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Beyond Stabilization:
Building for Growth

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Budget Analysis Report 2027
November 2026

Foreword

Sri Lanka Budget 2027

Beyond Stabilization: *Building for Growth*

We are pleased to forward to you a Summary and Analysis of the Budget Proposals for 2027, presented in the Parliament on 12 November 2026 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 Division of Deloitte in Sri Lanka will be pleased to assist you.

13 November 2026



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Partner, Head of Tax
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Key highlights



LKR 1.95 Mn

Annual personal tax relief
From 1 April 2027



200%

Optional qualifying BOI
capital allowance



LKR 80 Bn

2027 first-phase
rail electrification



LKR 28.5 Bn

Digital Economy Ministry
Total allocation



LKR 174 Bn

Expected concessionary
enterprise lending



LKR 230 Bn

Social-protection
allowances



LKR 131 Bn

Public health
capital expenditure



LKR 1.5 Mn

Low-income housing
support per house



560 MW

Battery storage in
2027



25%

CESS cut across
800 HS code lines



01 April 2027

Tourism Development
Levy abolition



LKR 260 Bn

Ditwah reconstruction
Supplementary estimate

Macro-fiscal metrics

2027 Budget - including supplementary estimate

2.3%	−4.5%	14.6%	5.12%
Primary surplus / GDP	Overall deficit / GDP	Tax revenue / GDP	Public investment / GDP

Reported economic results

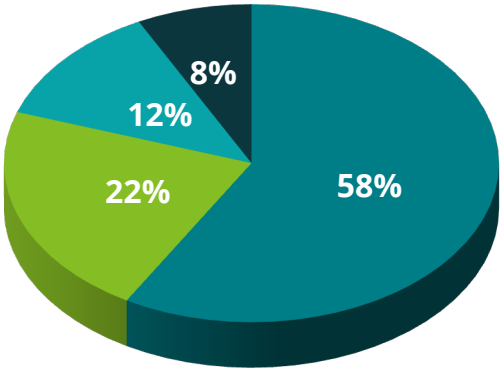
95%	5%	8.3%	> USD 7 Bn
Government debt / GDP (2025)	GDP growth (2025)	Inflation (October 2026)	Foreign reserves (October 2026)

Medium- and long-term targets

≥ 7%	≥ 16%	~20%	69%
GDP growth (medium-term target)	Revenue / GDP (medium-term target)	Revenue / GDP (long-term target)	Renewable installed capacity (2029)

Budgeted revenue and expenditure

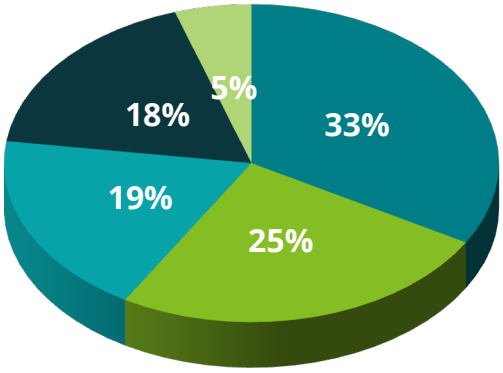
Budgeted Revenue



Total: LKR 6,150 Bn (100%)

- Goods and services taxes: 3,592 Bn
- Income tax: 1,341 Bn
- External trade taxes: 754 Bn
- Non-tax revenue: 463 Bn

Budgeted Expenditure



Total: LKR 7,933 Bn (100%)

- Interest: 2,643 Bn
- Public investment: 2,000 Bn
- Subsidies and transfers: 1,482 Bn
- Salaries and wages: 1,410 Bn
- Other: 398 Bn



Government Revenue and Expenditure

Government Revenue - Last year's performance

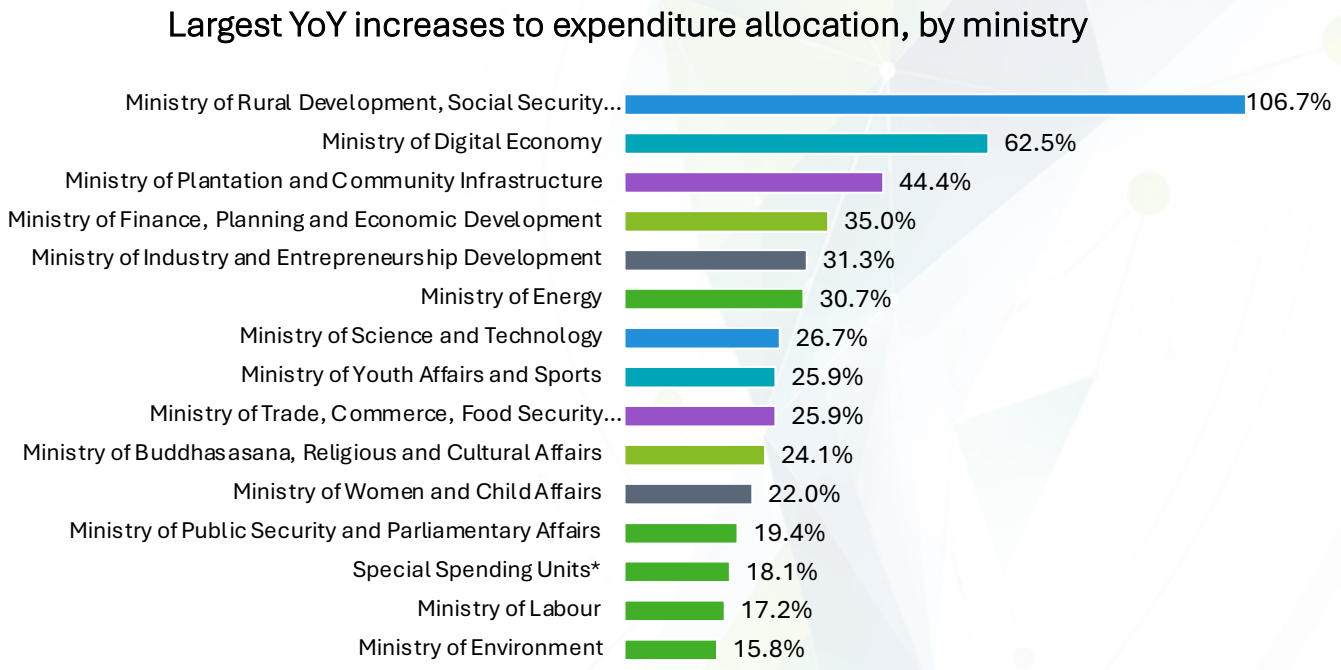
Government revenue grew by 35 percent in 2025 compared with the preceding year, reflecting the Customs Department's and Inland Revenue Department's (IRD) contributions to tax collection.

