



Steady and Strong:
Committing to Fiscal
Discipline for a Resilient
Economy

February 2025





17 February 2025

Sri Lanka Budget 2025 - Steady and Strong: Committing to Fiscal Discipline for a Resilient Economy - Budget Proposals

We are pleased to forward to you a Summary and Analysis of the Budget Proposals for 2025, presented in the Parliament on 17 February 2025 by His Excellency the President, Anura Kumara Dissanayake, in his capacity as the Minister of Finance of Sri Lanka.

These proposals may be subject to changes during the passage of the legislation through the Parliament. Therefore, conclusions and decisions based on the proposals should be made only after due consideration and consultation. For additional information and guidance on the proposed changes, the Tax and Business Advisory Service Lines of Deloitte in Sri Lanka will be pleased to assist you.



Charmaine Tillekeratne

Head - Tax

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Key Highlights

Capital Gains Tax

- CGT rate applicable for individuals and partnerships will be increased from 10% to 15%.
- CGT rate applicable for all other non-corporate entities will be raised to 30% in line with corporate CGT rate.

Removal of SVAT

- SVAT will be replaced by a risk-based refund scheme.

Income Tax Compliance Simplified

- The requirement of filing SET will be removed effective from Y/A 2025/26.
- Senior citizens will be allowed to file their Income Tax returns manually from Y/A 2024/25.
- Installment payments to be computed on prior year basis.

Infrastructure

- Establishing eco-industrial parks through PPPs and privately run zones.
- Establishing an Internal Container Dry Port at Veyangoda, a Customs Inspection Yard at Kerawalapitiya and a Logistics Park at Bloemendhal.
- Expressions of Interest to be called for Colombo West Terminal 2 and Colombo North Port.
- Construction of Terminal 2 of the Katunayake Airport to be expedited.

Digitization

- Digitization of Public services and introduction of Digital Payment Infrastructure.
- Use of POS machines by VAT registered persons will be made mandatory.
- Introduction of Sri Lanka unique digital identification (SL – UDI).

Salary Revisions

- Private sector minimum wage increased from LKR 21,000 to LKR 27,000 from April 2025 and LKR 30,000 from 2026.
- Government sector salaries will be revised upwards in a phased manner.

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Budget Summary

- As Sri Lanka rebounds from the recent economic crisis, continuity of the reform agenda is identified as a critical point.
- A key focus point of the government is to drive export-led growth. Accordingly, a national export development plan for 2025-2029 will be formulated.
- Focus on investment promotion with the help of legal and other reforms and development of industrial zones using Public Private Partnerships.
- The Government aims to grow Sri Lanka's Digital Economy to over USD 15 Bn by 2030.
- Priority sectors include tourism, logistics & transportation, energy and agriculture.
- Social infrastructure such as healthcare, education and public transportation given priority.

The table shows the key revenue items and key expenditure items.

Item	LKR (Billion)
Revenue	
Income Tax	1,167
Taxes on Goods and Services	2,772
Taxes on External Trade	651
Non-Tax Revenue	370
Grants	30
Expenditure	
Salaries and Wages	1,230
Other Goods and Services	416
Interest	2,950
Subsidies and Transfers	1,290
Public Investment	1,315
Other	(11)

Key points

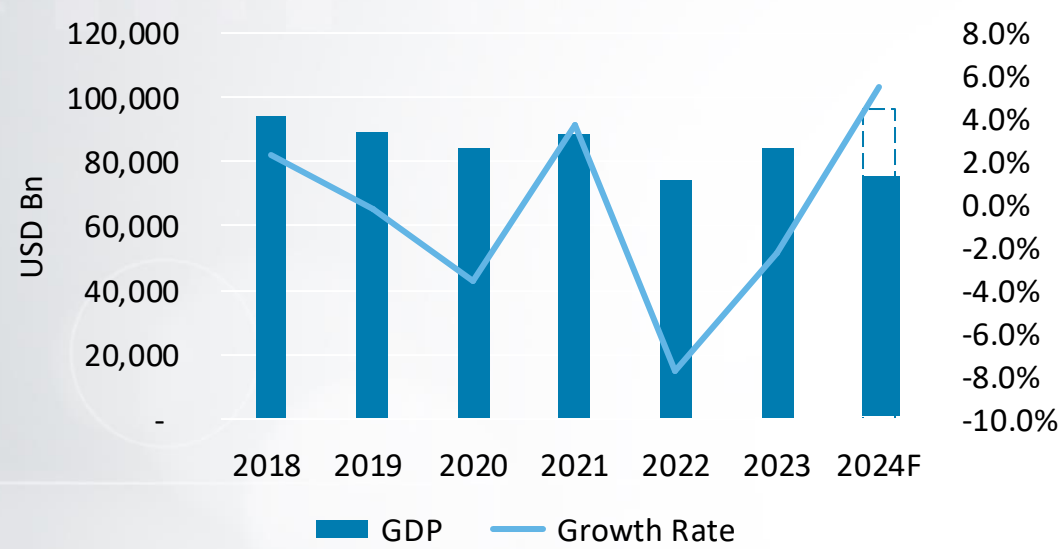
- Budget 2025 meets the limit for Primary Expenditure at 13% of GDP, in line with the Public Financial Management Act.

Budget Summary

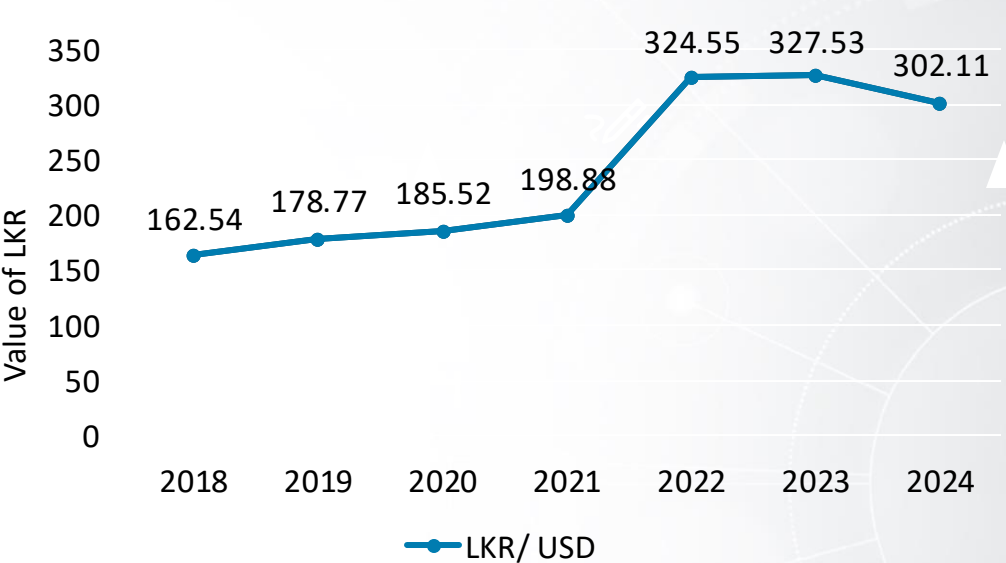
Summary of the Budget	2023	2024 Budget Original Estimates	2024 Budget Revised Estimates	2025 Budget
Total Revenue and Grants (LKR Bn)	3,074	4,127	4,091	4,990
Tax Revenue (LKR Bn)	2,721	3,820	3,705	4,590
Total Expenditure (LKR Bn)	5,357	6,978	6,131	7,190
Budget Deficit (LKR Bn)	(2,282)	(2,851)	(2,040)	(2,200)
Total Foreign Financing (LKR Bn)	495	726	(3,044)	375
Total Domestic Financing (LKR Bn)	1,788	2,125	5,084	2,125
Total Revenue / GDP (%)	11.0	13.1	13.4	15.0

Sri Lanka records improvement across key macroeconomic indicators in 2024

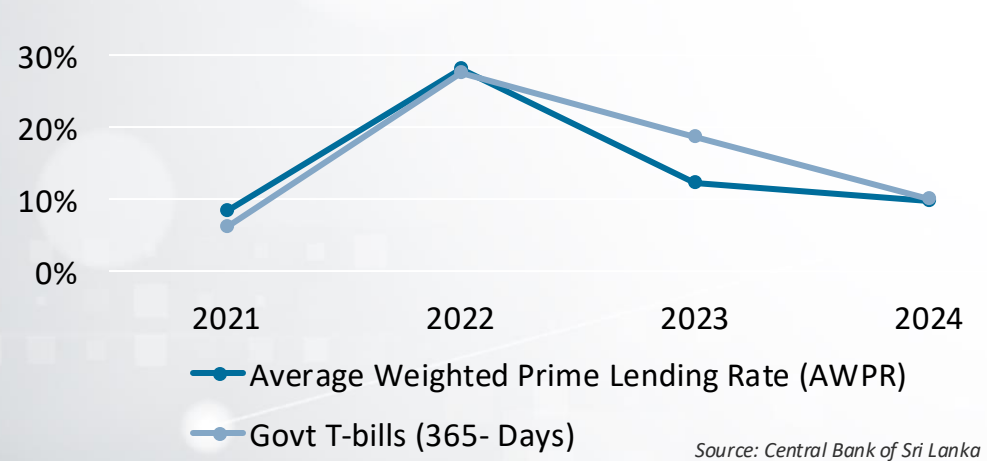
CBSL estimates annual GDP growth of 5.5% for 2024 bringing GDP to pre-crisis levels



