



BUDGET HIGHLIGHTS 2026



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Resilience
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Dear Valued Client,

BUDGET HIGHLIGHTS 2026

BDO Partners take great pleasure in presenting our views on the budget proposals for the year 2026. In this publication, we provide a synopsis of the budget proposals made by Hon. Anura Kumara Disanayake in his capacity as the Minister of Finance, in his budget speech presented in parliament today.

We believe that being proactive in analysing the tax exposure regarding the proposed changes may provide new tax planning opportunities for the taxpayer. The proposed changes may have an impact on the way you do business and manage your affairs. If you need any further clarifications in relation to the proposed changes our team of tax professionals would be pleased to assist you. Please refer the back cover for their contact details.

At BDO nothing matters more to us more than our clients. Our brand stands for exceptional client service, delivered by exceptional people. We trust you find our comments useful and hope you will engage with us to discuss any tax planning opportunities.

Yours faithfully,

BDO Partners

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Preamble

The “Wealth of Nations” by Adam Smith highlights four canons of taxation, namely equity, certainty, convenience, and efficiency. The 80th National Budget has made several tax-related proposals aligning with the above principles of taxation.

Similar to the budget proposals for 2025 pronounced in February this year, the proposals for 2026 also emphasize the goal of adhering to the Public Financial Management Act No. 44 of 2024 and aligning with the Medium-Term Fiscal Framework 2025-2027. The government reiterated its objective of achieving and maintaining tax revenue exceeding 15% of GDP over the medium term, thereby creating fiscal space for other critical social investments, strengthening investor confidence, and expanding financial markets.

The government further highlighted that within one year, it has made significant progress in revenue collection. The table below, extracted from the Mid-Year Fiscal Position Report issued by the Ministry of Finance, Planning and Economic Development of Sri Lanka, summarizes the revenue collection and the progress achieved between the two comparative periods January to June 2024 and January to June 2025.

Item	2024	2025 (a)	Growth %
Tax Revenue	1,709,305	2,152,087	25.9
Income Tax	447,252	488,506	9.2
Domestic Consumption Based Tax	600,370	699,990	16.6
VAT	353,392	433,364	22.6
SSCL	91,187	108,561	19.1
Excise Duty	155,695	158,023	1.5
Nation Building Tax	95	43	-55.1
Import Based Tax	636,469	926,988	45.6
Customs Duty	48,758	93,952	92.7
VAT	263,552	353,967	34.3
Nation Building Tax	3	405	...
PAL	85,992	85,431	-0.7
SCL	45,500	77,579	70.5
SSCL	28,115	33,061	17.6
Excise Duty	126,636	241,136	90.4
Cess	37,914	41,456	9.3
License Taxes and Others	25,214	36,604	45.2
Non - Tax Revenue	151,327	169,632	12.1
Total Revenue	1,860,632	2,321,719	24.8

All amounts are in LKR Mn

The above provides a factual basis for the claims made by the Minister of Finance. The increase in revenue has resulted from the implementation of several proposals from the 79th National Budget during the year, such as the revision of CIT rates, the increase in the Advance Income Tax (WHT) rate, amendments to VAT, special provisions to Excise Duty, increases in tobacco taxes, and amendments to customs-related duties and surcharges. These changes have had a gradual and incremental impact on the revenue reflected above.

Looking at the 80th Budget, it appears that no major changes have been made to the tax laws but will be focused on tax reforms aimed at improving efficiency and transparency. The budget emphasized the principle of shared responsibility highlighting the social contract between the citizen and the state.

The Government also emphasized that the Department on Inland Revenue is being modernized through the implementation of RAMIS 3.0 and the goal is to increase the government revenue to 20% of GDP in the long term. Furthermore, emphasis has been placed on to gradually adjust the direct to indirect tax ratio from the current 25:75 to 40:60 thereby ensuring a more progressing and equitable tax system.

In addition to gradually increasing the revenue, the budget also emphasized on creating an investment- friendly environment. An investment-friendly environment is important for a country's long-term economic growth and development as it reduces business risks, lowers costs, increases competitiveness and investors gain confidence to invest in the long term. Such an environment includes stable, economic, political, legal, and social conditions that attract both local and foreign investors.

Creating such an environment requires efforts in many areas such as maintaining stable economic policies, developing infrastructure, improving governance, and strengthening human resources. The speech emphasized the intention of replacing cronyism, racketeering and nepotism with credibility, discretion by predictability and privilege by partnership with the intention of attracting quality investments to the country. The aim is not solely to bring in new investors but also to retain existing ones and encourage them to reinvest.

Investors look for countries where government policies are stable and clear. Frequent policy changes, uncertain tax rules, or unclear regulations discourage investment. Therefore, governments should maintain consistent policies, be transparent in decisions, and have long-term development plans. Predictable tax and monetary policies help build trust among investors. The 80th National Budget has aligned with the above as it has proposed less tax policy changes compared to the previous budgets.

A simple and transparent regulatory system also makes it easier to do business. Complicated procedures, too many licenses, and delays severely dampen investor sentiments. Setting up one-stop investment centers and using digital systems can speed up approvals and reduce corruption. The Budget addressed the same through the proposals such as implementing a one stop "Single window" mechanism.

Creating an investment-friendly environment is a continuous process that requires commitment and stability which the 80th National Budget has tried to emphasize. A country with clear policies, transparent governance, strong institutions, reliable infrastructure, and skilled workers will naturally attract sustainable investment. This, in turn, promotes innovation, job creation, and long-term prosperity.

The National Budget also emphasizes the need for Digitalization and has discussed multiple avenues through which the same is expected to be achieved. The proposals focus on transforming public services and operations through enhanced use of digital technologies, aiming to improve efficiency, accessibility, and innovation across key sectors.

Corporate Income Tax

Enhanced Capital Allowances

The National Budget has proposed to reduce the minimum investment requirement to be eligible for claiming enhanced capital allowances from USD 3,000,000 to USD 250,000. This proposal has been introduced with the aim of promoting new investments and encouraging greater participation from small and medium-sized enterprises.

BDO Comments

Previously only large-scale enterprises were able to make use of the above benefit of enhanced capital allowance. However, this proposal paves way for small and medium enterprises to invest in substantial assets which could lead to increased productivity and indirectly contribute to the income through profits.

The prevailing law imposes additional requirements for existing enterprises to claim enhanced capital allowances, such as being a BOI-approved company and investing in business expansion. However, further clarity is required to determine whether the proposal applies to companies beyond these existing requirements.

Tax Exemption for Investment in Digital Towers

The Budget has proposed to suspend taxes applicable to new towers constructed under the digital technology expansion program for a period of 5 years.

Amendments to Port City and SDP Acts

The Budget has proposed to amend the Port City and Strategic Development Act to provide a fair and transparent tax concession-based investment regime. Further to above to increase the transparency of tax exemptions, a tax expenditure statement is to be published on the Ministry of Finance website on a biannual basis.

BDO Comments

The proposals for tax exemptions on investments in digital towers and the tax concessions introduced through the amendments to the Port City and SDP Acts require further clarification as to whether these exemptions apply only to Corporate Income Tax or extend to other tax types as well.



Value Added Tax (VAT)

One of the main sources of tax revenue is Value Added Tax. In order to increase tax revenue, successive governments have sought to amend VAT liability and registration criteria. Accordingly, the following changes have been proposed, effective from 01st April 2026.

1. Review the VAT Registration Threshold

At the time VAT was introduced, the registration threshold was Rs. 1.8 million per annum. Over time, this threshold has been periodically increased and decreased, with the highest threshold being Rs. 300 million per annum. However, following the recent economic crisis, the threshold was drastically reduced several times. The current threshold stands at Rs. 60 million per annum, and it has been proposed to further reduce it to Rs. 36 million per annum or Rs. 9 million per quarter.

BDO Comments

By reducing the VAT registration threshold, the government aims to increase tax revenue and minimize the price disparity between VAT-liable and non-liable goods and services. However, implementing and administering this change may pose challenges, particularly within the SME sector, such as small retail and trading businesses may not have the resources to effectively comply with the VAT compliance obligations which will lead to higher collection costs.

Since VAT is a consumption tax, SME's customers will also bear the brunt of the tax thus increasing cost of living. The budget aims to gradually shift the direct to indirect tax ratio to bring about equality but this proposal may be counterproductive to same.

2. Proposed revisions to VAT on imports

▪ Fabric under CESS

Imports of fabrics, which were earlier liable to a CESS of LKR 100 per kilogram and exempt from VAT, will be subject to VAT following the removal of the CESS.

▪ Coconut oil and Palm oil

Coconut oil and palm oil imports, which are currently liable to a Special Commodity Levy of LKR 150 and LKR 275 per kilogram respectively, are proposed to be included under the VAT framework upon the withdrawal of the Special Commodity levy.

