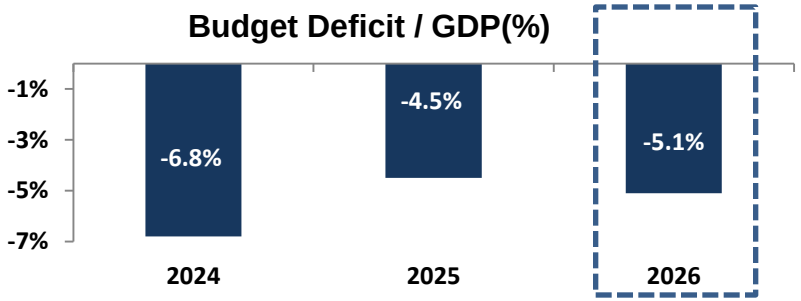
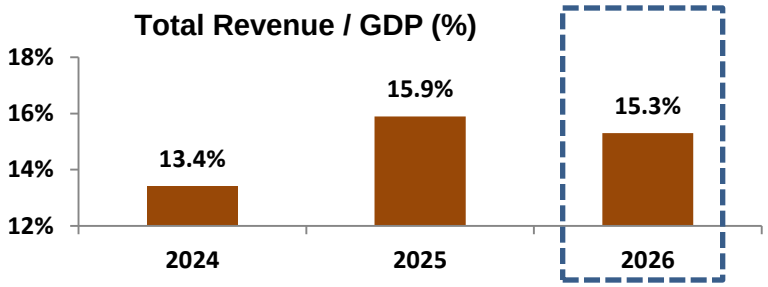
Budget 2026

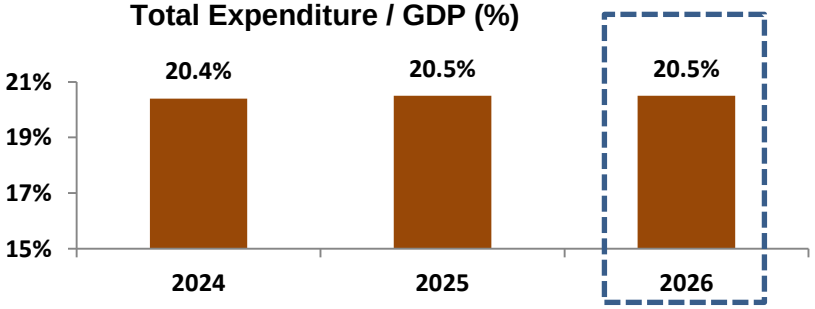
Strategic Focus on Digital Economy , power SME's as growth engines , in addition to Tactical CAPEX Projects

