



SRI LANKA

May 2026

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SRI LANKA

In the context of the Fifth and Sixth Reviews Under the Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 27, 2026, following discussions that ended on April 9, 2026, with the officials of Sri Lanka on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 13, 2026.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Sri Lanka.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Completes the Combined Fifth and Sixth Reviews Under the Extended Fund Facility for Sri Lanka

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the combined Fifth and Sixth Reviews of the Extended Fund Facility for Sri Lanka, providing the country with immediate access to SDR508 million (about US\$695 million) to support economic policies and reforms.*
- *Performance under the program was generally strong. The prior actions on restoring fuel and electricity cost-recovery pricing were met. The continuous performance criteria on no new external payment arrears and on not imposing or intensifying import restrictions were not observed. All end-December 2025 quantitative performance criteria were met. Most structural benchmarks were met or implemented with a delay.*
- *The war in the Middle East and the aftermath of Cyclone Ditwah pose downside risks, but the economy is expected to remain resilient. Hard-won gains from the reform program have enabled swift policy responses to support the economy and help protect the vulnerable.*

Washington, DC – May 27, 2026: The Executive Board of the International Monetary Fund (IMF) completed the combined Fifth and Sixth Reviews of Sri Lanka's economic reform program supported by the 48-month Extended Fund Facility (EFF) arrangement. Completion of the combined reviews provides SDR508 million (about US\$695 million), bringing the total purchases under the arrangement to SDR1.778 billion (about US\$2.4 billion).¹

The EFF arrangement for Sri Lanka was approved by the Executive Board on March 20, 2023 (see [Press Release No. 23/79](#)) in an amount of SDR 2.286 billion (395 percent of quota or about US\$3 billion). The arrangement supports Sri Lanka's reform program to durably restore macroeconomic stability by (i) restoring fiscal and debt sustainability while protecting the vulnerable, (ii) safeguarding price and financial sector stability, (iii) rebuilding external buffers, (iv) strengthening governance and reducing corruption vulnerabilities, and (v) advancing growth-oriented structural reforms.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"Sri Lanka's strong implementation under the EFF arrangement has continued despite challenging circumstances. Gains from the economic reform program helped preserve economic resilience and provided room to respond to cyclone Ditwah and the Middle East war. The latter, however, has significantly worsened Sri Lanka's economic outlook and tilted risks to the downside. For 2026, growth is projected to slow down to 3 percent. Higher oil prices would increase inflation and weaken the current account, which would also be

¹ SDR figures are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

adversely impacted by lower tourism receipts. The uncertainty, regarding the war's intensity and duration, heightens risks to the outlook.

"Fiscal easing in 2026 is appropriate in response to the shocks, and the government is implementing a temporary relief package, while also allocating additional spending to support recovery and reconstruction following Cyclone Ditwah. From 2027 onward, the authorities are appropriately committed to reverting to the primary balance target of 2.3 percent of GDP, as well as complying with the primary expenditure ceiling.

"Program performance remains generally strong, but efforts are required to complete public financial and investment management, and electricity sector reforms. Sustained revenue mobilization is crucial to make the tax system more efficient and growth-enhancing and should be spearheaded by developing a medium-term revenue strategy. Debt restructuring is nearing completion, but debt sustainability risks remain high.

"Monetary policy should continue prioritizing price stability. Greater exchange rate flexibility and gradually phasing out the balance-of-payments measures remain critical to rebuild external buffers and resilience.

"Well-calibrated structural reforms and renewed public infrastructure are also needed to improve the investment climate and lift the growth potential."

Sri Lanka: Selected Economic Indicators 2025-2028

	2025	2026	2027	2028
	Act.	Projections		
GDP and inflation (in percent)				
Real GDP	5.0	3.0	3.2	3.1
Inflation (average) 1/	-0.5	5.0	5.3	5.0
Inflation (end-of-period) 1/	2.1	6.1	5.0	5.0
GDP Deflator growth	3.7	6.2	5.2	5.0
Nominal GDP growth	8.8	9.4	8.5	8.2
Savings and investment (in percent of GDP)				
National savings 2/	31.2	27.4	24.2	23.9
Government	0.7	-0.4	0.2	0.0
Private	30.6	27.8	24.1	23.9
National investment	29.6	27.9	24.3	24.2
Government	5.6	5.8	4.7	4.6
Private	24.1	22.1	19.6	19.5
Savings-Investment balance	1.6	-0.5	-0.1	-0.3
Government	-4.9	-6.3	-4.6	-4.6
Private	6.5	5.8	4.5	4.4
Public finance (in percent of GDP)				
Revenue and grants	16.7	15.2	15.1	15.0
Expenditure	19.0	20.3	18.7	18.8
Primary balance	5.4	1.4	2.3	2.3
Central government balance	-2.3	-5.1	-3.7	-3.8
Central government gross financing needs	19.0	19.8	14.4	13.7
Central government debt	96.8	96.3	93.5	92.5
Public debt 3/	101.1	100.1	96.9	95.5
Money and credit (percent change, end of period)				
Reserve money	16.7	9.8	8.5	8.2
Broad money	11.5	17.3	8.5	8.2
Domestic credit	11.3	9.8	7.1	6.2
Credit to private sector	25.2	14.5	11.8	9.3
Credit to private sector (adjusted for inflation)	25.7	9.5	6.5	4.3
Credit to central government and public corporations	-1.4	4.3	1.1	1.9
Balance of Payments (in millions of U.S. dollars)				
Exports	13,581	14,131	14,401	15,179
Imports	-21,480	-23,095	-22,748	-23,987
Current account balance	1,719	-534	-115	-302
Current account balance (in percent of GDP)	1.6	-0.5	-0.1	-0.3
Current account balance net of interest (in percent of GDP)	2.8	1.4	1.8	1.7
Export value growth (percent)	6.3	4.0	1.9	5.4
Import value growth (percent)	14.0	7.5	-1.5	5.4
Gross official reserves (end of period)				
In millions of U.S. dollars	6,838	8,645	11,779	13,939
In months of prospective imports of goods & services	3.1	3.9	5.1	5.7
In percent of ARA composite metric	59.4	73.6	96.9	110.8
Gross official reserves accounting for PBOC Swap conditions (end of period) 4/				
In millions of U.S. dollars	5,395	8,645	11,779	13,939
In months of prospective imports of goods & services	2.4	3.9	5.1	5.7
In percent of ARA composite metric	46.9	73.6	96.9	110.8
External debt (public and private) 4/				
In billions of U.S. dollars	54.8	56.7	58.9	60.2
As a percent of GDP	50.3	51.7	52.7	51.2
Memorandum items:				
Nominal GDP (in billions of rupees)	32,751	35,835	38,891	42,089
Exchange Rate (period average)	300.9	...	...	...
Exchange Rate (end of period)	310.0	...	...	...

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ Colombo CPI.

2/ Cash basis, excluding accrued but not paid interest.

3/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements). The debt statistics currently assume the external debt restructuring to have been completed at end 2023.

4/ Based on market value when available.



SRI LANKA

May 13, 2026

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Gains from the reform program enabled a swift response to Cyclone Ditwah and the Middle East conflict, and helped preserve economic resilience. The final year of the Extended Fund Facility program focuses on consolidating gains and strengthening growth foundations. Uncertainties from the Middle East conflict and global trade policy have increased downside risks to macroeconomic and social stability.

Program status. The IMF Executive Board approved in March 2023 a 48-month arrangement under the Extended Fund Facility in the amount of SDR2.286 billion (395 percent of quota or about US\$3 billion). On completion of the Fifth and Sixth Reviews, Sri Lanka would have access to an additional SDR508 million (about US\$698 million).

Program performance is generally strong. At the end-December 2025 test date, the quantitative performance criteria and indicative targets were met, except for new external payment arrears due to a cybercrime incident. Most structural benchmarks were either met or implemented with delay; the latter due in part to Cyclone Ditwah. The prior actions on restoring cost-recovery electricity and fuel pricing, and publishing a cabinet decision on fiscal support to cushion the impact of the Middle East conflict are on track.

Program risks. Risks to program financing have increased due to the Middle East conflict. Risks to program implementation remain high given the possibility of reform fatigue, uncertainty related to geopolitical tensions and trade policy uncertainty, and capacity constraints.

Modalities and Staff views. New and modified quantitative targets and structural benchmarks until February 2027 are proposed. Staff recommend approval of a waiver on new external arrears, as well as approval of exchange restrictions and multiple currency practices. Staff recommend that the Board completes the required financing assurances review.

Approved By
Sanjaya Panth (APD)
and Martin Čihák
(SPR)

Discussions took place during March 25 – April 9, 2026 in Colombo. The mission met with President and Finance Minister Dissanayake, Labor Minister and Deputy Finance Minister Jayanta, Deputy Finance Minister Jayaweera, Central Bank of Sri Lanka Governor Weerasinghe, Secretary to the Treasury Suriyapperuma, Senior Economic Advisor to the President Hulangamuwa, Chief Advisor to the President on Digital Economy Wijayasuriya, Governor of Southern Province Manawadu, other senior officials, parliamentarians, representatives of the business community, civil society, academics, and international partners. The mission team comprised E. Papageorgiou (Mission Chief), E. Flores, D. Prihardini, U. Wiradinata (all APD), K. Akepanidaworn (ICD), Ö. Aydin (FAD), M. Markevych (LEG), D. Palermo (MCM), Y. Yakhshilikhov (SPR), M. Woldemichael (Resident Representative), and M. Abeyawickrama (local economist). S. Jegajeevan (OED) participated in key policy meetings. S. Abebe and P. Mahmud (APD) provided administrative and research support for this report.

