 5 percent".

Figure 2.3: CCPI Headline Inflation projection, quarterly average YoY %



Source: CBSL Monetary Policy Report – August 2026

2.3. Interest Rates and Credit Outlook

Domestic interest rates, which declined overall in 2025 under an accommodative monetary policy stance, have risen since the escalation of the conflict in the Middle East in late February 2026. In May 2026, the Central Bank of Sri Lanka (CBSL) raised its Overnight Policy Rate (OPR) by 100 basis points (bps) to 8.75%, followed by increases in market interest rates. Meanwhile, Sri Lanka's sovereign credit ratings continued to improve, with Fitch upgrading the rating to B- in September 2026. Internationally, monetary policy has also become less accommodative amid renewed inflationary pressures.

Domestic interest rate trajectory

Since 27 November 2024, CBSL has used a single policy interest rate, the OPR, to signal its monetary policy stance, with the Average Weighted Call Money Rate (AWCMR) as the operating target. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) are linked to the OPR with a margin of ±50 bps and are no longer policy rates. Treasury bill, lending and deposit rates are market interest rates.

Before the Middle East conflict, monetary policy remained accommodative. The OPR was reduced by 25 bps to 7.75% in May 2025 amid subdued inflationary pressures, and was kept unchanged up to January 2026. Market interest rates continued to adjust downwards in 2025, including the interest cost on Treasury bills and bonds. The CBSL attributed this to the accommodative policy stance, rapid improvements in fiscal performance, a low-inflation environment, well-anchored inflation expectations and a reduction in risk premia. However, fixed deposit interest rates rose from around September 2025 amid competition among banks

for deposits, while the Average Weighted Prime Lending Rate (AWPR) also faced upward pressure amid strong credit growth.

Treasury bill and bond yields rose notably in December 2025, partly reflecting market expectations of higher government borrowings to finance post-Cyclone Ditwah recovery efforts. The CBSL kept the OPR unchanged in March 2026, noting that the low level of inflation provided sufficient space to accommodate the impact of higher energy prices and expectation of the conflict being short-lived. Headline inflation, however, rose to 5.4% in April 2026, reflecting the pass-through of higher global oil prices to domestic energy prices.

In May 2026, CBSL raised the OPR by 100 bps to 8.75%, ending the accommodative stance that had been in place since June 2023. The CBSL cited the elevated inflation forecast, potential second-round effects of energy price adjustments, continued expansion in private sector credit fuelling import demand, pressures on the external sector, and the risk of de-anchoring inflation expectations. The CBSL also tightened loan-to-value ratios for gold-backed and motor vehicle lending with effect from 25 May 2026. The OPR was maintained at 8.75% in July and September 2026.

Market interest rates adjusted upwards following the policy rate increase. Treasury bill yields, which had been under upward pressure since late March 2026 due to the risks of expected inflation and increased uncertainty, rose sharply after the May increase before moderating gradually. Lending and deposit rates also increased, which the CBSL said is likely due to lower liquidity among licensed commercial banks. The 364-day Treasury bill yield rose from 8.24% at end-February 2026 to 10.20% at end-July 2026, and was 9.95% at the latest auction, in the week ending 22 October 2026.

In the money market, the Average Weighted Call Money Rate (AWCMR) moved closely with the OPR until mid-July 2025. It then rose gradually and was 0.29 percentage points above the OPR by end-2025, because liquidity was not evenly spread among banks. In early 2026, the CBSL's foreign exchange purchases added more liquidity to the market. As a result, the AWCMR fell back to the OPR and then below it, and the CBSL began absorbing the excess liquidity through open market operations from mid-February 2026.

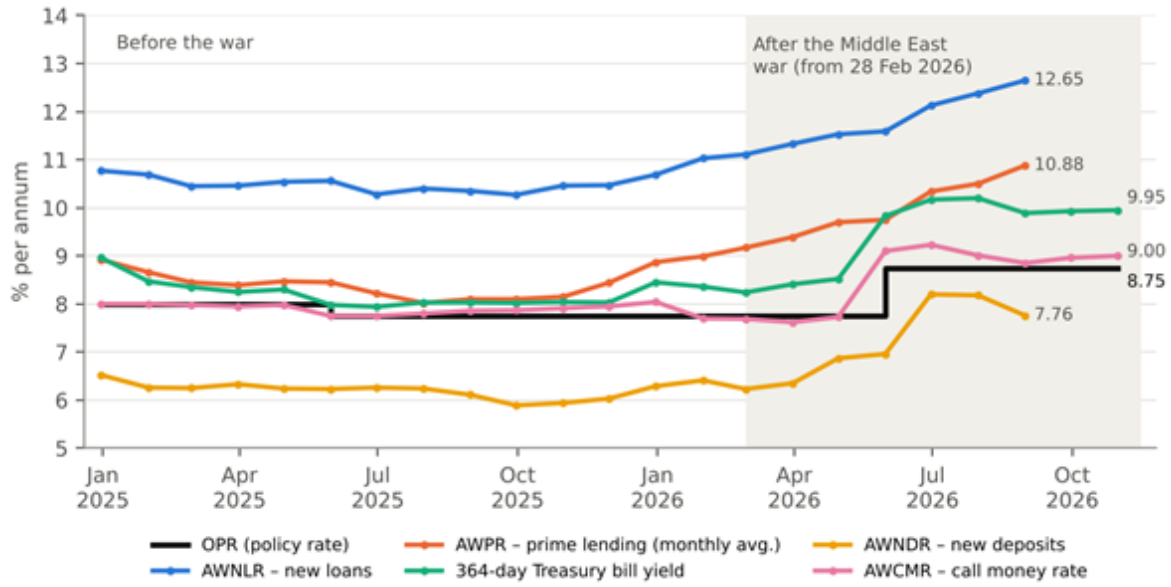
Following the policy rate increase in May 2026, the CBSL allowed the AWCMR to deviate temporarily above the OPR, and the AWCMR peaked at 9.23% by end-June 2026. The Average Weighted Repo Rate (AWRR) also rose to levels close to the SLFR from end-May 2026, before moderating to 9.00% by 21 July 2026 as overall market liquidity improved. As at 23 October 2026, the AWCMR stood at 9.00% and the AWRR at 9.06%, compared with the OPR of 8.75%, while total outstanding market liquidity recorded a surplus of about LKR 384.90 billion.

Table 2.4: Policy and market interest rates before and after the Middle East conflict, %

Indicator	Type	End-Feb 2026	Latest	Latest as at	Change (pp)
Overnight Policy Rate (OPR)	Policy rate	7.75	8.75	23 Oct 2026	+1.00
Average Weighted Call Money Rate (AWCMR)	Market	7.69	9.00	23 Oct 2026	+1.31
364-day Treasury bill yield (primary market)	Market	8.24	9.95	Week ending 22 Oct 2026	+1.71
AWNLR (new loans)	Market	11.11	12.65	Aug 2026	+1.54
AWLR (outstanding loans)	Market	11.62	12.59	Aug 2026	+0.97
AWNDR (new deposits)	Market	6.23	7.76	Aug 2026	+1.53
AWDR (outstanding deposits)	Market	6.83	7.52	Aug 2026	+0.69
Headline inflation (CCPI, y-o-y)	Inflation	1.6	8.0	Sep 2026	+6.4

Source: CBSL Statistical Table 4.04 (February 2026); CBSL Monetary Policy Review No. 5 of 2026, Data Annexure (August 2026). Lending and deposit rates are for licensed commercial banks. End-of-period rates

Figure 2.4: OPR and selected market interest rates, December 2024 – October 2026, %



Source: CBSL (Statistical Table 4.04, Monetary Policy Review data annexures and Weekly Economic Indicators). End-of-month rates, except AWPR (monthly average of weekly rates) and the latest observations for September and October 2026. Lending and deposit rates are available up to August 2026.

International interest rate environment

Global monetary policy has become less accommodative, with several major central banks adopting a tight monetary policy stance amid visible inflationary pressures and a relatively muted slowdown in activity. Global growth is projected to slow to 3.0% in 2026, while inflation and inflation expectations have risen, driven by surging energy prices. In September 2026, the US Federal Reserve raised the target range for the federal funds rate by 25 bps to 3.75–4.00%, noting that inflation remains elevated. Projections released at the same meeting show a median federal funds rate of 4.1% at end-2026 and end-2027, and 3.9% at end-2028. The European Central Bank raised its three key interest rates by 25 bps, taking the deposit facility rate to 2.50%, citing inflation pressures from the conflict in the Middle East. The Bank of Japan also raised its policy rate, to around 1.25%, while the Bank of England maintained its Bank Rate at 3.75%.

In contrast, the People's Bank of China kept the rate on its 7-day reverse repo operations at 1.40% and its loan prime rates unchanged in September 2026 and, on 29 September 2026, reduced the one-year rate on its Pledged Supplementary Lending facility from 1.75% to 1.50%. The deviation of interest rates in China relative to other major economies has encouraged many global firms and even some sovereigns to issue RMB-denominated debt in China and Hong Kong, to reduce their cost of borrowing. In May 2026, Pakistan issued USD 250 million equivalent in Panda bonds denominated in RMB at an interest rate of 2.5%.

Table 2.5: Policy rates of selected central banks

Central bank	Policy rate	Latest action
US Federal Reserve	3.75–4.00% (federal funds target range)	Raised by 25 bps (16 September 2026), after remaining at 3.50–3.75% in the first half of 2026
European Central Bank	2.50% (deposit facility rate)	Raised by 25 bps (10 September 2026), following a 25 bps increase in June 2026
Bank of Japan	Around 1.25% (overnight call rate)	Raised (18 September 2026), following an increase to 1.00% in June 2026
Bank of England	3.75% (Bank Rate)	Maintained (17 September 2026)
People's Bank of China	1.40% (7-day reverse repo rate)	Unchanged (19 October 2026)

Source: CBSL Monetary Policy Report – August 2026; Federal Reserve; European Central Bank; Bank of Japan; Bank of England; State Council of the People's Republic of China.

While central bank policy rates indicate the direction of monetary policy, long-term government bond yields reflect market expectations about future interest rates, inflation and other economic and fiscal conditions. In 2026, US and Chinese 10-year government bond yields moved in opposite directions. The US 10-year Treasury yield rose from 3.97% at end-February 2026 to 5.29% at end-September 2026 and was 5.09% on 16 October 2026. Over the same period, China's 10-year government bond yield declined from 1.81% to 1.64%.

Table 2.6: 10-year government bond yields, %

Security	End-Feb 2026	End-Sep 2026	Mid-Oct 2026
US – 10-year Treasury	3.97	5.29	5.09
China – 10-year government bond	1.81	1.68	1.64

Source: US Department of the Treasury, Daily Treasury Par Yield Curve Rates; World Government Bonds, China 10 Years Bond. End-February: 27 February 2026; end-September: 30 September 2026; mid-October: 16 October 2026.

2.4. External Sector Outlook

The Fiscal Strategy Statement notes that elevated oil prices, driven by the Middle East conflict, raised the import bill by 25.2% to USD 8.2 billion in the first four months of 2026 and that the exchange rate depreciated sharply. Total foreign currency earnings (exports of goods and services plus remittances) rose by 7.3% (YoY) to USD 22.88 billion in Jan–Sept 2026.

Merchandise exports grew by 5.3% to USD 10.75 billion, led by industrial exports (6.9%), while garments (-5.3%), textiles (-7.8%) and tea (-6.8%) contracted. Services exports edged down by 0.6% to USD 5.26 billion as tourism (-9.2%) and Computer & IT/BPO services (-15.5%) declined. Remittances were the main source of growth, rising by 18.1% to USD 6.87 billion, although this may include inflows received following Cyclone Ditwah. In September 2026, merchandise exports reached a record monthly high of USD 1.38 billion (+21.0% YoY).

However, the narrow export base, reliance on tourism and remittances, and dependence on imported energy expose the external sector to sector-specific risks. About 40% of remittances originate from Gulf economies. Garment exports to the US face a 10% additional tariff under the Section 301 forced-labour action (the lower tier, secured after Gazette No. 2496/38 banned imports of goods produced by forced labour), bringing the estimated total duty on apparel to around 26.5%.

Tourism weakened. Arrivals fell by 1.8% to 1,693,679 in Jan–Sept 2026, while earnings fell faster, by 9.2% to USD 2.25 billion, reducing average earnings per arrival from about USD 1,433 to USD 1,326. The ADB attributes this to weaker per-tourist spending and notes that Gulf airspace was the last point of departure for over 30% of arrivals. September showed tentative stabilisation, with arrivals broadly flat (-0.3% YoY) and earnings up 1.5% to USD 186 million, although the SLTDA's revised estimation methodology, applied from January 2026, limits year-on-year comparability.

Total imports of goods and services rose by 21.7% to USD 21.71 billion, driven by fuel (up 51.5% to USD 4.49 billion), personal vehicles (up 53.9% to USD 1.44 billion) and investment goods (up 26.0% to USD 3.71 billion). Pressures are easing at the margin: fuel import spending declined for the fifth consecutive month in September 2026, and vehicle imports fell by 34.4% (YoY) to USD 188 million. Nonetheless, the cumulative trade deficit widened to USD 7.91 billion from USD 5.17 billion, and the terms of trade deteriorated.

Table 2.7: Import Performance and Net Foreign Exchange Earnings for Jan–Sept 2026 (USD million)

Component	Jan–Sep 2025	Jan–Sep 2026	Change (%)
Total Imports	17,831	21,709	21.7
Total Merchandise imports	15,390	18,666	**21.3**
Consumer goods	**3,816**	**4,485**	**17.5**
Food and beverages	1,565	1,618	3.4
Personal vehicles	933	1,436	53.9
Intermediate goods	**8,617**	**10,456**	**21.3**
Fuel	2,961	4,487	51.5
Textiles and textile articles	2,037	1,962	-3.7
Investment goods	**2,944**	**3,710**	**26.0**
Machinery & equipment	1,848	2,333	26.2
Transport equipment	354	570	61.0
Services Imports	**2,441**	**3,043**	**24.7**
Total Export & Remittance Earnings	21,316	22,876	7.3
Merchandise exports	10,215	10,754	5.3
Tourism earnings	2,473	2,245	-9.2
Other service exports (excl. tourism)	2,816	3,012	7.0
Remittances	5,812	6,865	18.1
FX Earnings minus Import Costs	**3,485**	**1,167**	**-66.5**

Source: CBSL, External Sector Performance, September 2026

The current account has reversed sharply, from a surplus of USD 1.85 billion in Jan–Sept 2025 to a deficit of USD 0.42 billion in Jan–Sept 2026, a deterioration of about USD 2.27 billion (Table 2.8). The main drivers were the USD 2.74 billion widening of the trade deficit and a 22.3% fall in the services surplus to USD 2.21 billion, as payments for travel abroad (up 62.4%) and transport (up 23.8%) outpaced flat services inflows. A USD 1.04 billion increase in the secondary income surplus, led by remittances, offset only about 38% of the wider trade deficit.

Table 2.8: Current Account Balance for Jan–Sept 2026 (USD million)

Component	Jan–Sep 2025	Jan–Sep 2026	Change (USD mn)
Current account balance	1,853	-420	-2,274
Trade balance	-5,174	-7,912	-2,737
Services account (net)	2,848	2,213	-635
Primary income account (net)	-1,536	-1,482	54
Secondary income account (net)	5,715	6,759	1,044
of which: Workers' remittances	5,812	6,865	1,054

Source: CBSL, External Sector Performance, September 2026. Components may not add to the total due to rounding.

With the current account no longer generating surplus foreign exchange, rebuilding reserves will depend largely on official and other financial inflows. Gross official reserves (including the swap facility with the People's Bank of China) stood at USD 7 billion, or 3.3 months of imports, at end-October 2026, only slightly higher than the USD 6.8 billion at end-2025. The rupee had depreciated by 6.8% year-to-date to LKR 332.61 per USD by end-October.

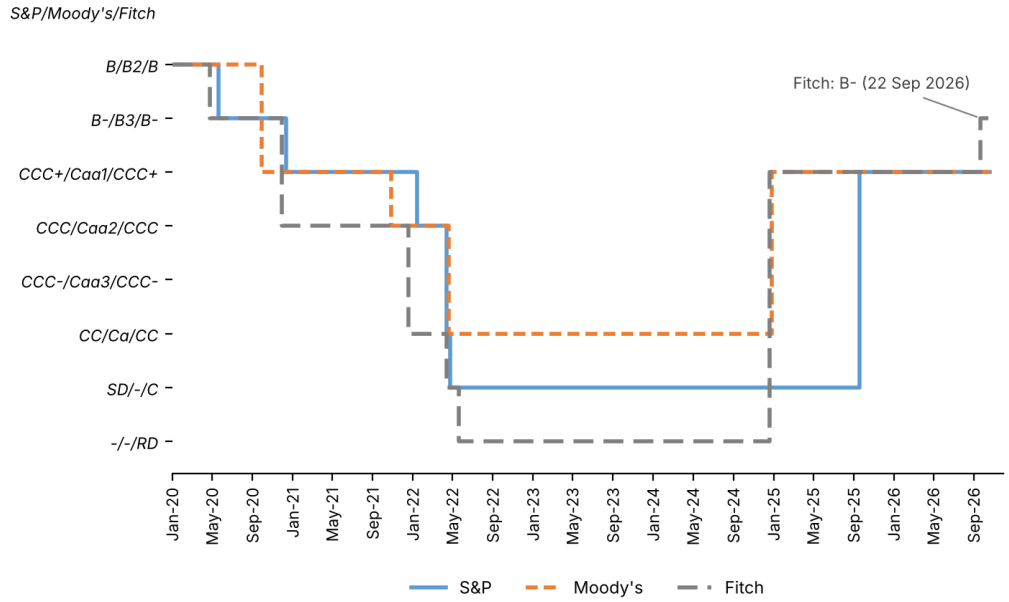
2.5. Credit rating outlook

Sri Lanka's sovereign credit ratings have exited default status following the near completion of external debt restructuring. Fitch and Moody's upgraded Sri Lanka's ratings to CCC+ and Caa1 from RD and Ca respectively in December 2024, while S&P upgraded its rating to CCC+ from SD in September 2025. On 22 September 2026, Fitch upgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating to B- from CCC+, with a Stable Outlook. As at end-September 2026, all three agencies assign a Stable outlook.

Table 2.9: Sovereign credit ratings of Sri Lanka, as at End-September 2026

Agency	Rating	Outlook	Latest action	Reasons cited
Fitch	B-	Stable	Upgraded from CCC+ (22 Sep 2026)	Upgraded on sharp improvements in fiscal and external balances and structural reforms. Fitch projects debt at 92.9% of GDP in 2026 and reserves at US$ 7.7 bn by year-end. Country ceiling raised to B-.
S&P	CCC+	Stable	Upgraded from SD (19 Sep 2025); affirmed (27 Jul 2026)	Affirmation (27 Jul 2026): S&P expects the conditions allowing for continued economic growth and fiscal repair to persist over the next six to 12 months, and fiscal indicators to improve even as growth decelerates and current account deficits return. As risks to external demand, inflation and financing conditions are significant, S&P does not expect material improvements to sovereign credit support over this period.
Moody's	Caa1	Stable	Affirmed (24 Aug 2026)	Affirmation (24 Aug 2026): Moody's assesses the risks surrounding Sri Lanka's Caa1 rating as broadly balanced. Fiscal reforms under the IMF programme have improved revenue and sustained primary surpluses, but debt affordability remains weak, with government debt projected at around 95% of GDP in 2026 and interest absorbing more than 40% of revenue.

Figure 2.5: Sri Lanka's sovereign credit ratings



Source: Ministry of Finance and CBSL, Investor Call presentation (10 August 2026); Department of Government Information (25 September 2026); The chart shows changes in rating levels only.

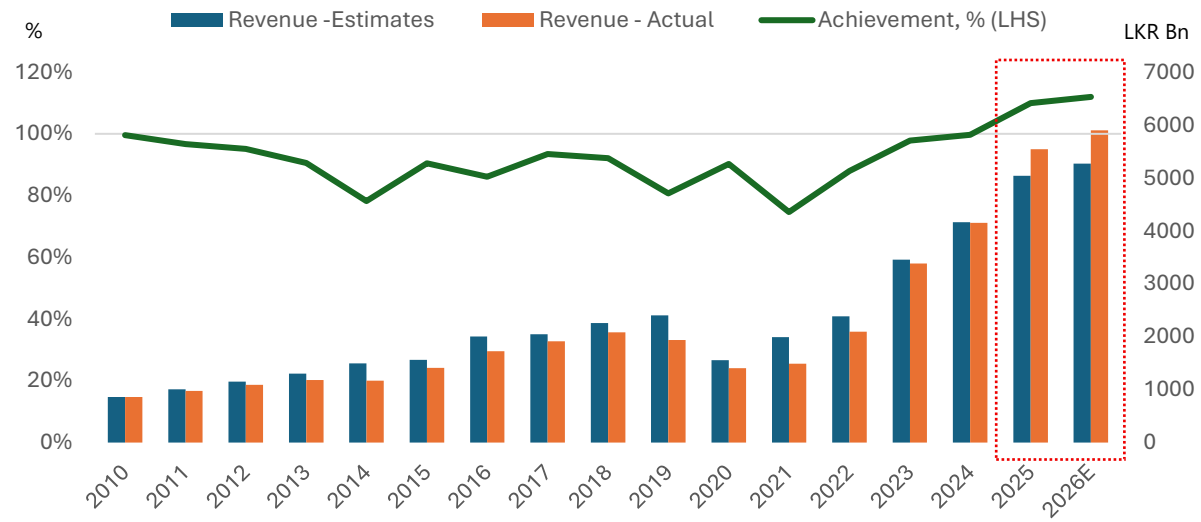
Section 3: Revenue Estimates

The key pillar of Sri Lanka's ongoing fiscal reforms since the 2022 crisis has been to increase government revenues from extremely low levels and to end the long-running practice of underperforming on revenue estimates. While revenue increased rapidly across 2023-2024, in 2025 revenue collection has surpassed estimates significantly. In 2025 actual revenue collection was 16.7% 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 did not expect this overperformance to recur in 2026, expecting only 15.4% of GDP in revenue in 2026. However, 2026 also appears to be in line for a significant overperformance. By September 2026, the Treasury had collected about 87% of the estimated revenue for the full year, well ahead of the 77% reached by September 2025. As a result, the revised estimate for 2026 now expects a revenue of 16.6% of GDP, a 1.2 percentage point overperformance from Budget 2026. From an absolute point of view the Treasury would collect LKR 711 billion more in revenue than expected.[4]

Despite the significant overperformance over two consecutive years, the Treasury has kept the revenue estimate for 2027 at 15.8% of GDP. This is because the overperformance in 2025 and 2026 is seen as being linked to the import of vehicles being higher than expected due to pent-up demand of imports being banned during 2020-2024. Given imports have slowed down gradually since mid-year, due to the additional customs duty surcharge, lowered loan-to-value (LTV) ratio, impact of currency depreciation, and likely sating of pent-up demand, there is an expectation that revenue from vehicle imports will be lower going into 2027. Given this context, this section focuses on assessing the revenue assumptions for 2027 and impact from revenue measures announced in the budget speech.

Figure 3.1: Revenue Estimates vs. Actual



Note: 2026 Actual is MoF estimate. Accounting Format. Source: Department of Fiscal Policy

[4] Due to the nominal GDP expected for 2026 now (LKR 36 trillion) being higher than assumed during Budget 2026 (LKR 34.5 trillion) the share of GDP ratio does not match the increase in the rupee value of tax collection.

3.1. Overall Revenue Estimates

Budget 2027 estimates 15.8% of GDP in total revenue and grants, which is a reduction from the 16.7% actual in 2025 and 16.6% of GDP currently estimated by MoF for 2026. Despite this reduction in share of GDP terms, the revenue collection increases in LKR terms from LKR 5486 billion in 2025, LKR 5981 billion in 2026, and LKR 6180 billion in 2027. This is because the increase in nominal GDP is expected by MoF to be faster than the expected increase in revenue.

Table 3.1: Revenue, % of GDP

Category	2025	2026 Est	2027 Budget	2025 Over performance	2026 Over performance	2027 Change from 2026
Revenue & Grants	16.7	16.6	15.8	1.6 pp	1.2 pp	-0.8 pp
Tax Revenue	15.4	15.2	14.6	1.5 pp	1.0 pp	-0.6 pp
Non-Tax Revenue	1.2	1.3	1.2	0.1 pp	0.3 pp	-0.1 pp

Source: Budget Speeches

Even the MoF's current estimate for 2026 revenue collection might be underestimating the potential overperformance. During the presentation of Budget 2026, the MoF expected 2025 revenue collection to only reach 15.9% of GDP, compared to an actual of 16.7%. By September 2025, the Treasury recorded LKR 3835 billion, which was 77% of the revenue initially expected for the full year at LKR 4990 billion and 70% of the final actual collection of LKR 5486 billion. By September 2026, the Treasury recorded LKR 4602 billion in revenue collected, about 87% of the initial full year target of LKR 5270 billion and about 77% of the revised full year expectation of LKR 5981 billion.

The October to December period usually coincides with a period of significant tax collection due to settlement of income taxes and the end-year import patterns. Therefore, it is possible that the actual for 2026 ends up slightly higher than what is currently expected, even though there is a slowdown in vehicle imports compared to earlier in the year.

The 2027 estimates of the MoF also factor in the impact of the tax changes announced in the Budget Speech. The net impact of these changes in 2027 is quite small at LKR 21.15 billion or just 0.3% of expected 2027 revenue collection.

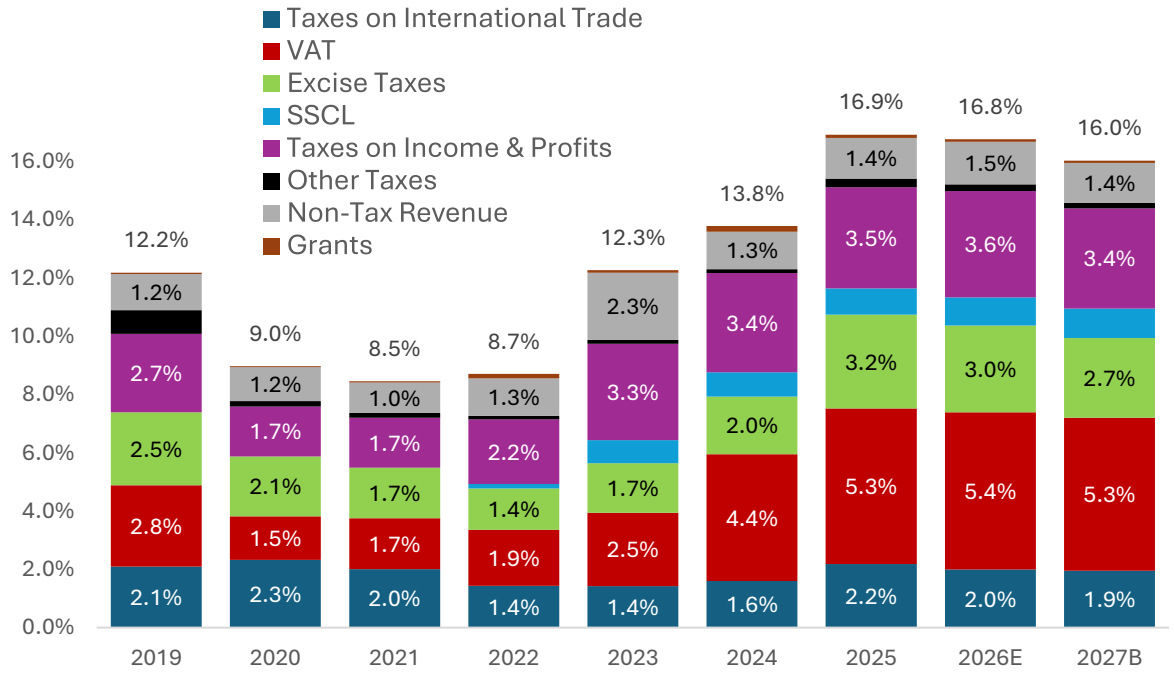
Table 3.2: Revenue measures

Revenue Measure	Annual Revenue Impact (LKR million)	Effective Date
Revision of the Special Commodity Levy *Reductions for Sprats, Maldive Fish & Dried Chilli, Increase for Sugar*	950	November 2026
Revision of the Ports and Airports Development Levy *Reductions for Solar Battery Imports and Imported Newsprint*	(350)	January 2027
Individual Income Tax Revisions	(16,000)	April 2027
Phased removal of CESS – Second Phase (as previously Gazetted)	(10,000)	April 2027
Revision of Value Added Tax *Removal from books and change in cinema ticket calculation*	(2,975)	April 2027
Abolishment of the Tourism Development Levy	(40)	April 2027
Total Revenue Increase/(Loss)	**(28,415)**	
Revenue Impact for the year 2027 (LKR million)	**(21,150)**	

Source: Budget Speech 2027

The revenue make-up remains dominated by VAT, Excise, and Income taxes, which account for about 70% of all expected revenue in 2027. This share rises to 90% when non-tax revenue and taxes on trade are included.

Figure 3.2: Revenue by major category, % of GDP



Note: On Accounting Basis total revenue is higher due to inclusion of revenues of departments instead of netting them as in economic basis.
Source: MoF Annual Reports and Budget Estimates 2027

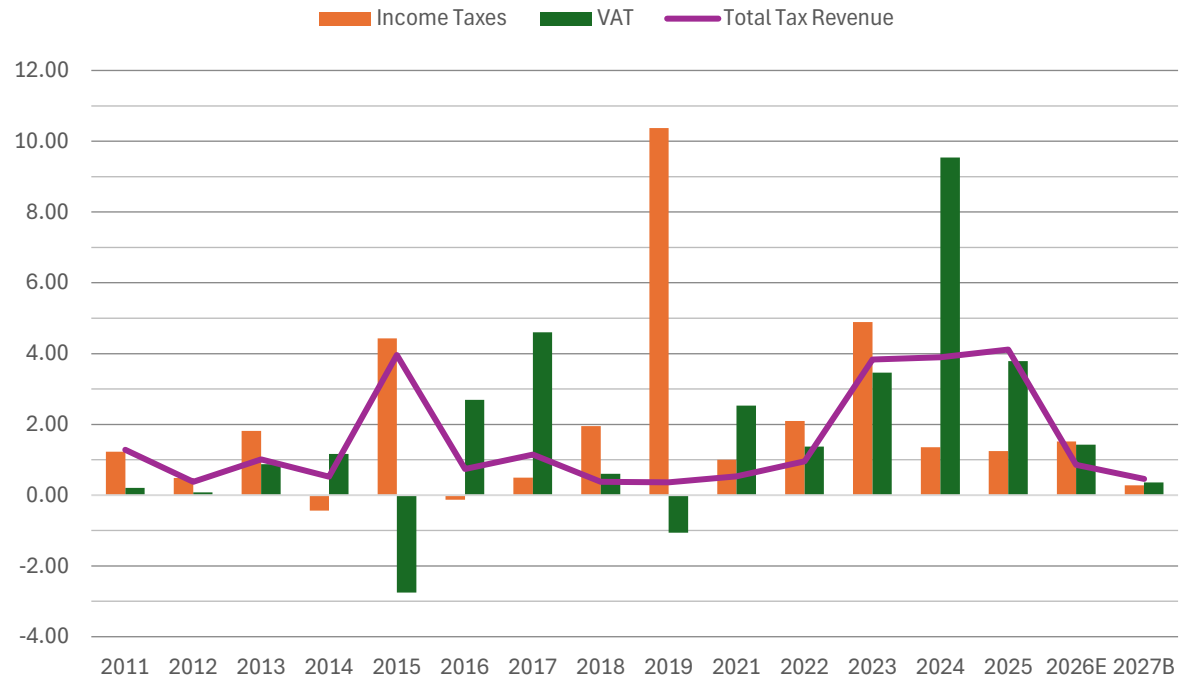
3.2. Tax Revenue

Close to 80% of tax revenue collection is through three types of taxes, VAT, income taxes and excise taxes. VAT applies to both imports and domestic consumption, while excise taxes are based on alcohol, vehicle imports, and petroleum imports, and income taxes depend on capturing of incomes within the tax net.

The tax buoyancy is expected to slow down from the heady highs of the 2023 to 2025 period as the impact of the tax rate changes and compliance improvement measures wear off and tax revenue growth becomes more in line with nominal GDP growth. The MoF's current expected tax revenue for 2026 put the tax buoyancy at about 0.9, which implies revenue growing slightly slower than the expected nominal GDP growth rate of 9.9%. If tax revenue also goes at a similar pace, then the government tax revenue collection could be higher by around LKR 70 billion or about 0.2% of GDP, potentially retaining the 2025 tax to GDP ratio of 15.4%.

The MoF's expected figures for 2027 imply an even lower buoyancy of 0.5 for 2027, which means tax revenue grows at half the pace of nominal GDP growth expected. However, given the ongoing implementation of varied tax compliance measures and still to be implemented legal measures approved in 2026, such a slowdown in tax buoyancy for 2027 seems unlikely.

Figure 3.3: Tax Buoyancy ratio



Source: Calculated from MoF and DCS data

Revenue from Taxes on Vehicle imports

The reopening of vehicle imports after several years of restrictions became the main driver of Sri Lanka's tax revenue expansion in 2025.[5] Initial budget projections for 2025 targeted approximately LKR 450 billion in vehicle import-related tax revenues. Driven by pent-up demand after the policy relaxation, actual collections far outperformed expectations. Total tax revenue from motor vehicle imports reached LKR 897 billion in 2025 across 398,207 imported units.[6]

Table 3.3: Summary of Motor Vehicle Importation - 2025

Type of Vehicle	No. of Vehicles	CIF Value (LKR Mn)	Total Tax (LKR Mn)
Motor cars	90,245	423,529	724,528
Passenger vans & Buses	2,774	26,669	20,549
Three Wheelers	24,442	12,585	24,881
Motorcycles	227,976	66,575	50,837
Goods Transport Vehicles	11,380	69,445	66,941
Land Vehicles	8,614	26,817	8,439
Others	32,776	1,639	265
Total	**398,207**	**627,259**	**896,440**

Source: Sri Lanka Customs Presentation to COPF, 25 June 2026

Vehicle-related taxes accounted for over 60% of the increase in total government revenue in 2025. Excise duty on motor vehicles surged to LKR 472 billion, a 706% y-o-y increase, and contributed 45% of total excise duty revenue.[7] Other Import Taxes (VAT, Customs Duties, SSCL) accounted for the remaining LKR 425 billion of total vehicle tax collections. Motor cars constituted the dominant component, generating LKR 725 billion (81% of total vehicle tax revenue).

Had vehicle-related taxes yielded only the initially projected LKR 450 billion instead of the actual LKR 896.44 billion, revenue and grants in 2025 would have been approximately LKR 5,040 billion, which is still above the estimate of LKR 4,990 billion. The overall budget deficit would have widened from LKR 745 billion (2.3 per cent of GDP) to approximately LKR 1,191 billion (roughly 3.7 per cent of GDP), which is still below the budgeted deficit of LKR 2,200 billion.

According to Sri Lanka Customs reporting, vehicle imports generated LKR 512.5 billion in total tax revenue across 316,000 units cleared as of 30 June 2026, accounting for over 37% of total Sri Lanka Customs collections during the six-month period.[8] A detailed breakdown by tax

[5] CBSL, Annual Economic Review 2025

[6] Sri Lanka Customs Presentation to COPF, 25 June 2026

[7] CBSL, Annual Economic Review 2025

[8] Customs achieves 130% of 1H target, Rs. 512 b vehicle import taxes account for 37% of revenue | Daily FT

component underscores the dominant role of vehicle-related excise duties in state revenue mobilisation.

Annual vehicle excise duty for 2026 was initially budgeted at LKR 266 billion, down from the peak surge of LKR 471.8 billion in 2025.[9] However, actual H1 2026 motor vehicle excise collections rose by LKR 137.2 billion to reach LKR 266.4 billion compared to LKR 129.1 billion in H1 2025. By September 2026 it had reached LKR 381 billion, compared to LKR 349 billion by September 2025,[10] prompting an increase in the expected collection in 2026 to LKR 470 billion in the budget estimates.[11]

It is also wrong to assume that the higher-than-expected revenue from vehicle imports has been the only driver of revenue growth. Even when the LKR 450 billion in overperformance in vehicle taxes is excluded, the growth in tax revenue in 2025 would have been three times the growth in nominal GDP.

Income Taxes

Income tax revenue grew significantly in 2022–2023, growing by over 70% YoY in those years, following the reintroduction of a progressive personal income tax structure, a lower tax-free threshold, and a higher CIT rate from January 2023.[12] However, its growth has slowed in 2024–2025 to 13% and 11% YoY, respectively. Income tax revenue is expected to increase by about 15% in 2026 to reach LKR 1311 billion and Budget 2027 expects only an increase of 2% going into 2027.

