# Sri Lanka Fiscal Budget Review 2026



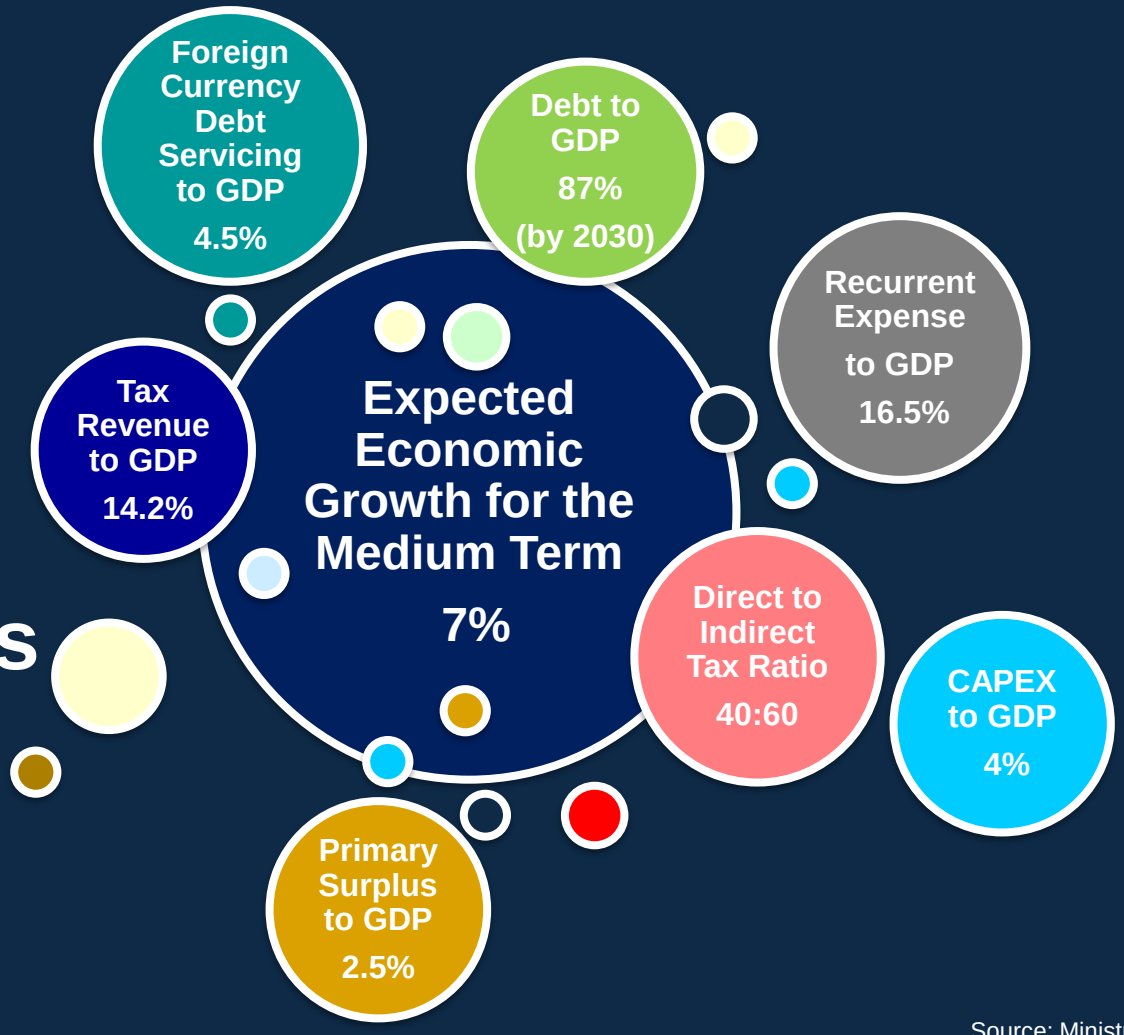
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07th November 2025