BDO Comments

A significant price gap existed between imported and locally manufactured coconut oil, palm oil, and fabric, as the Special Commodity Levy and CESS were imposed at the point of import instead of applying VAT. Consequently, local manufacturers faced a substantial disadvantage, leading to a drastic reduction in their market share. To address this issue, the government has revisited and rectified the disparity bringing both imported and locally manufactured goods under the VAT framework.

Even though the budget speech only specifies that VAT & SSCL will be applicable at the import point with the removal of SCL, other import point taxes may also apply

3. Tax Administration

- **Development of the National Electronic Invoicing System.**

A National E-Invoicing System is proposed to be introduced using an API-based integrated framework to enable seamless connectivity between taxpayers' Enterprise Resource Planning (ERP) systems and the Revenue Administration Management Information System (RAMIS).

Phase I: The system will initially be implemented for export-oriented enterprises and integrated with selected pilot companies through the API mechanism.

Phase II: The scope will then be expanded to include all VAT-registered taxpayers.

Phase III: The E-Invoicing System will be deployed through Point-of-Sale (POS) machines to record transactions in real time, improve tax compliance, and enhance the efficiency and transparency of VAT administration through a fully web-based platform.

Social Security Contribution Levy (SSCL)

The Social Security Contribution Levy (SSCL) was introduced with the effect from 01st October 2022 by the Social Security Contribution Levy Act, No. 25 of 2022. Since its introduction, the SSCL Act has undergone two amendments. SSCL is charged at the rate of 2.5% in respect of every liable person whose aggregate turnover exceeds the threshold.

The government proposes several changes to the SSCL aiming to simplify taxation and widen the revenue base. These changes are proposed to take effect from 01st April 2026:

1. Reduction of registration threshold of Social Security Contribution Levy.

To broaden the tax base, the budget proposes reducing the annual turnover threshold for SSCL registration from LKR 60 million to LKR 36 million in line with the VAT registration threshold.

2. Imposition of Social Security Contribution Levy on imported coconut oil and palm oil.

The Special Commodity Levy on imported coconut oil and palm oil will be removed, and these products will instead be taxed under the general tax structure to ensure fair competition in the market.

3. Imposition of Social Security Contribution Levy on Vehicles.

It is proposed to charge SSCL at the time of import or manufacture and sales of vehicles, while after-sales transactions will be exempt from SSCL.

BDO Comments

There are several proposals related to the Social Security Contribution Levy (SSCL) which reflects the government's effort to streamline the tax structure and expand the revenue base. The reduction of the SSCL registration threshold is aimed at widening the tax net, thereby increasing fiscal contributions from a broader range of businesses.

Furthermore, extending SSCL to the import, manufacturing, and sales of vehicles, while exempting after-sales transactions, ensure greater efficiency in tax collection.

Import Tariff and Taxes

Sri Lanka's primary trade policy instrument continues to be import tariffs. In November 2017, Sri Lanka Customs adopted the WTO Harmonized Commodity Description and Coding System (HS Code) in its tariff schedule to align with international standards.

At present, Sri Lanka operates under a three-tier customs tariff structure with rates of 0%, 15%, and 20%. In addition to the basic customs duty, several supplementary taxes and levies are imposed on imports, including:

1. Special Commodity Levy
2. Port and Airport Development Levy (PAL)
3. Excise (Special Provisions) Duty
4. CESS Levy
5. Customs Duty
6. Social Security Contribution Levy (SSCL)
7. Value Added Tax (VAT)

Implementation of the National Tariff Policy

The Minister of Finance has proposed a revision to the existing customs import duty rates of 0%, 15%, and 20% in line with the National Tariff Policy. The proposed new tariff structure of 0%, 10%, 20%, and 30% is expected to take effect from April 2026.

This revision aims to enhance competitiveness in external trade and stimulate economic growth by simplifying the tariff framework. Furthermore, the Government plans to gradually phase out para-tariffs through these adjustments, ensuring alignment with global trade practices while minimizing the impact on government revenue.

To support this transition, it is proposed to develop and implement a time-bound plan for the systematic phase-out of para-tariffs, ensuring policy consistency and revenue sustainability.

BDO Comments

Simplifying the tariff framework is a positive policy direction, as it promotes transparency and efficiency in trade. However, the Government should ensure that the revenue forgone from the phase-out of para-tariffs can be effectively recovered through alternative means. Otherwise, there could be a disconnect between policy formulation and implementation, potentially requiring the introduction of new taxes or increases in existing tax rates to offset the revenue shortfall. A balanced approach will be essential to achieve both trade competitiveness and fiscal stability.

Telecommunication Levy

Adjustment for Bad Debts under the Telecommunication Levy

The Telecommunication Levy is charged and levied from every person receiving any telecommunication service for the period commencing on or after January 01, 2011, on the Value of Supply of telecommunication services provided by the operator, on the receipt of such telecommunication service in respect of each month.

A significant and positive amendment was proposed that will change how to account for bad debts concerning the Telecommunication Levy where any bad debt incurred by the telecommunications service provider can be deducted from the liable payment of the telecommunication levy on the provision of telecommunication services. Conversely, any bad debt recovered shall be included in the payment of the telecommunication levy.

BDO Comments

The Telecommunication levy payments are now directly linked with the actual, collected revenue from telecommunication services and not just billed revenue. This helps the telecommunication service provider to better manage cash flow.

The conditions for identifying bad debts may be introduced



Tax Administration

Improving the Tax Audit Process

The Government will implement a modern tax audit framework, effective from January 2026, to enhance the integrity, efficiency, and fairness of tax administration. The new system will adopt a risk-based assessment approach for the selection of audit cases, minimizing opportunities for discretion and corruption. These reforms, introduced through amendments to existing tax statutes, reflect the Government's commitment to establishing a transparent, rule-based, and credible revenue administration that supports Sri Lanka's sustainable economic growth.

- Implementation of an advanced and contemporary tax audit framework w.e.f - January 2026
- Audit cases to be selected through a transparent, risk-based evaluation mechanism.

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

The Department of Inland Revenue plays a vital role in government revenue generation and is advancing its operations through digitalization to enhance service efficiency. To further streamline tax administration, it is proposed to consolidate the Department's main and related offices into a single premises, ensuring improved accessibility, reliability, and service quality for taxpayers. This initiative also aims to strengthen the tax collection process in a sustainable manner.

With the advancement of digitalization, the proposed consolidation of operations into a single office premises would enhance service efficiency and reinforce tax collection mechanisms.

Exchange of Information

The government is introducing legal amendments to align tax legislation with international AML/CFT standards. These reforms will enhance information sharing between tax and enforcement authorities, improve coordination against money laundering and terrorism financing, and strengthen enforcement through prosecution and penalties for tax-related offences.

- Exchange of data and intelligence with the Financial Intelligence Unit in accordance with AML and CFT regulatory frameworks.
- Enact legal measures to enable the prosecution of tax-related offences and the imposition of appropriate fines and penalties.

BDO Comments

The proposed improvements to the Tax Audit Process will strengthen and enhance transparency and anti-corruption measures while promoting greater efficiency in revenue collection.

Digitalization

The digital economy is vital to improve the economic growth and global competitiveness that benefits all. The Budget proposes an ambitious digitalization drive that can be leveraged to leapfrog into faster economic growth.

1. Digital Identity

The budget proposed the introduction of the Sri Lanka Unique Digital Identity (SLUDI) with the first digital identity card being slated to be issued in the 03rd quarter of 2026. This will have a significant impact on tax collections in Sri Lanka as the digital identity card will help link income details across multiple institutions which will help curb tax leakages.

2. Cashless Economy

It is proposed to facilitate all government transactions through online payment mode. As a first step it is proposed not to charge any service fee for payment to government institutions through online platforms to incentivise the use of online payments. This will also be useful for taxpayers who are making tax payments using online platforms.

Further, the Inland Revenue Act provides that no deduction will be allowed for cash payments of more than Rs. 500,000/-. The proposal to move towards a cashless economy is further encouraged by the tax law, where cash payments above Rs. 500,000/- are being disallowed.

BDO Comments

Sri Lanka is moving towards a modern digital economy through the introduction of the Sri Lanka Unique Digital Identity (SLUDI) system. This will improve tax collection and reduce tax collection costs to the Government.



Non-Tax Proposals

Preamble

The 2026 Budget, presented by His Excellency Anura Kumara Dissanayake in his capacity as the Minister of Finance, Planning & Economic Development, outlines Sri Lanka's continued recovery, the fiscal reform path and provides an overview of the key highlights of the expenditure allocation for 2026.

