

SRI LANKA

17th February 2025



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Sri Lanka's 2025 budget, presented by President Anura Kumara Dissanayake, introduces a detailed plan to rejuvenate the economy in the aftermath of the 2022 financial crisis. We believe the budget outlines a bold and strategic policy direction, prioritizing key sectors such as exports, construction, tourism, digitalization, ports, and infrastructure to foster economic stability. The government aims to increase export revenue to USD 19Bn in 2025 (up from USD 16Bn in 2024) and has introduced a National Export Development Plan focused on expanding FTAs, attracting export-oriented investments, and establishing industrial parks while additionally, measures are being taken to enhance the country's ease of doing business. Digitalization takes center stage in Budget 2025, with initiatives aimed at streamlining services and fostering a digital economy. The tourism sector also receives a significant boost, with proposals to promote and develop key destinations while expanding Bandaranaike Airport's Terminal 2 to accommodate growing international traffic.

The budget outlines a bold and strategic policy direction, prioritizing key sectors

Furthermore, the government has called for expressions of interest for the development of Colombo West Terminal 2 and North Port to enhance maritime trade capacity. Plans are also in place to develop the remaining 61 tanks in Trincomalee, strengthening Sri Lanka's position as a regional energy and logistics hub.

Expressions of interest for the development of Colombo port is proposed



Budget 2025

A Strategic Blueprint for Economic Revival and Growth

With an ambitious 5% growth target for 2025 and a well-defined roadmap to resume debt repayments by 2028, the budget tries to revitalize the economy, positioning Sri Lanka for sustainable long-term growth.

The budget 2025 targets a revenue boost of LKR 900 Bn in 2025, raising total revenue to 15.1% of GDP in alignment with IMF guidelines. A significant portion of this increase is expected from the relaxation of vehicle import restrictions, complemented by a series of tax measures introduced ahead of the budget. These include a higher WHT on interest income, removal of export service tax exemptions, increased stamp duties on lease agreements, higher excise duties on cigarettes and liquor, and elevated corporate taxes on the same, among others.

Budget 2025 targets a revenue boost of LKR 900Bn

In a positive move for long-term economic growth, the budget has allocated 4% of GDP for capital expenditure. Meanwhile, a significant portion of recurrent expenses is dedicated to interest payments, estimated at nearly LKR 3.0Tn, while LKR 1.3Tn each is allocated for state sector salaries and subsidies. Public sector salaries have been increased by LKR 15,750, with a net increase of LKR 8,250, to be implemented in three phases. In 2025, employees will receive a net salary increment of LKR 5,000 along with 30% of the remaining adjustment, while the balance 70% will be distributed equally in January 2026 and January 2027, making sure not much burden on the current budget.

Budget has allocated 4% of GDP on capital expenses



Budget 2025

Boosting Consumption and Achieving Fiscal Targets

We anticipate a substantial uplift in consumption patterns, particularly with the increase in state sector salaries, which is expected to have a cascading effect on the private sector as well. The minimum wage for private sector employees is set to rise from LKR 21,000 to LKR 26,000 per month, alongside the rectification of pension anomalies. Additionally, the PAYE tax reductions are expected to generate significant savings, further stimulating consumption. The government has also proposed an increase in plantation sector wages to LKR 1,700, along with enhanced subsidies, all aimed at driving a boost in consumption across various segments of the economy.

Substantial uplift in consumption patterns is expected through salary revisions and savings from proposed PAYE

The country is thus projected to achieve a primary surplus of 2.3% of GDP, in line with IMF guidelines. Sri Lanka is expected to close the year with a budget deficit of LKR 2.2Tn, primarily financed through domestic sources, resulting in a budget deficit of 6.7% of GDP.

Primary surplus of 2.3% of GDP anticipated, in line with IMF guidelines



Revenue to hit 15.1% of GDP, in line with IMF guidelines

Primary surplus to record at 2.3% of GDP

15.1%

Revenue & Grants to touch 15.1% of GDP

2.3%

SL to record a primary surplus in 2025E

6.7%

Fiscal deficit to hover around 6.7 % of GDP



Revenue projected to grow by ~900Bn

Gvt to rely heavily on vehicle import taxes ..

