



Beyond stability: unlocking growth opportunities and investment potential

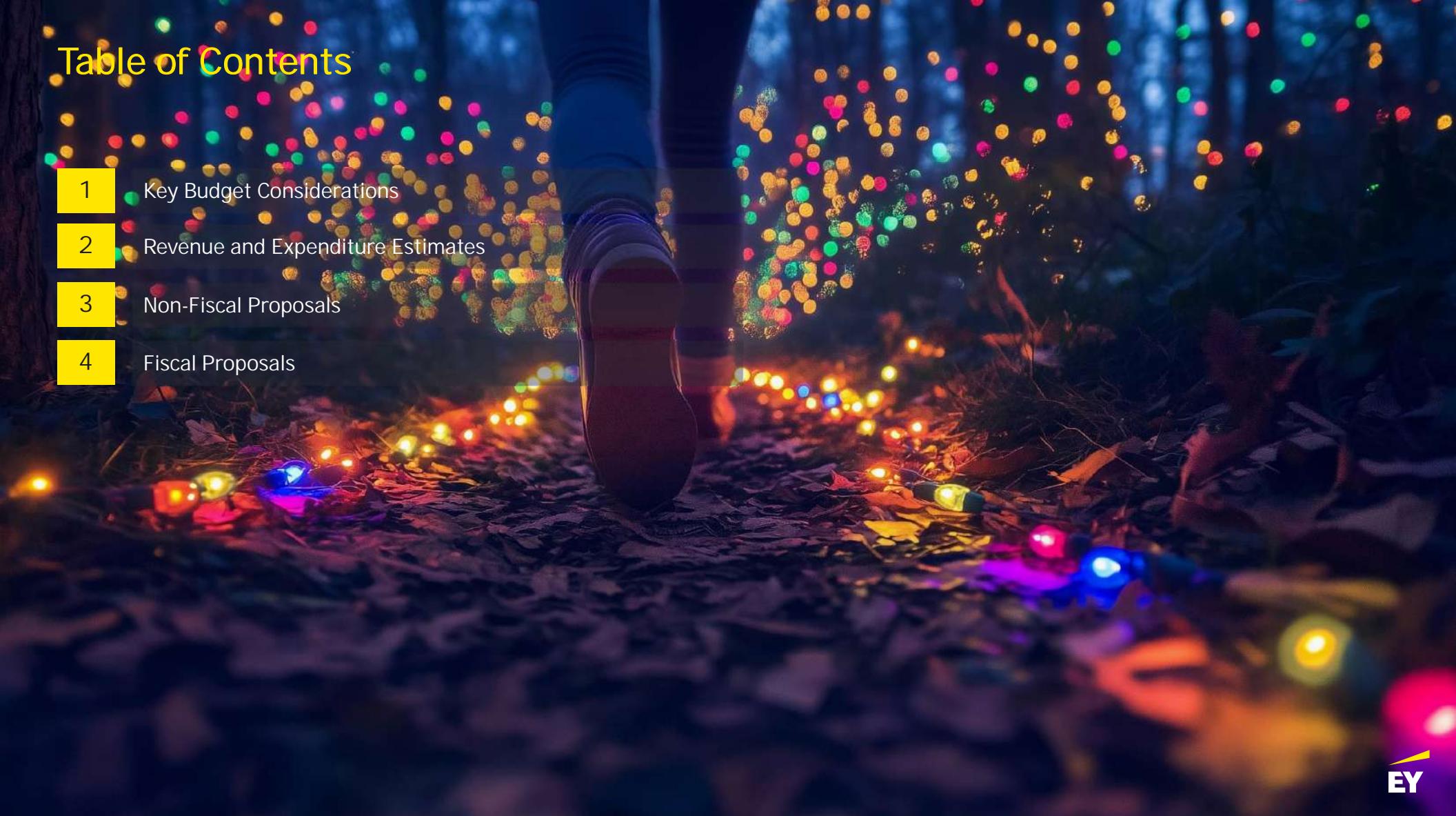


The better the question. The better the answer. The better the world works.



Shape the future
with confidence

Table of Contents



- 1 Key Budget Considerations
- 2 Revenue and Expenditure Estimates
- 3 Non-Fiscal Proposals
- 4 Fiscal Proposals



Beyond stability: Direction of 2026 budget

Beyond stability: Government direction for growth, reform, and inclusion

Strengthened production economy by developing domestic manufacturing, increasing support for SMEs and private-sector participation in value-added production.

Public debt below 90% of GDP by 2032 to be reached through disciplined fiscal and debt management, with IMF guidance.

GDP growth of over 7% over the next few years through innovation, private investment, PPPs, and modernization of State-Owned Enterprises.