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Acronyms

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ARA	Assessing Reserve Adequacy
BO	Beneficial Ownership
BOI	Board of Investment
BOP	Balance of Payments
BSTA	Bulk Supply Transaction Account
CA	Current Account
CBSL	Central Bank of Sri Lanka
CEB	Ceylon Electricity Board
CESS	Commodity Export Subsidy Scheme
CFM	Capital Flow Management Measure
CIABOC	Commission to Investigate Allegations of Bribery or Corruption
CIT	Corporate Income Tax
CPC	Ceylon Petroleum Corporation
CTR	Capacity to Repay
DSA	Debt Sustainability Analysis
E-GP	Electronic Government Procurement
EBA	External Balance Assessment
EFF	Extended Fund Facility
FATF	Financial Action Task Force
FBA	Finance Business Act
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FX	Foreign Exchange
GAP	Government Action Plan
GFN	Gross Financing Needs
GIR	Gross International Reserves
GSP	Generalized Scheme of Preferences
IRD	Inland Revenue Department
IT	Indicative Target
ITMIS	Integrated Treasury Management Information System
KPI	Key Performance Indicator
LC	Letter of Credit
LEG	Legal Department
LFCs	Licensed Financial Companies
LIOA	Lending Into Official Arrears
LKR	Sri Lankan Rupee
MEFP	Memorandum of Economic and Financial Policies
MCP	Multiple Currency Practice
MLB	Macro-Linked Bond

MOF	Ministry of Finance, Planning, and Economic Development
MOU	Memorandum of Understanding
MPCC	Monetary Policy Consultation Clause
NBFI	Non-Bank Financial Institution
NCG	Net Credit to Government
NEER	Nominal Effective Exchange Rate
NIIP	Net International Investment Position
NIR	Net International Reserves
NTP	National Tariff Policy
OCC	Official Creditor Committee
PAL	Ports and Airports Development Levy
PAM	Public Asset Management
PBOC	People's Bank of China
PDMO	Public Debt Management Office
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PPP	Public-Private Partnership
PUCSL	Public Utilities Commission of Sri Lanka
QPC	Quantitative Performance Criteria
REER	Real Effective Exchange Rate
SB	Structural Benchmark
SEZ	Special Economic Zone
SLA	SriLankan Airlines
SOB	State-Owned Bank
SOE	State-Owned Enterprise
SOP	Standard Operating Procedures
SPRR	Sales Price and Rents Register
SSCL	Social Security Contribution Levy
SSN	Social Safety Net
SVAT	Simplified Value-Added Tax
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Tool
TMU	Technical Memorandum of Understanding
VAT	Value-Added Tax
WB	World Bank

CONTEXT

1. Hard-won gains from authorities' economic reform program have enabled them to respond to the Middle East conflict and Cyclone Ditwah, amid significant risks. The Middle East conflict poses the most significant external shock to Sri Lanka since the 2022 economic crisis, with substantial risks still at play. The government announced a temporary relief package in April to alleviate its impact including targeted transfers to vulnerable groups, while preserving fiscal space by allowing fuel price adjustments to pass through. In response to devastating Cyclone Ditwah in late 2025, the government deployed emergency relief and restored essential services, containing disruptions to economic activity, and appropriated additional spending to support recovery and reconstruction.

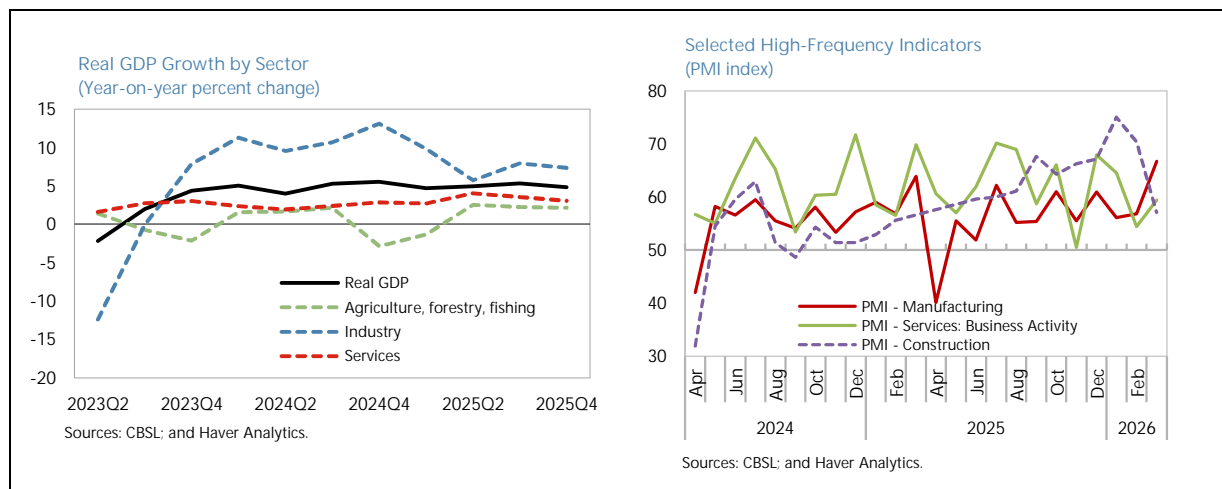
2. In its final year, the External Fund Facility (EFF) program focuses on consolidating gains and strengthening growth foundations. While aiming to preserve the recovery amid the Middle East conflict and Cyclone Ditwah, the reform momentum needs to continue. Public debt, while on a path to sustainability, remains elevated; foreign exchange reserves are only halfway to program targets; and the electricity sector continues to pose fiscal risks. Private sector development and foreign investment remain well below potential. One-fourth of the population lives below the poverty line. The government needs to accelerate the reform momentum, with immediate priorities including strengthening public financial management (PFM) and investment management, advancing electricity sector reforms, enhancing social safety nets, pursuing a more growth-friendly and sustainable tax system, and improving the investment climate.

3. The combined Fifth and Sixth Reviews are underpinned by authorities' strong commitment and performance track record. The Fifth Review was deferred following the cyclone, and a Rapid Financing Instrument was approved to address urgent needs while incorporating the cyclone's impact and appropriate adjustments to program parameters.

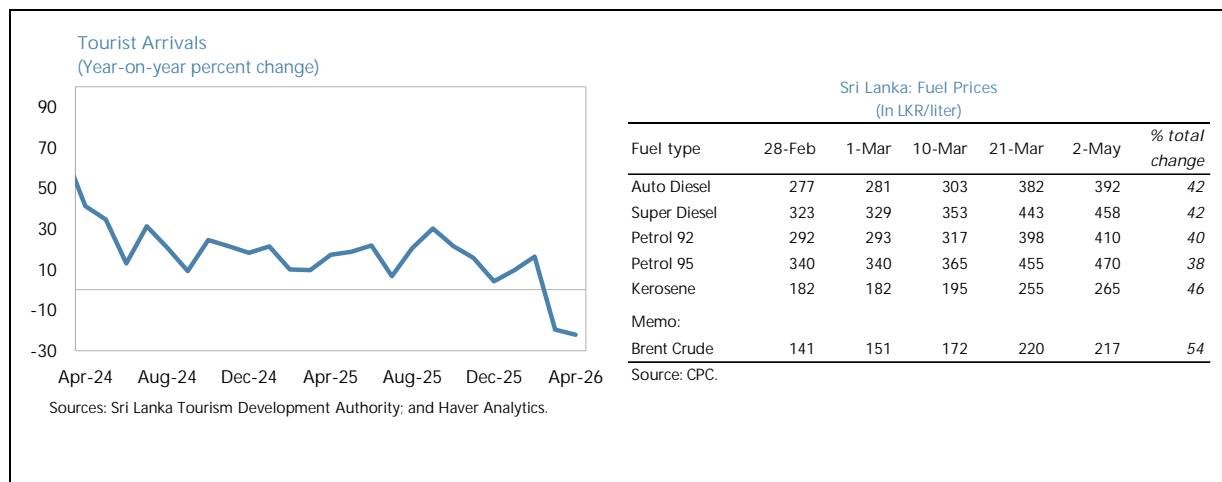
RECENT DEVELOPMENTS

4. Cyclone Ditwah inflicted extensive damage, but the government's swift intervention ameliorated the impact. The forthcoming Post-Disaster Needs Assessment report estimated US\$3.4 billion (3.1 percent of GDP) of damage and losses. Nonetheless, growth in 2025Q4 remained broad-based and resilient at 4.8 percent y/y. The cyclone's impact on growth was ameliorated by the government's rapid responses. Emergency repair restored key roads and electricity, enabling industrial and service sectors to resume operations swiftly. Timely support and high rainfall reduced harvest losses and allowed timely replanting for the main (Maha)

season (Table 1).¹ High-frequency indicators before the Middle East conflict pointed to sustained growth in industry and services, with tourist arrivals at all-time high levels.

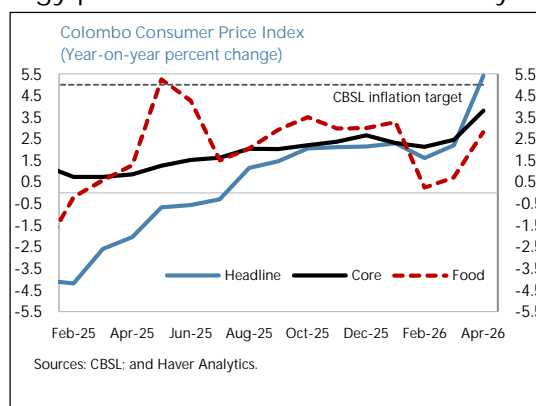


5. The impact of the Middle East conflict was mainly visible in tourist arrivals and fuel prices. Tourist arrivals fell by about 20 percent y/y in March, due to disruptions in Middle Eastern hubs. Administered fuel prices were raised four times since February, by 38–46 percent cumulatively. To prevent hoarding and curb excessive use, fuel rationing—based on a QR code system developed during the 2022 crisis—was reinstated, limiting retail sales while ensuring sufficient supplies for key productive sectors such as transportation, fisheries, agriculture, and tourism.



¹ The current account was 1.6 percent of GDP stronger than envisaged at the Fourth Review, largely driven by lower oil imports (Table 4b).

6. Headline inflation rose in April due to energy prices. Prices have increased only gradually since 2025, notwithstanding Cyclone Ditwah which had short-lived and contained effects on food prices. The significant administrative fuel price hikes and electricity tariff increases due to the global oil price shock pushed April inflation to 5.4 percent y/y, the highest level since February 2024.