	2023	2024 (P)	2025 (E)
Total Revenue & Grants	3,074	4,090	4,990
Total Revenue	3,048	4,030	4,960
Tax Revenue	2,720	3,704	4,590
Income Tax	911	1,026	1,167
Taxes on Goods and Services	1,420	2,201	2,772
Taxes on Extemal Trade	389	477	651
Non-Tax Revenue	328	326	370
Grants	26	60	30
Total Expenditure	5,357	6,131	7,190
Recurrent	4,700	5,340	5,886
Salaries and Wages	939	1,096	1,230
Other Goods and Services	300	392	416
Interest	2,456	2,690	2,950
Subsidies and Transfers	1,005	1,162	1,290
Public Investments	933	817	1,315
Other	-276	-26	-11
Revenue Surplus (+)/Deficit (-)	-1,652	-1,310	-926
Primary Surplus (+)/Deficit (-)	830	1,440	2,054
Budget Surplus (+)/Deficit (-)	-2,283	-2,041	-2,200
Total Foreign Financing	495	-3,044	75
Total Domestic Financing	1,787	5,084	2,125



Primary surplus to hover around 2.3% of GDP

Revenue is in line with IMF .. Budget deficit however to be hovering around 6.7% of GDP

	2023	2024 (P)	2025 (E)
Revenue & Grants /GDP	11.1	13.6	15.1
Total revenue/GDP	11.0	13.4	15.0
Tax revenue/GDP	9.8	12.1	13.9
Nontax revenue/GDP	1.2	1.1	1.1
Grants/GDP	0.1	0.2	0.1
Total expenses/ GDP	19.4	20.4	21.8
Recurrent expenses/ GDP	17.0	17.8	17.8
Non-interest/GDP	8.1	8.8	8.9
Interest /GDP	8.9	9.0	8.9
Public investment /GDP	3.4	2.7	4.0
Revenue surplus / (deficit) /GDP	-6.0	-4.4	-2.8
Primary surplus /(deficit)/GDP	0.6	2.2	2.3
Budget surplus/ (deficit)/GDP	-8.3	-6.8	-6.7
Revenue & Grants /GDP	11.1	13.6	15.1
Total revenue/GDP	11.0	13.4	15.0
Tax revenue/GDP	9.8	12.1	13.9
Non-tax revenue/GDP	1.2	1.1	1.1
Grants/GDP	0.1	0.2	0.1
Total expenses/ GDP	19.4	20.4	21.8
Recurrent expenses/ GDP	17.0	17.8	17.8
Non- interest/GDP	8.1	8.8	8.9
Interest /GDP	8.9	9.0	8.9
Public investment /GDP	3.4	2.7	4.0



Revenue proposals

Budget speech revealed no surprises, apart from the proposals announced in December and January.

Proposal	Wef
Removal on restriction on vehicle imports to bring in higher income from excise duties, custom duties, surcharge , luxury tax and VAT	01.02.2025
WHT on interest to increase from 5%-10%	01.04.2025
15% tax on service exports	01.04.2025
Stamp Duty on leases to be increased from 1%-2%	01.01.2025
Increase in income tax rate on Betting and Gaming, Tobacco and Liquor Industries from 40%-45%	01.04.2025
Imposition of VAT on digital services of 18%	01.04.2025
Casino entrance levy to be increased from USD 50-USD 100Mn and gross collection levy to increase from 15% to 18%	01.04.2025
Capital gains tax for individuals and partnerships to be increased from 10%-15%. CGT applicable for other entities to be increased to 30%	NA
Excise duties increased by 6% for liquor and cigarettes	11.01.2025