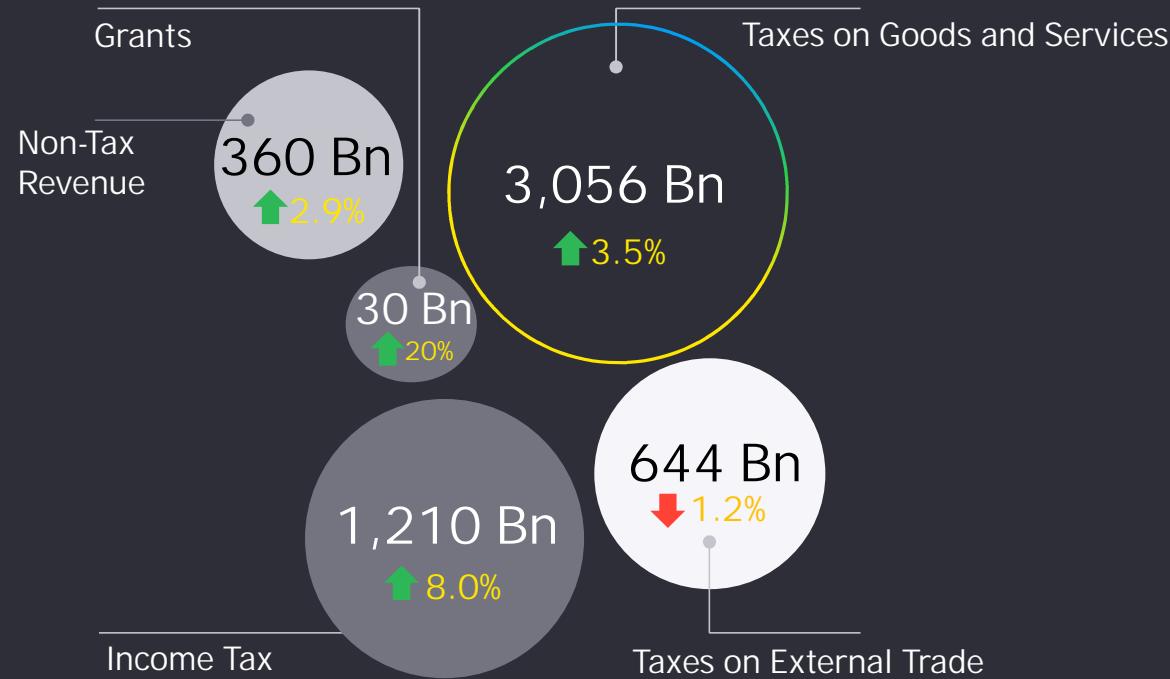
Develop USD 15 billion digital economy through digital infrastructure, governance efficiency, and legal reforms.

Rural poverty eradication through infrastructure, education, and social protection.

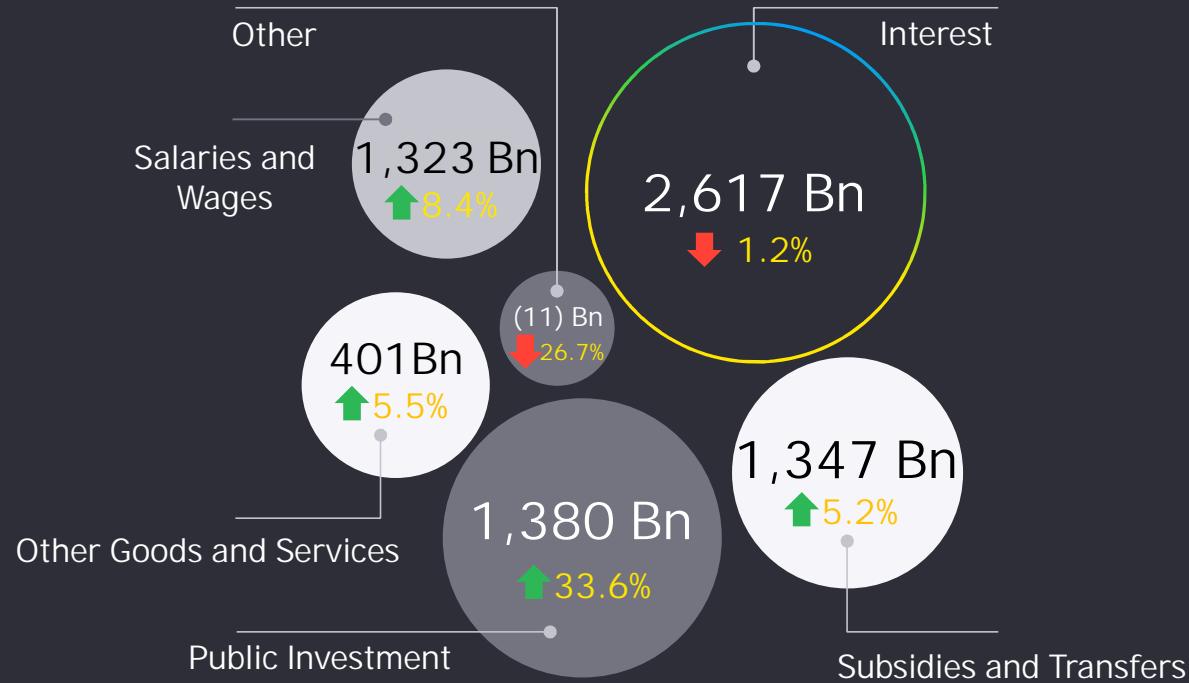
Expansion of exports through diversification, strengthened competitiveness and new FTAs under the National Export Development Plan (2025-2029).