Tax revenue increased by 36 percent, broadly in line with the 35 percent rise in total Government revenue.

According to Central Bank of Sri Lanka data, vehicle-related taxes accounted for more than 60 percent of the increase in total revenue in 2025 following the relaxation of vehicle import restrictions. This change, together with the 20 percent Customs Import Duties (CID) rate and 50 percent surcharge on CID for motor vehicles in 2025, resulted in CID revenue of LKR 275.9 Bn, up 148.2 percent from 2024.

IRD income tax collections reached approximately LKR 1,113 Bn in 2025, an increase of more than approximately 11 percent from 2024. The increase reflects tax changes, including the following measures effective from 01 April 2025.

- Increase in the corporate income tax rate from 40 percent to 45 percent for liquor and tobacco manufacturing and the betting and gaming industries.
- Increase in the withholding tax rate on interest income from 5 percent to 10 percent.
- Removal of the exemption for income from the export of services and introduction of a 15 percent tax rate on that income.



**Note: Special Spending refers to allocated funding to high-level constitutional offices, independent commissions, and key state institutions.*

- The larger 2027 allocation for the Ministry of Digital Economy reflects a greater commitment to Sri Lanka's digital transformation.
- Higher capital expenditure reflects greater Government emphasis on infrastructure, including roads, railways and rural connectivity.

Economic strategy and reform

The 2027 programme rests on fiscal discipline, investor confidence and institutional reform.



Economic context

- Growth was 5% in 2025, 5.1% in the first quarter of 2026 and 4.2% in the second quarter.
- The current account moved from a USD 1,853 Mn surplus in Jan–Sep 2025 to a USD 420 Mn deficit in the corresponding period of 2026.
- Fuel prices and climate shocks remain key risks.



Medium-term fiscal path

- Primary surplus target: 2.3% of GDP, with the deficit below 5%.
- Government revenue: 16.6% of GDP, rising towards 20% long term.
- Primary expenditure is temporarily 13.6% in 2027, aiming to return to 13% from 2028 onwards.



Debt sustainability

Central Government debt fell from 114% of GDP in 2022 to 95% in 2025. IMF-EFF public debt target: 95% of GDP by 2032, with a decline to 87%. Foreign debt service - USD 2,986 Mn in 2027 and USD 3,574 Mn in 2028



Legal and regulatory reforms

The Government is overhauling outdated laws by enacting new legislation such as Rescue, Rehabilitation and Insolvency Act, Microfinance and Credit Regulatory Authority Act and various amendments to strengthen transparency, security, and corporate governance. Additional regulatory changes include Public-Private-Partnerships (PPPs) , SOE management, investment protection, and the reform of labour laws.



Trade facilitation

The Customs Ordinance is expected to be amended in H1 2027. The National Single Window for Trade will be extended to exporters in H1 2027 and to importers and re-exporters in H2 2027, with LKR 1,990 million allocated. A further LKR 1,000 million is proposed for Customs scanners, while the TIEP process will be modernised to introduce “inter-port trading” and facilitate SME exports.



Free trade agreements

- Expansion of the existing Free Trade Agreement with India.
- Exploration of new Free Trade Agreements with China and other countries.
- Pursuit of Sri Lanka’s accession to the Regional Comprehensive Economic Partnership (RCEP).
- Entry into Comprehensive Economic Partnership Agreements with the United Arab Emirates and Oman.
- Implementation of the Sri Lanka–European Union Sustainable Trade and Economic Integration Project during 2027–2030.

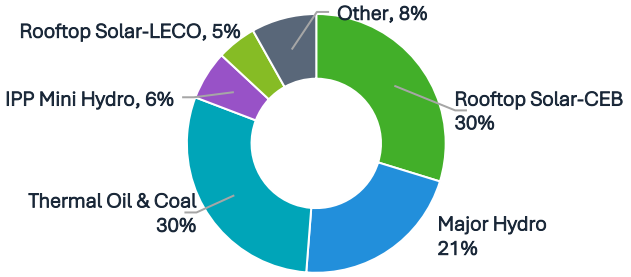
Business implications: More predictable regulation and faster border processes could reduce transaction costs. External shocks remain a risk.

Energy security and renewable power

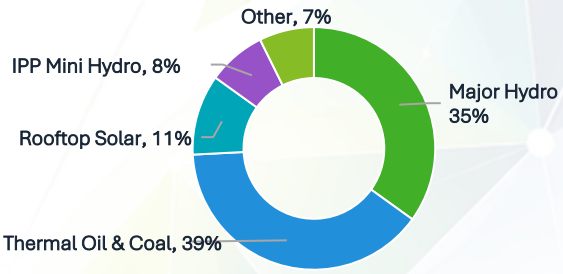
El Niño will affect hydropower generation in Sri Lanka, increasing reliance on thermal power generation in the short to medium term.

Renewables accounted for ~61% of electricity generation in 2025. Plans aim to increase this share to 69% by 2029.

Total Installed Capacity (2025)
7,127 MW



Total Generated Output (2025)
18,052 GWh



Note: Other includes Independent Power Producers Solar & Wind, CEB Wind, Biomass and Municipal Solid Waste

Multilateral agencies continue to support power sector reforms

- The World Bank Group's phased programme aims to deliver 1 GW of new clean energy capacity. It includes a USD 150 Mn investment approved in June 2025 and expected mobilisation of USD 800 Mn in private investment.
- The Asian Development Bank approved a USD 100 Mn policy-based loan for power sector reforms in December 2025.
- In April 2026, the International Finance Corporation announced a partnership with WindForce PLC to develop Sri Lanka's first utility-scale 100 MW solar power facility.
- In June 2026, Asian Development Bank approved a USD 57.4 Mn financing package to help Sri Lanka improve direct-to-rooftop solar aggregation and virtual net metering.



