ACAP
STOCK BROKERS

Budget 2025

Analysis & Impact

Budget 2025

GDP growth	5% YoY
Total Tax Revenue	13.9% GDP
Total Revenue	15% GDP
Export Target	19 Bn (USD) Goods + Services
Capital Budgeting	4% GDP
Primary Surplus / Budget Deficit	2.3% / 6.7 % GDP

Budget 2025

Key Pillars

- Macro Economy
- Fiscal Policy
- Tax Revenue
- Industry Impact

Social- Economic impact

- Economic rights and well being of the citizens consideration
- Senior citizens subsidy – interest of 3% addition
- Free trade agreements and double taxation avoidance : Priority countries with potential for high trade volumes
    - Target export USD 19 Bn.

Key Theme

The budget focuses on Macro Economic stability , growth an enabling environment for boosting exports, and Fiscal discipline whilst staying within IMF domain requirements

Macro Economy

A GDP growth of 5.0% for 2025

Legal Reforms

11 new laws to strengthen institutions Investment, Public Private Partnership to Micro Finance among other reforms

Financial Stability

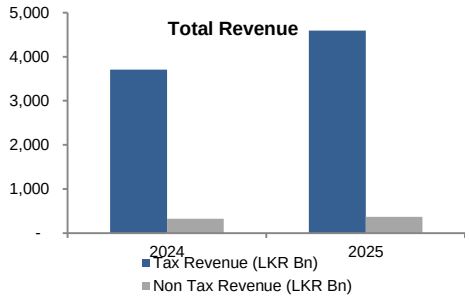
- Inflation to be maintained at CBSL target levels
- No undue volatility of the LKR vs USD exchange rate
- Boosting total Government Revenue to 15% of GDP

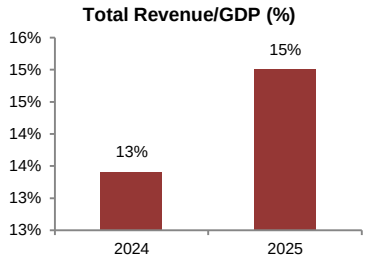
Boost for Capital Markets

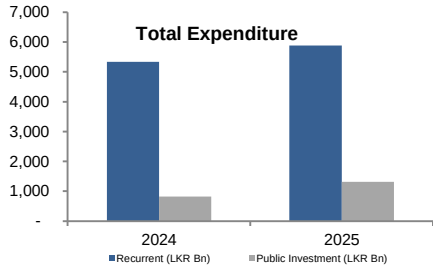
Listed shares exempted from the 15% Capital Gain Tax

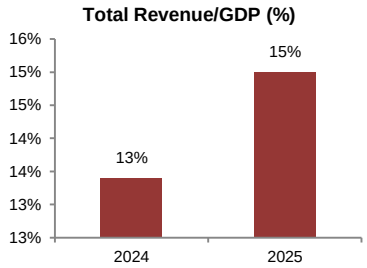
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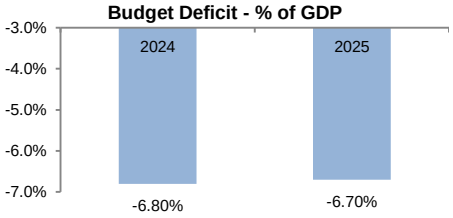
LKR in Bn	2024	2025
Total Revenue and Grants	**4,091**	**4,990**
Total Revenue	4,031	4,960
Tax Revenue	3,705	4,590
Non Tax Revenue	326	370
Grants	60	30
Total Expenditure	**6,131**	**7,190**
Recurrent	5,340	5,886
Public Investment	817	1,315
Other	-26	-11
Revenue Surplus (+)/ Deficit(-)	**-1,309**	**-926**
Primary Surplus (+)/ Deficit(-)	**650**	**750**
Budget Surplus (+)/ Deficit(-)	**-2,040**	**-2,200**
Total Financing	**2,040**	**2,200**
Total Foreign Financing	-3,044	375
Total Domestic Financing	5,084	2,125
Revenue and Grants/GDP (%)	**13.60%**	**15.10%**
Total Revenue/GDP (%)	13.40%	15.00%
Grants/GDP (%)	0.20%	0.09%
Total Expenditure/GDP (%)	**20.40%**	**21.80%**
Recurrent Expenditure/GDP (%)	17.80%	17.80%
Public Investment/ GDP (%)	2.70%	4.00%
Revenue Surplus (+)/Deficit (-) GDP (%)	**-4.40%**	**-2.80%**
Primary Surplus (+)/Deficit (-) GDP(%)	**2.20%**	**2.30%**
Budget Surplus (+)/Deficit (-) GDP(%)	**-6.80%**	**-6.70%**











