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Shaping the Nation's Economic Pathway

Budget Analysis Report
November 2025

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Sri Lanka Budget 2026 - Building a Strong Economy Together

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07 November 2025

We are pleased to forward to you a Summary and Analysis of the Budget Proposals for 2026, presented in the Parliament on 07 November 2025 by the Honorable 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 Division of Deloitte in Sri Lanka will be pleased to assist you.

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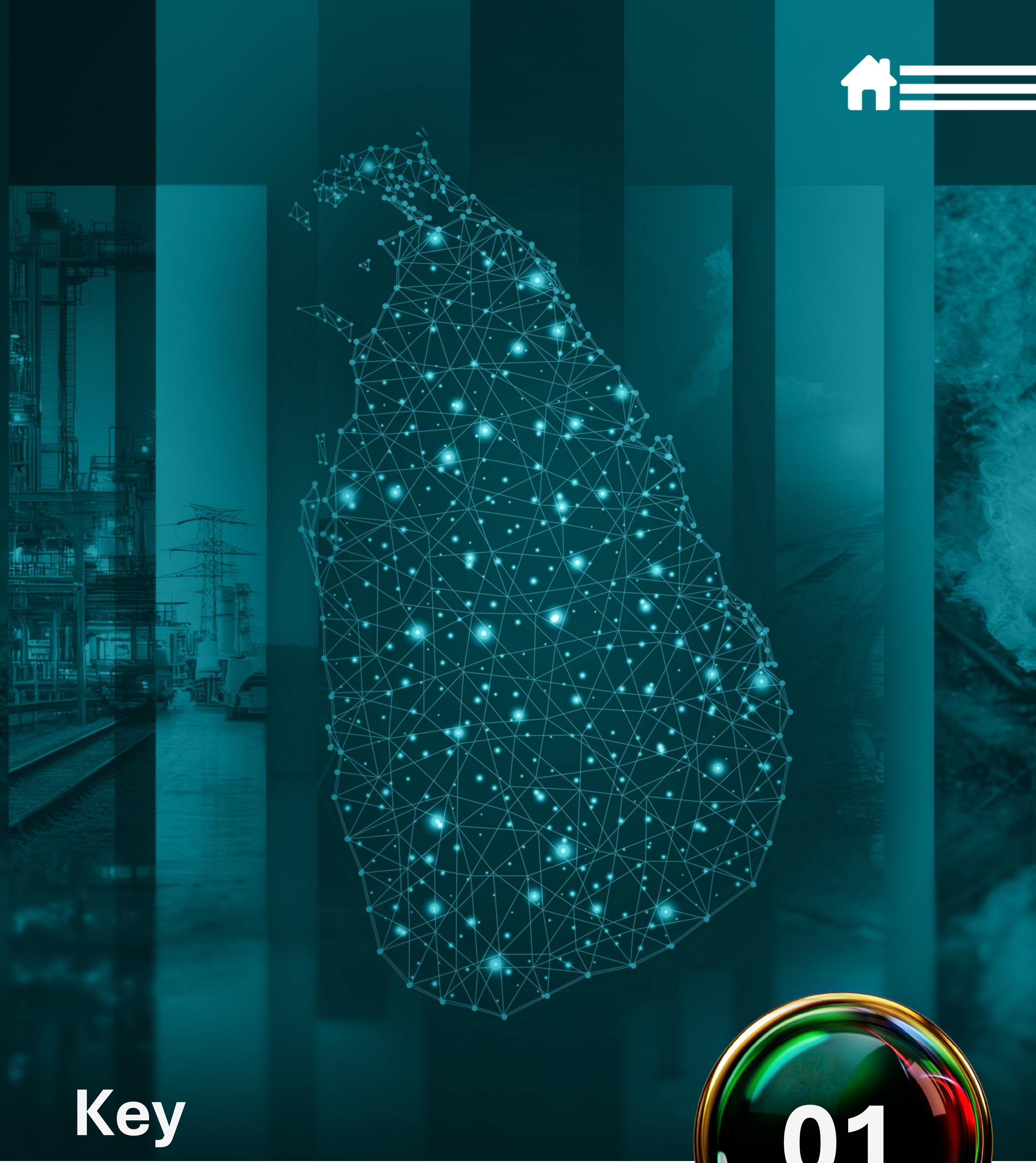


01

Key Highlights

Key Highlights

A — Driving trade and investment

Ambitious reforms involving the introduction of a law for PPPs and State-owned Enterprises. Regulatory enhancements to expedite and facilitate foreign direct investment and trade.

B — Public investment

Wide array of public investments in multiple sectors with expenditure increasing to 4% of GDP.

C — Digitalization

Initiatives aimed at improving efficiency, modernizing state institutions, better transparency leading to a reduction in corruption.

D — Export promotion

Concerted effort to widen export markets, improve export competitiveness to be more resilient to volatility in global markets.

E — SME development

Sustainable and inclusive economic growth, through concessionary loan schemes, greater access to finance and enhanced capital allowances, enabling 52% of national economic activity.

F — Public finance

Better practices in management of public finances through the Public Financial Management Act, instilling greater fiscal discipline.

Key Highlights

01

Tax revenue target for the year

Tax revenue target for the year places heavy reliance on motor vehicle imports remaining at the same levels as 2025 which may pose a challenge.

02

Direct: Indirect tax ratio

Medium term goal to reach a direct : indirect tax ratio of 40:60 from the current 25:75 ratio. However, the 2026 budget continues with heavy reliance on indirect taxes with the ratio remaining at 25:75.

03

VAT & SSCL registration threshold reduced

VAT and SSCL threshold will be reduced from LKR 60 Mn per annum to LKR 36 Mn per annum (w.e.f. 01 April 2026) broadening of the indirect tax base. This may negatively impact the targeted direct to indirect tax ratio of 40:60.

04

Customs Import Duty rates increased

Proposed 0%, 10%, 20%, 30% w.e.f. April 2026 (current rates 0%, 10%, 15%, 20%). Government does not expect increased revenue from this amendment. The intention is to align Sri Lanka with global practices.

05

Improving the Tax audit process

Modern tax audit framework to be implemented to minimize opportunities for discretion and corruption. Selection of audit cases will be based on transparent risk assessments.

06

E- invoicing

Development of National Electronic Invoicing System to enhance VAT administration. Taxpayers to update ERP systems and invest in POS infrastructure.

Key Highlights

Investment incentives

Strategic Development Projects and the Port City Acts to be amended to provide tax incentives based on transparent, rule-based criteria, in order to curb corruption and malpractice.

Enhanced Capital Allowances

Investment threshold to qualify for enhanced capital allowance will be reduced from USD 3 Mn to USD 250k to promote SME growth.

RAMIS 3.0

Launch of RAMIS 3.0 to enhance tax administration

Benefits for foreign workers

Concessionary rate housing loans and contributory pension scheme.

Budget Summary

02

Budget Summary

- A primary surplus of 3.8% of GDP is expected in 2025 through improved revenue mobilization and administration combined with government expenditure rationalization.
- Recognizing the importance of sustained investment for long-term growth, the government estimates public investment to increase to 4% of GDP in 2026 (vs. 3.2% estimated in 2025).
- Continuation of the State-owned Entity reform process, enhancing Public Private Partnerships and driving export-led growth are key focus areas for the government.

The table shows the key revenue items and key expenditure items of budget 2026

Item	LKR (Bn)
Revenue	
Income Tax	**1,210**
Taxes on Goods and Services	**3,056**
Taxes on External Trade	**644**
Non-Tax Revenue	**360**
Grants	**30**
Expenditure	
Salaries and Wages	**1,323**
Other Goods and Services	**401**
Interest	**2,617**
Subsidies and Transfers	**1,347**
Public Investment	**1,380**
Other	**(11)**

Key Points

The Government has set the following medium to long-term targets:

- Annual GDP growth of 7% in the medium term
- Government Revenue to GDP of ~20% in the long term

Budget Summary

Summary of the Budget	2024	2025 Budget Original Estimates	2025 Budget Revised Estimates	2026 Budget
Total Revenue and Grants (LKR Bn)	4,091	4,990	5,100	**5,300**
Tax Revenue (LKR Bn)	3,705	4,590	4,725	**4,910**
Total Expenditure (LKR Bn)	6,131	7,190	6,548	**7,057**
Budget Deficit (LKR Bn)	2,040	2,200	1,448	**1,757**
Total Foreign Financing (LKR Bn)	333	75	200	**235**
Total Domestic Financing (LKR Bn)	1,707	2,125	1,248	**1,522**
Total Revenue / GDP (%)	13.5	15.0	15.9	**15.3**
Primary Surplus / GDP (%)	2.2	2.3	3.8	**2.5**
Budget Deficit / GDP (%)	6.8	6.7	4.5	**5.1**

Sri Lanka records 8 consecutive quarters of growth, driven by industry and services, and aided by lower interest rates and stable currency

The economy maintained strong momentum with ~5% growth in 1H2025. CBSL forecasts a GDP growth of 4.5% in 2025

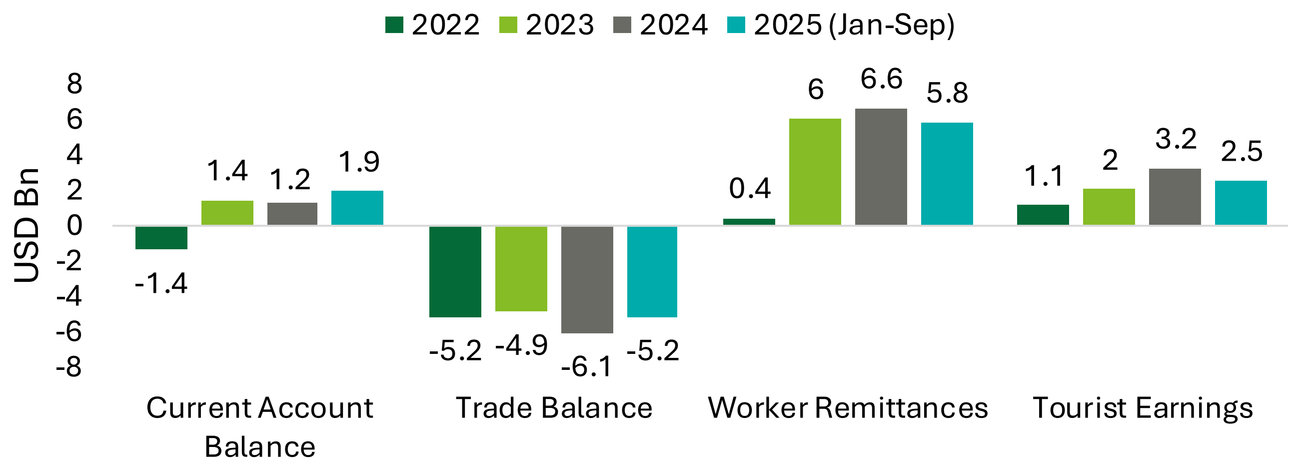
Y0Y Growth	2024	2025
Q1	5.3%	4.8%
Q2	4.7%	4.9%

Source: Department of Census & Statistics

Annual GDP Forecasts	2025	2026
ADB	3.9%	3.3%
World Bank	4.6%	3.5%
Fitch Ratings	4.4%	3.8%

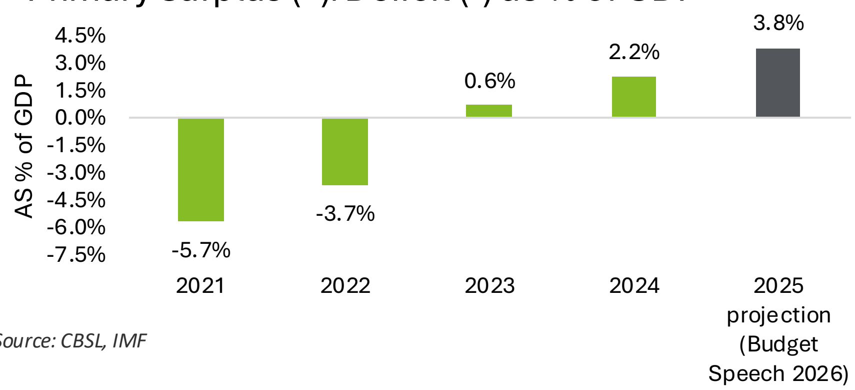
Source: ADB, World Bank, Fitch Ratings

Earnings from tourism and worker remittances have shown a strong rebound, supporting the external position



As at end Sep-25, 102% of expected total tax revenue target has been achieved. However, capital expenditure has slowed down.

Primary Surplus (+)/Deficit (-) as % of GDP



Source: CBSL, IMF

Debt to GDP Ratio

96.1%
2024

90%
IMF Projection
(2032)

Key macroeconomic indicators maintain momentum

CCPI Headline Inflation (Oct)		LKR/USD Avg. Exchange Rate (Oct)	
-0.8%	2.1%	293.8	303.1
2024	2025	2024	2025

1-year T-Bill Rate (Oct)		Gross Official Reserves USD (Sep)	
9.95%	8.02%	6.1 Bn	6.2 Bn
2024	2025	2024	2025

Source: CBSL

The near 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** (Bilateral & Multilateral) (MOUs signed June 2024)
- ✓ **International Sovereign Bondholders**

IMF EFF Program - some key fifth review updates

1. Tax revenue enhancement, prudent fiscal management including addressing the under execution of capital expenditure, cost recovery based pricing for utilities
2. Safeguarding financial sector stability, resolving high level of non performing loans in banks, and better oversight and governance of state banks
3. Strengthening governance reforms including digitalisation, protecting the poor through improvements to the design of the welfare schemes

As of September 2025, all 3 global ratings agencies confirmed Sri Lanka's exit from default

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	✓ **Raised the country's long- and short-term foreign currency rating to "CCC+/C" from "Selective Default (SD)" status**

Disbursed

~USD1.74 Bn through 4 disbursements to-date, representing 58% of the total EFF.