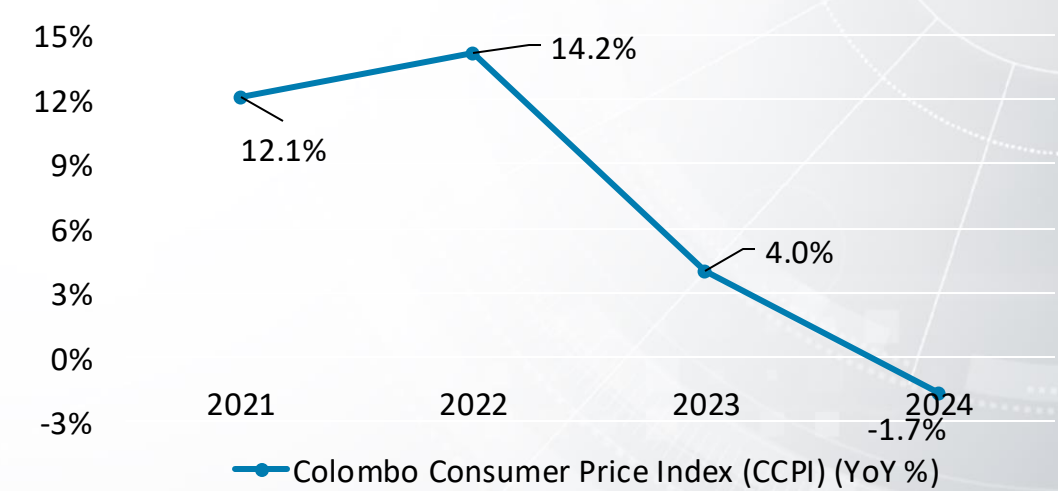
The currency stabilizes as foreign exchange reserves are built up



A dovish interest rate policy maintained by CBSL, to drive consumption-led growth



Deflationary environment to continue before reaching the target of 5% in 2H25



Growth recorded in key foreign exchange generators

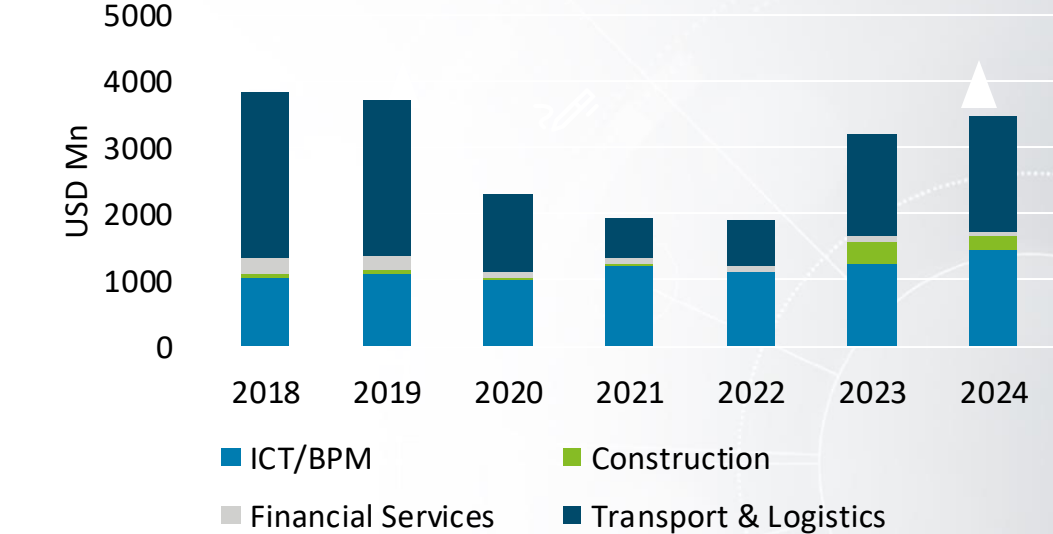
Exports reach USD 16 Bn in 2024 up 7.1% YoY, the highest ever export earnings



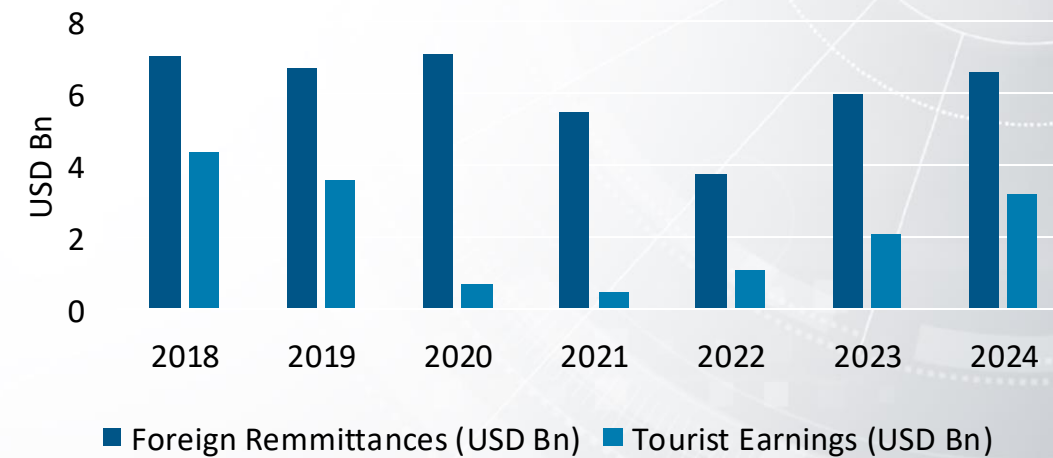
Despite significant growth in exports, the trade deficit widened to USD 6.1 Bn due to a higher demand for imports, particularly machinery, textiles, and consumer goods.



Service exports growth primarily driven by ICT and Transport



2024 tourist arrivals exceeded 2 Mn. Remittances reached USD 6.6 Bn



Source: Sri Lanka Tourism Development Authority, EDB, CBSL

The conclusion of the debt restructuring program has enabled Sri Lanka to improve its credit rating and comply with the requirements of the IMF program

✓ **Domestic Debt Optimization** (completed June 2023)

✓ **Official Sector Creditors** (MOUs signed June 2024)

✓ **ISBs** (completed December 2024)

32 months after sovereign default, in December 2024, Fitch & Moody's upgraded Sri Lanka's credit ratings

FitchRatings

✓ **Upgrade of Long-Term Foreign -Currency Issuer Default Rating from "Restrictive Default" (RD) to "CCC+" Rating**

MOODY'S

✓ **Upgrade of Long-Term Foreign -Currency Issuer Default Rating from "CA" to "Caa1" Rating**

S&P Global Ratings

✓ **Maintained "Selective Default" rating for Long-Term Foreign -Currency Issuer Default Rating due to delay in SOE Restructuring**

IMF EFF Program

1 Restoring macroeconomic stability and debt sustainability

2 Safeguarding financial sector stability

3 Strengthening governance and growth potential

Disbursed

~USD1 Bn received under 3 tranches to date

Pending Approval

~USD333 Mn (4th tranche) pending IMF Board Approval

Future Disbursements

5 tranches remaining. Program set to conclude March 2027

1. Official sector involvement (OSI) includes negotiations with (i) the Official Creditor Committee (OCC), and (ii) China EXIM bank as the major official bilateral creditors.

Fiscal & Other Revenue Proposals



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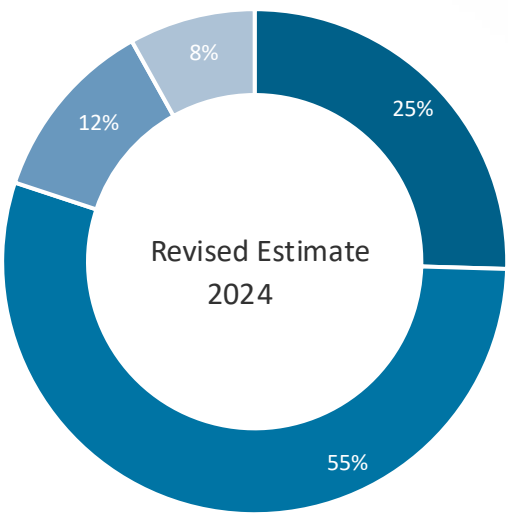
Components of Government Revenue

Tax revenue as a percentage of GDP has gradually increased from 9.8% (2023) to 12.3% (2024) and is budgeted to increase to 13.9% (2025).