Budget 2025

Key Macro Targets

- GDP Growth will be driven by a strong export sector, exports of goods and services to reach a high of close to USD 19 billion in 2025.
- Non-debt creating inflows along with robust economic growth and a primary budget surplus of 2.3 % of GDP will ensure Sri Lanka is well placed to meet the gradual increase in debt service payments from 2028 onwards.
- Expanding Exports of Goods and Services Government will formulate the National Export Development plan (2025-2029) with a view to increasing Sri Lanka's export of goods and services on an ambitious scale by enhancing Sri Lanka's ability to export into global markets.
- MSMES will be facilitated to tap new export markets, expand existing markets or to connect in the value chains of large-scale exporters and global value chains.
- New Tariff rates to be based on a National Tariff policy to create a simple, transparent and predictable tariff framework.

Revenue Targets

- The tax policy measures outlined here are expected to deliver the required revenue to enable Sri Lanka to meet the revenue targets of 15.1% of GDP in 2025.
- Nonetheless, in parallel, the Government is taking concerted efforts to improve tax administration and compliance.

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Macro Economic Centric

- Economic growth of over 5% real GDP growth over the medium term.
  - ❑ Boost supply capacity, price shocks to be minimized, with low and stable inflation.
  - ❑ Stable external current account balance, putting an end to the era of large current account deficits.
  - ❑ Minimal volatility in the exchange currency will be based on market fundamentals.
- Sri Lanka had one of the world's lowest Government tax revenue levels of 7.3 % of GDP in 2022.
- For the year 2025, the bulk of revenue gains is expected to be delivered by the liberalization of motor vehicle imports that took place on 1st February 2025.
- This process is being carefully monitored to ensure that import of vehicles does not result in undue negative impacts on external sector stability.
- Other key revenue measures which have already been announced in Parliament previously in December 2024 include the increase of tax-free threshold for personal income tax adjustments to the second income tax slab, removal of VAT on fresh milk and yoghurt.

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Developing Financial Markets

- The government will actively encourage private and appropriate state entities to raise funds through listed equity and debt capital markets.
- As bank interest rates decline, it becomes all the more important for retail investors to have access to well-regulated financial products that provide reasonable returns. ***Unit Trusts, investment funds, and other collective investment schemes will be important in filling this gap in the market.***
- It is important for the sector to explore innovations and more complex transitions whilst ensuring due diligence and all necessary safeguards, amidst an effective regulatory environment.

Free Trade Agreements (FTAs) with strategic partners … particularly with a view to greater economic ties with ASEAN

- Sri Lanka's network of Free Trade Agreements (FTAs) with strategic partners, especially ASEAN nations will be expanded through the Regional Comprehensive Economic Partnership (RCEP) and other agreements.

Efficiency Measures … New customs law and Double Taxation Avoidance Agreements

- Key border agencies and exporter registration will be automated and integrated through implementation of the Trade National Single Window (TNSW).
- The New Customs Law will be introduced to enhance trade facilitation and revenue collection.
- Double Taxation Avoidance Agreements (DTAs) will be expanded beyond the existing 44 DTAs with priority given to countries with high trade and investment potential.

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Boost Export Orientation … Revising the Export Reform Act

- Investment Promotion to support expansion of export-oriented investment, sectors specific zones, establishing eco-industrial parks via Public Private Partnership (PPPs)
- The Government will revisit the Economic Transformation Act with appropriate revisions to suit the emerging developments.