Corporate Income Tax (CIT) remains the largest component of income tax, followed by PAYE. While PAYE drove income tax growth in 2023-2024, in 2025-2026 it has been CIT driven, with 2027 expecting the slower growth to be driven by Withholding Taxes on interest and other fees. The MoF's expectation for only an LKR 20 billion increase in CIT for 2027 could be driven by expectation of contained corporate earnings growth in 2026/2027 amidst the impacts of Cyclone Ditwah and higher energy prices. 1H-2026 saw listed corporate earnings rise 8% YoY to LKR 355 billion, indicating space for income tax growth.[13]

[9] Sunday Times, 21 Dec 2025, citing Budget 2026 estimates; CBSL, Annual Economic Review 2025

[10] MoF Jan-Sept 2026 Fiscal Update

[11] 2027 Activity Budget

[12] *Fiscal Strategy Statement (FSS) 2027*

[13] *CSE corporate earnings rise 10% to Rs. 168.3 b in 2Q | Daily FT*. (2026, September 1). https://www.ft.lk/front-page/CSE-corporate-earnings-rise-10-to-Rs-168-3-b-in-2Q/44-796618

Figure 3.4: Income Tax Breakdown, LKR billion

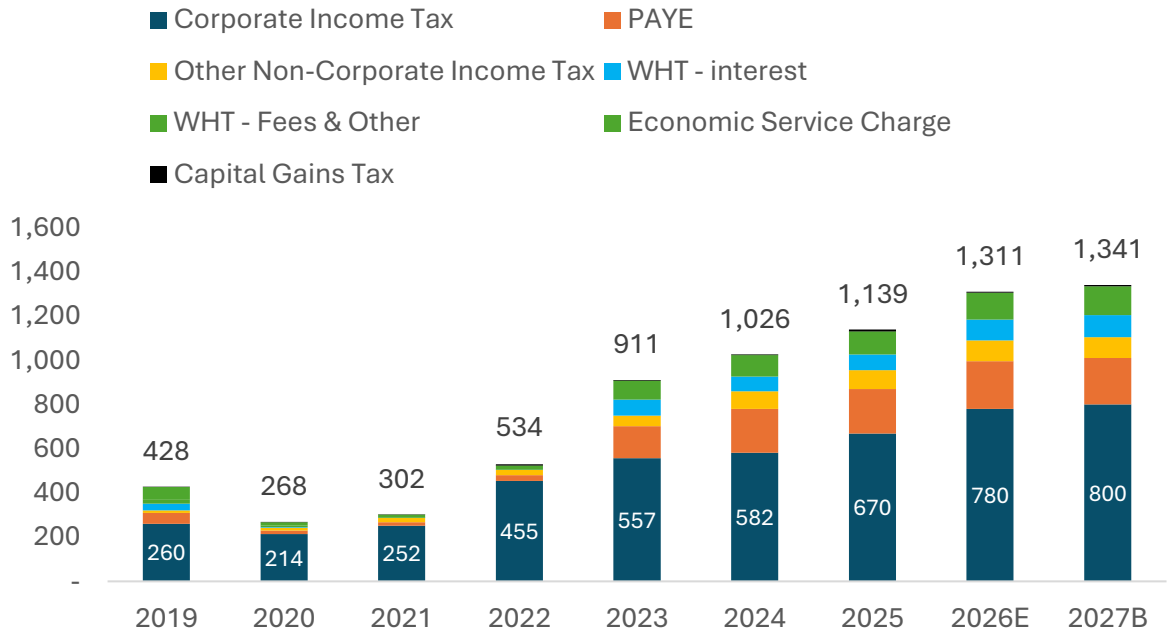
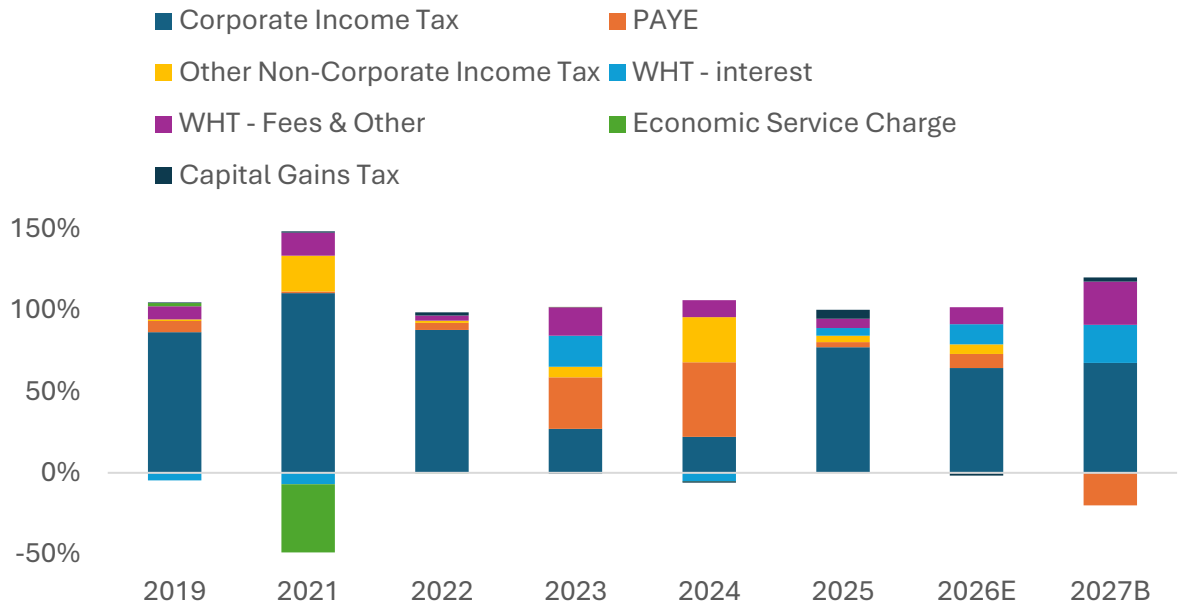


Figure 3.5: Contribution to Income Tax Growth, % contribution



Source: MoF Annual Reports and Budget Estimates 2027

The ongoing increases in income tax collection are supported by several measures taken in 2026, including the amendment of the Inland Revenue Act.

Table 3.4: Recent changes affecting Income Taxes

Category / Driver	Detail / Measure	Effective Date / Period
Corporate Income Tax (CIT)	Increased rate from 40% to 45% on liquor, tobacco, and betting and gaming industries	Effective April 01, 2025
Foreign Source Income	Imposition of a 15% income tax on gains and profits earned or derived from any foreign source	Effective April 01, 2025
Withholding Tax (WHT)	Increased rate on interest from 5% to 10%	Effective April 01, 2025
Withholding Tax (WHT)	Adding specified professions expected to have WHT applied on their fees	Effective April 01, 2026
Capital Gains Tax	Increase Capital Gains Tax rate applicable to individuals and partnership from 10% to 15%.	Effective June 2026
Wages & Revenue (APIT)	Increase in wages in the public and private sectors	First six months of 2026
Tax Base Broadening	12.1% increase in the number of income tax file registrations (to 1,425,144 as at end August 2026, from 1,270,851 as at end August 2025)	
Threshold & Slab Adjustments	Combined effect of raising the annual tax-free threshold from LKR 1.2 million to LKR 1.8 million and broadening the 18% tax slab	Effective April 01, 2025
	Combined effect of latest individual income tax threshold increase, bracket and rate changes.	Effective April 01, 2027

Source: Budget Economic and Fiscal Position Report 2027

These measures were accompanied by improvements in tax administration, including full return compliance by all 100 assigned High Wealth Individual files and a rise in registered income taxpayers, corporate and non-corporate, from 1.1 million in 2024 to 1.3 million in 2025.[14] Revenue from income tax rose by 19.9 per cent to LKR 996.4 billion in the first nine months of 2026, compared to LKR 831.0 billion in the same period of 2025.[15] This equals about 76% of the revised 2026 estimate (82% of the original estimate of LKR 1,210 billion), with corporate income tax contributing the largest share (60%).

Corporate income tax has been the main driver of the recent recovery in growth. After a modest increase in 2024, corporate collection picked up in 2025, alongside a larger number of registered companies. Corporate income tax revenue rose by 25.7 per cent to LKR 598.1 billion in the first nine months of 2026, compared to LKR 475.9 billion in the same period of 2025. This 2026 performance so far is 77% of the revised full-year estimate (84% of the original estimate), indicating the possibility of income tax collection being higher than the estimated full-year figure of LKR 1311 billion.

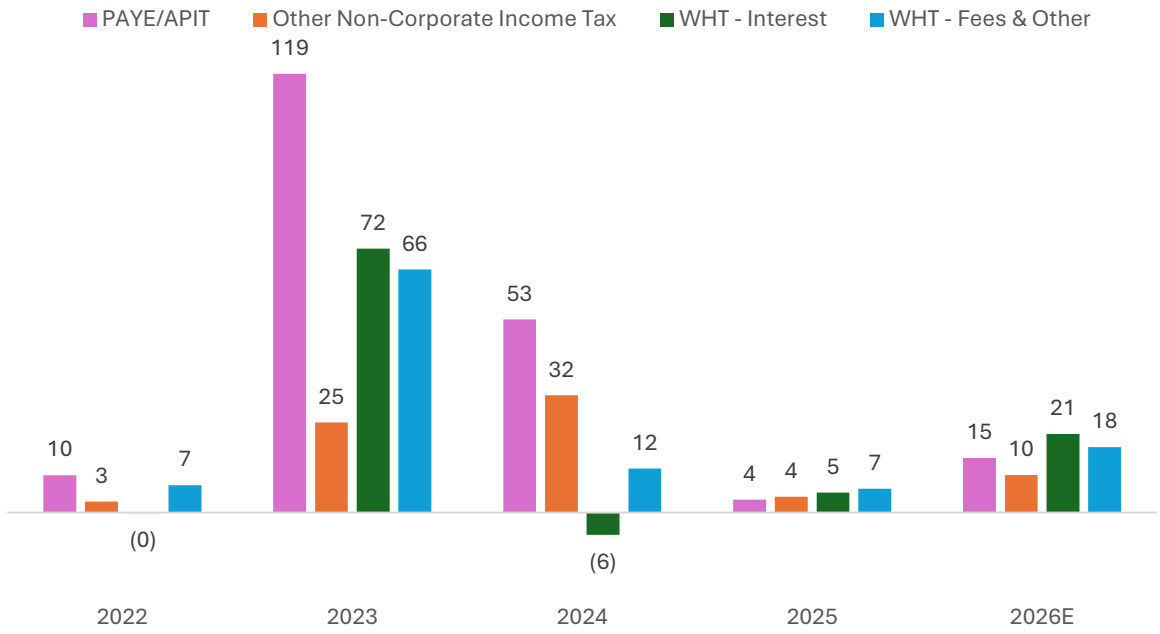
In contrast, non-corporate collection (including APIT and WHT) grew more slowly in 2025, with APIT remaining almost flat while WHT continued to rise. The same pattern has continued in 2026. PAYE revenue increased by 7.0 per cent to LKR 168.8 billion in the first nine months of 2026, from LKR 157.7 billion in the same period of 2025. Withholding tax (WHT) revenue rose

[14] *CBSL, Annual Economic Review 2025*
[15] *Ministry of Finance, Monthly Revenue Performance Jan-Sep 2026 (Provisional)*

by 21.1 per cent to LKR 159.7 billion in the first nine months of 2026, from LKR 131.9 billion in the same period of 2025.[16]

The changes proposed in the Budget Speech on Individual Income Taxes are expected to reduce income tax revenue by LKR 16 billion in 2027. It involves an increase in the monthly tax-free income threshold from LKR 150,000 to LKR 162,500, expansion of tax bracket sizes (except for a reduction in the 6% bracket), and addition of the 12% bracket. This raises the level at which the top tax rate of 36% is reached from LKR 358,333 to LKR 433,333 per month.

Figure 3.6: Change in Collection from Individuals & WHT, LKR billion



Source: MoF Annual Reports and Budget Estimates 2027

Despite the reduction in individual income taxes from April 2025 onwards, collection has continued to expand for APIT and individual income taxes, albeit at a slower rate. This suggests that the overall income base has expanded, even as some income taxpayers went out of the tax net with the increase in the monthly threshold from LKR 100,000 to LKR 150,000.

The APIT data in the IRD's 2025 Annual Performance Report for the 2024/2025 assessment year notes that employees earning more than LKR 3.7 million a year or LKR 308,333 per month, were only 3% of all employees covered by the APIT data (13% of those who had tax deducted) in that year but accounted for 25% of the APIT income tax base and 78% of the APIT collection. This is not unusual for a progressive tax system. As a result, the direct impact from the increase in the threshold is low, given the low revenue contribution of those at the lower end. With the latest change as well, the largest tax revenue loss is due to the reduction in the tax burden of those earning in these higher brackets.

[16] *Ministry of Finance, Monthly Revenue Performance Jan-Sep 2025/2026 (Provisional)*

Table 3.5: APIT Revenue Collection by Annual Salary Level for 2024/2025

Range of Annual Income (LKR)	No. of Employees	Share of Employees, %	Total Income Base, LKR Bn	Share of Income Base, %	APIT Collected, LKR Bn	Share of APIT, %
Tax Not Deducted	1,924,903	76%	1016	41%		
Below 1,200,000 - Tax Deducted	143,998	6%	105	4%	2.1	1.1%
1,200,001-1,700,000	187,290	7%	260	10%	3.8	2.0%
1,700,001-2,200,000	85,518	3%	164	7%	6.0	3.1%
2,200,001-2,700,000	52,662	2%	127	5%	7.9	4.1%
2,700,001-3,200,000	40,515	2%	119	5%	10.3	5.4%
3,200,001-3,700,000	29,039	1%	100	4%	11.4	5.9%
Above 3,700,000	83,397	3%	616	25%	150.5	78.4%
Total	2,547,322		2507		191.9	

Source: IRD Annual Performance Report 2025

Despite the income tax reduction, it is possible that overall individual income tax collection keeps increasing in 2027 due to the varied compliance measures being implemented. This includes the mandatory use of TINs in certain transactions like vehicle registration and bank account opening (even if its implementation has been delayed again to April 2027 due to infrastructural constraints), expansion of WHT for professionals, and impact of stringent fees and penalties on non-payment and non-filing.

The Speech also proposed to expand the scope of capital gains tax by bringing in digital and virtual assets, telecom/broadcasting licences and similar rights with commercial value, and gems, jewellery, precious metals and other valuable movable assets. The latter is applicable when exceeding a prescribed monetary threshold. Capital gains tax has been gradually expanded, with the rate increased to 15% from June 2026. Despite raising only LKR 8 billion in 2025, these changes can lead to increases as capital gains are realised in upcoming years from increases in property values and other capital assets.

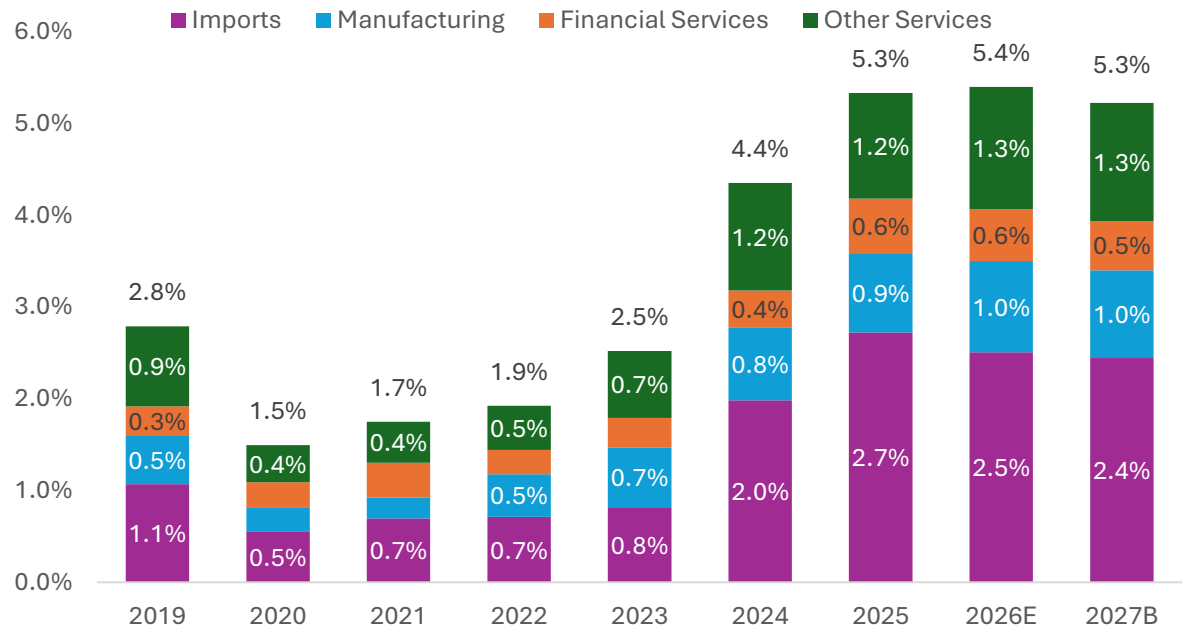
VAT

Across 2022 to 2025, VAT accounted for about 35% of all revenue growth, expanding from less than 2% of GDP to over 5% of GDP. In 2024, when most exemptions were taken off and the rate was increased to 18%, VAT accounted for 80% of revenue growth. In 2026, VAT is expected to expand by about LKR 197 billion accounting for 40% of the expected LKR 492

billion revenue expansion. In 2027, the expansion is modest at LKR 109 billion for VAT and LKR 199 billion for total revenue, but VAT would account for 55%. The LKR 2.975 billion in VAT revenue lost due to changes proposed in the Budget Speech is minute, accounting for just 0.1% of total VAT collection expected in 2027.

While combined VAT revenue on domestic manufacturing and services is larger than on imports, individually VAT on imports is the largest contributor. During 2025 and 2026, this has been helped by the VAT on vehicle imports, so the slowdown in growth expected in 2027 could be partly due to the slowdown expected in vehicle imports. Given VAT is applied on the price of the import, the impact of rising global prices (such as on petroleum) and LKR depreciation leads to an increase in the collection of VAT. This allows VAT to have a significant tax buoyancy, growing alongside nominal GDP growth. As a result, it can easily overperform current MoF expectations for 2027.

Figure 3.7: VAT revenue by major category, % of GDP



Source: MoF Annual Reports and Budget Estimates 2027

VAT expansion across 2026 and 2027 could have been higher had two intended amendments been implemented. First, the VAT on non-resident digital service providers was supposed to be implemented by October 2025 initially but has since been postponed several times due to delays in setting up the required platforms. Second, the VAT Amendment Act of 2026 was initially expected to reduce the VAT threshold from LKR 60 million/year to LKR 36 million/year to ensure a level playing field in the domestic market. However, this amendment was removed at the last moment in Parliament, amidst concerns about its impact on MSMEs.

3.3. IRD Performance and Reforms for Tax Compliance

The Inland Revenue Department (IRD) is undergoing a structural transformation to broaden the tax base, enhance voluntary compliance and minimise revenue leakage, under the domestic fiscal consolidation agenda and the International Monetary Fund (IMF) Extended

Fund Facility (EFF) structural benchmarks. The strategic focus has shifted from relying solely on statutory tax rate adjustments to enforcing systemic administrative compliance.

The IRD's compliance drive starts with a wider taxpayer base. Registered income taxpayers rose from 1.1 million in 2024 to 1.3 million by the end of 2025[17], and about 12 million Taxpayer Identification Numbers (TINs) have been issued against a target of about 17 million. For 2026 H1, individual income taxpayers reached 1,266,976, while VAT and Social Security Contribution Levy registrants stood at 37,027 and 18,332, respectively.

Table 3.6: Number of Registered Taxpayers

Types of Taxes	2021	2022	2023	2024	2025
Corporate Income Tax					
Resident Companies/Non - Resident Companies	68,009	73,444	82,437	100,409	125,432
Non – Corporate Income Tax					
Individuals	292,305	204,467	539,862	976,498	1,159,505
Partnerships	16,798	13,766	14,800	16,227	17,659
Other Taxpayers					
Persons registered for Value Added Tax (VAT)	9,070	10,604	13,851	21,227	33,187
Persons registered for Value Added Tax on Financial Services	246	258	277	315	348*
Persons registered for Betting & Gaming Levy Taxpayers	660	624	624	1,248	1,248
Persons registered for Social Security Contribution Levy	0	5,422	8,107	12,097	16,206
Employers Registered under PAYE/APIT Scheme	34,985	34,596	39,617	44,904	46,571
Withholding/Advanced Income Tax (AIT)					
Agent registered for withholding Tax/AIT on interest	604	612	771	1,592	1,922
Withholding Tax /AIT on Specified Fees (Regular Monthly Schedule Senders)	41,862	41,897	44,240	45,712	45,775
Stamp Duty (Regular Monthly Schedule Senders)	9,854	10,221	10,593	11,420	11,978

Source: IRD's Annual Performance Report

[17] IRD presentation to COPF, 25 June 2026

Table 3.7: Major new actions to improve tax compliance, and delays or barriers to full implementation

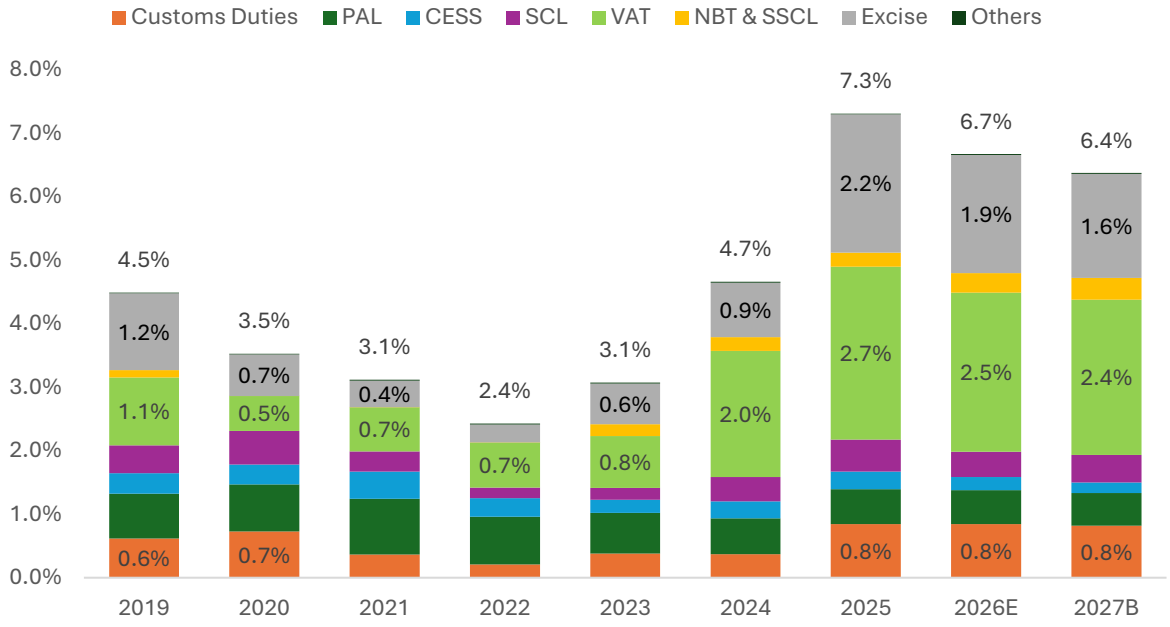
Major new action	What is being done & delays, barriers or gaps to full implementation
Digital VAT: e-invoicing and POS reporting	E-invoicing and POS reporting to strengthen VAT compliance. The VAT (Amendment) Act, No. 14 of 2026 mandates the use of POS machines by VAT-registered persons within three months of the date so prescribed. **Delayed:** The POS Gazette notification can be issued only after the Digital Economy Ministry provides the POS specifications. Full onboarding of VAT taxpayers is expected to take two years.
Real-time VAT data: RAMIS 2.0 and Web API	RAMIS is being turned into a real-time, API-driven system. VAT invoice data flows from taxpayers' ERP systems into RAMIS through a Web API, under an IRD notice of 4 May 2026.
VAT on non-resident digital services	Non-resident digital service providers must register once supplies exceed the specified VAT threshold, from 1 July 2026. The VAT (Amendment) Act sets out provisions on registration, charging, collection and return filing. **Delayed:** Digital VAT implementation was initially postponed from October 1, 2025, to April 1, 2026, and was subsequently deferred to take effect on July 1, 2026. However, actual implementation is yet to be completed.
VAT on financial services	To combine the SSCL and VAT on financial services, and to charge it as VAT at an increased rate of 20.5%.
TIN Certificate requirement	Required from 1 April 2026 for key banking, property, vehicle and business transactions. Banks must report the importer's TIN to Customs for import remittances, and importers must register with Customs before advance payments (Regulations No. 06 of 2026). **Extended:** Mandatory TIN requirement for eight specified transactions was deferred from November 1, 2026, to April 1, 2027.
Simplified filing	Simplified individual income tax return. SET filing requirement removed from 2025/2026; instalments based on the previous year's tax payable.
WHT and reporting obligations	WHT and reporting obligations strengthened. A unit trust or mutual fund that does not give unit holders the prescribed certificate is treated as a resident company.
Audit capacity and governance	Expanded Risk Management Unit; new Criminal Investigation Unit, Internal Affairs Unit and Exporter Refund Unit; MoU with the Excise Department. High Wealth Individuals Unit: full return compliance across its 100 assigned files in 2025. National Tax Week 2025 promoted voluntary compliance.
Refund reform (SVAT replaced)	SVAT replaced in October 2025 by a risk-based refund system; refunds within 45 days after risk and eligibility checks.
Penalties	The 2026 amendments to the Inland Revenue Act and the VAT Act enforce strict penalties, including fines and imprisonment, for non-filing, tax evasion and fraudulent refund claims, as well as for non-compliance by withholding agents and false self-declarations**.**

Major new action	What is being done & delays, barriers or gaps to full implementation
Sector-specific measures	National Gem and Jewellery Authority monthly return from 1 April 2026; Telecommunication Levy (Amendment) Bill 2026, broadening operator definitions while maintaining strict monthly remittance timelines and default penalty frameworks. SSCL registration threshold reduced from LKR 60 million to LKR 36 million from 1 July 2026. To impose SSCL at the time of importation or manufacture and sale of motor vehicles, and to exempt motor vehicles from SSCL at the point of after-sales transactions, with effect from May 01, 2026. Exemption for financial services providers, effective January 1, 2026.

3.4. Taxes on International Trade and National Tariff Policy

Taxes classified as taxes on international trade by the MoF reporting are expected to reduce to below 2% of GDP in 2027. However, the actual taxation on imports includes other taxes applied on imports, but classified under taxes on domestic goods and services, especially VAT, Excise and SSCL. When including these taxes, the actual taxation on imports would be significantly higher at 6.4% of GDP or around 40% of total revenue. This would be slightly higher when other minor taxes and fees are also included, such as the Luxury Vehicle Levy.

Figure 3.8: Taxes on International Trade by major category, % of GDP



Note: Excise includes only vehicles and petroleum, which also includes excise paid by domestic vehicle assembly and refinery output. But above also is not an exhaustive list of all taxes and fees on international trade. Source: MoF Annual Reports and Budget Estimates 2027

The implementation of the amended National Tariff Policy (NTP), published in February 2026, intends to reduce the effective tariff on imports, especially through the phase-out of CESS and PAL. The government brought into force two major changes to import taxes. One, the gazetted timeline to phase out CESS paratariff from April 2026 to April 2029 in four phases. Two, the implementation of a four-band Customs Duty that classifies imports based on the UN BEC

classification. The BEC classification ensures that the higher duty bands of 20-30% apply to final consumption goods, while capital and intermediate goods required by local industry have lower duty bands.

Table 3.8: UN BEC based categorisation of Customs Duty Rates and actual changes

UN BEC Category	Applicable Duty Rate
Capital Goods	0% or 10%
Intermediate Goods	0% or 10%
Consumption Goods	20% or 30%

Duty Rate	No. HS Codes (Mar 2026)	% of Total (Mar 2026)	No. HS Codes (Apr 2026)	% of Total (Apr 2026)	Key Change
0% (Free)	3,725	45.6%	3,756	45.7%	Slight increase in HS codes; standard 0% rate maintained
10%	--	--	406	4.9%	New duty band introduced
15%	526	6.4%	--	--	Duty band completely removed
20%	2,660	32.5%	2,195	26.7%	Reduced number of HS codes
30%	--	--	582	7.1%	New highest duty band introduced
Mixed Rates	413	5.1%	411	5%	Adjustments made to existing rates
Specific Rates	852	10.4%	875	10.6%	Rates kept without change; minor shift in code count
Total	8,176	100%	8,225	100%	Total codes expanded due to new sub-divisions

Source: Customs Duty Change Gazette and COPF analysis based on Tariff Guide

Table 3.9: CESS phase-out schedule by category (share of CESS reduction scheduled in each year)

Type	Type of Goods	HS Lines	2026	2027	2028	2029
1	Marginal rates (<5%)	46	100%	–	–	–
2	Intermediate and capital goods	693	50%	25%	25%	–
3	Sensitive intermediate and capital goods	107	–	25%	25%	50%
4	Fabrics	265	100%	–	–	–
5	Consumption goods	1,523	–	–	–	100%

Source: Ministry of Finance's Response to COPF

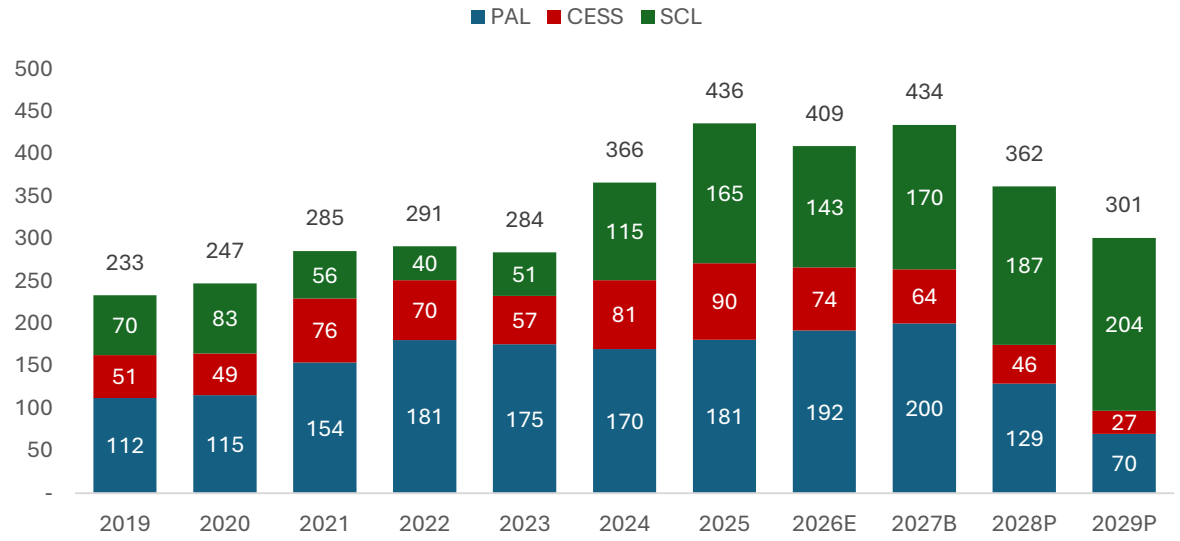
While there is a gazette implementing the CESS phase-out over 2026–2029, the latest National Tariff Policy also mentions that PAL will be phased out over 2028-2029, with the final phase outs effective from April 2029. These changes appear to be factored into the Budget Estimates, with PAL revenue projected by MoF to fall from 2028 onwards, while CESS revenue falls gradually from 2026 onwards. Even as these fall, the MoF continues to expect Special Commodity Levy (SCL) revenue to rise continuously.

Table 3.10: Active PAL tariff lines and scheduled rate reductions

Tax Rate	Number of Combined Tariff Lines	Tax Levied		
		2027	2028	2029
2.5%	2	PAL not removed	1.5%	Exempt
5.0%	1,161		3.0%	
7.5%	128		4.5%	
10.0%	2,623		6.0%	
Total	**3,914**			

Note: In each year, April is when the phase outs come into effect. Source: Ministry of Finance's Response to COPF

Figure 3.9: Revenue from Paratariffs and SCL, LKR billion



Source: MoF Annual Reports and Budget Estimates 2027

The paratariff phase-out was part of the World Bank's policy package alongside its ongoing budget support policy lending programme. The World Bank's South Asia Economic Update (April 2026) framed the CESS/PAL phase-out as the most consequential trade-policy reform in Sri Lanka's post-crisis recovery. Because para-tariffs currently account for roughly 11 of the 19 percentage points of the average import duty, their removal is expected to cut the average duty by around nine percentage points once fully phased in. Trade competitiveness will improve as firms not already benefitting from BOI import tax exemptions will face lower import expenditure on their inputs. Input tariffs in sectors without a strong comparative advantage — food/beverage manufacturing, rubber and plastics — are set to fall 7–8 percentage points, which could improve cost competitiveness if firms convert lower input costs into productivity gains.[18]

The Treasury Secretary has stated that the paratariff phase-out is intended to be revenue neutral. The main offsets are increased volumes of imports, VAT on selected goods, including fabric imports, and the revised Customs Duty bands, which retain higher rates on selected goods. The MTRS 2027–2031 similarly commits the Government to quantify the revenue effect of the phase-out, sequence it with credible replacement revenue, and identify compensating measures if shortfalls arise. The 2027 Budget also supports Customs readiness: the Customs Ordinance (Amendment) Act is expected to be passed in the first half of 2027 to make Sri Lanka Customs more efficient and transparent; LKR 1,000 million is proposed for body scanners and container scanners to strengthen border protection; and the National Single Window for Trade will connect exporters in the first half of 2027 and importers and re-exporters in the second half of 2027, with LKR 1,990 million allocated.

[18] World Bank. (n.d.). *South Asia Economic Update, April 2026 : Working with Industrial Policy (English)*. World Bank; World Bank,. Retrieved November 14, 2026, from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099919404082611180

3.5. Tax Expenditures

The Tax Expenditure Statement (TES) 2025/26, published in November 2026, puts income-tax expenditure for 2024/25 at LKR 222 billion (LKR 129.8 billion in 2023/24): LKR 186.1 bn from Corporate Income Tax (CIT) and LKR 36.3 bn from Personal Income Tax (PIT). Indirect-tax expenditure for 2025 comes to LKR 796 billion (LKR 369.9 billion in 2024): VAT LKR 419.3 bn, SSCL LKR 216.3 bn, customs LKR 144.5 bn and excise LKR 16.3 bn. Combined this LKR 1018 billion in tax expenditure was about 19% of the actual revenue collected in 2025.

Part of the increase reflects better measurement rather than new concessions. The 2024 customs figure was restated from LKR 24.7 bn to LKR 138.4 bn once waivers on petrol and other goods were counted. On that restated basis, customs relief rose only 4.4% in 2025. All figures are static revenue-forgone estimates, and the latest ones are provisional. The VAT and SSCL figures are a conservative minimum. None of them is the revenue that removing a concession would actually bring in.

Most of the tax expenditures go through a few channels:

- Non-BOI companies account for 93% of VAT tax expenditure and about 92% of SSCL tax expenditure, with wholesale and retail the largest sector. Much of this is deliberate: VAT exemptions on essential goods and SSCL exemptions that stop the levy building up at each stage of supply both keep prices down.
- Concessionary CIT rates for non-BOI firms cost LKR 106.9 bn.
- Among BOI firms, the relief has moved from lower rates to outright exemptions (LKR 53.0 bn).
- Almost all of the jump in PIT comes from exempted or excluded income (89% of the total).
- Exemptions for locally assembled vehicles make up 99% of excise relief, as assembly grew 74%.
- Section 19A waivers, mainly on fuel and wheat, make up 91% of customs relief.

3.6. Medium-Term Revenue Strategy (MTRS)

The Treasury published an MTRS in October 2026 that sets a medium-term target to raise tax revenues to 17% of GDP by 2031 (at least over 18% in total revenue when non-tax revenue is factored in), which would entail a significant increase from the 15.4% recorded in 2025 and 14.6% budgeted for 2027.

The strategy aims to move from crisis-era tax mobilisation to a durable system that is efficient, equitable, simple and predictable. It involves four priority policy commitments against which implementation will be judged:

- No new corporate income-tax incentives except narrowly defined, assessed cases.
- Assess VAT's distributional incidence; keep VAT exemptions only where they protect poor and vulnerable households.
- Review how personal income tax can better reach high-income individuals.