Rooftop Solar & Net Plus

As rooftop solar use grows, the risk of curtailment increases.

While Net Plus exclusivity for new connections from September 2026 may weaken investment returns for some consumers, it encourages greater self-consumption and battery storage.



Project Updates

Battery storage program
- 160 MW of Battery Energy Storage System projects awarded, with 25 projects of 10MW each to be awarded.

Habarana–Kappalthurai Transmission Grid Expansion Project
- Upgrades to Habarana and Kappalthurai Substations and construction of a 77 km, 220 kilovolt (kV) double circuit transmission line.

High Voltage Transmission Lines
- The government has identified four high-voltage transmission lines for private-sector investment.

Kondachchi Wind Project
- Cabinet approved development of a 150 MW wind farm with integrated battery storage.

Energy security and renewable power

The Budget aims to maintain an uninterrupted energy supply and reduce production costs.

Renewable capacity

The target is 69% renewable electricity generation by 2029, supported by wind capacity of 674 MW, including 50 MW in 2027. Invitations for floating solar investment proposals are expected from January 2027 to diversify clean-energy generation.



Grid resilience

LKR 26.5 Bn is planned for grid stability and integration of renewable generation, including two 75 MVA synchronous condensers and a 300 MVAr STATCOM at Padukka during 2027–2029. An initial LKR 500 Mn is allocated for the Northern 400 kV transmission network, targeted for completion by 2030. USD 150 Mn in AIIB financing is being sought.



Battery storage

The target is 560 MW of new battery capacity in 2027, rising to 1,245 MW by 2029. LKR 3.5 Bn is allocated for household rooftop solar with battery storage. The subsidy is LKR 25,000 per kW, capped at 10 kW/LKR 250,000 per household.



Smart metering

Free smart meters for 300,000 high-usage consumers in 2027, supported by a USD 12 Mn ADB grant. Eligibility covers CEB consumers using over 180 units per month, with a lower threshold of over 120 units in LECO areas, supporting smarter energy management and grid efficiency.



Petroleum logistics

An additional 126,000 m^3 of storage is planned to build reserves to 45 days' demand. LKR 16.3 Bn is allocated for the Port–Kolonnawa pipeline, targeted within 18 months to reduce fuel unloading time from 96 to 48 hours. The Katunayake pipeline allocation is LKR 22.3 Bn.



Refinery and supply

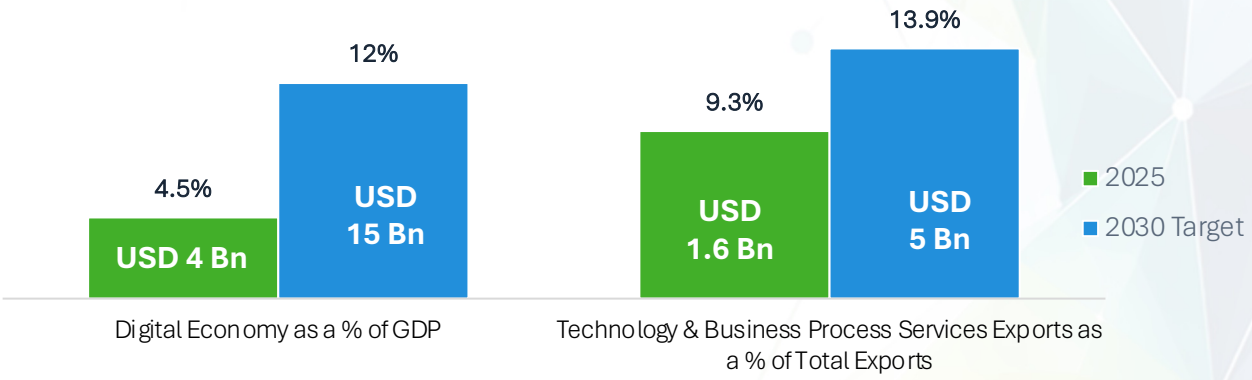
The Sapugaskanda refinery upgrade is proposed with private-sector participation, with RFPs planned for 2027. Diversification of fuel supply routes, storage capacity and energy sources also aims to improve the security and continuity of supply.



Business implications: Reliable power and cheaper storage could lower manufacturing costs and improve competitiveness, making investment more attractive.

Digital economy reforms

Budget 2027 proposes digital governance reforms, AI and shared infrastructure investment, and wider access to digital services, payments and broadband.



LKR 28.5 Bn allocation

The Ministry of Digital Economy's total allocation is LKR 28.5 Bn, comprising the existing LKR 18.5 Bn and an additional LKR 10 Bn. GovTech has commenced operations, and the Data Protection Authority has been established.

Digital governance

2027 reforms include the Digital Economy Bill (Q1), a Cyber Security Authority and digital procurement guidelines (H1), supporting expansion of National Digital Identity and integrated public services without in-person visits.

AI and shared infrastructure

Plans include a National AI Centre of Excellence at Wijerama, expansion of Lanka Government Cloud from LGC 2.0 to 3.0 and sovereign AI infrastructure. "Shared Platform First" and "Buy Before Build" policies, with Digital Transformation Units. Electricity tariff concessions are also planned to encourage establishment of data centers.

Digital payments and enterprise

GovPay and QR-based payments will expand, with a new VASP regulatory framework. Electricity tariff concessions and incentives for selected data-centre investments and a stronger Digital Startup Fund of Funds support digital entrepreneurship and investment.

Connectivity and inclusion

Broadband vouchers for 750,000 selected students and expanded high-speed coverage under Gamata Sannivedanaya. 573 telecom towers are targeted by 2028 toward the 700–800 required by 2030, supported by grants of up to LKR 35 Mn per tower and LKR 5 Mn for electricity connections.

Network quality

Network quality will be strengthened through automated broadband quality and spectrum monitoring systems from 2027, supported by LKR 3.1 Bn in TRC funding, alongside the digitalization of public services and administration.

Business implications: Wider digital access is intended to support business growth towards Sri Lanka's 2030 targets of a USD 15 Bn digital economy and USD 5 Bn in technology and business process services exports.