Economic Efficiency improvements …

- A Public Private Partnership (PPP) Bill - Insolvency law
- Improvements in the country's ease of doing business will be prioritized in key areas such as registering property, ease of paying taxes, trade facilitation, enforcement of contracts, and obtaining credit to attract foreign direct investments (FDI).
- Introduce laws to ensure effective implementation of the one stop-shop concept which consolidates all necessary approvals.
- Call for foreign direct investments to optimize the utilization of Sri Lanka's untapped potential in investment, industrial development, and value added exports of Sri Lanka's mineral resources and marine economy.

Leveraging Sri Lanka's Strategic Location – as a Hub for trade , Digital Economy

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- Logistics holds significant potential to serve as a premier driver of economic development in Sri Lanka, leveraging the country's strategic geographic location.
- Currently, logistics contributes approximately 2.5 percent of the nation's GDP, and a 7 % contribution to Exports .
- The completion of the East and West Container Terminal projects will have a significant capacity enhancement of the Port of Colombo.
- Allocate Rs. 500 million to support the land acquisition process and initial preparatory works of the Kerawalapitiya custom inspection yard and Bloemendhal Logistics Park.

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Digital Economy boost

- Grow Sri Lanka's Digital Economy to a level in excess of USD 15 Bn or 12 % of the National Economy over the next 5 years.
- In achieving this ambition, the Government aims to facilitate an increase in the ICT industry's annual export revenue to USD 5 billion.

Tourism Sector

- Optimize value generation from each destination with local branding of destinations to reflect the unique cultural value proposition of that destination with required infrastructure facilities.
- Developing and promoting new tourist destinations to expand the moving capacity of tourists will be a priority agenda of the Government.
- Bandaranaike International Airport Terminal 2 will be expanded with the support of Japanese investments.

SMEs as the Backbone of Economic Development and overcome Financial Inclusion

- The Government is working towards setting up a Development bank.
- The function of a development bank through a new administrative structure will be established through the existing state bank mechanism.

Expenditure Management

- Continue efforts to streamline state expenditure.
- Rationalization of State Agencies for Economic Efficiency Institutional Governance of State-Owned Enterprises.
- A key requirement to reduce future financial risk emanating from SOEs is to improve SOE governance.

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The Agricultural Sector

- The fertilizer subsidy for paddy farmers will be continued, for which the Government has already allocated Rs. 35,000 million for 2025.
- The development of quality seeds, efficient use of water in agriculture has been identified as priority areas and are expected to be supported by the budgetary allocation.
- Bringing Land into Production Some of the lands presently managed by LRC, RPCs, SLSPC, JEDB and under utilized will be identified and brought in for private investment including SMEs taking the suitability of the land into consideration.

Reconsideration of the Wage of Plantation Workers

- The Government will intervene to increase the daily wages of the workers to Rs. 1,700.

Plantations and other export crops

- Total nut requirement of the country would be 4,500 million nuts in 2030, where 1,800 million nuts are expected to be used for home consumption, and the balance 2,700 million nuts to be used for industry purposes.
- Allocate of Rs. 500 million for high-yielding coconut seedlings to the growers in the Northern region for planting 16,000 acres of new

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Industrial Zone dedicated for Chemical Manufacturing

- With the aim of improving value addition to Sri Lanka's extensive mineral resources and providing essential industrial inputs for domestic manufacturing, it is proposed to establish an Industrial Estate in Paranthan, Northern Province dedicated for chemical product manufacturing including acids and alkalis.
- There will be 5 Industrial parks such as KKS, Maankulam, Iranawila, Galle and Tincomalee.
- Allocation of Rs. 500 million for this purpose

Industrial Zone dedicated for Automobile and Rubber products manufacturing

- A significant level of investment in the domestically value-added automobile manufacturing/assembly industry and rubber product manufacturing is an important factor to cater to the demand required by the components manufacturing industry to become competitive in the export market.
- Proposal to establish an Industrial Estate dedicated for Automobile components and rubber manufacturing.
- Manage the requirement for this purpose within the already allocated budgetary provisions of Rs. 1,500 million under the Ministry of Industry for this purpose.