- Phase out para-tariffs, quantifying the revenue loss and adding less distortionary replacements.

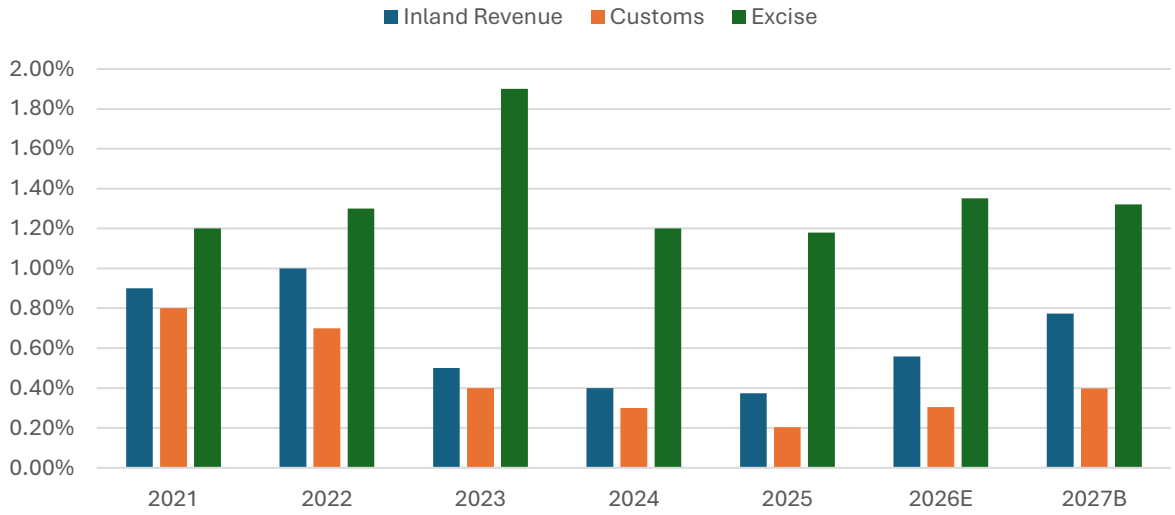
The MTRS goes alongside a Revenue Administration Diagnostic by IMF staff which helps identify the institutional reforms required to support the achievement of the MTRS goals. The IMF finds that Sri Lanka's revenue recovery is real but rests on a weak institutional base, and estimates that stronger inland revenue administration alone could add about 1.9% of GDP over five years. The VAT compliance gap is still about 41% of potential VAT, or 3.6% of GDP.

Five reform priorities are recommended for the administration pillar of the MTRS:

1. Modernise digital systems and data architecture (secure RAMIS, operationalise ARMS and RASED).
2. Make compliance risk management (CRM) and integrated risk management the core operating model across all three agencies.
3. Strengthen core compliance functions: filing, payment, arrears, audit, customs controls, excise licensing and stamps.
4. Integrate tax policy and legal reform with administrative readiness, including a possible modern tax procedures code.
5. Strengthen enablers: governance, workforce, project management, integrity and stakeholder engagement.

Implementing these reforms, some of which the President committed to in the Budget Speech, would require substantial investment in resources for the three revenue agencies, to increase capacity and expand the skilled workforce. 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%. The Excise Department, as the smaller of the three, has a higher expenditure relative to revenue collection. Professor Mick Moore has highlighted that in other developing countries, effective tax agencies have expenditures of about 2-3% of their revenue collection. But even with a doubling of budgetary allocations for them from the actual expenditure in 2025, the expenditure to revenue collected ratio remains low.

Figure 3.10: Expenditure of tax agencies as a share of Revenue Collected, %



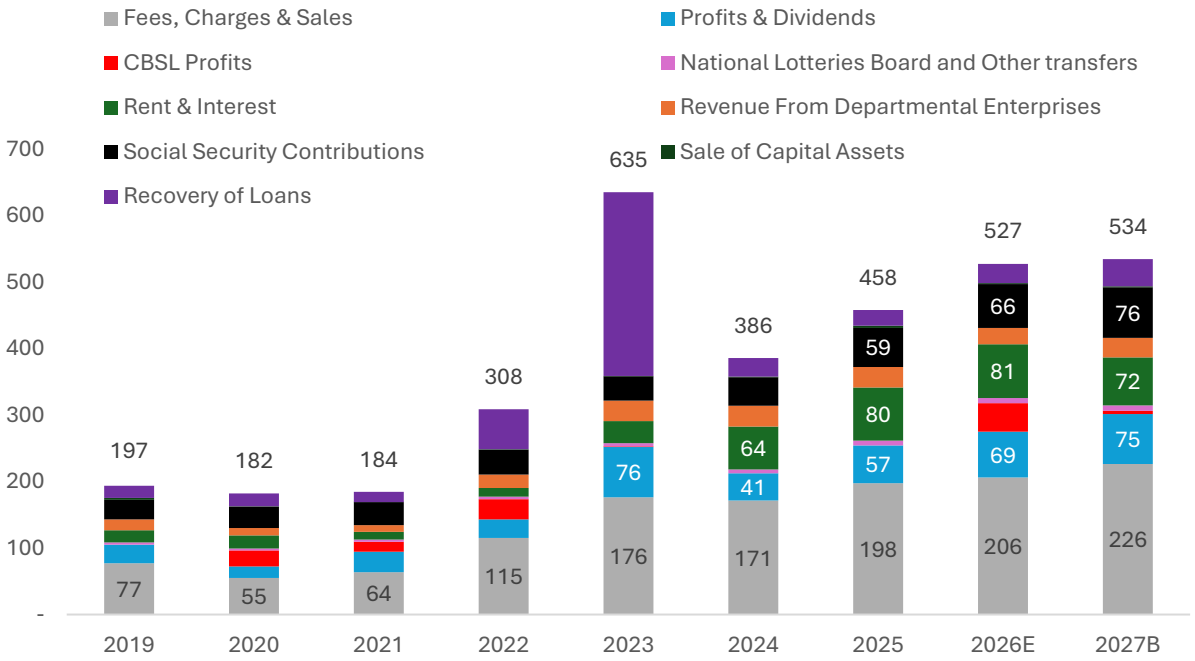
Source: MoF Annual Reports and Budget Estimates

3.7. Non-Tax Revenue

Non-tax revenue has been consistently below 2% of GDP and has fallen to just above 1% of GDP, which the MoF expects to remain the case until 2031.[19] These consist of several categories of revenues, the largest being fees and charges by government departments, which has almost doubled from LKR 115 billion in 2022 to an expected LKR 226 billion in 2027. Profits and Dividends of SOEs are also substantial, with the largest consistent contributors being the state banks. CBSL also transfers its distributable profits if its capital levels are considered adequate. In 1H-2026, CBSL transferred to Treasury LKR 42 billion in profits from its 2025 operations, the first major transfer since 2022. Social security contributions refer to the collection of Widows'/Widowers' & Orphans' Pension (W&OP) contributions from public sector salaries, which is the only portion of the public pension that is contributory.

The recovery of loans and interest income are based on the on-lending done by the Treasury for SOEs to implement projects and for concessional lending programmes via banks. As these loans are repaid over time, these are recorded as a non-tax revenue, displaying a partial 'development banking' role played by the Treasury.

Figure 3.11: Non-Tax Revenue, LKR billion



Note: Accounting Format. Recovery of Loans is repayment of loans on-lent to SOEs and Banks, displayed as net lending in Economic Format. 2023 peak in recovery of loans is due to CPC repayment of Indian credit line. Source: MoF Annual Reports and Budget Estimates 2027

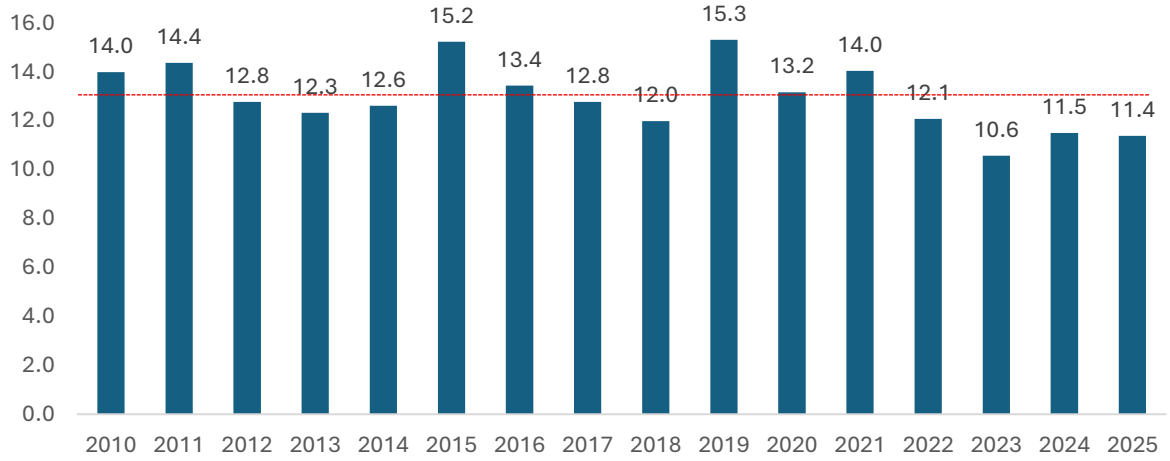
[19] Ministry of Finance, *Budget, Economic and Fiscal Position Report 2027*.

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. Despite successive budgets since 2024 having primary expenditure allocations just below the 13% of GDP ceiling, actual expenditure has remained well below the ceiling. During the 2010 to 2021 period, the average primary expenditure was about 13.5% of GDP, while it has averaged at only 11.4% of GDP during 2022 to 2025.

Following Cyclone Ditwah, the LKR 500 billion relief and reconstruction supplementary estimate was expected to push primary expenditure in 2026 above the 13% of GDP ceiling, with Parliamentary approval obtained for such a breach due to extraordinary circumstances as required under the PFM Act. However, the MoF's revised estimate for 2026 currently expects only about 13% of GDP in primary expenditure for 2026, on the assumption that LKR 1480 billion in capital expenditure would be done by year end. However, as of September 2026, only just over LKR 550 billion in capital expenditure had been spent. While this is an increase of around LKR 100 billion from the capex spending during Jan-Sept 2025, the final figure reached in 2025 was LKR 1016 billion. Oct-Dec 2026 capex disbursements would have to average LKR 300 billion a month to reach the current MoF estimate of LKR 1480 billion.

Figure 4.1: Primary Expenditure, % of GDP



Source: Ministry of Finance

Budget 2027 has a unique structure in that the total spending is based on the appropriation bill and a supplementary estimate on top of that. While the Appropriation Bill-based primary spending comes to LKR 5030 billion (12.9% of GDP), a further LKR 260 billion (0.7% of GDP) is added on top through a supplementary estimate to cover the continuation of post-Ditwah relief and reconstruction measures. Total primary expenditure then becomes LKR 5290 billion, or 13.6% of GDP, higher than the 13% of GDP primary expenditure ceiling. The Cabinet document for the fresh Supplementary Estimate for 2027, submitted for COPF consideration, mentions that only about LKR 70 billion of the LKR 500 billion had been utilised by September 2026, partly due to the impact of the Middle East conflict. There is a requirement to continue the relief and reconstruction efforts, including rent support for displaced families, rebuilding houses, and reconstruction of damaged infrastructure. The government wants to approve a

breach of the 13% ceiling for 2027 under Section 16 of the PFM Act given the continued impact of the Cyclone Ditwah natural disaster.

Table 4.1: 2026 and 2027 Budgets impact from Supplementary Estimates

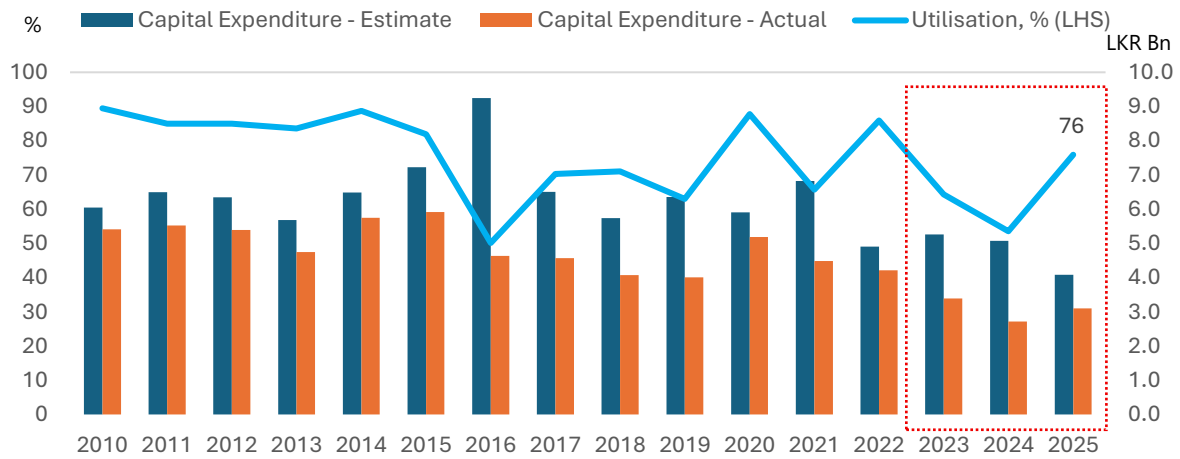
	2026 Budget	2026 Budget with Supplementary	2026 Revised Estimate	2027 Budget	2027 Budget with Supplementary
LKR billion					
Primary Expenditure	4440	4940	4692	5030	5290
Primary Recurrent Expenditure	3071	3221	3231	3291	3301
Capital Expenditure & Net Lending	1369	1719	1461	1739	1989
Primary Balance	860	360	1289	1150	890
Overall Balance	-1,757	-2257	-1328	-1493	-1753
% of GDP					
Primary Expenditure	12.9	14.3	13.0	12.9	13.6
Primary Recurrent Expenditure	8.9	9.3	9.0	8.4	8.4
Capital Expenditure & Net Lending	4.0	5.0	4.1	4.5	5.1
Primary Balance	2.5	1.0	3.6	2.9	2.3
Overall Balance	-5.1	-6.5	-3.7	-3.8	-4.5

Source: Budget Speeches and Supplementary Estimates

4.1. Capital Expenditure

Across the period since 2010, the actual capital expenditure has been well below budgeted estimates. The average utilisation was 77% during 2010–2019 and only 65% during 2023-2025, with 2025 recording 76%. If actual capital expenditure in 2026 reaches the MoF expectation of LKR 1480 billion, utilisation would have to increase to 85%. But if utilisation improves only up to 80% in 2026, then actual capital expenditure would be about LKR 1380 billion or 3.8% of GDP.

Figure 4.2: Capital Expenditure Budgeted Estimates vs. Actual



Source: Ministry of Finance

Capital expenditure has a trend across the year, starting low in the first quarter and gradually rising to a peak in the fourth quarter. This is largely because of how procurement and settling of contractor bills tend to work. Once the budget is approved, government departments and institutions start their procurement processes, which can take time given the assessments and committees required under the procurement manual and guidelines (see Annex 3 for a detailed summary of the procurement process). Once the procurement is finalised and the contract is awarded there would be advance payments and subsequent payments based on deliverables. These subsequent payments also require verification of work done, which can also cause delays – which means that contractors might have completed the work, but disbursement from Treasury can take a few months. Treasury can usually go up to 3 months from date of invoice, before a payment can be considered in arrears. This means most actual disbursement of funds to settle capex contracts end up happening in the final months of the year. The final months can also see new capital spending being approved based on fiscal space available or out of necessity. For instance, capital injections to loss-making SOEs, taking over of SOE debts or paying down of SOE debt can be approved, as has happened regularly in December since 2022.

Figure 4.3: Quarterly Capital Expenditure & Net Lending, LKR billion

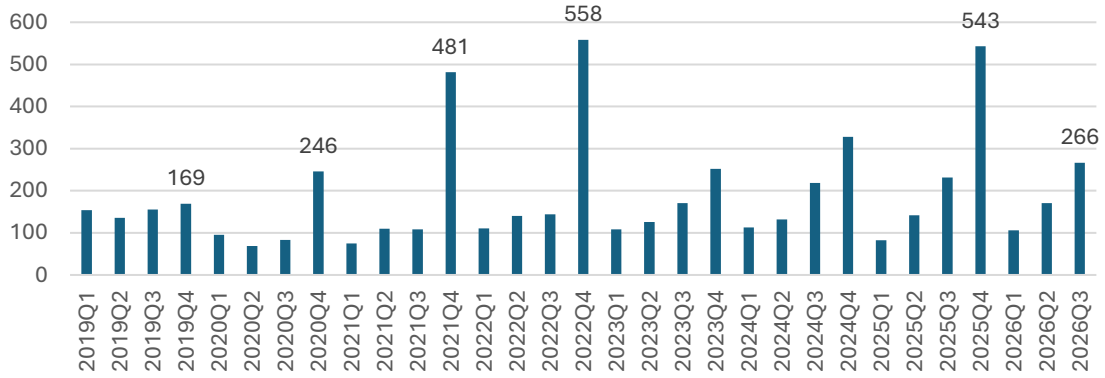
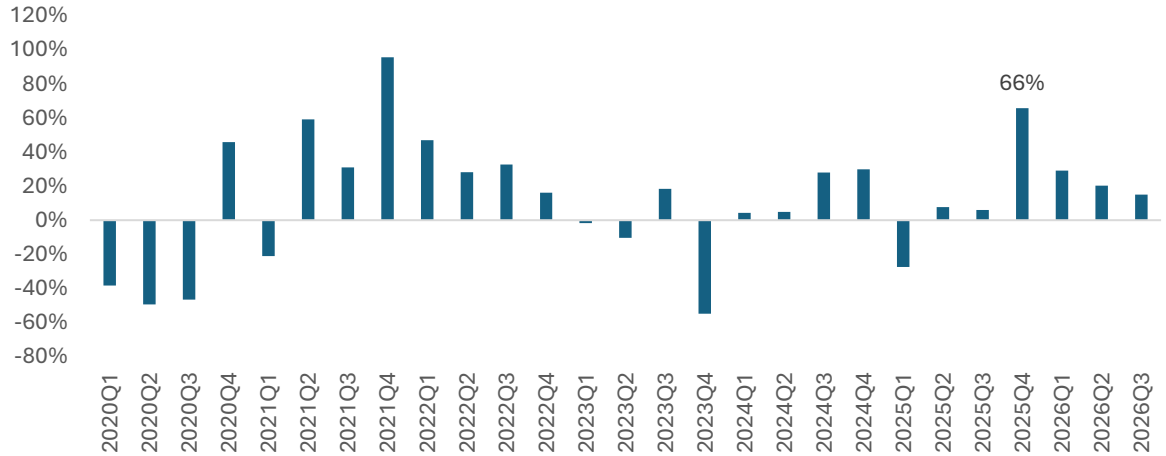


Figure 4.4: Quarterly change in Capital Expenditure & Net Lending, YoY % change



Source: CBSL, Ministry of Finance

Capital expenditure has been expanding consistently in 2026 compared to 2025. However, to reach the revised estimate of LKR 1461 billion in capital expenditure and net lending in 2026, spending would have to increase 69% YoY in 4Q-2026, with LKR 918 billion in spending,

surpassing the record LKR 543 billion in 4Q-2025. This momentum would then have to be sustained into 2027 if the utilisation of almost LKR 2 trillion in capex is to be at least 80-90%. As announced by the President in October 2026, measures to improve the procurement process are essential for capex utilisation. For instance, the recent public finance circular to allow government agencies to begin the procurement process before the budget is approved at year end can help expedite the process.

Major Public Investment Projects: Process & Progress

The PFM Act, No. 44 of 2024, makes the Public Investment Programme (PIP) the entrance to the budget for capital projects. Under section 41, the Department of National Planning prepares the PIP as a medium-term rolling plan of all ongoing and prospective public investment projects, including public-private partnerships, in line with the national development policy framework. The Minister of Finance approves it, and it must be published on the Ministry of Finance website and updated every year. Budgetary entities must send proposals for new projects to National Planning by 15 May. National Planning appraises them using prescribed methods and accepts or rejects them according to their fit with the national development plan and the medium-term fiscal framework. Section 42 then limits budget proposals to projects already in the PIP. The Public Investment Committee ranks those proposals within the ceilings set in the budget call circular. Section 42(4) prohibits any appropriation for a project that is not in the PIP, with a narrow exception in section 42(5) for projects responding to natural disasters or declared emergencies, which need Cabinet approval.

The Major Public Investment Projects 2027–2029 document, dated 12 November 2026, comes from the reporting side of this framework rather than the PIP itself. Its preface says it was prepared under section 20(2) of the Act. It lists the projects the Public Investment Committee recommended for the 2027 Budget Estimates, which section 20 requires the budget documents to include. Section 45(1) sets out what that list must contain: the name, dates, objectives and scope, total cost, spending to date, medium-term estimates and financing sources of each project. However, the document covers only projects with a Total Estimated Cost above LKR 250 million, while section 45(1) refers to all new projects approved by the Committee and all ongoing projects. The Act contains no LKR 250 million threshold. The document therefore shows only part of the investment portfolio. The full section 41 PIP, which should contain every project, does not appear to have been published alongside the budget.

There are 753 projects in the Major PIPs document (519 ongoing and 234 new), which were compared with the 2027 Activity Budget and the Budget Speech. Around 47 Activity Budget sub-projects, each with at least LKR 250 million of 2027 capital and together worth about LKR 45.7 billion, have no counterpart in the Major PIPs document. An allocation of that size in a single year means the project's total cost must be above the threshold, so these should have been listed.

About 37 capital proposals in Annexure II of the Budget Speech for 2027, worth about LKR 101 billion, have no matching project in the Major PIPs document. They are funded through an unallocated LKR 278 billion "Budget Proposals" line under the National Budget Department, so they also have no project-level line in the Activity Budget. These point to the need to publish

an updated PIP document once the budget has been approved with the latest projects included.

Despite these issues, the Major PIPs document provides a good view of the investment projects being undertaken by the government during the 2027-2029 period. To understand the progress of these projects, it is important to compare it with the previous 2026-2028 document and the assessment of major investment projects progress provided by the Department of Project Management and Monitoring (DPMM).

The public investment portfolio expanded substantially between the two planning cycles, increasing from 550 listed projects in the 2026–2028 publication to 753 projects (excluding 15 separately listed sub-components) in the 2027–2029 publication. Total Estimated Cost (TEC) across all listed projects rose from LKR 6,592 billion in 2026–2028 to LKR 7,536 billion in 2027–2029, while the total allocation for 2027 increased from a projection of LKR 915 billion (in the 2026–2028 report) to an estimate of LKR 1,210 billion (in the 2027–2029 report).

Table 4.2: Major Public Investment Projects - 2027–2029

Sector / project	Total Project Cost (LKR bn)	2027 (estimate) (LKR bn)	2028 (projection) (LKR bn)	2029 (projection) (LKR bn)	Share of 2027-2029 sector total
Highways & Roads	**1,568.9**	**362.7**	**363.6**	**303.8**	
Colombo - Rathnapura - Pelmadulla Expressway	60.7	27.0	40.0	45.0	10.9%
Central Expressway Section 04 – Kurunegala to Dambulla	179.8	30.0	36.0	35.0	9.8%
Central Expressway Section 01 - Kadawatha to Meerigama	176.8	51.0	40.0	6.5	9.5%
Transport	**1,448.1**	**152.2**	**317.6**	**305.3**	
Maradana to Rambukkana Railway Electrification	459.7	16.4	110.8	110.8	30.7%
Maradana to Avissawella Railway Electrification	424.3	45.0	75.9	75.9	25.4%
Maradana to Kalutara Railway Electrification	313.7	17.7	74.0	74.0	21.4%
Health	**320.2**	**98.4**	**111.6**	**100.1**	
Sri Lanka Primary Healthcare System Enhancing Project	52.7	14.2	24.8	24.0	20.3%
Bio Medical Equipment	-	15.5	18.0	20.0	17.3%
Maintenance of Medical Equipment	-	8.8	9.5	10.0	9.1%
Water Supply and Sanitation	**751.8**	**68.4**	**81.7**	**83.3**	
Capacity Enhancement and Distribution Expansion Project	43.7	10.0	10.3	11.0	13.4%

Sector / project	Total Project Cost (LKR bn)	2027 (estimate) (LKR bn)	2028 (projection) (LKR bn)	2029 (projection) (LKR bn)	Share of 2027-2029 sector total
Climate Resilient Sustainable Water Supply and Sanitation Improvement Project	57.0	5.0	6.8	12.9	10.6%
Kalu Ganga Water Supply Expansion Project (1)	55.3	5.6	8.9	7.6	9.5%
Irrigation	**374.8**	**62.6**	**84.0**	**85.7**	
Mahaweli Water Security Investment Programme	149.0	19.5	38.0	31.0	38.1%
Lower Malwathu Oya Multisector Development Project	47.2	7.5	9.0	10.0	11.4%
Essential Rehabilitation in Selected Major Irrigation Scheme	-	6.0	7.0	8.0	9.0%
Education (General, Higher and Vocational)	**545.8**	**59.9**	**83.3**	**82.1**	
Digital Transformation of General Education (Grade 1-13)	96.5	4.0	6.0	14.0	10.7%
Human Resource Development for Education Program (HRDEP)	42.8	2.0	5.2	8.0	6.7%
Providing Hostel Facilities for University Students	26.6	3.8	4.0	7.0	6.5%

Source: Major Public Investment Projects 2027–2029 (12.11.2026)

Table 4.3: Status of Mega Projects according to DPMM

	2Q-2025		4Q-2025		2Q-2026	
DPMM category	No. of Projects	Value (LKR bn)	No. of Projects	Value (LKR bn)	No. of Projects	Value (LKR bn)
Completed	6	18	28	374	10	114
Implemented successfully	12	168	10	153	21	385
Implemented properly	20	168	21	195	38	455
Results achievable through interventions	36	712	39	870	70	1,421
Needs special attention	40	786	65	866	38	475
Critical	91	1,093	50	773	32	791
Foreign funds suspended	6	211	3	18	1	6
Total monitored	**211**	**3,155**	**216**	**3,248**	**210**	**3,647**
Completed or on track, share of projects	38 (18%)	354	59 (27%)	722	69 (33%)	954
At risk, share of projects	137 (65%)	2,089	118 (55%)	1,656	71 (34%)	1,273

Source: DPMM Quarterly Reports

The Department of Project Management and Monitoring (DPMM) reports quarterly to the Cabinet on every development project with TEC above LKR 1,000 Mn. Each report covers 210–216 projects, funded by foreign loans (66–73), foreign grants (25–29) and local funds (113–118), including state-enterprise projects (ports, airport, CEB, NWSDB) that the Major PIP does not list. The reports classify the projects by their progress status, giving us an idea of the portfolio status.

Table 4.4: Reasons for delays in Mega Projects according to DPMM

Reason cited by DPMM (number of projects)	Q2 2025	Q4 2025	Q2 2026	Change Q2 2025 → Q2 2026
Poor performance of contractors	24	23	28	+4
Delays related to the procurement process	9	17	22	+13
Delays in third-party approvals	20	21	20	0
Insufficient PMU staff and delays in technical staff support	12	11	12	0
Changes of scope	7	9	11	+4
Delays in land acquisition	10	10	6	−4
Poor performance of consultants	3	4	3	0
Delays in receiving sufficient allocation or imprest	8	4	not listed	—
Other: disbursement suspension, price escalation, climate and weather	16	20	14	−2
Total projects citing a reason	**109**	**119**	**116**	**+7**

Source: DPMM Quarterly Reports

The reasons for the delayed projects vary, with poor contractor performance being the leading cause. But an increasing factor has been delays in the procurement process. The 2Q-2026 report also notes short-term fuel supply restrictions and bitumen shortages.

Types of Capital Expenditure

Capital expenditure does not equate to spending on infrastructure projects. There are different types of spending that fall within capex. Acquisition of capital assets, direct infrastructure spending and rehabilitation/improvement of capital assets are obvious capex. Even capital transfers to provincial councils and public institutions and on-lending for SOE projects can be assumed to contribute towards capex projects. However, there are aspects such as development assistance, especially in the form of concessional loan schemes for SMEs via banks, and equity contributions to loss-making SOEs that are less relevant. Such categories were as high as 34% of capital spending in 2023, but were only 18.4% in 2025.

Figure 4.5: Major Capital Expenditure categories, LKR billion

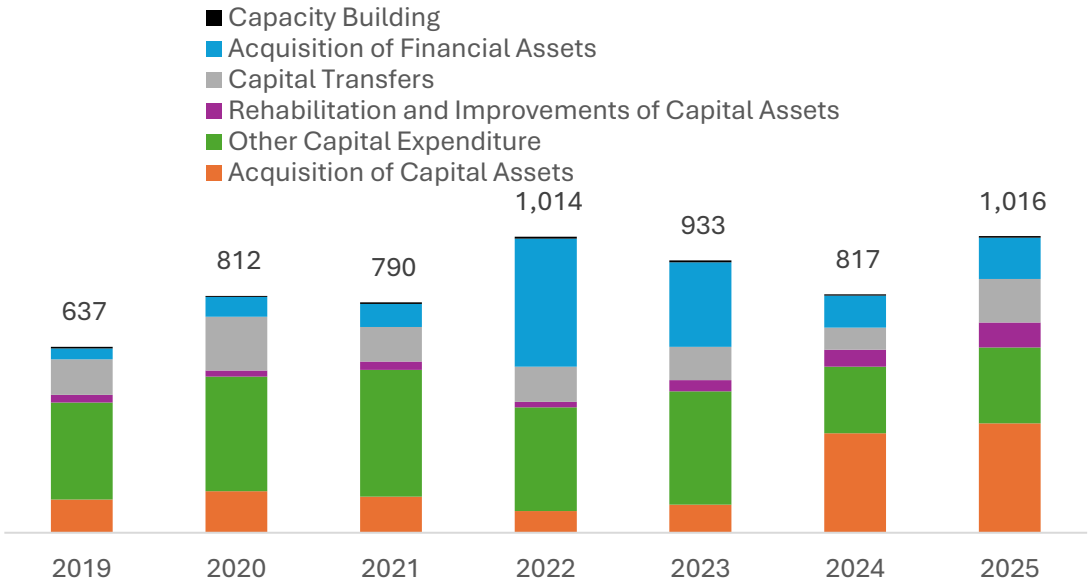
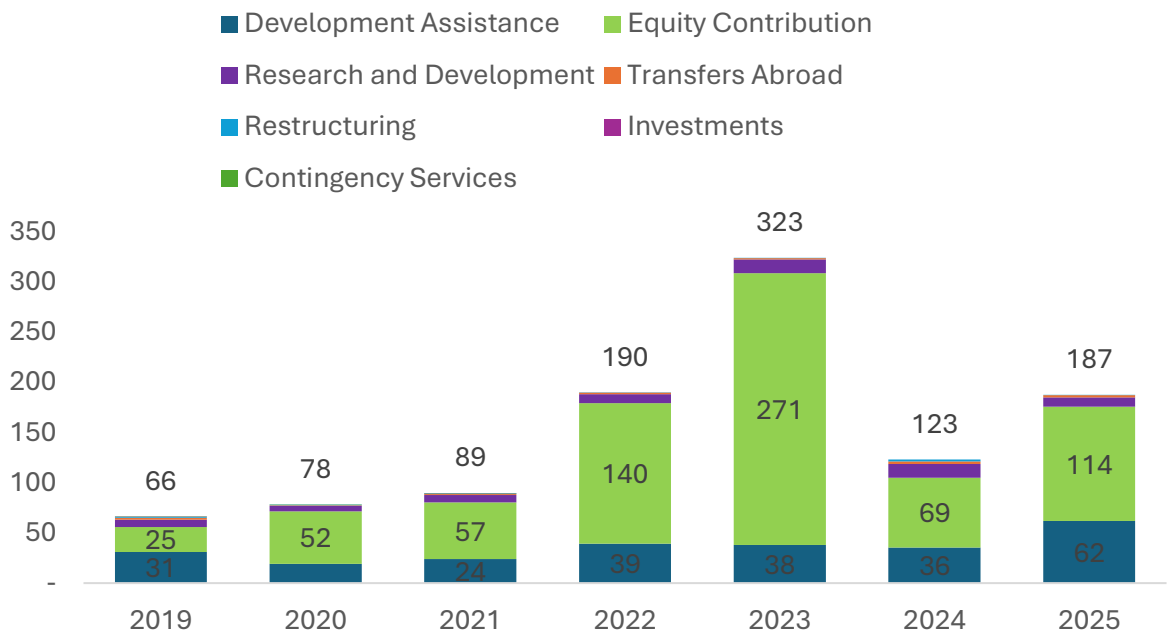


Figure 4.6: Less Direct Capital Expenditure sub-categories, LKR billion



Other Capital Expenditure is most infrastructure spending. Source: MoF Annual Reports and Budget 2027

4.2. Primary Recurrent Expenditures

While capital expenditure is in focus, the allocations for primary recurrent expenditures far outweigh capex, averaging 8.4% of GDP during 2022-2025. Public sector salaries and pensions are the largest components, amounting to around 5% of GDP. In 2026, subsidies and transfers (excl pensions) are expected to have increased 34% YoY, likely driven by the varied additional subsidies provided following the Middle East conflict.

Figure 4.7: Primary Recurrent Expenditure, LKR billion

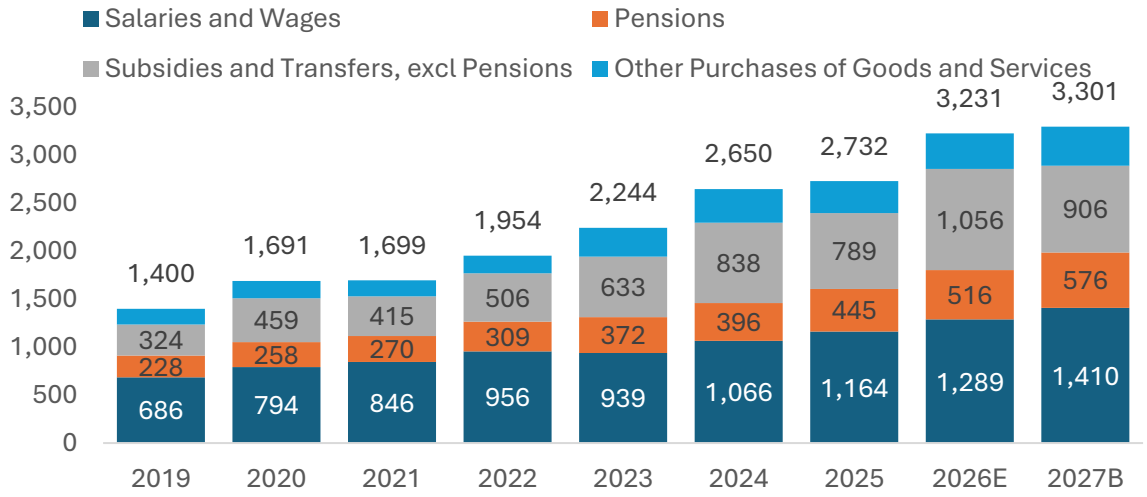
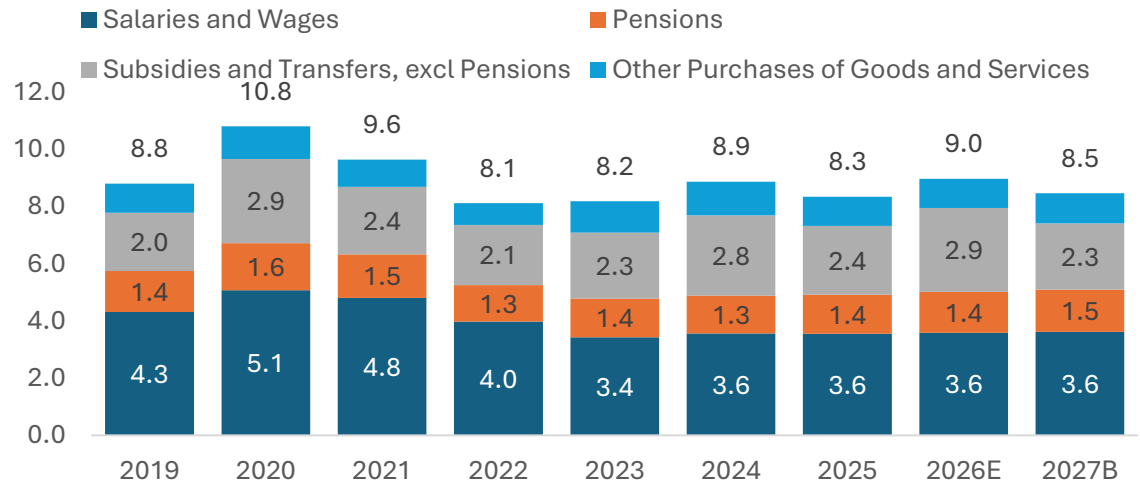


Figure 4.8: Primary Recurrent Expenditure, % of GDP



Source: MoF Annual Reports and Budget 2027

Primary recurrent expenditures must be maintained at or below 9% of GDP if capital expenditure is to be at least 4% of GDP, and ensure overall primary expenditures are within the 13% of GDP ceiling. As stated by Treasury officials to COPF in their pre-budget briefing of the committee, they manage changes to salaries and pensions within this constraint. For instance, the provision of the ongoing salary increase is provided over three tranches across 2025 to 2027, and pensions of older retirees are adjusted gradually over time to match latest public sector salary scales.