Pending Approval

Staff-level agreement reached on the fifth review. IMF Board approval is contingent on: (1) Parliamentary approval of the 2026 Appropriation Bill in line with program parameters; (2) Completion of the financing assurances review to confirm multilateral support and debt restructuring progress.

Future Disbursements

3 tranches remaining (USD 1.32 Bn). Program set to conclude in March 2027. Next tranche of USD 347 Mn will take total disbursements to USD 2 Bn.

Fiscal & Other Revenue Proposals

03

Tax Revenue

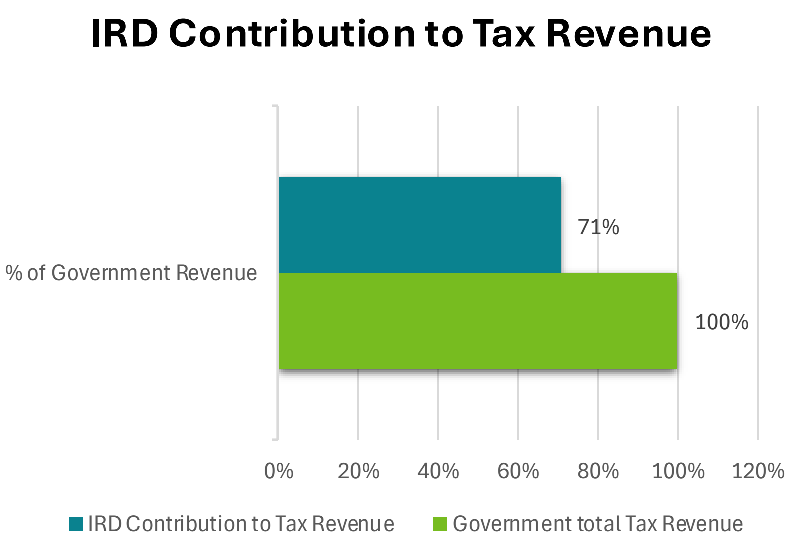
Last year's performance

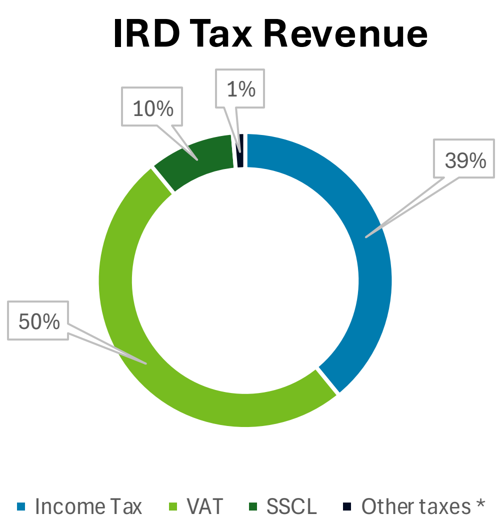
The Government's revised revenue contributions to GDP was on par with the provisional estimates for 2024. The Government's tax revenue was 12.4 percent of GDP in 2024 which surpassed the provisional GDP estimate of 12.3 percent.

The Inland Revenue Department's (IRD) contribution to Government's tax revenue was nearly 71 percent (i.e. approximately LKR 2,620.07 Bn out of the Government's total tax revenue of approximately LKR 3,705 Bn).

Based on IRD statistics, the contribution from income tax was only 40 percent approximately . The balance 60 percent was from indirect and other taxes with VAT being the major contributor amounting to nearly 50 percent.

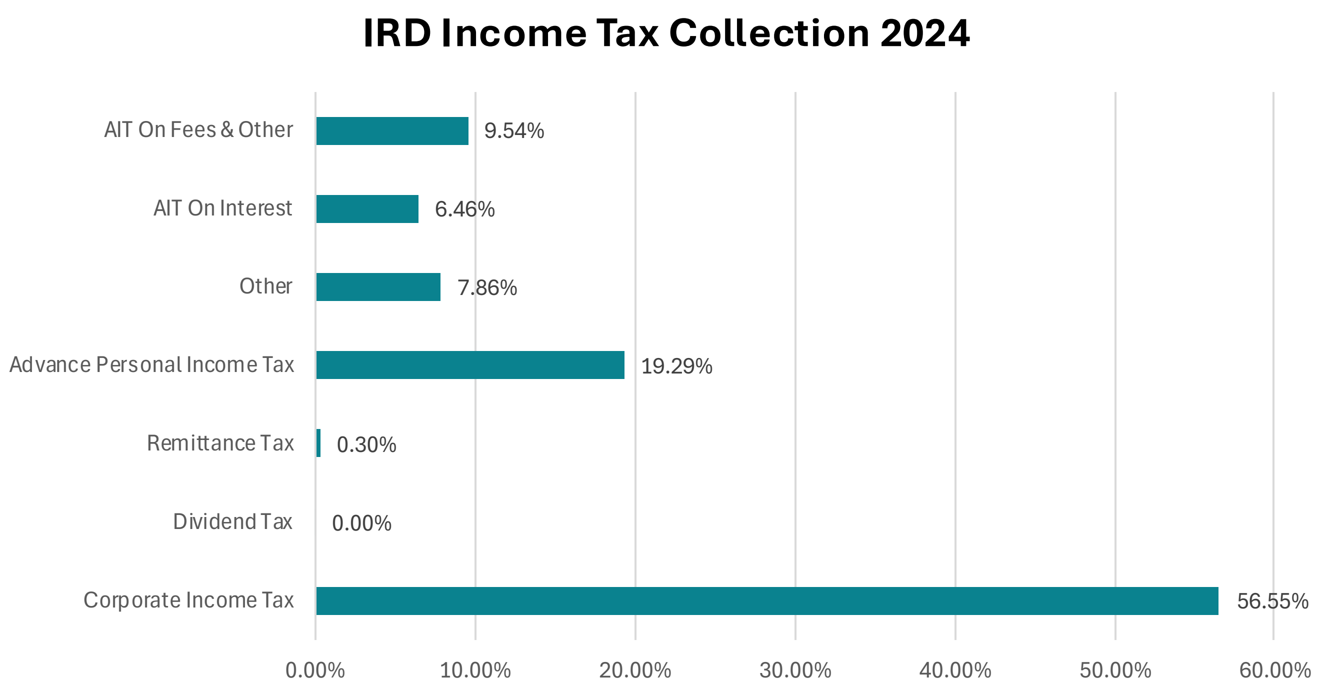
As a percentage of total number of taxpayers registered for income tax with the IRD in 2024, the corporate income tax contribution was nearly 57 percent of the total income tax revenue (i.e. approximately LKR 579 Bn out of the total income tax revenue of LKR 1,024 Bn)

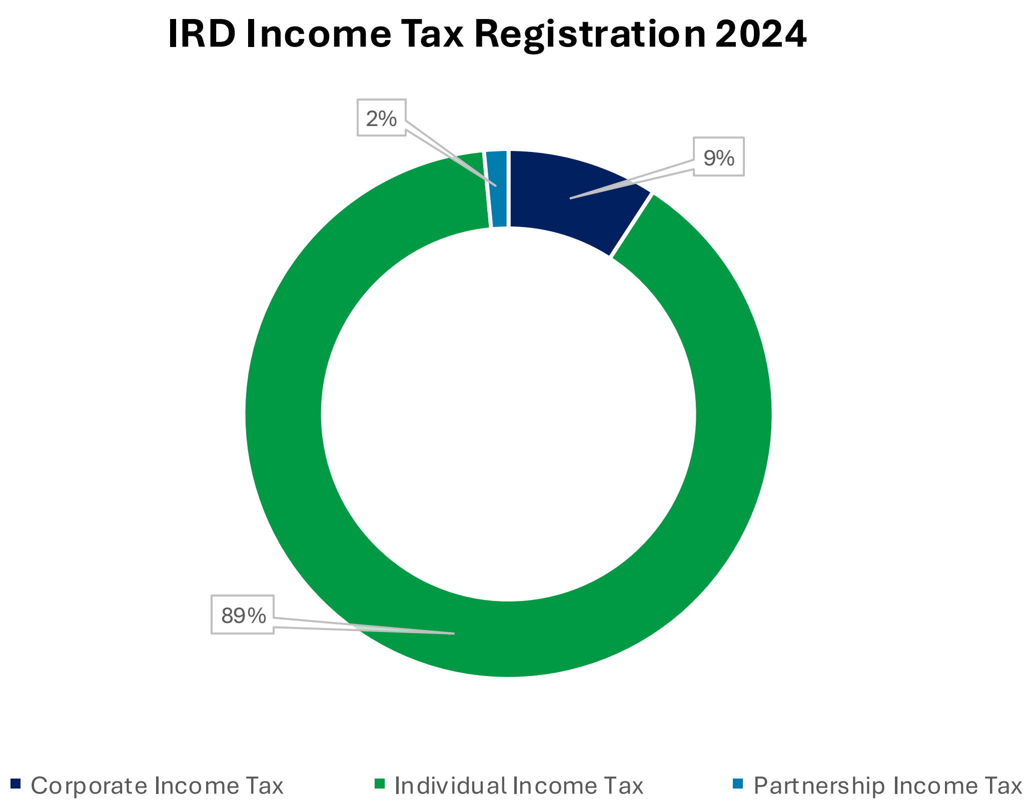




Tax Revenue

Last year's performance





Government Revenue

Highlights

Government Revenue	2024	2025 Revised estimates	2025 Provisional Jan to Aug	2026 Budget
Tax revenue (LKR Bn)	3,705	4,725	3,069	4,910
Non-tax revenue (LKR Bn)	326	350	226	360
Total revenue (LKR Bn)	4,031	5,075	3,295	5,270

Revenue contribution to GDP	2024	2025 Budget Original Estimates	2025 Budget Revised Estimates	2026 Budget
Non-tax revenue/GDP (%)	1.1	1.1	1.1	1.0
Tax Revenue/GDP (%)	12.4	13.9	14.8	14.2
Total Government Revenue /GDP (%)	**13.5**	**15.0**	**15.9**	**15.3**

Sources:
Summary of the Budget Estimates 2025 and 2026
Budget Economic and Fiscal Position Report 2026

Income Tax

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

Reduction of investment threshold for enhanced capital allowances

Location	Investment made on depreciable assets (other than intangible assets)		ECA	Extended Period for deducting unrelieved losses
	Prevailing	Proposed		
Northern Province	> USD 3 Mn	> USD 250,000	200%	10 Years
Other than Northern Province	> USD 3 Mn and < USD 100 Mn	> USD 250,000 and < USD 100 Mn	100%	10 Years

The 2026 Budget does not introduce any material amendments to either personal or corporate income tax. However, the 2025 Budget proposed a number of amendments to the Inland Revenue Act No 24 of 2017 which are yet to be enacted (Refer Appendix 1 for details).

Refer Appendix 2 for a summary of the existing personal income tax rates.

Value Added Tax (VAT)

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

Imposition of VAT on imported Coconut and Palm Oil

Currently, imports of these two products are subject to Special Commodity Levy (SCL) and thereby exempt from VAT at the point of import and sale. It is proposed to remove the SCL on these two products and bring them within the purview of VAT from April 2026, on par with the VAT liability on locally produced coconut and palm oil.

Imposition of VAT on Imported Fabric

At present, imported fabric is exempt from VAT, but liable to CESS at the point of import and local supply of same is exempt from VAT. The proposal is to remove the CESS and impose VAT on supply of imported fabric from April 2026 at the point of import and supply, bringing it on par with the VAT liability on locally manufactured fabric.

Reduction in the VAT Registration Threshold

It is proposed to lower the annual VAT registration threshold from **LKR 60 Mn** to **LKR 36 Mn** to broaden the tax base.

Social Security Contribution Levy (SSCL)

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

Imposition of SSCL on Imported Coconut and Palm Oil

Currently, imports of these two products are subject to SCL and thereby exempt from SSCL at the point of import and sale. It is proposed to remove the SCL on these two products and bring them within the purview of SSCL from April 2026.

Reduction in the SSCL Registration Threshold

It is proposed to lower the annual SSCL registration threshold from **LKR 60 Mn** to **LKR 36 Mn** to broaden the tax base.

Imposition of SSCL on Vehicles

It is proposed to apply the SSCL at the point of vehicle import and sale by manufacturers, effective from April 2026. However, subsequent sale of vehicles already taxed at import or at the point of sale by manufacturer will be exempt from SSCL.

Reforms to Customs Legislation

1

Four-Band Tariff Structure

The current custom import duty rates of 0%, 15%, 20% to be revised in line with National Tariff Policy, to 0%, 10%, 20%, 30%, effective from April 2026.

2

Removal of CESS on imported fabric

CESS applicable at LKR 100/kg of imported fabric will be removed with effect from 01 April 2026.

3

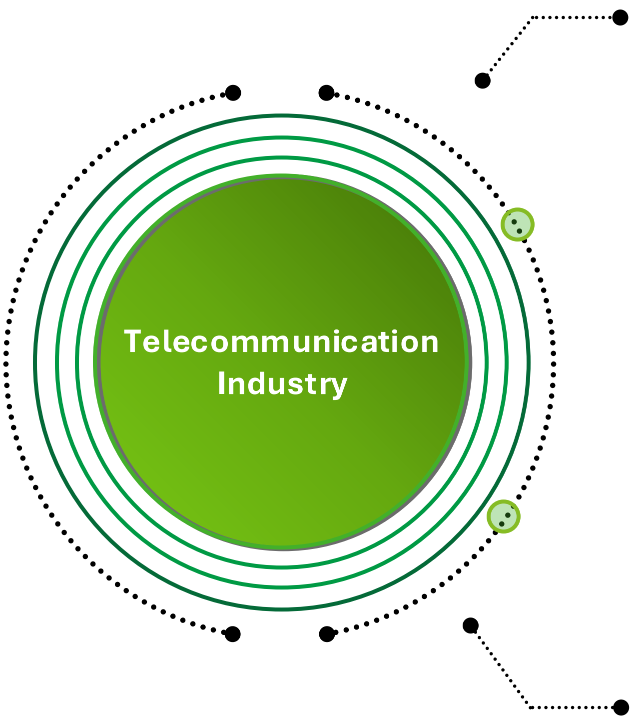
Gradual phaseout of para-tariffs

A plan will be prepared and implemented according to a time frame for the gradual phaseout of para-tariffs so as to have minimal impact on government revenue.