7. Fiscal revenue and the primary balance in 2025 significantly exceeded program targets. The primary surplus reached 5.4 percent of GDP, well above the 2.3 percent-of-GDP target. Revenue collection overperformed by 2.0 percentage points mainly reflecting the pent-up demand for motor vehicles, with related revenues reaching 2.8 percent of GDP. Primary expenditure savings reflected under-execution of capital spending.

Sri Lanka: Summary of Central Government Operations (In percent of GDP)

	2025		
	Fourth Review ^{1/}	Outturn	Difference
Total Revenues and Grants	14.7	16.7	2.0
Total Revenue	14.6	16.6	2.0
Tax Revenue	13.6	15.4	1.9
Income Taxes	3.4	3.5	0.1
Indirect Taxes	10.2	11.9	1.7
Non-Tax Revenue	1.1	1.2	0.2
Grants	0.1	0.1	0.0
Total Expenditure and Net lending	22.0	19.0	-2.9
Current Expenditure	18.0	16.0	-2.0
of which: interest payments	9.0	7.6	-1.4
Capital Expenditure and Net Lending	4.0	3.0	-0.9
Overall Balance	-6.7	-2.3	4.4
Primary Balance	2.3	5.4	3.1

Sources: Sri Lankan authorities; and IMF staff calculations.

^{1/} Values for the Fourth Review divided over 2025 GDP outturn.

8. Rapidly changing global trade policies heighten uncertainty for Sri Lanka's export industries. Following the imposition of Section 122 tariffs by the United States (U.S.), Sri Lanka's effective rate stands at around 20 percent, broadly on par with international competitors. Sri

Lanka's access to the European Union's GSP (Generalized Scheme of Preferences)+ scheme ends in 2026, but authorities intend to re-apply under the revised GSP framework. The United Kingdom's liberalization of rules-of-origin requirements facilitate more tariff-free exports from Sri Lanka.

OUTLOOK AND RISKS

9. The conflict in the Middle East significantly worsens Sri Lanka's economic outlook (Text Table and Annex VI). The main transmission channels are fuel imports, remittances, tourism, and weaker external demand. The Middle East accounts for around 50 percent of Sri Lanka's petroleum imports, 40 percent of remittances, and serves as a hub for 34 percent of flights to Sri Lanka. Higher energy prices throughout this year—revised to 29 percent y/y relative to -4 percent y/y pre-conflict—would erode household real incomes and increase firms' production costs, dampening demand and creating balance-of-payments (BOP) pressures. Relative to pre-Middle East-conflict outlook,² 2026 growth is revised downwards by 1 percentage point (ppt) y/y and the current account (CA) net of primary income by 1 percent of GDP. Despite heightened external risks, the CA net of primary income is expected to remain in surplus, which together with program financing will safeguard external sustainability. Inflation is revised to accelerate beyond the Central Bank of Sri Lanka (CBSL) target, peaking in Q2 due to a sharp uptick driven by further fuel and electricity price increases to restore cost recovery, and remain elevated at 6.1 percent y/y at end-2026. Relative to the Fourth Review, while the deterioration in the CA is a bit more modest as the increase in the volume of oil imports envisaged at that time did not materialize, both the current and financial accounts are significantly weaker.

	2025	2026	
	Actual	Pre-Middle East Conflict ^{1/}	Current
Real GDP growth, percent	5.0	4.0	3.0
Inflation, end-of-period	2.1	5.0	6.1
CA excluding primary income	3.4	2.8	1.8
Import value growth, percent	14	4.2	7.5
Oil import	3.7	3.6	4.9
Tourism receipts	3.0	3.1	2.5
Remittances	7.3	6.9	6.9
GIR, in millions of U.S. dollars	6,838	9,506	8,645
Primary balance	5.4	1.4	1.4
Memorandum:			
Crude oil import price assumption for Sri Lanka, USD/barrel equivalent ^{2/}	76.1	72.7	98.0

Source: IMF staff calculations.
^{1/} Pre-Middle-East Conflict scenario is based on the outlook as of Feb 25th, 2026.
^{2/} The current projections envisage fuel prices of 86.4, 108.3, 101.7, and 95.7 USD/barrel for Q1 to Q4, respectively.

10. Risks are tilted to the downside amid the Middle East conflict and structural vulnerabilities. The uncertainty regarding conflict intensity and duration entails significant risks to the outlook (Annex VI). Prolonged trade policy uncertainty and higher energy prices could further weigh on reserves accumulation, growth, and investment, while leading to revenue shortfalls and spending pressures to support the economy and preserve social stability, making achieving the net international reserves (NIR), primary balance, and tax revenue targets more

² The pre-conflict 2026 outlook was significantly stronger than envisaged at the Fourth Review due to momentum from strong 2025 outturn and robust high-frequency indicators.

challenging. In the near term, capacity constraints may hold back recovery, but the ongoing fiscal expansion may have higher multiplier effects. On the upside, steadfast reform implementation could unlock significant growth potential. However, political pressures may challenge reform continuity beyond the program period.

PROGRAM PERFORMANCE

11. Program performance remains generally strong, but further efforts are required to complete PFM and electricity sector reforms.

- All end-December quantitative performance criteria (QPC) and indicative targets (IT) were met except the QPC on new external payment arrears (MEFP Table 1).³ Notably, the QPCs on fiscal revenue and primary balance were met by large margins (¶17). The end-March IT on NIR was narrowly missed due to the slowdown in foreign exchange (FX) purchases in March following the Middle East conflict, shifts in the composition of official reserves in favor of monetary gold holdings, and program exchange rate valuation effect. Inflation for 2025Q4 and 2026Q1 fell between the inner and outer lower bands of the Monetary Policy Consultation Clause (MPCC), requiring staff-level consultation but not Board-level consultation.
- External payment arrears. The continuous QPC on new external payment arrears was not observed since November due to a cybercrime incident that resulted in missing external debt payments of US\$2.5 million (0.002 percent of GDP) to the Government of Australia. The incident was recently identified and investigations are ongoing, including in coordination with Australia. Authorities requested a waiver of nonobservance on the basis of minor breach and the adoption of corrective actions. Authorities are committed to clearing the arrears as soon as feasible. Moreover, they will implement standard operating procedures (SOP) by end-June and operationalize the new debt management information system (Meridien) by end-August. The SOP—finalized with IMF technical assistance (TA) support in December 2025—will strengthen payment procedures. The Meridien system will facilitate robust verification of account details and payment amounts.
- Expenditure arrears. Progress continues on corrective actions related to errors in arrears reporting to the IMF, which led to non-complying purchases. These focus on improving fiscal reporting and strengthening commitment control using the Integrated Treasury Management Information System (ITMIS), including by requiring adequate budget provision and cash (Annex II). The manual reporting system (part of the corrective actions) detected new arrears of LKR1.5 million (around US\$5,000) incurred in 2025Q2. These arrears and those identified at the Fourth Review have been cleared. No new expenditure arrears were incurred in 2025H2.
- Social safety net. Authorities met the social spending IT at end-December 2025 after narrowly missing it at end-June and end-September due to administrative delays in onboarding Aswesuma second-round beneficiaries and rolling out the empowerment program.

³ End-December 2025 performance criteria are controlling.

- Sixteen out of 22 structural benchmarks (SBs) due by end-February were met or implemented with delay (MEFP Table 2). The 6 SBs that were not met are adopting a 2026 Budget consistent with program parameters, as authorities approved a supplement to address the cyclone; setting cost-recovery electricity and fuel pricing, as increases were delayed and felt short of cost-recovery levels (¶121); adopting PFM Act regulations due to the need to incorporate IMF TA recommendations and inter-departmental feedback (¶118); amending Customs legislation; and amending the Public Utilities Commission of Sri Lanka (PUCSL) Act. The objectives of the latter two were achieved through the Memorandum of Understanding (MOU) between the Board of Investment (BOI) and Customs (¶135) and amendments of the PUCSL Rules (¶123), respectively.

Sri Lanka: Summary of Program Performance							
Test-date:	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Sep-25	Dec-25
Quantitative performance criteria							
Fiscal/debt targets							
1. Central government primary balance (floor)	Met	Met	Met	Met	Met	Met	Met
2. Program net official international reserves (floor)	Met	Met	Met	Met	Met	Met	Met
3. Net credit to the government of the CBSL (ceiling)	Met	Met	Met	Met	Met	Met	Met
4. New expenditure arrears of the central government (ceiling, in billion rupees) 1/	n.a	n.a	n.a	n.a	n.a	Met	Met
5. Central government tax revenue (floor) 2/	n.a	n.a	Met	Met	Met	Met	Met
Continuous performance criteria (cumulative from beginning of the program)							
6. New external payment arrears by the nonfinancial public sector and the CBSL (ceiling)	Met	Met	Met	Met	Met	Met	Not Met
7. CBSL purchases of government securities in the primary market 3/	n.a	Met	Met	Met	Met	Met	Met
Monetary policy consultation clause							
8. Year-on-year inflation in Colombo Consumers Price Index (in percent) Actual / Center point	Not met	Met	Not met	Not met	Not met*	Not met	Met**
Indicative targets							
1. Social spending by the central government (floor)	Met	Not met	Not met	Not met	Not met	Not met	Met
2. Identified stock of expenditure arrears of the central government (ceiling, in billion rupees) 4/	n.a	n.a	n.a	n.a	n.a	Met	Met
3. Cost of non-commercial obligations (NCOs) for fuel and electricity (net of government transfers) (ceiling)	Met	Met	Met	Met	Met	Met	Met
4. Treasury guarantees (ceiling)	Met	Met	Met	Met	Met	Met	Met
5. Treasury FX guarantees (ceiling) 3/	n.a	n.a	n.a	Met	Met	Met	Met
Memo:							
Applicable Review	1st	2nd	3rd	3rd	5th and 6th	5th and 6th	5th and 6th
* Assessed at the Fourth Review							
** Assessed as met as inflation is within the outer bands of the MPCC.							
Note: See the QPC and IT tables of the corresponding reviews for more information.							
1/ Defined as a cumulative flow, starting from July 1, 2025.							
2/ The tax revenue IT was upgraded to a QPC from the Second Review.							
3/ The QPC on CBSL purchases of government securities and the IT on Treasury FX guarantees were introduced at the First Review starting from Dec 2023 and Sep 2024, respectively.							
4/ Identified as of May 14, 2025.							