Analysis & Impact

Key Takeaways

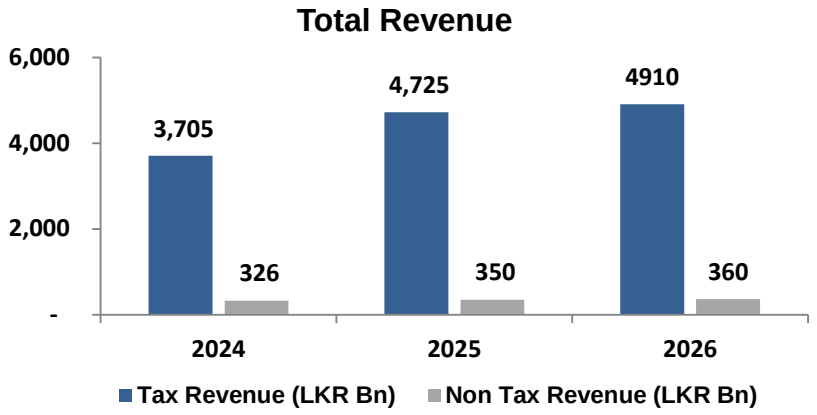


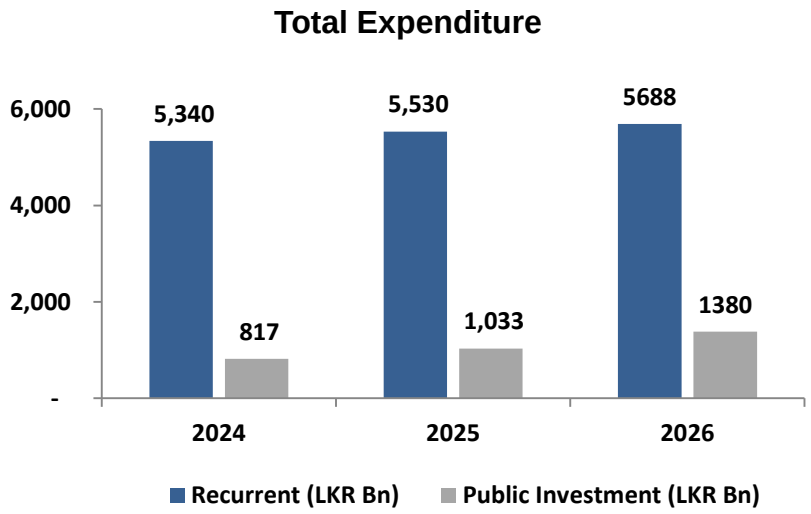




- A sustained Economic Growth of 7 % in the near future.
- The government revenue is expected to be 15.3 percent of GDP. Whilst the government expenditure is expected to maintain at 20.5 percent of GDP.
- The budget deficit for 2026 is expected to be maintained at 5.1 % of GDP.
- The public investment is expected to maintain at 4.0 percent of GDP.
- The primary balance (expenditure excluding loan interest payments) is to be 2.5 percent of GDP.
- The estimated total revenue for the year 2026 is Rs. 5,300 billion. Of this, Rs. 4,910, billion is expected as tax revenue and the balance Rs. 390 billion is expected as non-tax revenue and grants.

Key Takeaways

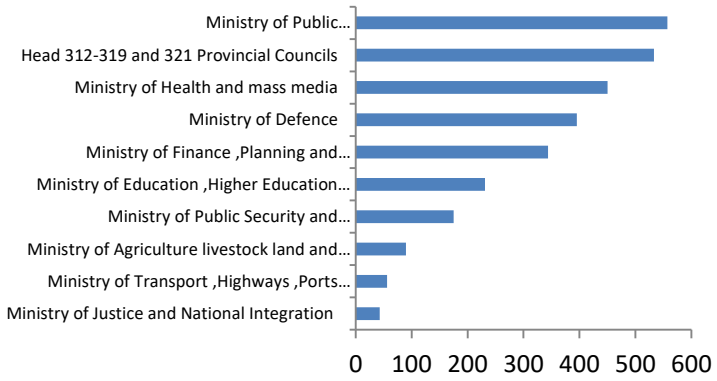




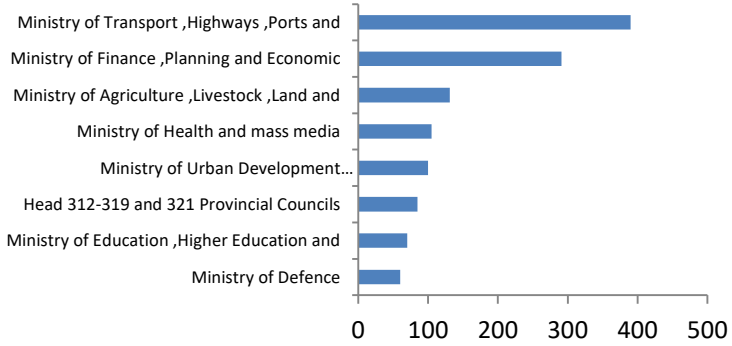
- The tax revenue mainly consists of Value Added Tax (VAT), tax on external Trade and Excise tax while the non-tax revenue consists of interest income, rents, dividends, profits and fees and charges.
- For the year 2026, the government expenditure including debt servicing is Rs. 8,980 billion, of which Rs. 4,495 billion has been allocated for debt servicing.
- It includes Rs. 2,617 billion for loan interest payments and discounts, and Rs. 1,878 billion for loan repayment.
- The primary expenditure is estimated at Rs. 4,485 billion. Primary expenditure includes all government expenses excluding debt repayment and interest.
- The primary expenditure consists of salaries and wages (Rs. 1,464 billion), Pensions (Rs. 510 billion), other recurrent (Rs. 1,131 billion) and capital expenditure (Rs. 1,380 billion).