# 6 Themes Shaping SL's Growth Trajectory

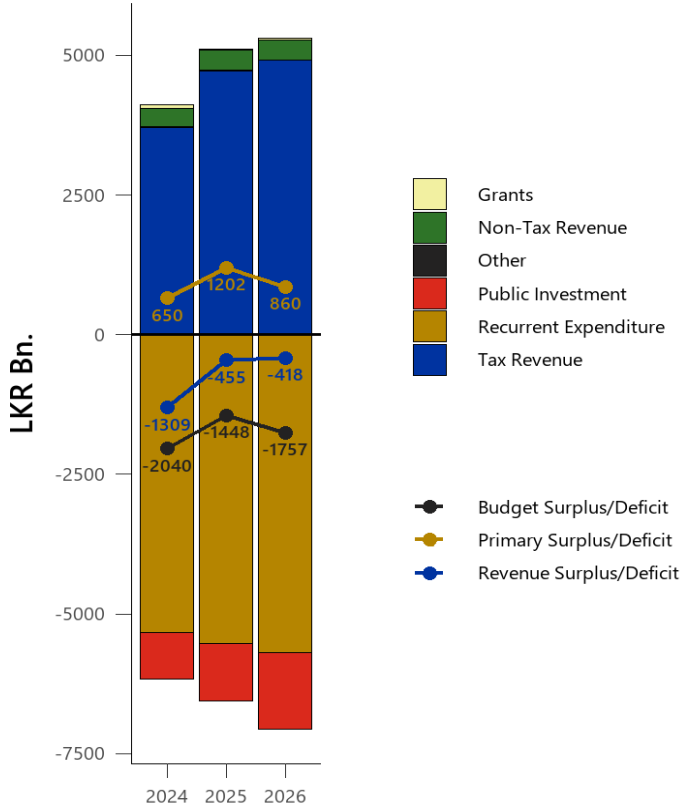
- Sustainable Growth
- Exports Diversification
- Production Economy
- Poverty Alleviation
- Debt Sustainability
- Digital Economy

# 2025 Fiscal & Economic Aims




Source: Ministry of Finance

# Budget Summary




| *LKR Bn.* | 2025 (Rev.) | 2026 (Est.) | Change (%) |
|---|---|---|---|
| **Total Revenue and Grants** | 5,100 | 5,300 | 3.92% |
| *as a % of GDP* | *15.90%* | *15.40%* | |
| **Total Expenditure** | 6,548 | 7,057 | 7.77% |
| *as a % of GDP* | *20.41%* | *20.51%* | |
| **Revenue Surplus/(Deficit)** | (455) | (418) | 8.13% |
| *as a % of GDP* | *1.42%* | *1.21%* | |
| **Primary Surplus/(Deficit)** | 1,202 | 860 | -28.45% |
| *as a % of GDP* | *3.75%* | *2.50%* | |
| **Budget Surplus/(Deficit)** | (1,448) | (1,757) | -21.34% |
| *as a % of GDP* | *4.51%* | *5.11%* | |