POLICY ISSUES

Appropriate policy responses to the Middle East conflict and the cyclone are key to ameliorating their economic impact and protecting the most vulnerable. In the last year of the program, the focus should be on structural reforms to strengthen resilience and unlock growth potential.

A. Addressing Shocks

12. Authorities' fiscal easing in 2026, and their intended return to the original fiscal targets in 2027, are appropriate responses to the Middle East conflict and the cyclone. For 2026, a lower primary balance target was adopted by activating the escape clause under the PFM Act. From 2027 onward, it will return to 2.3 percent of GDP (*proposed SB23, end-October and*

SB24, end-December), while the primary expenditure ceiling will revert to 13 percent of GDP. This strategy supports recovery and reconstruction needs and ameliorates the impact of the shocks—particularly on the neediest—while safeguarding debt sustainability.

13. Cyclone recovery and reconstruction efforts will be met through higher spending, reallocation, and reprioritization. The LKR500 billion (1.4 percent of GDP) 2026 Supplementary Budget aims to provide transfers to affected households and firms and rebuild public infrastructure. Further funding for public infrastructure will come from the reallocation of LKR100 billion (0.3 percent of GDP) in 2026, and additional reallocations in 2027-28.

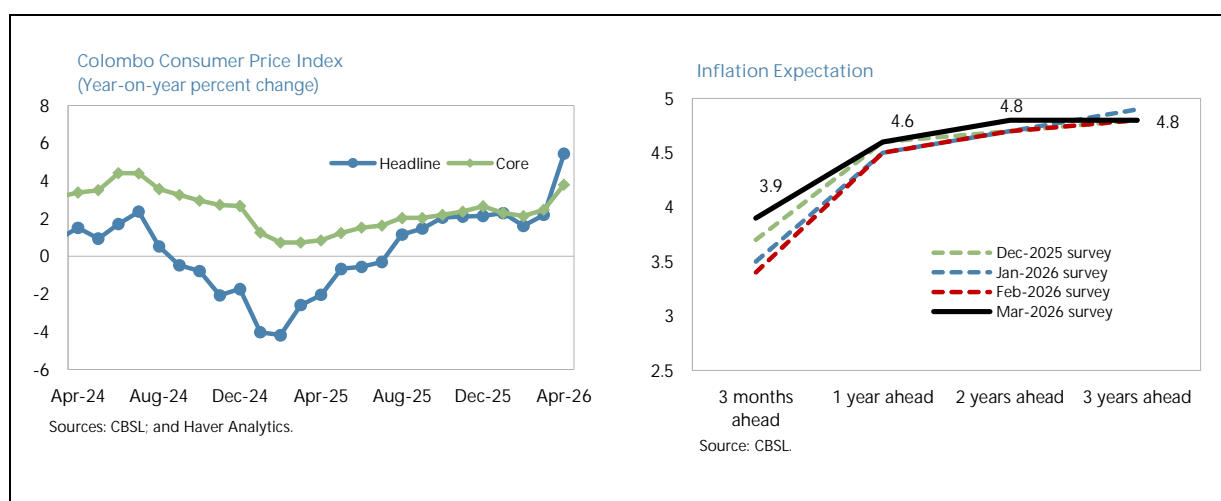
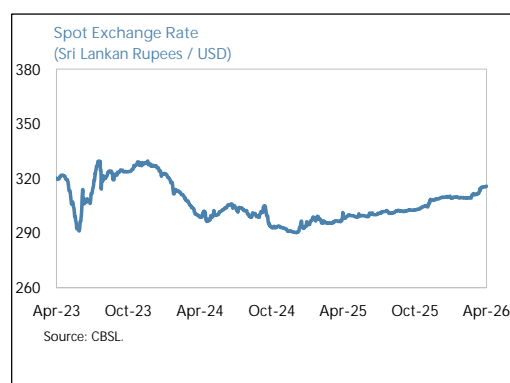
Sri Lanka: Support Package for the Middle East Conflict (In billions of rupees)	
Fuel subsidy	57.0
Electricity subsidy	15.3
Fertilizer subsidy	6.5
Fishery assistance	4.5
Aswesuma top-up	8.5
Total	91.8

Sri Lanka: Recovery and Reconstruction Efforts (In billions of rupees, unless otherwise noted)						
	2025	2026	2027	2028	Total	
					Effort	PDNA
Total	50	600	100	100	850	1,022.5
<i>In percent of GDP</i>	0.2	1.7	0.3	0.2	2.3	3.1
New Funding	...	500	...	...	500	...
<i>In percent of GDP</i>	...	1.40	...	...	1.40	...
Transfers	...	250	...	...	...	...
Current	...	150	...	...	...	...
Capital	...	100	...	...	...	...
Capital expenditure	...	250	...	...	...	...
Reallocation	50	100	100	100	350	...
<i>In percent of GDP</i>	0.2	0.3	0.3	0.2	0.9	...

Source: MOF.

14. The temporary package of subsidies and targeted transfers to the vulnerable is expected to ameliorate the impact from the Middle East conflict. It includes fuel subsidies for retail low octane petrol and cetane diesel, and for small fisheries; fertilizer subsidies for small farms; electricity subsidies; and an additional one-off transfer to Aswesuma recipients. It is capped at LKR100 billion, sunsets in September 2026, and is financed through the annual budget reserve and expenditure reallocations. Authorities are working on improving the targeting and price signaling of retail fuel subsidies through their QR system. If the shock duration is longer than envisaged, additional support through Aswesuma will be considered.

15. Monetary policy remains broadly accommodative, and reserve accumulation has slowed down temporarily. With inflation expectations anchored at the 5 percent target, the 7¾ percent policy rate implies a forward-looking real rate of about 2.75 percent.⁴ The broadly accommodative policy stance was appropriate given that inflation was significantly below target (¶16) and helped offset the shocks. Reserve accumulation was significant earlier in the year but has slowed down after the Middle East conflict to avoid additional pressure on the currency. With a weaker BOP outlook relative to the Fourth Review (¶19), a more modest reserve accumulation is warranted (Table 4b).



B. Completing Fiscal Reforms

16. Tax revenue in 2026 is expected to converge to the medium-term path envisaged under the program as vehicle-related revenues normalize. The pent-up demand for motor vehicles is projected to dissipate in 2026, albeit outturn through March suggests upside risks. In April, CESS (Commodity Export Subsidy Scheme) on intermediate goods (0.1 percent of GDP) was removed and some compensatory measures were implemented, with remaining measures envisaged for the second half of the year. Revenue outturns will also depend on authorities' ability to sustain recent compliance gains amid capacity constraints and competing reform demands.

⁴ The neutral real rate estimate is around 3 percent.

Sri Lanka: Change in Revenue to GDP (2025-26)

Increase in Tax Revenue-to-GDP Ratio	0.3
<i>Existing Measures and Compliance</i>	0.22
Introduce VAT on supply of digital services	0.02
Half year yield on the CIT	0.05
Compliance gains on VAT	0.15
<i>New Measures</i>	0.07
Introducing VAT and SSCL on Imported Coconut Oil and Palm Oil 1/	0.03
Reduction of VAT and SSCL Registration Threshold 2/	0.01
Removal of CESS on Imported Fabric and Imposition of VAT 1/	0.02
Imposition of SSCL on Imported Vehicles 3/	0.01
Decrease in Tax Revenue-to-GDP Ratio	-1.7
Taxes on car imports	-1.14
Removal of CESS on input goods	-0.08
Decrease on non-oil consumption imports to GDP	-0.46
Total change in Tax Revenue-to-GDP Ratio	-1.4
Memo items	
Tax revenue in 2025	15.4
Tax revenue in 2026	14.0

Source: MOF.

1/ Introduced on April 1, 2026

2/ To be introduce on July 1st, 2026

3/ Introduced on May 1, 2026

Note: SSCL refers to Social Security Contribution Levy, SCL to Special Commodity Levy, and CESS to Commodity Exports Subsidy Scheme.

17. Sustaining revenue mobilization reform is critical to build resilience and make the tax system more efficient and growth-enhancing. Further efforts are needed:

- National Tariff Policy (NTP). To reduce distortions and simplify administration, the NTP aims to shift to a single customs duty framework and gradually replace external taxes with domestic ones. Authorities will issue cabinet decisions with compensatory measures to ensure revenue neutrality of the reform for the 2027 Budget (*proposed SB21, end-September*) and consistent with revenue targets for the 2028 and 2029 Budgets (*proposed SB26, end-November*).
- Property tax. A well-designed property tax will generate stable and progressive revenues while reducing reliance on distortionary taxes. On April 1, cabinet approved tax design elements and an implementation plan covering key modalities. Further progress, including revisiting the envisaged coverage,⁵ will be informed by upcoming IMF TA (MTRS, below).

⁵ The approved cabinet decision exempts owner-occupied primary residences.

- Medium-term revenue strategy (MTRS). Sustaining tax reform beyond the program period is essential to build resilience and improve the business environment. With the support of IMF TA, authorities will conduct tax diagnostics and develop an MTRS with clear medium-term revenue objectives and a time-bound implementation plan. The tax diagnostics and MTRS objectives will be published (*proposed SB25, end-October*).

18. Further progress on PFM regulations and stronger governance of disaster-related spending are needed. PFM regulations (*reformulated and reset SB19, end-July*) will strengthen budget execution, commitment controls, and enforcement. For disaster-related spending, authorities should ensure comprehensive transparency, including disclosure of companies' ultimate beneficial ownership (BO) information in bidding, semiannual publication of cyclone-related procurement reports detailing funding sources, allocations, beneficial owners, and aggregated spending execution by program and category (*proposed SB18, August 2026 and February 2027*).