Public Sector Salaries and Cadre

The total public sector cadre includes the central government, provincial councils, and SOEs, which is around 1.03 million in 2026, and likely around 1.23 million when uniformed military cadre is included. However, it is for the central government and provincial council public service that the government is directly responsible for salaries. This group stands at around 1.1 million in 2026 when the military is included.

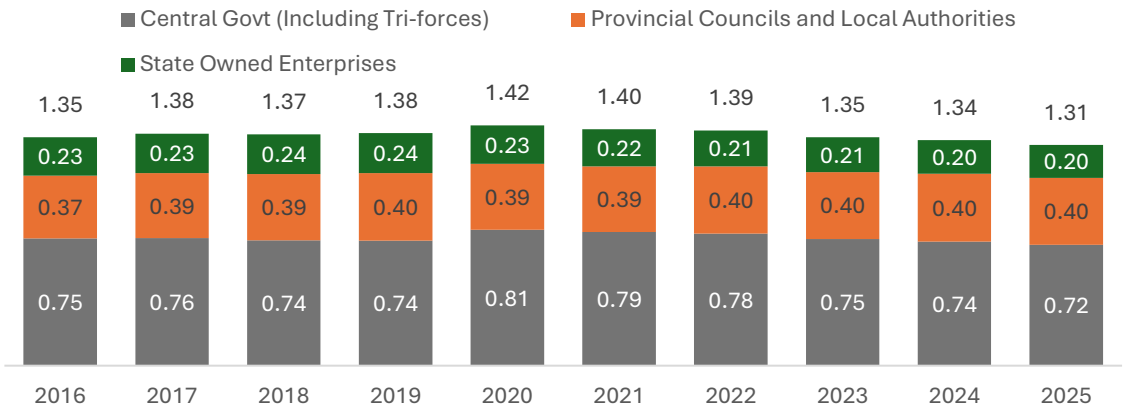
Table 4.5: Public Sector Cadre

Component	Approved	Existing	Vacancy	Vacancy rate	Change in Approved from 2025	Change in Existing from 2025	Change in Vacancy from 2025
Ministries / Departments	593,948	458,074	135,874	22.9%	9,000	9,092	(92)
District / Divisional Secretariats	54,568	39,076	15,492	28.4%	36	(16,061)	16,097
Provincial Councils (excl. provincial SOEs)	459,166	386,429	72,737	15.8%	286	(11,911)	12,197
Special Spending Units	23,082	10,218	12,864	55.7%	3,729	(4,460)	8,189
Public Service	**1,130,764**	**893,797**	**236,967**	**21.0%**	**13,051**	**(23,340)**	**36,391**
SOEs (Central Government)	206,162	131,902	74,260	36.0%	3,241	(24,392)	27,633
SOEs (Provincial Councils)	4,561	3,162	1,399	30.7%	72	(32)	104
Public Sector	**1,341,487**	**1,028,861**	**312,626**	**23.3%**	**16,364**	**(47,764)**	**64,128**

Source: MoF Cadre Information Reports 2025 and 2026

The overall public sector cadre has been reducing continuously since 2020, as net retirements increased amidst the freeze in new hires during the economic crisis. By 2026, the cumulative reduction in the public service was likely over 100,000 and slightly more when SOEs are included. The increase in salary costs largely reflects the impact of the three-year phased increase in base salary, first announced in Budget 2025, and is completed in January 2027. There are also increases in allowance increases from July 2027 onwards, alongside ongoing hiring to fill critical vacancies, which offsets the impact of increasing retirements.

Figure 4.9: Public Sector Cadre, millions



Source: Annual Report 2025

The freeze in hiring during the crisis years has left many government agencies with significant vacancies relative to their approved cadre. This is why the government is moving ahead with new hires for the public service. The Treasury expects that retirements and the slow pace of

hiring will still leave the cadre flat or slightly falling in 2027. Salary expenditure per public employee (excluding SOEs) increased by 106% from 2015 to 2025 and 46% from 2021 to 2025.

Table 4.6: Government agencies with largest vacancies

Institution	2026 Approved	2026 Existing	2026 Vacancies	2026 Vacancy rate
Provincial Councils (all 9 combined)	**459,166**	**386,429**	**72,737**	**15.8%**
Sri Lanka Police (Uniform Cadre)	102,112	73,875	28,237	27.7%
Ministry of Health and Mass Media	100,696	81,727	18,969	18.8%
National Schools	69,004	52,434	16,570	24.0%
Department of Civil Security	40,183	30,046	10,137	25.2%
Judicial Service Commission	15,058	5,256	9,802	65.1%
Department of Posts	27,018	19,490	7,528	27.9%
Department of Agrarian Development	18,945	12,443	6,502	34.3%
Department of Sri Lanka Railways	20,650	14,554	6,096	29.5%
Department of Samurdhi Development	25,733	20,804	4,929	19.2%

Source: MoF Cadre Information Reports 2025 and 2026

Public Sector Pensions

The COPF report for Budget 2026 highlighted that pensions expenditure was rising at a faster pace than the expenditure on public sector salaries. As a result, this report provides a more in-depth analysis of pensions, based on data received from the Department of Pensions, with details provided in Annex 2.

The Public Service Pension Scheme (PSPS) covers permanent central and provincial public servants, the armed forces and the police. State university staff and CBSL belong to separate pension funds and are excluded from this study. The amount of the pension paid depends on years of service, pensionable salary at retirement and the type of retirement. In 2003, the then government introduced a contributory pension scheme for public servants recruited on or after 1 January 2003 (DMS Circular No. 18 of 5 May 2003), under which they contributed 8% of their salary. The scheme was abolished in December 2006 (DMS Circular No. 32), and the non-contributory scheme was restored for these employees.

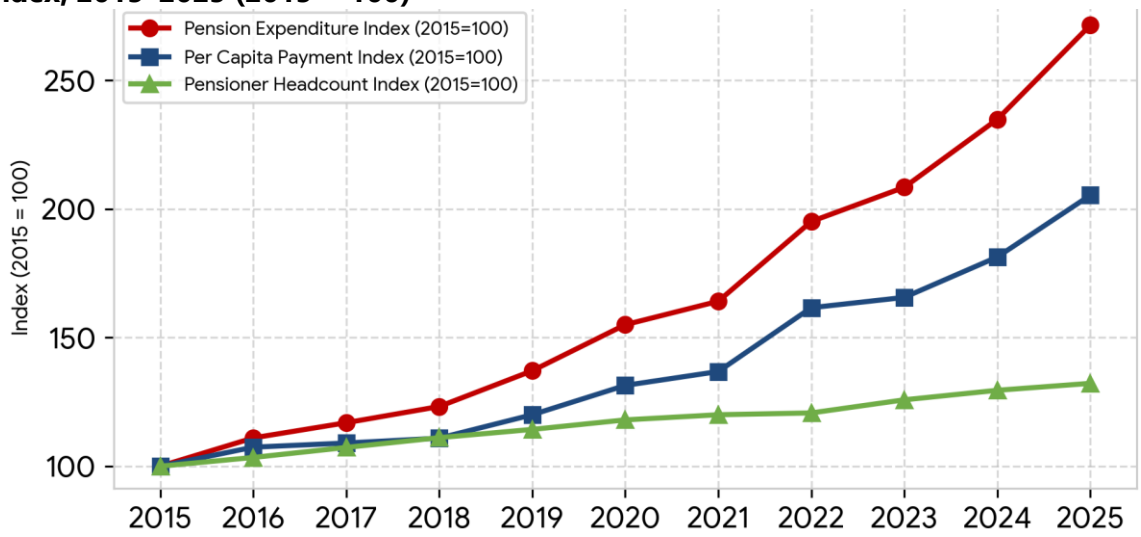
The core pension is accompanied by two adjunct benefits:

- Widows'/Widowers' & Orphans' Pension (W&OP): a survivor pension paid to the spouse and dependent children of a deceased officer or pensioner. Employees contribute 8% of their salary from April 2024 (previously 6% or 7%). These contributions are recorded in department revenue account and hence are considered as revenue to the Treasury's consolidated fund for general expenditure, rather than held in a separate invested fund.
- Gratuity: a lump-sum payment at retirement, based on salary and years of service. Gratuity expenses are not covered in this analysis, so the total pension spending data

in the analysis does not match the total expenditure recorded under Department of Pensions.

Between 2015 and 2025, pension expenditure increased from LKR 147.8 billion to LKR 401.1 billion (171.4%), while the number of pensioners increased from 560,499 to 740,881 (32.2%). As a result, the average payment per pensioner rose by 105.3%, from LKR 263,631 to LKR 541,316 a year (Figure 4.10). Expenditure growth was therefore driven mainly by higher payments per pensioner, linked to pension revisions, new allowances and the recalculation of pensions after salary revisions, rather than by a larger number of pensioners.

Figure 4.10: Pension Expenditure, Number of Pensioners and Per Capita Payment Index, 2015–2025 (2015 = 100)

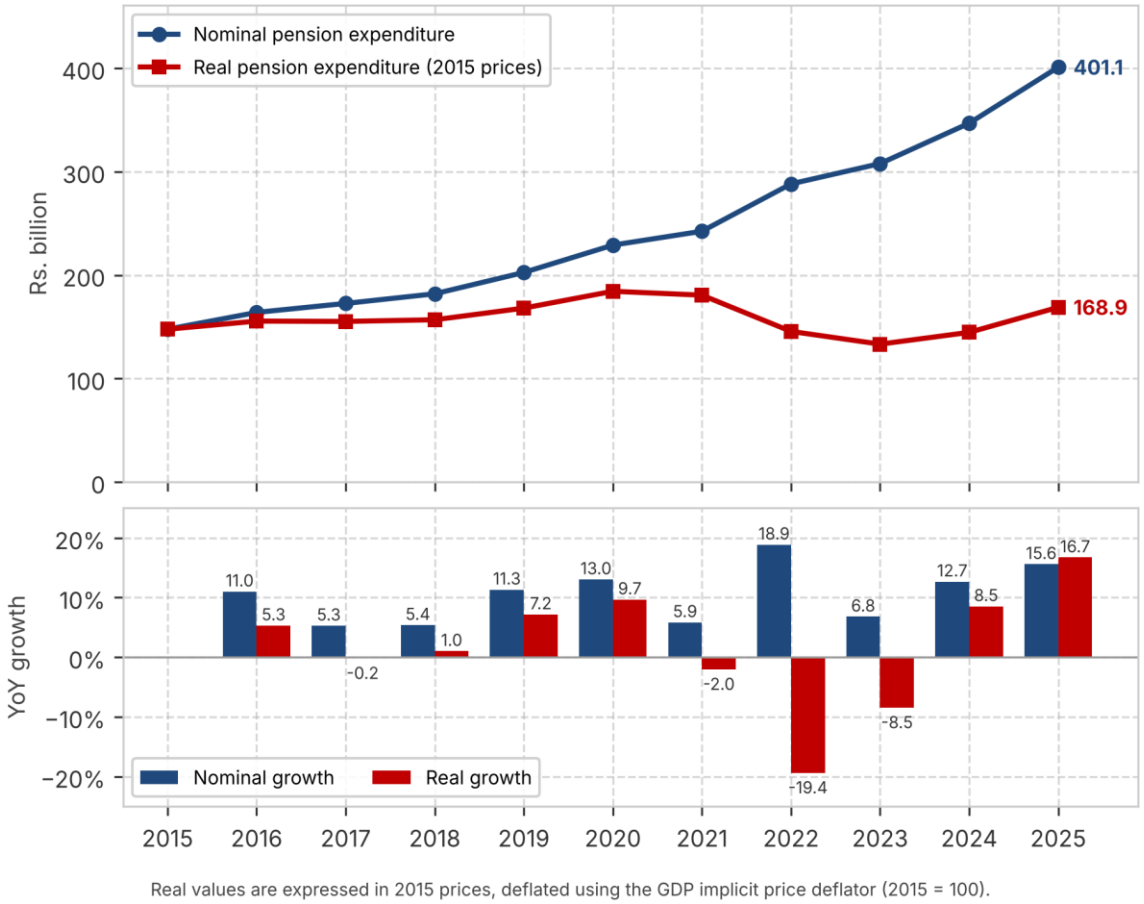


Source: Calculations using Department of Pensions data

Annual growth in pension expenditure was uneven. It was higher in years when pension revisions or new allowances were introduced: 11.0% in 2016 (2015 pension revision), 11.3% in 2019 and 13.0% in 2020 (2019 pension revision), 18.9% in 2022 (LKR 5,000 monthly allowance), 12.7% in 2024 (higher cost-of-living allowance and LKR 3,000 interim allowance), and 15.6% in 2025 (pension revision following the 2025 salary revision). In years without such measures, growth was about 5–7%.

After adjusting for price changes using the GDP implicit price deflator (2015 prices), total real pension expenditure rose by only 14.3%, from LKR 147.8 billion in 2015 to LKR 168.9 billion in 2025, compared with 171.4% expansion in nominal terms. This reflects the impact of inflation, eroding the real purchasing capacity of the pensions paid and why there are regular protests and lobbying by pensioners for increases in their pensions. Real expenditure fell by 19.4% in 2022 and 8.5% in 2023 because of high inflation, before recovering by 8.5% in 2024 and 16.7% in 2025.

Figure 4.11: Pension Expenditure, Nominal and Real, 2015–2025



Source: Calculated using Department of Pensions data and GDP implicit price deflator (2015 = 100).

The Treasury is gradually adjusting the pensions of older pensioners to bring them closer to the pensions received by recent pensioners. By 2027, the ongoing phased increase in pensions brings the baseline pension for older pensioners up to a baseline based on 2020 basic salaries. Future adjustments over the next 5-8 years will be needed to take them to the 2025 baseline. These are done gradually to avoid a sudden jump in pension costs, taking advantage of expanding fiscal space over time.

Subsidies and Transfers

Subsidies and Transfers, excluding pensions, are estimated to amount to about LKR 1056 billion (2.9% of GDP) in 2026 and projected to be LKR 906 billion (2.3% of GDP) in 2027. These consist of welfare programmes (like Aswesuma and Samurdhi), development subsidies (like fertiliser subsidy and fuel subsidies), and recurrent transfers to public institutions and provincial councils. These latter transfers are largely meant to cover operational expenditures including salaries. The doubling of development subsidies estimated in 2026 to LKR 229 billion, from LKR 114 billion in 2025, is driven by the LKR 130 billion in fuel and electricity subsidies provided by the government since April. Development subsidies allocation reduces to around LKR 60 billion in 2027 budget estimates.

Figure 4.12: Subsidies and Transfers, LKR billion

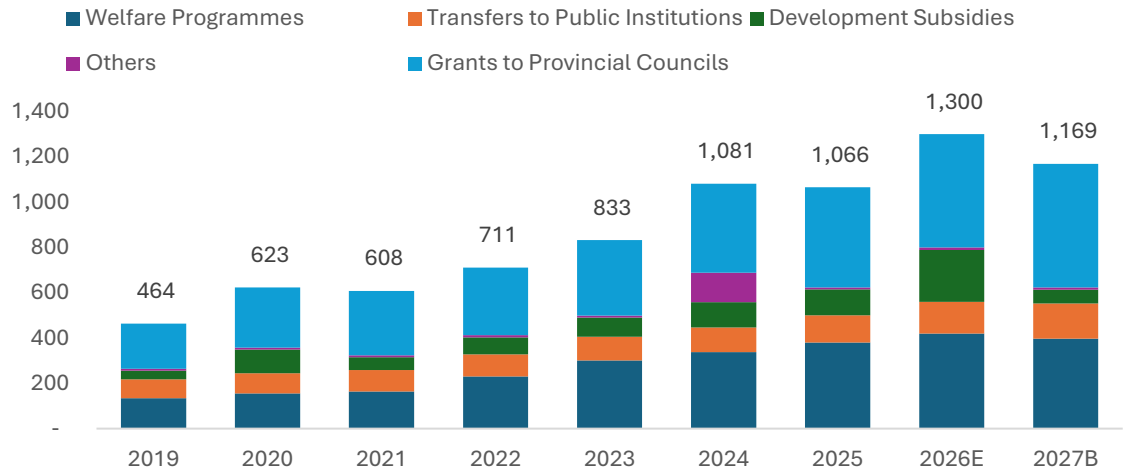
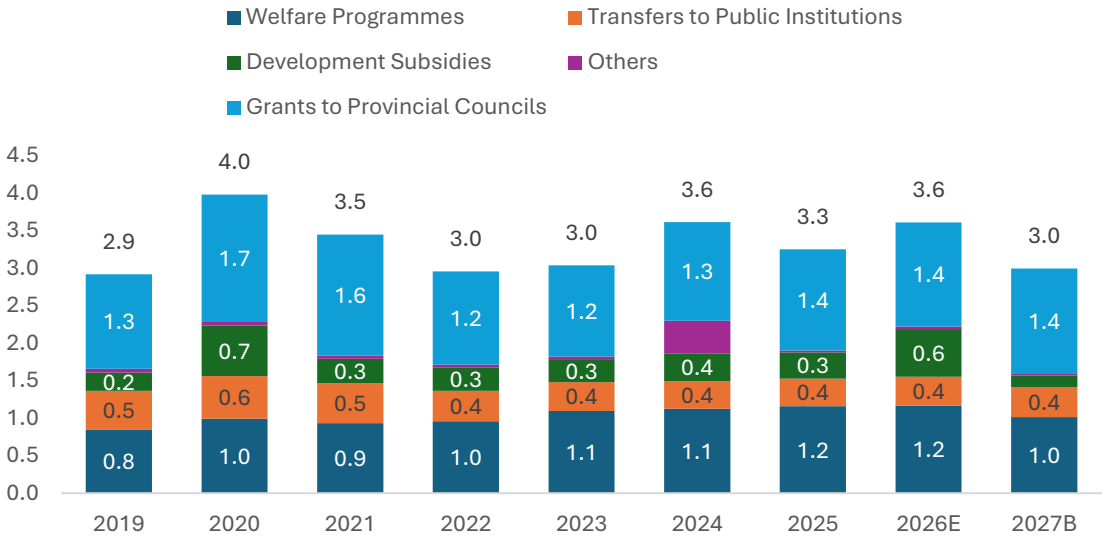


Figure 4.13: Subsidies and Transfers, % of GDP



Note: The grants to provincial councils include salaries of provincial council employees, which is included under salary expenditure in the economic format. Source: Budget Estimates

Section 5: Debt Servicing

Government debt service payments (that are handled by the Ministry of Finance) have remained around or above LKR 4 trillion since 2023.[20] As a share of GDP, debt payments have reduced to around 12% of GDP in 2025, driven by the reduction in interest payments as a share of GDP. This has meant that primary expenditure is gradually becoming larger than debt servicing.

In fact, actual interest expenditure is coming in significantly lower than the budgeted amounts. In 2025, LKR 2650 billion was allocated for interest payments, but only LKR 2501 billion was used. In 2026 the Jan-Sept period has seen interest reducing 5% YoY to LKR 1822 billion, LKR 85 billion below the same period in 2025, indicating that the LKR 2617 billion allocation for interest in 2026 will be underutilised by LKR 100-200 billion. Actual amortisation was also LKR 181 billion less than budgeted in 2025. As a share of GDP, interest costs are expected to fall further to 6.8% of GDP by 2027, though the actual could be even lower given the faster-than-expected reduction in public debt.

Figure 5.1: Debt Servicing vs. Primary Expenditure, % of GDP

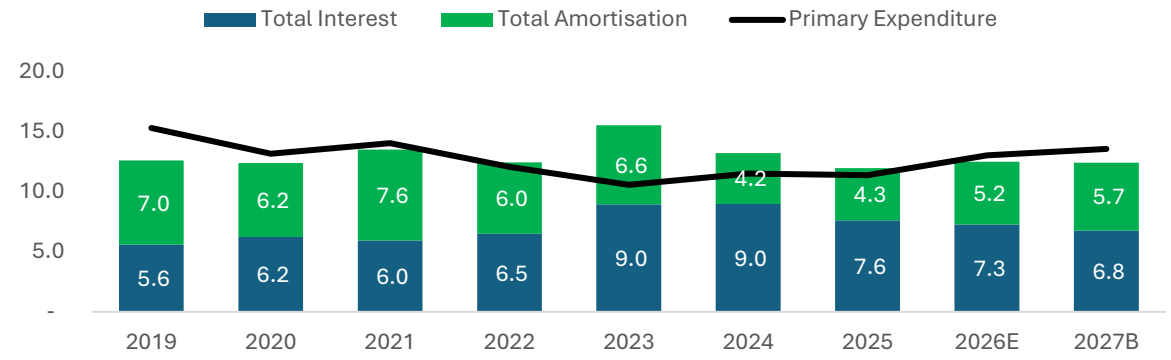
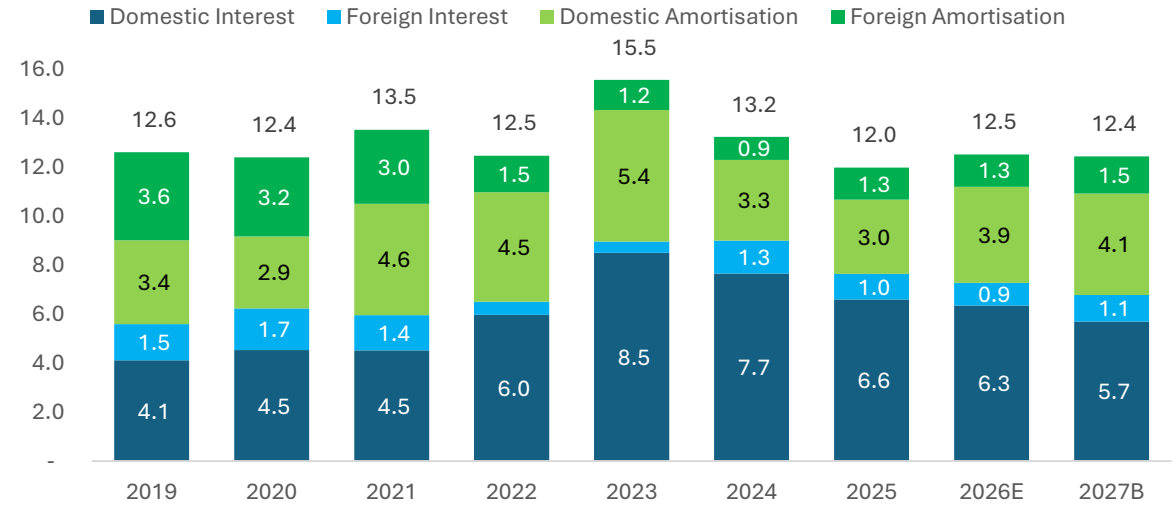


Figure 5.2: Debt Servicing, % of GDP



[20] While T-bill discounts are included under interest payments, refinancing of the principal amounts of T-bills is not considered within the debt amortisations. Only a net reduction in the T-bill stock gets included under amortisation.

Figure 5.3: Foreign vs Domestic Debt Servicing, % of GDP

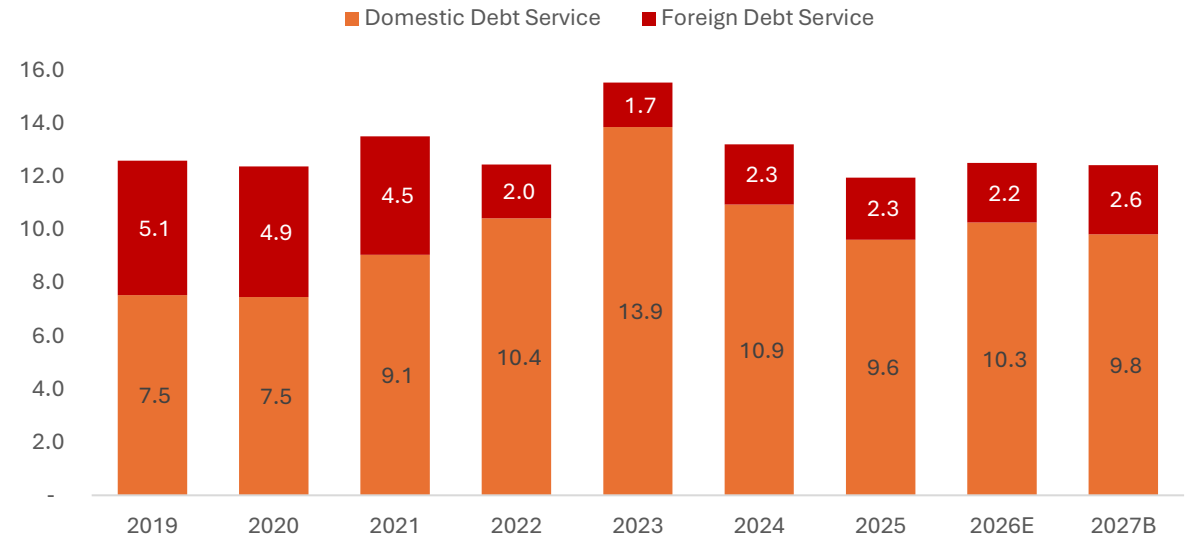


Figure 5.4: Foreign vs Domestic Debt Servicing, LKR billion

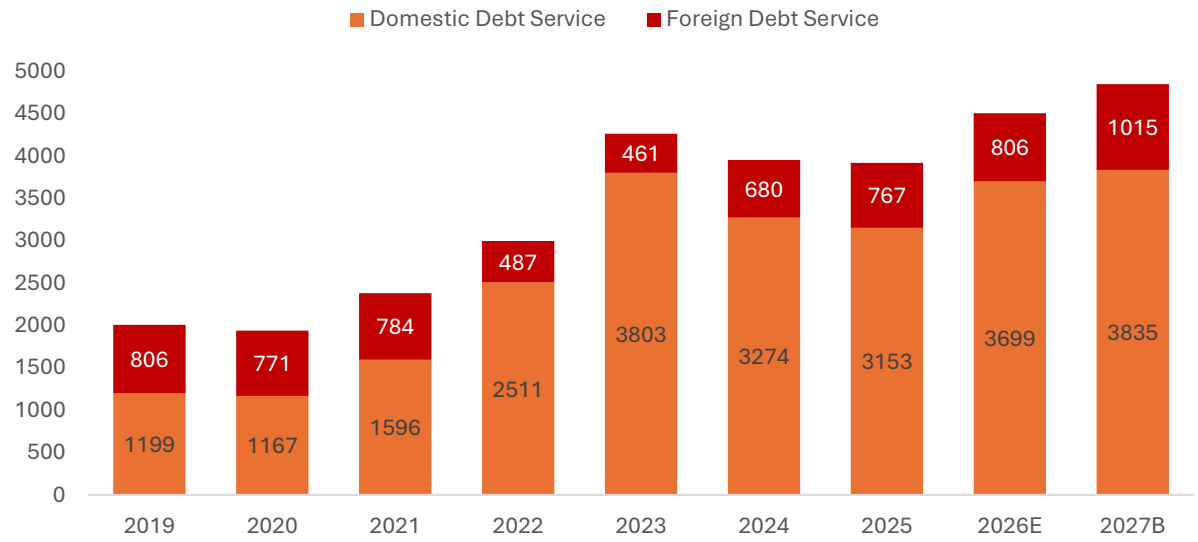
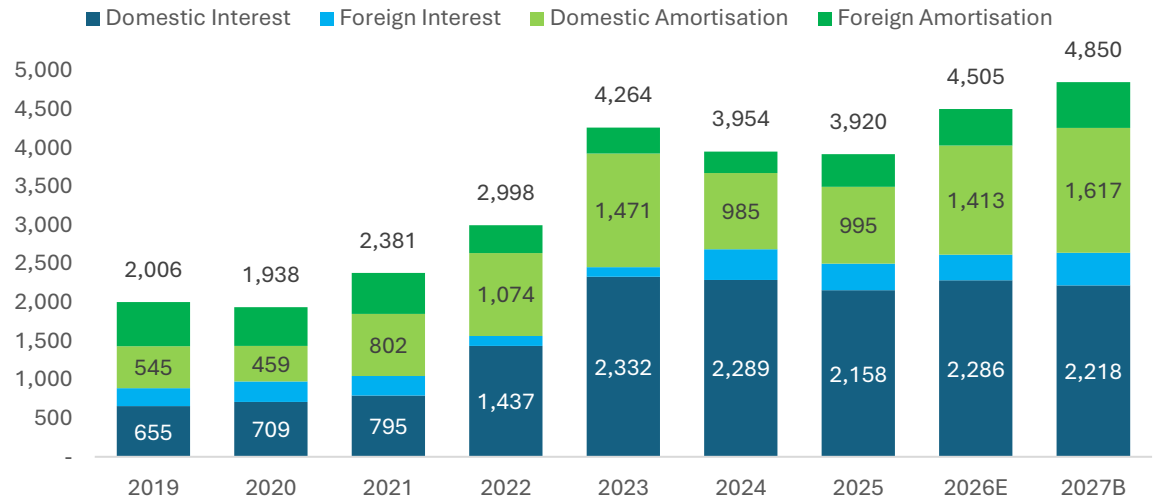


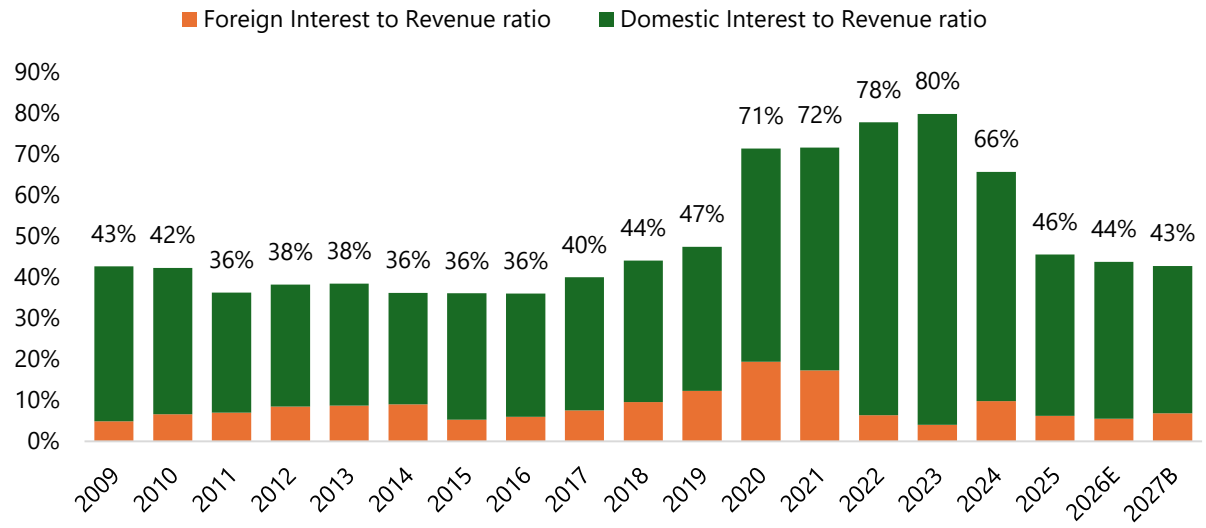
Figure 5.5: Debt Servicing, LKR billion



Sources: 2019-2023 CBSL, 2024-2027 MoF

A key indicator that is monitored as Sri Lanka's fiscal situation improves is the interest to revenue ratio, which reached record highs during the crisis period. After peaking at 80% in 2023, the ratio fell to 46% in 2025 and is expected to gradually moderate towards 40%. Given the MoF's current estimates for revenue appear to be slightly underestimated and interest costs slightly overestimated, the fall in the interest to revenue ratio could be more than indicated in their current estimates.

Figure 5.6: Interest payments to Revenue ratio, %

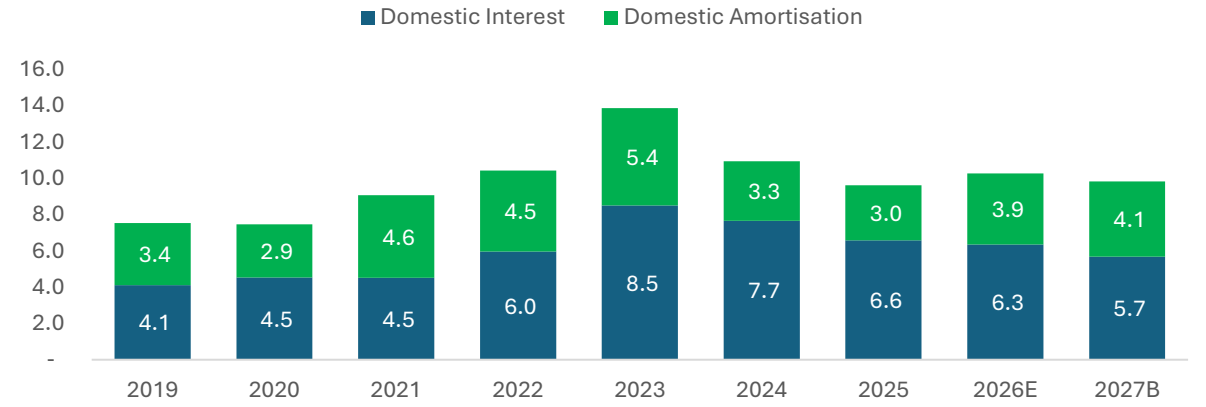


Source: MoF

5.1. Domestic Debt Servicing

Domestic debt servicing fell below 10% of GDP in 2025 and is expected to be around that during 2026-2027 as well. Domestic debt servicing is dominated by interest payments on and maturities of LKR-denominated Treasury Bills and Treasury Bonds, which account for around 96% of the LKR 19.2 trillion in outstanding domestic debt at end-June 2026.

Figure 5.7: Domestic Debt Servicing, % of GDP



Source: MoF

The remaining 4% of domestic debt is largely composed of the CPC term loans from state banks taken over by the Treasury during the crisis and restructured in 2024. Alongside the USD

50 million in Domestic Dollar Bonds (DDBs) issued in Dec 2025, there is around USD 2.2 billion in FX-denominated debt within the domestic debt stock.

The PDMO's debt management strategy has been focusing on paying down T-bills and issuing T-bonds to extend the average maturity of the domestic debt stock. As a result, the outstanding amount of T-bills has fallen to LKR 2.3 trillion by end-October 2026, its lowest level since 2021, from LKR 4 trillion in 2024. The stock of T-bonds has continued to rise to LKR 16.6 trillion. But as a share of GDP, the overall stock of T-bills and T-bonds has reduced to around 53% of GDP by October 2026, similar to the 2021 level.