Expansion of Bonded Warehouse Facility
Regulations published recently on Amendments to Bonded Warehouse Facilities are detailed in Appendix 3.

Other Taxes

Taxes Applicable to the Telecommunication Industry



Tax on Communication Towers

Under the Digital Technology Expansion Program, it is proposed that **tax applicable to newly constructed communication towers will be suspended for a period of five (05) years.**

However, it is unclear whether this refers to an income tax exemption (same as the one that was available prior to 1st April 2023) or a waiver of the Annual Tower Fee.

Telecommunication Levy (TL)

It is proposed that the Telecommunications Levy Act, No. 21 of 2011, be amended to allow **adjustments to deduct bad debts** when payments are made, while any bad debts recovered are to be subjected to the TL.

Under the current practice, the entire turnover is taken into account for calculating TL without adjusting for bad debts.

Tax Administration

Modern Tax Audit framework

A modern tax audit framework to be introduced effective on the returns to be filed from January 2026.

Selection of audit cases will be based on transparent risk assessments conducted by the Risk Management Unit of the Department of Inland Revenue and, when necessary, reviewed by a committee appointed by the CGIR.

National e-invoicing system

A national e-invoicing system to be introduced with an API-based integrated framework to enable connectivity between taxpayers' ERP systems and the RAMIS.

- **Phase 1-** Covers export-oriented enterprises and integration with selected pilot companies.
- **Phase 2-** Includes all VAT registered taxpayers.
- **Phase 3-** Deployment through POS machines (a fully web-based platform)

Tax Administration

Exchange of information regarding AML and countering the Financing of Terrorism framework

Provisions to be included in relevant tax laws to allow tax administration authorities to exchange information with the Financial Intelligence Unit and other enforcement agencies.

Establishment of the Department of Inland Revenue in a Single Office Premises

LKR 2000 Mn allocated to establish a new single office premises for the Department of Inland Revenue with the aim of providing taxpayers with a simpler, more reliable, and efficient service, while also strengthening the tax collection process in a sustainable manner.

RAMIS 3.0

Department of Inland Revenue to be modernized through the implementation of upgraded version of the existing Revenue Administration Management Information System (RAMIS).

Legal provisions on tax related crimes

Provisions to be included in relevant tax laws on enforcement (including interpretation of terms, fines and penalties) for tax related crimes stemming from money laundering and financing of terrorism.

04

Industry Proposals

Digital Economy

Government targets a Digital Economy of USD 15 Bn by 2030

USD 3 Bn	USD 5 Bn	75%	200,000
Value of the digital economy	Digital Export Target (2030)	ICTA Digital Literacy Target	Targeted ICT Professionals (2030)

National Digital Strategy 2030:

The government has introduced a comprehensive strategy focused on infrastructure, digital data, services, transactions, and cybersecurity.

Digital Public Infrastructure (DPI):

Significant progress has been made on the rollout of a Unique Digital Identity (SLUDI) system and is foundational to broader digitalization efforts.

E-Governance:

As of early-November 2025, GovPay has exceeded LKR 1 Bn in value of transactions and onboarded 200 government institutions and 3000+ services enabled.

Cybersecurity:

A National Cyber Protection Strategy for 2025–2029 and a National Cyber Security Operations Centre were launched in September 2025.

Artificial Intelligence:

The government has developed a National AI Strategy to leverage AI for innovation and improved public services.

Fintech:

Projects like LankaSign, a secure digital signature system, are helping to build a more robust digital payment ecosystem.

Digital Economy

Key Acts: Implemented & In - Progress

1. Electronic Transactions (Amendment) Act, No. 25 of 2017.
2. Personal Data Protection Act No. 09 of 2022.
3. Pending Cyber Security Act to ensure the effective implementation of the National Cybersecurity Strategy.

Though Acts are in place, ground level execution is vital.

GovTech Sri Lanka (Pvt) Ltd

Fully government owned successor to ICTA – prioritized by the government to operationalize, and accelerate the country's digital-transformation agenda.

2026 Budget Proposals

- Enhancing digital accessibility in Government Institutions – LKR 1,000 Mn.
- Facilitating the Government Institutions to promote Cashless Economy – LKR 1,000 Mn.
- Government fund to be established to accelerate the growth of start-ups ecosystem – LKR 1,500 Mn.
- Virtual Special Economic Zones to be established to generate exports and employment.

Digital Economy

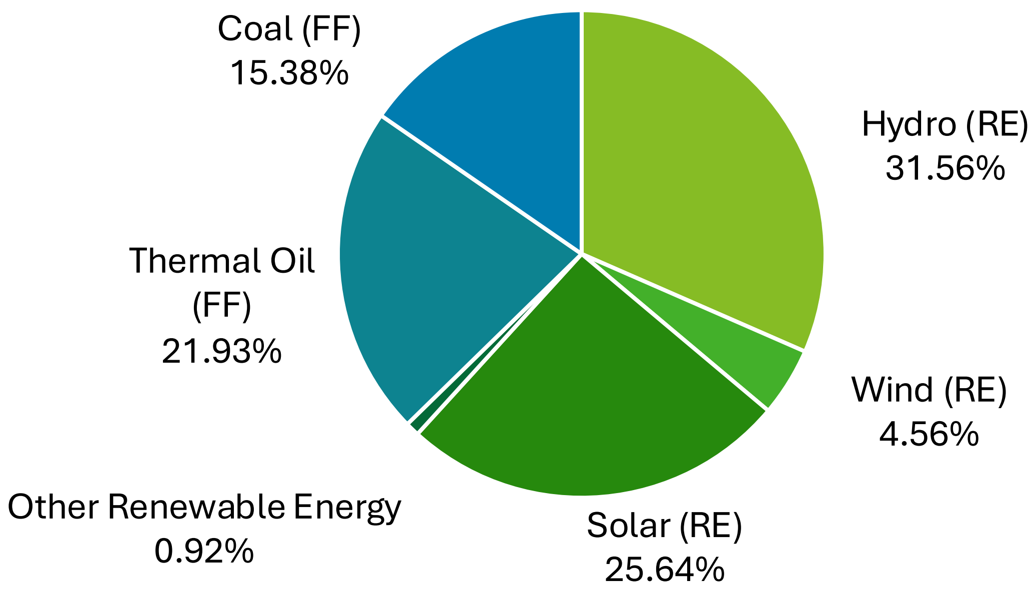
2026 Budget Proposals

- Expanding broadband access across the country, attracting foreign direct investments, and fostering an ecosystem that supports new entrepreneurs.
- Allocation of LKR 3,000 Mn to encourage investments in next – generation digital infrastructure, including artificial intelligence, cloud computing, and data centers.
- Establishing the Digital Economy Authority as well as the Digital Economy Council, which will function as a Cabinet Subcommittee on the Digital Economy.
- Issuing of the first digital identity card in the 3rd quarter of 2026.
- Providing facilities for all government transactions through the online payment mode.
- Effective from January 1, 2026, service fees for payments to government institutions are waived. Allocation of LKR 1,000 Mn for covering the cost of the government transactions, system improvements and public awareness. Allocation of LKR 500 Mn for providing the necessary facilities and promotional programmes.
- QR code payments worth less than LKR 5,000 to be made free of charge.

Power & Energy

Sri Lanka is often forced to rely on imported fossil fuels or resort to load shedding during peak demand periods.

Total Installed Capacity - 5,841 MW



Source: Ministry of Energy Progress Report 2024

With the enactment of the Electricity (Amendment) Act No. 14 of 2025, it is expected that a National Electricity Market (NEM) will be established.

The NEM will consist of wholesale electricity market (that facilitates short term and long-term trading), retail, and ancillary markets.

Under the new act, transmission will remain fully owned by the government while restrictions have been imposed on private sector cross-ownership in generation and distribution.

Sources: Electricity (Amendment) Act No. 14 of 2025, Public information

Power & Energy

Fossil Fuel energy contribution to net generation in 2024: 49%

Total generated Capacity in 2024: 16,802 GWh

Total no of electricity users in 2024: 7.1 Mn

(LKR/kWh)	2023	2024
Average Selling Price per Unit	42.86	36.01
Average Cost per Unit at Selling Point	41.18*	30.98 (a)

(a) Provisional
** Restated*

New developments

Battery Energy Storage System

- The first-ever Battery Energy Storage System (BESS) tender launched by CEB in October 2025 with 16 strategic locations selected nationwide.
- Strong investor interest signaling confidence in energy transition initiatives.
- Enable the use of cheaper, renewable solar energy during nighttime hours in place of costly fossil fuels.

Wind power

- CEB launched several wind power generation tenders including the recently tendered 2 X 50 MW in Mullikulam.

Sources: Statistical Digest - 2024 - CEB, CEB Long Term Generation Expansion Plan 2025-2044 (Draft), Public information

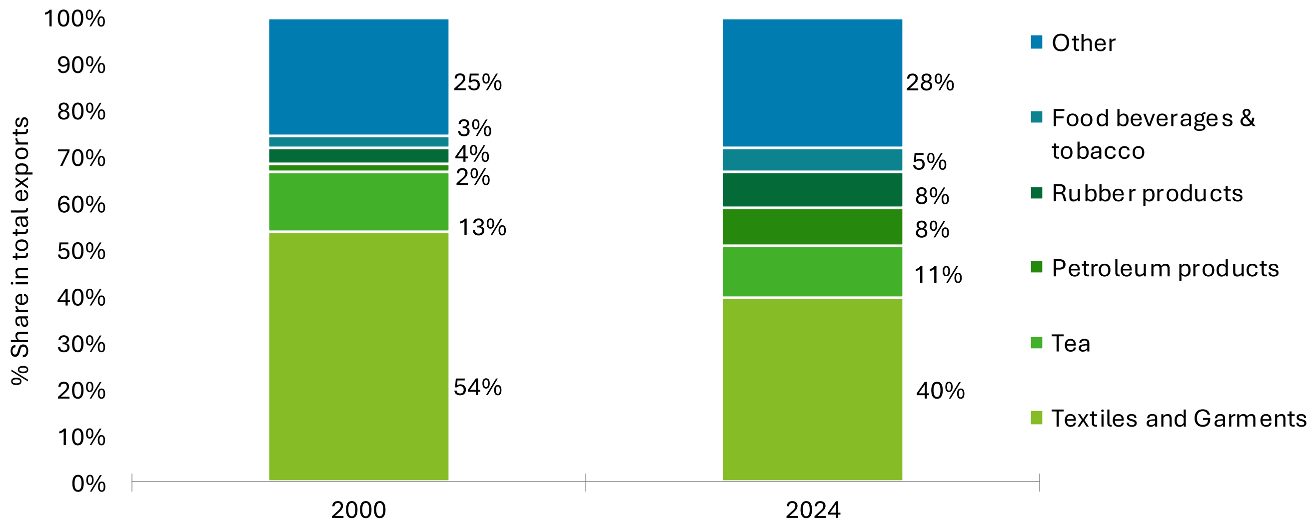
2026 Budget Proposals

- Enter new areas to revitalize the economy through data centers, transport electrification, green hydrogen and green ammonia.
- An Integrated Economic Development Framework to be established by integrating Energy, Digital and Transport that targets new economic opportunities.
- Introduce the Energy Transition Act.

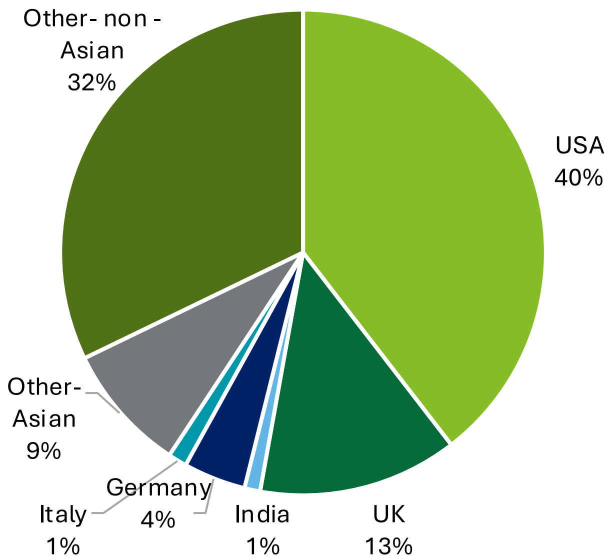
Exports

While some diversification in export products and markets is evident, further diversification is required to reduce dependency.