Revenue Estimates (LKR)



Expenditure Estimates (LKR)



Summary of revenue and expense estimates



Revenue deficit



Primary surplus



Budget deficit



Non-fiscal proposals - Unlocking growth opportunities

1. Foreign Direct Investments (FDI)



USD
827Mn

FDIs in the
first nine months



139%

The growth in FDIs
in the year

Strategies to draw FDIs

Strengthen the Investment Framework

Amend the Strategic Development Projects Act and Port City Act to create a transparent, rule-based incentive regime.

Facilitate Investor Entry

Introduce a residence visa scheme for foreign investors meeting a minimum investment threshold, to attract long-term capital and expertise.

Introduction of public-private partnership law

A new law will be presented to Parliament in early 2026 to establish a clear, transparent framework to attract private capital for national infrastructure projects.

Strategies to draw FDIs

Investment Protection Act

Introduce an Investment Protection Act will be passed in early 2026 to strengthen investor confidence and ensure a stable, transparent legal environment for safeguarding foreign investments.

Digital Single-Window for Investment Approvals

Introduce a digital Single Window system for BOI project approvals to streamline investment processes, enhance transparency, and accelerate investor decision-making.

Land Release for Investment

Develop a centralized digital land information system and new legal framework to streamline land allocation, valuation, and access for investors.

Strategies to draw FDIs

State-Owned Enterprise Holding Company

Introduce a government holding company to manage state-owned enterprises with greater accountability and transparency, improving governance and investor confidence in public-sector assets.



2. Exports



Export of goods in
the first eight
months



Increase in exports
year on year

Strategies to stimulate exporters

Implementation of National Export Development Plan

The government, in collaboration with stakeholders and the Asian Development Bank (ADB), is set to implement a National Export Development Plan to strengthen and expand the country's export sector