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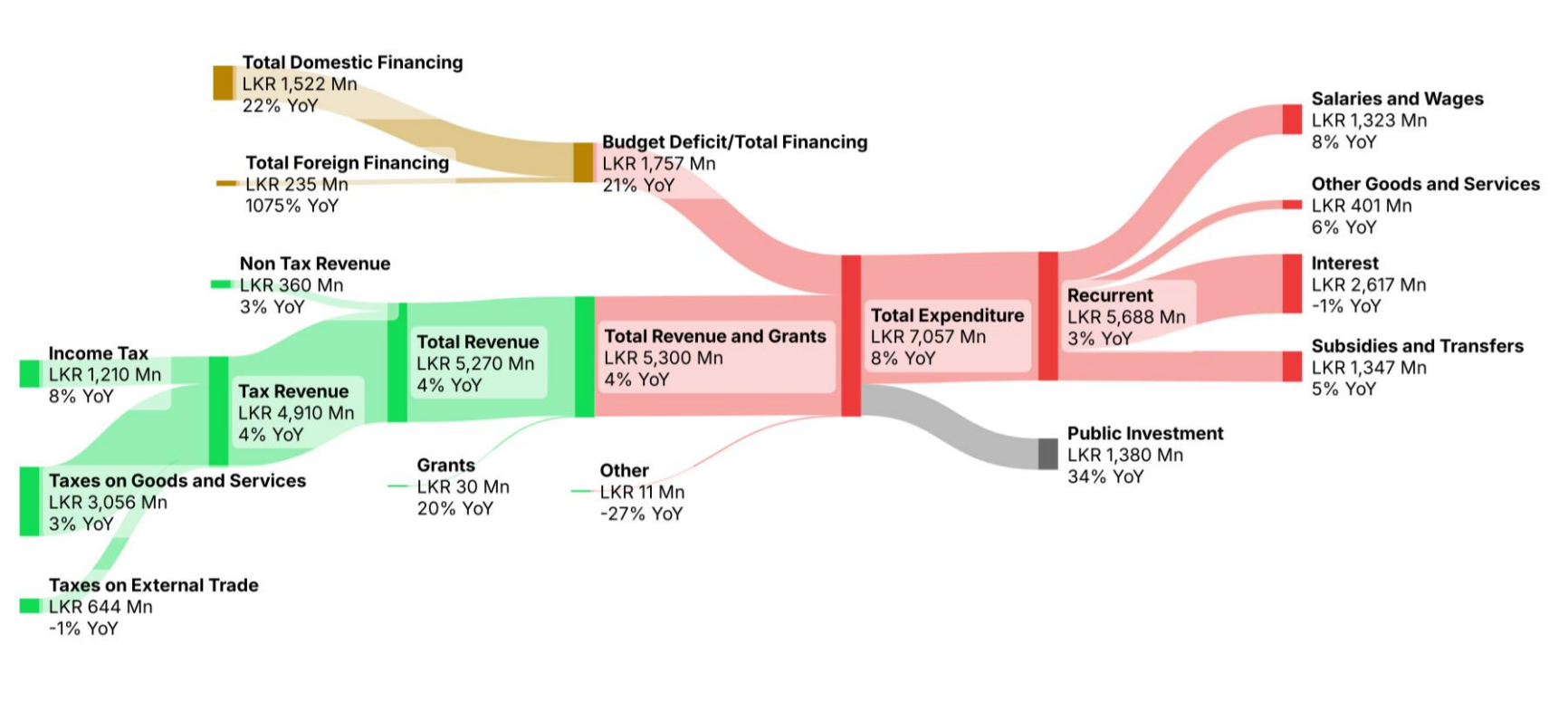
Source: Ministry of Finance, Planning and Economic Development