Impact Analysis

Healthcare and Pharmaceutical Sector:

Positive

- LKR 604 Bn allocated towards Healthcare Sector
- LKR 185 Bn for the procurement of drugs and medical equipment

Plantation and Agriculture Sector:

SUN, CIC, HAYC

Positive/ Mixed

- LKR 500 Mn allocated for high-yielding coconut seedlings to plant 16,000 acres in the Northern Coconut Triangle
- LKR 250 Mn for product development and trade promotion, with an increase in workers' daily wage to LKR 1,700
- LKR 35 Bn allocated for paddy farmers, focusing on quality seeds, cascade management, and efficient water usage

Manufacturing Sector:

PARQ, ALUM, LALU, ACL, SIRA, KCAB, CIND, DIPD, REXP, TYRE, LLUB, TWL, LWL, RCL, TJL, MGT, HELA

Positive

- Exports of goods and services expected to reach USD 19 Bn in 2025
- A National Tariff Policy will ensure a transparent and predictable framework for better access to raw materials
- Sri Lanka will strengthen trade ties through RCEP and other agreements
- Financial and technical aid for quality testing and certifications, plus an Industrial Estate for automobile and rubber product manufacturing

Renewable Energy:
VPEL, WIND, PAP, HPWR, LVEF, VLL, LPL, HPFL

Positive to the Industry & Mixed to the Existing Players

- Foreign investors will be welcomed based on their tariff rate proposals, with regulatory reforms prioritized to support internal restructuring under a new Act set to be passed soon.
- Green bonds will be issued to finance sustainable energy initiatives.

Construction:
AEL,TKYO, ACL, KCAB, SIRA

Positive

- **4% of GDP allocated for capital expenditure to boost the construction sector.**
- Expansion of Bandaranaike International Airport Terminal 2 with Japanese investment support
- LKR 1,000 Mn earmarked for essential maintenance of Central Government-constructed apartment complexes.
- 1,996 housing units to be built with support from China, including an apartment complex with 108 housing units.

Banking and NBFI Sector

Positive

- Enhancing the Anti-Money Laundering and Counter-Terrorism Financing Framework.
- Introduction of a new Micro Finance and Credit Regulatory Authority Act to address gaps in the current legislation.

Logistics: SPEN, JKH, LIOC, HAYL

Positive

- The Colombo West Terminal 2 and Colombo North Port are expected to enhance the efficiency and performance of Sri Lanka's ports.
- LKR 500 Mn allocated for land acquisition and initial preparation of the Kerawalapitiya Custom Inspection Yard and Bloemendhal Logistics Park.
- LKR 500 Mn allocated for the initial setup of an Internal Container Dry (ICD) Port at Veyangoda as a rail-based Integrated Multimodal Cargo and Logistics Center (IMCLC).
- LKR 500 Mn allocated for the initial development of the National Single Window System, Truck Appointment System, E-Cargo Tracking System, and Port Community System.
- LKR 1,000 Mn allocated for modernizing infrastructure and enhancing cargo movement with advanced scanning systems at the Port of Colombo and Bandaranaike International Airport (BIA).

Dairy Sector : CARG, LMF, SUN

Positive

- An allocation of LKR 2.5 Bn for Dairy Sector development

Tourism: Hotels

Positive

- LKR 500 Mn will be invested in 2025 to develop local tourism destinations by improving infrastructure, promoting city branding, and highlighting cultural value to boost tourism and economic growth.
- Training programs will be introduced to equip youth with communication and other essential skills in the tourism sector.
- Bandaranaike International Airport Terminal 2 will be expanded with Japanese investment support.

Specific Taxes : CTC, DIST, LION, JKH

Negative

- Corporate tax on cigarettes, liquor, and gaming will rise from 40% to 45%.
- The Gross Collection Levy will be increased to 18%.

Energy Sector: LIOC

Mixed

- The Government, in collaboration with foreign partners, will develop 61 oil tanks that are not owned by LIOC or Ceypetco.
- The Government will gain strategic advantages, reduce domestic supply chain risks, and capitalize on regional market dynamics.

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