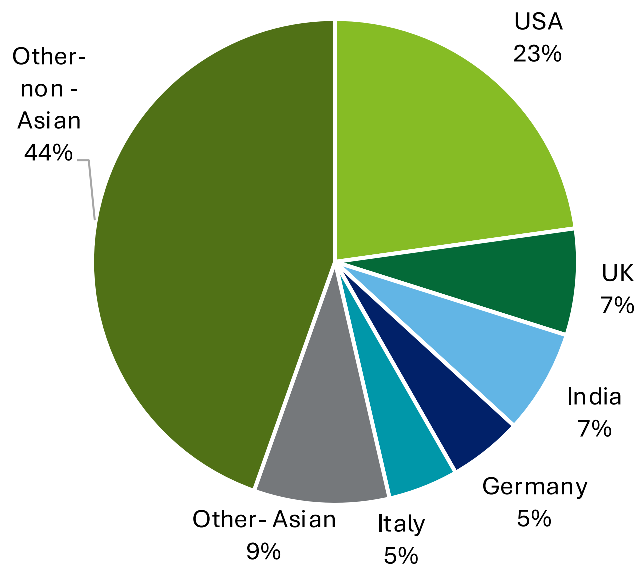
Apparel accounted for 54% of exports in 2000 vs. 40% in 2024



Key export markets - 2000



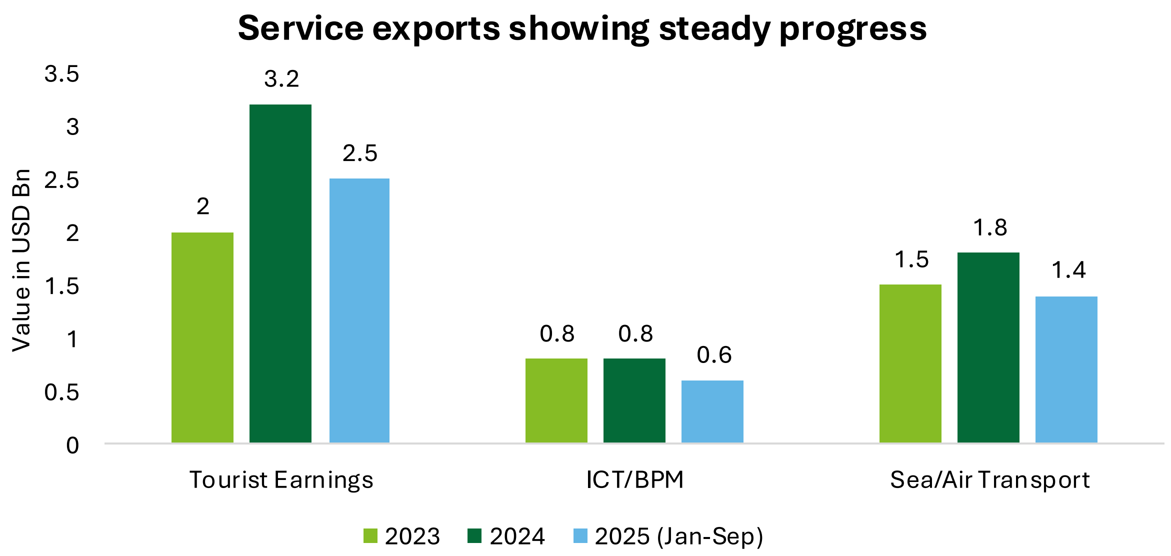
Key export markets - 2024



Source: Central Bank of Sri Lanka

As per World Bank statistics, Sri Lanka's **exports as a % of GDP is c.20% in 2024,** far behind peers like Malaysia (71%), Vietnam (86%) & Thailand (70%).

Exports



Source: Central Bank of Sri Lanka

Sri Lanka's **exports including services** amounted to **USD 19.6 Bn for 2024**. Of this 30% came from the above services (up to September 2025 they accounted for **29%).**

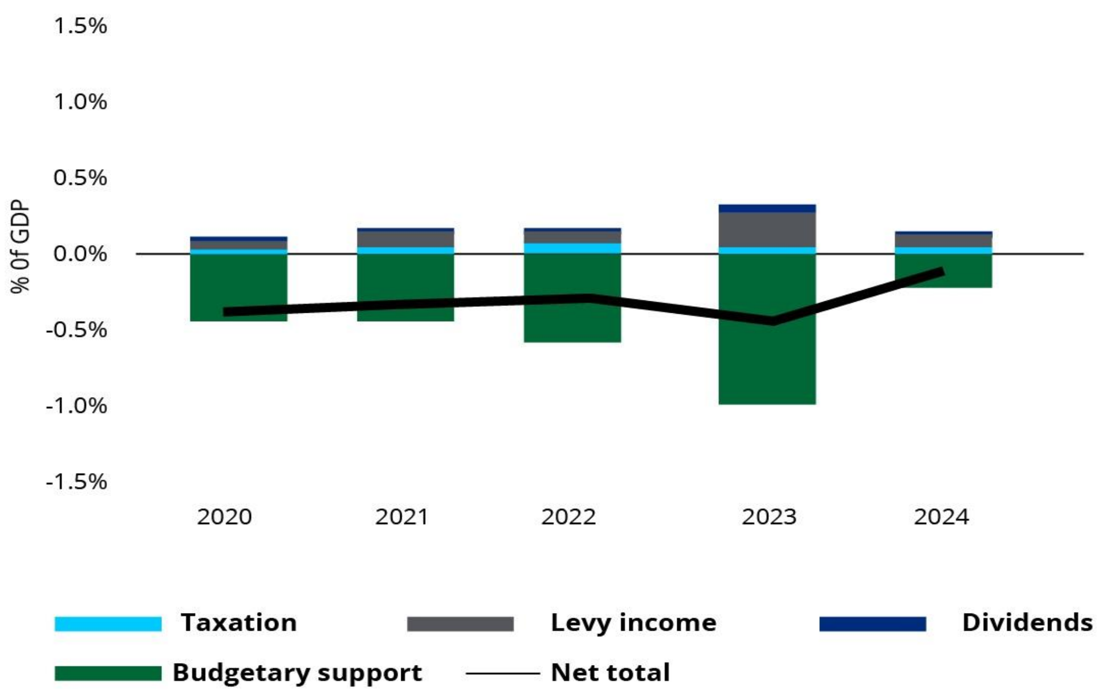
2026 Budget Proposals

- Improvement of the Trade National Single Window (TNSW) to facilitate efficient paperless trade – LKR 2,500 Mn.
- Appointment of an expert committee to review existing trade agreements and negotiate on new Free Trade Agreements.
- Digitization and automation of port operations, including the implementation of the Ports Community System as an integrated data management system.
- Kerawalapitiya Customs Verification Centre and Trade Facilitation Centers in the Bloemendhal area will be established.
- Preparation of a National Export Development Plan and LKR 250 Mn allocated under the National Export Brand Promotion Plan.
- EDB programs (trade fairs, product certification, digital marketing) – LKR 250 Mn.
- Introduce a new tariff policy and improve financial facilities to promote new goods and services exports.

State-Owned Enterprises (SOEs)

The Fiscal Strategy Statement 2026 summarises the impacts of the main 52 SOEs (11 financial and 41 non-financial) on public finances. SOEs can benefit public finances if well run by contributing taxes, levies and dividends to the state.

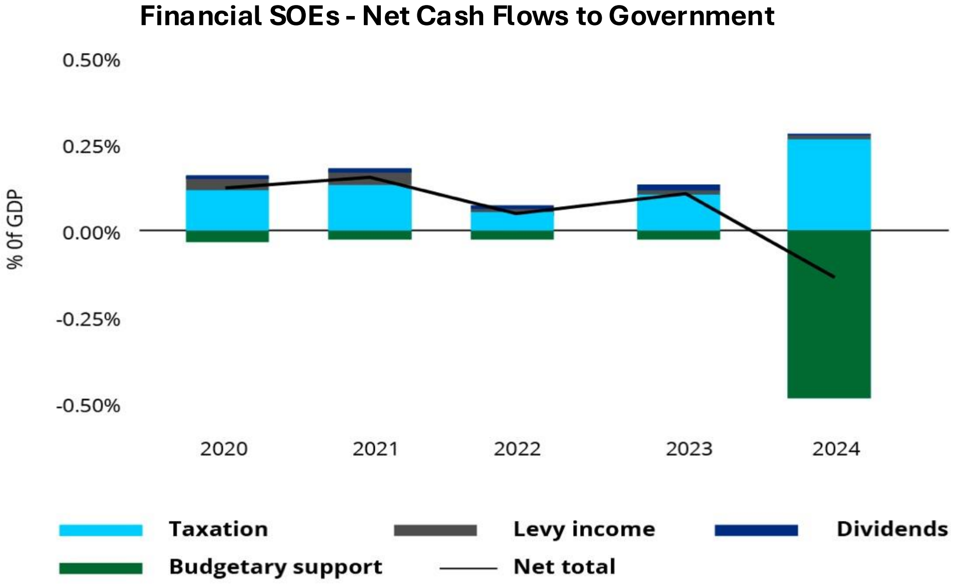
Non-Financial SOEs - Net Cash Flows to Government



Source: Fiscal Strategy Statement 2026, Ministry of Finance

Financial SOEs remained profitable over the past 5 years with little budgetary support till 2023. In 2024, the two state banks received support as part of the broader restructuring of government and non-financial SOE debt.

Non-financial SOEs reported losses amounting to 3.5% of GDP from 2020-22. Since then, 24 of the 41 non-financial SOEs have returned to profitability.



Source: Fiscal Strategy Statement 2026, Ministry of Finance

As at end 2024, the stock of state guarantees to SOEs stood at USD 4.8 Bn or 5.36% of average GDP of the past 3 years.

Guarantees provided to Road Development Authority, National Water Supply and Drainage Board and Sri Lankan Airlines, accounts for **80% of the total outstanding guaranteed portfolio.**

A new policy framework is being developed to ensure appropriate scrutiny of requests for new guarantees and an assessment of the financial health and creditworthiness of the requesting entities (typically statutory bodies or SOEs).

Cost-reflective pricing, balance sheet restructuring, and institutional governance improvement have been undertaken to improve operational performance of SOEs and address underlying vulnerabilities.

2026 Budget Proposals

- A new Public Commercial Business Management Act to be introduced.
- Government to settle outstanding statutory payments of 10 SOEs.
- Settlement of Treasury Guarantees and Letters of Comfort provided by the Government to public enterprises.
- A unit established within the Ministry of Finance to expedite the SOE reform process including consolidation and liquidation of entities, as appropriate.
- Reorganization of 21 institutions to consolidate the same functions, merging of 14 institutions in the research sector to establish one national- level institution, conversion of 9 institutions that are not operating in a commercial model into financially independent institutions and liquidation of 13 institutions.

Public-Private Partnerships (PPPs)

PPP Project Highlights

The Galle Non-Revenue Water Reduction Project	West Container Terminal– Port of Colombo	Galle Port Development Project	Two 350 MW LNG plants at Kerawalapitiya
50 MW solar project in Trincomalee	South Asia Commercial and Logistic Hub – Port of Colombo	700 MW solar plant in Poonakary	Windscape Mannar 20 MW Wind Project
50 MW wind project in Thambapawani	Large solar parks in Siyabalanduwa and Hambantota	Sapugaskanda Oil Refinery Modernisation Project	Value Addition Project for Rock Phosphate

Source: Fiscal Strategy Statement 2026, Ministry of Finance, Official Ceylon Petroleum Corporation Website, Ministry of Industry and Entrepreneurship Development EOI, CEB Request of Proposal

2026 Budget Proposals

- Draft bill which provides a transparent legal framework for the PPP Act to be presented for approval in early 2026.
- Provide advanced facilities such as cold storage required to handle air cargo to the newly constructed cargo terminal through a PPP model.
- Over 900 underutilized tourist bungalows and resorts owned by the government to be developed into income generating units with the support of the private sector.
- Government to provide medium-term funding for PPPs and strategic digital infrastructure projects to position Sri Lanka as a regional leader in innovation.
- Presenting of the Bill to establish a government company to hold shares in commercial enterprises to Parliament in the first quarter of 2026.

Public-Private Partnerships (PPPs)

Given the constrained public budget, mobilizing **private capital** becomes increasingly important to maintain capex momentum.

Capex Targets:

With primary expenditure ceiling for 2026 budget set at 12.9% of GDP, the government needs to target capital expenditure to sustain growth without straining public finances.

At the end of 1Q 2025, capex spending was just 8% of the budget. Capex spending to GDP is targeted at 4% of GDP for 2026.

The government must increase investment in social infrastructure (healthcare, education).

Initiatives:
The use of Public–Private Partnerships (PPPs) is one recognized mechanism for "crowding in" private investment.

Government's Commitment:
The new draft PPP law demonstrates the government's firm intent to create a transparent framework that improves investor confidence with the first few projects being structured well and eventually encouraging long-term private participation.

Impact on public finance:
The use of PPPs will entail risk sharing mechanisms (such as minimum revenue or annuity commitments) between the public and private sectors and hence monitoring and mapping the impact of PPPs on public finance will be important going forward.

Investment Promotion

The Government will continue to attract foreign investment through a transparent and rule-based mechanism. Amendments will be made to CPEC Act, (Regulations specifying concessions have already been amended – Refer Appendix 4). Cabinet decision taken to amend SDP Act pending Gazette notification.

A new "Investment Protection Act" will be passed in early 2026.

Development of auxiliary zones as service zones associated with existing zones to improve the efficiency of main investment zones, expand the economic benefits at the provincial level and integrate SMEs into the value chain.

Abandoned tech parks in Kurunegala and Galle will be opened and two more planned under the BOI in the cities of Digana and Nuwara Eliya.

A residence visa for investors who meet certain investment criteria in priority sectors or eligible projects.

A "Single Window" mechanism based on digital technology for approval for projects implemented under the BOI.

Streamline Land Use Policy Plan and improve efficiency. A new legal framework to introduce a methodology for determining the valuation of land according to the nature of investment.

Proposal	LKR Mn
Development of Feeder Zones as Service Zones associated with existing Investment Zones	1,000
Providing incentives to attract International Data Centers	500
Streamlining the land release for investment purposes	100
Establishment and development of Industrial Zones	1,000

Small and Medium Enterprises

Functions of Industrial Development Board (IDB), National Enterprise Development Authority (NEDB) and the Small and Medium Enterprise Development Division (SMED) consolidated and placed under the IDB.

Funds allocated for youth entrepreneurship loan schemes, microfinance loans and women entrepreneurship loan schemes.