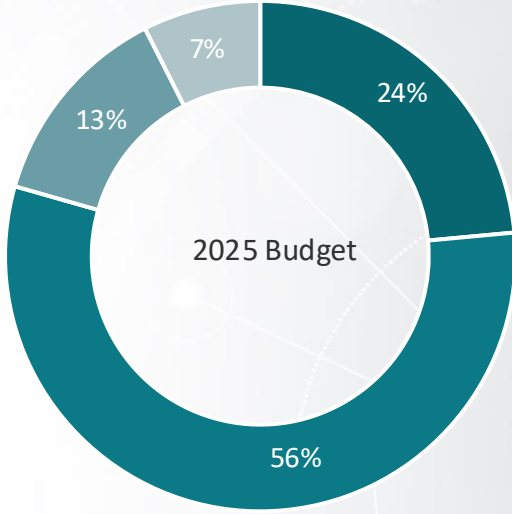
According to the World Bank, tax revenues above 15% of a country's gross domestic product (GDP) are a key ingredient for economic growth and poverty reduction. Comparatively, Sri Lanka appears to still be below this minimum threshold for the foreseeable future.

Revenue from income tax compared to total revenue has decreased from 30% (2023) to 25% (2024) and is budgeted to further reduce to 24% (2025) with gradual increase in contribution from indirect taxes.

The increase of government revenue to 15.1% of GDP, as budgeted for 2025, is also a parameter set out by the IMF under the bailout.



- Income Tax
- Taxes on goods & Services
- Taxes on External Trade
- Non Tax Revenue



- Income Tax
- Taxes on goods & Services
- Taxes on External Trade
- Non Tax Revenue

Type	2023	2024 Provisional	2025 Budget
Tax Revenue/GDP (%)	9.8	12.3	13.9
Revenue and Grants/GDP (%)	11.1	13.6	15.1

Tax Revenue – last year’s performance

Sri Lanka’s government revenue soared to an all-time high in 2024, with a notable 33 % increase compared to 2023.

The increase in tax revenue was led by a substantial growth in the Customs and VAT earnings and complemented by a strong increase in income tax collections.

The all-time highest Customs revenue (Approx. LKR 1,531 Bn for 2024, i.e. a > 50% increase compared to 2023) resulted, despite a significant drop in revenue from vehicle imports, mainly from the surge in imports of petroleum, cigarettes, steel, and appliances and the implementation of enhanced tax collection mechanisms.

The substantial rise in VAT revenue (Approx. LKR 715 Bn for 2024, i.e. > 50% increase compared to 2023) stemmed from an increase in the VAT rate (from 15% to 18%), removal of a majority VAT exemptions and reduction of the VAT registration threshold (from LKR 80 Mn to LKR 60 Mn).

The Income tax revenue (Approx. LKR 1,026 Bn for 2024, >12% increase compared to 2023) was boosted by improvements to tax administration (enforcement and compliance) and tax reforms which broadened the income tax base.

However, despite the strong growth, the total government revenue for the year 2024 has fallen short of the government’s ambitious Rs.4,107 Bn target.

Type	2023 (LKR Bn)	2024 Provisional (LKR Bn)	2025 Budget (LKR Bn)
Income tax	911	1,026	1,167
Taxes on goods and services	1,420	2,201	2,772
Taxes on external trade	389	477	651
Tax revenue	2,721	3,705	4,590
Non-tax revenue	328	326	370
Total revenue	3,049	4,031	4,960
Grants	26	60	30
Total revenue and grants	3,074	4,091	4,990

Sources: DIR Press release dated 03 January 2025, Sri Lanka Customs Press release 01.01.2024 and Sri Lanka Customs website.

Income Tax

Proposed amendments to the Inland Revenue Act, No. 24 of 2017

Capital Gains Tax (CGT) rate revision

CGT rate for individuals and partnerships will be increased to 15% (currently 10%).

CGT rate for all other entities (Trusts, Unit Trusts, Charitable Institutions, non-governmental organizations, etc.) will be increased to 30% (currently 10%).

Exemptions

The current exemption applicable to individuals on transfer of land & building to an “associate” of such individual or on gifting any asset to a charitable institution will be expanded to include transfer of assets to the following institutions as well:

- The Sri Lankan Government
- A University established or deemed to be established under the Universities Act, No. 16 of 1978.

Advance Income Tax (AIT) on interest income earned from deposits

AIT deduction on interest will not apply on interest paid to Senior Citizens if their Assessable Income from all sources does not exceed LKR 1.8 Mn for any Y/A. The individual must submit a declaration to avail this.

Individuals other than Senior Citizens will be entitled to a refund of AIT deducted on interest income provided their Assessable Income from all sources does not exceed LKR 1.8 Mn for any Y/A.

Taxability of Life insurance proceeds

Provisions will be issued clarifying the taxability of life insurance proceeds and other amounts received by policy holders, i.e. whether chargeability comes under capital gains or PIT or whether to introduce a lower rate since the profits were already taxed at the insurance company level.

Exemptions

Amounts derived by any non – resident person from the Sri Lanka Airforce in relation to payment for aircraft, software license or for other related services will be exempt from income tax.

Determination of Tax Residency for Income Tax Purposes

A holder of a Golden Paradise Resident Visa will be treated as a non – resident.

A non – citizen who is deemed to be a tax resident of Sri Lanka solely by virtue of being employed in a Sri Lankan flagged vessel, will be liable to Sri Lankan income tax only on employment income earned from such vessel and from other Sri Lanka-sourced income.

Individual Income Tax

Proposed amendments to the Inland Revenue Act, No. 24 of 2017

Current Tax Slabs (LKR)	Proposed Tax Slabs (LKR)	Tax Rate
1.2 Mn	1.8 Mn	0% (Personal relief)
1.2 Mn – 1.7 Mn	1.8 Mn – 2.8 Mn	6%
1.7 Mn – 2.2 Mn	-	12%
2.2 Mn – 2.7 Mn	2.8 Mn – 3.3 Mn	18%
2.7 Mn – 3.2 Mn	3.3 Mn – 3.8 Mn	24%
3.2 Mn – 3.7 Mn	3.8 Mn – 4.3 Mn	30%
Above 3.7 Mn	Above 4.3 Mn	36%



Individual Income Tax

Comparison of effective tax rates for resident individuals - Y/A 2018/2019 – 2025/2026

An employee whose salary is LKR 225,000 per month (annual salary LKR 2,700,000) – column 1

LKR 550,000 per month (annual salary LKR 6,600,000) – column 2

LKR 900,000 per month (annual salary LKR 10,800,000) – column 3

Y/A	Tax Free allowance and allowance/ employment relief (LKR'000)	Taxable Income (LKR'000)			Income Tax (LKR'000)			Effective Tax Rate %		
		1	2	3	1	2	3	1	2	3
2018/2019	1,200	1,500	5,400	9,600	108	936	1,944	4	14	18
2019/2020 First 9 months (Apr–Dec)	900	1,125	4,050	7,200	81	702	1458	4	14	18
2019/2020 last 3 months (Jan–Mar)	750	-	900	1,950	-	63	216	0	4	8
2020/2021	3,000	-	3,600	7,800	-	252	864	0	4	8
2021/2022	3,000	-	3,600	7,800	-	252	864	0	4	8
2022/2023 First 9 months (Apr–Dec)	2,250	-	2,700	5,850	-	189	648	0	4	8
2022/2023 last 3 months (Jan–Mar)	300*	375	1,350	2,400	45	373.5	751.5	7	23	28
2023/2024	1,200	1,500	5,400	9,600	180	1,494	3,006	7	23	28
2024/2025	1,200	1,500	5,400	9,600	180	1,494	3,006	7	23	28
2025/2026	1,800	900	4,800	9,000	54	1,248	2,760	2	19	26

Corporate Income Tax

Proposed amendments to the Inland Revenue Act, No. 24 of 2017

Gains and Profits from	Current Rate	Proposed Rate with effect from 01 April 2025
Export of services where payment is received in FCY into Sri Lanka	Exempt	15%
Export of goods	30%	No Change
Manufacturing	30%	No Change
Conducting betting and gaming	40%	45%
Manufacture and sale or import and sale of any liquor or tobacco product	40%	45%
Other businesses	30%	No Change

Value Added Tax (VAT)

Proposed amendments to the VAT Act, No. 14 of 2002.

Exemptions – Liquid Milk and Yogurt

Re-introduction of exemption for locally produced liquid milk and yogurt with effect from 01 April 2025.

Exemption on Port City Companies – Business of Strategic Importance

Supply of goods or services by or to any “Business of Strategic Importance” defined under the Colombo Port City Economic Commission Act, No.11 of 2021 will be exempt from VAT subject to regulations issued under the same Act.

Exemptions – Import of Packing Materials by manufacturers of pharmaceuticals or ayurvedic medicines

Re-introduction of exemption on Import of packing materials for pharmaceuticals or ayurvedic medicines manufactured in Sri Lanka subject to conditions.

VAT on Digital Services

VAT will be imposed on the services provided through digital platforms. Regulations prescribing the manner of registration, charging, collection, filing of returns, etc. to be issued.

Limitation on Deduction of Input VAT

Input VAT deduction on the capital goods (machinery, equipment and vehicles) imported for projects where the VAT is deferred at the time of importation and later transferred to the project via Cus-Dec (discharging import duties including VAT) will not be allowed.

Deduction on Entertainment Tax

Entertainment tax charged by local authorities will be allowed to be removed in ascertaining the value of supply of Film Exhibition Services for VAT.

Social Security Contribution Levy (SSCL)

Proposed amendments to the SSCL Act, No. 25 of 2022.