Figure 5.8: T-bills & T-bonds outstanding, LKR trillion

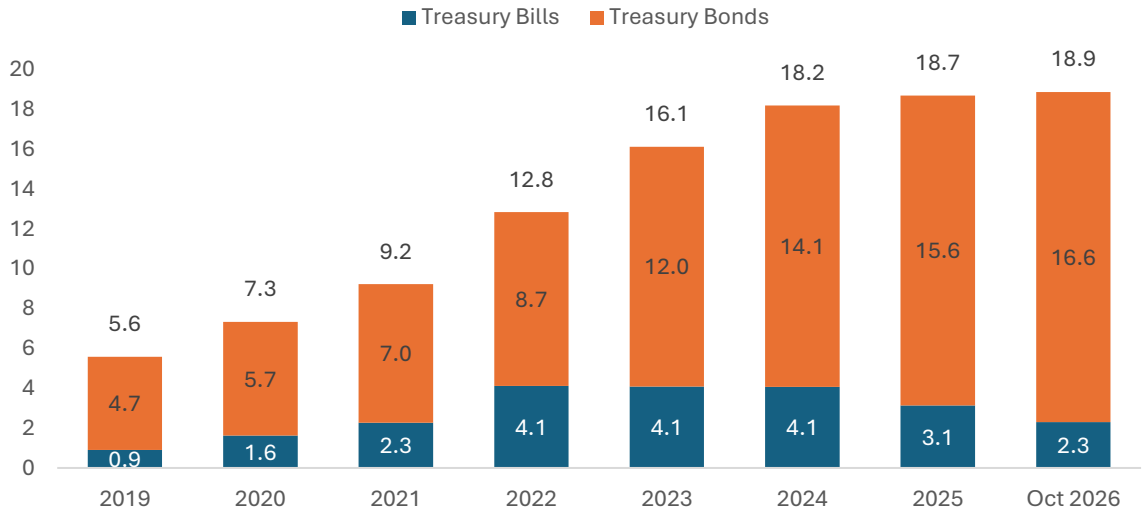
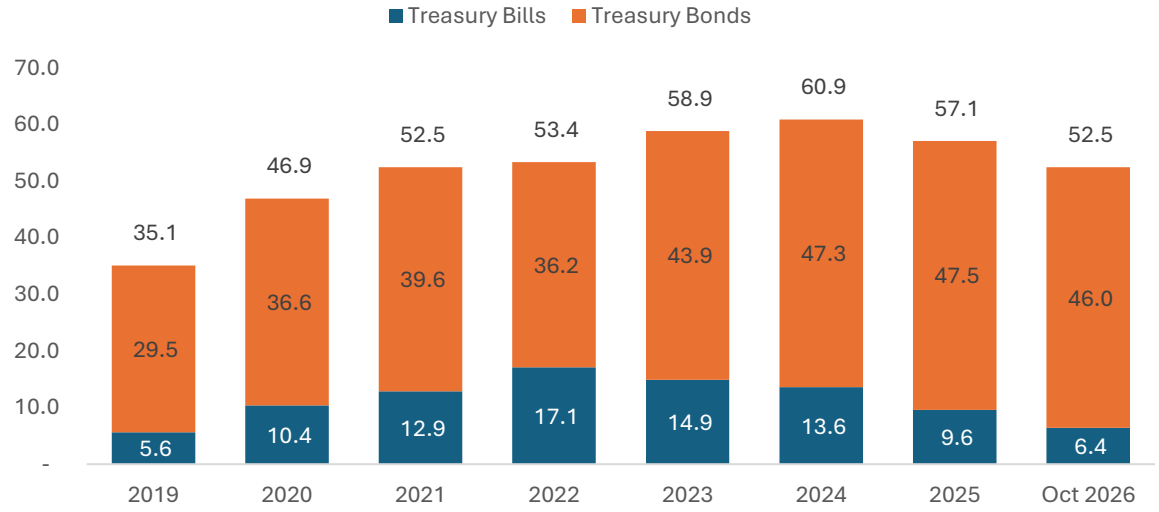


Figure 5.9: T-bills & T-bonds outstanding, % of GDP



Source: CBSL and PDMO

5.2. Foreign Debt Servicing

According to PDMO data, central government foreign debt servicing is expected to be stable around USD 2.5 billion in the 2025-2027 period, before rising to over USD 3 billion from 2028 onwards. This shows the impact of the grace period provided under the external debt restructuring coming to an end from 2028 as principal repayments to bilateral creditors begin and the macro-linked bonds (MLBs) activate their adjustment scenarios based on the GDP performance.

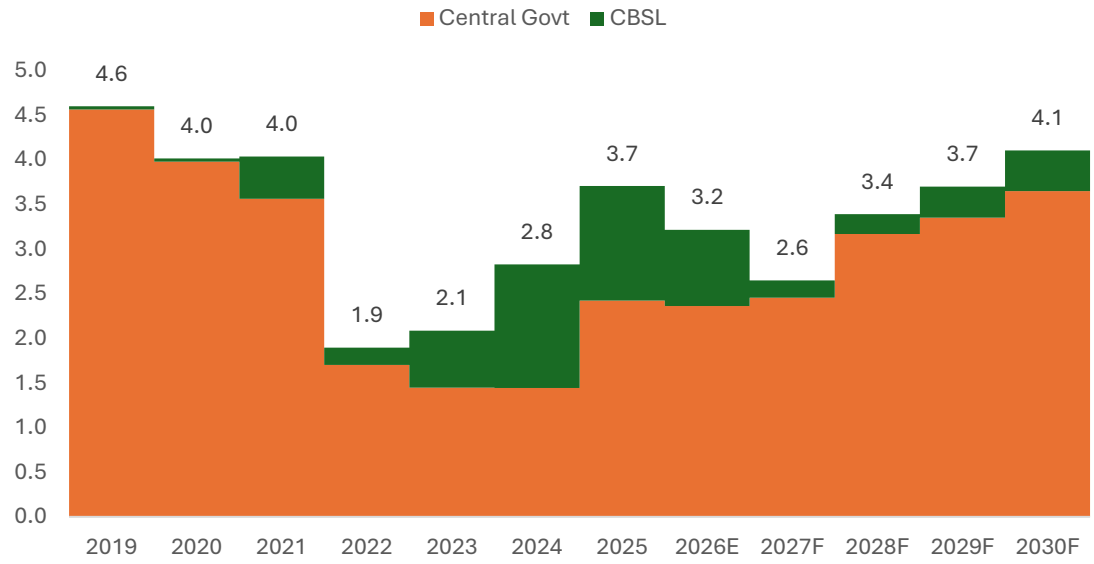
Figure 5.10: Central Government Foreign Debt Servicing Outlook, USD billion



Sources: 2019 to 2025 actual data from CBSL, 2026 to 2030 estimates by PDMO.

Total foreign debt repayments are higher when factoring in the foreign liabilities of CBSL, which has remained substantial since the 2022 crisis due to the repayment of bilateral swaps taken. But these repayments become smaller after 2026, with remaining repayments on the IMF loan taken for the 2016-2019 programme being the CBSL's main foreign repayment.

Figure 5.11: Central Government and Estimated CBSL Foreign Debt Repayments, USD billion

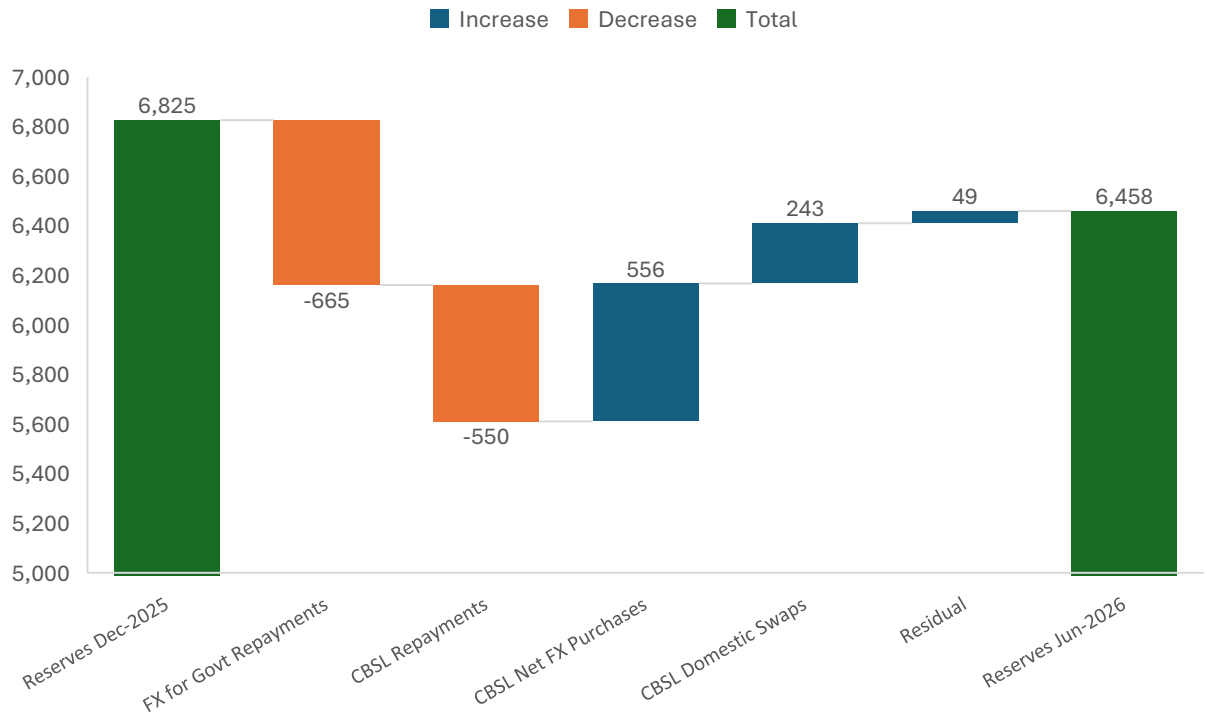


Note: 2026-2030 CBSL figures based on IMF May 2026 staff report. Source: PDMO, CBSL, IMF

The PDMO reported that in the first half of 2026, the Treasury made foreign debt repayments of about USD 1.33 billion, while receiving disbursements of about USD 895 million. This means that on a net basis, the Treasury had a deficit of USD 438 million on its foreign debt flows. But the CBSL Market Operations Report for June 2026 notes that foreign currency of about USD 665 million was provided from reserves for Treasury repayment purposes, indicating mismatches in the timing of disbursement and repayments, requiring a higher usage of reserves for government foreign debt repayments.

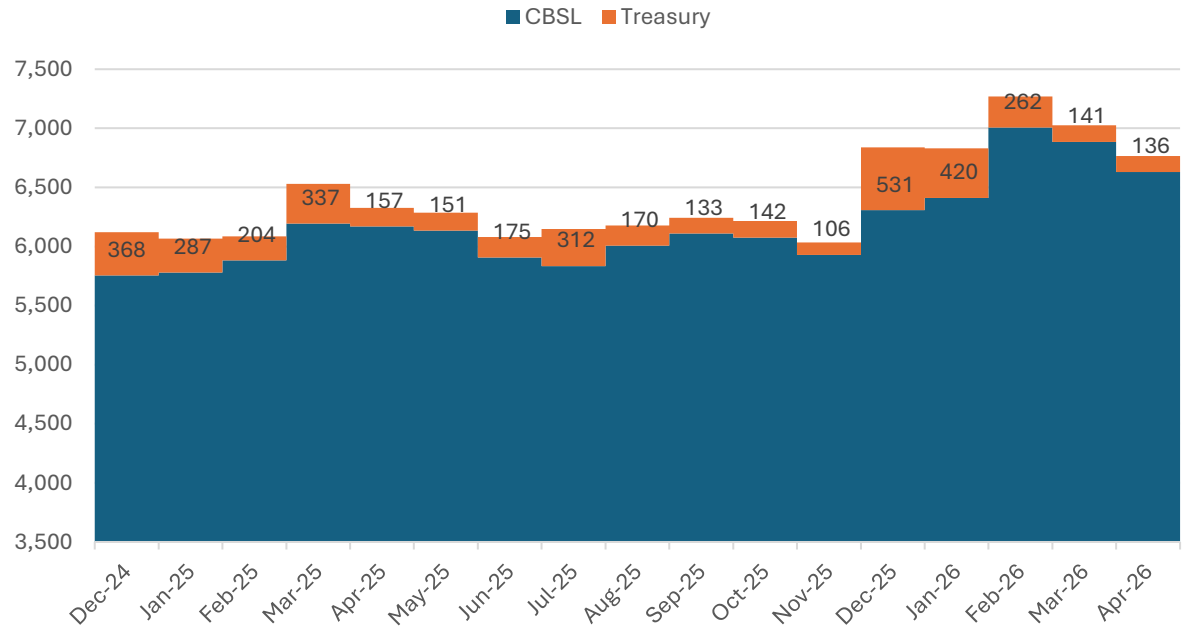
When the Treasury uses foreign currency from the gross official reserves, it is not always purchasing FX from CBSL using rupees. The Treasury maintains foreign currency balances in its CBSL accounts, which count within the gross official reserves. These balances originate largely from foreign disbursement of loans and grants received by the Treasury. From Dec-2025 to April 2026, the Treasury drew down these balances by about USD 400 million, indicating that most of the Treasury's use of FX reserves was from its own FX balances. But this can still put downward pressure on gross official reserves, as seen in the first half of 2026. When there is such pressure, CBSL also supports gross reserves by entering into FX swaps with domestic banks, which increased by USD 243 million in 1H-2026.

Figure 5.12: Net Flow factors for CBSL Reserves in 1H-2026, 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. FX for Govt Repayments utilises CBSL Monetary Operations – June 2026 report data, while CBSL Repayments accounts for RBI swap repayment, other swap interest, and IMF repayments. Source: Calculated using data from CBSL and PDMO

Figure 5.13: CBSL & Treasury shares of Gross Official Reserves, USD million



Source: CBSL

For 2026, the PDMO's annual borrowing plan expected about USD 2.3 billion in foreign loan disbursements, alongside USD 300 million in domestic dollar bonds. However, only USD 895

million in foreign loan disbursements were received by the Treasury in 1H-2026. Even this amount was dominated by the USD 695 million from the IMF for two reviews in May 2026. All other multilateral and bilateral loan disbursements were around USD 200 million, with ADB accounting for USD 52 million and World Bank for USD 94 million. This links to the slower-than-anticipated implementation of foreign-funded projects, which in turn get reallocated to other expenditures through supplementary estimates since June 2026. None of the USD 300 million in domestic dollar bond issuance has happened as of mid-November 2026. When only a third of the expected foreign currency borrowings are obtained in the first half, the Treasury then has to purchase FX from CBSL, putting pressure on the reserves as shown in Figure 5.12.

Table 5.1: Foreign Loan Disbursements in 1H-2026

Lending Institution	No. of Loans	Currency	Total Disbursed (Original Currency, Mn)	Total Disbursed (USD Mn)
Asian Development Bank	11	USD	52.0	52.0
Asian Infrastructure Investment Bank	3	USD	23.3	23.3
Export Import Bank of India	1	USD	7.6	7.6
Government of Japan	8	JPY	2,153.9	13.6
Int. Fund for Agricultural Development	1	USD	3.5	3.5
International Monetary Fund EFF	1	XDR	508.0	695.3
OPEC Fund for International Development	5	USD	4.7	4.7
Saudi Fund For Arab Economic Development	3	SAR	9.9	2.6
World Bank	9	USD	93.7	93.7
Grand Total (USD Mn)				**896.3**

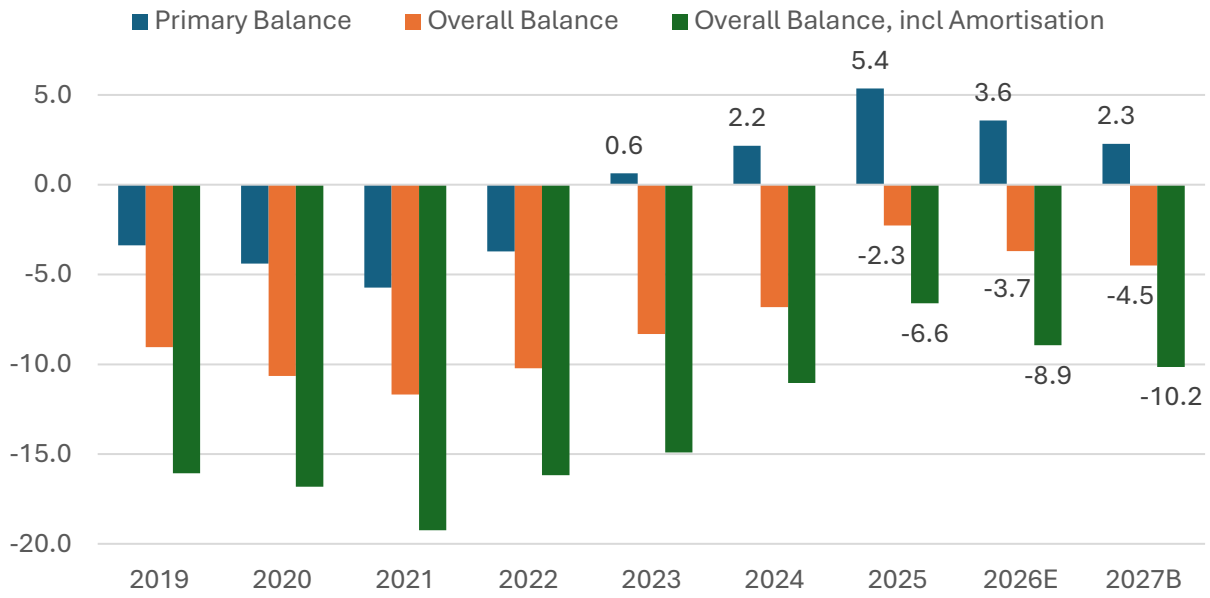
Note: Converted to USD based on average exchange rates and might differ slightly from overall figure in PDMO Debt Bulletins. Source: PDMO Disbursements Report

Section 6: Fiscal Balances, Deficit Financing and Public Debt Management

6.1. Fiscal Balances

The MoF's current budget figures lead to expected primary surpluses of 3.6% of GDP in 2026 and 2.3% of GDP in 2027, reducing from the massive surplus of 5.4% of GDP in 2025. This would go alongside a worsening of the overall balance from a 2.3% deficit in 2025 to 3.7% and 4.5% deficits in 2026 and 2027, respectively.

Figure 6.1: Fiscal Balance, % of GDP



Source: MoF

However, across the preceding sections, this report noted that there is space for revenue to grow more than the current assumptions of the MoF and that capital expenditure can be underutilised relative to the budgeted amounts. To visualise this, the below table shows three alternative scenarios:

- Scenario 1 assumes that revenue growth equates to the current MoF assumptions for nominal GDP growth of 9.9% YoY in 2026 and 8.3% in 2027, compared to revenue growth of only 9% and 3.3%, respectively. The higher revenue growth would mean that revenue remains at 16.7% of GDP across 2026 and 2027, raising the primary surplus by 0.1 percentage points in 2026 and 0.9 percentage points in 2027.

- Scenario 2 assumes that capital expenditure utilisation would only be 80% of the budgeted amounts. This would mean that capex remains around 4% of GDP in 2027, raising the primary surplus by 1 percentage point in 2027.

- Scenario 3 assumes a combination of Scenario 1 and 2, with revenue higher and capex lower than currently budgeted, which is what has happened across 2024 and 2025. This can raise the primary surplus above 4% of GDP for 2026 and 2027.

Such an overperformance of fiscal balances, on the lines of Scenario 3, would reduce the borrowing needs of the government by almost 2% of GDP in 2027. This can be as much as LKR 700-800 billion in lower borrowings, contributing to a faster reduction in the government debt stock.

Table 6.1: Scenario Analysis of Fiscal Balances, % of GDP

	MoF Budgeted		Alt Scenario 1		Alt Scenario 2		Alt Scenario 3	
			Revenue growth = NGDP growth		Capex utilisation 80%		1 & 2 Combined	
	2026	2027	2026	2027	2026	2027	2026	2027
Revenue & Grants	16.6	15.8	16.7	16.7	16.6	15.8	16.7	16.7
Capital Expenditure & Net Lending	4.1	5.1	4.1	5.1	3.8	4.1	3.8	4.1
Primary Expenditure	13.0	13.6	13.0	13.6	12.8	12.5	12.8	12.5
Primary Balance	**3.6**	**2.3**	**3.7**	**3.2**	**3.8**	**3.3**	**4.0**	**4.2**
Overall Balance	-3.7	-4.5	-3.6	-3.6	-3.5	-3.5	-3.3	-2.6
Overall Balance, incl Amortisation	-8.9	-10.2	-8.8	-9.2	-8.7	-9.1	-8.6	-8.2

6.2. Annual Borrowing

For 2027, the MoF had budgeted a borrowing requirement of LKR 3800 billion, slightly higher than the LKR 3740 billion borrowing limit that was set for 2026. However, this does not factor in the LKR 260 billion in additional expenditure being done via the supplementary estimate for extending Ditwah relief and reconstruction. Similar to the LKR 500 billion supplementary in 2026, this supplementary is also expected to be financed through the Treasury's cash surplus, without additional borrowings.

Beyond this LKR 3800 billion, there is also about LKR 2300 billion in Treasury Bills outstanding to be refinanced or paid down going into 2027. This puts the gross financing need (GFN) at about LKR 6100 billion. The PDMO's annual borrowing plan for 2027 expects to finance much of this requirement through domestic borrowings, primarily through the issuance of Treasury Bonds.

Table 6.2: Annual Borrowing Requirement

	ABP 2026 LKR bn	ABP 2027 LKR bn	Change LKR bn
Borrowing limit (Appropriation Bill)	**3,740**	**3,800**	**+60**
LKR Financing	**2,940**	**3,070**	**+130**
FX Financing	**800**	**730**	**-70**
IMF Programme	*210*	*115*	*-95*
Policy Based Financing	*490*	*210*	*+35*
Multilateral/Bilateral Project Financing		*315*	
Domestic Dollar Bonds	*100*	*90*	*-10*
T-bills maturing in the year	**3,100**	**2,300**	**–800**
Total financing requirement	**6,840**	**6,100**	**–740**

Source: PDMO Annual Borrowing Plan 2026 and 2027

In 2026, the PDMO was hoping to reduce the outstanding T-bills by about LKR 500bn. But the overperformance of the primary surplus allowed the actual reduction in T-bills to reach about LKR 800 billion in the first 10 months alone. Going into 2027, the PDMO hopes to pay down T-bills by a further LKR 500 billion. Around LKR 3 trillion in T-bond issuances would need to happen under the LKR 3.8 trillion borrowing requirement, with the rest being the planned FX borrowings.

About LKR 640 billion (just under USD 2 billion) in foreign borrowing is expected, alongside LKR 90 billion (around USD 250 million) in Domestic Dollar Bond (DDB) issuance in 2027, for a total FX borrowing of LKR 730 billion or about USD 2.2 billion. This includes about USD 350 million from the final IMF tranche, USD 630 million in multilateral budget support/policy loans, and USD 1 billion in project loans from bilateral and multilateral creditors. This latter part is where disbursements have been lower than expected in 2024 and 2025, amidst slow implementation of projects.

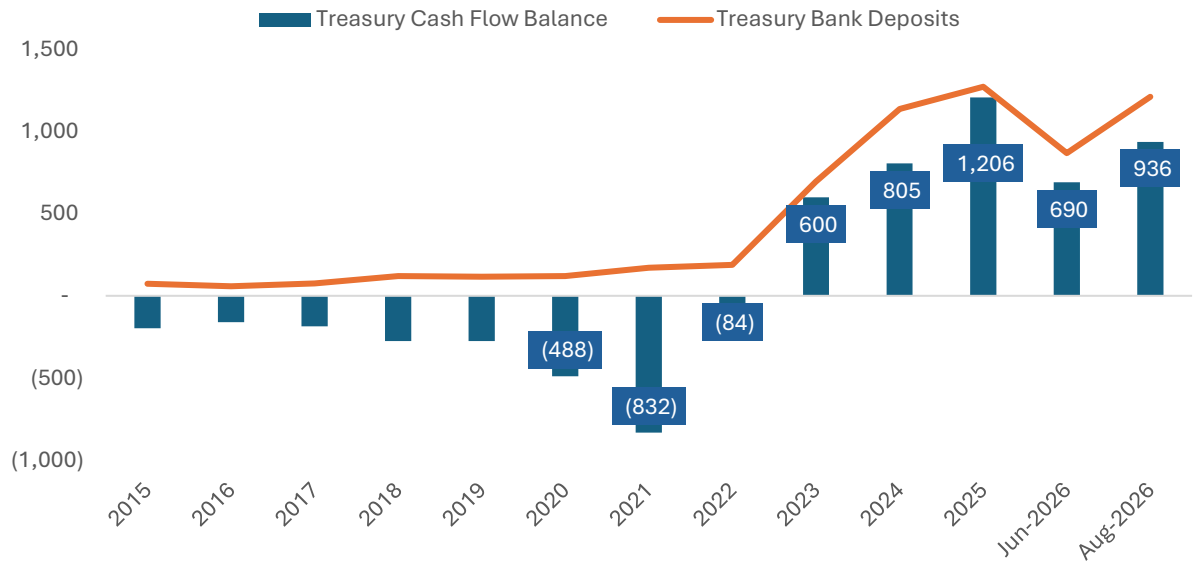
Of the planned USD 300 million in DDBs for 2026, none were issued amidst tough market conditions. An auction for USD 100 million in DDBs in October did not result in any issuance due to the PDMO deeming the market bids to be at higher yields than desired. The lack of such issuance has not caused any issue in 2026 due to the overperformance of the primary surplus, likely to be over 3% of GDP as opposed to the 1% expected following Cyclone Ditwah. In 2027 as well, if the primary surplus overperforms, the issuance of T-bonds can be lower than planned or more T-bills can be paid down. For instance, in 2025, despite a budgeted borrowing limit of LKR 4000 billion, actual gross borrowing was much less at around LKR 2300 billion.

6.3. Treasury Cash Buffer Management

Since 2023 the Treasury has maintained a cash buffer, as it has ensured that inflows are larger than outflows from the consolidated fund. While the initial surplus in 2023 was supported by

higher borrowings, since then the primary surplus overperformance has been a primary driver of the growing cash buffer. The LKR 1.2 trillion surplus at end-2025 was large enough to allow the Treasury to plan for the LKR 500 billion post-Ditwah supplementary to be financed entirely from the cash buffer rather than through additional borrowings. With the buffer standing at LKR 936 billion in August 2026, the Treasury is once again planning to utilise it for the LKR 260 billion post-Ditwah supplementary intended for 2027.

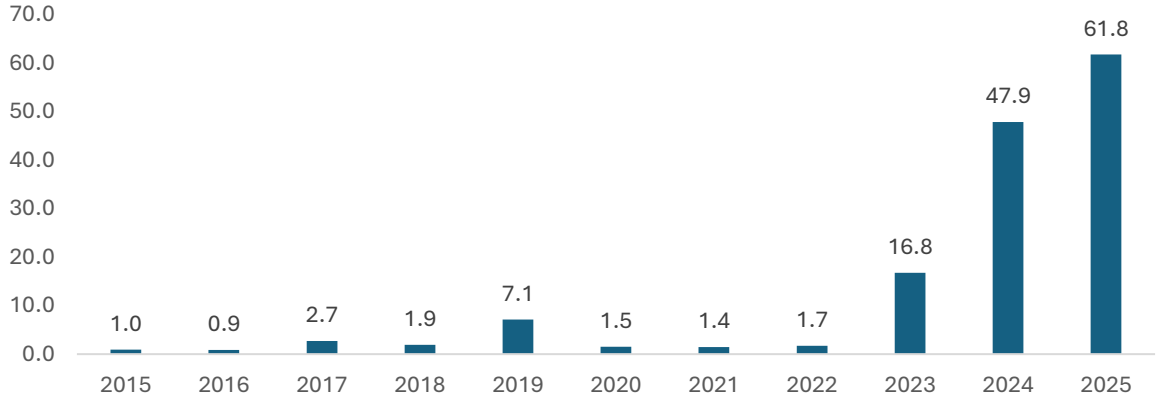
Figure 6.2: Treasury Cash Flow Balance, LKR billion



Source: MoF reports, CBSL data

The main question raised about a large cash buffer is the opportunity cost of doing so, instead of paying down existing debt or reducing new borrowings. According to officials of the Treasury Operations Department (TOD), which manages the consolidated fund, the Treasury cash balances earn about 6-7% interest income, which is confirmed by the increase in interest income of the government outside of its on-lending portfolio. This compares to an interest cost of 9-10% to borrow in T-bills and an average weighted interest cost of 11.3% on the domestic debt stock and 8.2% on the entire government debt stock. This implies a 2-4 percentage point opportunity cost margin. On a trillion rupees, this would be a cost of LKR 20-40 billion to maintain the safety of a cash buffer for unforeseen fiscal circumstances, ranging from a spike in market borrowing costs to post-disaster financing needs.

Figure 6.3: Government Interest Income (excl On-lending portfolio), LKR billion

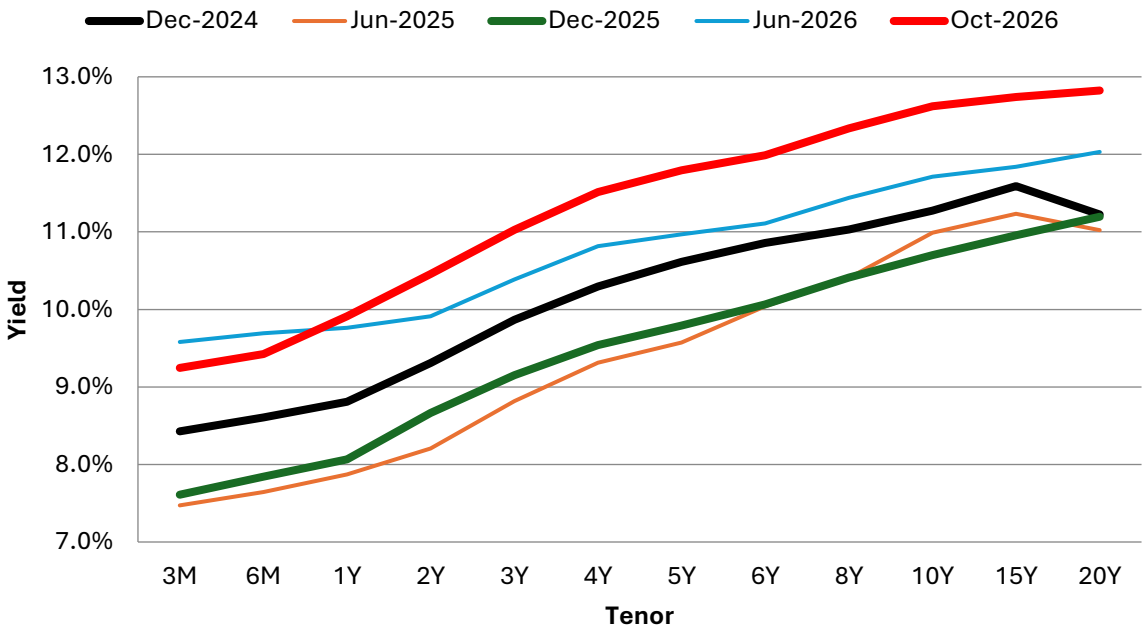


Source: MoF reports

6.4. Government Securities Auctions

By October 2026 the yield curve for government securities shifted upwards by about 180-190 basis points compared to December 2025, increasing the cost of domestic borrowing for the government. There was a moderate increase in yields in early-2026, but much of the increase was driven by the impacts of the Middle East conflict, with higher inflation and currency depreciation prompting a 100-bps hike in policy interest rates by CBSL in May 2026.

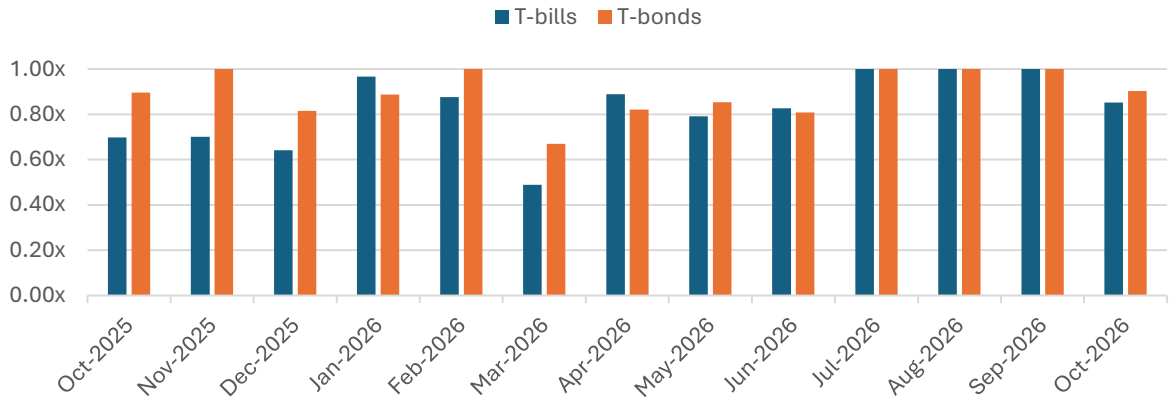
Figure 6.4: Secondary Market Yield Curve for T-bills and T-bonds, Yield %



Source: CBSL and PDMO

Despite the dependence on domestic market-based borrowings for much of the Treasury's borrowing needs, the presence of the cash buffer gives some space to manage borrowing costs when there is an increase in market interest rates. This is reflected in the reduction in the ratio of T-bills and T-bonds issued at Phase 1 of the auctions during the March to June 2026 period, in which rates started to rise.

Figure 6.5: Issued-to-Offered Ratio at Phase 1 of Auction



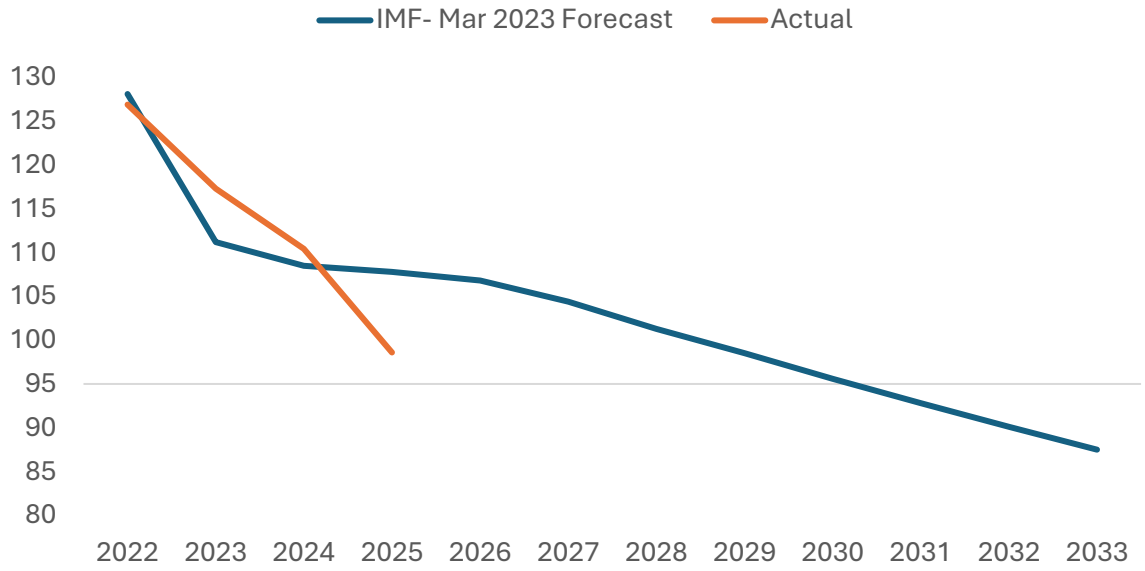
Note: 1.0x means full offered amount was accepted & issued at auction. Source: CBSL and PDMO

The cash buffer can be utilised by Treasury to manage its payments instead of borrowing at rising interest rates. However, this is most useful if the increase in rates is a temporary spike, due to a liquidity imbalance in the financial markets for instance. But a more sustained increase in rates, such as what happened following the Middle East conflict and fuel price increase, cannot be prevented by borrowing less than expected from Treasury auctions. The usage of the cash buffer is limited by the need to maintain a minimal balance for emergencies. This is reflected in what happened in late-May 2026, when the PDMO was forced to borrow substantial amounts at auction in the week of the CBSL Monetary Policy decision to hike policy rates, leading to a large spike in borrowing costs. At a subsequent COPF meeting (23rd July), PDMO officials mentioned that the reduction in the cash buffer by that point necessitated market borrowings.

6.5. Public Debt Ratio

The public debt to GDP ratio has fallen rapidly since 2024, reaching around 99% of GDP by end-2025. By June 2026, central government debt had fallen to around 88% of GDP, with the other categories accounting for about 3% of GDP, indicating a public debt ratio of about 91% of GDP. This would reduce the ratio to below the 95% of GDP target, set under the IMF debt sustainability programme expected to be met by 2032, well ahead of initial expectations.

