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Sri Lanka Budget 2027

Key Highlights

Presented in Parliament on 12 November 2026



Budget outlook

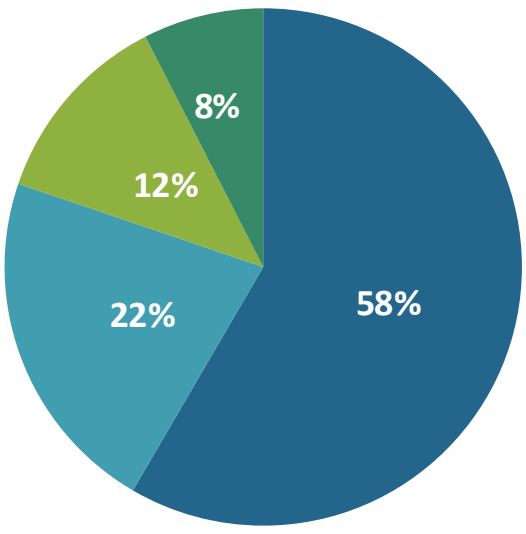
The Budget expects to strengthen the production economy, protect small and medium scale industrialists, make room for investment, connect knowledge and technology to the economy through digital economic activities, protect the environment and ensure social justice; amidst a challenging environment where energy prices, international trading practices and climatic conditions in particular, pose increasing risks.

Macro-fiscal metrics

2.3% Primary surplus as a % of GDP (2027E)	**- 4.5%** Overall deficit as a % of GDP (2027E)	**14.6%** Tax revenue as a % of GDP (2027E)
95% Government debt as a % of GDP (2025)	**7% or higher** GDP growth (medium-term target)	**8.3%** Inflation (October 2026)
Over USD 7 Bn Foreign reserves (October 2026)	**- 6.8%** LKR/USD Depreciation (January – October 2026)	**5.1%** Public investment as a % of GDP (2027E)

Snapshot of budgeted revenue and expenditure

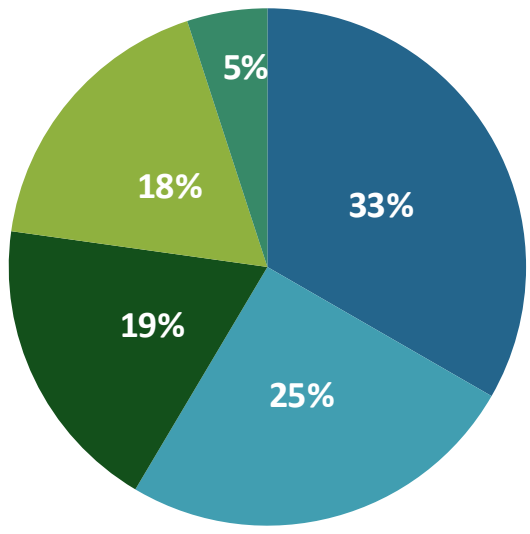
Budgeted Revenue



- Taxes on goods and services: LKR 3,592 Bn (58%)
- Income tax: LKR 1,341 Bn (22%)
- Taxes on external trade: LKR 754 Bn (12%)
- Non-tax revenue: LKR 463 Bn (8%)

Total: LKR 6,150 Bn (100%)

Budgeted Expenditure



- Interest: LKR 2,643 Bn (33%)
- Public investment: LKR 2,000 Bn (25%)
- Subsidies and transfers: LKR 1,482 Bn (19%)
- Salaries and wages: LKR 1,410 Bn (18%)
- Other: LKR 398 Bn (5%)

Total: LKR 7,933 Bn (100%)

Key Budget Priorities

Fiscal resilience

- Sustainable tax revenue
- Prudent expenditure management
- Planned debt repayments and debt sustainability
- Fiscal space for future shocks and strong foreign reserves

Investment and exports

- Diversification of products and markets
- Integration with international value chains
- Empowering rural economy and ensuring inclusive growth
- Energy security and efficient energy markets

Productivity and innovation

- Stronger education and workforce competencies
- Expanding digital infrastructure
- Resilience to climate disasters
- Efficient State sector

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Key Budget Proposals on Government Revenue

Personal Income Tax

- ✓ Personal relief: Increased from LKR 1.8 Mn per annum to LKR 1.95 Mn per annum from 1 April 2027.
- ✓ Progressive bands revised: 6% first LKR 850,000, 12%/18%/24%/30% for successive LKR 600,000 bands, 36% thereafter, from 1 April 2027.

Corporate Income Tax

- ✓ Enhanced capital allowance: 200% for BOI approved export - oriented manufacturing or tourism investments ≥USD 3 Mn, from 1 April 2027.

  Conditions: Investment within three years, (five for hotels). General capital allowances claim excluded.

Capital Gains Tax

- ✓ Capital assets definition expanded to include:
  - Digital assets, commercial licenses/rights and
  - valuable movables exceeding prescribed thresholds

  into the scope of CGT from 1 April 2027

Value Added Tax

- ✓ Exemption: Specified books/ printed materials exempt, from 1 April 2027.
- ✓ Electronic invoices: Legal recognition under CGIR requirements by Gazette order, from 1 April 2027.
- ✓ Determining “eligible exporter” status for VAT Refunds: For new registrations criteria to be >80% six-month export turnover , from 1 April 2027.