Clarification on "Transportation of Goods and Passenger"

The term "transportation of goods and passengers" will be redefined to expand the exemption in relation to international transportation by container terminal operators (including services).

Extension of exemption – Petrol, Diesel or Kerosene

Exemption granted for Petrol, Diesel or Kerosene sold in a filling station will be extended to all types of wholesale and retail of the said articles.

Limitation of Exemptions – Import or Locally Purchased Machinery and Equipment for Generating Electricity

Exemption available on the importation or locally purchase of machinery and equipment for the purpose of generating electricity by any institution who has entered into an agreement with the CEB will be restricted to agreements entered in prior to 18 February 2025.

Reforms to Customs Legislation



A new Customs Law to be introduced.



A simplified tariff structure to be established to create a simple, transparent and predictable tariff framework to increase accessibility to high quality raw materials.



Other Taxes

Stamp Duty and Betting & Gaming Levy

Stamp Duty

Proposed amendments to the Stamp Duty (Special Provisions) Act, No. 12 of 2006

Stamp Duty rate will be increased on any instrument relating to the lease or hire of any property, effective from 01.03.2025.

Currently, Stamp Duty is charged at LKR 10 for every LKR 1,000 or part thereof of the aggregate lease or hire, including any premium, payable for the full term or in cases where the term is in excess of 20 years, up to 20 years.

With this amendment, the Stamp Duty rate will be increased to LKR 20 for every LKR 1,000 or part thereof, for the whole term comprised in the lease or hire agreement (excluding hire purchase agreements).

Betting and Gaming Levy

Proposed amendments to the Betting and Gaming Levy Act, No. 40 of 1988

Current Gross Collection Levy of 15% on betting and gaming transactions will be increased to 18%.

Additionally, the Casino Entrance Levy, which is currently USD 50 per entrant, will be increased to USD 100.

Key points

Stamp Duty

- Increase in Stamp Duty on Lease or Hire Agreements to LKR 20 for every LKR 1,000 or part thereof.
- Period of 20 years cap will be removed for instruments other than hire purchase.

Effective from 01.03.2025.

Betting and Gaming Levy

- Gross Collection Levy: Increased to 18%.
- Casino Entrance Levy: Increased to USD 100.

Tax Administration

Proposed amendments to the Inland Revenue Act, No. 24 of 2017

Statement of Estimated Tax Payable (SET)

The requirement of filing the SET form will not be applicable commencing from Y/A 2025/2026.

Calculation of each installment of tax payable

Installment quantum to be computed based on the income tax payable by such person for the immediately preceding year of assessment. (At present it is estimated on a current year basis).

However, this would mean that if the anticipated liability for the current year is less than the previous year's liability, it would result in refunds being generated.

Submission of the tax returns manually – Senior Citizens

Senior Citizens will be allowed to file manual income tax returns with effect from the year of assessment 2024/2025.

CGIR authorized to waive off interest

The Commissioner General of Inland Revenue (CGIR) will be authorized to waive off the interest imposed under the IR Act and Surcharge Tax Act if the tax liability has arisen for Y/A 2022/2023, or any previous Y/A provided the total amount of tax is paid within six months of the statutory amendment.

Tax Administration

Proposed amendments to the Value Added Tax No. 14 of 2002

Suspension of the Simplified Value Added Tax (SVAT) Scheme

The removal of the SVAT Scheme and replacing it with a risk-based refund system has once again been proposed. However, an effective date has not been communicated for same.

The proposals also states, that to ensure a smooth operation of the risk-based refund system, a pilot project will be implemented to issue refunds through RAMIS subject to the conditions as may be specified by the CGIR.

Write Off of VAT arrears of Tsunami Projects

Steps will be taken to write off VAT arrears as per records of CGIR in respect of the projects carried out by construction contractors of Tsunami Projects.

POS machines to be made mandatory

Use of Point of Sales (POS) machines will be made mandatory and operationalized by the VAT registered persons.

It is pertinent to note that this has been mentioned in several previous Budgets as well.

Tax Administration

Proposed amendments to the Tax Appeals Commission Act, No. 23 of 2011 (TAC Act)

Increase in the fees for submitting a case to the Court of Appeal

The fee imposed under section 11A of the Tax Appeals Commission Act (TAC Act), for filing appeals on a question of law to the Court of Appeal will be increased from LKR 1,500/- to LKR 10,000/-.

The charges for submitting appeals to the Commission to be increased

The non-refundable fee of LKR 2,500/- for submitting appeals to the Commission, under section 8 of the TAC Act, will be increased to LKR 15,000/-.

Mandatory requirement of transferring bank guarantee to the CGIR

The current requirement of transferring the bank guarantee to the CGIR upon the determination of the respective appeal under section 7(1A) of the TAC Act will be amended to make it a mandatory provision, requiring the transfer to CGIR regardless of the decision of the appellant to refer the appeal to the Court of Appeal.

Mandatory cash deposit of 25% required to lodge an appeal with the TAC

The requirement to make a cash deposit equivalent to 25% of the assessed tax, penalty, and interest payable by the petitioner under section 7 of the TAC Act, will become a mandatory condition for the appeal to be registered for the hearing.

Pre-requisite to submit an appeal to TAC

In order for an appeal to be allowed for hearing by the TAC, either a decision on the administrative review must be received from the CGIR, or the request for the administrative review should be deemed to have been disallowed.

This overcomes the conflicts in the TAC Act with the existing provision of Inland Revenue Act which grants the right to appeal to the TAC upon the lapse of 7 months after the request for the administrative review was made, in a case where a decision has not been communicated by the CGIR.

Legal provisions to be introduced for settlements between CGIR and appellant

Necessary legal provisions will be put in place to enable mediation for settlements between the CGIR and the appellant, with the Commission overseeing the process in appropriate cases during the appeal hearing process.

Tax Administration

Proposed amendments to the Tax Appeals Commission Act, No. 23 of 2011 (TAC Act)

Submission of new evidence to TAC to be disallowed

The submission of evidence not previously presented to the CGIR during the assessment or administrative review process, as well as raising new issues that were not contested during the assessment, administrative review, or appeal hearing, will not be permitted.

Consistent term of office for the members of the panel of legal advisers and TAC

The term of office for the members of the panel of legal advisers to the Commission will be made consistent with the term of office of the commission members, and the panel members will be eligible for re-appointment.

Term of the members to hold office to be prolonged

The current stipulation under section 2(3) of the TAC Act, which limits the term of Commission members to hold office for no more than 3 years, will be extended to 5 years, beginning from the date of their appointment.

Other revenue proposal

Non-Tax Revenue proposals

- Estimated non-tax revenue is LKR 370 Bn. However, the specific details have not been discussed in the proposal.
- New legislation will be introduced to ensure the efficiency of the Valuation Department which will enable timely valuation of state assets, thereby increasing revenue for local government institutions.



Industry Proposals



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Tourism

Sri Lanka aims to welcome **over 2.5 Mn tourists** surpassing pre-pandemic records

	2018	2019	2020	2021	2022	2023	2024
Arrivals (Mn)	2.3	1.9	0.5	0.2	0.7	1.5	2.1
Tourism Earnings (USD Bn)	4.4	3.6	1.0	0.5	1.1	2.1	3.2
Avg. Duration (Days)	10.8	10.4	8.5	NA	NA	8.4	NA
Spend per Day (USD)	173.8	181.2	158.1	172.6	164.4	164.4	181.2

- At the recently concluded Economic Summit it was mentioned that the Government will establish a **National Tourism Commission** with the aim of bringing 80% of the industry under formal regulation.
- Funded by JICA, the Terminal-2 construction of the **Bandaranaike International Airport Development Project** to be completed by March 2028 to accommodate the rising tourist arrivals. This is also mentioned in the Budget proposals.

Source: Sri Lanka Tourism Development Authority

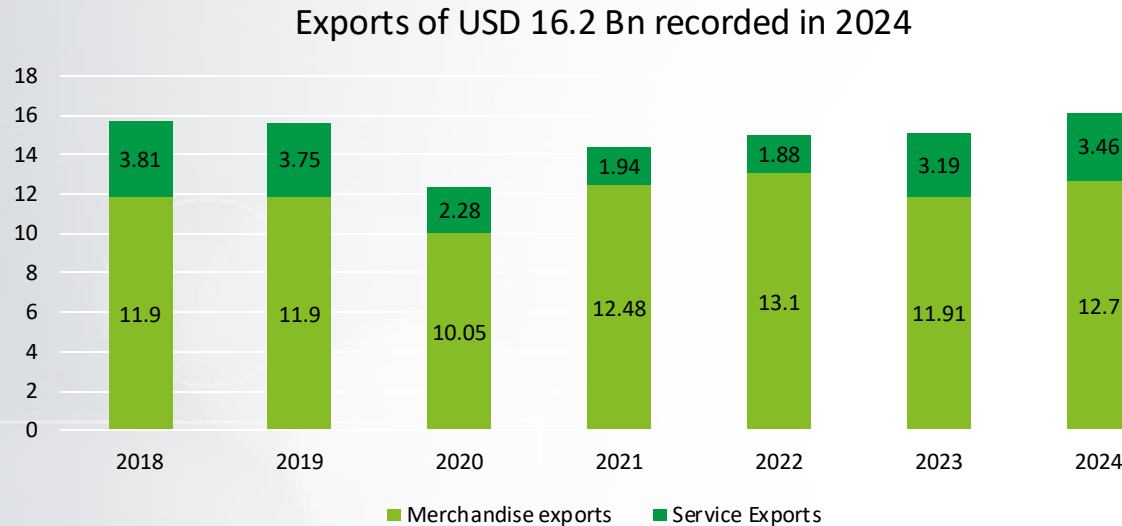
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- LKR 500 million allocated for infrastructure development of local destinations.
- Development and promotion of new tourist destinations.
- Introduction of digital ticketing systems to address overcrowding and improve capacity.
- The government will facilitate training youth engaged in the tourism sector.
- Measures to improve tourist safety.