Figure 6.6: Public Debt to GDP ratio, % of GDP

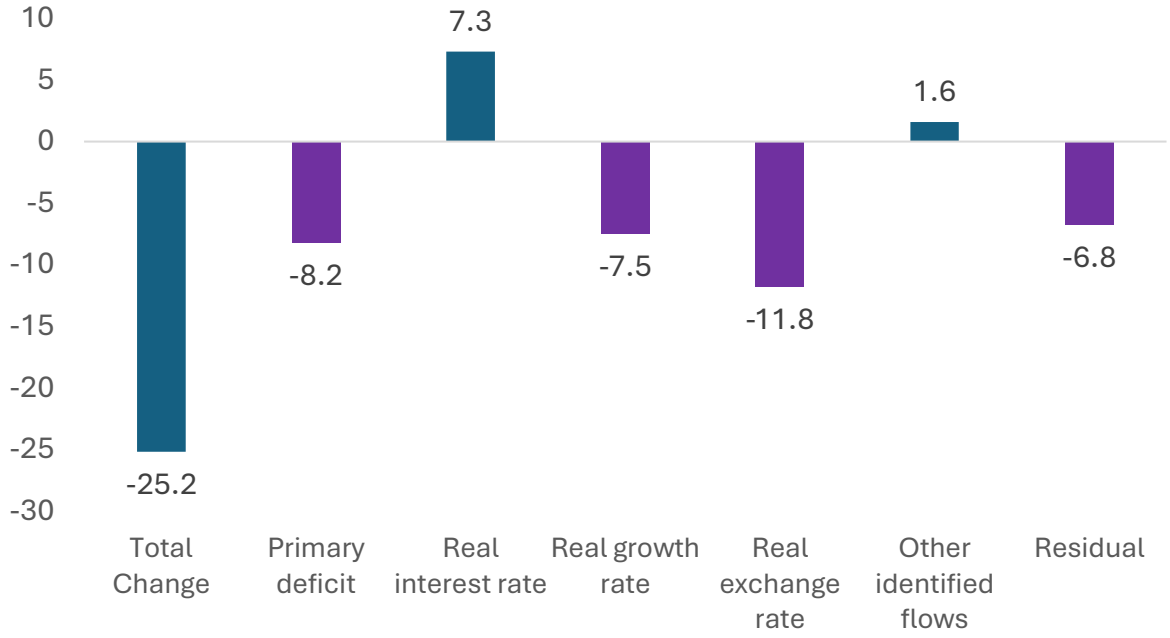


Note: Public debt ratio here includes Central Govt Debt, Treasury Guaranteed Debt, and CBSL's IMF liabilities. Figures for end-2025 and June 2026 are estimates based on available data, aligned with the IMF definition of public debt, which includes CBSL liabilities to the IMF. Source: IMF, CBSL and PDMO

The reduction in the debt ratio has been driven by several factors. The overperformance in the primary surplus (cumulative overperformance of almost 6% of GDP) has been critical in reducing the borrowing needs and even paying down T-bills. There has also been no growth in the stock of Treasury-guaranteed debt. The containment of the growth in the debt stock, other than through the net issuance of T-bonds and impact of rupee depreciation on rupee value of foreign debt stock, has coincided with substantial expansion in nominal GDP. With the denominator (nominal GDP) growing much faster than the numerator (debt stock), the public debt to GDP ratio has been falling.

IMF debt sustainability analysis in their programme documents since 2023 indicates that there has been around a 25 percentage point reduction in the public debt ratio, driven primarily by the primary surplus, GDP growth, and exchange rate appreciation relative to 2022 levels. But with the exchange rate gradually depreciating in 2025 and 2026, the gain from that aspect will be diminished in future years. This makes it vital that primary surpluses and sufficient GDP growth are maintained in the coming years. If not for almost 6% of GDP in overperformance of the primary surplus across 2023 to 2025, it is possible that the public debt ratio would have been over 100% of GDP by end-2025.

Figure 6.7: Factors driving change in Public Debt Ratio, Percentage Points



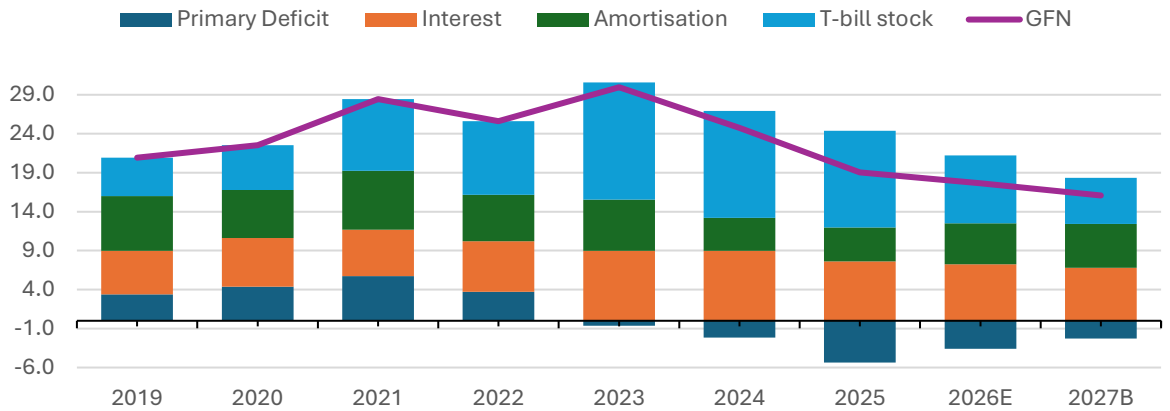
Source: IMF Programme documents

6.6. Gross Financing Needs (GFN)

GFN = Primary Deficit + Interest payments + Debt Amortisations + T-bills outstanding

Reducing the GFN to an average of 13% of GDP or below for the 2027-2032 period is a key debt sustainability target, alongside the need to keep the FX debt repayment component within GFN below the 4.5% of GDP level. This is intended to reduce the liquidity and refinancing risks faced by the Treasury. The government's gross financing needs (GFN) were as high as 30% of GDP in 2023, with a significant primary deficit and high debt repayments. But this has reduced substantially since then to reach 19% of GDP in 2025. The MoF's current figures indicate that the GFN could fall to around 16% of GDP in 2027, with a continued reduction in interest costs and T-bill stock needed to ensure it keeps reducing below 13%.

Figure 6.8: Estimated Gross Financing Needs, % of GDP



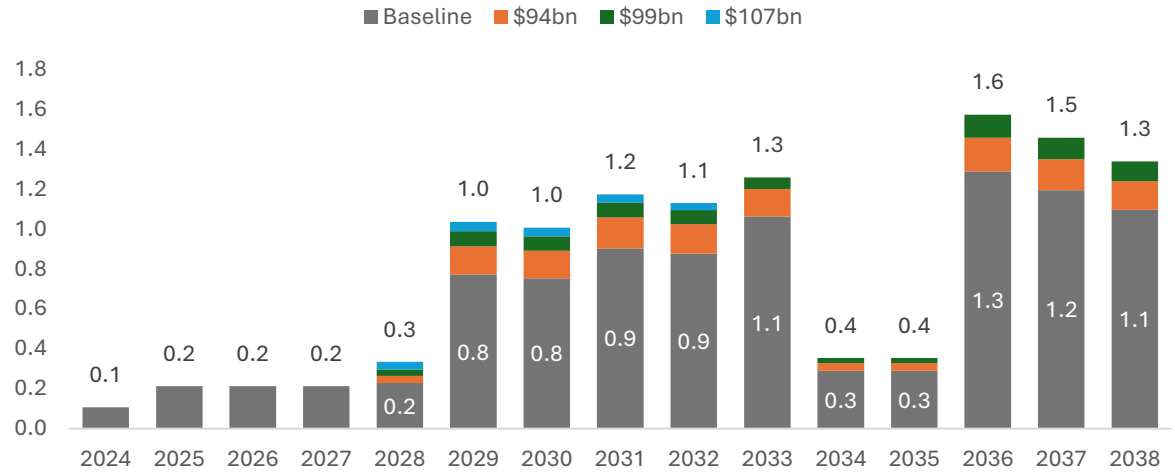
Note: Not equivalent to IMF GFN estimates. Source: Based on CBSL, MoF data

6.7. Impact of Macro-Linked Bonds (MLBs)

USD 6.2 billion is the current face value of the MLBs that were issued as part of restructuring Sri Lanka's ISBs in Dec 2024. However, they are structured so that the face value increases in late-2028 based on GDP performance. If the real GDP growth is at least a cumulative of 11.5% for 2024-2027 and the average nominal USD GDP of Sri Lanka for 2025-2027 is USD 107 billion or more, then the highest adjustment scenario kicks in. Under this, the face value of the MLBs rises by USD 1.2 billion to USD 7.4 billion, and the coupon payments payable across the 2028-2038 period rise by about USD 1 billion.

At the moment, reaching this highest adjustment scenario appears to be likely given the USD 108 billion nominal GDP value recorded for 2025. Despite the currency depreciation so far in 2026, the LKR 36 trillion nominal GDP expected by MoF for 2026 would be equivalent to around USD 109 billion even at LKR 330/USD. The LKR 39 trillion nominal GDP expected by MoF for 2027 would be equivalent to around USD 111 billion even at LKR 350/USD. A much sharper depreciation of the currency would be needed to push the USD GDP below the USD 107 billion average for 2025-2027.

Figure 6.9: Repayments on MLBs based on GDP based Adjustment Scenarios



Source: Calculated based on MLB bond information

Annex 1 – Budget Estimates – Budget Speech 2027

Table A1.1: Budget Estimates, 2025–2027 (LKR billion and % of GDP)

Item	2025 (Provisional)	2026 Revised Estimates	2027 Budget	2027 Budget (With Supplementary)
LKR billion				
Total Revenue and Grants	**5,486**	**5,981**	**6,180**	**6,180**
Total Revenue	**5,449**	**5,951**	**6,150**	**6,150**
Tax Revenue	**5,049**	**5,478**	**5,687**	**5,687**
Income Tax	1,139	1,311	1,341	1,341
Taxes on Goods and Services	3,198	3,454	3,592	3,592
Taxes on External Trade	712	713	754	754
Non-Tax Revenue	**400**	**473**	**463**	**463**
Grants	**36**	**30**	**30**	**30**
Total Expenditure	**6,230**	**7,309**	**7,673**	**7,933**
Primary Expenditure	**3,729**	**4,692**	**5,030**	**5,290**
Recurrent	**5,232**	**5,848**	**5,934**	**5,944**
Salaries and Wages	1,164	1,289	1,410	1,410
Other Goods and Services	335	370	409	409
Interest	2,501	2,617	2,643	2,643
Subsidies and Transfers	1,233	1,572	1,472	1,482
Public Investment	**1,016**	**1,480**	**1,750**	**2,000**
Other	**(18)**	**(19)**	**(11)**	**(11)**
Revenue Surplus (+)/Deficit (-)	217	103	216	206
Primary Surplus (+)/Deficit (-)	1,756	1,289	1,150	890
Budget Surplus (+)/Deficit (-)	**(745)**	**(1,328)**	**(1,493)**	**(1,753)**
Total Financing	**745**	**1,328**	**1,493**	**1,753**
Total Foreign Financing	**142**	**200**	**110**	**110**
Foreign Borrowings-Gross	567	700	700	700
Debt Repayment	(424)	(500)	(590)	(590)
Total Domestic Financing	**602**	**1,128**	**1,383**	**1,643**
Non-Bank Borrowings (Net)	496	1,128	1,383	1,383
Bank Borrowings and Other (Net)	106	-	-	260
% of GDP				
Total Revenue and Grants/GDP (%)	16.7	16.6	15.8	15.8
Total Revenue/GDP (%)	16.6	16.5	15.8	15.8

Item	2025 (Provisional)	2026 Revised Estimates	2027 Budget	2027 Budget (With Supplementary)
Tax Revenue/GDP (%)	15.4	15.2	14.6	14.6
Non Tax Revenue/GDP (%)	1.2	1.3	1.2	1.2
Grants/GDP (%)	0.1	0.1	0.1	0.1
Total Expenditure/GDP (%)	19.0	20.3	19.7	20.3
Primary Expenditure/GDP (%)	11.4	13.0	12.9	13.6
Recurrent Expenditure/GDP (%)	16.0	16.2	15.2	15.2
Interest/GDP (%)	7.6	7.3	6.8	6.8
Public Investment/GDP (%)	3.1	4.1	4.5	5.1
Primary Surplus (+)/Deficit (-) GDP (%)	5.4	3.6	2.9	2.3
Budget Surplus (+)/Deficit (-) GDP (%)	(2.3)	(3.7)	(3.8)	(4.5)

Annex 2 – Analysis of Pension Expenditure

1. Pension Structure in Sri Lanka

1.1 Historical Development

Sri Lanka's public pension system has its roots in the colonial civil service. Although the rules on retirement age, qualifying service and pension adjustments have been refined over time, the underlying model has remained the same: a defined-benefit pension promised by the State, financed from annual budget provisions and based on length of service and final salary. Contributions from public sector employees only account for the Widows'/Widowers' & Orphans' Pension (W&OP) portion of the pension to support dependents of public sector employees on their demise.

In contrast, private-sector workers were placed under separate defined-contribution savings schemes: the Employees' Provident Fund (EPF), created under Act No. 15 of 1958, and the Employees' Trust Fund (ETF), introduced under Act No. 46 of 1980, based on employee and employer contributions, with no government contributions. However, the EPF and ETF funds are predominantly invested in government securities, helping fund the fiscal deficit, which in effect means private sector mandatory retirement savings help fund the public sector pension payments.

1.2 The Current Pension System

1.2.1 Public Service Pension Scheme (PSPS)

The PSPS covers permanent central and provincial public servants, the armed forces and the police. State university staff and CBSL belong to separate pension funds and are excluded from this study. The core pension is accompanied by two adjunct benefits:

1. **Widows'/Widowers' & Orphans' Pension (W&OP):** a survivor pension paid to the spouse and dependent children of a deceased officer or pensioner. Employees contribute 8% of their salary from April 2024 (previously 6% or 7%). These contributions are recorded in department revenue account and hence are considered as revenue to the Treasury's consolidated fund for general expenditure, rather than held in a separate invested fund.
2. **Gratuity:** a lump-sum payment at retirement, based on salary and years of service.

The amount of the pension paid depends on years of service, pensionable salary and the type of retirement.

1.2.2 The 2003 Contributory Pension Initiative and its 2006 Reversal

In 2003, the then government introduced a contributory pension scheme for public servants recruited on or after 1 January 2003 (DMS Circular No. 18 of 5 May 2003), under which they contributed 8% of their salary. The scheme was abolished in December 2006 (DMS Circular No. 32), and the non-contributory scheme was restored for these employees.

1.2.3 Private and Semi-Government Sector: EPF and ETF

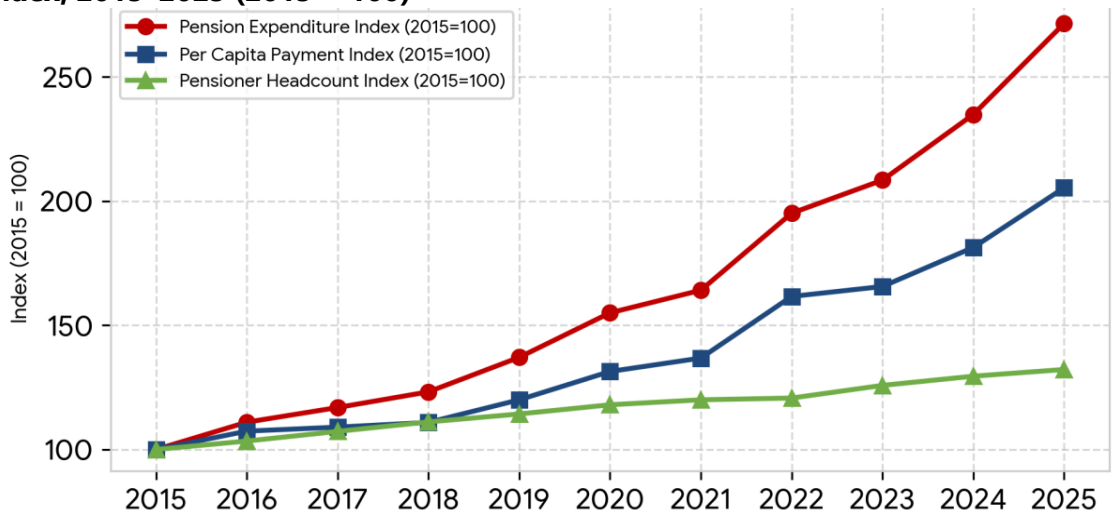
Employees outside the PSPS are covered by two defined-contribution schemes: the Employees' Provident Fund (EPF), to which employees contribute 8% and employers 12% of monthly earnings, and the Employees' Trust Fund (ETF), to which employers contribute 3%. EPF benefits are generally paid as a lump sum at age 55 for men and 50 for women, so they may not provide a regular income in old age if the lump sum is spent away.

2. Pension Expenditure Trends, 2015–2025

2.1 Number of Pensioners and Pension Expenditure

Between 2015 and 2025, pension expenditure increased from LKR 147.8 billion to LKR 401.1 billion (171.4%), while the number of pensioners increased from 560,499 to 740,881 (32.2%). As a result, the average payment per pensioner rose by 105.3%, from LKR 263,631 to LKR 541,316 a year (Figure A2.1). Expenditure growth was therefore driven mainly by higher payments per pensioner, linked to pension revisions, new allowances and the recalculation of pensions after salary revisions, rather than by a larger number of pensioners.

Figure A2.1: Pension Expenditure, Number of Pensioners and Per Capita Payment Index, 2015–2025 (2015 = 100)



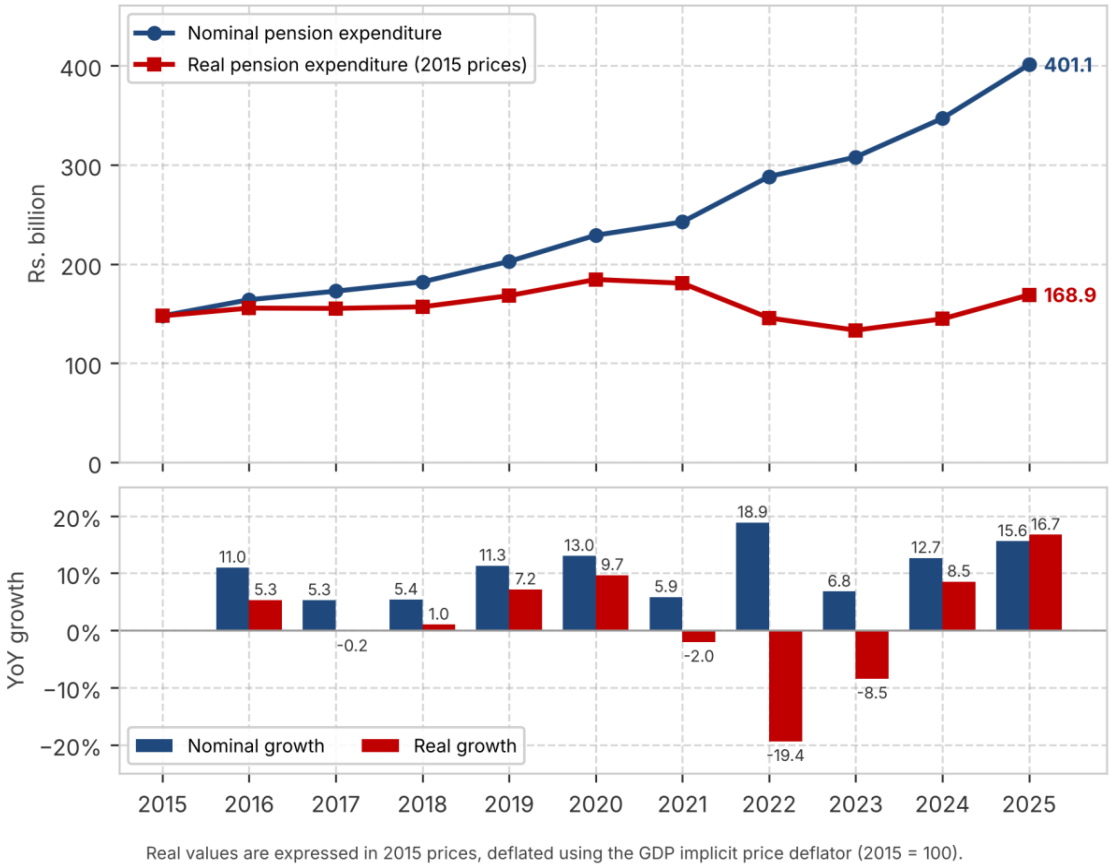
Source: Calculations using Department of Pensions data

Annual growth in pension expenditure was uneven. It was higher in years when pension revisions or new allowances were introduced: 11.0% in 2016 (2015 pension revision), 11.3% in 2019 and 13.0% in 2020 (2019 pension revision), 18.9% in 2022 (LKR 5,000 monthly allowance), 12.7% in 2024 (higher cost-of-living allowance and LKR 3,000 interim allowance), and 15.6% in 2025 (pension revision following the 2025 salary revision). In years without such measures, growth was about 5–7%.

2.2 Nominal Versus Real Expenditure

After adjusting for price changes using the GDP implicit price deflator (2015 prices), total real pension expenditure rose by only 14.3%, from LKR 147.8 billion in 2015 to LKR 168.9 billion in 2025, compared with 171.4% expansion in nominal terms (Figure A2.2). This reflects the impact of inflation, eroding the real purchasing capacity of the pensions paid and why there are regular protests and lobbying by pensioners for increases in their pensions. Real expenditure fell by 19.4% in 2022 and 8.5% in 2023 because of high inflation, before recovering by 8.5% in 2024 and 16.7% in 2025.

Figure A2.2: Total Pension Expenditure, Nominal and Real, 2015–2025

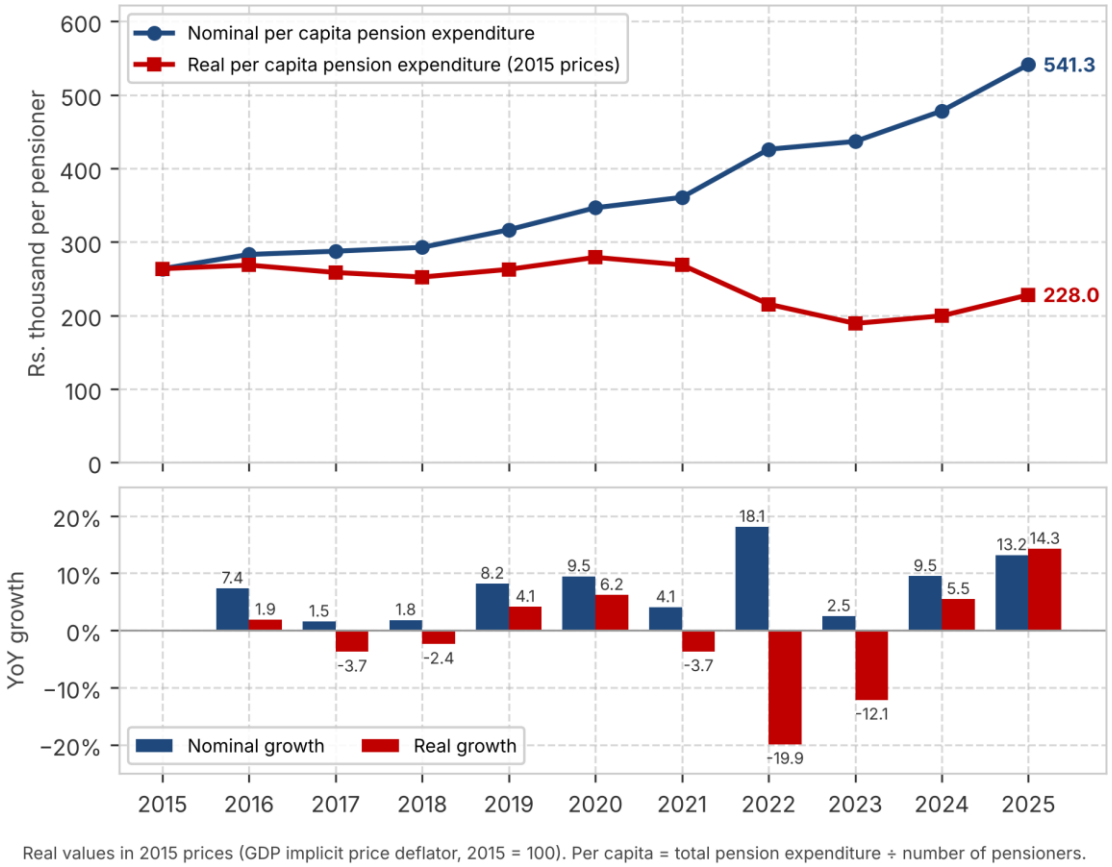


Source: Calculated using Department of Pensions data and GDP implicit price deflator (2015 = 100).

Per capita pension expenditure (average annual payment per pensioner) increased from LKR 263,631 in 2015 (about LKR 21,970 a month) to LKR 541,316 in 2025 (about LKR 45,110 a month), an increase of 105.3% in nominal terms. In real terms, however, it fell by 13.5%, from LKR 263,631 to LKR 228,018 a year at 2015 prices (Figure A2.3). The real value remained broadly stable until 2021, fell by 19.9% in 2022 and 12.1% in 2023, and then recovered by 5.5% in 2024 and 14.3% in 2025, while remaining below its 2015 level. This shows that the increase in average pension payments in recent years mainly compensated for rising prices rather than increasing the real value of pensions.

The Treasury is gradually adjusting the pensions of older pensioners to bring them closer to the pensions received by recent pensioners. By 2027, the ongoing phased increase in pensions brings the baseline pension for older pensioners up to a baseline based on 2020 basic salaries. Future adjustments over the next 5-8 years will be needed to take them to the 2025 baseline. These are done gradually to avoid a sudden jump in pension costs, taking advantage of expanding fiscal space over time.

Figure A2.3: Per Capita Pension Expenditure, Nominal and Real, 2015–2025



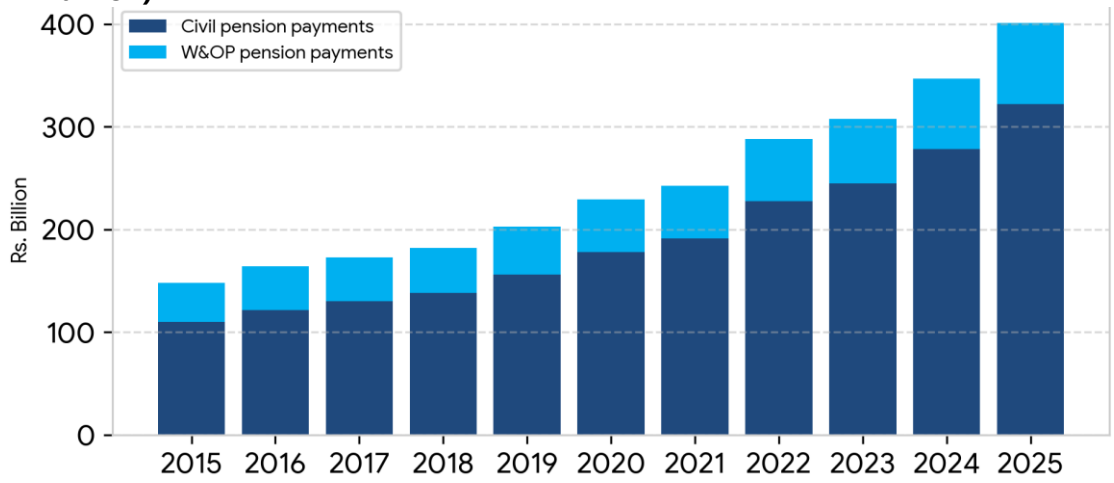
Real values in 2015 prices (GDP implicit price deflator, 2015 = 100). Per capita = total pension expenditure ÷ number of pensioners.

Note: Per capita pension expenditure = total pension expenditure ÷ number of pensioners, including W&OP beneficiaries.

2.3 Composition of Pension Expenditure: Civil and W&OP Pensions

Total pension expenditure consists of civil pensions, paid to retired officers, and W&OP pensions, paid to surviving spouses and children (Figure A2.4). Civil pension payments grew by 192.2%, from LKR 110.3 billion in 2015 to LKR 322.2 billion in 2025, while W&OP payments grew by 110.3%, from LKR 37.5 billion to LKR 78.8 billion. As a result, the W&OP share of total pension expenditure declined from 25.4% to 19.7%.

Figure A2.4: Total Pension Expenditure by Component, Civil and W&OP, 2015–2025 (LKR billion)



Source: Department of Pensions, Payment Data.

W&OP Contributions and Net Pension Cost

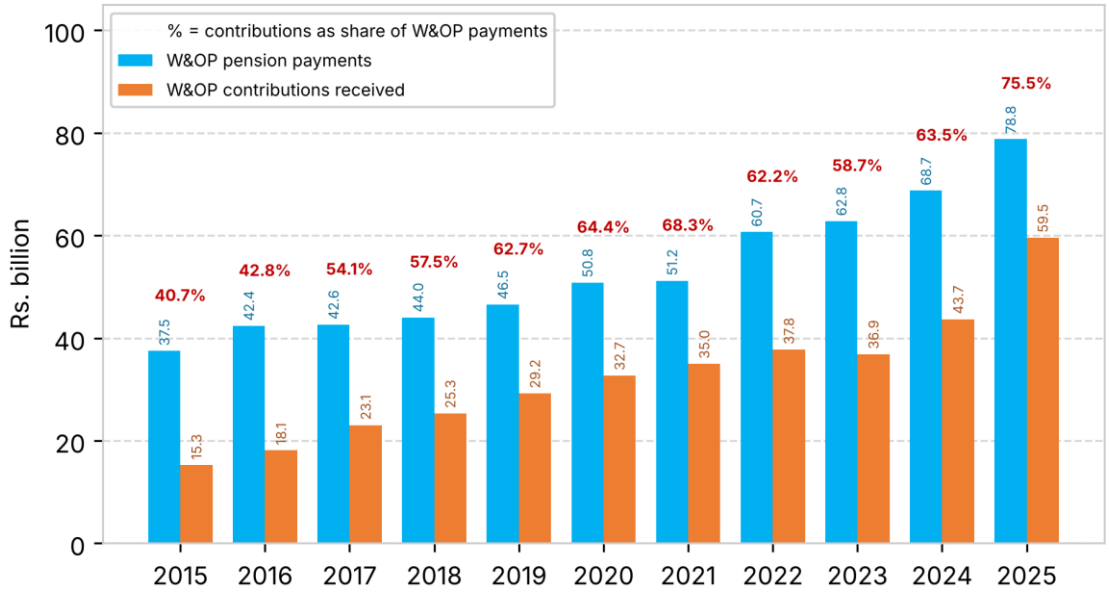
W&OP contributions received increased from LKR 15.3 billion in 2015 to LKR 59.5 billion in 2025 (Table A2.1). They covered 40.7% of W&OP pension payments in 2015 and 75.5% in 2025 (Figure A2.5), but only 10–15% of total pension expenditure in each year. The rest of the pension bill was met from general government revenue. The net pension cost, calculated as total pension expenditure minus W&OP contributions received, increased from LKR 132.5 billion in 2015 to LKR 341.5 billion in 2025, an increase of 157.8% (Table A2.1). The largest annual increase was 20.7% in 2022, while the increase was 11.9% in 2024 and 12.6% in 2025.

Table A2.1: Pension Expenditure, W&OP Contributions and Net Pension Cost, 2015–2025

Year	Total Pension Exp. (LKR bn)	W&OP Pension Payments (LKR bn)	W&OP Contrib. Received (LKR bn)	Contrib. as % of W&OP Payments	Contrib. as % of Total Pension	Net Pension Cost (LKR bn)	Growth of Net Cost (%)
2015	147.8	37.5	15.3	40.7	10.3	132.5	–
2016	164.0	42.4	18.1	42.8	11.1	145.9	10.1
2017	172.7	42.6	23.1	54.1	13.3	149.7	2.6
2018	182.0	44.0	25.3	57.5	13.9	156.7	4.7
2019	202.6	46.5	29.2	62.7	14.4	173.5	10.7
2020	229.1	50.8	32.7	64.4	14.3	196.4	13.2
2021	242.5	51.2	35.0	68.3	14.4	207.5	5.7
2022	288.3	60.7	37.8	62.2	13.1	250.5	20.7
2023	307.9	62.8	36.9	58.7	12.0	271.0	8.2
2024	346.9	68.7	43.7	63.5	12.6	303.2	11.9
2025	401.1	78.8	59.5	75.5	14.8	341.5	12.6

Source: Calculated using Department of Pensions data. Net pension cost = total pension expenditure − W&OP contributions received.

Figure A2.5: W&OP Pension Payments and W&OP Contributions Received, 2015–2025



Source: Calculated using Department of Pensions data. Percentages above the bars show W&OP contributions received as a share of W&OP pension payments.

2.4 Pension Expenditure and Government Finances

Pension expenditure remained broadly stable as a share of GDP (1.28% in 2015 and 1.22% in 2025) and of total government expenditure (6.45% and 6.44%, with a high of 7.53% in 2020) (Table A2.2). As a share of government revenue, it rose to 16.75% in 2020 and 16.64% in 2021, mainly because revenue fell, and then declined to 7.36% in 2025 as revenue recovered. Over the same period, salaries and wages declined as a share of GDP (from 4.9% to 3.5%), government expenditure (from 24.5% to 18.7%) and government revenue (from 38.6% to 21.4%). (Pension figures in this study exclude gratuity payments).

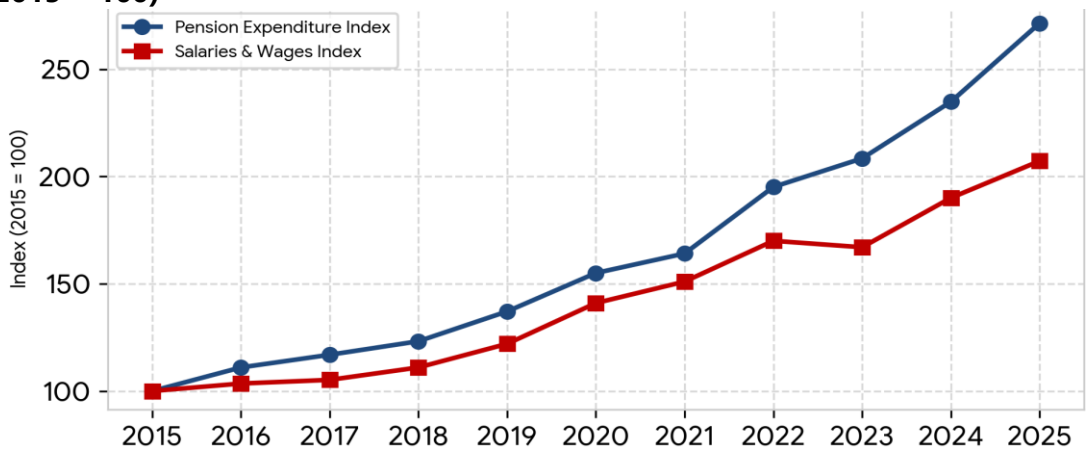
Table A2.2: Pension Expenditure and Salaries and Wages as a Share of GDP, Government Expenditure and Revenue, 2015–2025

Year	Pension % of GDP	Pension % of Gov. Exp.	Pension % of Gov. Rev.	Salary % of GDP	Salary % of Gov. Exp.	Salary % of Gov. Rev.
2015	1.3%	6.5%	10.2%	4.9%	24.5%	38.6%
2016	1.3%	7.0%	9.7%	4.5%	24.7%	34.2%
2017	1.2%	6.7%	9.4%	4.1%	22.9%	32.1%
2018	1.3%	6.8%	9.5%	4.1%	23.3%	32.6%
2019	1.3%	6.1%	10.7%	4.3%	20.6%	36.3%
2020	1.5%	7.5%	16.8%	5.1%	26.1%	58.1%
2021	1.4%	6.9%	16.6%	4.8%	24.0%	58.0%
2022	1.2%	6.5%	14.6%	4.0%	21.4%	48.3%
2023	1.1%	5.8%	10.1%	3.4%	17.5%	30.8%
2024	1.2%	5.7%	8.6%	3.5%	17.4%	26.5%
2025	1.2%	6.4%	7.4%	3.5%	18.7%	21.4%

Source: Calculated using Department of Pensions data.

Pension expenditure grew faster than salaries and wages. By 2025, the pension expenditure index had reached 271, compared with 207 for the salaries and wages index (2015 = 100) (Figure A2.6). The gap widened after 2022, meaning that the Government's commitment to retired employees is growing relative to its spending on the current workforce.

Figure A2.6: Pension Expenditure Index and Salaries and Wages Index, 2015–2025 (2015 = 100)

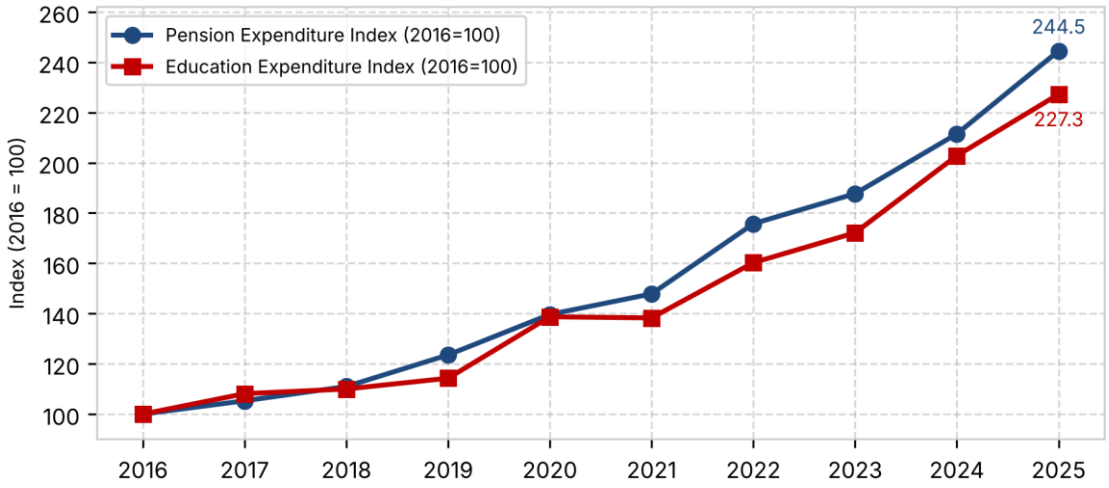


Source: Calculated using Department of Pensions, Payment Data.