Facts & Figures

Recurrent Expenditure (LKR Bn)



Capital Expenditure (LKR Bn)



LKR in Bn	2024	2025	2026
Total Revenue and Grants	**4,091**	**5,100**	**5,300**
Total Revenue	4,031	5,075	5,270
Tax Revenue	3,705	4,725	4,910
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
Public Investment	817	1,033	1,380
Other	-26	-15	-11
Revenue Surplus (+)/ Deficit(-)	**-1,309**	**-455**	**-418**
Primary Surplus (+)/ Deficit(-)	**650**	**1,202**	**860**
Budget Surplus (+)/ Deficit(-)	**-2,040**	**-1,448**	**-1,757**
Total Financing	**2,040**	**1,448**	**1,757**
Total Foreign Financing	-3,044	200	235
Total Domestic Financing	5,084	1,248	1,522
Revenue and Grants/GDP (%)	**13.60%**	**15.90%**	**15.40%**
Total Revenue/GDP (%)	13.40%	15.90%	15.30%
Grants/GDP (%)	0.20%	0.10%	0.10%
Total Expenditure/GDP (%)	**20.40%**	**20.50%**	**20.50%**
Recurrent Expenditure/GDP (%)	17.80%	17.30%	16.50%
Public Investment/ GDP (%)	2.70%	3.20%	4.00%
Revenue Surplus (+)/Deficit (-) GDP (%)	**-4.40%**	**-1.40%**	**-1.20%**
Primary Surplus (+)/Deficit (-) GDP(%)	**2.20%**	**3.80%**	**2.50%**
Budget Surplus (+)/Deficit (-) GDP(%)	**-6.80%**	**-4.50%**	**-5.10%**

Structural Changes & Enhancements

Economic Reforms under IMF- EFF Parameters	• Implementation of a National Export Development plan. • Appointment of a working committee to evaluate FTA's and negotiate new FTA's
Legislation Actions & Developmental Engagements	• Amendments to the Port City Act and Strategic Development Act to guarantee fair and transparent tax concessions. • Introduction of a new Investment Protection Act. & Public-Private Partnership (PPP) framework • A resident visa system to be introduced for investors.
Boost to SME's	• Projected Targeted Subsidies to boost SME Growth • Key SME support agencies - IDB, NEDA, and SEDA to be reorganized and established under IDB.
Digital Economy Enhancement	• Five-year tax holiday for investments in digital towers. • RAMIS System to be upgraded to version 3 • Startup-eco System, Information Technology zones, Data Centers and Strategic Digital Infrastructure projects.

Impact Analysis

Event

- The CESS of LKR 100 per kg on imported fabric to be removed
- VAT to be imposed instead, effective 1 April 2026

Impact

- Local fabric manufacturers may benefit
- higher import costs could negatively impact the Apparel sector companies which rely on imported fabric for production.

Stocks

MGT, TJL, HELA

Event

- The SSCL on vehicle sales will be collected at the point of import or manufacture instead of after-sales, to improve compliance.

Impact

- Upfront costs for vehicle importers may increase

Stocks
UML , DIMO , SMOT

Impact Analysis

Event

- The Special Commodity Levy of LKR 150 / kg on imported coconut oil and LKR 275 per kg on imported palm oil will be removed.
- Imports to be taxed under the general structure including VAT and SSCL to ensure fairness with local producers.

Impact

- Local coconut oil producers may benefit but costs may increase input costs for food and retail counters.

Stock/s

RENU

Event

- The annual turnover threshold for VAT and SSCL registration to be reduced from LKR 60Mn to LKR 36Mn, effective 1 April 2026, to broaden the tax base

Impact

- Rise in input costs

Stocks

CCS, KFP, LMF

Impact Analysis

Event

- Customs Import Duty rates will be revised from 0%, 15%, 20% to 0%, 10%, 20%, 30% in line with the National Tariff Policy.
- A phased plan will be implemented to gradually remove para-tariffs with only a trifling impact on government revenue.

Impact

- There may be an increase in costs for import sectors

Stocks

DIMO, UML, CWM

Impact Analysis

Event

- LKR 225Mn for developing sports complexes in Mannar and Vavuniya, LKR 150Mn for completing the Kalmunai Sports Stadium, and LKR 150Mn for developing sports complexes in the Northern and Eastern provinces .
- LKR 3,000Mn to resume construction of the Badalgama Dairy Factory -
- machinery rectification and renovations,
- Highways – Moneragala – Ampara
- Kandy Expressway

Impact

- Uptick in construction activities and boost for Production companies and dependent companies

Positive

Stocks

AEL, TKYO, ALUM, ACL, KCAB, RCL, LWL, TILE, PARQ , JAT , LALU , ASPH

Impact Analysis

Event

- LKR 4,000Mn for Agricultural production in Matale, Kandy, and other dry zone areas through modern and climate-friendly irrigation technologies
- Implement in 2026 100 of the 400 identified irrigation schemes.