Expanding exports and import substitution

Government targets total exports of **USD 19 Bn** in 2025



- Sri Lanka's export basket has remained consistent over the years, with a strong reliance on traditional sectors like Apparel and Tea.
- According to the World Bank Group, Sri Lanka's "missing" merchandise exports stand at USD 10 Bn.

Source: The World Bank Group, Export Development Board

2025 Budget Proposals

Expanding exports and import substitution

- MSMEs will be facilitated to tap new export markets.
- New Tariff rates based on a National Tariff policy to create a simple, transparent and predictable tariff framework.
- Sri Lanka's network of FTAs and DTAs will be expanded.
- Enhanced focus on economic diplomacy and Sri Lankan expatriates to be leveraged for enhanced access to overseas business networks.
- Implementation of the Trade National Single Window (TNSW).
- New customs law to be introduced.
- Facilitate exporters to receive trademark protection globally through accession to the Madrid protocol.

Industrial development

- Proposal to develop an industrial estate in Paranthan dedicated for chemical product manufacturing.
- LKR 500 Mn allocated for 5 industrial parks in KKS, Maankulam, Iranawila, Galle and Trincomalee.
- Industrial estate dedicated for automobile components and rubber manufacturing- allocation LKR 1500 Mn.



Logistics and Transportation

Sri Lanka has the potential to be a hub for logistics

Total Container Throughput (TEUs Mn)	2018	2019	2020	2021	2022	2023	2024	CAGR (2018 - 2024)
Sri Lanka	7.0	7.2	6.9	7.2	6.9	6.9	7.7	1.3%
India	17.0	17.5	17.6	19.6	19.7	11.4	12.3	-4.5%
Bangladesh	2.9	3.1	2.9	3.3	3.2	3.1	3.1	0.5%
Singapore	36.6	37.2	36.9	37.6	37.3	39.0	41.0	1.6%

- According to the Sri Lanka Ports Authority, Port of Colombo achieved an all-time high, handling 7.7 Mn TEUs in 2024, up 12.3% YoY.
- Upcoming capacity expansions are likely to be:
 - West Container Terminal I : 3.2 Mn TEUs
 - West Container Terminal II : 3.5 Mn TEUs
 - East Container Terminal : 2.4 Mn TEUs
- Despite transporting 6% of passenger traffic and 6.5% of goods, the Railways Department has struggled to expand its share.
- The Sri Lanka Transport Board fleet increased to 7,218 in 2023, after declining to 6,865 in 2022. Sustaining operations requires 500 new buses or annual engine repairs.

Source: SLPA, CEIC data, NTC, Ministry of Ports, Shipping and Waterways (IND)

2025 Budget Proposals

- Expressions of interest to be called for Colombo West Terminal 2 and Colombo North Port.
- LKR 500 Mn allocated for initial preparatory work on the Kerawalapitiya Customs Inspection Yard and Bloemendhal Logistics Park.
- LKR 500 Mn allocated for initial preparatory work on an Internal Container Dry Port (ICD) at Veyangoda as a rail based Integrated Multimodal Cargo and Logistic Center (IMCLC).
- LKR 500 Mn allocated to support the initial development of the National Single Window System, Truck Appointment System, E-Cargo Tracking System and Port Community System.
- LKR 1000 Mn allocated to support the initial development of advanced scanning systems for Port of Colombo and Bandaranayake International Airport.



Transportation

Public Buses

- LKR 3000 Mn allocated for procurement of 100 low floor buses.
- SLTB to add 200 low-bed passenger buses
- New buses to be operated under “Metro Bus Companies” under a fully digitized platform.

Railway

- LKR 500 Mn to rehabilitate old railway passenger coaches.
- LKR 200 Mn allocated for building new coaches.
- LKR 250 Mn allocated for initial work on extending Kelani Valley railway line.

Railway

- Introduction of a dedicated rail-based transportation of agriculture products.
- LKR 100 Mn allocated to upgrade Thambuththegama Railway station by incorporating loading docks.

Sri Lankan Airlines Legacy Debt Settlement

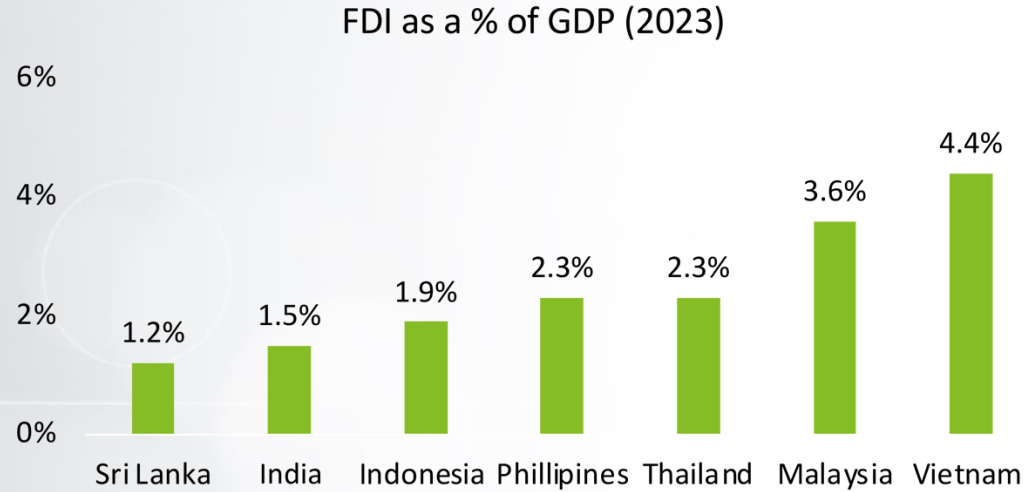
- LKR 20,000 Mn allocated for capital and interest repayment of the airline.

Enhancing Road Infrastructure

- LKR 4000 Mn allocated for rehabilitation of rural roads and bridges.
- LKR 5000 Mn allocated for rehabilitation of rural roads and bridges in the northern province.
- LKR 1000 Mn allocated to build Vadduvakal Bridge in Mullaitivu.

Investment Promotion

Reforms required to drive foreign direct investments into Sri Lanka



- Policy consistency and improvements to the regulatory framework are key to driving foreign direct investments into Sri Lanka.
- The Government recently announced measures to reduce the response time for investment applications handled by the Board of Investments of Sri Lanka.

Source: Board of Investment of Sri Lanka

2025 Budget Proposals

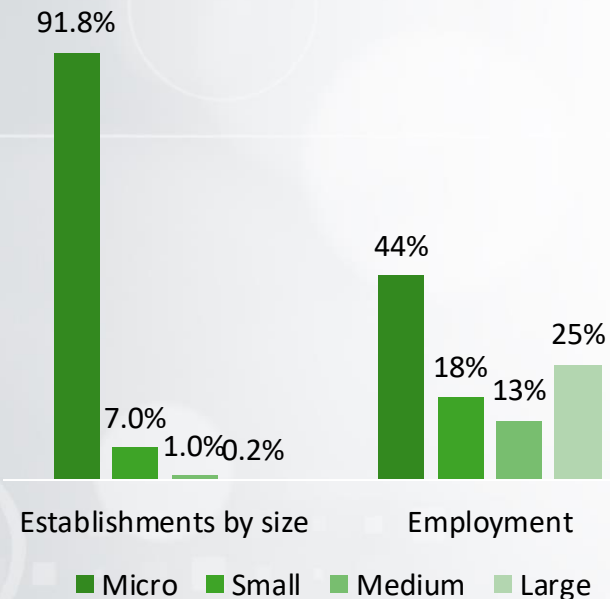
- Government to support expansion of export-oriented investment, sector specific zones, establishing eco-industrial parks through PPPs and privately run zones.
- The Economic Transformation Act to be revisited.
- Underutilized state-owned lands to be leased out for productive economic activities.
- “Bimsaviya” program to be expedited to develop good quality land titles which will increase commercial usability of such land.
- An Investment Protection Bill, a Public Private Partnership Bill, a new Insolvency law and laws to ensure effective implementation of the “one stop shop” concept will be introduced.
- Improvements to facilitate ease of doing business in the areas of registering property, taxes, trade facilitation, enforcement of contracts and obtaining credit.
- Digitization of public services.
- Government to provide required technical and financial assistance for exporters and importers to obtain quality testing and certifications. LKR 750 Mn allocated to develop the necessary infrastructure.