The Government's fiscal reform strategy has centred on transparency, accountability, and discipline. Enhanced revenue mobilisation, digitalised administration, and expenditure rationalisation have led to a steady reduction in public debt, projected to decline from 114.2% of GDP in 2022 to 96.8% by 2026, and to about 87% by 2030, marking progress toward exiting the debt crisis.

Following the sovereign default in April 2022, debt restructuring is now nearing completion, placing Sri Lanka on a sustainable fiscal path. International rating agencies have upgraded Sri Lanka's sovereign credit ratings to CCC+ (Fitch and S&P) and Caa1 (Moody's), signalling strengthened investor confidence.

Economic reforms under the IMF Extended Fund Facility (EFF), along with support from development partners, have helped restore macroeconomic stability, strengthen public finances, and rebuild external reserves. Social protection programmes such as Aswesuma have been expanded and restructured to target genuine low-income households, while allowances for the elderly, kidney patients, and students have been increased to ensure inclusive growth.

Public sector reform remains a key priority, with ongoing initiatives to improve efficiency, fill essential vacancies, and drive digital transformation. The introduction of the Public Commercial Business Management Act (2026) and the Public Assets Management Bill (2026) aims to enhance transparency, accountability, and performance of State-Owned Enterprises (SOEs) and public assets. Anti-corruption measures have been strengthened through a new Proceeds of Crime Act and the establishment of a beneficial ownership registry by January 2026.

Fiscal consolidation efforts continue with the aim of maintaining public debt below 90% of GDP by 2032. The Government remains committed to meeting fiscal targets linked to Governance-Linked Bonds (GLBs), ensuring reduced interest obligations from 2028-2035, amounting to an annual saving of USD 7.9 million.

Looking ahead, Sri Lanka seeks to achieve a sustained growth rate above 7.0% driven by productivity gains, innovation, and private sector-led investment. Export diversification, integration into global value chains, and strategic infrastructure development under Public-Private Partnerships (PPPs) are central to this vision.

Efforts are also underway to strengthen the SME sector, promote local production, and reduce import dependency, while empowering rural communities through targeted development initiatives aligned with the Sustainable Development Goals (SDGs).

Finally, digitalisation is identified as a national growth pillar, with the digital economy projected to expand to USD 15,000 million, underpinning transparent governance, efficient service delivery, and inclusive economic transformation.

Expenditure Allocation

1. Private Sector & Investment-led Economic Growth

1.1. Creating an Investment Friendly Environment

- Amendments have been made to the Strategic Development Projects Act and the Colombo Port City Commission Act to;
 - Establish a rule-based incentive system.
 - Streamline foreign direct investment (FDI) procedures.
 - Increase transparency and consistency in incentives.
 - Enhance investor confidence and FDI inflows.
- A draft Public-Private Partnership (PPP) Act providing a transparent legal framework for private sector participation in infrastructure development has been submitted for public consultation and will be presented to Parliament in early 2026.
- A new Investment Protection Act is planned for early 2026.
- Establishment of service zones around existing investment zones. LKR 2,000 million already allocated, with an additional LKR 1,000 million proposed.
- LKR 1,500 million allocated to clear outstanding loans and reopen abandoned technology parks in Kurunegala and Galle. Two additional technology parks planned for Digana and Nuwara Eliya under the Board of Investment of Sri Lanka.
- Introduction of a residence visa system for foreign investors who meet a certain minimum investment threshold in priority sectors or eligible projects.
- Implementation of a “Single Window” mechanism based on digital technology for projects under the Board of Investment of Sri Lanka. LKR 100 million already allocated for this digital approval system.
- Land Use and Release Reforms
 - LKR 100 million proposed to improve facilities of institutions related to land administration and establish a central digital information system integrating land information across institutions.
 - Introduction of a new legal framework for provision of land to investors.
 - Implementation of a methodology for determining land valuation according to the nature of investment.
 - Streamlining Land Use Policy Plan preparation to improve efficiency of land release for investment purposes.
- Bill to establish a government company to hold shares in commercial enterprises is expected to be presented to Parliament in the first quarter of 2026.
- The Export Development Board to prepare the National Export Development Plan with technical assistance from public and private stakeholders and the Asian Development Bank, in addition to the National Export Development Strategy.
- LKR 250 million proposed to implement the Export Brand Promotion Plan of the Export Development Board.
- Initiated discussions to expand free trade agreements with various countries and regions, including exploring additional products and services for export under existing agreements, reviewing trade agreements, and exploring new ones.
- LKR 250 million proposed (additional to previous allocation) for export promotion activities by the Export Development Board.
- LKR 2,500 million has been allocated specifically for improving the Trade National Single Window facility to reduce transaction costs and enhance connectivity with global markets.

1.2. Integrated Framework for Strengthening Small & Medium Enterprises (SMEs) in Sri Lanka

- Proposed consolidation of functions of the Industrial Development Board (IDB), National Enterprise Development Authority (NEDA), and SME Development Division (SMED) under the Industrial Development Board (IDB) to improve coordination and efficiency in SME development. LKR 1,000 million allocated in addition to current budgetary provision of LKR 4,000 million for 2026 to support SME development in industrial zones.
- Providing loans at concessional interest rates to meet investment and working capital needs through local banks with the aim of increasing access to finance of SME enterprises.
- Planned provision of credit guarantees for business loans amounting to approximately LKR 7,000 million. Asian Development Bank will provide a loan of USD 50 million to establish this institution.
- LKR 25,000 million allocated to provide loans at concessional interest rates of up to LKR 25 million for successful businesses and up to LKR 15 million to businesses facing economic difficulties, for working capital needs and investments of small and medium scale entrepreneurs.
- LKR 5,900 million allocated to provide loans of up to LKR 50 million to SMEs.
- Development of Agriculture Value Chains
 - LKR 1,700 million allocated to provide agricultural loans up to LKR 3 million for 5% through the National Comprehensive Rural Credit Scheme (NCRCS).
 - A new loan scheme for SMEs has been launched with an allocation of LKR 7,700 million, offering new loans of up to LKR 50 million at concessional interest rates.
 - LKR 6,200 million has been allocated to provide loans up to LKR 50 million under a concessional interest rate program aimed at supporting the development of agricultural value chains.
 - Under the Pledge Loan Scheme, small and medium-scale paddy mill owners can access loans up to LKR 50 million at a concessional interest rate, backed by an allocation of LKR 15,000 million.
 - Proposed to allocate LKR 800 million to establish a Sustainable Farmers' Loan Fund, with the primary goal of increasing access to financing for agricultural projects.
- LKR 80,000 million has been provided for 2026 to cover various concessional loan facilities. This funding supports schemes like youth entrepreneurship, microfinance, and women entrepreneurship empowerment loans, including features such as refinance, grants, pledge loans, collateral-free loans, and interest subsidies.
- To expand and encourage new investments in small and medium-sized enterprises (SMEs), it is proposed to significantly reduce the investment threshold eligible for existing enhanced capital allowances from USD 3 million to USD 250,000.



2. Promotion of Tourism Industry

- Tourism sector is targeted to achieve USD 8 Billion in earnings and 4 million tourist arrivals by 2030.
- Implement Tourism destination development project focusing on nature and heritage, with LKR 3,500 million allocated for coastal and marine projects in the Western Province, including the Hamilton Canal and Negombo Lagoon.
- Transforming Haputale, Beragala, and Idalgashinna into major tourist destinations.
- Allocation of LKR 2,500 million for transforming Beira Lake into an urban tourism hub in Colombo.
- Over 900 state-owned tourist bungalows and resorts to be redeveloped with private sector support as income-generating accommodation facilities.
- Over 800,000 skilled workers will be required by 2030, for which LKR 500 million allocated to the Sri Lanka Institute of Tourism and Hotel Management (SLITHM) to implement a short-term course on Hospitality Multi-Purpose Programme.
- Promotion of domestic air travel with the completion of Hingurakgoda Airport by 2026.
- Allocation of LKR 1,000 million for development of Sigiriya and Trincomalee domestic airports and expansion of the Jaffna International Airport.
- Establishing Sri Lanka as an International Transit Hub.
 - Resume Bandaranaike International Airport expansion project early next year.
 - Ongoing debt restructuring of Sri Lankan Airlines to improve financial sustainability.

3. Modernisation & Digitalisation

- LKR 25,500 million has been allocated in 2026 to advance Sri Lanka's digital transformation and global competitiveness.
- LKR 3,000 million is allocated for next-generation infrastructure such as AI, cloud computing, data centres, and nationwide broadband expansion.
- Key progress includes GovPay for digital government payments, the National Cyber Security Operations Centre, and improved document services via the Presidential Fund and embassies.
- The GovTech Institute has been established to drive public sector digitalisation, while the upcoming Digital Economy Act will create the Digital Economy Authority and Council.
- The Sri Lanka Unique Digital Identity (SLUDI) will commence awareness in early 2026, with the first digital ID card being issued in the 3rd quarter of 2026.
- The Lanka Government Cloud is being upgraded, and a single-window platform for government services is under development.