2.4.1 Pension Expenditure Index versus Education Expenditure Index

Pension expenditure also grew faster than government spending on education between 2016 and 2025 (Figure A2.7). With 2016 as the base year, the pension expenditure index reached 244.5 in 2025, compared with 227.3 for education expenditure by central government and provincial councils. The two indices were almost equal in 2020 (139.7 and 138.7), but the gap widened from 2021, reaching 17.2 points by 2025. In 2025, pension expenditure was equal to 1.22% of GDP and 6.44% of total government expenditure, close to the 1.29% and 6.79% spent on education.

Figure A2.7: Pension and Education Expenditure Index, 2016–2025 (2016 = 100)



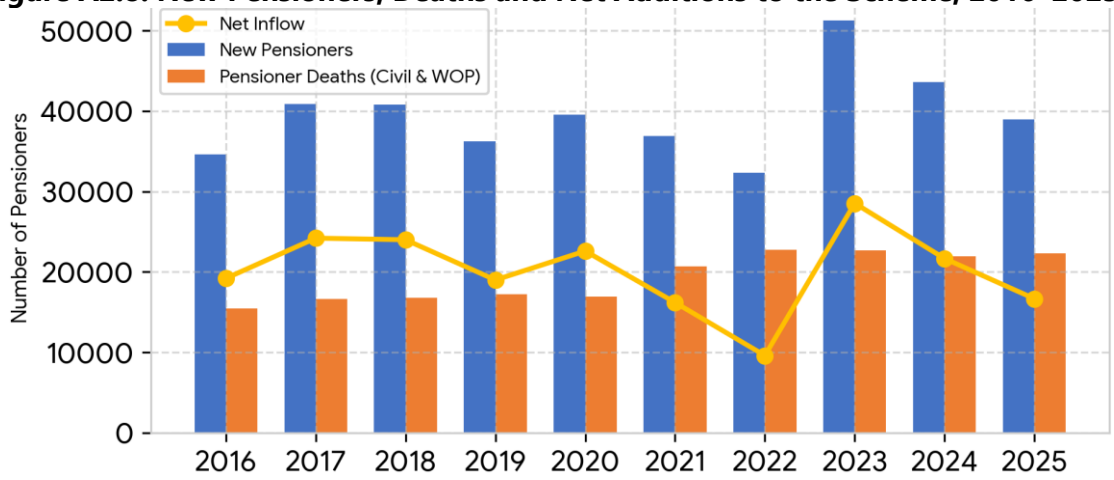
Note: Education expenditure covers central government and provincial councils. Education data for 2015 are not available.

2.5 Net New Pensioners Entering the Scheme, 2016–2025

The number of new pensioners varied mainly because of changes in the retirement age (Figure A2.8). When the retirement age was temporarily raised to 65 in January 2022, new pensioners fell to 32,342 and net additions fell to a decade-low 9,602. After the retirement age was returned to 60 in August 2022, the resulting backlog raised new pensioners to 51,249 and net additions to 28,537 in 2023, both the highest in the decade. Net additions then declined to 16,667 in 2025.

The deaths shown in Figure A2.8 include both retired pensioners and W&OP beneficiaries, and the two have different effects on the pension payroll. When a retired pensioner dies, the pension does not end. It may continue to the eligible spouse or dependent children as a W&OP pension. When a W&OP beneficiary dies, the payment ends completely. In 2025, 14,294 of the 22,275 recorded deaths were civil pensioners and 7,981 were W&OP beneficiaries. A recorded death is therefore not always a full exit from the pension payroll.

Figure A2.8: New Pensioners, Deaths and Net Additions to the Scheme, 2016–2025



Source: Author's calculations using Department of Pensions, Payment Database.

2.6 Demographic Change Among Pensioners

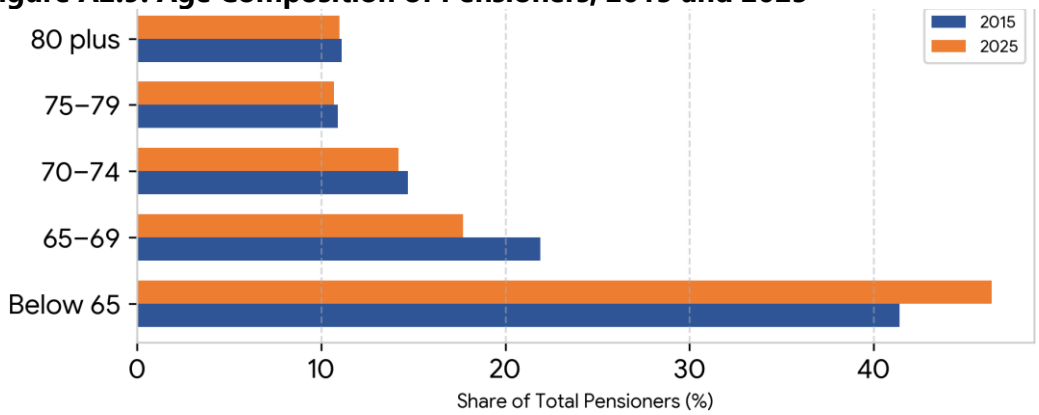
Over the 2015 to 2025 period the overall pensioner cohort became younger as more new pensioners joined (Table A2.3 and Figure A2.9). The share of pensioners below age 65 rose from 41.4% in 2015 to 46.4% in 2025, and their number increased by 117.2%, the highest growth of any age group. This may partly reflect voluntary retirement after about 20 years of service and the early retirement of Armed Forces personnel relative to the rest of the public sector.

Table A2.3: Age Composition of Pensioners, 2015–2025

Age band	Share 2015	Share 2025	Change (pp)
Below 65	41.4%	46.4%	+5.0
65–69	21.9%	17.7%	−4.1
70–74	14.7%	14.2%	−0.6
75–79	10.9%	10.7%	−0.2
80 and above	11.1%	11.0%	−0.1

Note: Cases with a missing date of birth are excluded from the percentage share calculation.

Figure A2.9: Age Composition of Pensioners, 2015 and 2025



Source: Author's calculations using Department of Pensions, Payment Database.

2.7 Retirement Age and Indicative Pension Payment Duration

In 2025, the average retirement age was 60 years for civil pensioners and 43 years for Armed Forces pensioners (Table A2.4). Compared with the national life expectancy of 77.85 years, this indicates that civil pensioners may receive a pension for about 18 years on average after retirement, while Forces pensioners may receive one for about 35 years, which is 17 years longer when compared with the civil pensioner. The period is longer for women, whose life expectancy (80.90 years) is higher than that of men (74.65 years). Among civil pensioners, the indicative period is about 21 years for women and 15 years for men. Among Forces pensioners, it is about 38 years for women and 32 years for men. However, it is possible that public pensioners also live for longer on average than the average Sri Lankan due to the regular income received and other factors, which means the pension period can be longer than what national life expectancy indicates.

Table A2.4: Retirement Age, Life Expectancy and Indicative Years after Retirement, 2025

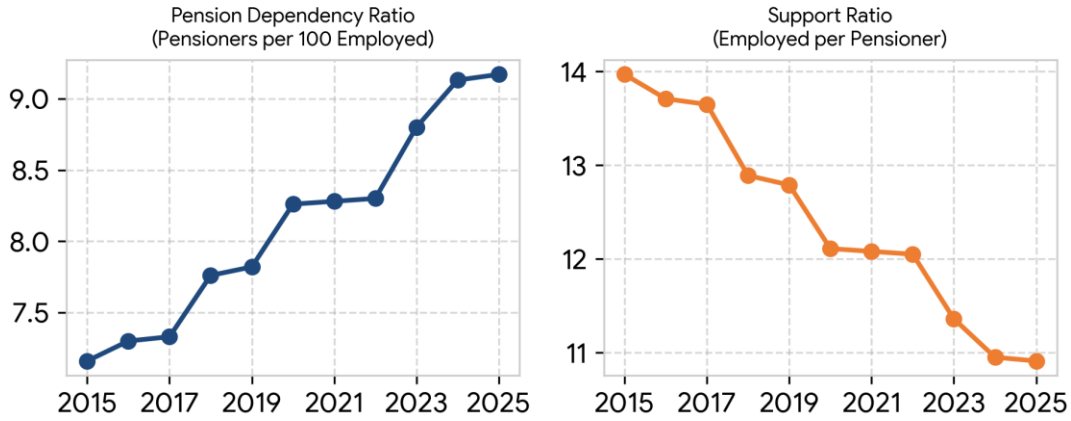
Indicator	Civil	Forces	Civil – Male	Civil – Female	Forces – Male	Forces – Female
Average retirement age	60	43	60	60	43	43
Life expectancy	77.85	77.85	74.65	80.90	74.65	80.90
Indicative years after retirement	17.85	34.85	14.65	20.90	31.65	37.90

Note: Figures are in years. Life expectancy figures are general population benchmarks. Indicative years after retirement = life expectancy − average retirement age.

2.8 Pension Dependency Ratio

The pension dependency ratio looks at the proportion of pensioners to employed people in the economy. This ratio increased from 7.16 pensioners per 100 employed persons in 2015 to 9.17 in 2025 (Figure A2.10). Correspondingly, the support ratio fell from 13.97 to 10.91 employed persons per pensioner, meaning that fewer employed persons are available to support each pensioner.

Figure A2.10: Pension Dependency Ratio and Support Ratio, 2015–2025



Note: The pension dependency ratio was calculated using the total employed population as the denominator. For this calculation, it is assumed that employed persons represent the population contributing to government tax revenue.

Annex 3 – Analysis of Constraints in Public Procurement

Sri Lanka has **no standalone Public Procurement Act** after roughly three decades of reform attempts. Procurement is governed by the Procurement Guidelines 2024 (in force from 1 January 2025) and the Procurement Manual 2024, issued by the National Procurement Commission (NPC) under Article 156C(1) of the Constitution. The NPC itself did not legally exist between October 2020 and October 2022. There is no central purchasing agency: buying is decentralised to ministries, departments and agencies through five tiers of procurement committees, and the Total Cost Estimate (including VAT) decides which committee handles a contract and who approves the award (Figure A3.1). The committee determines; only the approving authority awards. A procurement law has been an IMF programme commitment since September 2023; it was targeted for December 2024 and then August 2026, and has not been enacted.

Figure A3.1: Procurement committee ladder (award limits in LKR Mn, Total Cost Estimate incl. VAT)

Committee (higher value at the top)	GoSL-funded	Foreign-funded	Approves award	Appeals go to
HLPC High-Level Procurement Committee (formerly CAPC): largest contracts. Appointed by the Secretary to the Treasury with NPC concurrence	**> 750**	> 1,500	Cabinet of Ministers	Procurement Appeal Board
SHLPC Standing HLPC: recurring high-value buys such as fertiliser, petroleum, defence and emergencies	**> 750**	> 1,500	Cabinet of Ministers	Procurement Appeal Board
MPC Ministry Procurement Committee: mid-range contracts. Appointed annually by the CAO	**≤ 750**	≤ 1,500	Chief Accounting Officer	Ministry Appeal Committee
DPC / PPC Department / Project Procurement Committee. Appointed by the CAO each financial year	**≤ 400**	≤ 800	Chief Accounting Officer	DPAC / PPAC
RPC Regional Procurement Committee: smallest, local contracts. Set up by the CAO or head of institution	**≤ 50**	≤ 100	Accounting Officer	RPAC

A Bid Evaluation Committee is mandatory for HLPC/SHLPC. If every bid exceeds a committee's limit, the case moves up one level. CAO: Chief Accounting Officer; AO: Accounting Officer; DPAC/PPAC/RPAC: Department, Project and Regional Procurement Appeal Committees. Source: Procurement Guidelines and Manual 2024.

1. Issues that delay public expenditure

1.1 Capital budgets and donor funds go unspent

The ADB reports that capital spending averaged about 3.0% of GDP in 2022–25, against a usual 5–6%[21]. The Government hopes to use the full LKR 2,000 bn of capital spending planned for 2027 after adjusting procurement cycles[22]. The Department of Project Management and Monitoring attributes the shortfall to procurement-related delays, poor contractor performance and changes in project scope or design. Analysts add bureaucratic delays, procurement disputes, politicised project selection and weak technical skills in line ministries, and warn that under-spending lowers growth potential and signals to partners that the state cannot absorb capital.

1.2 Procurement delays are rising again on mega projects

Procurement-process delays slowed 22 of the 210 mega-scale projects in 2026 Q2. The number of projects affected fell sharply from 34 in 2025 Q1 to 9 in 2025 Q2, but has climbed back in every quarter since.

Table A3.1: Mega-scale projects with procurement-related delays, by quarter

Quarter	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
No. of projects	16	16	**24**	**26**	**34**	9	16	17	18	**22**

Source: Progress of Mega Scale Development Projects, Department of Project Management and Monitoring.

1.3 Late planning, failed tenders and re-tendering

- **Needs identified late.** National Budget Circular 02/2026 notes that procurement needs are often identified late in the financial year, leaving allocations under-used. Until 2026, procurement generally could not start until the Budget was passed, compressing the time left to award and execute.
- **Cancelled and failed tenders.** Of 1,531 large procurements (LKR 200 Mn and above) tracked across 10 institutions in 2022 to 2026 H1, only 938 (61.3%) were awarded[23]. In 2022–24, 388 were cancelled, including 162 at Ceylon Petroleum Corporation and 129 in the water sector. Each cancellation restarts a cycle that takes months.
- **Award rates have improved but remain uneven.** The overall award rate rose from 49.1% in 2022–24 to about 83% in 2025 and 2026 H1.

[21] Daily Mirror, ADB outlook on capital spending: dailymirror.lk

[22] EconomyNext, Rs. 2,000 bn capital spending, 10 Nov 2026: economynext.com

[23] Report 05 – Publication of Procurement Information under the Governance Action Plan (IMF), Jan 2022 – Jun 2026 (report date 1 Aug 2026).

- **Slow, layered decisions.** Each award passes through evaluation, committee determination, approval, an intention-to-award notice, a standstill and a possible appeal. Inconsistencies between the Guidelines and the Manual (on when bidders are told, the length of the standstill and the Appeal Board's reporting line) create uncertainty that officials tend to resolve by waiting.

Table A3.2: Award rate of large procurements (LKR 200 Mn and above), selected institutions

Institution / Ministry	2022–24	2025	2026 H1
Ceylon Petroleum Corporation	38.3%	90.7%	85.7%
Lanka Coal Limited	36.4%	100.0%	100.0%
Education, Higher Education and Vocational Education	87.5%	100.0%	66.7%
Transport, Highways, Ports and Civil Aviation (incl. SLPA)	97.7%	89.9%	92.4%
SriLankan Airlines	81.3%	45.7%	70.0%
Health Sector	53.6%	89.7%	67.3%
Water Sector (Urban Development, Construction and Housing)	23.2%	88.9%	100.0%
All 10 monitored institutions	**49.1%**	**83.5%**	**83.0%**

Source: IMF Governance Action Plan procurement publication, Report 05 (January 2022 to June 2026).

2. Issues that erode value for money

2.1 Delay itself adds cost

When a project is held up, contractors can claim compensation for the delay, and a weaker rupee pushes estimates up. Work left idle on site deteriorates and must be restored, and compensation grows with every extra day.

2.2 Price movements after contracts are signed

By end-October 2026 the rupee had depreciated 6.8% against the US dollar since the start of the year, and building material prices had also risen. Fixed-price or poorly indexed contracts expose contractors to sharp input-cost shocks from fuel, imports and wages. When margins disappear, work slows, sites are abandoned or price-variation disputes go to court. Relief granted afterwards (PFC 03/2026) may itself be unfunded: approved retrospective price adjustments can exceed existing capital provisions.

2.3 Lowest price without quality checks

Audit findings show recurring weaknesses: supply gaps while procurement is delayed, suppliers selected before their registration is complete, and quality testing by laboratories that are not properly licensed. The audit of pharmaceuticals found LKR 344.23 Mn of defective or expired drugs. Choosing the cheapest bid without verifying quality is not the cheapest outcome; the Guidelines themselves note that the lowest evaluated bid is not always the lowest price.

2.4 Weak supplier confidence and irregular channels

Delayed payments and unpredictable procurement cycles deter registered, high-quality suppliers from bidding, while arrears to foreign vendors have tightened supply and credit lines.

Under pressure, procuring entities turn to irregular or unsolicited channels, leading to unverified transactions with unregistered suppliers that are later challenged or rejected by the courts. In sensitive sectors such as health, multi-year framework contracts with annual call-offs for items with stable demand would reduce this risk.

2.5 Procurement failures that reduce revenue

Weak procurement also shrinks what the Government collects. Where revenue-assurance systems are procured on poor contract terms or weak technical evaluation, non-compliant vendors operate, verification technology is deployed late and monitoring gaps open. The excise security stamp on alcoholic beverages is an example: unverified products can enter the supply chain without paying excise duty or VAT.

3. Underlying structural weaknesses

- **No primary law.** The World Bank (2003), ADB (2013) and IMF (2023) all flagged the missing Act; the IMF said it creates ambiguity in the legal framework. Rules change through circulars and gazettes rather than Parliament.
- **A regulator without capacity.** At end-2025, 30 of the NPC's 60 approved posts (50%) were vacant, 48 of 135 complaints were still under investigation, and procuring entities had not set up the Procurement Management Divisions required by the 2024 Guidelines[24].
- **Appeals that only advise.** Only an unsuccessful bidder can appeal, appeal bodies recommend while the approving authority decides, there is no automatic stay or second tier, and no Procurement Appeal Board reappointment has been found after 2014. This falls short of the UNCITRAL Model Law and of practice in the UK and Australia, and weakens deterrence against poor awards.

- **e-Procurement does not reach large contracts.** promise.lk has handled 80,390 e-procurements worth LKR 41.9 bn since 2020, but runs fully online only for shopping-method goods (up to LKR 25 Mn at ministry level). Competitive bidding, where most value and risk lie, is planned only for 2027.
- **Unclear frameworks.** Rules for state banks, the Tri-Forces and Ministry of Defence, foreign-funded projects that conflict with donor rules, diplomatic missions, state universities, Lanka Sathosa, consultancy services and non-consumable medical equipment need clarification.

4. Measures taken in 2026

- **Price relief (PFC 03/2026 and 03/2026 (i)):** retrospective price adjustment for works, goods and services hit by the Middle East conflict and Cyclone Ditwah, using CIDA formulas or published indices.
- **Transparency (PFC 04/2026):** beneficial ownership disclosure, including PEP status, for Ditwah contracts above LKR 20 Mn, with awards published on promise.lk and semi-annual reports.
- **Advance procurement (PFC 01/2026):** entities may proceed up to the award stage before budget allocations, with no contract signed until provision is confirmed under FR 136(3). Cabinet has extended advance procurement to all ministries for the 2027 Budget.

[24] National Procurement Commission, Performance Report 2025.

- **Planning (NBC 02/2026):** budget requests must be tied to specific outputs and an Annual Proposed Procurement Plan.
- **Oversight and digital:** Parliament now refers COPE/COPA findings directly to CIABOC and the Attorney-General (23 cases on 21 July 2026); an Independent Appeal Committee for sanctions was approved on 8 June 2026; e-GP extends to national and international competitive bidding in 2027; and Budget 2027 proposes specific guidelines for procuring digital solutions in the first half of 2027.

Annex 4 – Fiscal Impact of SOEs[25]

The key SOEs moved from a pre-tax loss of LKR 774.6 bn in 2022 (3.2% of GDP) to profits of LKR 444–539 bn a year in 2023–2025, on the back of cost-reflective fuel and electricity pricing and the transfer of legacy debt to the Treasury. About LKR 1.6 trillion in SOE debt was absorbed directly or indirectly during 2022-2026. Profits are concentrated, with banking and finance earning 69% of the 2025 total. But the Treasury's cash return is small, with levies and dividends totalling LKR 230.5 bn over 2021–2025, against LKR 785.2 bn of budgetary support to the same SOEs.

Table A4.1: Fiscal footprint of SOEs, 2021 to 1H2026

LKR billion unless stated	2021	2022	2023	2024	2025	1H2026
Levies and dividends from SOEs	29.1	28.1	75.7	41.1	56.5	12.7
% of government revenue	2.0	1.4	2.5	1.0	1.0	0.4
Budgetary support to key SOEs (incl. equity)	84.1	127.9	281.7	187.6	103.8	82.0*
Net budget flow (receipts less support)	**-55.0**	**-99.8**	**-206.0**	**-146.5**	**-47.3**	**-69.3***
SOE debt absorbed or serviced by Treasury	-	1,195.3	228.8	121.9	38.1	39.2
Guarantees + letters of comfort to SOEs (end-period)	1,583	1,292	1,228	993	878	903
% of GDP	9.0	5.4	4.5	3.3	2.7	...
Profit/(loss) before tax, key SOEs	-97.8	-774.6	445.4	539.1	444.4	259.3
of which energy (CEB + CPC)	-116.0	-915.8	178.0	175.8	-2.3	30.6

** 1H2026 support covers items identified in the Mid-Year Report (fuel and electricity subsidies, equity, SLA funding, EPF/ETF arrears) and is not comparable with full-year totals. Guarantees for June 2026 include letters of comfort. Sources: MoF Annual Reports 2021–2025; CBSL AR2025 Tables 102 and 116; MYFR 2026.*

[25] This annex draws on the Ministry of Finance Annual Reports (Final Budget Position Reports) for 2021–2025, the Central Bank of Sri Lanka's 2025 fiscal statistical appendix and the Mid-Year Fiscal Position Report 2026. Profitability refers to the 52 key SOEs monitored by the Department of Public Enterprises (51 from 2025), using the latest revised figure for each year. Guarantee figures exclude a Treasury guarantee on the Central Bank's swap with the Reserve Bank of India, which is not an SOE exposure.

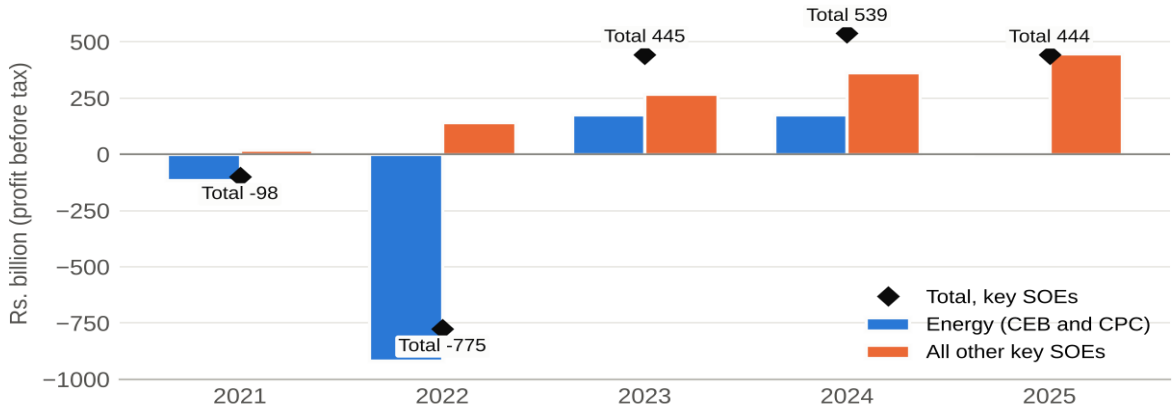
Profitability: a turnaround built on pricing and debt relief

The key SOEs lost LKR 97.8 bn in 2021 and LKR 774.6 bn in 2022, a loss equal to 3.2% of GDP. Energy accounted for all of it: CPC lost LKR 617.6 bn and CEB LKR 298.2 bn in 2022 as the rupee collapsed while fuel and electricity were sold below cost. SriLankan Airlines added LKR 239.2 bn of losses across 2021–2022. The sector returned to a profit of LKR 445.4 bn in 2023 and LKR 539.1 bn in 2024 after the fuel price formula (May 2022), cost-reflective electricity tariffs, rupee appreciation and the removal of legacy debt from SOE balance sheets (Figure A4.1).

Profits fell 17.6% to LKR 444.4 bn in 2025. The cause was policy, not demand: electricity tariffs were cut by 21.9% in March 2024, 22.5% in July 2024 and 20% in January 2025, and CEB swung from a LKR 141.6 bn profit to a LKR 38.7 bn loss despite a cost-recovery mechanism being in place. Excluding energy, SOE profits rose steadily from LKR 18.1 bn in 2021 to LKR 446.7 bn in 2025, but banking and finance alone earned LKR 304.8 bn (69% of the total) in 2025. The commercial non-financial SOEs outside energy and aviation earned only LKR 117.3 bn.

The quality of the turnaround is uneven. Part of it reflects losses being moved to the Treasury rather than eliminated: at end-2024 the Treasury's equity in CPC stood at LKR 912.6 bn against CPC net assets of LKR 69.3 bn, and its equity in CEB at LKR 991.4 bn against net assets of LKR 640.2 bn. SriLankan Airlines lost a cumulative LKR 266.1 bn over 2021–2025 and had negative equity of LKR 351.5 bn at end-June 2026 (Table A4.2).

Figure A4.1: Profit/(loss) before tax of key SOEs, energy vs all others (LKR bn)



Source: MoF Annual Reports 2022–2025, Table 8.1 (latest revision for each year).

Table A4.2: Profit/(loss) before tax of the largest SOEs (LKR bn)

Profit/(loss) before tax, LKR bn	2021	2022	2023	2024	2025	Total 2021–25	1H2026
Ceylon Petroleum Corporation	-81.8	-617.6	120.3	34.2	36.5	-508.4	29.2
Ceylon Electricity Board	-34.1	-298.2	57.6	141.6	-38.7	-171.8	1.5†
SriLankan Airlines (FY to March)	-165.9	-73.3	3.9	-7.6	-23.2	-266.1	-35.6†
Bank of Ceylon	43.2	31.0	40.3	106.9	120.8	342.2	62.7
Sri Lanka Ports Authority	25.6	57.0	40.4	46.3	57.3	226.6	34.5
People's Bank	30.4	21.3	15.3	41.6	64.4	173.1	32.6
Airport & Aviation Services	-1.0	6.4	33.6	28.7	33.7	101.4	24.9
National Water Supply & Drainage Board	-3.1	-2.7	5.2	23.8	31.6	54.9	16.2

† CEB 1H2026 covers 1 January–9 March 2026, before unbundling; SriLankan Airlines covers April–June 2026. Sources: MoF Annual Reports 2023–2025, Annexure 8.1; MYFR 2026 Table 3.2.

Revenue from SOEs: levies and dividends

Collections from SOEs rose from LKR 29.1 bn in 2021 to a peak of LKR 75.7 bn in 2023, fell to LKR 41.1 bn in 2024 and recovered to LKR 56.5 bn in 2025. In 1H2026 they were LKR 12.7 bn, against LKR 11.7 bn a year earlier. Because tax revenue grew much faster, their share of government revenue halved from 2.0% in 2021 to 1.0% in 2025.

Three features stand out. First, the special levy, not dividends, does the work: levies were 84% of 2025 receipts and dividends only LKR 9.2 bn. Second, the payout is small relative to profits, at 7.6% of SOE pre-tax profit in 2024 and 12.7% in 2025. Third, receipts are lumpy and concentrated. The Telecommunications Regulatory Commission, a regulator rather than a commercial enterprise, supplied between 22% and 47% of the total in 2021–2024, while the three state banks paid only LKR 0.4 bn in 2023 and nothing in 2024 as they rebuilt capital, before returning with LKR 13.1 bn (23%) in 2025. CPC paid its first levy, LKR 6.0 bn, in 2025.

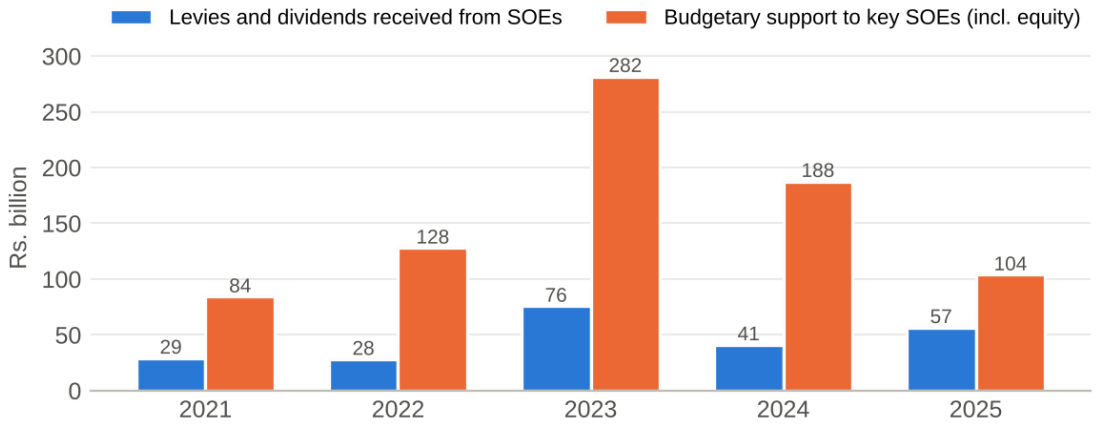
Transfers and support to SOEs

Budgetary support to the key SOEs recorded by the Department of Public Enterprises, including recurrent and capital transfers and equity contributions, was LKR 84.1 bn in 2021, LKR 127.9 bn in 2022, LKR 281.7 bn in 2023, LKR 187.6 bn in 2024 and LKR 103.8 bn in 2025, a cumulative LKR 785.2 bn (Figure A4.2).

The 2023 peak reflects the December 2023 settlement of cross-liabilities, which included LKR 126.3 bn of equity in CEB and LKR 102.5 bn in SriLankan Airlines to clear its dues to CPC. In 2024 the Treasury paid LKR 121.9 bn of interest subsidies to Bank of Ceylon and People's Bank for losses on the domestic restructuring of the CPC loan. Recurring equity calls come from NWSDB (LKR 45.1 bn in 2021, LKR 28.8 bn in 2024, LKR 45.6 bn in 2025) and SriLankan Airlines

(LKR 18.0 bn, LKR 9.8 bn and LKR 25.3 bn). In every year the Treasury paid out more than it received; the cumulative net drain over 2021–2025 was LKR 554.6 bn before counting any debt taken over.

Figure A4.2: Levies and dividends received vs budgetary support to key SOEs (LKR bn)



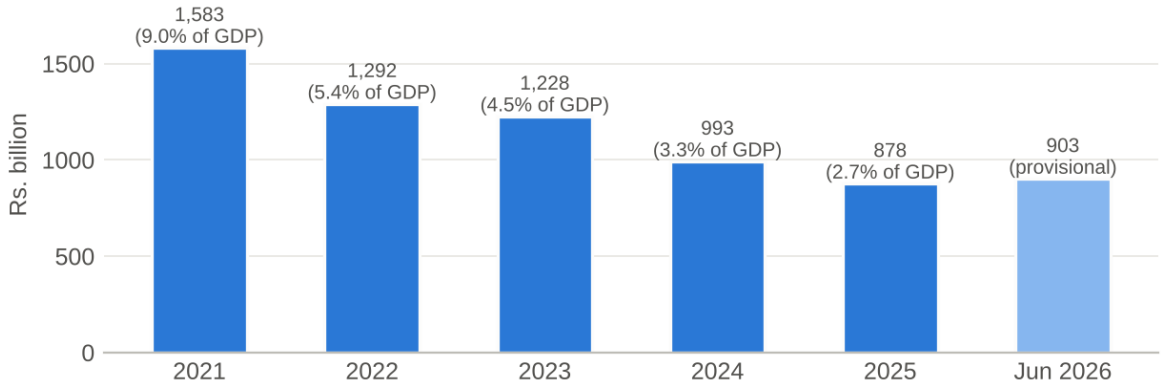
Sources: MoF AR2025 Table 8.2; Annexure 8.1 of MoF Annual Reports 2021–2025 (capital support including equity investments).

Treasury-guaranteed debt of SOEs

Treasury guarantees and letters of comfort to SOEs fell from LKR 1,583 bn (9.0% of GDP) at end-2021 to LKR 878 bn (2.7%) at end-2025 (Figure A4.3). The main driver was the absorption of CPC's guaranteed foreign-currency loans in December 2022. The Public Financial Management Act now caps all guarantees at 7.5% of average GDP.

The stock edged up to LKR 903 bn by June 2026, including a new LKR 20.5 bn guarantee for the electricity system operator. Exposure is concentrated: NWSDB (LKR 240.8 bn), RDA (LKR 200.1 bn), CEB and its successors (LKR 150.4 bn), CPC (LKR 100.3 bn) and AASL (LKR 67.4 bn) account for 84%. About half is in foreign currency, which leaves the stock exposed to the exchange rate. Guarantees are also starting to be called: the Treasury discharged LKR 18.1 bn in 2025.

Figure A4.3: Treasury guarantees and letters of comfort to SOEs, end-period (LKR bn)



Excludes the Treasury guarantee on the CBSL–RBI swap. Sources: MoF Annual Reports 2021–2025, Schedules I(a) and I(b); MYFR 2026 Table 4.4.

SOE debt absorbed by the Treasury

The single largest fiscal cost of SOEs in the period was the transfer of their debt to the Treasury of about LKR 1.6 trillion across 2022-2026 (Table A4.3). In December 2022 the government took over USD 2.44 bn of CPC's guaranteed loans (LKR 884.1 bn) and the non-guaranteed foreign project loans of CEB, SLPA and AASL (LKR 311.2 bn at end-2021) that had been transferred from the Treasury back in 2012-2014. This is more than five times the levies and dividends SOEs paid over 2021–2025. Some of the transfers were booked as additions to Treasury equity in CPC and CEB.

Table A4.3: SOE debt absorbed or serviced by the Treasury

When	SOE	Treasury action	LKR bn
Dec 2022	CPC	USD 2.44 bn of guaranteed FX loans from BoC and People's Bank moved to central government debt	884.1
Dec 2022	CEB, SLPA, AASL	Foreign project loans absorbed into central government debt (end-2021 stock)	311.2
Dec 2023	SLA, CPC, CEB	Cross-liabilities set off; equity to SLA and CEB to clear CPC dues – Treasury offset via recovery of India fuel import credit line from CPC	228.8
2024	BoC, People's Bank	Interest subsidy for losses on domestic restructuring of CPC loan	121.9
2025	SLA; others	Budget servicing of SLA legacy bank loans (LKR 20 bn) and guarantees called (LKR 18.1 bn)	38.1
Mar 2026	SLA	Restructured USD 175 mn bond (USD 126.5 mn) absorbed into government debt	39.2

Sources: MoF Annual Reports 2022–2025; CBSL AR2025 Table 116; MYFR 2026. The 2026 rupee value is estimated at the end-2025 exchange rate.

Developments in 2026

SOE profits rose to LKR 259.3 bn in 1H2026 from LKR 227.8 bn a year earlier, led by the state banks, ports and airports. The Middle East conflict reversed some gains in energy: the Treasury paid about LKR 57 bn in fuel subsidies in April–June 2026 (LKR 41 bn to CPC), with a further LKR 41 bn allocated for October–December 2026, and LKR 31 bn to the National System Operator.

CEB was unbundled into six state-owned companies on 9 March 2026, with about LKR 8 bn of Treasury equity to settle retirement liabilities (a further LKR 8.0 bn is reported for a voluntary retirement scheme). SriLankan Airlines lost LKR 35.6 bn in April–June 2026 alone, received USD 30 mn of short-term funding, and its restructured bond was moved onto the government's books. A dedicated SOE restructuring unit was set up in March 2026 and is liquidating 33 non-functional state-owned entities.

