

SRI LANKA - BUDGET 2026



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ACS CAPITAL

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The 2026 Budget, presented today by President Anura Kumara Dissanayake, focused on a series of fiscal measures and reforms aimed at fostering economic stability, digital transformation, healthcare enhancement, and social welfare improvements. Rather than introducing sweeping new tax proposals, the budget leaned towards structural reforms and targeted expenditure allocations to sustain the ongoing economic recovery.

Prioritizes Reform Over New Taxes

Revenue measures were notably limited, with the government projecting only a marginal LKR 200Bn increase in total revenue, reaching 15.4% of GDP by 2026E. The administration appears cautious on tax projections, acknowledging that vehicle-related tax income is expected to plateau, reflecting conservative assumptions for next year's collections.

On the expenditure front, total government spending is expected to rise by 8% YoY to LKR 7 Tn. This includes an 8% increase in salaries and wages, alongside a substantial 34% YoY increase in public investments, which are projected to reach LKR1.3Tn. However, as of 9M 2025, only 44% of the planned capital expenditure had been utilized, while 75% of revenue targets were achieved—resulting in a lower-than-expected budget deficit of 4.5% for 2025, with the deficit expected to hover around 5% in 2026E.

Revenue expected to touch 15.4% and budget deficit to hover around 4.5% of GDP in 2026E

A major emphasis of the budget lies in infrastructure and housing development. The government plans to resume construction of the Central Expressway (CEP)—particularly the Kadawatha–Mirigama and Pothuhera–Rambukkana stretches—along with initiating work on the Rambukkana–Galagedara section within the year. Parallel efforts are being made in airport and tourism development, including resuming the Bandaranaike International Airport expansion, revamping regional airports in Sigiriya, Trincomalee, and Hingurakgoda, and allocating LKR 2Bn towards developing a sustainable, investment-oriented city network and nature-focused tourism zones.

Major emphasis lies on infrastructure

The budget also places strong emphasis on attracting Foreign Direct Investment (FDI) through a set of structural reforms, such as establishing a “Single Window” system at the Board of Investment (BOI), introducing a residence visa scheme for investors, enacting a new Investment Protection Act, and streamlining land release processes within key investment zones.

Importance placed on FDI’s and export competitiveness

In parallel, export competitiveness is being strengthened through the formation of an expert committee to review and negotiate free trade agreements, the establishment of a Trade National Single Window (TNSW), and an additional LKR 250Mn allocation to the Export Development Board (EDB) for international trade promotion initiatives.

To enhance industry competitiveness and rationalize import duties, the government also proposed removing existing para-tariffs on sectors such as palm oil, coconut oil, and textiles, substituting them with VAT and the Social Security Contribution Levy (SSCL) where applicable. The para-tariff band structure has been revised, with the upper band increased to 30%, implying a higher import tax burden on luxury goods.

Overall, the 2026 Budget underscores a shift toward fiscal consolidation, targeted investment, and trade facilitation, while maintaining a cautious stance on revenue growth and emphasizing policy-driven, rather than tax-driven, economic reform.

Budget focus on fiscal consolidation, policy driven and reforms

15.4%

Revenue & Grants to touch 15.4% of GDP

2.5%

SL to record a primary surplus in 2026E

5.1%

Fiscal deficit to hover around 5.1 % of GDP

	2024	2025 (E)	2026 (Budget)
Total Revenue & Grants	4,091	5,100	5,300
Total Revenue	4,031	5,075	5,270
Tax Revenue	3,705	4,725	4,910
Income Tax	1,026	1,120	1,210
Taxes on Goods and Services	2,201	2,953	3,056
Taxes on External Trade	477	652	644
Non-Tax Revenue	326	350	360
Grants	60	25	30
Total Expenditure	6,131	6,548	7,057
Recurrent	5,340	5,530	5,688
Salaries and Wages	1,096	1,220	1,323
Other Goods and Services	392	380	401
Interest	2,690	2,650	2,617
Subsidies and Transfers	1,162	1,280	1,347
Public Investments	817	1,033	1,380
Other	(26)	(15)	(11)
Revenue Surplus (+)/Deficit (-)	(1,309)	(455)	(418)
Primary Surplus (+)/Deficit (-)	650	1202	860
Budget Surplus (+)/Deficit (-)	(2,040)	(1,448)	(1,757)
Total Foreign Financing	(3,044)	200	235
Total Domestic Financing	5,084	1,248	1,522

2026 Primary surplus to hover around 2.5% of GDP by 2026E

Revenue touch 15.4% of GDP .. Budget deficit to hover around 5.1%, largely in line with IMF targets