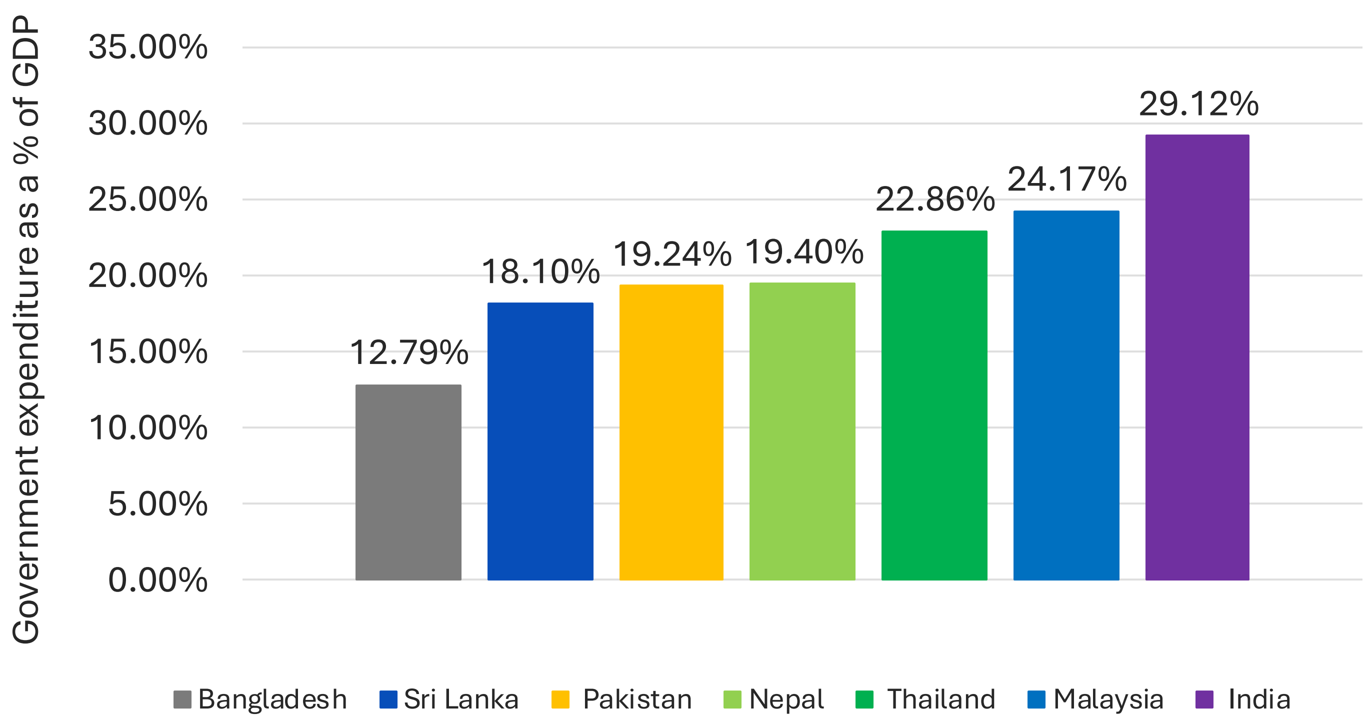
Proposal	LKR Mn
Provide credit guarantees for loans for SMEs	7,000
Provide loans at concessionary interest rates for working capital and investments of SMEs	25,000
Provide loans of up to LKR 50 Mn for SMEs	5,900
Initiate a new loan scheme through SME Development Loan Scheme	7,700

Expenditure Allocation, Social Infrastructure & Welfare

05

Government Expenditure

Government expenditure as a % of GDP
(Various years from 2022-2024)



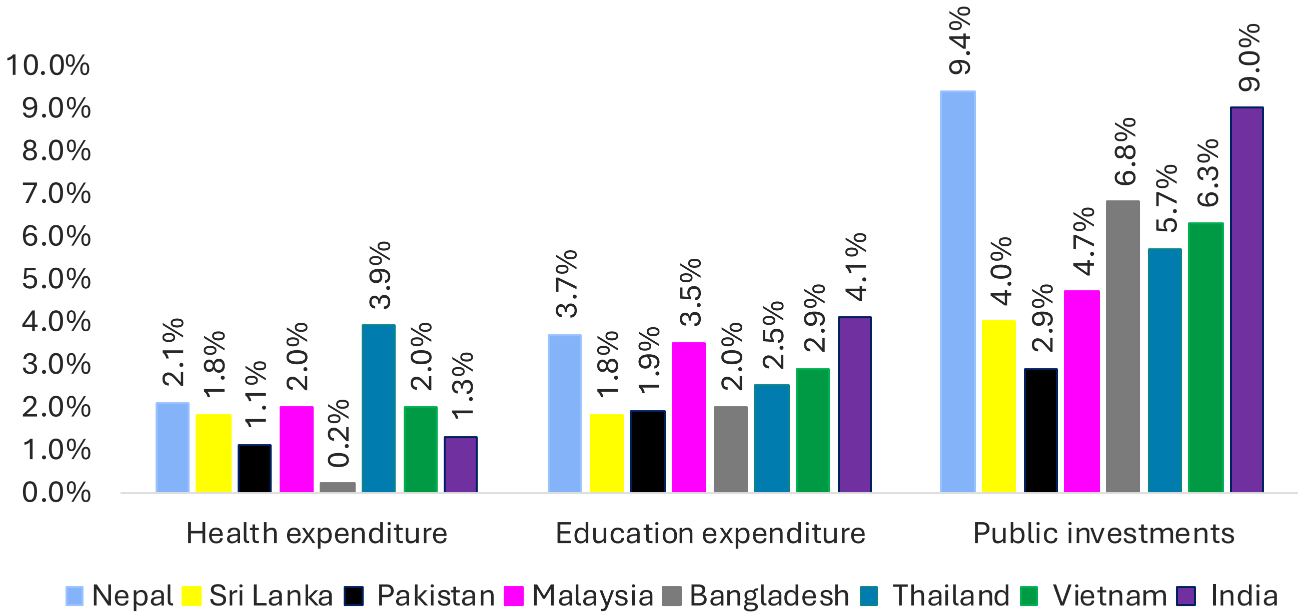
Source: Internation Monetary Fund, World Bank

- Between 2019 and 2023, nearly 72% of fiscal adjustments came from cuts to capital expenditure, limiting development in public infrastructure.
- Meanwhile, the tax revenue has risen significantly, reaching 12.4% of GDP in 2024, up from 7.3% in 2022, driven by tax reforms, rate increases and revival of imports.
- While this marks important progress in fiscal consolidation, it is crucial that public spending translates into tangible improvements for citizens.

Source: Sri Lanka Public Finance Review – 2025, Annual Economic Review - 2024

Government Expenditure

Regional comparison of key expenditure allocations
(Various years from 2022-2024)

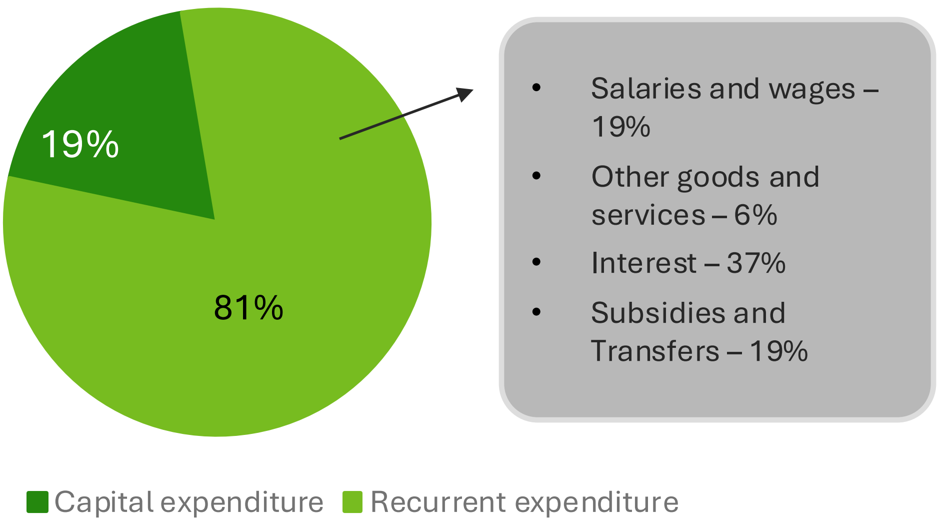


Source: Internation Monetary Fund, World Bank

- Government spending on education remains among the lowest in the region while health expenditure is moderate.
- Public spending on essential services such as healthcare, education and social protection need to be enhanced to protect human capital.
- Raising the quality of public infrastructure investments can improve the business environment and unlock growth by addressing critical bottlenecks in the country.
- Exploring public-private partnerships could be a viable way to mobilize additional private resources to support these critical services.

Government Expenditure

Expenditure composition - 2026

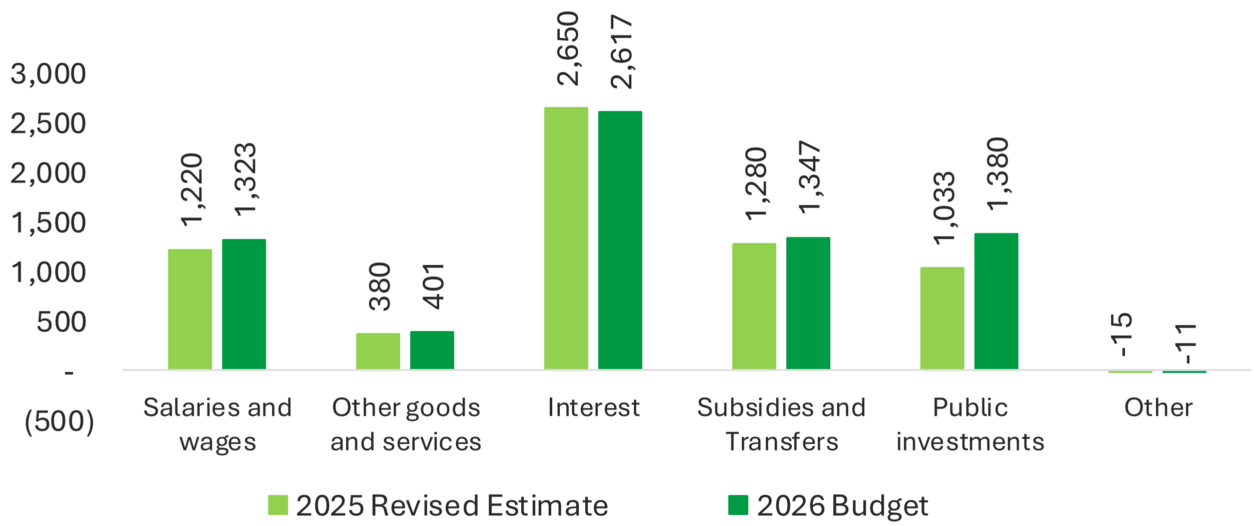


The government's ability to spend on vital services for citizens has been curtailed due to low taxes in the past.

Into the future, accumulated debt burdens will continue to affect the ability to spend on economic development.

Source: Budget Speech - 2026

Expenditure allocation by category (LKR Bn)



Source: Budget Speech - 2026

- Sri Lanka's total public spending has become increasingly rigid and largely consumed by interest payments.
- Interest payments are estimated to account for 46% of recurrent expenditure in 2026.
- Estimated allocations for salaries and wages accounts for 23% of recurrent expenditure which is an increase of 8% from 2025.

Government Expenditure

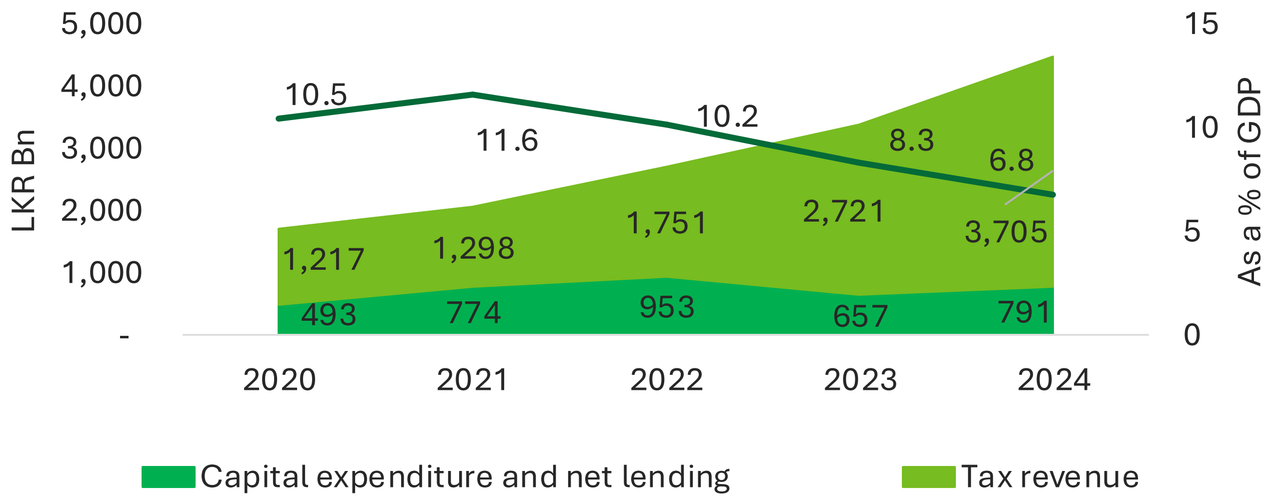
Top 5 ministries have been allocated 64.5% of the total expenditure with the Ministry of Finance, Planning and Economic Development being allocated the highest share of 14.3%.