Impact on Listed Counters



CSE poised for growth with positive outlook from Budget 2025

Proposal	Counters Impacted	Impact
<p>Proposed a net increase of LKR 8,250 for the minimum salary of public sector employees. Therefore, LKR 110Bn allocated for the proposed salary increase in 2025.</p> <p>The monthly minimum wage for private sector workers will increase from LKR 21,000 to LKR 27,000 in April 2025, and further to LKR 30,000 in 2026.</p> <p>The government has allocated LKR 232.5Bn for “Aswesuma” welfare programme in 2025.</p> <p>Monthly allowances for low-income senior citizens will be increased from LKR 3,000 to LKR 5,000. additionally, senior citizens will be eligible for one-year fixed deposits of up to LKR 1Mn with an additional interest rate of 3% above the prevailing interest rate in the market.</p>	<p>Consumer Segment</p> <p>HHL, CCS, CARG, JKH, SUN, MELS, DIST, RICH, BFL, GRAN, LMF, LAMB</p>	<p>Positive</p>
<p>Proposed to invest LKR 2.5Bn to increase milk production and enhance dairy farming productivity.</p>	<p>Dairy Segment</p> <p>LMF, LAMB</p>	<p>Positive</p>



CSE poised for growth with positive outlook from Budget 2025

Proposal	Counters Impacted	Impact
<p>LKR 3Bn allocated for the improvement of rural roads, giving priority to roads that connect less developed rural villages, tourist destinations and industrial estates.</p> <p>In addition, LKR 5Bn allocate for the rehabilitation and improvement of rural roads and bridges in the Northern Province.</p> <p>LKR 1Bn will be allocated to commence the construction of the Vadduvakal Bridge.</p> <p>LKR 4.27Bn allocated for development of estate housing and infrastructure development.</p>	<p>Construction Sector</p> <p>AEL, TKYO</p>	<p>Positive</p>
<p>Allocated LKR 81.3Bn for the Kadawatha-Meerigama section of the Central Expressway and LKR 34Bn for the Pothuhera-Rambukkana section in 2025.</p>	<p>AEL</p>	<p>Positive</p>



CSE poised for growth with positive outlook from Budget 2025

Proposal	Counters Impacted	Impact
BIA Terminal 2 will be expanded with the support of Japanese investment.	AEL, Hotel Sector	Positive
Proposed to allocate LKR 500Mn for the promotion campaign and infrastructure development of the tourism industry.	Hotel Sector	Positive
New tourist destinations, like Anuradhapura, Yapahuwa and Jaffna to be developed and promoted.		
Allocate LKR 300Mn to hold a “National Cultural Festival”. This festival will be initiated in November and launched in December.		
The government's health budget for 2025 has been substantially increased, with an allocation of LKR 604Bn.	Healthcare Segment	Positive
Further, LKR 185Bn to be allocated for the purchase of drugs and medical equipment.	SUN, CIC, HHL	



CSE poised for growth with positive outlook from Budget 2025

Proposal	Counters Impacted	Impact
LKR 35Bn allocated for the supply of fertilizer in 2025.	CIC, AGST	Positive
Government to encourage private and foreign investment in Sri Lanka's energy sector, with a focus on diversifying energy sources, placing greater emphasis on renewable energy, and modernizing infrastructure.	Energy Sector	Positive
The government will formulate the National Export Development Plan (2025-2029) to enhance Sri Lanka's export capacity in global markets, with expectations of USD 19Bn from exports of goods and services in 2025.	Export Based Counters	Positive
Free Trade Agreement (FTAs) and Double Taxation Avoidance Agreement (DTAs) will also be expanded with priority given to countries with high trade and investment potential.	HHL, HAYL, MGT, HEXP, TJL, HELA, DIPD, REXP, BPPL	
Proposed to allocate LKR 1.5Bn to establish an Industrial Estate dedicated for Automobile components and rubber manufacturing.	RICH, CHMX	Positive



CSE poised for growth with positive outlook from Budget 2025

Proposal	Counters Impacted	Impact
Government decided to call for Expressions of Interest for the Colombo West Terminal 2 and Colombo North Port within a month, which are expected to enhance the performance of Sri Lanka's ports.	JKH	Positive
Casino entrance levy to be increased from USD 50-USD 100Mn and gross collection levy to increase from 15% to 18%	JKH	Negative
Government to intervene to increase daily wages of plantation workers to LKR 1,700 from LKR 1,350	Plantation sector	Negative
Removal of Exemption on Export of Services	HAYL, SPEN	Negative

Appendices



PAYE

Tax free allowance increased from LKR 100k to LKR 150K per month , providing relief for middle income