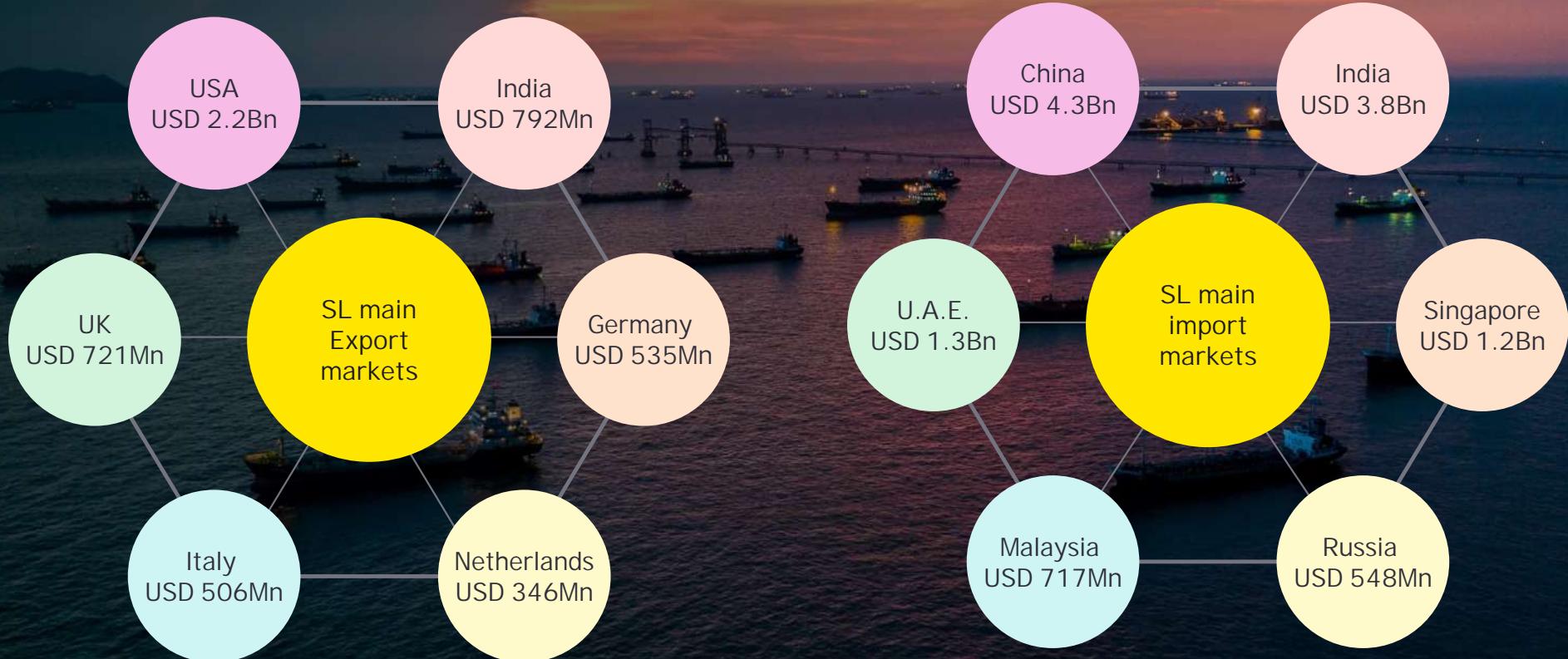
Export promotion initiatives

Expansion of the export market through the diversification of export products

Establishment of a Virtual Special Economic Zone

The Virtual Special Economic Zone is to be established through the BOI to generate exports

3. Global Trade



Initiatives to advance global trade

Expand Global Market Access

Review existing Trade Agreements and Negotiate new Free Trade Agreements with various countries to boost exports and competitiveness.

National Single Window for Trade Facilitation

Develop the National Single Window and modernize trade regulations to streamline export-import procedures, lower costs, and strengthen Sri Lanka's integration into global trade networks.

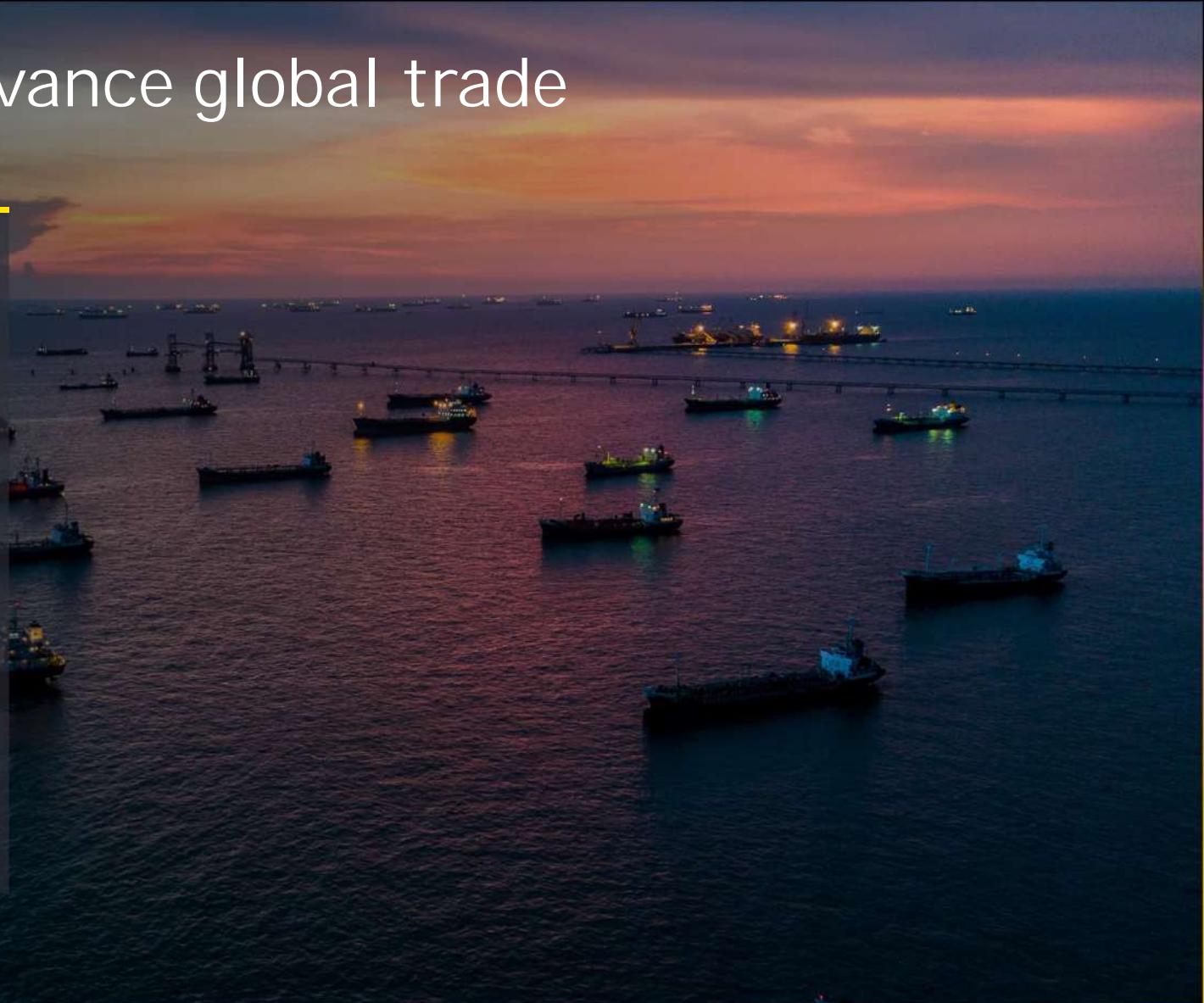
New Tariff Policy

Gradually reduce para-tariffs like PAL and CESS to boost export competitiveness, improve efficiency, and make goods more affordable.