Ministry	Allocation from the total budget (%)
Top 5 allocations	
Ministry of Finance, Planning and Economic Development	*14.32%*
Provincial Councils	*13.94%*
Ministry of Public Administration, Provincial Councils and Local Government	*13.44%*
Ministry of Health and Mass Media	*12.52%*
Ministry of Defence	*10.26%*
Total	***64.47%***
Lowest 5 allocations	
Ministry of Industry and Entrepreneurship Development	*0.26%*
Ministry of Fisheries, Aquatic and Ocean Resources	*0.24%*
Ministry of Labour	*0.14%*
Ministry of Science and Technology	*0.14%*
Ministry of Trade, Commerce, Food Security and Co-operative Development	*0.06%*
Total	***0.84%***

Source: Appropriation Bill 2026

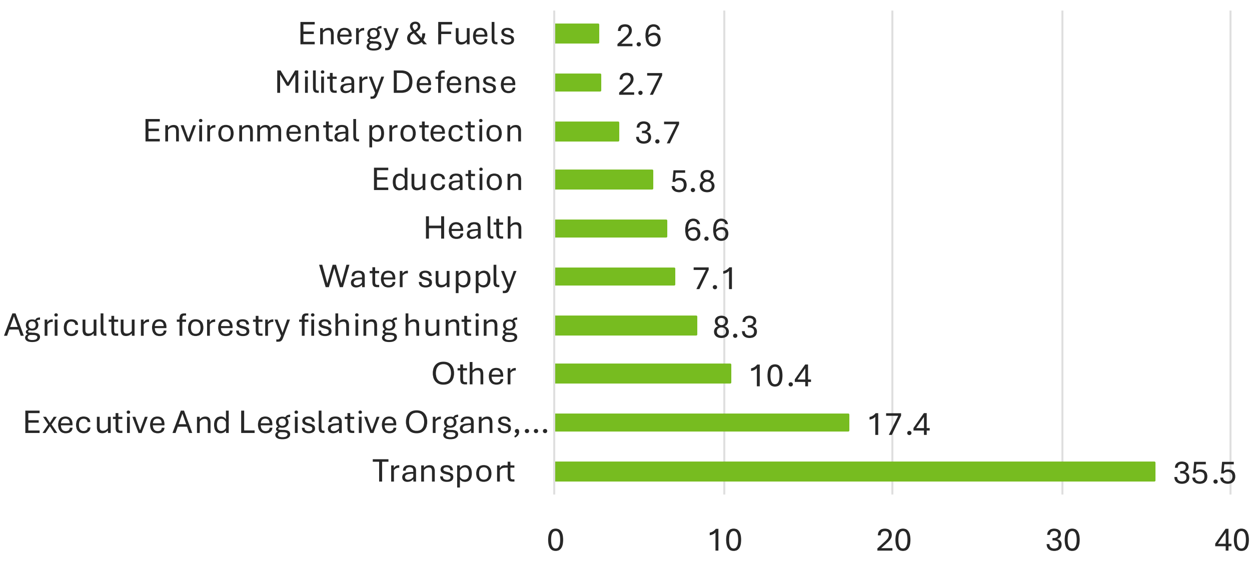
Government Expenditure

Capital expenditure has not kept pace with the increase in tax revenue over the last 3 years



Source: Central Bank of Sri Lanka

Capital expenditure by functional classification
Average 2017-2023 (Composition %)



Source: Sri Lanka Public Sector Review – 2025, World Bank

- Most of the capex between 2017 – 2023 has been allocated to transport, particularly for road construction. Allocations to sectors such as education, health and environment have received less emphasis.

Health

Out-of-pocket health expenditure in Sri Lanka stands at 44.8% despite universal free healthcare.

- Sri Lanka's health expenditure averaged 1.8% of per capita GDP (USD 68) between 2017–2022.
- Although Sri Lanka provides universal free healthcare, out-of-pocket health expenditure remains moderate at 44.8% compared to the regional peers. (Thailand: 9.9%, Bangladesh: 72.1%)
- WHO recently praised Sri Lanka's public health system for high skilled birth attendance, routine immunizations, and elimination of diseases such as malaria and maternal and neonatal tetanus.
- Despite the moderate investments, Sri Lanka holds a comparatively strong position in the health sector relative to its regional peers, a position it needs to further strengthen through future investments.

Indicator	Sri Lanka	Malaysia	Bangladesh	India
Physicians per 1,000 People (2020)	1.2	2.3	0.7	0.7
Hospital beds per 1,000 People (2020)	4.2	2.0	0.8	0.5
Life expectancy at birth, years (2023)	77	77	74	72
Human development index (2023)	0.78	0.82	0.69	0.69

Source: World Health Organization, Sri Lanka Socio Economic Data - 2025

2026 Budget Proposals

- Establishing Aarogya Centers – LKR 1,500 Mn
- Relocating Deniyaya and Dambulla Hospitals to suitable locations – LKR 1,000 Mn
- Development of facilities in 82 Base Hospitals for quality of secondary health services- LKR 31,000 Mn over 5 years
- Conduct Demographic and Health Survey (DHS) – LKR 570 Mn
- Initial work required to establish a 16 storey National Heart Unit – LKR 200 Mn
- Expand the coverage of health benefits under the Agrahara Scheme
- Monthly allowance to low-income thalassemia patients – LKR 250 Mn

Education

Only c.26% of the eligible students are admitted to state universities due to capacity constraints.

- Nearly 99% of children are enrolled in school up to Grade 11. While c.63% of students sitting the Advanced Level exams qualify for universities, only c.26% of them are admitted to state universities due to capacity constraints.
- Ministry of Education, Higher Education and Vocational Education of Sri Lanka has been allocated LKR 70 Bn in capital expenditure, which is c.5% of the total capital budget, with only LKR 5 Bn increase from 2025.

Source: Statistical Bulletin 2023 - National Human Resources Development Council of Sri Lanka, Appropriation Bill 2026

Education sector reforms

- Curriculum reforms to progressively cover all grades in the coming years (with Grades 1 and 6 scheduled for 2026).
- Bridging the gap in Sri Lanka's teacher shortage is a key focus of the government.
- Schools equipped with digital infrastructure and connectivity to be a priority.
- Shift from an exam-based evaluation system to an assessment-based system to facilitate assessment of literacy, numeracy skills and guide students' vocational path.
- Enhance creativity and build transversal skills such as entrepreneurship, financial literacy, media studies and digital citizenship in addition to core subjects, with a stronger emphasis on hands-on, project-based, and experiential learning.
- The Government, with support from the Sri Lanka Air Force, to develop NEMIS - the National Education Management Information System.
- Building up on the success of the pilot project rolled out last year on 100 schools, AI Clubs to be expanded over all 9 provinces.
- Broadband vouchers will be provided to ensure children from disadvantaged and low-income families can access educational resources.

Education

Proposal	LKR Mn (unless otherwise stated)
Increasing the Principals' allowance and Teachers' Hardship allowance	1,000
Continuation of LKR 6,000 stationary allowance in year 2026	9,000
Improve common facilities for university students	2,500
Improve medical faculties at Sabaragamuwa, Moratuwa, Ruhuna, Uva Wellassa and Eastern universities	11,000
Upgrade vocational education centers	10,000
Monthly allowance of LKR 5,000 for each disabled child from low-income families to encourage their school education	50
Monthly allowance of LKR 5,000 for each disabled child from low-income families to encourage higher education	50
Improve facilities and research activities at universities and higher educational institutions	11,500
Mahapola, Bursary and Nipunatha Sisu Diriya monthly allowance	Increased by LKR 2,500
Monthly allowance for National College of Education scholarship recipients	LKR 4,750
Construction of hostels in selected universities in South East, Jaffna, Kilinochchi, Vavuniya, Eastern and Sabaragamuwa province	1,500
National program to commercialize research	1,200

Tourism

- Proposals to turn Haputale, Beragala and Idalgashinna in Uva Province into a leading tourist destination by upgrading infrastructure and boosting publicity for these attractions.
- Over 900 government-owned, underused tourist bungalows and resorts to be transformed into income-generating accommodations with private-sector support to meet tourism demand.
- Sri Lanka Institute of Tourism and Hotel Management (“SLITHM”) to launch a short-term Hospitality Multi-Purpose Programme across TVEC-approved public and private training institutions with the objective of bridging the national level work force gap.
- Proposed to transform Beira Lake into an attractive central Colombo destination, boosting its social, economic and environmental productivity, including tourism.

Proposal	LKR Mn
Tourism destination development project that focuses on nature and highlights historical heritage	3,500
Short-Term Hospitality Multi Programme	500
Beira Lake Development	2,500

Agriculture, Dairy & Fisheries

Loans up to LKR 3 Mn at an interest rate subsidy through New Comprehensive Rural Credit Scheme (NCRCS).

Loans up to LKR 50 Mn under concessionary interest rate for the development of Agricultural Value Chain and small and medium scale paddy mill owners.

Proposal	LKR Mn
Increasing milk production	1,000
Completing the construction of Badalgama Milk Processing Factory	3,000
Updating livestock Breeder Farms	1,000
Providing concessions for Small-Scale Coconut Cultivators	2,500
Upgrading the Temperature-Controlled Storage Facility in Dambulla	250
Establishing a Sustainable Agricultural Credit Fund	800
Providing facilities for mechanized paddy drying	500
Increasing agricultural production in Matale, Kandy and dry zones through Climate-Smart Irrigation Technology	1,000
Ensuring the safety of Fisherman	100
Development of Fishery Harbors	1,000
Satellite – Based Technology driven, information provision for Fisherman on fishing grounds	100
Improve storage facilities and strengthening services provided by Sathosa	1000

Agriculture, Dairy & Fisheries

Proposal	LKR Mn
Increase agriculture production in dry zone using new technology and irrigation technologies	4,000
Further expansion of coconut cultivation	600
Renovation of selected fishery harbours	300
Strengthen operations of Valaichchenai Fishery Harbour	350
Development of infrastructure at the wharves	500
Development of aquaculture development centers	100
Conduct study on economic benefits achieved through marine fisheries, aquaculture, ecotourism etc. in Exclusive Economic Zone	100
Provide agricultural loans through New Comprehensive Rural Credit Scheme (NCRCS)	1,700

Transport & Infrastructure

Resuming the stalled project to expand the Bandaranaike International Airport in the first quarter of the next year.

Work is underway to successfully complete the debt restructuring process of Sri Lankan Airlines.

Necessary feasibility studies for the widening of the Katugastota-Galagedara road section are scheduled.

It is expected to enhance the capacity of the Colombo Port including the Western Container Terminal Phase II project with the support of the Asian Development Bank, feasibility studies for the proposed Ports Logistics Centers with the support of the World Bank, and the proposed Colombo North Port Development Project.

Kerawalapitiya Customs Verification Centre and Trade Facilitation Centers in the Bloemendal area will be established.

Providing advanced facilities such as cold storage required to handle air cargo to the newly constructed cargo terminal through a Public Private Partnership (PPP) model.

Proposal	LKR Mn
Increasing the allowance for Gatekeepers at unsafe railway crossings	250
Commencing preliminary work for the construction of the Kiran and Pondukalchenai Bridges in Batticaloa	500
Construction of Rambukkana – Galagedara section of the Central Expressway	20,000
Providing subsidies for buses operating on unprofitable routes to ensure sustainable rural transport services	2,000
Completing the development work of the Hingurakgoda Airport. Development of Domestic Airports (Sigiriya and Trincomalee) and to expand the operations of the Jaffna International Airport	1,000

Transport & Infrastructure

Proposal	LKR Mn
Construction of previously started and halted rural roads	24,000
Construction of previously started and halted rural bridges	2,500
600 buses are scheduled to be added to the long-distance service fleet	3,600
Replacing the worn-out engine units of 307 belonging to the SLTB	2,062
Procurement of necessary new tools, machinery, and equipment required for the depots of SLTB	790
Procurement of five new Diesel Multiple Units (DMUs) for the Sri Lanka Railways	3,300
Construction of the Kadawatha-Mirigama section of the Central Expressway	66,150
Construction of the Pothuhera-Rambukkana section of the Central Expressway	10,500
Land acquisition activities for the proposed Kurunegala-Dambulla Expressway	1,000
Construction of the Ruwanpura Expressway from Kahathuduwa to Ingiriya and land acquisition activities	1,500
Feasibility study on constructing a link between the Port City end of the Port Access Elevated Highway and the Marine Drive	330
Implementation of a comprehensive road safety programme	1,000

Urban Development

In 2026, a housing development programme with a new approach is expected to be implemented, encompassing all social groups facing housing issues.

Under this programme, construction work on 27,000 new homes including those currently under construction is expected to be completed.

Proposal	LKR Mn
Freeing up lands for Ratnapura City Development (construction of Quarters for Government Officers)	500
Development of Hatton and Matale Towns	500
Constructing City Halls in Ampara and Monaragala	200
Implementation of solid waste management	900
Introducing services and facilities for the care of street dogs and the burial/cremation of pets	100
Construction of houses in Applewatta, Madampitiya, Fergusson Mawatha, Obeysekarapura, Stadiumgama, Colombage Mawatha and Torrington Place	15,000
Renovation of old apartment complexes built by the government	1,180
Resettling unauthorized settlers who have been an impediment to the development of the Kelani Valley Railway in other suitable places	840
Construction of 2000 houses to upgrade the housing and infrastructure facilities of the Malayagam Estate workers	4,290
Completion of work on 943 houses currently in the Northern and Southern Provinces	1,350
Providing houses for people displaced by natural disasters	2,000
Construction of 2500 houses for the families who do not own any houses due to the conflict in the Northern and Eastern provinces.	3,850

Irrigation and Water Supply

- The Government expects to engage in discussions with development partners to secure the required financial provisions to commence the Talpitigala Reservoir Project and the Kumbukkan Oya Reservoir Project.

- Proposal to conduct a formal feasibility study on flood management of the Gin and Kalu rivers and implement a sustainable solution to urban flood control for recurring flood threats in cities such as Colombo, Gampaha, Galle, Ampara Mannar and Puttalam.