	2024	2025 (E)	2026 (Budget)
Revenue & Grants /GDP	13.6	15.9	15.4
Total revenue/GDP	13.4	15.9	15.3
Tax revenue/GDP	12.3	14.8	14.2
Nontax revenue/GDP	1.1	1.1	1.0
Grants/GDP	0.20	0.10	0.10
Total expenses/ GDP	20.4	20.5	20.5
Recurrent expenses/ GDP	17.8	17.3	16.5
Non-interest/GDP	8.8	9.0	8.9
Interest /GDP	9.0	8.3	7.6
Public investment /GDP	2.7	3.2	4.0
Revenue surplus / (deficit) /GDP	(4.4)	(1.4)	(1.2)
Primary surplus /(deficit)/GDP	2.2	3.8	2.5
Budget surplus/ (deficit)/GDP	(6.8)	(4.5)	(5.1)

Proposal	Counters impacted
Imposition of Value Added Tax and Social Security Contribution Levy on locally and imported Coconut Oil and Palm oil. Special Commodity Levy to be removed for Imported coconut oil and palm oil wef 01.04.2026	WATA , NAMU, AGAL
With the view of broadening the tax base, it was proposed to reduce the annual turnover threshold for the registration from LKR 60 million to LKR 36 million Value Added Tax and Social Security Contribution Levy effective from April 01, 2026.	
Locally manufactured and imported fabric subjected to VAT . Proposed to remove CESS on imported fabric wef 01.04.2026.	TJL, MGT
Imposition of Social Security Contribution Levy on Vehicles at the time of import or manufacture and sale of vehicles wef 01.04.2026	UML, DIMO, ASHO,JKH
Propose to revise the current Customs Import Duty rates of 0%, 15%, 20%, in line with the National Tariff Policy, to 0%, 10%, 20%, 30% (items of luxury items could be taxed at 30% from previous 20% in our view)	UML, DIMO,JKH, SINS, ABAN, ODEL, SHL

Impact on Listed Counters



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
<p>An allocation of LKR 110 Bn has been made to implement the second phase of salary revisions introduced in 2025, commencing in January 2026.</p> <p>Propose to increase the monthly Mahapola and bursary allowances for university students by LKR 2,500 in 2026 and allowance paid to National College of Education scholarship recipients by LKR 2,500.</p> <p>Approval has been granted to recruit nearly 75,000 employees into the public service.</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 suspend the tax applicable to new towers constructed under this digital technology expansion programme for a period of 5 years.</p>	<p>Telecommunication</p> <p>DIAL, SLTL</p>	<p>Positive</p>
<p>The government targets a 7% GDP growth rate in the medium term.</p> <p>Funds have been allocated to provide loans of up to LKR 50 Mn at concessionary interest rates for small and medium-scale entrepreneurs.</p>	<p>Banking Sector</p>	<p>Positive</p>



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
All government payments will be moved to the digital sphere to promote cashless transactions.	Banking Sector	Positive
Proposed to introduce a housing loan scheme at concessional interest for migrant workers.	Construction & Banking Sector	Positive
Allocated LKR 3,000Mn for the housing construction program targeting low-income families.	Construction Sector AEL, TKYO	Positive
LKR 8,350Mn has been allocated for the improvement and rehabilitation of small tanks, canals and sluice systems		
An allocation of LKR 85,700Mn has been made for the implementation of drinking water supply projects.		



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
LKR 24,000Mn is allocated for rural roads and LKR 2,500Mn for rural bridges. For overall road development in the year 2026, LKR 342Bn has been allocated.	Construction Sector AEL, TKYO	Positive
LKR 66,150Mn has been allocated for the continuation of the Kadawatha–Mirigama section under Central Expressway Phase I in 2026, while LKR 10,500Mn has been earmarked for completing the Pothuhera–Galagedara section under Phase III by 1Q2027.		
LKR 1,500Mn allocated for ongoing land acquisition and reassessment of the access road following halted construction of the Ruwanpura Expressway (Kahathuduwa to Ingiriya)		
LKR 330Mn has been allocated to conduct a feasibility study on constructing a link between the Port City end of the Port Access Elevated Highway and the Marine Drive.		
Proposed to allocate LKR 91,700Mn for the development and upliftment of irrigation facilities.		



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
<p>The Bandaranaike International Airport (BIA) expansion project will commence in the first quarter of next year, and JICA has already agreed to provide financial facilities.</p> <p>LKR 1,000Mn will be allocated to develop the Hingurakgoda, Sigiriya, and Trincomalee domestic airports, and to expand operations at Jaffna Airport.</p>	Hotel Sector, AEL, TKYO & other construction counters	Positive
<p>A total of 900 state bungalows have been identified to be converted into profitable ventures through Public-Private Partnerships.</p> <p>Proposed to implement a tourism destination development project that focuses on nature and highlights historical heritage.</p> <p>LKR 2,000Mn have been allocated to city development process to establish an efficient, sustainable, tourists and investment-attractive city network</p>		