# IMF Targets

| | 2025 | | | | 2026 | | |
|---|---|---|---|---|---|---|---|
| (LKR Bn) | Third Review | Proj. | Draft budget | Revised | Third Review | Proj. | Draft budget |
| **Total Revenue and Grants** | **4,865** | **4,819** | **4,990** | **5100** | **5,360** | **5,296** | **5300** |
| Total Revenue | 4,834 | 4,789 | 4,960 | 5075 | 5,326 | 5,263 | 5270 |
| Tax Revenue | 4,485 | 4,439 | 4,590 | 4725 | 4,985 | 4,922 | 4910 |
| *Income Tax* | 1,129 | 1,100 | 1,157 | 1120 | 1,211 | 1,177 | 1210 |
| *Taxes on Goods and Services* | 2,635 | 2,667 | 2,772 | 2953 | 2,951 | 2,989 | 3056 |
| *Taxes on External Trade* | 721 | 672 | 661 | 652 | 823 | 756 | 644 |
| Non Tax Revenue | 349 | 350 | 370 | 350 | 341 | 342 | 360 |
| Grants | 31 | 30 | 30 | 25 | 34 | 33 | 30 |
| **Total Expenditure** | **6,607** | **6,555** | **7,190** | **6548** | **6,959** | **6,850** | **7057** |
| Recurrent Expenditure | 5,405 | 5,425 | 5,886 | 5530 | 5,572 | 5,551 | 5688 |
| *Salaries & Wages* | 1,222 | 1,230 | 1,230 | 1220 | 1,335 | 1,321 | 1323 |
| *Other Goods & Services* | 375 | 416 | 416 | 380 | 400 | 451 | 401 |
| *Interest* | 2,485 | 2,473 | 2,950 | 2650 | 2,414 | 2,360 | 2617 |
| *Subsidies and Transfers* | 1,323 | 1,306 | 1,290 | 1280 | 1,423 | 1,420 | 1347 |
| Public Investment | 1,187 | 1,115 | 1,315 | 1033 | 1,370 | 1,282 | 1380 |
| Other | 15 | 15 | -11 | -15 | 17 | 17 | -11 |
| **Budget Deficit** | **-1,742** | **-1,736** | **-2,200** | **-1448** | **-1,599** | **-1,553** | **-1757** |

Source: Ministry of Finance, IMF Country Report

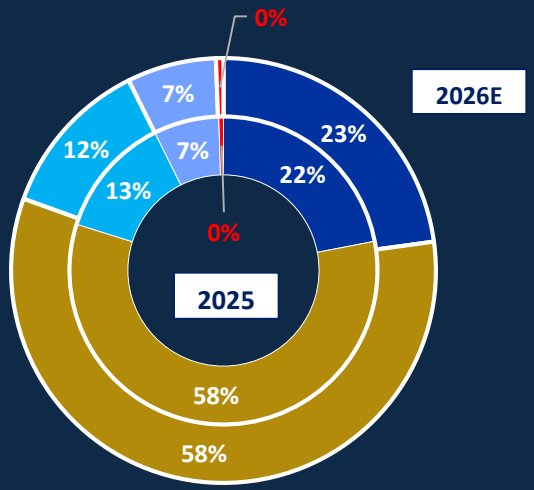
# Budget Summary




Source: Ministry of Finance

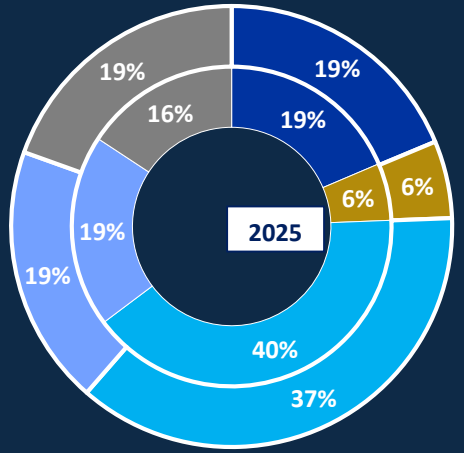
# Composition of Government Revenue & Expenditure

## Composition of Government Revenue




Income Tax
Taxes on Goods and Services
Taxes on External Trade
Non Tax Revenue
Grants

## Composition of Government Expenditure



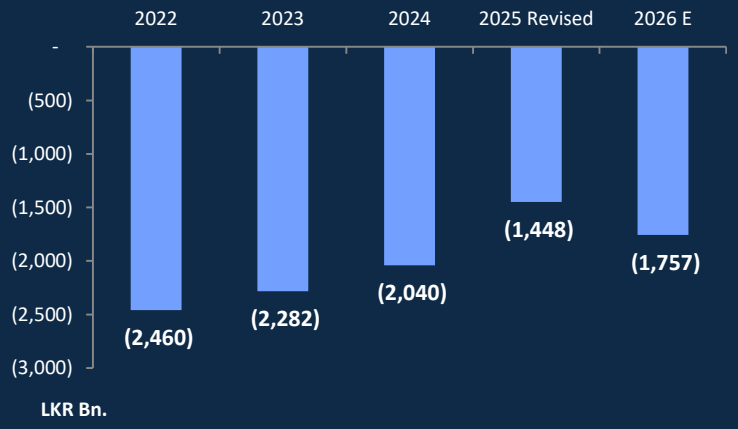

Salaries & Wages
Other Goods & Services
Interest
Subsidies and Transfers
Public Investment