Initiatives to advance global trade

Promotion of New Goods and Service Exports

Improve the necessary financial facilities for export-oriented industries to access global markets more competitively.



4. Logistics and supply chain optimization

Improvements in logistics to enhance trade efficiency and reduce costs

Expansion of Port Infrastructure

Major development initiatives, such as the Western Container Terminal Phase II, Colombo North Port Development Project, will expand Colombo Port's capacity and strengthen Sri Lanka's position as a key regional logistics hub.

Establishment of New Customs and Trade Facilitation Centres

The Kerawalapitiya Customs Verification Centre and Trade Facilitation Centres in Bloemendaal will be established to streamline cargo processing and strengthen trade connectivity.

Digitalization and Automation of Port Operations

Implementation of the Port Community System and automation of port processes aim to enhance operational efficiency, reduce clearance times, and ensure seamless coordination among logistics stakeholders.

5. Infrastructure development

Major projects in transportation, logistics, and urban infrastructure to support economic growth

Enhancing Public Transportation Systems

Enhance and expand public transportation through initiatives such as the addition of new buses, improvements to railway services with new Diesel Multiple Units (DMUs) and electronic ticketing systems.

Upgrading Road Infrastructure

Improve connectivity and ease traffic congestion by the construction of expressways and key road projects.

- Central Expressway (Phase 1)
- Central Expressway (Phase III)
- Kurunegala – Dambulla Expressway (Proposed)
- Ruwanpura Expressway (25 km section)

Optimizing underutilized Public Assets

To maximize resource utilization by converting unused/ partially completed public buildings into income-generating assets through public-private partnerships.

6. Public Sector Reform

Continued reforms aimed at improving Efficiency and Accountability in Government Services

Introduction of "Public Commercial Business Management Act"

The relevant Bill to be introduced in first half of 2026 with the objective of identifying the objectives of SOE, publishing annual audited accounts and limiting borrowing.

Strengthening supervision and management of State Assets

Proposed to be achieved by the amendment of the National Audit Act imposing fines on officials responsible for mismanagement of State assets, setting up a special task force to manage the use of state land and enactment of Public Asset Management Bill in 2026.

Regularizing of Public Sector Recruitment

Recruitments in public sector to be carried out only in accordance with prescribed examinations, service regulations and to be free from political interferences.

6. Public Sector Reform

Continued reforms aimed at improving Efficiency and Accountability in Government Services

Increasing Digital Access in Government Institutions

Rs 1000 Mn to be allocated to simplify complex government procedures and provide these services expeditiously under digital methods

Provision of vehicles required for government institutions

An additional Rs 12,500 Mn to be allocated to fund the inadequacy of vehicles and machinery in the government sector

Settlement of outstanding statutory payments

These outstanding payments to be settled in a phased out manner ensuring payment of outstanding EFP, ETF contributions, gratuity entitlements of retired employees etc.

6. Public Sector Reform

Continued reforms aimed at improving Efficiency and Accountability in Government Services

Revamp of government salaries and pensions

Restructure in this area to be carried out via the establishment of a Salaries and Pensions Commission, Second Phased of salary /pension revisions, provision of housing and property loans, expanding the coverage of health benefits.

7. Tourism

1.9 mn

Tourist arrivals as of
5th November

India

Biggest source
market for tourists

USD 8 Bn
earnings

Expected earnings from
tourism sector by 2030

Strategies to boost tourism, including marketing campaigns and infrastructure support

Restructure institutions in the tourism sector

To resolve coordination issues between stakeholders

Focusing the nature and historical heritage

- Western Province coastal and marine environment development
- Making Haputale a major destination
- Making underutilized state-owned bungalows profitable
- Developing Beire Lake

Tourism workforce development

Hospitality multi-purpose program through public and private training institutions to bridge the national level workforce gap

Strategies to boost tourism, including marketing campaigns and infrastructure support

Development of airports

- Hingurakgoda, Sigiriya, and Trincomalee domestic airports
- Expand operations of Jaffna international airport
- Resume expanding the BIA



8. Healthcare improvements

Enhancements in healthcare systems, access to services, and public health initiatives

Primary Healthcare Expansion

- Establishment of "Aarogya" Centers, aimed at improving local access to healthcare service

Hospital Relocation & Upgrades

- Establishing a 16-storey National Heart Unit
- Relocating Deniyaya and Dambulla Hospitals to improve service quality and physical infrastructure

Nutrition & Public Health Support

- Strengthening Thripasha and nutrition support programs for pregnant and lactating women

9. Education and Skill Development

Initiatives in education, vocational training, and skills development to meet labor market demands

Financial support for Students

- Continue with the stationery allowance for students
- Increase Mahapola and Bursary allowances by Rs. 2,500
- Increase allowance paid to National College of Education scholarship recipients by Rs. 2,500
- Higher education scholarships and support to develop journalism.