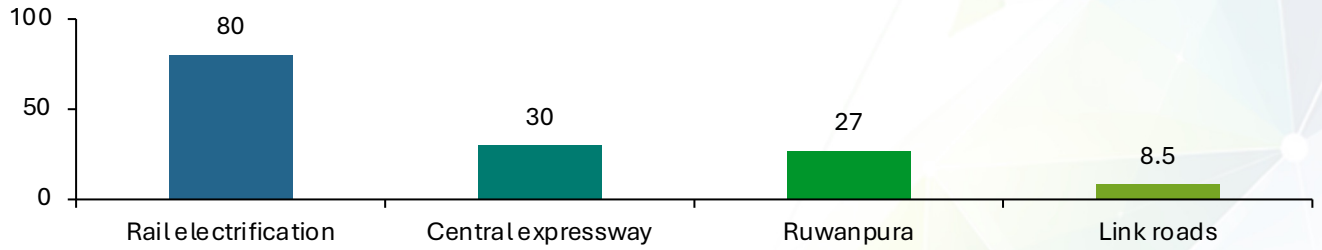
Road, rail, port and airport connectivity

Capital investment aims to improve connections across transport modes and reduce constraints, strengthening Sri Lanka's role as a regional trade and logistics hub.

Road and rail

The Kurunegala-Galewela section of the Central Expressway, the Ruwanpura Expressway and key Central Expressway link roads will improve connectivity. Colombo suburban railway electrification will improve commuter rail reliability.

Selected 2027 infrastructure allocations (LKR Bn)



Ports

Trincomalee oil tank expansion is progressing, with LKR 7.4 Bn allocated. RFPs for 29 of the 61 tanks owned by Trinco Petroleum Terminal are planned in 2027.

Additional funding covers a Kelani estuary study and upgrades to vessel traffic management and navigation systems with Japanese assistance. A private-sector BOT project supported by CPC will expand Port of Colombo bunkering capacity by 50,000 metric tons.

CPC and private-sector partners will jointly develop storage and pipelines for bunkering services centered on the Port of Galle.

Volumes: Port of Colombo handled 8.3 Mn TEUs in 2025, an all-time high

2025	1H 2026	2028E
8.3 Mn TEU (6.4% YoY)	**4.4 Mn TEU** (11.9% YoY)	**12 Mn TEU** (13.1% CAGR, 2025-2028)

Estimated Capacity Expansion: Port of Colombo





Aviation infrastructure

Airport and aviation investments comprise LKR 15 Bn for BIA, LKR 800 Mn for domestic connectivity facilities, LKR 200 Mn for Katunayake access roads and feasibility work, and LKR 100 Mn for Sigiriya Domestic Airport upgrades.

Business implications: Faster transport links and modernised logistics could improve export competitiveness. Benefits will depend on timely procurement and project delivery.

Skills, research and productivity

Education, vocational training and research investment supports workforce productivity.



School Education

School reforms will begin for Grades 2 and 6 in 2027. Chinese support for school uniforms will continue. The LKR 96.5 Bn School Digital Programme will receive a further LKR 3 Bn in 2027. With 6,225 schools already connected, the remaining 750 are targeted for connectivity. LKR 35 Bn is allocated for digitalisation, teacher development and infrastructure.



Teacher and Piriven Support

From April 2027, monthly trainee-teacher allowances will increase from LKR 10,500 to 20,000, while daily allowances for student monks rise from LKR 15 to 50 and lay students from LKR 5 to 25. Annual allowances for Dhamma school teachers will increase from LKR 7,500 to 12,500.



Higher Education

Allocations include LKR 450 Mn for medical faculties at Peradeniya and Wayamba Universities under an LKR 8 Bn programme, LKR 2.25 Bn for academic facilities, LKR 6.25 Bn for student welfare and LKR 700 Mn for restoration. From April 2027, eligible private-degree loan recipients' monthly subsistence allowance will rise from LKR 6,250 to LKR 10,000.



Vocational Education

Vocational education investments include LKR 11 Bn in capital expenditure, LKR 800 Mn for the Ratmalana University of Vocational Technology, LKR 1.5 Bn for modernising 25 technical colleges, LKR 200 Mn for training institutions, and LKR 50 Mn for a central regulatory study.



Research & Commercialisation

The National Council for R&D has been established, with six agencies to be incorporated. R&D funding totals LKR 23.8 Bn, including LKR 7.6 Bn under the Ministry of Science and Technology. The National R&D Bill is expected in H1 2027.



Workforce Capability

Research priorities cover technology commercialisation and advanced research, with industry partnerships and national policy. The education digital programme includes smart boards, IT centres, NEMIS, accessibility and teachers' digital skills.

Business implications: Better skills development may reduce talent gaps. Businesses can partner with training and research institutions.

Enterprise finance and industrial investment

For banks and NBFIs, Budget 2027 prioritises affordable enterprise finance and capital market access. It also supports industrial production and exports.



MSME financing

LKR 67,687 Mn in interest subsidies and refinancing is expected to enable LKR 174 Bn in concessionary lending in 2027. This includes a further LKR 20 Bn at 5% under the Re-Micro, Small and Medium Enterprises Plus scheme, an initial LKR 200 Mn subsidy and an additional LKR 30 Bn with Asian Development Bank support.



Targeted credit

Concessionary financing includes LKR 20 Bn in interest-free pledge loans for paddy millers; group loans of up to LKR 1 Mn at 3% for women-headed families, supporting an expected LKR 12.5 Bn in lending; and loans of up to LKR 5 Mn at 4% for rural enterprises employing at least five Aswesuma beneficiaries, with LKR 5 Bn in expected lending.



Sector loan facilities

Concessionary loans for fisheries exporters and related suppliers up to LKR 500 Mn at 5%. A LKR 1 Bn interest subsidy supports expected lending of LKR 15 Bn. The homestay programme offers tourism-related small businesses loans of up to LKR 2 Mn at 3%, targeting LKR 7.5 Bn in lending with an initial LKR 100 Mn subsidy.



Industrial investment

LKR 4 Bn for Valachchenai Industrial Estate, feasibility and preliminary work at Puliyankulam, and development / upgrades of other industrial estates. LKR 750 Mn funds Sri Lanka Expo 2027, export diversification and promotion of higher-value exports. LKR 1,860 Mn supports relocation of the Ministry of Industries and affiliated institutions.