4. Strengthening the Research & Development Sector for Economic & Social Advancement

- National Research and Development Policy is finalized to align with government development priorities.
- Establishment of the National Research, Development and Commercialization Institute and the National Council on Research and Development as central bodies. Relevant bill will be presented in 2026.
- Allocation of LKR 1,200 million for the national programme to commercialize research.

5. Continuous Programme of Clean Sri Lanka

- The initiative envisions a nation free from drugs, underworld activities, bribery, and corruption, supported by a transparent political culture, efficient public service, and respect for law and order.
- LKR 6,500 million has been allocated in 2026 to support the implementation and expansion of this programme.

6. A Nation United Operation

- The 'A Nation United' National Operation has been launched to eliminate toxic drugs and related organised crime through a continuous, collective effort that engages the entire nation.
- LKR 1,500 million has been allocated in 2026 to implement comprehensive drug control programmes across all sectors.
- Ten voluntary rehabilitation centres will be established under the Rehabilitation Bureau in key locations, including Polonnaruwa and Welikanda-Senapura.
- To address severe overcrowding in prisons, LKR 2,000 million has been allocated for expansion, relocation, infrastructure improvement, and community-based rehabilitation initiatives.



7. Supporting the Disabled Community

- Allocation of LKR 19,000 million to provide LKR 10,000 monthly subsidies to about 140,000 persons with disabilities through the Aswesuma programme.
- Revision of existing accessibility regulations for persons with disabilities to align with international standards and specifications.
- LKR 1,000 million is allocated to improve accessibility and sanitation facilities in public places.
- Efforts to ensure that 3% of all future government recruitments are reserved for persons with disabilities.
- Allocation of LKR 500 million for the introduction of a wage subsidy to cover 50% of salaries (up to LKR 15,000 per month) for up to 24 months for private sector employers hiring persons with disabilities.
- LKR 100 million allocated under the Ministry of Health and LKR 447 million under the Department of Social Services for ongoing construction of day care centres for children with disabilities, including autism, with an additional LKR 500 million to expand the programme.

8. Education & Training

- LKR 6,000 stationery allowance introduced in 2025 will continue in 2026. LKR 9,000 million has been allocated under the Aswesuma Programme for this purpose.
- LKR 50 million will be allocated to provide a monthly allowance of LKR 5,000 for each disabled child from low-income families, based on medical recommendations.
- LKR 50 million has been allocated to support students with disabilities in higher education through a monthly allowance of LKR 5,000.
- LKR 2,500 million will be used to enhance university infrastructure.
- LKR 11,000 million is allocated for the development of medical faculties at Sabaragamuwa, Moratuwa, Ruhuna, Uva Wellassa, and Eastern Universities, focusing on establishing professorial units and laboratory facilities.
- LKR 11,500 million is allocated to enhance research facilities and academic resources across universities and higher educational institutions.
- The Mahapola and bursary allowances for university students will each increase by LKR 2,500, raising the Mahapola allowance to LKR 10,000 and the bursary allowance to LKR 9,000. The “Nipunatha Sisu Diriya” allowance and National College of Education scholarships will also increase by LKR 2,500, with an additional LKR 2,750 million allocated to support these adjustments.
- LKR 1,500 million has been allocated to construct new hostels at selected universities including South-East, Jaffna (Kilinochchi), Vavuniya, Eastern, and Sabaragamuwa, and for the renovation of under-maintained hostels.
- LKR 8,000 million has been allocated to enhance vocational education, including upgrading nine vocational training centres as Centres of Excellence and improving 50 additional centres, modernising courses, and training instructors.

9. A Healthy Population for a Developed Country

- A five-year programme with an initial allocation of LKR 31,000 million will be commenced to improve the quality of secondary health services by developing the facilities of 82 existing Base Hospitals.
- The government proposes to establish “Arogya” centres as Primary Health Care (PHC) units serving 5,000 - 10,000 people, with LKR 1,500 million allocated for a pilot project in 2026 before country-wide implementation.
- A new 16-storey National Heart Unit is planned to address issues with cardiac care, with LKR 200 million allocated to start the initial work and a total cost of LKR 12,000 million for space and modern equipment.
- LKR 250 million is allocated to provide a consistent monthly allowance of LKR 10,000 to low-income thalassemia patients based on medical recommendations, replacing the varying amounts currently paid by Provincial Councils.
- LKR 1,000 million is allocated to relocate the Dambulla and Deniyaya regional hospitals to more accessible, spacious, and secure locations.
- LKR 570 million has been allocated to conduct the Demographic and Health Survey (DHS), which has not been done since 2016.

10. Sustainable & Inclusive Development

- Community Development Councils (CDCs) are established in every Grama Niladhari division to identify local development needs and lead regional development planning.
- Allocation of LKR 25,000 million for the integrated rural development programme under the National Campaign for Eradicating Poverty, in addition to the provision allocated of LKR 4,250 million for the Praja Shakthi programme.

11. Uplifting the Living Standards of Estate Workers

- The minimum daily wage of estate workers to be increased from LKR 1,350 to LKR 1,550 from January 2026, with an additional LKR 200.00 daily attendance incentive paid by the Government. LKR 5,000 million allocated to support the wage and incentive scheme.



12. Regional Development

- Greater allocations have been made to Provincial Councils and local government institutions to improve administrative efficiency, social welfare, and infrastructure, including roads.
- Special attention will be given to developing regional administrative complexes, with plans to construct a new administrative complex for the second phase of the Uva Provincial Council.
- To promote community engagement, LKR 200 million has been allocated to the Monaragala and Ampara Provincial Councils for the preliminary construction of auditorium complexes to support cultural, recreational, and public events.
- LKR 300 million has been allocated to complete partially constructed projects, including the Nindavur Urban Council building in the Eastern Province, following a feasibility review.
- To enhance rural connectivity, LKR 24,000 million has been allocated for rural road construction and LKR 2,500 million for the development of rural bridges, ensuring improved mobility and access to essential services.

13. Investing in the Silver Economy

- With the ageing population rising rapidly, LKR 10 million allocated to the Ministry of Rural Development, Social Security, and Community Empowerment to develop a policy framework promoting the active participation of older persons in society.

14. Empowering Women: Nutrition, Safety & Economic Opportunities

- Thripasha and Monthly Nutrition Assistance Programmes for pregnant and lactating mothers to be expanded in 2026 with improved delivery through community health networks.
- LKR 240 million allocated to support women entrepreneurs and promote self-employment and household industries at the Divisional Secretariat level.
- LKR 200 million allocated for women's welfare programmes to enhance safety, empowerment, and economic participation.

15. Providing Relief to Sri Lankans Living Abroad

- A housing loan scheme at concessional interest rates will be launched through the Sri Lanka Bureau of Foreign Employment (SLBFE) under an interest reimbursement model.
- A contributory pension scheme for foreign workers will also be introduced, with implementation targeted to be in 2026.
- LKR 2,000 million will be allocated from SLBFE funds for the initial phase of these programmes.

16. Mitigating the Human Elephant Conflict

- LKR 300 million is already allocated to complete the construction of all electric fences in identified, essential areas (including those that are dilapidated, broken down, partially constructed, or planned). An additional provision of LKR 1,000 million is proposed to the Department of Wildlife Conservation for completing the construction of electric fences and related tasks.
- Approval has been granted to procure 294 essential vehicles and modern communication equipment for the Department of Wildlife Conservation.
- It is proposed to provide special training to 5,000 Civil Security Service officers who will be permanently attached to the Department of Wildlife to monitor elephant enclosures and minimize conflict.
- LKR 375 million is allocated for food allowances and fuel allowances for Civil Security officers assigned to monitor and maintain electric fences.
- LKR 80 million has been allocated for pasture and water source management activities to ensure the provision of food and water for elephants.
- LKR 10 million is proposed to be allocated for research to find long-term, research-based solutions beyond the construction of electric fences to reduce elephant-human conflicts.

17. Promoting Drama, Performing Arts & Literature

- LKR 50 million allocated, in addition to existing provisions, to promote drama, performing arts, and literature as part of the Government's initiative to foster cultural diversity, reconciliation, and national identity.

18. Promotion of the Media Sector

- The Government will provide operational and capital support in the 2026 budget to rebuild the Sri Lanka Broadcasting Corporation, Sri Lanka Rupavahini Corporation, and Independent Television Network due to past mismanagement.
- Allocate LKR 100 million for higher education scholarships and technical support to advance the skills of journalists in line with modern technology.