Current (LKR)	Proposed (LKR)	Tax Rate
Up to 1.2	Up to 1.8	0
1.2-1.7	1.8-2.8	6%
1.7-2.2	0	12%
2.2-2.7	2.8-3.3	18%
2.7-3.2	3.3-3.8	24%
3.2-3.7	3.8-4.3	30%
>3.7	>4.3	36%



Corporate Taxes

The exemption granted for export of services removed. Sin industry taxes increased from 40%-45%

Industry	Current tax	Proposed Tax rate
Removal of Exemption on Export of Services	Exempt	15%
Export of goods	30%	Same
Construction/ Health/ Manufacturing/Tourism	30%	Same
Betting & Gaming	40%	45%
Manufacture of sale or import and sale of liquour and tobacco	40%	45%
Other businesses	30%	Same



Capital Gains Tax

Individual and partnership CGT increased from 10%-15%

Capital gains from	Current tax	Proposed Tax rate
Individuals	10%	15%
Partnership	10%	15%
Trust	10%	30%
Company	30%	Same
Unit trust & mutual funds	10%	30%
Charitable institutions	10%	30%
NGO	10%	30%



Expenditure Proposals

State salary adjustments to dd LKR 110Bn to 2026 expenses

No	Proposal	Rs. Million
1	Salary increase	110,000
2	Sri Lanka Airlines (SLA) legacy debts settlement	20,000
3	Senior Citizens interest subsidy programme	15,000
4	Pension revisions	10,000
5	New staff recruitments	10,000
6	Improvement of road network in Northern area	5,000
7	Clean Sri Lanka programme	5,000
8	Food security (for Maintaining paddy buffer stocks)	5,000
9	Renovate rural roads & bridges	4,000
10	Digital economy advancement	3,000
11	Public transport modernization	3,000
12	Leveraging Sri Lanka's strategic location	2,500
13	Rehabilitation of key Irrigation systems including, Galoya, Rajanganaya, Huruluwewa, Minneriya	2,000
14	District development programme	2,000
15	Grade 5 Scholarship allowance increase	1,000
16	Construction of Vadduvakal bridge in Mullativu	1,000
17	Financial support for orphaned, low income young married couples for housing	1,000
18	Essential maintenance of government housing schemes	1,000
19	Commercialization of research findings-innovation & invention	1,000
20	Initiating Giribawa-Eppawala water supply scheme	1,000

No	Proposal	Rs. Million
21	Social security allowance to orphaned children	1,000
22	Providing essential foods at a concessionary price during new year period	1,000
23	Refurbishment of railway passenger coaches and manufacturing new coaches	750
24	Strengthening of the National Quality Infrastructure (NQI) systems	750
25	Implementing solid waste disposal mechanism in "Anuradhapura" MC area	750
26	Modernization of primary education	500
27	Establishment of sports culture	500
28	Improvement of certified schools/remand homes and child care institutions	500
29	Coconut production improvement & Northern coconut triangle programme	500
30	Tourism promotion and city branding	500
31	Improvement of rehabilitation process of drug addicted people	500
32	Providing assistive devices for differently able people	500
33	Production enhancement of other field crops	500
34	Aswesuma empowerment programme	500
35	Industrial zone dedicated for chemical manufacturing	500
36	Youth entrepreneurs engaging in agriculture and industries	500
37	A national cultural event for all communities while depicting their unique identities	300
38	Transport facilities to child convicts	250
39	Establishing day care centers for children with Autism	250
40	Mental health education improvement	250
41	Providing underutilized land for investments	250



Expenditure Proposals

Substantial allocations done for exports

No	Proposal	Rs. Million
42	Construction of Kelaniveli railway line from Avissawella onwards	250
43	Promotion of export agriculture crops	250
44	Scholarships for pursuing undergraduate courses at high-ranking universities	200
45	Improving health, education and service facilities for children with Autism	200
46	Allowance for low income vocational trainees	200
47	Fresh water prawn farming and non-traditional aquaculture	200
48	Modernization of regional libraries	200
49	Pre school teacher allowance	100
50	Jaffna library improvement	100
51	Identification system for differently able people	100
52	Skills Development programme for convicted Prisoners	100
53	Producer cooperative society for youth entrepreneurs	100
54	Rail transport for agriculture products	100

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