Capital market access

"A Share for Everyone" - portfolios of up to LKR 10,000 given to students over 18 years. Listing support for Small and Medium Enterprises backed by LKR 250 Mn from the Colombo Stock Exchange and a proposed additional LKR 500 Mn allocation.



Mineral value addition

Investors will be sought in 2027 for mining and value-addition projects, including the Kotigambokka quartz deposit. The aim is to promote domestic processing and higher value-added manufacturing, creating export opportunities.

Budget 2027 proposes enterprise finance and investment support. Eligibility and bank backing remain important. New industrial zones and mineral processing will support the industrial sector.

Food production and rural productivity

Investment in fisheries, crops and livestock supports food security and a more diverse export base.

Fisheries expansion

The fisheries export earnings targeted to increase from USD 300 Mn to USD 600 Mn by 2030. LKR 6.2 Bn is allocated for sector development, including LKR 5 Bn for Northern Province fisheries infrastructure, LKR 300 Mn for Chilaw and Wellamankaraya harbours and LKR 1.5 Bn for Gandara Fishery Harbour.

Fisheries value chain

Additional allocations cover Peliyagoda market (LKR 1 Bn), North Sea net centre (LKR 500 Mn), Polonthalawa aquaculture (LKR 300 Mn), CFC outlets (LKR 200 Mn), cage farming (LKR 250 Mn), feasibility studies (LKR 300 Mn) and resource management (LKR 1 Bn). Compensation for fishermen's accidental deaths doubles from LKR 1 Mn to LKR 2 Mn.

Land and crop productivity

Allocations cover fertilizer subsidies (LKR 44 Bn), cultivation of low-productivity paddy lands (LKR 1.55 Bn), the "Yaya" collective cultivation model (LKR 400 Mn) and digital Agrarian Service Centre 'One-Stop Shops' (LKR 250 Mn).

Food security and inputs

LKR 44 Bn funds a LKR 30,000/ha fertilizer subsidy for paddy and other crops grown on paddy lands. A further LKR 300 Mn, in addition to LKR 700 Mn already allocated, supports cooperative-led food security, paddy procurement and rice production. LKR 47 Mn funds the IPNM programme to improve soil health and crop productivity.

Livestock

LKR 1.8 Bn is allocated for livestock breeding farms with high genetic quality and LKR 3 Bn to complete Milco's Badalgama milk processing factory. A further LKR 300 Mn, in addition to LKR 200 Mn already allocated, supports goat farming in Puttalam, Mannar and Batticaloa.

Commercialisation

LKR 400 Mn funds cinnamon value chain development to improve productivity and quality, with better market access. MSME programmes support rural enterprise financing.

Business implications: Input subsidies and modern value chains could strengthen supply reliability; climate volatility and productivity remain key considerations. Spillover effects to smallholders.

Irrigation, land, plantation and sports

Irrigation, land administration and plantation investment supports regions' capacity to withstand disruption.



Irrigation Programme

LKR 77 Bn allocated for irrigation development, including LKR 21 Bn for rehabilitation of Ditwah-damaged tank systems and irrigation infrastructure, LKR 7.5 Bn for the Lower Malwathu Oya Project, and LKR 1 Bn to commence the Mundeni Aru River Basin Development Project.



Water Systems

LKR 5 Bn covers the Wayamba Canal Project, Rajanganaya modernisation, the Siyambalangamuwa Oya–Mahagalgamuwa Oya feeder canal and Gampaha flood mitigation. Further allocations are LKR 19.5 Bn for the Mahaweli Water Security and Investment Programme, LKR 1.5 Bn to rehabilitate Ditwah-damaged minor irrigation schemes and LKR 200 Mn for Kumbukkan Oya and Heda Oya studies.



Land Administration

LKR 800 Mn funds Bimsaviya, and LKR 140 Mn covers land title registration, digitalisation of land records and modernisation of land information systems. Records for 3.5 million land parcels will be digitised and integrated into the national land information system.



Plantation Sector

The plantation export earnings target rises from USD 3 Bn to USD 5 Bn by 2030. LKR 13 Bn is allocated for sector development, including LKR 730 Mn for 500 tea villages, LKR 5 Bn for tea fertilizer subsidies and LKR 1 Bn for rubber fertilizer subsidies.



Plantation Diversification

LKR 2.5 Bn covers coconut estate rehabilitation and productivity improvements. LKR 500 Mn supports rubber plantation rehabilitation and productivity, with research and supporting infrastructure.



Sports

LKR 8.5 Bn allocated for sports development in 2027, including LKR 300 Mn for the Diyagama Sports Complex's National High-Performance Centre, LKR 1.5 Bn for modernization of the Sugathadasa National Indoor Sports Complex, LKR 2.5 Bn to promote a sports culture, and LKR 1 Bn for the Anuradhapura Sports Complex and its 400-metre synthetic running track.

Business implications: Reliable water supplies and formalised land rights can make investments more viable. Plantation productivity supports export growth.

Household welfare and public services

Targeted welfare and public services protect households and support human capital.

Social protection

LKR 230 Bn has been allocated for allowances, including Aswesuma. The monthly allowance for kidney patients and persons with disabilities will be increased from LKR 10,000 to LKR 12,500. Under the Praja Shakthi National Movement to Eradicate Poverty, LKR 25 Bn has been allocated, while LKR 4.5 Bn has been allocated for empowerment of eligible families with potential.

Children and disability

Allocations include LKR 182 Mn for family-centred child development, LKR 102 Mn for alternative care for children who have lost parents to disasters and LKR 150 Mn for disability aids. Digital public services are to meet W3C accessibility standards. LKR 1 Bn funds physical accessibility initiatives and LKR 200 Mn transport for children with disabilities.

Care services

LKR 100 Mn to develop the Pannala Welcome Village elders' home as a model elderly care centre; LKR 75 Mn for four new wards and a wastewater management system at the Rediyagama care centre; LKR 200 Mn for day care facilities for children with disabilities; LKR 100 Mn to support the basic needs of NGO-operated disability care centres; and LKR 500 Mn to improve facilities at high-capacity children's homes.