Impact

- Improving irrigation infrastructure boosts crop yields and production stability, reducing dependence on weather-related risks.

Stocks

Positive

CIC, AGST, WATA, HAYL

Impact Analysis

Event

- The Ceylon Electricity Board's Long-Term Generation Plan for 2025-2044 estimates electricity demand will increase by 60% over the next decade.
- Target of 70 % output from renewable sources by 2030.

Stocks

Positive

PAP, HPWR, WIND, LVEF, LPL, VLL, HPFL, VPEL

Event

- The capacity of the Colombo Port and enhance operational efficiency including the Western Container Terminal Phase II project

Impact

- Can improve operational Efficiencies in Transshipment

Stocks

Positive

JKH

Impact Analysis

Event

- Enhancing the Digital Economy & and increasing the Digital Footprint

Impact

- LKR 1,000Mn to advance the Digital Blueprint, drive data usage and boost broad digital service demand.

Positive

Stocks
DIAL, SLT

Event

- Develop auxiliary zones as service zones associated with existing zones - LKR 2,000Mn and further LKR 1,000Mn to be allocated.

Impact

- Increase investments and opportunities for export oriented companies

Positive

Stocks

DIPD , HAYC

Impact Analysis

Event

- Allocate LKR 250Mn under the National Export Development Brand Promotion Plan of the Export Development Board.
- Allocate LKR 250Mn for participation in trade fairs, product certification, digital marketing and adaptation to the expectations of international buyers.
- LKR 2,500Mn for necessary provisions for improving the Trade National Single Window facility.

Positive

Stocks

Export Companies - DIPD, HAYC, LWL, DOCK, TJL, MGT, HELA

Event

- LKR 67.2Bn allocated to enhance public transportation system.
- LKR 3.6Bn is allocated to add 600 buses to the long distance service fleet by the SLTB.
- LKR 2,062Mn is allocated to replace the worn-out engines.
- Rs. 3.3Bn for procuring five new Diesel Multiple Units (DMUs) for Sri Lanka Railways.

Positive

Stock

ASHO

Impact Analysis

Event

- To implement a tourism destination development project that focuses on nature and highlights historical heritage. For these activities, LKR 3,500Mn has been allocated from the Sri Lanka Tourism Development Authority.
- to utilize LKR 500Mn from the underutilized Tourism Development Fund allocated to the Sri Lanka Tourism Promotion Bureau, to a short-term vocational training programme.
- LKR 1,000Mn for the development of the Sigiriya and Trincomalee domestic airports, and to expand the operations of the Jaffna International Airport, and the Civil Aviation Authority will contribute additional provisions

Stocks

Positive

All Tourism sector stocks

Event

- increase the current minimum daily wage of estate workers from LKR 1,350 to LKR 1,550 and pay an additional daily attendance incentive of LKR 200, starting January 2026.
- Allocation of LKR 5,000Mn for this purpose.

Stocks

All Plantation Companies

Impact Analysis

Event

- Government backed loan schemes SMEs, loans at concessional interest rates.
- It is planned to provide credit guarantees for loans granted to SMEs amounting to approximately LKR 7,000Mn.
- ADB has provided a loan of USD 50Mn for this.
- LKR 25,000Mn has been allocated to provide loans at concessional interest rates of up tp LKR 25Mn to a profitable business and up to LKR 15Mn to businesses facing economic difficulties for working capital needs and investments of SMEs.
- LKR 5,900Mn to provide loans of up to LKR 50Mn to SMEs. A new loan scheme has been initiated through SME Development Loan Scheme and LKR 7,700Mn has been allocated, through which new loans up to LKR 50Mn will be provided at concessional interest rates.

Stocks

Positive

All Listed banks & NBFI

Event

LKR 1,700Mn for providing agricultural loans up to LKR 3Mn at an interest subsidy of 5% through the New Comprehensive Rural Credit Schemes.

Stocks

Positive

Consumer goods with some focus on plantations - CIC, RAL, SUN,

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