MSMEs, SMEs and Fostering Innovation & Entrepreneurship.

Sri Lanka targeting 1 million new jobs by expanding MSME economic activities

The MSME sector accounts for around 2/3rd of employment and contribute to more than 50% of GDP in many countries. In Sri Lanka too, the sector is considered to contribute around 52% to national GDP and 45% to employment.



Source: DCS Data (2013-14)

- **Key systemic barriers** include lack of access to finance due to lack of collateral, low financial literacy, lack of access to markets and technology and lack of formal business structures.
- Access to Finance remains a key barrier, with Sri Lanka's **MSME financing gap** estimated at **USD 17 Bn**, approximately 21% of GDP, in 2017.
- In 2023, the Government facilitated **injection of nearly Rs. 71,936 Mn** to the SME sector with the assistance of development partners and banks.
- **Key focal areas** for revival include access to finance, regulation of unregulated sectors, enhancing financial literacy and the infusion of technology.
- Several initiatives are underway to support MSME sector:
 - **Financial Literacy Roadmap (2024-2028)** to improve financial behaviour.
 - **National Credit Guarantee Institution Limited (NCGIL)** to overcome bottlenecks such as collateral requirements.
 - **Credit Information Bureau of Sri Lanka (CRIB)** to launch a **national SME scorecard**
 - Launch of initiatives **to gather SME Data and Women Entrepreneur data** for better decision making.

2025 Budget Proposals

- **MSMEs** will be facilitated to tap into new export markets, expand existing global markets, or integrate into the value chains of major exporters and global value chains.
- **SMEs:** Setting up of a development bank within the existing state bank mechanism.

Fostering innovation & entrepreneurship

- Rs. 500 Mn allocated for youth entrepreneurs in agro-based SMEs for startup and scale-up.
- Providing co-financing for selected R&D initiatives, coordinate linkages between public R&D institutions and relevant universities with Sri Lanka's diaspora engaged in similar fields globally.
- LKR 1000 Mn allocated to create an Innovation Invention Fund for commercialization of Research Findings.



Digital Economy

Government targets a Digital Economy of **USD 15Bn** by 2030

Digital Economy Strategy

SIX STRATEGIC AREAS

Infrastructure connectivity and access

Skills, literacy, industry and jobs

Connected digital govt

Cyber security, safety and privacy

Digital financial services

Digitization across sectors and MSMEs

SIX CRITICAL ENABLERS

Legal and regulatory framework | Digital identity | Institutional governance | Data governance | Stakeholder engagement | Private investment

- Digital Economy Strategy is based on 6 core principles – Inclusive, Innovative, Sustainable, Global, Human-centric and Rights-based.
- Digital Public Infrastructure (DPI) is prioritized by the government as the backbone for any digital transformation efforts, aimed of improving public service delivery at scale.
- DPI enables the government to increase revenue, manage expenditure effectively, foster innovation, eradicate corruption, and uplift communities out of poverty.
- Laying the foundational blocks commenced with efforts underway to implement unique digital identity and digital payments.
- In Sri Lanka, even with 12.34Mn (53%) internet penetration and 7.5Mn (34%) social media users, digital payments lags behind. Building trust and security remains crucial aspects for widespread adaption of digital payments.
- Digitization of economy will also require focus on areas such as mindset change, digital literacy, enabling policies and regulations, and process simplification.

2025 Budget Proposals

- Introduction of Sri Lanka Unique Digital Identification (SL-UDI) for all citizens.
- Creation of new legislation and strengthening of existing legislation/related institutional framework related to digital economy, cybersecurity, data privacy and data protection.
- A digital payment infrastructure, starting with the recently launched “GovPay” system will be implemented in a phased manner.
- The government will facilitate a conducive investment environment to attract private capital and Partnerships across all segments of the Digital Economy, including artificial intelligence, robotics, FinTech, and other emerging technologies.
- **The government’s aim is to grow Sri Lanka’s digital economy to USD 15 Bn / 12% of the national economy over the next 5 years. The government also expects ICT exports to increase to USD 5 Bn. With these targets in view, LKR 3,000 Mn has been allocated to implement the initiatives described above.**



Other proposals



- Minimum wage of the private sector employees to be increased from LKR 21,000 to LKR 27,000 in April 2025 and to LKR 30,000 from 2026.
- Minimum monthly basic salary of Public sector employees to be increased from LKR 24,250 to LKR 40,000. The total estimated cost of this salary increase is expected to be LKR 325 Bn, hence this proposal will be implemented in a phased manner (LKR 110 Bn allocated from the current budget).
- LKR 10,000 Mn allocated to increase public sector pensions.
- LKR 10,000 Mn allocated to hire 30,000 individuals for essential public sector roles.
- The Government will intervene to increase the daily wage of plantation workers to LKR 1,700.



- The Ministry of Environment will work in coordination with the Ministry of Finance and Central Bank to access globally available pools of sustainable financing.
- The Government will actively encourage private and appropriate state entities to raise funds through listed equities and debt capital markets.
- Enactment of the Proceeds of Crime Bill.
- Further strengthening of the Commission to Investigate Allegations of Bribery and Corruption.
- LKR 300 Mn allocated to hold a national cultural festival in December.
- Legal reforms to be introduced aimed at economic development, good governance and public service delivery.

Expenditure Allocation, Social Infrastructure & Welfare



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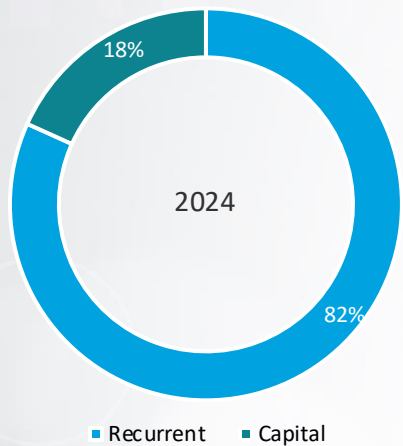


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Government Expenditure

Expenditure Composition



Expenditure by category

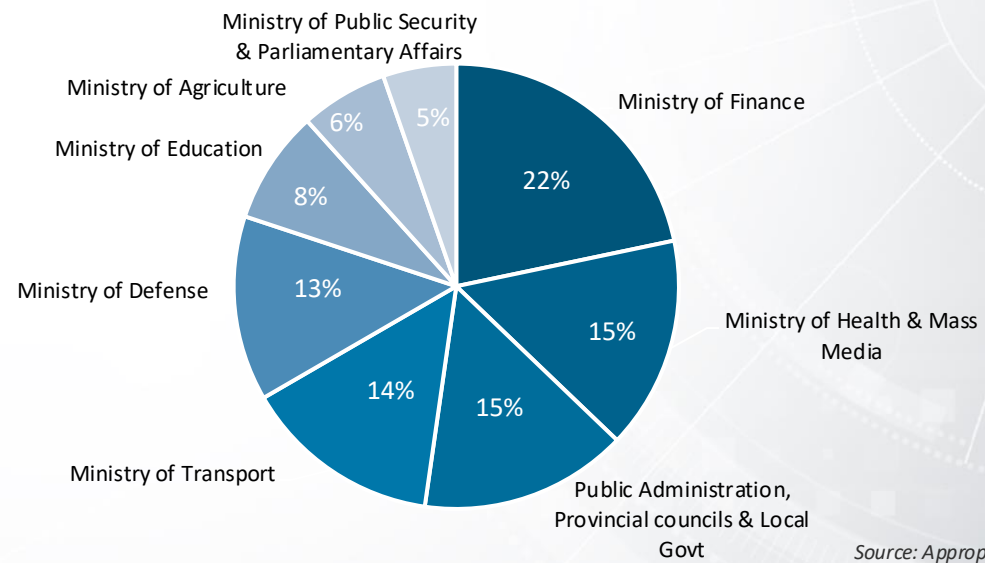
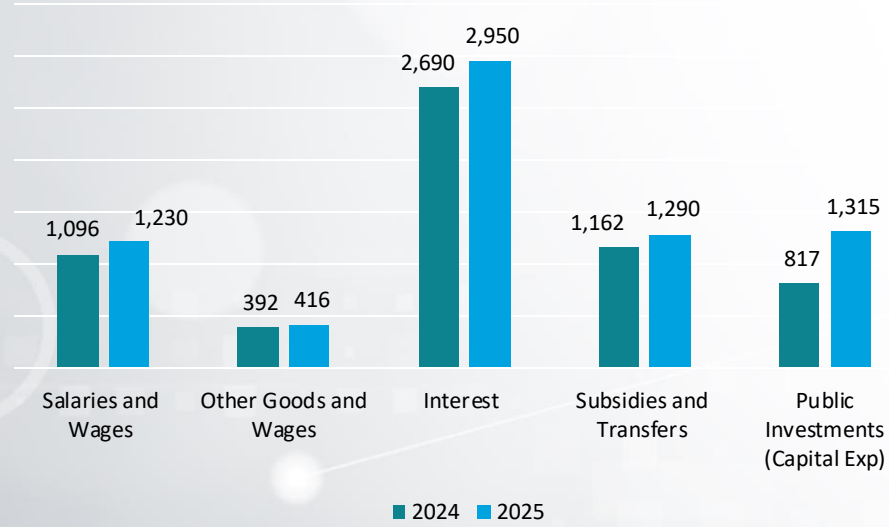
Government expenditure allocated for 2025 totals to LKR 7,190 Bn, with 82% being allocated for recurrent expenditure . A 17% increase is seen in the total expenditure from the previous year.