Disaster management

LKR 2.9 Bn funds 13 projects, including LKR 500 Mn for early warning equipment and LKR 500 Mn to rehabilitate 77 coastal towers, build 120 land-based towers and establish a multi-hazard early warning communication system. LKR 670 Mn covers island-wide digital radio communication and LKR 1.0 Bn safety centres. A Dam Safety Act will also be introduced.

Health investment

Health capital expenditure is LKR 131 Bn. A further LKR 5 Bn is proposed in 2027 for a three-year high-end biomedical equipment programme. Allocations include LKR 3 Bn for ambulances, LKR 300 Mn for a modern Accident and Emergency Treatment Unit at the Thambuttegama emergency unit and LKR 250 Mn for robotic surgery training at Ragama.

Health service delivery

LKR 3.6 Bn funds expansion of Arogya Wellness Centres, targeting 1,000 centres by 2029. Other allocations include LKR 50 Mn to initiate an organ and liver transplant centre at the National Hospital of Colombo, LKR 400 Mn for nationwide Wolbachia-based dengue control and LKR 100 Mn for free spectacles for schoolchildren with visual impairments.

Business implications: Welfare supports household demand. Health services and disaster preparedness may reduce disruption to workers and businesses.

Tourism, sustainability and mobility

Tourism investment, environmental safeguards and better transport services support sustainable growth.

Tourism development

Allocations include LKR 300 Mn for the Southern Mist Triangle tourism project and LKR 35 Mn for centralised online e-ticketing at tourist attractions, in addition to SLTDA's LKR 133 Mn. USD 77 Mn in World Bank funding covers restoration of historic buildings around Colombo Fort and a tourism zone.

Tourism services

LKR 240 Mn covers PPP-based development of the Dutch Fort as a tourism hub, LKR 500 Mn for a concessionary loan scheme for marine tourism equipment and LKR 240 Mn for cruise terminal modernisation in Colombo, Galle, Tangalle and Trincomalee. Tourist Police measures include multilingual officers and dedicated patrols, with a 24-hour emergency hotline and mobile application.

Environment and climate

LKR 5.0 Bn for El Niño preparedness; LKR 450 Mn for human-elephant conflict mitigation through electric fencing; LKR 5.7 Bn for new wildlife care facilities in Anuradhapura and Polonnaruwa; and LKR 800 Mn for sustainable environmental management, including coastal protection and air-quality monitoring. A dedicated authority is proposed for integrated protection and restoration of the Central Highlands.

Wildlife protection

Higher human-elephant conflict compensation is proposed: LKR 2 Mn for death/full disability and up to LKR 1 Mn for property damage. Fines for elephant-related offences would increase to LKR 500,000–1 Mn.

Passenger transport

LKR 95 Bn allocated for the modernisation of railway and passenger bus services, including the introduction of 100 electric buses donated from China, procurement of 250 minibuses for rural and upcountry areas (LKR 5 Bn), purchase of 5 new trains (LKR 5 Bn), and LKR 2 Bn for the rehabilitation of railway stations.

Transport administration

LKR 600 Mn for a new Werahera motor traffic facility; LKR 700 Mn to digitise vehicle registration and ownership transfers; and LKR 1.5 Bn for a Driver Demerit Points System and integrated road-safety enforcement linking the Department of Motor Traffic and Sri Lanka Police. The Up-Country railway line is also expected to be fully rehabilitated, restoring services to Badulla by mid-2027.

Business implications: Tourism service operators and transport suppliers may benefit. Productivity overall will improve with better public transport. Climate and heritage safeguards help sustain demand.

Liveable cities and regional services

Water, housing and flood-control projects provide social infrastructure and construction opportunities.

Water supply

Water supply allocations cover Greater Kilinochchi (LKR 1.8 Bn), Kundasale–Haragama (LKR 1.8 Bn), Eheliyagoda (LKR 1 Bn), 13 new drinking water projects including Jaffna and Mannar (LKR 5.19 Bn), Greater Galle City (LKR 3 Bn) and Haldummulla–Beragala (LKR 700 Mn).

Water and sanitation

LKR 12.0 Bn covers capacity and distribution improvements and sanitation facilities. Other allocations cover community water schemes (LKR 2.0 Bn), Ella, Moratuwa and Ekala wastewater projects (LKR 1.74 Bn), Yatimhalana-Ma Oya water supply (LKR 300 Mn) and industrial and commercial water feasibility studies in Kuliyapitiya, Pannala, Bingiriya, Udubaddawa, Trincomalee and Gampola-Jayamalapura (LKR 250 Mn).

Affordable housing

LKR 15 Bn funds "A Place of One's Own – A Beautiful Life", targeting 70,000 houses overall and 10,000 new houses in 2027. Per-house assistance rises from LKR 1 Mn to LKR 1.5 Mn. Additional LKR 10 Bn covers resettlement after the Northern and Eastern conflict, comprising LKR 6 Bn already allocated and LKR 4 Bn proposed. The India-supported programme for 10,000 plantation community houses will be accelerated.

Housing delivery

Allocations cover completion of unfinished houses (LKR 5 Bn, with assistance up to LKR 500,000), housing for Ditwah outside existing criteria (LKR 1 Bn), the Ditwah Housing Project (LKR 90.0 Bn) and urban low-income housing (LKR 26.82 Bn). Middle-income projects will launch in Maligawatta and Yakkala on a pre-sale basis. A public-private initiative aims to build 10,000 apartments over the next five years.

Urban development

LKR 2.7 Bn for development of 10 towns, including Jaffna and Matale, as tourism-focused urban centres. A further LKR 5 Bn supplements existing provisions for 19 towns, with total estimated costs of LKR 65 Bn. LKR 900 Mn covers a sustainable development study and initial improvements to Beira Lake and its surroundings.

Flood mitigation

LKR 3.2 Bn covers urban flood control and environmental improvements, including canal restoration and drainage upgrades. LKR 7.7 Bn funds rainwater management, including Malwathu Oya and Mundeni Aru. Government equity of LKR 625 Mn contributes to LKR 1.25 Bn of SLLDC flood-management machinery. New projects include Mudun Ela and rehabilitation of the St. Sebastian and Kirulapana canals.

Business implications: Construction, engineering and property businesses may see additional demand. Better water supply and drainage support industrial and urban sites.