Source: Ministry of Finance

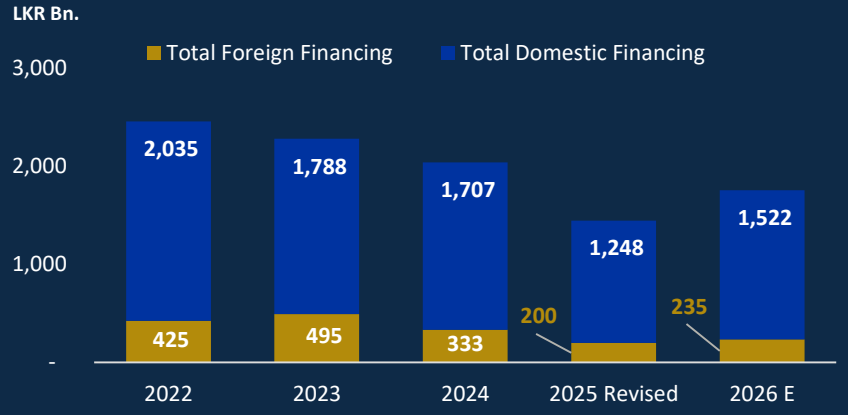
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# Budget Deficit vs Deficit Financing

## Budget Deficit (LKR. Bn)




## Sources of Deficit Financing (LKR. Bn)




- The budget deficit is targeted at 5.1% of GDP for 2026, higher than the 4.5% recorded in 2025, mainly reflecting higher expenditure growth of 7.77% (YoY) compared to a slower increase in total revenue and grants at 3.92% (YoY). Public investment is projected to grow by 33% (YoY), while recurrent expenditure, which accounts for approximately 81% of total expenditure, is expected to increase by 2.16% (YoY).
- Primary surplus target is 2.5% of GDP which implies revenue exceeds non interest expenditures.
- Gross borrowing requirement is LKR 3,740 Bn (a 6.5% reduction compared to 2025) while planned debt repayment amount to LKR 1,878 Bn and interest payment allocation amounted to LKR 2,617 Bn.
- Govt. expects to reduce the foreign borrowings while expecting to strengthen the exchange rate.

Source: Ministry of Finance

# Revenue Proposals

## Govt. Revenue Target – 15.4% of GDP

The Government has targeted Total Revenues of LKR 5,270 Bn. (growth of 3.8% from 2025), with an expected 8% increase in income tax revenues.

Key revenue proposals from the Budget include changes to taxes and levies relating to,

- **Imported Coconut & Palm Oil:** Removal of the existing Special Commodity Levy (SCL) of Rs. 150/kg on imported coconut oil and Rs. 275/kg on imported palm oil, which is to be replaced with the general tax structure of VAT + SSCL, consistent with locally produced oils.
- **VAT & SSCL Registration:** Annual turnover threshold for mandatory VAT and SSCL registration to be lowered from Rs. 60 million to Rs. 36 million.
- **Imported Textiles:** Removal of the Rs. 100/kg CESS on imported fabric which is to be replaced with VAT, consistent with locally manufactured fabric.
- **Vehicles:** Impose SSCL at the import or manufacture/sale stage and exempt after-sales transactions from the levy.
- **Import Duties:** Implementation of a National Tariff Policy with general import duty bands from the current 0%, 15%, and 20% to 0%, 10%, 20%, and 30%, with a focus on gradually phasing out existing para-tariffs.