19. Developing a Sporting Culture

- LKR 1,800 million has been allocated to promote a sporting culture among children and youth by expanding opportunities for sports facilities. An additional LKR 800 million is proposed to be allocated for this purpose.
- LKR 1,163 million has been allocated to provide facilities for about 4,000 players participating in international sports competitions, second-tier sports pools, international sports tournaments, national sports competitions, and high-calibre sports teams.
- LKR 225 million is allocated for the development of sports complexes in the Mannar and Vavuniya districts (Northern Province).
- LKR 150 million is allocated for the completion of the Kalmunai Sports Stadium (Eastern Province).
- LKR 150 million has been allocated for the development of sports complexes in the Northern and Eastern provinces.

20. Economic Sovereignty & Food Security

20.1. Agriculture & Livestock Sector

- Allocated LKR 500 million (in addition to existing funds) to provide modern paddy drying machines to farming companies and cooperative societies, leveraging the higher guaranteed price for well-dried paddy.
- Allocated LKR 1,000 million to strengthen the mechanism of Sathosa and improve storage facilities to minimize price fluctuations in staple food crops, including onions, potatoes, and maize.
- LKR 250 million is allocated to complete construction work and install a solar panel system to bring the 5,000 metric ton Dambulla Cold Storage (currently non-operational due to technical issues) into effective use.
- LKR 4,000 million is allocated within the medium-term framework for 400 identified irrigation schemes (with LKR 1,000 million specifically for 100 schemes in 2026) to use new and climate-friendly irrigation technologies in the dry zone (Matale, Kandy, etc.).
- The goal of the National Dairy Production Programme is set to reach 75% of the domestic milk requirement by 2030. This requires an annual production of approximately 1,200 million liters of milk.
 - A program will be implemented to improve the breeding, nutrition, and health of dairy cattle by organizing farmers based on each Veterinary Division's potential.
 - LKR 1,000 million is proposed to be allocated for the preliminary work, including the feasibility study for this project, under the "Small and Medium sized Livestock Development Programme".
 - LKR 1,000 million is proposed to be allocated to address the fundamental need of increasing the number of high-quality breeding animals, focusing on improving the breeding units for dairy cattle and piggery sectors, and cultivating nutritious grasses on National Livestock Development Board (NLDB) farms.
- It is proposed to allocate LKR 3,000 million for the basic and remaining work required to complete the Badalgama Dairy Factory of Milko (Pvt) Ltd to commence production to process local milk to a higher standard. The plan includes relocating the current Narahenpita milk factory to this site, and a commitment to conduct an investigation into the corruption and waste of public funds associated with the project.

20.2. Strengthening Coconut Cultivation

- LKR 600 million is allocated as a long-term strategy for the further expansion of coconut cultivation in the already established Northern Coconut Triangle, based on recommendations from the Coconut Research Institute.
- The plan proposes to provide a special fertilizer subsidy to smallholder coconut farmers whose cultivation area is less than five acres to encourage better maintenance and higher productivity among these crucial smallholders, who form the majority of the sector.

21. Fisheries Industry

21.1. Development of Infrastructure Facilities in Fishery Harbours

- LKR 300 million allocated for the renovation and upgrading of fishery harbour infrastructure at Beruwala, Ambalangoda, Kudawella, and Nilwella, with an additional LKR 1,000 million for further improvements.

21.2. Providing Modern Technology to Enhance the Safety of Fishermen

- LKR 350 million allocated to improve the Valaichchenai Fishery Harbour.
- LKR 100 million allocated to provide life-saving equipment and introduce modern fishing technologies.

21.3. Increasing Fish Harvest

- LKR 500 million allocated to improve wharf infrastructure and reduce post-harvest losses.
- LKR 100 million allocated to develop a satellite-based fish ground identification system for efficient communication with fishermen.
- LKR 100 million allocated for aquaculture development centres to increase fish seed supply and freshwater fish availability.



21.4. Promoting the Blue Economy

- LKR 100 million allocated for a study on blue economy potential, focusing on marine and coastal fisheries, aquaculture, ecotourism, marine biotechnology, and seabed resource development within the Exclusive Economic Zone (EEZ).

22. Irrigation & Water Supply

22.1. Irrigation

- LKR 91,700 million has been allocated to uplift the irrigation sector, with a focus on increasing agricultural productivity, regional development, and employment through the resumption of suspended projects.
- LKR 50 million has been allocated to restart the Mundeni Aru Project, beginning with initial construction work.
- The Government plans to engage with development partners to secure funding for the Talpitigala and Kumbukkan Oya Reservoir Projects.
- LKR 5,000 million has been allocated to expedite the Lower Malwathu Oya Multipurpose Development Project, which will support new cultivation areas in the Northern Province, enhance productivity, provide drinking water, and mitigate flooding in Mannar.
- LKR 6,500 million has been allocated for the restoration of major canal systems, including Senanayake Samudraya, Gal Oya, Rajanganaya, Huruluwewa, and Minneriya reservoirs.
- LKR 8,350 million has been allocated for the rehabilitation of small tanks, canals, and sluice systems, targeting the renovation of 650 tanks and 350 kilometres of canals across the country.
- **Urban Flood Control**
 - LKR 250 million allocated to develop and implement an integrated flood management plan in collaboration with key agencies.
 - LKR 500 million has been allocated for feasibility studies on flood management in the Gin and Kalu rivers, aimed at diverting water to the Walawe basin and mitigating regional flood risks.
 - Following issues caused by the Nilwala River saltwater barrier in Matara, LKR 1,000 million has been allocated to implement remedial measures based on study findings, and LKR 1,200 million has been set aside for compensation for affected paddy lands.
 - LKR 100 million has been allocated to address coastal erosion linked to the Kalu River lagoon, restore fisheries, and revitalise tourism in the Kalutara coastal area.
 - To reduce flood risks in Batticaloa, LKR 500 million has been allocated for initial studies on constructing the Kiran and Pondukulchenai Bridges under the Ministry of Transport, Highways, and Urban Development.

22.2. Improvement of Drinking Water Supply

- LKR 85,700 million allocated to expand drinking and community water projects across key districts, with private sector collaboration.
- LKR 1,000 million allocated for new and upgraded water systems in Ambatale, Kolonnawa, Nugegoda-Jubilee Post, and Lunugamvehera.

23. Sustainable Infrastructure Development

23.1. Public Transportation

- LKR 67,200 million allocated to develop an efficient and sustainable public transportation system under the government's vision of "A good public transportation service - Speedy destination."
- LKR 3,600 million allocated to add 600 new long-distance buses to the SLTB fleet.
- LKR 2,062 million allocated to replace worn-out engine units of 307 SLTB buses.
- LKR 790 million allocated to procure new tools, machinery, and equipment for SLTB depots and workshops.
- LKR 3,300 million allocated to procure five new Diesel Multiple Units (DMUs) for Sri Lanka Railways and initiate railway digitalization including electronic ticketing.
- LKR 2,000 million allocated for 2026 to implement a programme addressing reduced private bus operations on low-revenue routes to ensure sustainable rural transport services.



23.2. Road Development

- LKR 342,000 million (LKR 342 billion) allocated for overall road development in 2026, including the recommencement of previously suspended projects.
- LKR 66,150 million allocated for the Kadawatha-Mirigama section of the Central Expressway (Phase I).
- LKR 10,500 million allocated for the Pothuhera-Rambukkana section of the Central Expressway (Phase III), scheduled for completion in early 2027.
- LKR 20,000 million allocated to commence construction of the Rambukkana-Galagedara section of Phase III using domestic funds.
- Feasibility studies to commence for widening the Katugastota-Galagedara road section and improving Kandy access roads under the Kandy Multi-Modal Transport Centre project to reduce congestion.
- LKR 1,000 million allocated for land acquisition for the proposed Kurunegala-Dambulla Expressway.
- LKR 1,500 million allocated for land acquisition and feasibility reassessment for the Kahathuduwa-Ingiriya section of the Ruwanpura Expressway.
- LKR 330 million allocated to conduct a feasibility study for constructing a link between the Port Access Elevated Highway and the Marine Drive Extension (Phase II) to improve connectivity to Colombo Port and Port City.

23.3. Implementation of Road Safety Programme to Minimise Traffic Accidents

- LKR 1,000 million allocated, in addition to existing provisions, to implement a comprehensive road safety programme aimed at reducing traffic accidents and fatalities.

24. Energy Sector

The plan is to facilitate a “People-centric Energy Transition” and revitalize the economy through electricity utilization.