Annex 5 – PDMO Central Government External Debt Repayments, USD million

Table A5.1: PDMO Central Government External Debt Repayments, 2026–2035 (USD million)

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Bilateral	Agence Francaise De Dev.(France)	Principal Repayments	3.4	5.5	10.3	10.3	10.3	10.3	10.3	10.3	10.3	17.0
Bilateral	Agence Francaise De Dev.(France)	Interest Payments	3.1	5.3	5.0	4.7	4.4	4.0	3.7	3.4	3.1	2.8
Bilateral	**Agence Francaise De Dev.(France)**	**Total**	**6.5**	**10.8**	**15.3**	**15.0**	**14.7**	**14.4**	**14.0**	**13.7**	**13.4**	**19.7**
Bilateral	China Development Bank Corporation	Principal Repayments	-	-	18.4	18.4	24.5	24.5	24.5	24.5	49.0	49.0
Bilateral	China Development Bank Corporation	Interest Payments	12.4	12.4	12.4	17.9	17.3	16.6	15.9	23.6	22.2	19.8
Bilateral	**China Development Bank Corporation**	**Total**	**12.4**	**12.4**	**30.7**	**36.3**	**41.8**	**41.1**	**40.4**	**48.1**	**71.1**	**68.8**
Bilateral	Government of Canada	Principal Repayments	1.2	2.0	1.7	1.5	0.2	0.2	0.2	0.1	-	-
Bilateral	Government of Canada	Interest Payments	-	-	-	-	-	-	-	-	-	-
Bilateral	**Government of Canada**	**Total**	**1.2**	**2.0**	**1.7**	**1.5**	**0.2**	**0.2**	**0.2**	**0.1**	**-**	**-**
Bilateral	Government of Denmark	Principal Repayments	-	-	1.2	1.2	1.2	1.2	1.2	1.2	1.2	3.1
Bilateral	Government of Denmark	Interest Payments	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.6
Bilateral	**Government of Denmark**	**Total**	**0.8**	**0.8**	**2.0**	**2.0**	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**	**3.8**

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Bilateral	Government of France	Principal Repayments	-	-	8.7	8.7	8.7	8.7	8.7	9.0	8.7	23.1
Bilateral	Government of France	Interest Payments	12.8	5.2	5.2	5.0	4.8	4.7	4.5	4.4	4.2	4.0
Bilateral	**Government of France**	**Total**	**12.8**	**5.2**	**13.9**	**13.7**	**13.5**	**13.4**	**13.3**	**13.3**	**12.9**	**27.1**
Bilateral	Government of India	Principal Repayments	1.0	-	-	-	-	-	-	-	-	-
Bilateral	Government of India	Interest Payments	-	-	-	-	-	-	-	-	-	-
Bilateral	**Government of India**	**Total**	**1.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bilateral	Government of Japan	Principal Repayments	16.8	26.8	92.7	97.0	100.7	105.3	105.4	105.4	105.4	214.7
Bilateral	Government of Japan	Interest Payments	22.2	24.0	24.0	23.4	22.9	22.3	21.7	21.1	20.3	19.1
Bilateral	**Government of Japan**	**Total**	**38.9**	**50.8**	**116.7**	**120.4**	**123.6**	**127.5**	**127.2**	**126.5**	**125.8**	**233.8**
Bilateral	Government of Kuwait	Principal Repayments	1.5	4.6	4.6	4.6	3.2	3.2	4.9	4.9	4.9	4.9
Bilateral	Government of Kuwait	Interest Payments	0.7	1.8	1.9	1.9	2.0	1.9	1.9	1.8	1.7	1.7
Bilateral	**Government of Kuwait**	**Total**	**2.2**	**6.4**	**6.5**	**6.5**	**5.2**	**5.2**	**6.8**	**6.7**	**6.6**	**6.5**
Bilateral	Government of the Republic of Korea	Principal Repayments	0.2	0.3	7.8	8.0	8.0	8.5	9.0	9.0	9.0	21.9
Bilateral	Government of the Republic of Korea	Interest Payments	8.2	2.5	2.5	2.4	2.3	2.3	2.2	2.1	2.0	1.9
Bilateral	**Government of the Republic of Korea**	**Total**	**8.5**	**2.8**	**10.3**	**10.4**	**10.3**	**10.7**	**11.2**	**11.1**	**11.0**	**23.9**
Bilateral	Govt.of the Federal Republic of Germany	Principal Repayments	-	-	6.4	6.4	6.4	6.4	7.3	7.3	7.3	18.0

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Bilateral	Govt.of the Federal Republic of Germany	Interest Payments	0.8	1.8	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.5
Bilateral	**Govt.of the Federal Republic of Germany**	**Total**	**0.8**	**1.8**	**8.4**	**8.3**	**8.3**	**8.2**	**9.0**	**9.0**	**8.9**	**19.6**
Bilateral	Govt.of The People's Republic of China	Principal Repayments	3.3	4.7	4.1	4.1	4.1	4.1	4.1	-	-	-
Bilateral	Govt.of The People's Republic of China	Interest Payments	-	-	-	-	-	-	-	-	-	-
Bilateral	**Govt.of The People's Republic of China**	**Total**	**3.3**	**4.7**	**4.1**	**4.1**	**4.1**	**4.1**	**4.1**	**-**	**-**	**-**
Bilateral	Govt.of the United States of America	Principal Repayments	6.3	6.2	4.7	3.1	1.9	0.3	-	-	-	-
Bilateral	Govt.of the United States of America	Interest Payments	1.3	0.5	0.3	0.1	0.1	-	-	-	-	-
Bilateral	**Govt.of the United States of America**	**Total**	**7.4**	**6.7**	**4.9**	**3.2**	**2.0**	**0.4**	**-**	**-**	**-**	**-**
Bilateral	Kingdom of Spain	Principal Repayments	0.4	0.7	3.2	3.2	3.2	3.2	3.2	3.2	3.2	7.4
Bilateral	Kingdom of Spain	Interest Payments	-	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bilateral	**Kingdom of Spain**	**Total**	**0.4**	**0.9**	**3.4**	**3.4**	**3.4**	**3.4**	**3.3**	**3.3**	**3.3**	**7.5**
Bilateral	Saudi Fund For Arab Economic Development	Principal Repayments	6.2	9.4	13.5	13.5	13.5	13.5	13.5	11.7	11.7	18.6
Bilateral	Saudi Fund For Arab Economic Development	Interest Payments	2.5	3.4	3.7	3.7	3.7	3.5	3.2	3.0	2.8	2.6
Bilateral	**Saudi Fund For Arab Economic Development**	**Total**	**8.8**	**12.8**	**17.2**	**17.2**	**17.2**	**17.0**	**16.8**	**14.7**	**14.5**	**21.2**
Bilateral	The Riggs National Bank of Washington DC	Principal Repayments	0.6	1.1	0.3	-	-	-	-	-	-	-

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Bilateral	The Riggs National Bank of Washington DC	Interest Payments	0.1	0.1	-	-	-	-	-	-	-	-
Bilateral	**The Riggs National Bank of Washington DC**	**Total**	**0.6**	**1.1**	**0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commercial Bank	International Bond Issues	Principal Repayments	369.4	364.2	600.9	633.6	633.6	800.8	800.8	845.9	855.0	855.0
Commercial Bank	International Bond Issues	Interest Payments	335.6	315.9	336.6	317.3	297.0	277.6	249.5	475.1	406.6	336.0
Commercial Bank	**International Bond Issues**	**Total**	**705.0**	**680.1**	**937.5**	**950.9**	**930.6**	**1,078.4**	**1,050.4**	**1,320.9**	**1,261.6**	**1,191.0**
Commercial Bank	TLF China Development Bank	Principal Repayments	42.7	42.8	107.8	107.8	129.4	129.4	86.7	86.7	173.3	173.3
Commercial Bank	TLF China Development Bank	Interest Payments	55.1	53.6	51.9	68.3	64.6	60.2	56.7	84.6	79.3	71.0
Commercial Bank	**TLF China Development Bank**	**Total**	**97.7**	**96.4**	**159.6**	**176.0**	**194.0**	**189.7**	**143.3**	**171.2**	**252.7**	**244.3**
Export Credit	Banco Bilbao Vizcaya Argentaria - Spain	Principal Repayments	0.8	1.6	0.2	-	-	-	-	-	-	-
Export Credit	Banco Bilbao Vizcaya Argentaria - Spain	Interest Payments	0.2	0.1	-	-	-	-	-	-	-	-
Export Credit	**Banco Bilbao Vizcaya Argentaria - Spain**	**Total**	**1.3**	**1.7**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Export Credit	Bank Austria Creditanstalt AG	Principal Repayments	0.9	-	-	-	-	-	-	-	-	-
Export Credit	Bank Austria Creditanstalt AG	Interest Payments	-	-	-	-	-	-	-	-	-	-
Export Credit	**Bank Austria Creditanstalt AG**	**Total**	**0.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Export Credit	Co-op Centrale Raiffeisen (Netherlands)	Principal Repayments	11.8	18.7	15.5	15.8	14.4	8.3	7.4	7.4	5.3	3.3
Export Credit	Co-op Centrale Raiffeisen (Netherlands)	Interest Payments	3.1	3.5	3.4	2.7	2.1	1.5	1.2	0.9	0.6	0.4
Export Credit	**Co-op Centrale Raiffeisen (Netherlands)**	**Total**	**14.9**	**22.2**	**18.9**	**18.4**	**16.4**	**9.9**	**8.6**	**8.3**	**6.0**	**3.7**
Export Credit	Credendo_Export Credit Agency	Principal Repayments	-	-	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9
Export Credit	Credendo_Export Credit Agency	Interest Payments	0.1	-	-	-	-	-	-	-	-	-
Export Credit	**Credendo_Export Credit Agency**	**Total**	**0.1**	**-**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.9**
Export Credit	Deutsche Bank AG (United Kingdom)	Principal Repayments	-	-	-	-	-	-	-	-	-	-
Export Credit	Deutsche Bank AG (United Kingdom)	Interest Payments	0.5	-	-	-	-	-	-	-	-	-
Export Credit	**Deutsche Bank AG (United Kingdom)**	**Total**	**0.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Export Credit	ERSTE BANK- AUSTRIA	Principal Repayments	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Export Credit	ERSTE BANK- AUSTRIA	Interest Payments	-	-	-	-	-	-	-	-	-	-
Export Credit	**ERSTE BANK- AUSTRIA**	**Total**	**0.4**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Export Credit	Export Development Bank of Iran	Principal Repayments	-	-	-	-	-	-	-	-	-	-
Export Credit	Export Development Bank of Iran	Interest Payments	0.6	-	-	-	-	-	-	-	-	-

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Export Credit	**Export Development Bank of Iran**	**Total**	**0.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Export Credit	Export Finance & Ins. Corpor. -Australia	Principal Repayments	-	-	1.2	1.2	1.2	1.2	1.2	1.2	1.2	3.1
Export Credit	Export Finance & Ins. Corpor. -Australia	Interest Payments	1.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.6
Export Credit	**Export Finance & Ins. Corpor. -Australia**	**Total**	**1.8**	**0.8**	**2.0**	**2.0**	**2.0**	**1.9**	**1.9**	**1.9**	**1.9**	**3.8**
Export Credit	Export Import Bank of United States	Principal Repayments	2.9	5.7	5.7	-	-	-	-	-	-	-
Export Credit	Export Import Bank of United States	Interest Payments	0.6	0.5	0.2	-	-	-	-	-	-	-
Export Credit	**Export Import Bank of United States**	**Total**	**3.4**	**6.2**	**5.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Export Credit	Export Import Bank of Hungary	Principal Repayments	-	-	1.0	2.6	4.2	4.2	4.2	4.2	4.2	6.0
Export Credit	Export Import Bank of Hungary	Interest Payments	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Export Credit	**Export Import Bank of Hungary**	**Total**	**0.4**	**0.4**	**1.4**	**3.0**	**4.6**	**4.6**	**4.6**	**4.5**	**4.5**	**6.2**
Export Credit	Export Import Bank of India	Principal Repayments	18.3	23.0	47.2	47.2	48.7	48.7	48.7	47.6	47.6	87.6
Export Credit	Export Import Bank of India	Interest Payments	17.9	19.9	20.6	20.5	20.4	20.1	19.4	18.3	17.3	16.1
Export Credit	**Export Import Bank of India**	**Total**	**36.1**	**42.9**	**67.8**	**67.7**	**69.1**	**68.8**	**68.1**	**65.9**	**64.9**	**103.7**
Export Credit	Government of Pakistan EC	Principal Repayments	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Export Credit	Government of Pakistan EC	Interest Payments	-	-	-	0.1	0.2	0.3	0.3	0.2	0.2	0.2
Export Credit	**Government of Pakistan EC**	**Total**	**0.3**	**0.6**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.7**	**0.7**
Export Credit	Government of the Russian Federation	Principal Repayments	-	-	-	-	9.6	19.2	19.2	19.2	19.2	19.2
Export Credit	Government of the Russian Federation	Interest Payments	1.3	-	-	6.5	11.2	10.0	8.4	6.8	5.2	3.6
Export Credit	**Government of the Russian Federation**	**Total**	**1.3**	**-**	**-**	**6.5**	**20.8**	**29.2**	**27.7**	**26.0**	**24.4**	**22.8**
Export Credit	HSBC Bank PLC (UK)	Principal Repayments	3.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Export Credit	HSBC Bank PLC (UK)	Interest Payments	-	-	-	-	-	-	-	-	-	-
Export Credit	**HSBC Bank PLC (UK)**	**Total**	**3.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**
Export Credit	HSBC Limited (Hongkong)-China	Principal Repayments	5.3	10.5	10.5	10.5	10.5	10.5	10.5	10.5	2.2	-
Export Credit	HSBC Limited (Hongkong)-China	Interest Payments	3.1	4.7	5.6	4.9	4.2	3.5	2.9	2.2	0.8	-
Export Credit	**HSBC Limited (Hongkong)-China**	**Total**	**8.4**	**15.2**	**16.1**	**15.4**	**14.7**	**14.0**	**13.4**	**12.7**	**3.0**	**-**
Export Credit	ING Bank N. V. (Netherlands)	Principal Repayments	2.3	4.5	4.5	4.5	4.5	4.5	4.5	-	-	-
Export Credit	ING Bank N. V. (Netherlands)	Interest Payments	0.6	0.9	0.8	0.6	0.4	0.3	0.1	-	-	-
Export Credit	**ING Bank N. V. (Netherlands)**	**Total**	**2.9**	**5.4**	**5.3**	**5.1**	**4.9**	**4.8**	**4.6**	**-**	**-**	**-**

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Export Credit	Raiffeisen Zentral Bank (Austria)	Principal Repayments	1.8	3.6	2.6	2.6	2.6	2.6	2.6	2.6	1.6	1.6
Export Credit	Raiffeisen Zentral Bank (Austria)	Interest Payments	-	-	-	-	-	-	-	-	-	-
Export Credit	**Raiffeisen Zentral Bank (Austria)**	**Total**	**1.8**	**3.7**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**1.6**	**1.6**
Export Credit	State Bank of India	Principal Repayments	128.7	-	-	-	-	-	-	-	-	-
Export Credit	State Bank of India	Interest Payments	1.8	-	-	-	-	-	-	-	-	-
Export Credit	**State Bank of India**	**Total**	**130.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Export Credit	The Export-Import Bank of China	Principal Repayments	35.8	72.3	200.0	207.4	214.8	214.8	214.8	214.8	214.8	214.8
Export Credit	The Export-Import Bank of China	Interest Payments	57.6	58.5	91.4	94.3	97.3	96.0	91.6	86.7	112.2	106.4
Export Credit	**The Export-Import Bank of China**	**Total**	**93.4**	**130.8**	**291.4**	**301.7**	**312.1**	**310.8**	**306.4**	**301.5**	**327.0**	**321.2**
Export Credit	UniCredit Bank Austria AG	Principal Repayments	2.5	5.1	5.1	4.5	3.9	3.3	2.6	2.5	2.5	2.5
Export Credit	UniCredit Bank Austria AG	Interest Payments	-	0.1	0.1	-	-	-	-	-	-	-
Export Credit	**UniCredit Bank Austria AG**	**Total**	**2.5**	**5.2**	**5.2**	**4.5**	**3.9**	**3.3**	**2.6**	**2.5**	**2.5**	**2.5**
Export Credit	United Kingdom of Great Britain	Principal Repayments	-	-	6.0	6.0	6.0	6.0	6.0	6.0	6.0	16.0
Export Credit	United Kingdom of Great Britain	Interest Payments	2.1	4.3	4.2	4.1	4.0	3.8	3.7	3.6	3.5	3.3

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Export Credit	**United Kingdom of Great Britain**	**Total**	**2.1**	**4.3**	**10.2**	**10.1**	**10.0**	**9.8**	**9.7**	**9.6**	**9.4**	**19.2**
Multilateral	Asian Development Bank	Principal Repayments	407.6	506.8	502.1	507.1	635.3	502.3	459.7	404.2	382.3	351.0
Multilateral	Asian Development Bank	Interest Payments	246.7	234.7	222.8	207.6	189.9	166.3	150.2	135.6	122.5	110.2
Multilateral	**Asian Development Bank**	**Total**	**654.0**	**741.5**	**724.9**	**714.7**	**825.2**	**668.5**	**610.0**	**539.7**	**504.7**	**461.1**
Multilateral	Asian Infrastructure Investment Bank	Principal Repayments	3.1	7.9	12.4	13.7	15.0	15.0	15.0	15.0	15.0	15.0
Multilateral	Asian Infrastructure Investment Bank	Interest Payments	10.6	11.8	12.7	12.8	12.9	12.8	12.2	11.5	10.8	10.1
Multilateral	**Asian Infrastructure Investment Bank**	**Total**	**13.6**	**19.7**	**25.1**	**26.5**	**27.9**	**27.8**	**27.2**	**26.5**	**25.8**	**25.1**
Multilateral	European Investment Bank	Principal Repayments	10.5	8.7	7.0	7.0	7.2	7.5	7.5	7.5	7.5	6.0
Multilateral	European Investment Bank	Interest Payments	2.0	1.7	1.5	1.3	1.2	1.0	0.8	0.6	0.5	0.3
Multilateral	**European Investment Bank**	**Total**	**12.5**	**10.4**	**8.5**	**8.3**	**8.4**	**8.4**	**8.3**	**8.1**	**7.9**	**6.4**
Multilateral	Int. Bank for Reconstruction & Development	Principal Repayments	30.7	47.1	47.1	47.1	47.1	47.1	74.9	74.9	68.9	68.9
Multilateral	Int. Bank for Reconstruction & Development	Interest Payments	54.2	56.2	56.6	55.3	52.9	50.6	48.0	44.1	40.4	36.9
Multilateral	**Int. Bank for Reconstruction & Development**	**Total**	**84.9**	**103.3**	**103.7**	**102.4**	**100.0**	**97.7**	**122.9**	**119.1**	**109.3**	**105.8**

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Multilateral	Int. Fund for Agricultural Development	Principal Repayments	10.1	10.6	10.3	10.3	10.3	10.1	12.5	12.0	11.7	11.3
Multilateral	Int. Fund for Agricultural Development	Interest Payments	2.8	2.9	3.1	3.3	3.4	3.6	3.5	3.2	2.9	2.6
Multilateral	**Int. Fund for Agricultural Development**	**Total**	**13.0**	**13.5**	**13.4**	**13.5**	**13.7**	**13.7**	**16.0**	**15.2**	**14.6**	**13.9**
Multilateral	International Development Association	Principal Repayments	227.2	224.5	217.8	264.0	291.7	287.0	294.7	290.4	288.8	244.8
Multilateral	International Development Association	Interest Payments	61.2	63.6	63.3	60.5	57.4	54.2	50.6	46.6	42.7	38.9
Multilateral	**International Development Association**	**Total**	**288.3**	**288.1**	**281.1**	**324.6**	**349.2**	**341.2**	**345.3**	**337.0**	**331.5**	**283.6**
Multilateral	International Monetary Fund (RFI)	Principal Repayments	-	-	-	51.0	51.0	51.0	51.0	-	-	-
Multilateral	International Monetary Fund (RFI)	Interest Payments	-	-	-	-	-	-	-	-	-	-
Multilateral	**International Monetary Fund (RFI)**	**Total**	**-**	**-**	**-**	**51.0**	**51.0**	**51.0**	**51.0**	**-**	**-**	**-**
Multilateral	International Monetary Fund EFF	Principal Repayments	-	28.7	143.5	200.9	344.4	401.9	401.9	373.2	258.3	200.9
Multilateral	International Monetary Fund EFF	Interest Payments	44.4	93.0	90.9	84.7	74.9	60.8	45.4	29.9	16.7	7.2
Multilateral	**International Monetary Fund EFF**	**Total**	**44.4**	**121.7**	**234.5**	**285.6**	**419.3**	**462.7**	**447.3**	**403.0**	**275.0**	**208.1**
Multilateral	Nordic Development Fund	Principal Repayments	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Multilateral	Nordic Development Fund	Interest Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-

Creditor Category	Creditor Name	Item	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Multilateral	**Nordic Development Fund**	**Total**	**1.2**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Multilateral	OPEC Fund for International Development	Principal Repayments	19.7	20.9	20.9	20.9	26.8	21.8	20.5	15.8	15.8	13.2
Multilateral	OPEC Fund for International Development	Interest Payments	6.0	6.2	6.5	6.1	5.2	4.3	3.5	2.8	2.3	1.8
Multilateral	**OPEC Fund for International Development**	**Total**	**25.7**	**27.0**	**27.4**	**26.9**	**32.0**	**26.1**	**24.0**	**18.6**	**18.1**	**15.0**

Source: PDMO

Annex 6 – Ministry-wise Recurrent and Capital Expenditure, up to 30 September 2026

The tables below set out the 2026 approved and revised budget allocations by ministry and the provisional expenditure up to 30 September 2026, separately for recurrent and capital expenditure, based on data provided by the Department of National Budget.

Table A6.1: Recurrent Expenditure – Ministry-wise Summary, 2026 (LKR billion)

Head No	Ministry / Spending Unit	Approved Budget	Revised Budget	Change (Revised – Approved)	Expenditure up to 30-09-2026	Utilisation (% of Revised)
	Special Spending Units (Heads 1–25)	23.23	23.13	(0.10)	10.67	46.1%
101	Ministry of Buddhasasana, Religious and Cultural Affairs	9.53	9.61	0.09	6.08	63.2%
102	Ministry of Finance, Planning and Economic Development (excl. Dept. of Treasury Operations)	321.48	354.48	33.00	202.23	57.0%
103	Ministry of Defence	370.51	383.84	13.33	270.29	70.4%
110	Ministry of Justice and National Integration	42.12	42.37	0.25	27.28	64.4%
111	Ministry of Health and Mass Media	450.00	449.66	(0.34)	312.51	69.5%
112	Ministry of Foreign Affairs, Foreign Employment and Tourism	21.00	21.25	0.25	13.47	63.4%
116	Ministry of Trade, Commerce, Food Security and Co-operative Development	2.20	2.20	-	1.38	62.8%
117	Ministry of Transport, Highways and Urban Development	58.52	60.30	1.78	36.27	60.2%
118	Ministry of Agriculture, Livestock, Land and Irrigation	90.15	94.11	3.96	64.81	68.9%
119	Ministry of Energy	0.97	89.76	88.79	89.01	99.2%
123	Ministry of Housing, Construction and Water Supply	2.46	2.41	(0.05)	1.49	61.9%
124	Ministry of Rural Development, Social Security and Community Empowerment	27.49	27.99	0.50	19.11	68.3%
126	Ministry of Education, Higher Education and Vocational Education	233.85	233.85	-	146.16	62.5%

Head No	Ministry / Spending Unit	Approved Budget	Revised Budget	Change (Revised – Approved)	Expenditure up to 30-09-2026	Utilisation (% of Revised)
130	Ministry of Public Administration, Provincial Councils and Local Government	635.00	634.99	(0.01)	465.47	73.3%
	Provincial Councils	533.00	533.65	0.65	385.85	72.3%
135	Ministry of Plantation and Community Infrastructure	13.35	15.55	2.20	7.34	47.2%
149	Ministry of Industry and Entrepreneurship Development	5.50	5.50	-	3.59	65.3%
151	Ministry of Fisheries, Aquatic and Ocean Resources	4.10	7.54	3.44	5.43	72.0%
160	Ministry of Environment	14.45	14.45	-	9.24	63.9%
171	Ministry of Women and Child Affairs	15.80	15.85	0.05	9.16	57.8%
176	Ministry of Ports and Civil Aviation	0.62	0.61	(0.01)	0.36	59.2%
186	Ministry of Digital Economy	6.40	6.64	0.24	2.27	34.2%
189	Ministry of Public Security and Parliamentary Affairs	200.28	200.18	(0.10)	125.52	62.7%
193	Ministry of Labour	5.20	5.20	-	3.26	62.6%
194	Ministry of Youth Affairs and Sports	7.50	7.50	-	4.36	58.1%
196	Ministry of Science and Technology	3.17	3.20	0.03	2.11	65.7%
	Total – excluding Dept. of Treasury Operations	**3,097.86**	**3,245.82**	**147.97**	**2,224.70**	**68.5%**
249	*Department of Treasury Operations (mostly debt servicing) **	*2,624.40*	*2,624.50*	*0.10*	*1,825.96*	*69.6%*
	Grand Total – including Dept. of Treasury Operations	**5,722.26**	**5,870.33**	**148.07**	**4,050.66**	**69.0%**

** Department of Treasury Operations (Head 249, under the Ministry of Finance) is shown separately as its provision is mostly debt servicing. The Ministry of Finance line above excludes it.*

Change = Revised Budget – Approved Budget; positive = increase, (negative) = reduction. Utilisation = Expenditure up to 30-09-2026 ÷ Revised Budget.

Source: Ministry of Finance, Ministry-wise Summary of Budgetary Provision and Expenditure up to 30-09-2026 (Provisional)

Table A6.2: Capital Expenditure – Ministry-wise Summary, 2026 (LKR billion)

Head No	Ministry / Spending Unit	Approved Budget	Revised Budget	Change (Revised – Approved)	Expenditure up to 30-09-2026	Utilisation (% of Revised)
	Special Spending Units (Heads 1–25)	10.65	10.81	0.15	1.97	18.2%
101	Ministry of Buddhasasana, Religious and Cultural Affairs	5.03	4.79	(0.23)	0.81	17.0%
102	Ministry of Finance, Planning and Economic Development (excl. Dept. of Treasury Operations)	202.33	216.07	13.74	116.48	53.9%
103	Ministry of Defence	61.92	215.92	154.00	64.42	29.8%
110	Ministry of Justice and National Integration	17.16	17.31	0.16	3.30	19.0%
111	Ministry of Health and Mass Media	105.10	107.08	1.98	25.46	23.8%
112	Ministry of Foreign Affairs, Foreign Employment and Tourism	2.00	2.17	0.17	0.62	28.6%
116	Ministry of Trade, Commerce, Food Security and Co-operative Development	2.25	2.25	-	0.04	2.0%
117	Ministry of Transport, Highways and Urban Development	438.74	498.21	59.47	168.33	33.8%
118	Ministry of Agriculture, Livestock, Land and Irrigation	138.90	153.71	14.81	57.05	37.1%
119	Ministry of Energy	21.41	21.05	(0.35)	2.35	11.2%
123	Ministry of Housing, Construction and Water Supply	69.90	70.87	0.97	25.16	35.5%
124	Ministry of Rural Development, Social Security and Community Empowerment	34.20	35.48	1.28	2.51	7.1%
126	Ministry of Education, Higher Education and Vocational Education	70.00	72.45	2.45	14.45	19.9%
130	Ministry of Public Administration, Provincial Councils and Local Government	39.00	35.21	(3.79)	7.31	20.8%
	Provincial Councils	85.10	183.76	98.66	43.76	23.8%
135	Ministry of Plantation and Community Infrastructure	11.70	12.31	0.61	3.21	26.1%
149	Ministry of Industry and Entrepreneurship Development	7.50	8.71	1.21	1.94	22.3%

Head No	Ministry / Spending Unit	Approved Budget	Revised Budget	Change (Revised – Approved)	Expenditure up to 30-09-2026	Utilisation (% of Revised)
151	Ministry of Fisheries, Aquatic and Ocean Resources	7.70	9.35	1.65	2.83	30.3%
160	Ministry of Environment	4.96	5.33	0.37	1.46	27.5%
171	Ministry of Women and Child Affairs	0.80	2.87	2.07	0.32	11.1%
176	Ministry of Ports and Civil Aviation	3.51	4.52	1.01	0.85	18.9%
186	Ministry of Digital Economy	10.10	8.90	(1.20)	0.60	6.8%
189	Ministry of Public Security and Parliamentary Affairs	18.42	20.78	2.36	7.29	35.1%
193	Ministry of Labour	1.20	1.20	-	0.41	34.2%
194	Ministry of Youth Affairs and Sports	6.80	6.80	-	1.01	14.8%
196	Ministry of Science and Technology	3.60	3.98	0.38	0.52	13.0%
	Total – excluding Dept. of Treasury Operations	**1,379.99**	**1,731.90**	**351.92**	**554.47**	**32.0%**
249	*Department of Treasury Operations (mostly debt servicing) **	*1,877.75*	*1,877.75*	*-*	*1,502.17*	*80.0%*
	Grand Total – including Dept. of Treasury Operations	**3,257.74**	**3,609.66**	**351.92**	**2,056.64**	**57.0%**

** Department of Treasury Operations (Head 249, under the Ministry of Finance) is shown separately as its provision is mostly debt servicing. The Ministry of Finance line above excludes it.*

Change = Revised Budget – Approved Budget; positive = increase, (negative) = reduction. Utilisation = Expenditure up to 30-09-2026 ÷ Revised Budget. Source: Ministry of Finance, Ministry-wise Summary of Budgetary Provision and Expenditure up to 30-09-2026 (Provisional)

Annex 7 – Revenue Performance, January–September 2025 and 2026 (LKR billion)

The table below compares central government revenue collected in January–September 2025 and January–September 2026 with the original full-year estimates for each year. Figures for 2026 are provisional.

Table A7.1: Revenue Performance, January–September 2025 and 2026 (LKR billion)

Revenue Item	2025			2026 (Provisional)			Jan–Sep 2026 YoY Growth, %
	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	
Tax Revenue	**4,590.0**	**3,562.9**	**77.6**	**4,910.0**	**4,252.1**	**86.6**	**19.3**
Income Tax	**1,167.0**	**831.0**	**71.2**	**1,210.0**	**996.4**	**82.3**	**19.9**
Personal & Corporate	937.0	699.1	74.6	1,025.0	836.7	81.6	19.7
Corporate & Non-corporate	781.0	541.4	69.3	810.0	667.9	82.5	23.4
Personal	93.0	65.5	70.4	100.0	69.8	69.8	6.5
Corporate	688.0	475.9	69.2	710.0	598.1	84.2	25.7
PAYE	156.0	157.7	101.1	215.0	168.8	78.5	7.0
Economic Service Charge	–	0.0	–	–	0.0	–	–
Withholding Tax	230.0	131.9	57.3	185.0	159.7	86.3	21.1
Taxes on Goods & Services	**2,772.0**	**2,241.6**	**80.9**	**3,056.0**	**2,683.5**	**87.8**	**19.7**
VAT	1,615.0	1,238.6	76.7	1,812.0	1,505.6	83.1	21.6
Domestic	825.0	633.7	76.8	937.0	815.3	87.0	28.7
Imports	790.0	604.9	76.6	875.0	690.3	78.9	14.1
Excise Taxation	839.0	720.4	85.9	834.0	842.4	101.0	16.9
Liquor	240.0	167.4	69.7	243.0	204.9	84.3	22.4
Cigarettes/Tobacco	130.0	71.6	55.1	107.0	86.7	81.0	21.1

Revenue Item	2025			2026 (Provisional)			Jan–Sep 2026 YoY Growth, %
	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	
Motor Vehicles	230.0	349.3	151.9	266.0	381.0	143.2	9.1
Petroleum	230.0	123.3	53.6	205.0	161.6	78.8	31.0
Other	9.0	8.8	98.0	13.0	8.2	63.3	(6.7)
Other Taxes & Levies	318.0	282.6	88.9	410.0	335.4	81.8	18.7
Social Security Contribution Levy	264.0	215.8	81.7	333.0	263.3	79.1	22.0
Domestic	190.0	164.4	86.5	236.0	183.4	77.7	11.6
Foreign	74.0	51.4	69.5	97.0	79.9	82.4	55.3
NBT	–	0.5	–	–	0.0	–	–
Domestic	–	0.1	–	–	0.0	–	–
Foreign	–	0.4	–	–	0.0	–	–
Telecommunication Levy	18.0	11.7	64.9	17.0	10.5	61.7	(10.2)
Motor Vehicle Taxes & Other	36.0	54.6	151.7	60.0	61.6	102.7	12.8
Taxes on External Trade	**651.0**	**490.3**	**75.3**	**644.0**	**572.2**	**88.8**	**16.7**
Imports	240.0	179.0	74.6	235.0	243.7	103.7	36.1
Cess	100.0	64.3	64.3	90.0	60.8	67.5	(5.6)
Special Commodity Levy	126.0	116.8	92.7	129.0	115.4	89.4	(1.2)
PAL	185.0	130.2	70.4	190.0	152.3	80.2	17.0
Non-Tax Revenue	**370.0**	**264.1**	**71.4**	**360.0**	**342.9**	**95.2**	**29.8**
Property Income	**103.7**	**77.9**	**75.2**	**127.5**	**127.6**	**100.1**	**63.8**
Central Bank Profits	–	0.0	–	–	42.1	–	–
Interest Income	24.6	46.7	189.8	58.0	55.2	95.2	18.4

Revenue Item	2025			2026 (Provisional)			Jan–Sep 2026 YoY Growth, %
	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	Original Estimate (Full Year)	Jan–Sep Actual	Achievement, %	
Profits & Dividends	72.2	26.8	37.1	62.0	24.5	39.5	(8.5)
Rent	6.9	4.5	65.2	7.5	5.8	78.0	29.4
Fines, Fees & Charges	**172.5**	**126.3**	**73.2**	**148.8**	**145.6**	**97.9**	**15.3**
Other	**93.8**	**59.9**	**63.8**	**83.7**	**69.6**	**83.2**	**16.3**
Social Security Contribution	70.0	42.3	60.4	62.0	50.7	81.8	20.0
Other	23.8	17.6	73.8	21.7	18.9	87.2	7.5
Total Revenue	**4,960.0**	**3,827.0**	**77.2**	**5,270.0**	**4,594.9**	**87.2**	**20.1**
Grants	–	7.7	–	–	6.7	–	–
Total Revenue & Grants	**–**	**3,834.7**	**–**	**–**	**4,601.6**	**–**	**–**

Note: 2026 figures are provisional. Achievement = January–September actual as a percentage of the original full-year estimate. YoY growth = change in January–September 2026 collections over January–September 2025. Negative values are shown in parentheses; "–" denotes nil estimate or not applicable.

Source: Data from Department of Fiscal Policy.

Appreciation

The Committee expresses its sincere appreciation to all Committee Members for their active participation, valuable contributions and constructive insights during the deliberations on the Appropriation Bill, 2027, which greatly facilitated the preparation of this comprehensive report.

The Committee also extends its gratitude to all Officials for their dedication and support, with special appreciation to the Consultants of the Committee on Public Finance for their professionalism and commitment in completing this work within a limited timeframe. The Committee further acknowledges the cooperation of the Ministry of Finance, Planning and Economic Development and its timely provision of information.

The collective efforts and cooperation of all concerned have been instrumental in the successful completion of this important exercise.

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Mr. Manjula Hettiarachchi, Director General
Mrs. C.S. Karunathilaka, Additional Director General
Mr. J.M. Herath Banda, Additional Director General

Department of Fiscal Policy
Dr. Kapila Senanayake, Director General
Ms. A.K. Gunasekara, Additional Director General
Mrs. W.T.A. Perera, Tax Advisor
Ms. W.A.J.C. Wickramarachchi, Director
Ms. J.D. Kotinkaduwa, Director
Mr. K.M. Kumarasiri, Deputy Director

Public Debt Management Office
Mrs. Udeni Udugahapattuwa, Director General
Mrs. Udeni Thilakarathne, Additional Director General
Ms. Biyanka Gamage, Additional Director General
Ms. J.D. Kotinkaduwa, Director
Mrs. Sewwandi Amarasekara, Director

Department of Management Services
Mrs. Niluka Madampe, Director General

Department of Information Technology Management
Mr. M.M.C.P. Mohottigedara, Director General

Sri Lanka Customs
Mr. Vimal S.K. Liyanagama, Director General

Department of Inland Revenue
Mrs. R.P.H. Fernando, Commissioner General

Sri Lanka Excise Department
Mr. M.B.N.A. Pemaratne, Commissioner General

Ministry of Public Administration, Provincial Councils and Local Government
Mr. S. Alokabandara, Secretary
Mrs. J.A.A.N. Jayaweera, Senior Assistant Secretary (Housing and Development)

Department of Pensions
Mr. Chaminda Hettiarachchi, Director General of Pensions
Ms. Imali Wijethunga, Accountant

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