19. Further tax administration reforms are necessary. The move from the abolished simplified value-added tax (SVAT) to a standard risk-based VAT refund system (SB7) was successful. Enhanced monitoring, adequate staffing, and close engagement with businesses enabled refunds to be delivered on time.⁶ Sustaining these gains will require maintaining sufficient staffing and operational capacity over the medium term, including avoiding emerging refund and audit backlogs and safeguarding revenue outcome. Authorities are also cleaning and updating the tax registry to enhance compliance (*proposed SB15, end-July*).

20. Public investment management reforms are essential for effective reconstruction and for improving the efficiency and quality of public investment. Persistent under-execution of capital spending is concerning. To address weaknesses, authorities will publish a standardized appraisal methodology together with transparent and standardized project selection criteria for the Public Investment Committee (*proposed SB17, end-August*). They will also (i) clean up the public investment portfolio by end-2026; (ii) starting with the next budget, regularly publish an updated list of major public investment projects; and (iii) develop a disaster-risk management strategy by end-December 2026.

Electricity and Fuel

21. Adherence to cost-recovery energy pricing is a critical pillar of the program. This includes:

- Fuel. Cost-recovery pricing (continuous SB1) has not been met since April as increases only partially reflected the higher costs following the Middle East conflict.⁷ Authorities will compensate CPC for past losses through an explicit on-budget transfer and published a cabinet decision ensuring

⁶ However, the Inland Revenue Department (IRD)'s capacity was overextended because they temporarily moved staff to VAT refund processing from other functions.

⁷ Cost-recovery fuel pricing was also not observed in December 2025 but was restored in January 2026.

fuel subsidies are on budget, limited, and fully phased out by end-September 2026 (*prior action* and *proposed SB22, end-September*).

- Electricity. Cost-recovery pricing (continuous SB2)⁸ has not been met since January as the tariff was not revisited despite higher costs. The 10.9 percent average increase for Q2 approved on March 31 does not fully incorporate higher fuel prices and the expected change in the composition of energy generation. To restore cost recovery, a new tariff revision reflecting these factors will be issued by the regulator (*prior action*).⁹

22. The upcoming electricity tariff methodology should improve governance, enhance implementation, reduce tariff volatility, and safeguard financial sustainability (*proposed SB20, end-August*). IMF TA is supporting the design of a new methodology based on clear and transparently defined costs, with forward-looking and rules-based adjustment mechanisms. These changes will support sustained cost recovery, reduce tariff volatility, and strengthen regulatory oversight.¹⁰

23. Regulatory accountability is being strengthened. The regulator (PUCSL) has now a clear legal mandate to report quarterly on cost-recovery electricity pricing (SB13) through amendments to the PUCSL rules.¹¹ In addition, annual reports to Parliament, to be submitted by end-June, will assess the extent to which cost-recovery pricing has been achieved over the year and outline any systemic departures.

Social Safety Nets (SSN)

24. Strengthening social safety nets (SSN) is critical to protect the poor and vulnerable from shocks. Authorities extended Aswesuma's vulnerable category by six months following Cyclone Ditwah and provided a cash top-up in April to cushion beneficiaries from higher energy and food prices stemming from the Middle East conflict (¶6). Coverage has expanded, with the onboarding of second-round beneficiaries nearing completion. To improve targeting, applicants are being recertified by updating their data in the social registry, reranking them based on their deprivation score, and publishing the updated list of beneficiaries (*proposed SB16, end-July*). The ongoing review of eligibility criteria should be consultative and data-driven, leveraging on the 2025-26 household survey data. Authorities plan to (i) extend Aswesuma by three years from end-June 2027; (ii) transition recipients of categorical and school stationery allowance payments to the social registry; and (iii) ensure all future SSN programs are well targeted and delivered through the social registry (MEFP ¶32-33).

⁸ The SB has been reformulated to reflect the unbundling of the electricity company.

⁹ Per the tariff methodology, Q1 losses will be compensated in Q3.

¹⁰ This support is provided in close coordination with other development partners, including the Asian Development Bank (ADB), which is also heavily involved in supporting the drafting of the new electricity tariff methodology.

¹¹ Electricity (Procedure for Review and Adjustment of Tariffs) Rules No. 01 of 2026.

C. Restoring and Safeguarding Debt Sustainability

25. Debt sustainability is restored upon completion of debt restructuring, but risks remain high (Annex I). Stronger growth and exchange rate developments are projected to bring US-dollar GDP above the highest Macro-Linked Bond (MLB) threshold. The stronger economic rebound relative to the Fourth Review and 2025 fiscal overperformance are projected to more than compensate for the MLB adjustments and the smaller 2026 primary balance. Therefore, all debt targets continue to be respected although risks remain elevated. Restoring and maintaining debt sustainability requires continued fiscal discipline and reform momentum to strengthen economic resilience. A shock-prone environment and less favorable global financing conditions heighten vulnerabilities.

26. Staff recommend completion of the financing assurances review following notable progress, including from SriLankan Airlines' (SLA) debt restructuring.¹² The debt exchange of SLA's international bond (US\$175 million) was successfully completed on March 20.¹³ The SLA debt treatment is consistent with program parameters and received no objection from the OCC in terms of comparability of treatment requirements. Of the US\$28 billion in external debt under the restructuring perimeter at end-2023, only US\$0.3 billion remains to be restructured.¹⁴ Since the Fourth Review, additional bilateral agreements have been signed with Australia, Belgium, Denmark, Germany, and Korea. Authorities continue good-faith negotiations with remaining commercial creditors. The outstanding restructuring processes are expected to conclude in 2026.

27. Further strengthening of the Public Debt Management Office (PDMO)'s capacity is important to safeguard debt sustainability. The PDMO published a [Medium-Term Debt Strategy and Annual Borrowing Plan](#) for the first time. It has taken the lead in conducting weekly domestic bond auctions since January and successfully issued dollar-denominated domestic bonds. Going forward, the PDMO will implement the SOP manual, operationalize the new debt management information system (¶11), and adopt a code of conduct. Moreover, the PDMO, in collaboration with the Ministry of Finance's Fiscal Policy Department, will be responsible for publishing the annual debt sustainability analysis. With IMF TA, the PDMO should continue reforms to deepen domestic debt market—including strengthening primary dealer regulations and advancing liability management operations—and continue building capacity to support Sri Lanka's return to international capital markets.

¹² In the absence of an adequately representative standing forum, a sufficient set of creditors have provided direct commitments to the Fund on their restructuring intentions by having finalized memoranda of understanding with the Official Creditors Committee (OCC) or final treatment with China EXIM so that the Enhanced Safeguards under Strand 4 of the lending into official arrears (LIOA) policy are met. Accordingly, consent for LIOA is no longer required, as these assurances allow all official arrears to be deemed resolved ([Policy Paper No. 2024/017](#), ¶20).

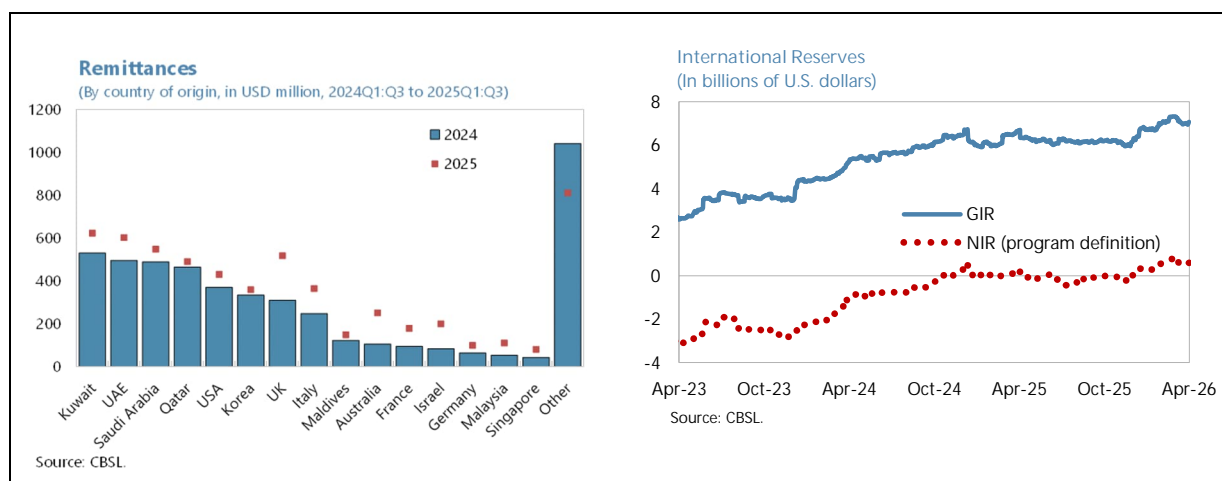
¹³ The exchange is based on the Agreement in Principle ([AIP](#)) reached on November 20, 2025.

¹⁴ This includes US\$270 million holdouts related to the ongoing Hamilton Reserve Bank litigation and US\$35 million loans from Iran and Pakistan.

D. Maintaining Price Stability and Rebuilding External Buffers

28. CBSL should maintain a prudent monetary policy and continue abstaining from monetary financing (continuous QPC). Although uncertainty is high, the low starting point provides room to absorb fuel price shocks while staying within the MPCC bands (5 ± 3 percent). Under the baseline scenario, inflation is expected to peak at around 7 percent in 2026Q2, reflecting fuel price shocks, electricity tariff increases, and exchange rate depreciation, before moderating to around 6 percent by end-2026. Monetary policy should remain data-dependent and agile. If inflation expectations show signs of de-anchoring or significant second-round effects emerge, CBSL should stand ready to tighten. Monetary policy remains governed by the MPCC.