Support for students with special needs

- Monthly allowance of Rs. 5,000 per child
- Monthly allowance of Rs. 5,000 when pursuing higher education
- Establishing day care centers

Infrastructure development

- Construction of hostels in selected Universities and improving the existing hostels, canteens and common learning areas
- Develop medical faculties at certain Universities
- Improving facilities and research activities

9. Education and Skill Development

Initiatives in education, vocational training, and skills development to meet labor market demands

Vocational training

- Upgrade vocational education and vocational training centers
- Repurposing abandoned government buildings into vocational centers, training facilities, and income-generating spaces

Digital Skills Development

- Scholarships for foreign training and development of local language datasets
- Providing AI and cloud computing facilities for research and education in universities and schools

10. Digital Economy

Implementing a National Digital ID System

The first Digital ID card to be issued by the third quarter of 2026

Institutional Framework and Licensing

It is proposed to set up a Digital Economy Authority, a National Cyber Security Operations Centre and successfully issue 5G licenses to accelerate digitization

Increased investment in Digital Economy

Rs 25,500 Mn to be invested in the digital economy in 2026

10. Digital Economy

All payments to Government to be made via online systems

It is proposed that service fees will not be charged on such payments with effect from January 1, 2026

Setting up a Data Protection Authority

The Personal Data Protection Act has been passed enabling this authority to operate.

Funding for Public Private partnerships in digital infrastructure projects

The government proposes to provide medium term funding for such projects

11. Innovation and Research & Development (R&D)

Encouragement of R&D initiatives to drive Technological Advancements and Economic Growth

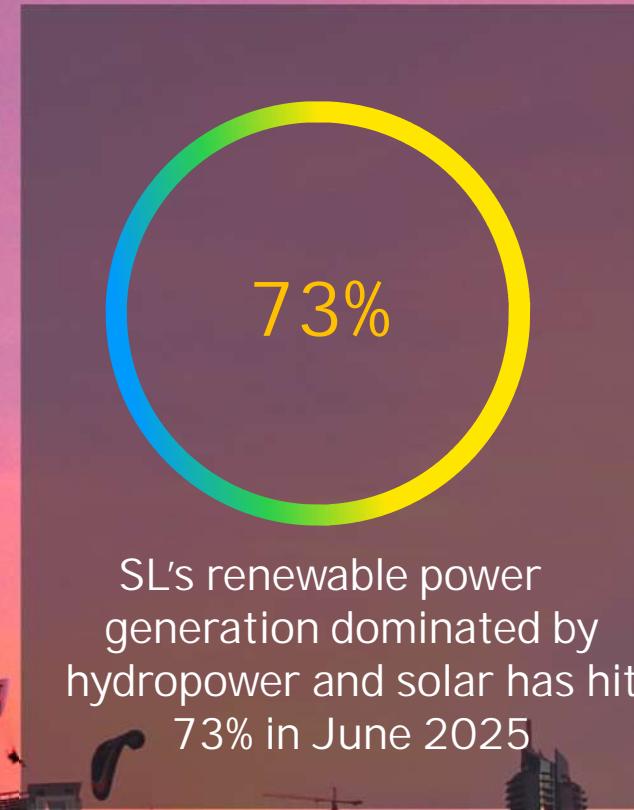
Research and Development Policy of the Government

The above policy has been finalized and this intends to prioritize on research needs and optimize allocation of resources

Increase investment

A provision of Rs. 1,200 million has been allocated for the national programme to bring research to commercialization.

12. Sustainable Development and Energy Transition



Sustainable practices in various sectors and energy transition

Promoting blue economy

- Targets to harness the marine and coastal resources for sustainable economic growth.
- Rs. 100 million is allocated to conduct a detailed study on the economic benefits that can be achieved through marine and coastal fisheries

Eradicating rural poverty

- The main strategy is to empower rural people to engage in productive economic activities.
- To achieve this, Modern and Sustainable Development Programme has been implemented

People – Centric Energy Transition

- Aims to develop electricity consumption that targets new economic opportunities.
- An Integrated Economic Development Framework will be established by integrating energy, digital and transport.

13. Agriculture

Support for agricultural productivity, sustainability, and export opportunities

Enhancing the well-being of estate workers

To increase the minimum daily wage for estate workers from Rs. 1,350 to Rs. 1,550 starting January 2026.

Additionally, a daily attendance incentive of Rs. 200 is to be introduced.



14. Initiatives to foster Small and Medium Enterprises, Innovation, and Entrepreneurship

Strengthening the Production Economy

Targeted subsidies, necessary technology and market access will be provided to manufacture goods locally, which will deter imports of similar goods.

Establishment of service zones

It is proposed to develop auxiliary zones as service zones associated with existing investment zones. This is expected to create new opportunities for SMEs, improve labor mobility and expand the economic benefits of industrialization at the provincial level.