Source: Ministry of Finance, Planning and Economic Development, The President's Budget Speech

# Expenditure Proposals

## Govt. Expenditure Target – 20.5% of GDP

Total Expenditures are also projected to rise to LKR 7,057 Bn. (up by 7.8%). Public Investment is the main focus of government expenditure heading into 2026, with an extra allocation of approximately LKR 350 Bn. more than 2025, marking an increase of 33.6%.

Some key expenditure proposals from the Budget include,

- Increasing the total allocation for the "Praja Shakthi Program" – LKR 20.75 Bn.
- Construction of the Rambukkana – Galagedara section of the Central Expressway – LKR 16 Bn.
- Increasing the wages of estate workers (a daily attendance incentive of LKR 200 to each worker) – LKR 5 Bn.
- Settling the outstanding statutory payments of 10 SOEs within 2 years – LKR 5 Bn.
- Completing the construction of the Badalgama Milk Processing Factory – LKR 3 Bn.
- Implementing the "A Place of their Own – for a Beautiful Life" housing program for low-income families – LKR 3 Bn.

Other more general expenses that were announced include,

- Granting of loans for SMEs – LKR 25 Bn.
- Recommencement of halted rural road and bridge development projects – LKR 26.5 Bn.
- To support various digitalization initiatives – LKR 25.5 Bn.
- Development of tourism related services – LKR 3.5 Bn.
- To boost domestic milk production – LKR 1 Bn.

Source: Ministry of Finance, Planning and Economic Development, The President's Budget Speech

# Budget's Influence on Listed Companies

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# Financial Institutes

Impact to : Banks NBFIs Insurance Companies

| Budget Proposal | Counters | Impact |
|---|---|---|
| With the government accelerating nationwide digitalization initiatives, the volume of digital financial transactions is expected to continue rising. This shift towards online banking, mobile payments, and electronic fund transfers will support an increase in fee and commission income for banks and financial Institutions | All the listed banks, NBFI | Positive |
| Funds have been allocated to offer concessionary loans of up to LKR 50 Mn for small and medium-scale entrepreneurs. | | |

# Food & Staples Retailing

**Impact to : Trading**

| Budget Proposal | Counters | Impact |
|---|---|---|
| It is proposed to allocate LKR 100Mn to develop a system for identifying fish ground using satellite technology. | TESS | Positive |
| The revision of Customs Import Duty rates to a simplified 0%, 10%, 20% and 30% structure, alongside the gradual removal of para-tariffs, is expected to lower input costs for import-dependent and export-oriented industries, particularly in manufacturing, retail and logistics. | | A new 30% tax bracket has been introduced.<br><br>Negative for companies importing luxury goods |

# Energy Sector

Impact to : Utilities Energy

| Budget Proposal | Counters | Impact |
|---|---|---|
| An Energy Transition Act will be introduced next year to establish the legal framework needed to modernize electricity transmission and distribution. | HPWR, HPFL, PAP, VPEL, VLL, WIND, LVEF, | Positive |

# Automobiles and Components

**Impact to :** Automobiles

| Budget Proposal | Counters | Impact |
|---|---|---|
| Social Security Contribution Levy on vehicles will now be charged at the point of import, manufacture, or first sale, and will no longer apply to after-sales transactions. | TYRE, ASHO, JKH, SMOT | Negative |
| LKR 3.6 Bn has been allocated to expand the SLTB fleet with 600 new long-distance buses, while LKR 2 Bn has been allocated for engine kits to repair existing buses. | UML, ASHO, DIMO | Positive |

# Capital Goods and Services Sector

Impact to : Diversified Holdings Retailing

| Budget Proposal | Counters | Impact |
|---|---|---|
| LKR 250 Mn will be allocated to the Export Development Board to promote and facilitate exports. | HAYL, HEXP, DPL, DIPD, MGT, TJL, HELA, REXP, | Positive |
| LKR 7.6 Bn has been allocated to upgrade transmission lines and strengthen the national transmission and distribution network in Greater Colombo and surrounding areas. In addition, LKR 5 Bn has been allocated for the development of the Kerawalapitiya – Colombo Port underground transmission line. | ACL, SIRA, KCAB | Positive |
| The Special Commodity Levy on imported coconut oil and palm oil will be removed, with the general tax regime applied instead. | HHL, RICH | Neutral for local producers Negative for import-dependent firms. |