29. Sri Lanka's external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies. In 2025, strong remittances (23 percent y/y increase) and services receipts helped offset the higher goods trade deficit caused by motor vehicle imports. The CA gap is small (0.8 percent of GDP) (Annex III). The real exchange rate is marginally overvalued by 2.1 percent. The CA surplus and FX purchases helped meet BOP financing needs and improved gross international reserves (GIR) from US\$6.1 billion at end-2024 to US\$6.8 billion (3.2 months of prospective imports) at end-2025.¹⁵



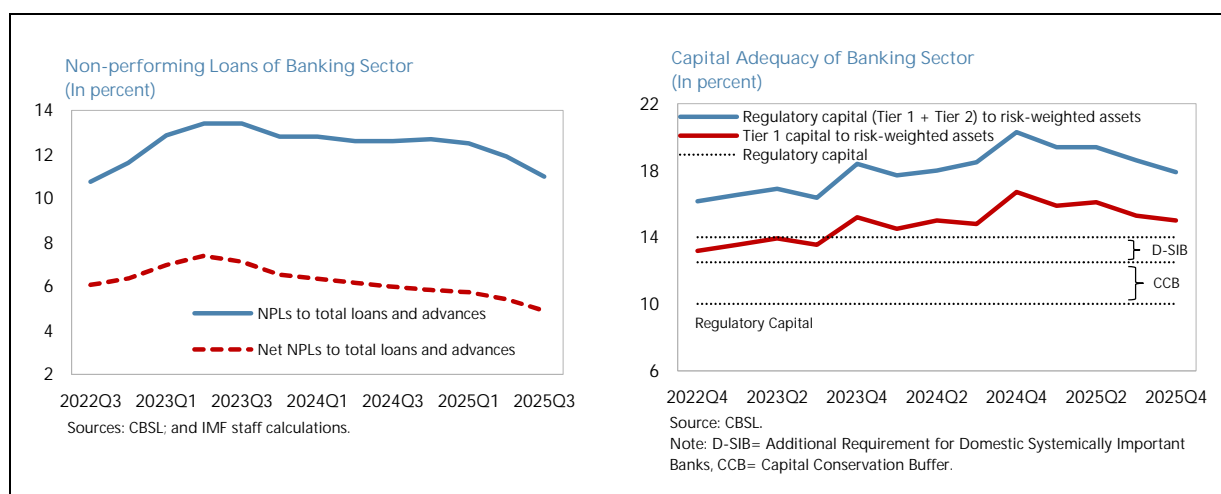
30. Continuing reserve accumulation and allowing greater exchange rate flexibility are key for external resilience. CBSL is committed to continue building reserves through outright net FX purchases—US\$2.2 billion in 2026 (MEFP ¶137)—while limiting FX sales to disorderly market conditions. The planned small issuance of local-law dollar-denominated debt would also contribute to reserve accumulation. Authorities remain committed to phasing out remaining

¹⁵ At end-2025, GIR stood at 59 percent of ARA metric based on a floating exchange rate regime (de-jure), and at 47 percent based on a crawl-like arrangement (de-facto). The difference in exchange rate classification is largely due to the FX interventions under the program to accumulate reserves.

exchange restrictions, multiple currency practices (MCPs), and capital flow management measures (CFMs) as the BOP stabilizes (MEFP ¶139).¹⁶

E. Preserving Financial Sector Stability

31. The financial sector has ample capital buffers and limited exposure to the cyclone, but risks remain. Banks are well capitalized, with a sector-wide capital adequacy ratio of 17.9 percent as of December 2025.¹⁷ Bank profitability remains robust and Stage 3 Loans have continued to decline, having reached 9.7 percent at end-2025 (a decline of LKR56.9 billion during 2025). Bank exposure to the cyclone was negligible, but risks associated with the conflict in the Middle East can create significant knock-on effects to the economy via a hit to demand. Rapid private sector credit growth continues, reaching 25 percent y/y in December, despite tightened loan-to-value limits.¹⁸ Nonetheless, credit to the private sector as a share of GDP is still below pre-crisis levels.



32. CBSL needs to strengthen supervision of banks' operational risk management and the Financial Intelligence Unit's (FIU) Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) supervision following fraud in a regulated entity. In early April, the

¹⁶ Sri Lanka maintains two MCPs: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad, and (ii) the levy of a 14 percent remittance tax on nonresidents' profits. Exchange restrictions: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; (ii) the levy of a 14 percent remittance tax on nonresidents' profits; (iii) limits on repatriation by nonresidents of proceeds derived from current transactions; and (iv) the requirement to provide a tax clearance certificate prior to permitting transfers for certain current transactions. CFMs introduced or tightened since 2020 include: (i) a repatriation requirement for exports of goods and services; (ii) a surrender requirement for exporters on proceeds from exports of goods; (iii) a surrender requirement for banks on purchases of export proceeds; (iv) a surrender requirement for banks on purchases of inward worker remittances; (v) suspension/limitation of outward remittances on capital transactions made by residents; (vi) restrictions on purchases of Sri Lankan International Sovereign Bonds by local banks; and (vii) limitations on outward transfers of funds by emigrants. For original list of CFMs and MCPs, see Annex II in IMF/23/408 and for an update see MEFP39. Continuous impermissible spreads have been observed for both MCPs, since February 1, 2024.

¹⁷ And no individual bank falls below the regulatory minimum at end-December 2025.

¹⁸ [Banking Act Directions No. 03 of 2025](#).

National Development Bank PLC, a mid-sized bank, discovered fraudulent transfers made over the course of 22 months amounting to LKR13.2 billion, equivalent to roughly 4 percent of Tier 1 capital. CBSL suspended cash dividend distribution and pledged liquidity support to the banking system to prevent contagion. The fraud originated from employee misconduct but was not identified timely due to inadequate internal and external controls. CBSL has sought to strengthen standards for supervision of operational risks and AML/CFT compliance—including through new IMF TA—and requested that banks evaluate their operational vulnerabilities. Greater regulatory scrutiny and financial integrity are paramount for financial stability.

33. Vulnerabilities in Licensed Finance Companies (LFCs) warrant prompt action. Credit growth in the sector reached 50 percent y/y as of December, fueled by motor vehicle lending and pawning, with some LFCs exhibiting signs of fragility. Although not a systemic sector, to address these vulnerabilities, CBSL supervisory and resolution powers are being strengthened through amendments of the Finance Business Act, which awaits Parliamentary approval. Moreover, CBSL monitors LFCs' performance under Phase II of the Masterplan, which seeks to foster resilience over a 3-year window.

F. Strengthening Governance and Reducing Corruption Vulnerabilities

34. Integrity and accountability are being strengthened through the implementation of key governance reforms.

- The [2026 Governance Action Plan \(GAP\)](#) detailing priority reforms to be completed in the coming year was published end-March. The addition of judicial and anti-corruption agency (CIABOC) reforms grounded in the Governance Diagnostic Assessment is welcome. At the same time, a progress report for the 2025 GAP was released. Going forward, the progress report will be published quarterly with new initiatives incorporated semiannually.
- To ease compliance and improve transparency, the [electronic asset declaration system](#) was launched by CIABOC end-March. This follows the implementation of reforms which strengthened the asset declaration regime (*SB28*).¹⁹ Going forward, enforcement action should be taken against non-compliant high-level officials.
- The Registrar of Companies launched the [BO register](#), bolstering the AML/CFT regime ahead of the 2026 mutual evaluation. A robust, risk-based verification of BO submissions ensures the credibility and reliability of the register (*proposed SB34, end-September*). Staff are providing capacity development to establish SOP for risk-based verification.
- A first draft of the judicial code of conduct is expected by 2027Q1. Effective implementation should be a priority in the restructuring of the Judicial Services Commission.

¹⁹ Asset declarations can now be [accessed through foreign phone numbers](#), the annual [list of non-filers](#) is published, declarations include [beneficial ownership of legal entities](#), and redaction rules have been modified.

Public Sector Governance

35. Effective oversight of goods clearance in Special Economic Zones (SEZs) is important to curb revenue leakages. Leakages reduce fiscal space and increase corruption risks. Customs now holds clear and unfettered responsibility for SEZ clearances (SB13) following an amendment to the MOU between Customs and the BOI. Implementation should proceed gradually, starting with the pilot program described in the amended MOU. Customs' expanded role should depend on meeting performance targets for timely and effective goods clearance. At the same time, authorities must strengthened compliance by enhancing risk assessment, expanding the use of the green channel, improving post-clearance controls, and minimizing face-to-face interactions (¶39).

36. Good progress on the public-private partnership (PPP), public procurement, state-owned enterprise (SOE), and public asset management (PAM) bills will lead to legislation that strengthens governance and mitigates fiscal risks. The draft PPP and SOE bills should clarify institutional roles, strengthen transparency, and enhance fiscal oversight and risk management, while ensuring full consistency with the PFM Act. The procurement bill should incorporate BO disclosure within the procurement process. The PAM bill is being redeveloped following a policy decision to strengthen public asset oversight and management.

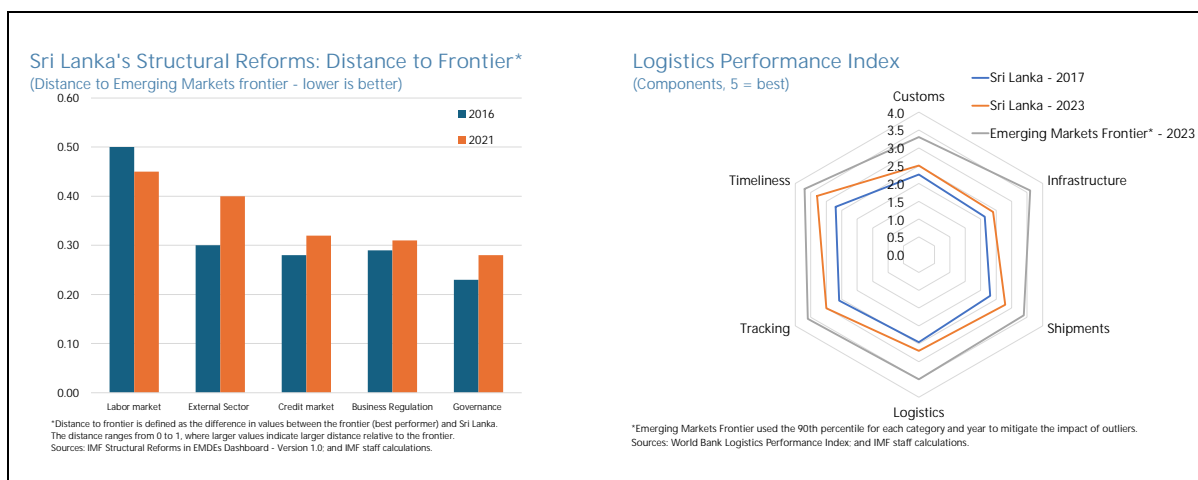
37. Authorities are committed to canceling tax exemptions on motor vehicle imports granted to public officials. While their use has been suspended, permits have not been voided and continue to be issued. During the 2027 budget cycle, the scheme will be revisited to safeguard revenue and policy credibility.