Initiatives to foster Small and Medium Enterprises, Innovation, and Entrepreneurship

Consolidation of the authorities

It is proposed to consolidate the functions of the Industrial Development Board (IDB), the National Enterprise Development Authority (NEDA), and the Small and Medium Enterprise Development Division (SMED) and place them under the Industrial Development Board (IDB).

Loans subject to concessionary terms

It is proposed to grant loans to the SME sector at concessionary rates and without the requirement of collateral.

15. Social Welfare and Protection

Programs aimed at enhancing social protection and welfare for vulnerable populations

Initiative to Clean SL

-Clean SL Programme aims to build society that is clean in all aspects. Free from drugs, underworld, bribery and corruption etc.

-Rs. 6,500 million to be allocated to Clean SL Programme

Enhancing women welfare

-Rs. 240 million allocated to women entrepreneurs; and
-Rs. 200 million allocated for programmes aimed at the welfare of women.

Supporting the disabled community

-Allocated Rs. 19,000 million to provide a subsidy to persons with disabilities through the Aswesuma programme.

-Allocated Rs. 500 million to establish day care centers for children with disabilities, including those with autism.



Fiscal Proposals

Synopsis of the fiscal proposals

Achieve and maintain tax revenue at a level exceeding 15 percent of GDP in the medium term

Ensure a level playing field for locally manufactured products and imports through implementation of similar tax structures for VAT and SSCL for selected items.

Adjusting the direct-to-indirect tax ratio to create a progressive tax system.

Encourage digitalization through e-invoicing,

Encourage SMEs through the provision of investment incentives for smaller investments

Income Tax

Widening of the availability of enhanced capital allowances

In order to encourage new investments by SMEs investments between USD 250,000 to USD 3 Mn will be eligible to enhanced capital allowances. The conditions to claim such deduction including the period to carry forward losses is not mentioned.

Tax profit as a percentage of the capex expenditure	No of years profits sheltered with enhanced capital allowances
10%	10*
20%	5
30%	3.33
40%	2.5
50%	2
60%	1.67
70%	1.43
80%	1.25
90%	1.11
100%	1

Investment (USD Mn)	Tax saving (USD Mn)	Tax saving (LKR Mn)
0.25	0.08	22.5
0.50	0.15	45
0.75	0.23	67.5
1.00	0.30	90
1.50	0.45	135
2.00	0.60	180
2.50	0.75	225
3.00	0.90	270

Social Security Contribution Levy

Reduction in the SSCL registration threshold

The current registration threshold of LKR 60 Mn per annum is proposed to be reduced to LKR 36 Mn per annum

Effective : April 01, 2026.

Removal of SSCL exemption on sale of imported coconut and palm oil

Currently, any article subject to Special Commodity Levy (SCL) which is sold without any processing is exempt from SSCL. It is proposed to remove SCL in which case, a wholesale or retail sale will be liable to SSCL at 2.5%

Effective : April 01, 2026.

VAT

Reduction in the VAT registration threshold

The current registration threshold of LKR 60 Mn per annum is proposed to be reduced to LKR 36 Mn per annum.

Effective : April 01, 2026.

Removal of VAT exemption on imports

It is proposed to impose VAT on import of coconut oil and palm oil which are currently liable to Special Commodity Levy of LKR 150/ Kg and LKR 275/ kg and exempted from VAT.

Effective : April 01, 2026.

Removal of VAT exemption for Fabric

It is proposed to remove CESS of LKR 100/ Kg, in which case imported fabric will be liable to VAT effective from April 01, 2026. Accordingly, as the exemption is removed, input tax is claimable.

Effective : April 01, 2026.

Overview of Tax Changes on Motor Vehicle Imports

Imposition of SSCL on vehicles

Currently, any motor vehicle liable for Excise duty on importation is exempt from SSCL. As there are certain ambiguities in the application of such exemption, it is proposed to charge SSCL at the point of import or manufacture and sale, and exempt the wholesale/retail sale of vehicles.

Vehicle category	CIF Value	Current value inclusive of taxes (including luxury tax)	SSCL (proposed)	Total inclusive of taxes
Not Exceeding 1000CC	4,854,699	10,419,710	231,042	10,650,752
	6,301,813	13,967,445	281,691	14,249,136
	7,188,183	14,643,467	296,859	14,940,326
1000CC - 1300CC	7,032,250	16,020,872	328,354	16,349,226
1300CC - 1500CC	5,389,455	16,619,888	355,283	16,975,171
1600CC - 1800CC	7,338,000	26,225,308	540,015	26,765,323
1800CC - 2000CC	6,813,027	30,540,674	623,071	31,163,744
2000CC - 2500CC	14,003,350	55,644,107	1,017,820	56,661,927

Other Taxes & Levies

Telecommunication levy

It is proposed to amend Telecommunication Levy Act no 21 of 2011, reflecting the changes the rate that took place from time to time. Any bad debt recovered to be included in the payment of the relevant tax.