# Consumer Durables & Apparel

Impact to : Consumer Durables Apparel

| Budget Proposal | Counters | Impact |
|---|---|---|
| LKR 250 Mn will be allocated to the Export Development Board to promote and facilitate exports. | All listed export-oriented companies | Positive |
| The CESS on imported fabric will be removed, and VAT will be applied to ensure consistency with the taxation of locally manufactured fabric. | MGT, HELA | Positive |

# Tourism Sector

Impact to : Hotels

| Budget Proposal | Counters | Impact |
|---|---|---|
| LKR 3500 Mn has been allocated to develop to tourism related services. | All listed hotels | Positive |
| LKR 500 Mn will be allocated for short-term training to upskill personnel in the tourism and hospitality industry | | |
| It is proposed to allocate LKR 1 Bn for the development of the Sigiriya and Trincomalee domestic airports and to expand the operations of the Jaffna International Airport. | | |
| The expansion of Bandaranaike International Airport (BIA) is scheduled to begin next year. | | |
| Residence visa system to be introduced for tourists. | | |

# Food, Beverage & Tobacco

**Impact to :** Plantation Companies

| Budget Proposal | Counters | Impact |
|---|---|---|
| Plantation workers' minimum wage will increase from LKR 1,350 to LKR 1,550, with the government providing a LKR 200 attendance incentive, bringing the total daily wage to LKR 1,750 | All listed plantation companies | Negative |
| LKR 1,000 Mn is allocated for preliminary work to achieve the target of meeting 75% of Sri Lanka's domestic milk requirement by 2030. | | Positive |
| LKR 800 Mn will be allocated to set up a Sustainable Agricultural Loan Fund. | | Positive |
| LKR 2,500 Mn has been allocated to support small-scale coconut growers (with less than 5 acres) under a program aimed at increasing productivity and export capacity in the coconut sector. | | Positive |

# Digital & Telecommunication Infrastructure

**Impact to :** Telecommunication Services

| Budget Proposal | Counters | Impact |
|---|---|---|
| LKR 750 Mn has been allocated for the establishment of Artificial Intelligence Service Centers. | DIAL, SLTL | Positive |
| A 5-year tax concession will be granted for the establishment of digital communication towers. | | |
| LKR 5 Bn subsidy allocated for the establishment of data centers. | | |

# Healthcare Sector

Impact to : Hospitals Pharmaceutical Sector

| Budget Proposal | Counters | Impact |
|---|---|---|
| It is proposed to allocate LKR 200Mn to establish 16-storey National Heart Unit. (The total cost is LKR 12 Bn) | ASIR, AMSL, NHL, LHCL, CHL | Negative |
| LKR 1,500Mn to be allocated for the pilot project to introduce Primary healthcare centres. | | Negative |

# Construction Sector

Impact to : Material Sector Companies Construction & Real Estate

| Budget Proposal | Counters | Impact |
|---|---|---|
| LKR 24,000 Mn allocated for rural road construction and LKR 2,500 Mn for rural bridges to improve regional connectivity. | AEL, TKYO | Positive |
| LKR 1,000 Mn has been allocated for the development of services related to investment zones. | | Positive |
| A total of LKR 91,700 Mn has been allocated for irrigation to boost agriculture, support regional development, and create jobs through the resumption of suspended projects. | | Positive |
| LKR 342 Bn has been allocated for road development in 2026, with LKR 66,150 Mn earmarked for the Kadawatha–Mirigama section of the Central Expressway and LKR 1,500 Mn for land acquisition on the Kahathuduwa–Ingiriya Ruwanpura Expressway. | | Positive |

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