G. Unlocking Higher and Sustainable Growth

38. Well-calibrated structural reforms and renewed public infrastructure are needed to improve the investment climate and lift the growth potential. Gaps persist between Sri Lanka and best performing peers in key structural reform areas, such as trade liberalization, labor market flexibility, business regulations, and digitalization. Sri Lanka also lies below the global infrastructure efficiency frontier.²⁰ These gaps hinder Sri Lanka from fully exploiting its comparative advantages. Reforms can lift real GDP by 4 ppts in the short term and 8 ppts in the long term.²¹

²⁰ Public Investment Management Assessment, 2025

²¹ [Budina and others, 2023](#).



39. Trade liberalization and enhanced facilitation are priorities. The National Single Window pilot is underway, focusing on tea and coconut exporters. In parallel, a paperless customs declarations process will be implemented by end-2026 to ease compliance and reduce corruption vulnerabilities. As an intermediate milestone, selected large companies—representing 15 percent of customs declarations—will utilize the paperless system by October 2026 (SB35). These efforts can be complemented by comprehensive free trade agreements.

40. Stronger tax exemption frameworks provide regulatory certainty to invite investment (Annex V). Parliament approved amendments to the Strategic Development Projects and Port City Acts to reduce the duration and scope of tax incentives, reduce ad-hoc discretion, and enhance transparency (SB29 and SB32). The Port City amendments also clarify CBSL's supervisory authority and regulatory framework for onshore and offshore activities to safeguard financial-sector stability and promote business growth. Going forward, any legislative changes to the incentive regime (e.g. Investment and Trade Commission Act, BOI Act Amendment) should adopt rules-based eligibility criteria that limit the types and duration of incentives.

PROGRAM MODALITIES AND OTHER PROGRAM ISSUES

41. Proposed modifications to existing, and introduction of new, program conditionality are in line with macroeconomic developments and program objectives. End-June to end-December 2026 floors on the primary surplus, tax revenues, NIR, and social spending are proposed to be adjusted to accommodate the impact of the negative external shocks, as well as external financing assumptions. The continuous QPC on new external payment arrears is proposed to be modified to accommodate the time needed to clear the arrears arising from the cybercrime incident. The arrears clearance requires Parliamentary approval for a Supplementary Budget to cover the additional debt service.

42. Adequate financing resources are in place. The program is fully financed with firm financing commitments in place for the remainder of the program.
43. Enterprise risks have heightened but remain moderate. Strong macro and fiscal overperformance in 2025 mitigate higher uncertainty arising from the conflict in the Middle East for now. Financial risks related to capacity to repay (CTR) are mitigated by strong program implementation and near-completed debt restructuring. Nonetheless, downside risks from the Middle East conflict (¶10) could have material financial implications.
44. CTR is adequate under the baseline but subject to significant risks stemming from high debt levels and gross financing needs (Table 8). This assessment is contingent on successful program implementation. Fund credit outstanding would peak at 3.1 percent of GDP in 2027, or 15.9 percent of goods and services exports, and 29.2 percent of gross reserves. Repurchases and charges would peak in 2031, at 2.3 percent of goods and services exports, and 4.1 percent of GIR.
45. Safeguards Assessment. CBSL equity increased to LKR595 billion (1.82 percent of GDP) at end-2025 and is expected to continue recovering gradually. CBSL will continue to monitor its financial position, including through balance sheet quarterly stress test, to ensure an adequate level to conduct effective monetary policy. CBSL is implementing the remaining 2023 safeguards recommendations to strengthen its risk management practices.
46. Article VIII of the Articles of Agreement. Since program approval, Sri Lanka has not (i) introduced additional measures giving rise to new MCPs or exchange restrictions; (ii) modified or intensified existing exchange restrictions and MCPs subject to IMF Approval under Article VIII; (iii) concluded bilateral payment agreements that are inconsistent with Article VIII of IMF Articles of Agreement; or (iv) imposed or intensified import restrictions for BOP purposes. Authorities are seeking temporary approval of the remaining exchange restrictions and MCPs.²²

²² Remaining MCPs and exchange restrictions were approved by the Board at the time of the Fourth Review.

Sri Lanka: External Financing Gap and Program Financing, 2022-27
(In millions of US dollars)

	2022	2023	2024	2025	2026	2027	Total 2022-27
Financing Gap (A)	-2,834	-5,570	-4,380	-4,623	-3,792	-4,469	-25,667
Program Financing (B)	<u>2,834</u>	<u>5,570</u>	<u>4,380</u>	<u>4,623</u>	<u>3,792</u>	<u>4,469</u>	<u>25,667</u>
IMF	0	678	337	889	1,042	350	3,296
International Financial Institutions program financing support	<u>0</u>	<u>1,120</u>	<u>658</u>	<u>502</u>	<u>750</u>	<u>571</u>	<u>3,601</u>
World Bank*	0	570	258	82	220	191	1,321
Asian Development Bank*	0	550	400	370	480	380	2,180
Others (including OPEC fund)	0	0	0	50	50	0	100
Debt moratorium: external arrears accumulation	2,834	3,772	644	0	0	0	7,250
Debt relief	0	0	2,740	3,232	2,000	2,048	10,020
Sovereign bonds (market access)	0	0	0	0	0	1,500	1,500
Shortfall (A+B)	0	0	0	0	0	0	0
Memorandum:							
Gross International Reserves	1,898	4,392	6,122	6,838	8,645	11,779	
Project loans	1,473	680	850	760	1,087	1,326	

Sources: Sri Lankan authorities; and IMF staff projections.

*2026-2027 figures are indicative for both Asian Development Bank and World Bank. An additional US\$20 million disbursement from the World Bank on deposit insurance is not included in program financing, as it is ringfenced.

STAFF APPRAISAL

47. The generally strong program performance and ambitious agenda are bearing fruit. Sustained adherence to the reform package has underpinned strong economic recovery, price stability, substantial revenue-based fiscal consolidation, rebuilding of foreign reserves, and improved resilience to external shocks. Debt restructuring delivered significant debt relief and placed public debt on a path to sustainability. PFM reforms and cost-recovery energy pricing are key to mitigating fiscal risks.

48. The policy response to external shocks has been adequate. The Middle East conflict poses the most significant shock to the economy since the 2022 crisis. The responses to the cyclone and Middle East conflict have ameliorated their economic impact and provided relief to vulnerable households. The 2025 fiscal overperformance provided space for the 2026 stimulus, and from 2027 the stance will suitably return to the program targets. If risks materialize, including a more

prolonged Middle East conflict, the mix of financing and adjustment will likely need to be revisited, while maintaining debt sustainability.

49. Sustained fiscal consolidation and governance reforms are needed to durably restore macroeconomic stability and debt sustainability. Debt sustainability risks are still high and continued fiscal discipline is required to improve public debt dynamics. Social support needs to be well-targeted and steadfast implementation of governance reforms is critical to broaden the tax base, address corruption and improve equity. To sustain the momentum, a clear communication of reform efforts and objectives will be vital to foster public support.

50. A flexible exchange rate while continuing reserve accumulation, and prudent monetary and financial sector policies are essential to rebuild resilience. Allowing the exchange rate to absorb the impact from higher energy prices is key to secure CBSL's commitment to FX purchases. Monetary policy should be prudent, agile, and data-dependent. Preserving a well-capitalized banking sector, resolving non-performing loans, and enhancing supervision will help address risks and support growth.

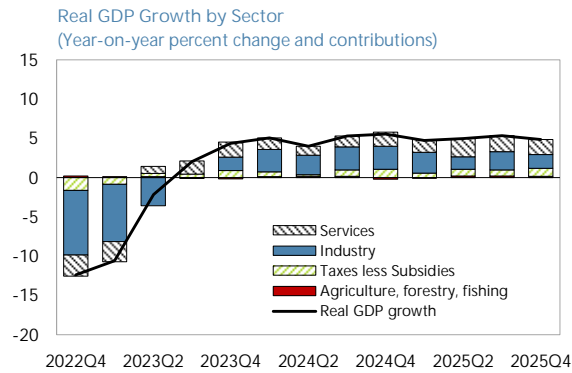
51. Broader reforms are needed to unlock Sri Lanka's growth potential. The growth reform strategy should prioritize liberalizing trade, improving the investment climate, enhancing SOE efficiency, reducing labor market rigidities, mitigating climate vulnerabilities, and improving the targeting and coverage of social safety nets.

52. Based on Sri Lanka's generally strong performance and commitments under the program, staff support authorities' request for the completion of the financing assurances review, waiver of nonobservance of a performance criterion, modification of performance criteria, and the completion of the Fifth and Sixth Reviews. Staff support authorities' request for a waiver of nonobservance for the continuous PC on external payment arrears on the basis of minor nonobservance and adoption of corrective actions (¶11). Staff also support authorities' request for temporary approval of existing exchange restrictions and MCPs as the approval criteria are met.²³

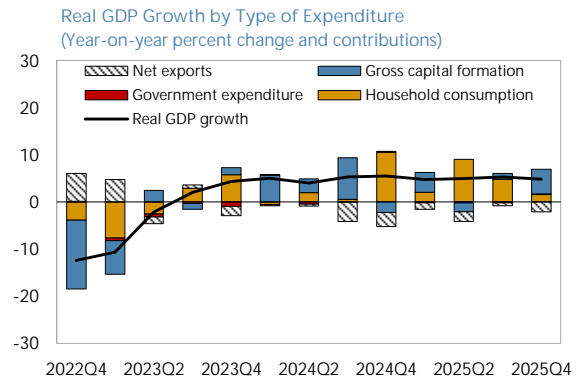
²³ These exchange restrictions and MCPs are imposed for BOP reasons, non-discriminatory, and temporary in nature.