- The Sri Lanka Electricity Act was amended to establish four separate fully State-Owned Companies to handle generation, transmission, distribution, and system control.
- The Ceylon Electricity Board estimates the electricity requirement will increase by about 60% in the next decade (Long-Term Generation Plan 2025 - 2044).
- Future electricity consumption will target new economic opportunities, including: Data Centres, Transport Electrification, Green Hydrogen, and Green Ammonia.
- Legal Framework: An Energy Transition Act is expected to be introduced next year.
- **Effective Utilisation of Underutilised Buildings & Structures**
- Over 2,700 government-built structures have been identified as abandoned or underutilized. Plans are underway to repurpose these buildings for income-generating activities such as hotels, business centres, and factories through public-private partnerships (PPPs).

25. Infrastructure Development to Make Airport Operations More Efficient (Air Cargo Centre)

- Construction of the second phase of the Bandaranaike International Airport development project to commence in early 2026, with financial support from JICA.
- Ongoing initiatives to transform BIA into a regional air cargo hub, including the expansion of Sri Lankan Airlines' cargo terminal and handling facilities.
- Plans to introduce advanced air cargo facilities, including cold storage and modern systems, through a Public-Private Partnership (PPP) model.

26. A New Approach to Urban Development

- City development will be conducted according to a formal plan with proper studies, effective from 2026, moving away from informal and unprioritized projects.
- LKR 2,000 million is allocated to commence preliminary work to identify the feasibility of 10 identified cities (including Jaffna, Hatton, Batticaloa, and Matara) to establish an efficient, sustainable, tourist, and investment-attractive city network.
- LKR 500 million is proposed to expand the number of lanes to 4 at the entrance to Matale city, acquire necessary land, and prepare a city plan. A short-term, rapid solution is also planned for heavy traffic congestion in Hatton City in 2026.
- LKR 500 million is proposed (under the Urban Development Authority) to relocate government quarters from the old town to the new town area of Ratnapura to fulfil long-term residential needs.

26.1. Waste Management Facilities for Local Government Institutions

- LKR 900 million has been allocated to provide local governments with environmentally friendly, cost-effective, and hygienic solid waste transport equipment (like compactors, tractors, and trailers) for the systematic disposal and maintenance of solid waste.

26.2. Meeting the Expenditure of Local Government Institutions (Regional Development)

- LKR 2,500 million is allocated for strengthening local government institutions, improving infrastructure, and revenue generation programs. A new system for providing salaries (replacing the current 20% and 40% percentage estimate) will be introduced based on actual income and expenditure.



26.3. Introducing Services & Facilities for the Care of Street Dogs & Burial/Cremation of Pets

- LKR 100 million is proposed to implement a pilot project in the local authorities of Kesbewa and Piliyandala areas to encourage the provision of services for the burial/cremation of pets and the care of stray animals.

27. A Safe Home for Every Individual

27.1. Solving Housing Problems Arising Out of Low-Income Communities and Urbanisation

- LKR 3,000 million allocated in addition to LKR 7,200 million already set for 10,000 houses in 2026.
- LKR 15,000 million allocated under the Urban Regeneration Project to build housing in Applewatta, Madampitiya, Fergusson Mawatha, Obeysekarapura, Stadiumgama, Colombage Mawatha, and Torrington Place.
- 1,996 houses being built in Moratuwa, Peliyagoda, Dematagoda, Maharagama, and Kottawa with Chinese government assistance, using LKR 6,500 million, including allocations for journalists and artists.
- LKR 1,180 million allocated to renovate old government-built apartment complexes.
- LKR 840 million allocated to resettle unauthorised settlers obstructing development of the Kelani Valley Railway.

27.2. Provision of Housing for the Malayagam Community

- LKR 4,290 million allocated, with Government of India assistance, to construct 2,000 houses for Malayagam Estate workers in the Central, Uva, Sabaragamuwa, Northwestern, and Southern Provinces.
- LKR 1,305 million allocated to complete 943 houses in the Northern and Southern Provinces, also supported by the Government of India.

27.3. Provision of Houses for People Displaced by Natural Disasters

- LKR 2,000 million additionally allocated to construct houses for 1,200 families in 2026, supplementing the LKR 1,000 million already allocated.

27.4. Provision of Housing for Internally Displaced Communities

- Allocation for constructing 2,500 houses for families displaced by conflict in the Northern and Eastern Provinces increased from LKR 3,850 million to LKR 5,000 million.

27.5. Housing Assistance for Resocialisation and Childcare

- A grant of LKR 2 million will be provided to individuals formerly in children's detention centres and families of at-risk to purchase land, build, or renovate homes.
- LKR 2,000 million allocated for the programme.

28. Modernisation of the Public Service

- Steps have been initiated to properly evaluate essential services, merge institutions with duplicate functions, and reorganize outdated objectives.
 - 33 institutions that do not perform any commercial, regulatory, or administrative activities are being closed.
 - Further non-commercial institutions that deviated from their original purpose are also being closed.
- 21 institutions will be reorganized, 14 research institutions will be merged into a single national-level institution.
- 9 institutions operating in a commercial model will be converted into financially independent institutions.
- 13 institutions will be liquidated as they are no longer needed.
- A unit under the Ministry of Finance has been established to resolve legal issues, unsettled liabilities, and asset ownership concerning non-contributing SOEs.

28.1. Regularisation of Recruitment in the Public Service

- Approval has been given to recruit nearly 75,000 people under a proper system to fill vacancies for essential services (technical officers, law enforcement, revenue officers, etc.).
- From now on, all recruitments, promotions, and public sector tasks will be carried out only in accordance with prescribed examinations and service regulations, free from political interference.

28.2. Increasing Digital Access in Government Institutions

- LKR 1,000 million is proposed to be allocated for applications aligned with the digitalization program (Digital Blueprint) to simplify complex procedures (Business Process Reengineering) and provide public services digitally and expeditiously.

28.3. Providing Vehicles Required for Government Institutions/Machinery Required for Provincial Government Institutions

- LKR 12,500 million is proposed as the primary requirement to purchase essential vehicles and machinery for government institutions, addressing the current inadequacy and obsolescence of the fleet.



28.4. Settlement of Outstanding Statutory Payments of Government Institutions

- LKR 5,000 million is allocated to settle the LKR 11,000 million total outstanding arrears of statutory allowances (EPF, ETF, Gratuity, Taxes) for following 10 State-Owned Enterprises (SOE).
 - Lanka Sugar Company (Private) Limited
 - Sri Lanka Rupavahini Corporation
 - National Livestock Development Board
 - Janatha Estates Development Board
 - Sri Lanka State Plantations Corporation
 - Ceylon Fisheries Corporation
 - Elkaduwa Plantations Limited
 - Sri Lanka Broadcasting Corporation
 - North Sea Limited
 - Ceylon Ceramics Corporation

28.5. Settlement of Treasury Guarantees & Letters of Comfort Issued by the Government to Public Enterprises

- Treasury guarantees and Letters of Comfort issued to state banks for public enterprises will be settled this year considering as an urgent need.

28.6. Payment of Government Contributions for the Interest Paid to Senior Citizens Accounts

- The remaining outstanding amount of LKR 45,700 million for the additional 15% interest on Senior Citizen Accounts is being paid in full this year.

29. Salaries & Pension in the Public Sector

29.1. Establishment of a Salaries & Pension Committee

- A Salaries and Pensions Commission to be established to address salary anomalies and ensure sustainable management of salary and pension policies for public employees and pensioners.



29.2. Amendment of the Condition of the Appointment Letter Regarding the Entitlement to Contributory Pension Benefits

- The pension entitlement clause in appointment letters of officers recruited after 1 January 2016, to be removed, confirming their eligibility under the existing pension scheme.

29.3. Second Phase of Public Sector Increase

- LKR 110 billion allocated for the second phase of public sector salary revisions made in 2025, effective from January 2026.

29.4. Second Phase of Pension Anomaly Rectification for Retirees Before 2020

- The pensions of those who retired before 2020 will be revised based on the salary structure of 2019., effective from July 2026. LKR 20,000 million has been allocated for this.

29.5. Providing Housing & Property Loans to Public Servants at Concessional Interest Rates

- LKR 500 million allocated to reintroduce the housing and property loan scheme for public servants, offering loans up to LKR 5 million. This is proposed to be given at 4% concessional rate up to LKR 3 million and 2% concessional rate for the remaining amount.

29.6. Expanding the Coverage of Health Benefits under the Agrahara Scheme

- Employee contributions under the Agrahara Insurance Scheme to be increased by LKR 125 by LKR 75, and LKR 300 and LKR 600 contributions by LKR 150 to ensure stable benefit levels.

29.7. Increase in Festival Advance

- Interest-free festival advance for government employees increased from LKR 10,000 to LKR 15,000.