Capital expenditure allocation increased by 61% from 2024, with the intension of stimulating economic growth.

Interest payments accounts for 50% of recurrent expenditure (LKR 2,950 Bn), an increase of 9% from 2024. Allocation for salaries and wages accounts for 21% of recurrent expenditure which is an increase by 12% from 2024.

Top 8 ministries have been allocated 42% of the total allocation with the Ministry of Finance, Planning and Economic Development being allocated the highest percentage .

Recurrent expenditure allocations by category (LKR in Bn)



Source: Appropriation Bill 2025

Expenditure Management

Repurposing Mansions

Mansions allocated for the President, Prime Minister and Ministers have been redirected for effective public use.

Luxury Vehicles

All state - owned luxury vehicles that require heavy running & maintenance expenses will be auctioned.

Vehicle Allowance

To minimize state expenditure on vehicles, selected officials will be given an allowance instead of a vehicle.

Rationalizing government agencies

A committee appointed to review the functions and utility of a number of government agencies with rationalization in mind.

SOE Holding Company

To reduce future financial risk emanating from SOEs, a holding company under the full control of the government will be established under which selected SOEs are held as subsidiaries.

Effective Management of SOEs

A new legal framework will be introduced to ensure the effective management of state-owned business enterprises.

Health & Education

Higher budgetary allocation for social infrastructure

- As per Universities Grants Commission in 2022 **only 25% qualified for tertiary education in Sri Lanka**, significantly lower than countries such as Malaysia (41%).
- According to the Board of Investments of Sri Lanka nearly **20% of the 150,000** students eligible to pursue higher education have chosen to migrate to pursue foreign degree programs, a considerable drain on foreign exchange.
- Highest allocation to Education and Health has been made through the 2025 budget.
- Per capita health expenditure as a percentage of GDP has averaged 1.6% between 2018 and 2023.
- The health sector has been challenged with a shortage of medical professionals and essential medicines.

2025 Budget Proposals

Healthcare

- Digitalization of the health system including digitalization of functions of National Medicines Regulatory Authority (NMRA), State Pharmaceuticals Corporation (SPC), and improvement and expansion of the “Swastha” system.
- Improving service delivery at Primary Medical Care Units (PMCU) and Divisional hospitals.
- Palliative and geriatric care services to be available at selected PMCUs.
- Strengthening Estate sector health care services through PPPs.
- National capacity for pandemic preparedness to be improved.
- Measures taken to ensure procurement of quality pharmaceuticals and minimize wastage.



Health & Education

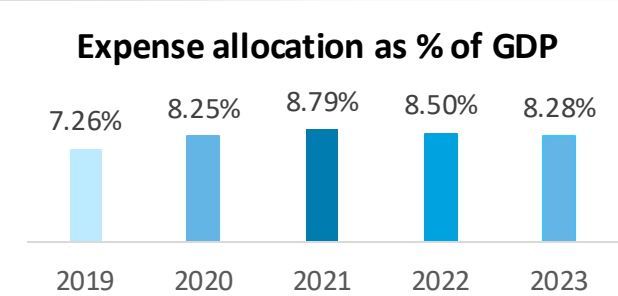
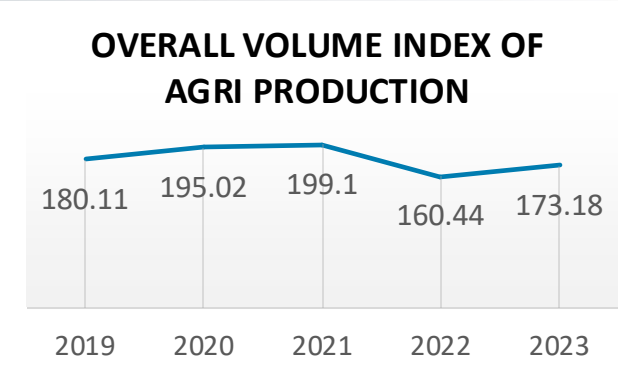
Expenditure Allocation for education

Area	Allocation (LKR Mn)
Nutritious food allowance given to students in sports schools increase from LKR 5000 to LKR 10,000.	630
To establish a treatment centre for children with neurodevelopmental disabilities.	200
For developing a model daycare centre which provides inclusive education for children with neurodevelopmental disabilities.	250
To upgrade school infrastructure.	10,000
To improve quality of the university system.	135,000
For pre-school morning meal program increasing the per student payment from LKR 60 to LKR 100.	1000
To construct a model early childhood education centre.	80
To increase the monthly allowance of preschool teachers by LKR 1000.	100

Area	Allocation (LKR Mn)
To relocate schools based on population density.	500
To increase the monthly scholarship of students who qualified grade 5 scholarship examinations in low-income families from LKR 750 to LKR 1500.	1000
To increase the stipend given to students in vocational education from LKR 4000 to LKR 5000 per month.	200
To increase monthly Mahapola scholarship from LKR 5000 to LKR 7500 and monthly bursary payments from LKR 4000 to LKR 6500.	4600
To offer scholarship for students who show outstanding performance in GCE A Level examination to study undergraduate degree programs at high-ranking universities.	200
To develop specialized sports schools in 5 provinces.	500
To improve Jaffna and other regional libraries.	300

Agriculture, Dairy & Fisheries

Government aims to yield an income of approximately LKR 3 million per acre annually through its revitalized policy for the sector



	2021	2022	2023	2024	2025
Budget allocation (LKR Bn)	146.7	218.9	205.4	237	208.9*

*Appropriation bill - Ministry of Agriculture, Livestock, Land and Irrigation

- **Land fragmentation and decreasing arable land**, due to rapid urbanization reducing agricultural land poses a challenge for the sector.
- **Highly dependent on traditional farming methods.** Focus on adoption of modern agricultural technology and precision farming could help with increasing productivity and attract young workforce.
- Youth are moving away from agriculture, leading to an **aging workforce, high labor costs** and shortages.
- **Frequent policy changes create instability** for farmers. Fertilizer and agrochemical policy uncertainties in the past have led to reduced yields and food shortages.
- Lack of focus on long-term development initiatives. Structural changes are required to improve land and labour productivity.
- Post-harvest losses due to poor storage and transport facilities. Insufficient **prices** for production, price volatility of agricultural inputs.
- **Vulnerable to climate change** and extreme weather events.

2025 Budget Proposals

- Development of quality seeds, cascade management, efficient use of water, identified as priority areas.
- A data and information system will be developed covering the entire value chain.
- Paddy Marketing Board Act to be amended to regulate the collection and storage of paddy and rice.

Allocated for the fertilizer subsidy.	LKR 35,000 Mn
Allocated for maintaining a healthy buffer stock of paddy.	LKR 5000 Mn
For increasing production of other field crops.	LKR 500 Mn
To identify state owned lands that can be brought in for private investment.	LKR 250 Mn
To provide government support for cooperative mechanisms through provision of land etc.	LKR 100 Mn
To support youth entrepreneurs in agro-based SMEs.	LKR 500 Mn

Agriculture, Dairy & Fisheries

Expenditure Allocations

Irrigation	Allocation (LKR Mn)
For irrigation sector development.	78,000
To rehabilitate down-stream development of Galoya, Rajanganaya, Minneriya and Hurulu Wewa schemes.	2000
New water resources development projects, including Malwathu Oya, Gin Nilwala, Maduru Oya Right Bank development, Mundeni Aru will be implemented over the medium term.	
Fisheries	Allocation (LKR Mn)
To establish freshwater prawn hatcheries under PPPs, farmer cooperatives and marketing networks.	200
Dairy	Allocation (LKR Mn)
For improvement of dairy value chains and enhance dairy farming productivity.	2500
Plantation & Other Export Crops	Allocation (LKR Mn)
For providing high yielding coconut field links to the growers in the northern region.	500
For the government to provide assistance to improve supply quality, expand value addition, and marketing of spice products.	250

Energy Sector

Regulatory Framework – 2025 Budget

Regulatory framework will be reformed together with the amending Act.

Development of Oil Tanks – 2025 Budget

Plans to develop the remaining 61 oil tanks at Trincomalee in collaboration with internationally recognized entities.