Customs and para-tariffs

- ✓ SCL: Sprats/Maldive fish reduced to LKR 10/kg, chillies reduced by LKR 50/kg, sugar increased by LKR 10/kg, from 13 November 2026.
- ✓ Para-tariffs:
  - PAL removal: newsprint/solar-storage batteries, from 1 January 2027.
  - CESS: 25% reduction across 800 HS lines, from 1 April 2027.

International Tax

- ✓ Digital income source: Remote advertising/cloud services source of income determined by place of payment, from 1 April 2027.
- ✓ Non-resident withholding: 14% on service fees/insurance premiums limited to non-residents without Sri Lankan permanent establishments, from 1 April 2027.

Social Security Contribution Levy

- ✓ Fuel for ships in international transportation (bunkering) exempt from 1 April 2027.

Other Tax Measures

- ✓ Tourism levy abolition: Tourism Development Levy abolished, from 1 April 2027.
- ✓ Betting & Gaming Industry – Laws will be simplified, transparent and coherent.
- ✓ Anti avoidance rules for mergers: to counter potential tax avoidance practices.

Other non – tax revenue measures

- ✓ Citizenship fee waiver: Free dual citizenship for applicants’ spouses/children and third-generation children under the Global Sri Lankan Heritage Citizen programme.

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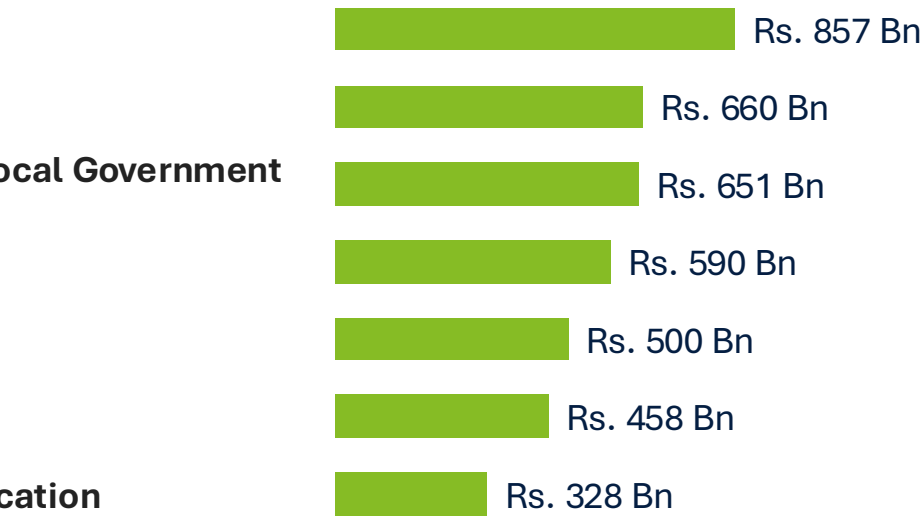
Appropriation Bill: Key Sectoral Allocations



Source: Appropriation Bill (Issued on 21.09.2026)

Government Expenditure Allocation for 2027 excluding interest is LKR 5,290 Bn, of which LKR 2,000 Bn is allocated for capital expenditure and LKR 1,410 Bn is allocated for Salaries and Wages. Together with interest payment of LKR 2,643 Bn the total government expenditure stands at LKR 7,933 Bn.

Key Budget Proposals on Government Expenditure



Highways and railway development

LKR 487 Bn for development of highways, expressways, railways, new proposals and Cyclone Ditwah damages; and LKR 80 Bn for 2027 railway electrification.



Social protection

LKR 230 Bn in 2027 for social protection allowances, including Aswesuma, supporting poor and extremely poor households.



Health infrastructure

LKR 131 Bn capital expenditure for public health services across central Government and Provincial Councils.



Public sector salaries

LKR 110 Bn for the final phase of the public sector salary revision in 2027.



Rural road development

Approximately LKR 100 Bn for rural roads, including Provincial Council roads, rural bridges and allocations under the District Development Programme.



Irrigation development

LKR 77 Bn for irrigation development in 2027, accelerating ongoing projects and commencing new schemes.



Drinking water and sanitation

LKR 77 Bn for clean drinking water, sanitation facilities and water supply for industry and other economic activities.



MSME financing

LKR 67,687 Mn in 2027 for interest subsidies and bank refinancing, supporting LKR 174 Bn concessionary lending.

Key Budget Proposals on Governance & Policy



Investment protection

Draft Investment Protection Bill for fair treatment, compensation and dispute settlement referred to AG. Treasury-owned investment promotion company proposed.



State enterprise management

The draft State-Owned Business Enterprises Management Bill proposes a holding company to efficiently manage 34 identified state-owned enterprises.



Public-private partnerships

PPP Act expected to be presented in Parliament in early 2027 for project initiation, development, management and monitoring.



Trade agreements

Expansion of India FTA, new China FTA consideration, RCEP accession application, and expected UAE/Oman economic partnership agreements.



Digital legal framework

Digital Economy Bill expected to be passed in Q1 2027. Cyber Security Authority proposed for 2027 under the Cyber Security Bill.



Labour law modernisation

Expert committee recommendations on labour laws to support investment and production, with clearer employer-employee responsibility and accountability.

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