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
<p>The National Dairy Production Programme is designed to reach the target of meeting 75 percent of the domestic milk requirement by 2030.</p> <p>Propose to organize farmers and increase local milk production, based on the potential of Veterinary Divisions.</p> <p>Allocated LKR 3,000Mn for the basic works required to complete the remaining works of the dairy factories.</p>	Diary Segment LMF, LAMB	Positive
Mullikulam power project, bids for the Phase I 50 MW power plant came in at US cents 3.96 per unit, while Phase II, also 50 MW, was awarded at US cents 3.77 per unit.	WIND	Positive
Government plans to enhance Colombo Port capacity through the Western Container Terminal Phase II (with ADB support), and the proposed Colombo North Port Development Project.	JKH	Positive



CSE poised for growth with positive outlook from Budget 2026

Proposal	Counters Impacted	Impact
To strengthen the public transportation sector, 600 buses are scheduled to be added to the long-distance service fleet by the SLTB. LKR 3,600Mn has been allocated for the initial implementation of the project.	Transportation ASHO, DIMO	Positive
Proposed to increase the current minimunn daily wage of LKR 1,350 to Rs. 1,550 from January 2026.	Plantation Sector	Negative



Proposals to enhance FDI’s exports and SME’s

FDI	SME	Exports
The government plans to introduce a digital “Single Window” mechanism to streamline the approval process for BOI projects, ensuring greater efficiency, transparency, and speed. A sum of LKR 100 million has been allocated to implement this initiative.	LKR 4,000 Mn for 2026 to properly manage the establishment and development of industrial zones.	An expert committee has already been appointed to review existing trade agreements and facilitate to negotiate new free trade agreements
A residence visa system will be introduced for foreign investors who meet a certain minimum investment threshold	Several government backed loan schemes have already been introduced, providing loans at concessional interest rates to meet investment and working capital needs through local banks.	Establish a Trade National Single Window (TNSW)
A new "Investment Protection Act" will be passed in early 2026.	It is proposed to implement a tourism destination development project that focuses on nature and highlights historical heritage.	Export Development Board is in the process of preparing the National Export Development Plan
LKR 300Bn allocated to develop auxiliary service zones linked to existing investment zones to boost efficiency, integrate SMEs into value chains, and enhance provincial economic benefits.	LKR 5,900Mn has been allocated to provide loans of up to Rs. 50Mn to Small and Medium sized Enterprises and other loan schemes	Rs. 250 million in addition to the provision allocated to the Export Development Board for programmes such as participation in trade fairs etc
The government aims to streamline land use planning and accelerate land release for investment by allocating LKR 100 million to enhance related institutions	To promote new investments, the government plans to lower the eligibility threshold for enhanced capital allowances from USD 3Mn to USD 250,000.	
Proposed to establish "Virtual Special Economic Zones" through the BOI.		

Appendices



Revenue proposals wef 01.04.2026

Proposal	Current	Proposed
Locally produced palm oil and coconut oil	VAT-18% SSCL – 2.5%	VAT-18% SSCL – 2.5%
Imported coconut oil	SCL – LKR 150/kg	VAT-18% SSCL – 2.5%
Imported Palm oil	SCL – LKR 275/kg	VAT-18% SSCL – 2.5%
Locally manufactured fabric	VAT – 18%	VAT -18%
Imported fabric	VAT- exempt CESS – LKR 100/kg	VAT -18%
Vehicles	SSCL- at the time of after sales 2.5% At the time of import or manufacture and sale – Nil	SSCL- at the time of after sales 2.5% At the time of import or manufacture and sale – 2.5%
Custom import duty rates	0%,15%,20%	0%,10%,20%,30%
VAT	Taxable > LKR 15m per taxable period OR > LKR 60Mn per 12M period	Taxable > LKR 15m per taxable period OR > LKR 36per 12M period
SSCL	Aggregate Turnover > LKR 15Mn per quarter or > LKR 60Mn per four quarters	Aggregate Turnover > LKR 15Mn per quarter or > LKR 36Mn per four quarters



Expenditure Proposals

State salary adjustments to add LKR 110Bn to 2026 expenses

No.	Proposal	Rs. 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 Centers	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 Centers for children with disabilities including Autism	500
17	Increasing the total allocation for "Praja Shakti Program" to Rs. 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

No.	Proposal	Rs. Million
20	Shelters for Street Animals and Crematoriums	100
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 Sisuru Diriya allowances by Rs. 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 Pondukalchenai Bridges in Batticaloa	500



Expenditure Proposals

Substantial allocations done for exports

No.	Proposal	Rs. Million
41	Construction of Rambukkana-Galagedara section of the Central Expressway	16,000
42	Establishing Aarogya Centers	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
51	Providing subsidies for buses operating on unprofitable routes to ensure sustainable rural transport services	2,000
52	Women empowerment	200
53	Providing a Rs. 5,000 allowance for schoolchildren with disabilities from low-income families	50
54	Completion of Nintavur Cultural Center of which the construction stopped	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

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