Ownership and source of power

	2023	%
CEB	3,218	74
IPP	1,163	26
Total	4,381	100

	%
Major Hydro	29.4
Thermal (Oil and Coal)	49.9
Non Conventional Renewable energy	20.7
	100

Market Improvements

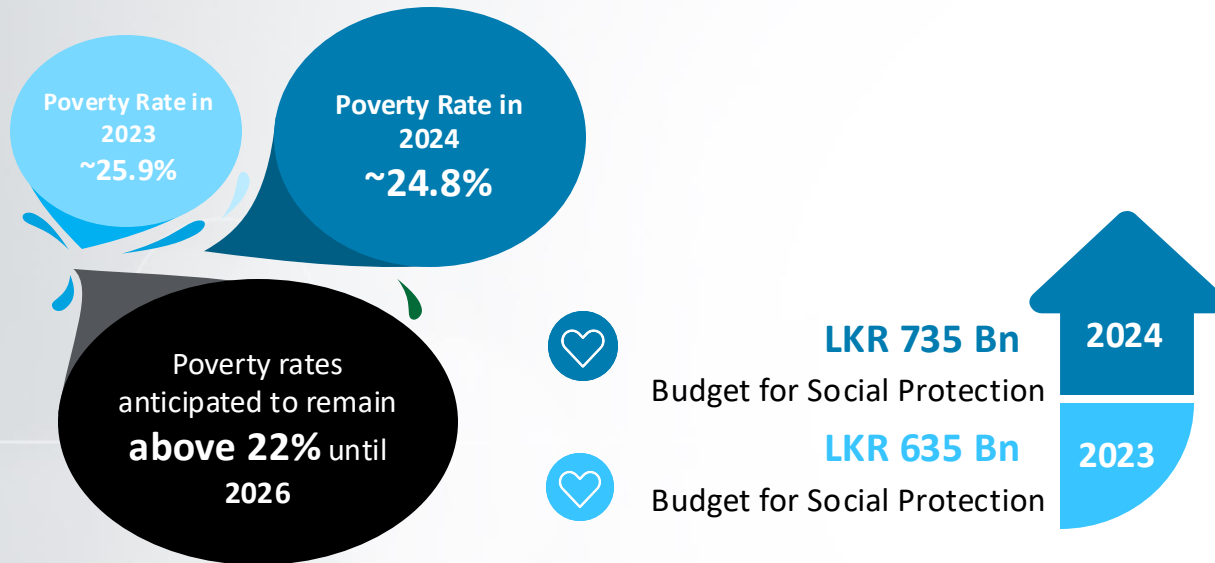
- 1. Market reflective tariffs has improved CEB’s ability to settle IPP’s.
- 2. PPA are now structured to mitigate currency risk for foreign investors.
- 3. Petronet indicating an interest to supply LNG.
- 4. Initial interest for LNG assets came from Thailand, Middle East and Singapore.

To materialize the 2030 target, a total of **9,770 MW** need to be added with an investment of **USD 9.2Bn**

Source: Statistical digest CEB 2023

Social Welfare and Social Protection

Government focuses on creating an economically and socially fulfilling society for all citizens



- Rising food prices and essential goods costs have increased the financial burden on poor households.
- Unemployment and underemployment have worsened due to economic downturns.
- Inclusion and exclusion errors has resulted in vulnerable people failing to receive benefits.
- Weak coordination between central and provincial governments, affecting implementation.
- Limited data integration across agencies makes it difficult to track beneficiaries.

2025 Budget Proposals

- “Aswesuma” benefit to be enhanced.
- Providing opportunities for orphan children to enroll in the nearest national or provincial council school.
- Provide vocational training for youth in rehabilitation centers.
- Compensation for death or disabilities caused by natural disasters increased from LKR 250,000 to LKR 1 Mn.
- Increased duty-free allowance for Sri Lanka’s migrant workers.

Social Welfare and Social Protection

Expenditure Allocations

Area	Allocation (LKR Mn)
. Nutritious food for pregnant mothers	7500
. The triposha programme	5000
. For programmes to prevent child and women violence	120
. Implementation of programs aimed at women	720
. Monthly allowance for kidney patients and people with disabilities to be increased from LKR 7500 to LKR 10,000	10,000
. Monthly allowance for elderly persons to be increased from LKR 3000 to LKR 5000	5000
. Empowering Aswesuma beneficiaries	500
. Renovation of certified schools/remand homes and childcare institutions	500
. Establishing a child friendly transport system for institutionalized children to and from courts	250
. A monthly allowance of LKR 5000 for institutionalized children and orphans	1000
. LKR 1 Mn housing grant for institutionalized children reaching adulthood	1000

Social Welfare and Social Protection

Expenditure Allocations

Area	Allocation (LKR Mn)
Establishing a database on people with disabilities	100
Programme to create awareness on mental health and counselling services for student	250
Establishment of local manufacturing facilities of assistive devices	500
Provision of a seasonal food package during the new year season	1000
Individuals above 60 years of age will be eligible for 1-year fixed deposits of up to LKR 1 Mn with an annual additional interest rate of 3% above the prevailing rate	15,000
Implementing a comprehensive programme to create a drug free society	500
Skills development pogramme for convicted prisoners	100

Development activities to enhance living conditions

Expenditure Allocations

Area	Allocation (LKR Mn)
Each MP to be allocated LKR 10 Mn to minimize regional disparities	11,250
Essential regional development activities	9000
Infrastructure development at district level	2000
Development of estate housing	4267
Vocational training, livelihood development etc., for Malayagam tamil youth	2450
Smart classrooms for Malayagam tamil community	866
Clean Sri Lanka concept	5000
Waste disposal facilities in Anuradhapura	750
Mitigating elephant-human conflict	640
Addressing deforestation and promoting natural regeneration	1050
Resettlement of internally displaced people	1500
Essential maintenance of housing schemes constructed by government	1000

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	2023	2022	2021	2020	2019	2018	2017	2016	2015
Budget deficit (% of GDP)	(8.3%)	(10.2%)	(12.2%)	(10.7%)	(6.8%)	(5.3%)	(6%)	(5.6%)	(8%))
Current account (deficit) (USD Mn)	1,559	(1,453)	(3,284)	(1,187)	(1,843)	(2,799)	(2,309)	(1,742)	(1,883)
Trade balance (USD Mn)	(4,900)	(5,185)	(8,139)	(6,008)	(7,997)	(10,343)	(9,619)	(8,873)	(8,388)
Balance of Payment (deficit) / surplus (USD Mn)	(2,825)	(2,806)	(3,967)	(2,328)	377	(1,103)	2,069	(500)	(1,489)
Total International Reserves (USD Mn)	4,392	1,898	8,758	10,883	10,402	9,582	10,436	8,433	9,336
Total Foreign Assets (USD Mn) (Month of same year imports)	6.7	3.9	3.6	6.4	6.3	5.2	6.0	5.3	5.9
Unemployment %	4.7	4.7	5.1	5.5	4.8	4.4	4.2	4.4	4.7
Labour force ('000 persons)	8,408	8,547	8,553	8,467	8,592	8,388	8,567	8,311	8,214
GDP at Market Price (LKR Bn)	27,630	24,064	17,612	15,646	15,911	15,352	14,387	12,813	10,951
GDP at Market Price (USD Bn)	84.4	76.8	88.6	84.4	89.0	94.7	94.4	88.0	80.6
Mid-year population (Mn persons)	22.2	22.2	22.2	21.9	21.8	21.7	21.4	21.2	20.9
Per Capita GDP at Market Price (LKR)	1,253,785	1,084,882	794,926	713,821	729,761	708,442	670,925	604,129	522,204
Per Capita GDP at Market Price (USD)	3,830	3,464	3,999	3,851	4,082	4,372	4,398	4,149	3,841

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	2023	2022	2021	2020	2019	2018	2017	2016	2015
Real GDP Growth Rate %	(2.3)	(7.3)	4.2	(4.6)	(0.2)	2.3	6.5	5.1	4.2
Revenue and Grants (% of GDP)	11.1	8.4	8.3	8.8	11.9	12.6	12.8	14.2	13.3
Primary balance (% of GDP)	0.6	(3.7)	(5.7)	(4.4)	(3.4)	(1.1)	(0.7)	(0.2)	(2.9)
Domestic savings (% of GDP)	23.8	25.0	29.3	26.7	28.3	31.1	33.0	23.8	20.9
Government debt (% of GDP)	103.9	114.2	100.0	96.6	81.9	78.4	72.2	79.3	77.6
National Consumer Price Index (2013=100) (YoY % change)	-	59.2	14.0	4.6	6.2	0.4	7.3	4.2	4.2
Interest Rate - AWDR - Monthly %*	11.6	14.1	4.9	5.8	8.2	8.8	9.1	8.2	6.2
Interest Rate - AWPR - Monthly %	12.4	28.2	8.3	5.8	9.7	12.1	11.5	11.7	7.4
Exchange Rate LKR/ USD (Annual* Average)	327.5	324.6	198.9	185.5	178.8	162.5	152.5	145.6	135.9
Capital Market Indices- All Share Price Index	10,654	8,490	12,226	6,774	6,129	6,052	6,369	6,228	6,859
Capital Market Indices- S&P Index	3,068	2,636	4,233	2,638	2,937	3,135	3,671	3,496	3,625
Market capitalization (LKR Bn)	4,248	3,847	5,489	2,960	2,851	2,839	2,899	2,745	2,938
Net purchases by non-nationals (LKR* Mn)	4,363	30,625	(52,648)	(51,356)	(11,735)	(23,239)	17,655	338	(5,372)

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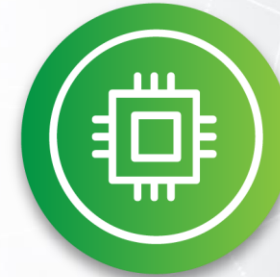
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