Import point taxes

Revision of Customs Import Duty

The Customs Import Duty rates of 0%, 15%, 20%, to be revised to 0%, 10%, 20%, 30%, effective from April 1, 2026

Phase out para tariffs

It is expected to phase out para tariffs through a revision of Customs Import Duty rates

Changes to tax administration

- Improving the tax audit process

Introduction of a modern tax audit framework effective on the returns filed from January 2026.

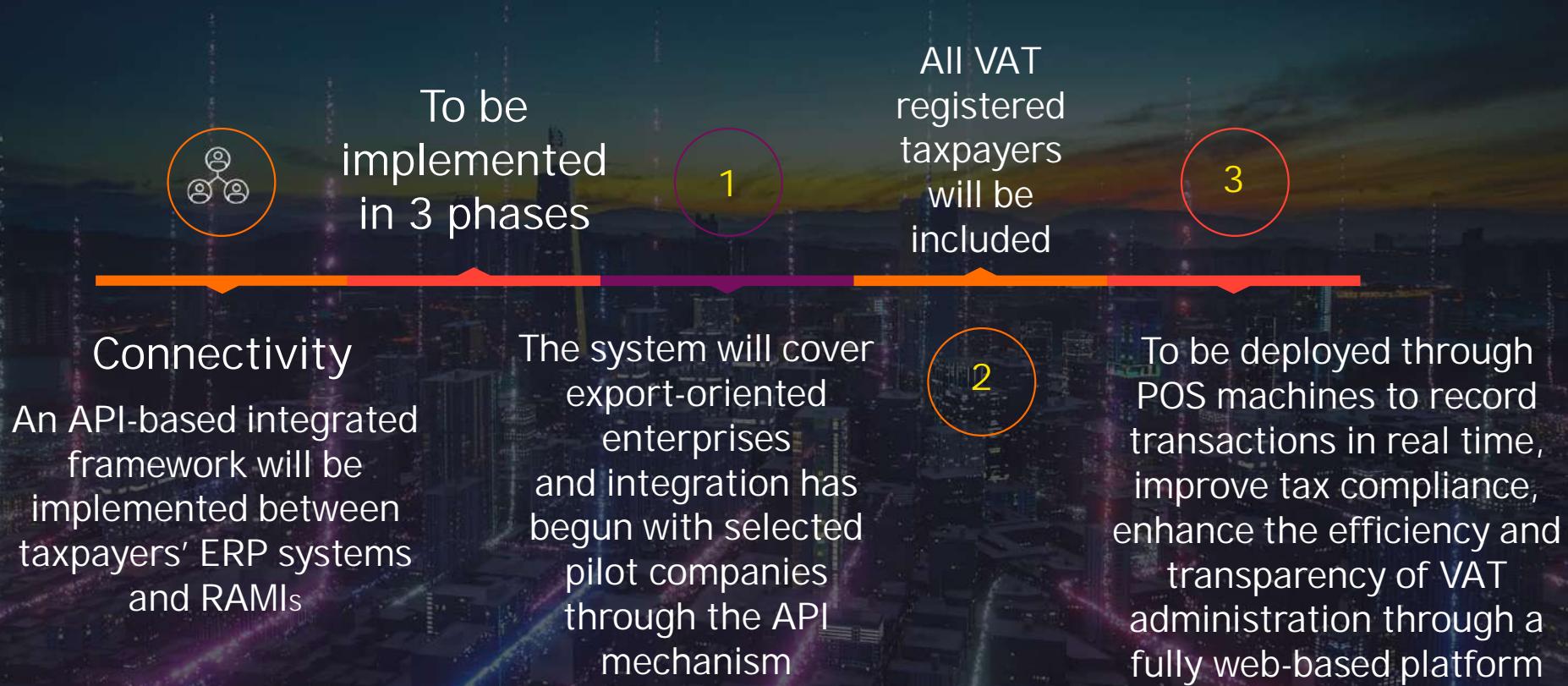
The selection of audit cases will be based on transparent risk assessments conducted by the Risk Management Unit and when necessary, reviewed by a committee appointed by the CGIR.

- Establishment of the Department of Inland Revenue in a single office premises

It is proposed to allocate Rs. 2,000 million to establish a new office complex after selecting the most suitable location and conducting a feasibility study.

Revenue Administration

Implementation of a National Electronic Invoicing System





EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2025 Ernst & Young LLP.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.



Mr. Sulaiman Nishtar

Partner, Head of Tax
Ernst & Young
Sri Lanka & Maldives
sulaiman.nishtar@lk.ey.com



Ms. Shehani Paranavitane /

Partner, Tax
Ernst & Young
Sri Lanka
shehani.paranavitane@lk.ey.com



Mr. Shakthivel Velauthapillai

Principal, Tax
Ernst & Young
Sri Lanka
velauthapillai.shakthivel@lk.ey.com