Upcoming Projects for Private Sector Participation

Summary Project List



Construction of 2 transmission lines from Norachcholai to Wariyapola and from Moneragala to Hambantota, and the New Habarana - Kirindiwala transmission line.



Sapugaskanda Oil Refinery capacity upgrade to 100,000 barrels a day under a PPP.



The Petroleum Development Authority of Sri Lanka has invited bids for oil and natural gas exploration and production in 4 Mannar Basin blocks. Bid opening is expected in February 2027.



Construction of 573 telecommunication towers.



Establishment of data centres.



Establishment of a logistics centre in the Port of Colombo through a PPP.



Expansion and strengthening of Port of Colombo bunkering capacity on a Build-Operate-Transfer basis.



Development of storage and pipelines for Port of Galle bunkering services.



Development of the Port of Trincomalee as a fuel storage hub through State and international partnerships. Ceylon Petroleum Corporation and Lanka IOC will jointly develop 29 of Trinco Petroleum Terminal (Private) Limited's 61 tanks under a PPP.



Development of a re-export hub at Bandaranaike International Airport, with private participation, to make the airport an air cargo handling hub.



Development of airport operations, data centers, food and catering services and aircraft services and maintenance at the Mattala International Airport.



Kahatagaha Graphite Mine Value-Addition project.



Selection of an investor for a value-addition industry using mineral sands mined by Lanka Mineral Sands Limited.



Identification of a suitable investor for mining and value addition at the Wellawaya quartz deposit.



Identification of an investor for the silica sand project.



The private sector is encouraged to deploy Metro buses. Existing route permit holders will be encouraged to replace their buses with modern low-floor buses.



Promotion of historic Dutch forts as tourism development hubs through a PPP.

Public sector salaries and pensions

The final phase of the salary revision and targeted allowance changes support retention in public services.

Measure	Proposed change / timing
Salary revision	LKR 110 Bn funds the final phase of the public-sector salary revision in 2027, completing the LKR 15,750 increase in minimum basic salary under the LKR 330 Bn overall programme.
Executive transport	The monthly transport payment doubles to LKR 100,000, and the allowance given for use of privately owned electric vehicles for official duties, increases by 150% from July 2027.
Health allowances	Health-sector allowances will increase from LKR 70,000 to LKR 95,000 for medical officers, LKR 6,000 to LKR 12,000 for nursing and paramedical staff, and LKR 2,000 to LKR 4,000 for other health staff, with 50% of the increases effective from July 2027 and the balance in 2028
Higher education	Academic and vocational allowances will increase. An additional LKR 25,000 monthly academic allowance will be phased over 2027–2028. Hourly rates for visiting lecturers and practical advisers will triple, and external vocational lecturer rates will double.
Security and prisons	From July 2027, security-sector changes include higher Tri-Forces food allowances, an additional LKR 10,000 monthly allowance for Police personnel and higher prison risk allowances.
Field officers	Field-service allowances will increase from April 2027, with monthly travel and rent allowances of up to LKR 10,000 for Grama Niladharis, LKR 3,000 for Development Officers, LKR 7,000 for Agricultural Research and Production Assistants, and LKR 6,500 for Samurdhi Officers, depending on duty location.
Judicial & legal	Professional/non-practising/special allowances rise by LKR 20,000–25,000, phased from July 2027 to 2028. Other changes include a LKR 50,000 transport increase, higher driver and housing allowances and increased judicial support. Commission chairs and members receive LKR 200,000 and LKR 140,000 monthly, respectively, from July 2027.
Pensions	The final pension revision phase will take place in 2027. Retirees from 2020–2024 will receive an interim LKR 2,500 monthly allowance from July 2027 until the revision takes effect.

Business implications: Tourism service operators and transport suppliers may benefit. Productivity overall will improve with better public transport. Climate and heritage safeguards help sustain demand.

Personal and corporate income tax

Proposed changes to the Inland Revenue Act, intended to take effect on 1 April 2027.

Annual personal relief: LKR 1.80 Mn → LKR 1.95 Mn

Changes to tax slabs and rates:

Existing		Proposed	
Taxable income	**Rate**	**Taxable income**	**Rate**
First LKR 1,000,000	6%	First LKR 850,000	6%
Next LKR 500,000	18%	Next LKR 600,000	12%
Next LKR 500,000	24%	Next LKR 600,000	18%
Next LKR 500,000	30%	Next LKR 600,000	24%
Balance	36%	Next LKR 600,000	30%
—	—	Balance	36%



Personal income tax impact

- The monthly tax-free salary would increase from LKR 150,000 to LKR 162,500.
- Additional monthly relief from the proposed changes: LKR 750 – 15,750.
- The monthly income threshold for the maximum tax rate of 36% would increase from LKR 358,000 to LKR 433,000.
- Effective income tax rate is gradually decreasing since the introduction of the highest tax rate of 36% in Y/A 2022/2023.



BOI enhanced capital allowance

An enhanced capital allowance of 200% of qualifying capital expenditure for BOI approved export manufacturing and tourism.
Conditions:

- Minimum USD 3 Mn investment within 3 years (manufacturing/non-hotel tourism) and 5 years (hotels).
- Cannot claim general capital allowances



Capital gains tax scope

The proposed definition of 'capital assets' for capital gains tax purposes would extend to:

- Digital and virtual assets, including crypto assets; telecom/broadcast and other similar licences/rights with commercial value;
- Gems, Jewellery, precious metals and valuable movable assets above a prescribed monetary threshold.



Other matters

- Accountant/authorised-person to certify compliance with restriction on cash transactions.
- Remote/digital services including online advertising and cloud services, source of income based on place of payment;
- Clarification - 14% WHT on service fees/insurance premiums applies only to payment made to non-residents without Sri Lankan Permanent establishment.

Indirect tax and registration

VAT and SSCL amendments proposed from 1 April 2027.