29.8. Distress Loan Advance

- Maximum distress loan advance raised from LKR 250,000 to LKR 400,000 at 4.2% interest, with LKR 10,000 million allocated to maintain advance account limits.

29.9. Increase in Allowances for Teachers Engaged in Remote Service and Allowances for Principals

- Allowance for teachers in remote schools increased by LKR 1,500 after 20 years; principal allowance increased by LKR 1,500 with LKR 1,000 million allocated to strengthen educational outcomes.

29.10. Increase in Allowances of Gatekeepers at Unsafe Railway Crossings

- LKR 250 million allocated to raise gatekeeper allowance at unsafe railway crossings from LKR 7,500 to LKR 15,000 per month for an eight-hour shift.

29.11. Formalization of Permanent Appointments for Employees Engaged on Temporary, Casual, Substitute, Contract, or Concessionary Basis

- Permanent appointments to be granted to around 9,800 public sector employees currently serving on temporary, casual, substitute, contract, or concessionary basis for more than six months, in line with Public Administration Circulars 25/2014 and 29/2019.

30. Borrowing Limit

- The maximum borrowing limit presented in the Appropriation Bill on 26th September 2025 is being reduced by LKR 60 billion. The new, revised limit is LKR 3,740 billion. Please refer the table presented below.
- This reduction is due to revisions in the expected revenue estimates from the budget proposals and is also detailed in Annex II of the current Budget Speech.

Item	LKR Billion
Total Receipts other than Government Borrowings	5,355
Total Primary Expenditure	4,485
Recurrent	3,105
Capital	1,380
Debt Service Payments	4,495
Interest Payments	2,617
Debt Repayments	1,878
Provision for Advanced Accounts	10
Adjustments for Book/Cash Value of Government Securities	105
Total Gross Borrowing Requirement to be recorded in Government Accounts	3,740

Compiled by Department of Fiscal Policy

Expenditure Proposals

No.	Proposal	LKR Million
1	Providing vehicles/machineries required for Government Institutions and Provincial Councils	12,500
2	Enhancing digital accessibility in Government Institutions	1,000
3	Settling the outstanding statutory payments of 10 State Own Enterprises within two years	5,000
4	Reactivating the Property Loan Scheme for government employees provided through Banks	500
5	Increasing the Principals' allowance and Teachers' Hardship allowance	1,000
6	Increasing the allowance for Gatekeepers at unsafe railway crossings	250
7	Development of Feeder Zones as Service Zones associated with existing Investment Zones	1,000
8	Providing incentives to attract International Data Centres	500
9	Streamlining the land release for investment purposes	100
10	Establishment and development of Industrial Zones	1,000
11	Export promotion	500
12	Encouraging the employment of youth with disabilities or special needs in the private sector	500
13	Ensuring accessibility and sanitation facilities in public places for persons with disabilities and special needs	1,000
14	Increasing the wages of Estate Workers	5,000
15	Providing relief for Thalassemia patients	250
16	Establishing Day Care Centres for children with disabilities including Autism	500
17	Increasing the total allocation for "Praja Shakthi Program" to LKR 25 billion, for district and divisional-level implementation	20,750
18	Facilitating the Government Institutions to promote Cashless Economy	1,000
19	Increasing milk production	1,000
20	Shelters for Street Animals and Crematoriums	100

No.	Proposal	LKR Million
21	Completing the construction of Badalgama Milk Processing Factory	3,000
22	Upgrading Livestock Breeder Farms	1,000
23	Providing concessions for Small-Scale Coconut Cultivators	2,500
24	Upgrading the Temperature-Controlled Storage Facility in Dambulla	250
25	Establishing a Sustainable Agricultural Credit Fund	800
26	Providing facilities for mechanized paddy drying	500
27	Increasing agricultural production in Matale, Kandy and dry zones through Climate-Smart Irrigation Technology	1,000
28	Increasing Mahapola/Bursary, Trainee Teacher and Nipunatha Sisu Diriya allowances by LKR 2,500	2,750
29	Providing allowances for low-income students with disabilities studying in Higher Education Institutions	50
30	Providing new houses for families facing higher risk of landslides	2,000
31	Providing housing assistance for reintegration of institutionalized individuals and child protection	2,000
32	Implementing the “A Place of Their Own - for a Beautiful Life” Housing Program for low-income families	3,000
33	Providing housing for internally displaced communities	1,150
34	Conducting feasibility studies on flood control in Hambantota, Galle, Kalutara, and Rathnapura	500
35	Kalutara Lagoon development	100
36	Providing solutions for Human-Elephant Conflict	1,000
37	Ensuring the safety of Fishermen	100
38	Development of Fishery Harbors	1,000
39	Implementation of a safety program to reduce road accidents	1,000
40	Commencing preliminary work for the construction of the Kiran and Pondukulchenai Bridges in Batticaloa	500
41	Construction of Rambukkana-Galagedara section of the Central Expressway	16,000
42	Establishing Aarogya Centres	1,500
43	Relocating Deniyaya and Dambulla Hospitals to suitable locations	1,000
44	Promoting Sports Culture	800
45	Launching a nationwide operation to prevent drug menace	1,500
46	Promoting Drama, Performing Arts, and Literature	50
47	Renovating Prisons and relocating them to identified suitable sites	2,000
48	Freeing up lands for Ratnapura City Development (construction of Quarters for Government Officers)	500
49	Development of Hatton and Matale Towns	500
50	Constructing City Halls in Ampara and Monaragala.	200

No.	Proposal	LKR Million
51	Providing subsidies for buses operating on unprofitable routes to ensure sustainable rural transport services	2,000
52	Women empowerment	200
53	Providing LKR 5,000 allowances for schoolchildren with disabilities from low-income families	50
54	Completion of Nintavur Cultural Center of which the construction has seized	300
55	Silver Economy - Investment in Senior Citizens	10
56	Satellite-Based Technology driven, information provision for Fishermen on fishing grounds	100
57	Establishment of the Inland Revenue Department in a single premise	2,000
58	Development of Domestic Airports	1,000
59	Improving facilities to ensure food security	1,000
60	Providing assistance to Journalists for higher education and technical approach	100
61	Flood and saltwater intrusion controlling along the Nilwala River in Matara	1,000
62	Finding research-based solutions to resolve the Human-Elephant Conflict	10



Economic Review

- Global Economy

▪ Growth

The global economy has been adjusting to a landscape reshaped by new policy measures. Some extremes of higher tariffs have been tempered, thanks to subsequent deals and revisions. But the overall environment remains volatile, and temporary factors that supported activity in the first half of 2025, such as front-loading are fading.

As a result, global growth projections have been revised upward to 3.2% relative to the April 2025 World Economic Outlook but continue to mark a slow down from 3.3% in 2024 with a prediction of 3.1% in 2026. Growth is diverging with advanced economies are predicted to be growing around 1.5% whereas the emerging market and developing economies are expected to grow above 4%.

In the United States, growth is projected to fall sharply from 2.8% in 2024 to 1.8% in 2025 and 1.5% in 2026 owing to higher tariff rates, moderating net immigration and reductions in the federal government workforce. China also sees a notable growth deceleration, from 4.9% in 2025 to 4.4% in 2026, as front-loading unwinds, higher tariffs take effect and fiscal support fades. The euro area GDP growth is also set to experience a steady slowdown, from 1.2% in 2025 to 1.0% in 2026 with increased trade frictions and geopolitical uncertainty somewhat offset by stronger public investment and easier credit conditions.

▪ Inflation

Inflation is expected to decline to 4.2% globally in 2025 and to 3.7% in 2026. A notable variation is the above-target inflation in the United States with risks tilted to the upside. Subdued inflation is observed in much of the rest of the world.

Inflation in most G20 economies is projected to fall as economic growth and labour markets continue to soften. Headline inflation is expected to decline from 3.4% in 2025 to 2.9% in 2026, while core inflation in advanced G20 economies remains broadly stable, easing only slightly from 2.6% to 2.5%.

However, inflationary pressures could resurface. The pace of disinflation has slowed in some economies, with goods prices edging higher and services inflation remaining stubborn.

▪ Trade, investment and structural headwinds

Trade growth has slowed: the World Bank notes global trade-in-goods and services growth is projected to drop to less than 3% in the 2020s versus ~4.5% in the 2010s. Investment growth is weak, while global debt levels are high, especially in emerging markets.

Structural factors: ageing populations, lower productivity growth, high uncertainty around technology shifts, and heightened geopolitical / trade fragmentation are all weighing on medium-term potential.