Proposal	LKR Mn
Irrigation infrastructure, including restoration of Senanayake Samudraya, Gal Oya, Rajanganaya, Huruluwewa, and Minneriya	91,700
Recommence the Mundeni Aru Project	50
To expedite Lower Malwathu Oya Multi-Purpose Development project	5,000
Restoration of other canal systems including urgent initiation of restoration work of the sluice (Sorowwa), Gal Oya, Rajanganaya, Huruluwewa and Minneriya reservoirs	6,500
Improvement and rehabilitation of small tanks, canals and sluice systems	8,350
Feasibility study, preparation and implementation of flood control programme	750
Allocation of funds to implement the solution of Saltwater barrier issue at Nilwala River	1,000
Allocation of prompt compensation payment for paddy lands damaged by Saltware barrier of Nilwala River	1,200

Irrigation and Water Supply

Proposal	LKR Mn
To provide immediate practical and permanent solution to prevent coastal erosion associate with Kalu River Lagoon	100
Initital study necessary for the construction of the Kiran Bridge and the Pondukalchenai bridge to minimize flood risk in the Batticaloa district	500
Implementation of drinking water supply projects, community water projects in districts – Gampaha, Kalutara, Anuradhapura, Kandy, Jaffna, Kilinochchi and Kurunegala	85,700
New water supply system in Ambatale to supply drinking water to people affected by water scarcity	1,000

Social Welfare

Existing gazette regarding accessibility regulations for persons with disabilities to be revised in line with international standards.

3% of positions in the public service have been reserved for persons with disabilities, and efforts will be made to ensure this quota is fulfilled in all future government recruitments.

Introduction of a housing loan scheme at concessional interest and a contributory pension scheme for migrant workers.

Funds allocated and measures will be taken to mitigate the human-elephant conflict.

Proposal	LKR Mn
Providing housing for internally displaced communities	1,150
Providing solutions for Human-Elephant Conflict	1,000
Implementation of a safety program to reduce road accidents	1,000
Women empowerment	200
Providing a LKR 5,000 allowance for schoolchildren with disabilities from low-income families	50
Silver Economy – Investment in Silver Citizens	10
Improving facilities to ensure food security	1,000
Providing subsidies to persons with disabilities	19,000
Contributory pension scheme for foreign workers	2,000

Social Welfare

Proposal	LKR Mn
Encouraging the employment of youth with disabilities or special needs in the private sector	500
Ensuring accessibility and sanitation facilities in public places for persons with disabilities with special needs	1,000
Increasing the wages of Estate workers	5,000
Providing relief for Thalassemia patients	250
Establishing Day Care Centers for children with disabilities including Autism	500
Increasing the total allocation for "Praja Shakthi Program" to LKR 25 Bn, for district and divisional-level implementation	20,750
Shelters for Street Animal and Crematoriums	100
Providing allowances for low-income students with disabilities studying in Higher Education Institutions	50
Providing new houses for families facing higher risk of landslides	2,000
Providing housing assistance for reintegration of institutionalized individuals and child protection	2,000
Implementing the "A Place of Their Own – for a Beautiful Life" Housing Program for low-income families	3,000

Public Administration

Approval has been given to recruit nearly 75,000 people for public services under a proper system.

Settlement of outstanding statutory payments of government institutions.

Proposal	LKR Mn
Providing vehicles/machineries required for Government Institutions and Provincial Councils	12,500
Reactivating the Property Loan Scheme for government employees provided through Banks	500
Strengthening and improving infrastructure in local government institutions	2,500
Increasing digital access in government institutions	1,000

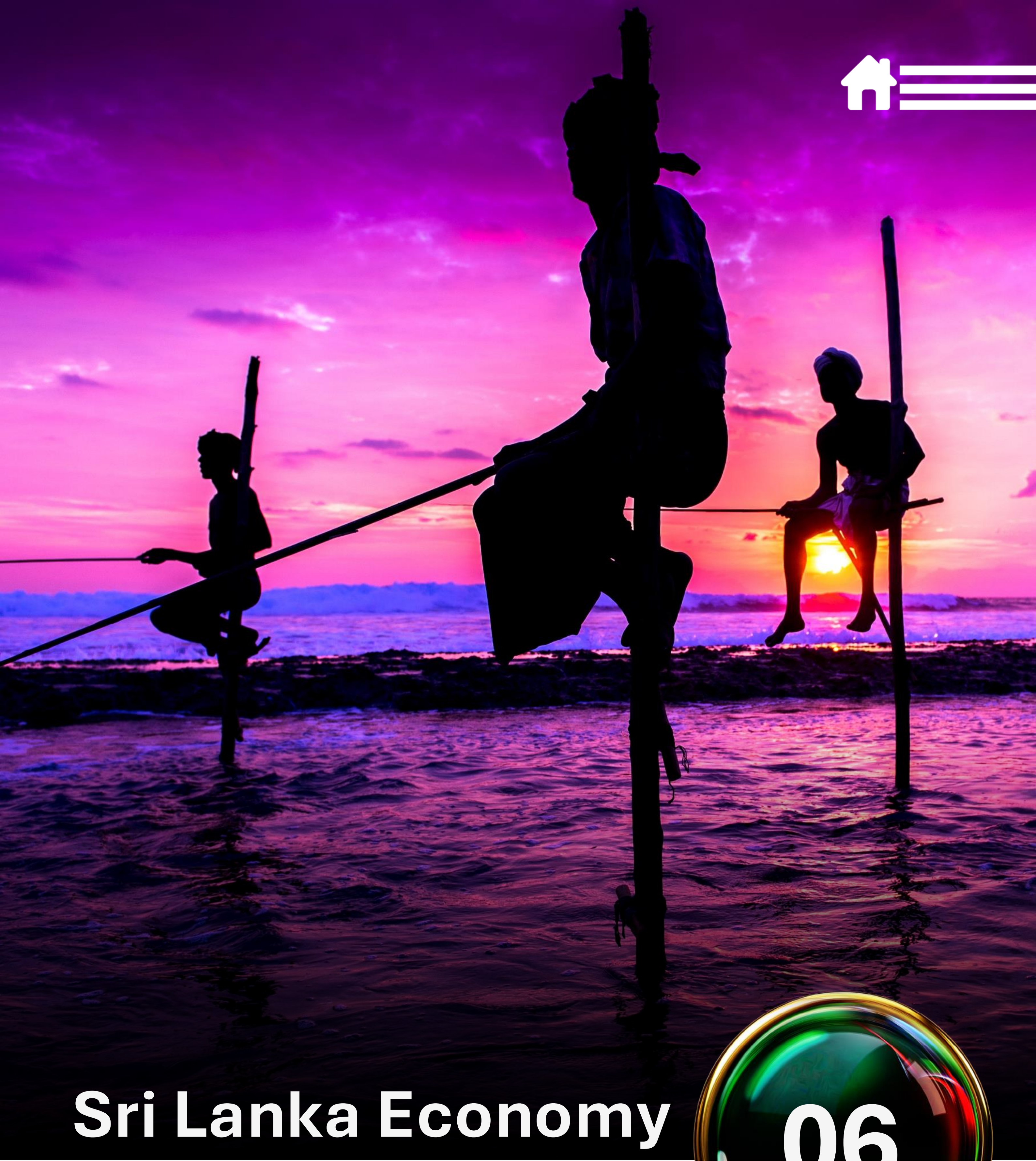
Law & Order

Establish 10 voluntary rehabilitation centres under Rehabilitation Bureau at locations including Polonnaruwa, Welikanda, Senapura for people addicted to toxic drugs.

Proposal	LKR Mn
Launching a nationwide operation to prevent drug menace	1,500
Renovating Prisons and relocating them to identified suitable sites	2,000

Sports, Arts & Environment

Proposal	LKR Mn
Kalutara Lagoon Development	100
Promoting Sports Culture	800
Completion of Nintavur Cultural Center of which the construction stopped	300
Promoting drama, performing arts and literature	50
Providing higher education scholarships for journalism	100
Developing sports complexes and stadiums	525
Continuation of Clean Sri Lanka program	6,500



Sri Lanka Economy at a Glance

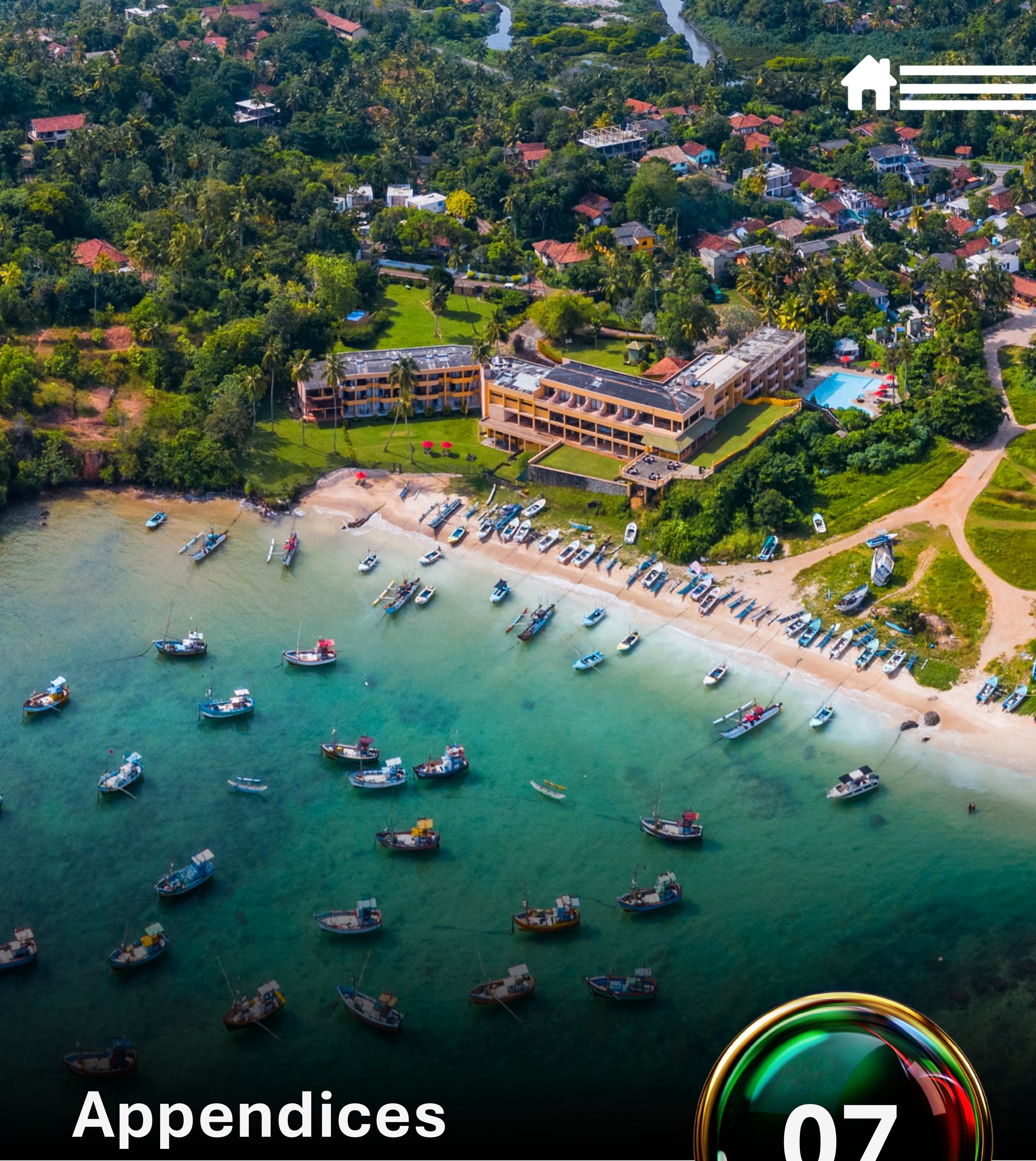
06

Sri Lanka Economy at a Glance

	2024	2023	2022	2021	2020
Budget deficit (% of GDP)	(6.8%)	(8.3%)	(10.2%)	(11.7%)	(10.7%)
Current account (deficit) (USD Mn)	1,206	1,439	(1,449)	(3,284)	(1,187)
Trade balance (USD Mn)	(6,069)	(4,900)	(5,185)	(8,139)	(6,008)
Balance of Payment (deficit) / surplus (USD Mn)	2,890	2,825	(2,806)	(3,967)	(2,328)
Gross Official Reserves(USD Mn)	6,122	4,392	1,898	3,139	5,664
Total Foreign Assets (USD Mn) (Month of imports)	7.2	6.7	3.9	3.6	6.4
Unemployment %	4.4	4.7	4.7	5.1	5.5
Labour force ('000 persons)	8,316	8,408	8,547	8,553	8,467
GDP at Market Price (LKR Bn)	29,898	27,419	24,064	17,612	15,646
GDP at Market Price (USD Bn)	99.0	83.8	76.8	88.6	84.4
Mid-year population (Mn persons)	21.9	22.2	22.2	22.2	21.9
Per Capita GDP at Market Price (LKR)	1,364,235	1,244,262	1,084,855	794,926	713,822
Per Capita GDP at Market Price (USD)	4,516	3,801	3,464	3,999	3,851

Sri Lanka Economy at a Glance

	2024	2023	2022	2021	2020
Real GDP Growth Rate %	5.0	(2.3)	(7.3)	4.2	(4.6)
Revenue and Grants (% of GDP)	13.7	11.2	8.4	8.3	8.8
Primary balance (% of GDP)	2.2	0.6	(3.7)	(5.7)	(4.4)
Domestic savings (% of GDP)	24.3	22.4	23.7	29.3	26.7
Government debt (% of GDP)	96.1	104.7	114.2	100.0	96.6
National Consumer Price Index (2013=100) (YoY % change)	-	-	59.2	14.0	4.6
Interest Rate - AWDR – Monthly %	7.5	11.6	14.1	4.9	5.8
Interest Rate - AWPR - Monthly %	8.9	12.4	28.2	8.3	5.7
Exchange Rate LKR/ USD (Annual Average)	302.12	327.5	324.6	198.9	185.5
Capital Market Indices- All Share Price Index	15,945	10,654	8,490	12,226	6,774
Capital Market Indices- S&P Index	4,862	3,068	2,636	4,233	2,638
Market capitalization (LKR Bn)	5,696	4,248	3,847	5,489	2,960
Net purchases by non-nationals (LKR Mn)	(10,479)	4,363	30,625	(52,648)	(51,356)



Appendices

07

Appendix 1 - February 2025 Budget speech proposed amendments to the Inland Revenue Act, No.24 of 2017 – pending enactment

01 Removal of the requirement to file SET (w.e.f. Y/A 2025/2026).

02 Quarterly instalment payments based on the income tax payable for the immediately preceding Y/A.

03 Exemption of any amount derived, by any non-resident person as any payment for aircraft, software licenses or as for other related services from the Sri Lanka Air Force.