<table>
<tr><th>Category</th><th>Proposed treatment / conditions</th></tr>
<tr><td>New VAT exemption</td><td>Exemption on import/supply:
<table>
<tr><th>HS Code</th><th>Description</th><th>HS Code</th><th>Description</th></tr>
<tr><td>4820.20</td><td>Exercise books</td><td>4901.10</td><td>Printed matter in single sheets</td></tr>
<tr><td>4901.99.10</td><td>Printed Books</td><td>4904.00.10</td><td>Music books/printed music</td></tr>
<tr><td>4901.91</td><td>Dictionaries/ encyclopedias</td><td>4904.00.90</td><td>Printed music other than in book form</td></tr>
<tr><td>4903.00</td><td colspan="3">Children’s picture/drawing/colouring books</td></tr>
</table></td></tr>
<tr><td>Removal of VAT exemption</td><td>Removal of exemption on Artemia eggs (0511.91.20) and coconut coir pith (1404.90.93).</td></tr>
<tr><td>VAT on film ticket</td><td>Film producer, distributor, National Film Corporation and cinema hall operator liable on own ticket revenue share. Tax base is after Entertainment Tax, before VAT.</td></tr>
<tr><td>Eligible Exporters</td><td>Newly VAT-registered exporters qualify for the refund scheme when >80% of turnover (currently >50%) in the preceding six months comes from exports. For these exporters, this replaces the prior calendar-year test.</td></tr>
<tr><td>Foreign currency supplies</td><td>Foreign currency supplies to be converted using the CBSL indicative exchange rate specified by CGIR circular.</td></tr>
<tr><td>E-invoices</td><td>Electronic invoices are legally valid. CGIR will specify format, particulars and technical/procedural requirements by Gazette. Approval is currently required case by case.</td></tr>
<tr><td>VAT - Input tax</td><td>• Input tax credit claim periods are uniformly 12 months for local purchases and 24 months for imports, regardless of the VAT return submission date.
• Outstanding COVID-period returns filed by 31 July 2026 are valid for eligible claims.
• Treatment of credit/debit notes for commercial invoices and NFE basis to be clarified.</td></tr>
<tr><td>SSCL Exemption</td><td>Supply of bunker fuel to ships engaged in international transportation.</td></tr>
</table>

Business implications: Review HS coding, exemption eligibility, invoicing, FX conversion and input-tax controls. Exporters may qualify to claim refunds earlier.

Customs, duties and levies

Trade-related tax changes and technical amendments aim to simplify compliance and improve competitiveness.

13 Nov 2026
SCL

1 Jan 2027
PAL

1 Apr 2027
CESS / TDL

Measure	Proposed revision	Effective date
SCL: sprats	Reduction from LKR 100/kg to LKR 10/kg	13 Nov 2026
SCL: Maldive fish	Reduction from LKR 302/kg to LKR 10/kg	13 Nov 2026
SCL: Dried chillies (powdered/unpowdered)	Reduction from LKR 100/kg to LKR 50/kg	13 Nov 2026
SCL: Sugar	Increase from LKR 30/kg to LKR 40/kg	13 Nov 2026
PAL	Removal on newsprint and solar storage batteries	01 Jan 2027
CESS	25% reduction across 800 HS code lines	01 Apr 2027
Tourism Development Levy	Abolition of Tourism Development Levy	01 Apr 2027



Betting and gaming / Excise

The Betting and Gaming Levy Act and related tax laws will be amended.

The Gambling Regulatory Authority (GRA) has been established to provide effective regulation of betting and gaming.

A new Excise Act will replace the Excise Ordinance and improve revenue administration. Pending its introduction, amendments to the existing Ordinance will simplify and streamline its provisions.



Revenue impact

Annual tax-measure impact:

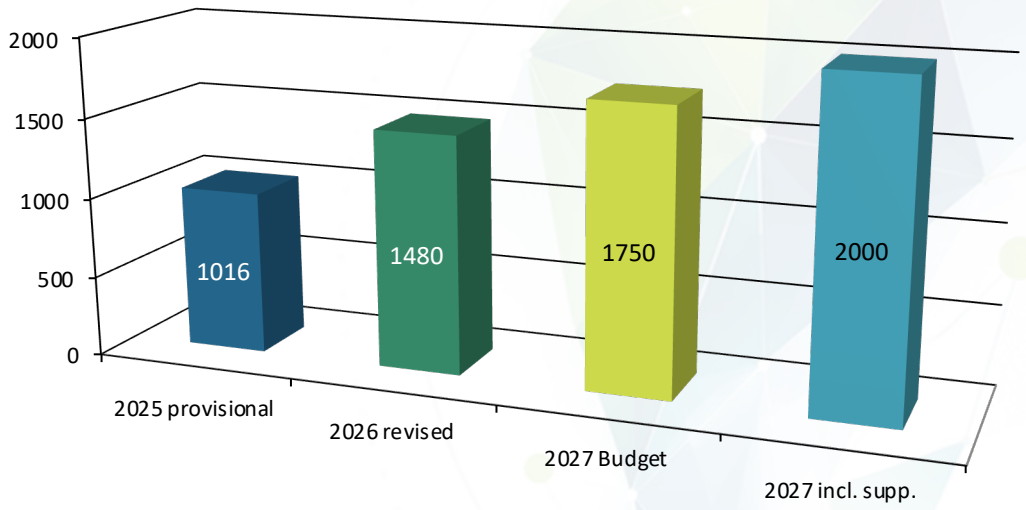
- Net revenue reduction LKR 28,415 Mn
- Revenue reduction for 2027: LKR 21,150 Mn
- Income tax reduction LKR 16,000 Mn
- CESS reduction LKR 10,000 Mn
- VAT reduction LKR 2,975 Mn

Borrowing and reconstruction

The supplementary estimate adds reconstruction spending to the base 2027 Budget.

LKR billion	2025 provisional	2026 revised	2027 Budget	2027 incl. supp.
Revenue & grants	5,486	5,981	6,180	6,180
Tax revenue	5,049	5,478	5,687	5,687
Expenditure	6,230	7,309	7,673	7,933
Public investment	1,016	1,480	1,750	2,000
Primary surplus	1,756	1,289	1,150	890
Budget deficit	745	1,328	1,493	1,753

Public investment (LKR Bn)



LKR 3,800 Bn gross borrowing requirement

Base budget debt service: LKR 4,850 Bn (interest 2,643 Bn, repayments 2,207 Bn). The LKR 260 Bn supplementary Ditwah estimate uses the available cash buffer. The total deficit rises to 4.5% of GDP and primary surplus falls to 2.3%.

Business implications: Monitor reconstruction procurement, use of the cash buffer and fiscal implementation alongside the announced tax changes.

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