- Major risks & watch-points

Risks are tilted to the downside. Prolonged uncertainty, more protectionism, and labor supply shocks could reduce growth. Fiscal vulnerabilities, potential financial market corrections, and erosion of institutions could threaten stability. The following are noteworthy considering the potential impacts on Sri Lanka:

- A sharper than expected slowdown: given the modest growth base, any shock (e.g., financial, geopolitical, trade) could trigger a downturn.
- Inflation resurgence: if inflation picks up again (via wages, energy, supply shocks), central banks may need to tighten further, choking growth.
- Trade/tech fragmentation: increased barriers or decoupling (e.g., US-China) could erode the gains of globalisation and hit investment/trade.
- Climate/transition risks: The shift to cleaner energy, climate adaptation costs, and weather-related disruptions could become economic drags.
- Policy fatigue: High debt levels and weak growth limit scope for stimulus; ad hoc responses may become less effective.

- Sri Lankan Economy

▪ Growth and growth drivers

With the new NPP Government completing one year in office, Sri Lanka had a very challenging year 2025. In spite of the challenges Sri Lanka has been progressing stronger than expected with the Central Bank of Sri Lanka (CBSL) forecasting the GDP to record a growth of 4.5% by end 2025 on top of the 5% growth in 2024 which signals a substantial rebound from the deep crisis in 2022-23. However ADB is not as optimistic as CBSL and forecasts only 3.9% growth in 2025.

Under the International Monetary Fund (IMF) program, revenues and fiscal metrics are improving with Government revenue on track to reach ~15% of GDP in 2025. The IMF praises Sri Lanka's reform program, though it cautions about external risks (notably trade issues) and the need to maintain consistent policy implementation.

Sri Lanka has been experiencing deflation/very low inflation (for example -1.1% yr/yr in Q2 2025). Gross international reserves at end-June 2025 reserves stood around US\$6.0 billion. The external sector performance has improved, helped by tourism, remittances and some stabilisation of the currency.

Sri Lanka was able to successfully manage the US tariff issue to settle down with a rate of 20% compared to the original 44% rate that was imposed in April 2025.



- Fiscal Policy and Budgeting

The government issued the Budget, Economic and Fiscal Position Report (2025) in February 2025, which lays out the medium-term fiscal strategy that includes the following key policy themes.

- **Revenue strengthening:** A strong emphasis on broadening the tax base, improving tax compliance, reducing tax-expenditure (i.e., exemptions), and reducing reliance on ad hoc measures.
- **Expenditure control:** Keeping the growth in public spending under control, especially interest payments, and avoiding arrears.
- **Debt management:** With the past crisis of external debt and restructuring, the strategy is to reduce debt to sustainable levels, in part by achieving primary surpluses and managing contingent liabilities.
- **Institutional reforms:** Better PFM (public financial management), transparency of SOEs, risk-statements, and modernisation of fiscal reporting.

The International Monetary Fund (IMF) mission in July 2025 noted strong policy alignment with the reform program (under the Extended Fund Facility). The mission emphasised that the 2026 budget must be built on strong revenue measures, no sweeping tax holidays, a primary balance target of ~2.3% of GDP, and improved public-financial-management (including for state-owned enterprises and guarantees).

Sri Lanka's fiscal performance showed a sharp turnaround in 2025, with the following key highlights according to the Finance Ministry's latest Fiscal Review Report.

1. Budget Deficit:

The deficit dropped 54.5% year-on-year to Rs. 441.4 billion in January-September 2025, from Rs. 970 billion during the same period last year.

2. Primary Account Surplus:

The surplus more than doubled to Rs. 1.4 trillion reflecting improved fiscal balance excluding interest payments.

3. Revenue Growth:

Total revenue rose 31% year-on-year to Rs. 3.83 trillion, driven mainly by higher VAT and import-related collections.

4. Customs Collections:

The Customs Department earned Rs. 1.7 trillion, meeting 80% of its annual target and accounting for nearly half of total tax revenue.

5. Expenditure:

Total government spending increased 10% to Rs. 4.3 trillion, mainly due to recurrent expenditure of Rs. 3.8 trillion. Capital spending fell 2% to Rs. 455 billion as interest costs rose to Rs. 1.9 trillion.

6. Vehicle Import Taxes:

Revenue from vehicle imports soared 818% year-on-year to Rs. 349 billion, up from Rs. 38 billion a year earlier.

7. Import Value:

The total value of motor vehicle imports is projected to reach USD 1.5 billion by year-end, up from an earlier estimate of USD 1.2 billion, according to the Central Bank.

The IMF technical assistance report flagged that while fiscal risks have improved, they remain significant in relation to: state-owned enterprises (SOEs) and guarantees, public-private partnerships, natural-disaster risk, and data quality in fiscal risk-statements.

▪ Current Account Balance and External Sector

The Central Bank of Sri Lanka in its Financial Stability Review 2025 noted that the external sector “remained resilient, recording a current account surplus despite rising imports.” For Q2 2025 the current account surplus widened to US\$501 million, up from about US\$421 million a year earlier. By August 2025, the cumulative current account surplus hit US\$2.039 billion.

The surplus situation was driven primarily by: (1) stronger export performance, both goods and services, buoyed by tourism recovery, remittances and other services; (2) relatively muted or closely managed import growth, helping narrow the trade gap; the policy stance of rebuilding reserves and stabilising the currency.

A positive current account surplus strengthens external viability. Less pressure on foreign-exchange reserves enables better capacity to service external debt and meet import needs. It also enhances credibility under the IMF program and reduces external vulnerability by providing a buffer against external shocks (commodity prices, global demand slowdown, trade tariffs).

However this achievement is not without any risks. The surplus may be fragile, for example, if export growth slows, if remittances fall, or if imports surge unexpectedly. The global environment remains uncertain. The Rupee still faces depreciation pressures (not always fully explained by current-account positions). The Central-Bank policy handling remains important. External debt servicing remains heavy and large where a surplus helps but does not remove remaining vulnerabilities.

▪ Foreign Direct Investments (FDI)

According to the Board of Investment of Sri Lanka (BOI), as of *June 2025*, there were 79 investment proposals received with a total estimated value of US\$ 4,669 million, of which US\$ 3,899 million was foreign investment. For the *first nine months* of 2025, BOI estimates that FDI net inflows reached about US\$ 827 million.

The numbers show improved investor sentiment and stronger FDI flows compared to recent years, which is positive in comparison with the government target of US\$ 5 billion for FDI in 2025 according to the U.S. State Department’s “Investment Climate” report for Sri Lanka. The fact that there are many new investment proposals suggests potential future flows beyond the current net-inflows.

However, the “proposal value” figures are *estimates* of investment potential, not all of which may be realised in full or in 2025. The net inflow figure of ~US\$ 827 million for first nine months is still fairly modest relative to the target raising concerns about the speed and execution of projects, as some approvals may be pending, delayed

or partially implemented. The large proposal values provides a good pipeline, but the conversion into realised investment still needs momentum.

- **Colombo Stock Exchange (CSE)**

CSE had a strong rebound year in 2024, signaling renewed investor confidence in Sri Lanka's equity market. The ASPI closed 2024 at 15,944 points with a year-on-year growth of almost 50% in ASPI. The market capitalisation of the CSE also reached a record, about Rs. 5.69 trillion by end 2024 and the exchange was ranked as one of the best performing in Asia in 2024.

The bullish trend continued in 2025, with the index pushing to new highs. The strong rise indicates robust investor sentiment, possibly driven by improved economic fundamentals and structural reforms. the ASPI almost reached near 23,000 points by end October 2025.

The very large percentage gains may include contributions from specific sectors, new listings, or foreign investor flows, and not purely broad-based earnings growth. Market valuations and returns may be impacted by currency movements, inflation, external risk factors, and policy uncertainties in Sri Lanka. Being a smaller/emerging market, the CSE can exhibit higher volatility and sensitivity to global/local shocks.

- **Future Outlook**

The composite picture is that Sri Lanka is making meaningful progress with improved fiscal discipline, stronger revenue collection, and an external surplus. These are all positive signals in a post-crisis context. The FDI environment appears to be recovering with the help of improved macro-stability, reforms, and clearer policy frameworks. The realized cash flows are expected to grow though it's below the targets and full potential.

However the progress remains fragile and conditional where much depends on sustained policy implementation, the global external environment (tourism, remittances, exports), and managing risks (SOEs, contingent liabilities, external debt). Investors emphasise the need for stability, transparency and regulatory predictability. If not, the vulnerabilities could quickly re-emerge.

If the reform momentum (revenue-broadening, base-widening, no regression in tax exemptions), continues in 2026 and if the external environment remains supportive, Sri Lanka could further consolidate its fiscal and external position.

Key things to watch going forward include: whether the revenue-to-GDP ratio improves meaningfully; whether primary surpluses are sustained; whether the current account remains in surplus; whether reserve levels rise; and how the rupee and inflation behave.

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