04 Manual filing of income tax returns by senior citizens.

05 Provisions clarifying the chargeability of income tax on life insurance proceeds and other amounts received by policy holders.

06 Expansion of the current tax treatment provided under section 46 of the Inland Revenue Act, which applies to the transfer of ownership of an asset to an associate of an individual or a charitable institution, to include the transfer of assets to the Sri Lankan Government or to a university established or deemed to be established under the Universities Act, No. 16 of 1978.

Appendix 1 - February 2025 Budget speech proposed amendments to the Inland Revenue Act, No.24 of 2017 – pending enactment

07

Increase of CGT rate applicable for individuals and partnerships to 15%. Increase of CGT rate applicable for all other entities to 30% (in par with the corporate CGT rate).

08

Authorization for CGIR to waive interest imposed under the provisions of the Inland Revenue Act, No. 24 of 2017, and the Surcharge Tax Act, No.14 of 2022, if;
- the tax liability has arisen for the Y/A 2022/2023 or any previous Y/A, and,
- the total amount of tax is paid within 6 months of the statutory amendment.

09

Amendment of tax resident rules to provide for the followings: -
i. A holder of Golden Paradise Resident visa to be treated as a non-resident for income tax purposes;
ii. Any individual who is deemed to be a resident for income tax purpose only due to the reason of being employed in a Sri Lanka flagged vessel, to be treated as a resident in Sri Lanka during the period he is so employed; and
iii. Any individual who is a citizen or subject of any country other than Sri Lanka, but deemed to be a resident in Sri Lanka due to the reason of he is being employed in a Sri Lanka flagged vessel, will not be liable to income tax as a resident in respect of any income that has no source in Sri Lanka, other than his income from employment in such ship.

Appendix 2 - Individual Income Tax

Comparison of effective tax rates for resident individuals – Y/A 2019/2020 – 2026/2027

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

Year of Assessment	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
2019/2020 first 9 months (Apr–Dec)	900	1,125	4,050	7,200	81	702	1,458	4	14	18
2019/2020 last 3 months (Jan–Mar)	750	0	900	1,950	0	63	216	0	4	8
2020/2021	3,000	0	3,600	7,800	0	252	864	0	4	8
2021/2022	3,000	0	3,600	7,800	0	252	864	0	4	8
2022/2023 first 9 months (Apr–Dec)	2,250	0	2,700	5,850	0	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
2026/2027	1,800	900	4,800	9,000	54	1,248	2,760	2	19	26

Appendix 3 - Amendments to the Customs Regulations on Bonded Warehouse Facilities

A Customs Notification dated 14 October 2025 (Gazette No. 2458/38), effective from 15 October 2025, has been published by the Ministry of Finance, amending the Regulation relating to the importation and local purchase of capital goods under the bonded warehouse scheme, originally issued under Gazette No. 2083/33 dated 10 August 2018.

The key amendment is the inclusion of Renewable Energy generation or Storage Facilities as an eligible sector under the bonded warehouse scheme, aimed at promoting renewable energy integration in Sri Lanka. Accordingly, this amendment provides exemptions from selected duties and taxes on purchase of approved capital goods for such renewable storage.

The above-mentioned regulations allow an enterprise registered under the Companies Act No. 07 of 2007 to import or purchase locally approved capital goods with exemptions from selected duties and taxes during the construction period or during the period of expansion, for certain identified industries, subject to the applicable minimum investment criteria. Accordingly, the regulations apply to:

- The construction of a new manufacturing or production facility, or a renewable energy generation or storage facility; or
- The expansion of an existing manufacturing or production facility for productivity or capacity enhancement.

Appendix 3 - Amendments to the Customs Regulations on Bonded Warehouse Facilities

Industries	Minimum Investment
Dairy Manufacturing Facility	LKR 50 Mn or more
Pharmaceutical Manufacturing Facility	LKR 50 Mn or more
Medical Equipment Manufacturing Facility	LKR 75 Mn or more
Solid Waste Management Facility	LKR 100 – 500 Mn or more
Renewable Energy Generation Facility	Minimum of One Megawatt (1 Mw) power generation capacity
Renewable Energy Storage System Facility	Minimum of 1 Mw hour to enhance renewable energy integration

An application shall be submitted to the Director General of Customs together with the proposal and list of goods as approved by the Secretary of the Line Ministry responsible for the sector, based on the recommendation of the relevant regulatory agency.

Penalties for the misuse or leakage of the bonded warehouse facility by the facility holder or their authorized representative are specified in the regulations.

Appendix 4 - CPC (Guidelines on the Grant of Exemptions or Incentives to Businesses of Strategic Importance) Regulations

(Gazette No. 2454/62 issued on 20 September 2025)

Period of validity: 5 years (until 19 Sep 2030)

<table>
<tr><td colspan="5">An authorised person (AP) engaged in business in and from the Area of Authority of the Colombo Port City designated as a BSI by Order published in the Gazette.</td></tr>
<tr><th colspan="4">Primary BSI</th><th>Secondary BSI</th></tr>
<tr><th colspan="4">Investment to lease and develop a plot of land within the Area of Authority of the Colombo Port City:-</th><td rowspan="6">A BSI not designated as a Primary BSI</td></tr>
<tr><th>Category</th><th colspan="2">Minimum investment</th><th>Minimum employment opportunities</th></tr>
<tr><td>A</td><td rowspan="3">Per plot of land or a pro-rated investment in a subdivided plot of land</td><td>USD 100 Mn</td><td>300</td></tr>
<tr><td>B</td><td>USD 500 Mn</td><td>300</td></tr>
<tr><td>C</td><td>USD 1,000 Mn</td><td>300</td></tr>
<tr><td>D</td><td>Per plots of land for the Marina or Social Infrastructure</td><td>USD 25 Mn</td><td>100</td></tr>
</table>

<table>
<tr><th rowspan="3">Enactment</th><th colspan="3">Primary BSI</th><th colspan="2">Secondary BSI</th></tr>
<tr><th colspan="3">Exemption</th><th colspan="2">Exemption/Incentive</th></tr>
<tr><th>Type</th><th colspan="2">Period</th><th>Type</th><th>Period</th></tr>
<tr><td rowspan="5">• The Inland Revenue Act, No. 24 of 2017</td><td rowspan="5">CIT exemption on all gains and profits of Primary BSI</td><td>Category</td><td>Duration of Exemption (No. of years) from expiry of the project implementation period[1]</td><td rowspan="5">CIT rate of 7.5% on all gains and profits of Secondary BSI</td><td rowspan="5">4 years from the date of commencement of commercial operations[1]</td></tr>
<tr><td>A</td><td>10</td></tr>
<tr><td>B</td><td>12</td></tr>
<tr><td>C</td><td>15</td></tr>
<tr><td>D</td><td>8</td></tr>
<tr><td rowspan="6">• The Customs Ordinance (Chapter 235)
• The Ports and Airports Development Levy Act, No. 18 of 2011
• The Sri Lanka Export Development Act, No. 40 of 1979</td><td rowspan="6">Exemption</td><td colspan="2">From the date of publication of an Order in the Gazette under s.53(3) of the Act designating AP as a BSI to earlier of
(i) the issuance of the Certificate of Conformity in respect of the development; or
(ii) the maximum Project Implementation period specified below: -</td><td rowspan="6">Exemption</td><td rowspan="6">From the date of publication of an Order in the Gazette under s.53(3) of the Act designating AP as a BSI until the commencement of commercial operations</td></tr>
<tr><td>Category</td><td>Maximum Project Implementation period (No. of Years)</td></tr>
<tr><td>A</td><td>5</td></tr>
<tr><td>B</td><td>6</td></tr>
<tr><td>C</td><td>8</td></tr>
<tr><td>D</td><td>4</td></tr>
</table>

Enactment	Primary BSI Exemption		Secondary BSI Exemption/Incentive	
	Type	Period	Type	Period
• Termination of Employment of Workmen (Special Provisions) Act, No. 45 of 1971 • The Entertainment Tax Ordinance (Chapter 267) • The Foreign Exchange Act, No. 12 of 2017	Exemption	From the date of publication of an Order in the Gazette under s.53(3) of the Act designating AP as a BSI	Exemption	From the date of publication of an Order in the Gazette under s.53(3) of the Act designating AP as a BSI
• The Betting and Gaming Levy Act, No. 40 of 1988	Exemption		Not Applicable	

[1] After the exemption period, the CIT rate applicable will be as per the relevant laws for the time being in force.

The incentives granted under this Regulation is not negotiable and non-renewable.

Eligible enactments from, or under which exemptions or incentives are <u>NOT</u> granted under this Regulation:-	For Primary BSI	For Secondary BSI
• The Value Added Tax Act, No. 14 of 2002	X	X
• The Finance Act, No. 11 of 2002	X	X
• The Finance Act, No. 5 of 2005	X	X
• The Excise (Special Provisions) Act, No. 13 of 1989	X	X
• Casino Business (Regulation) Act, No. 17 of 2010	X	X
• The Betting and Gaming Levy Act, No. 40 of 1988		X

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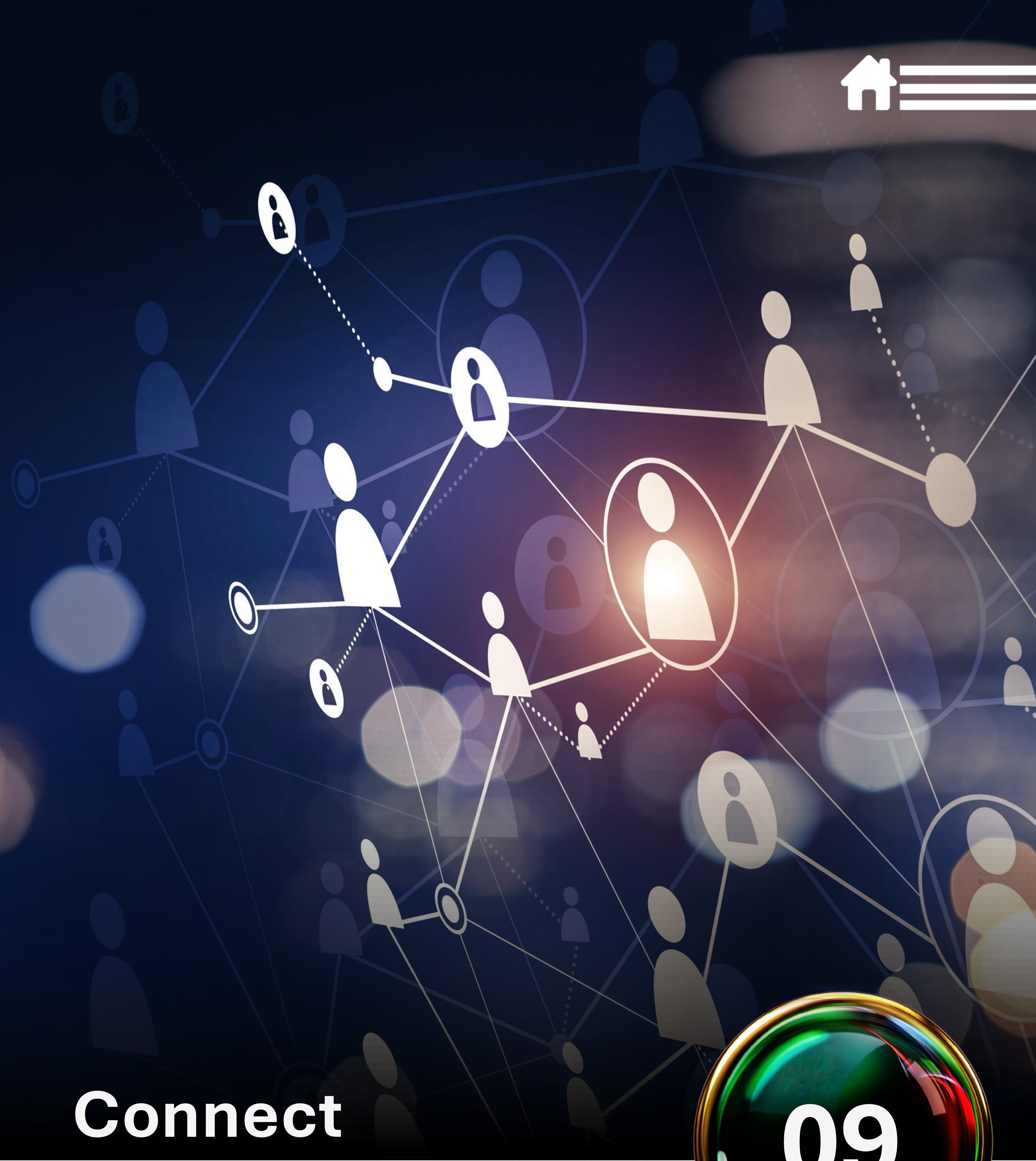

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