Figure 1. Sri Lanka: Real Sector

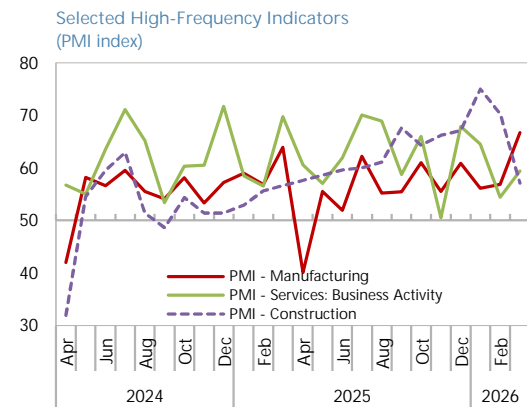
Growth outturn was strong at around 5 percent for eight consecutive quarters, driven by services and industry.



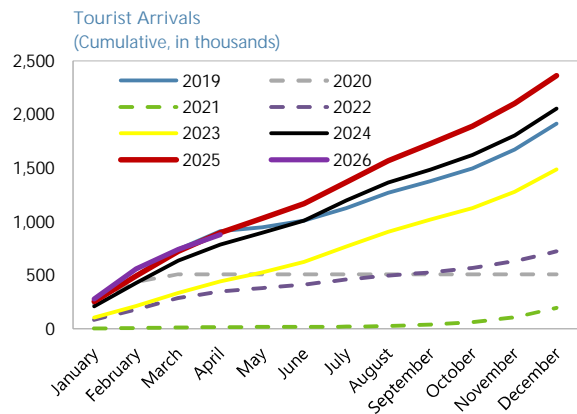
Investment driven by reconstruction was a key contributor to 2025Q4 growth.



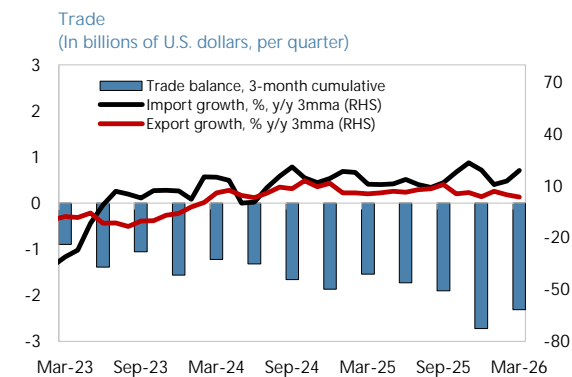
High-frequency indicators suggested economic resilience despite the cyclone.



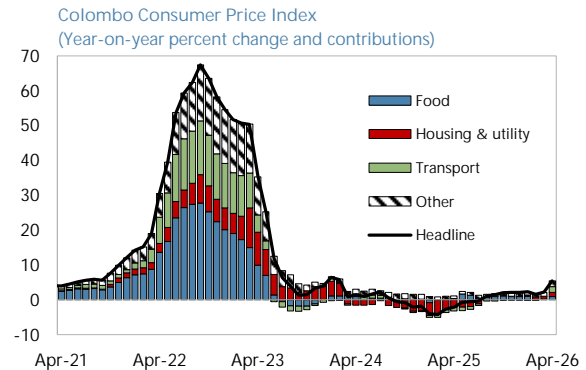
Tourist arrivals were strong prior to the conflict, reaching all-time high, but dropped by 20 percent y/y in March.



Trade deficit widened in 2025 due to large motor vehicle imports.



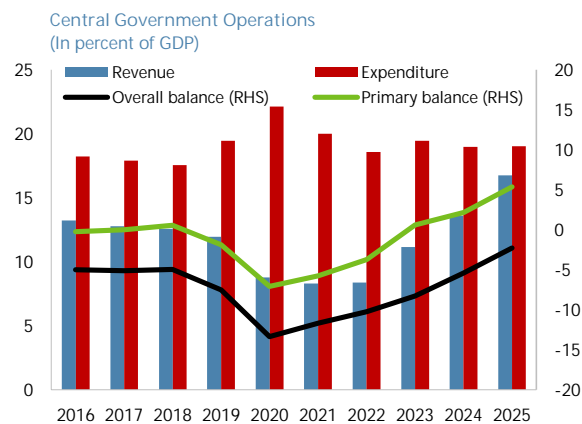
Inflation surged to 5.4 percent y/y in April, reflecting the fuel price shocks amid the Middle East conflict.



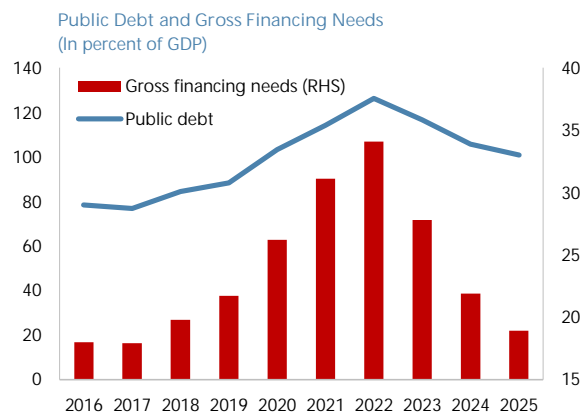
Sources: CBSL; Sri Lanka Tourism Development Authority; Haver Analytics; and IMF staff calculations.

Figure 2. Sri Lanka: Fiscal Sector

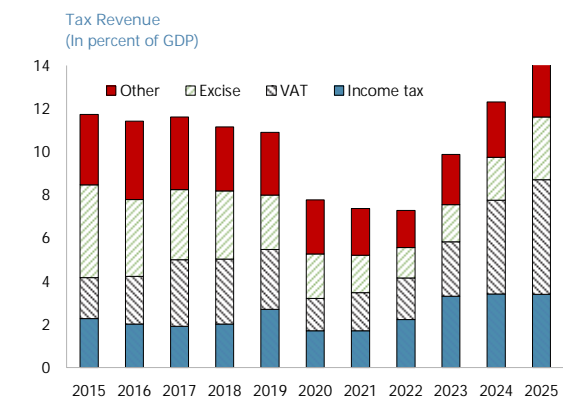
Fiscal deficits have declined since the peak in 2020.



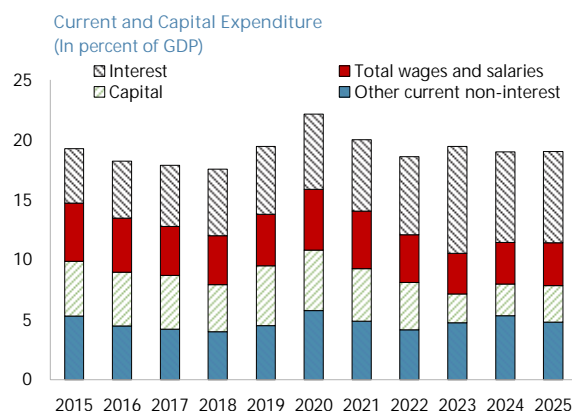
Debt restructuring, together with fiscal consolidation, has reduced gross financing needs and public debt level.



Tax collections improved sharply following a large increase in motor vehicle imports due to pent-up demand.



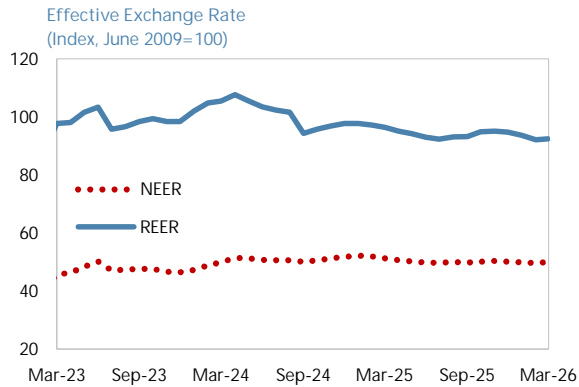
Primary expenditure remains near historical lows.



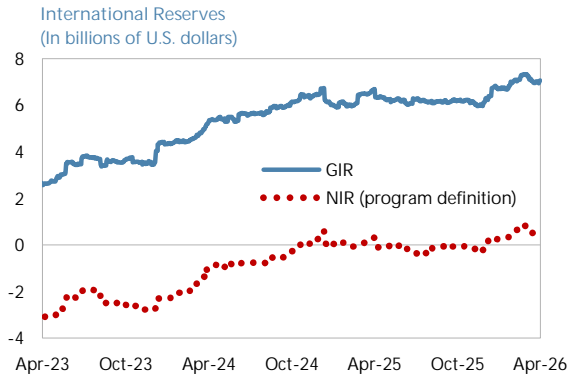
Sources: Ministry of Finance; CBSL; Bloomberg Data L.P.; and IMF staff calculations.

Figure 3. Sri Lanka: Foreign Exchange and Financial Markets

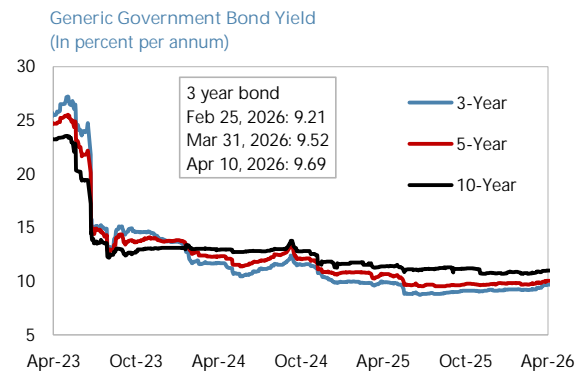
The rupee was resilient in nominal and real terms...



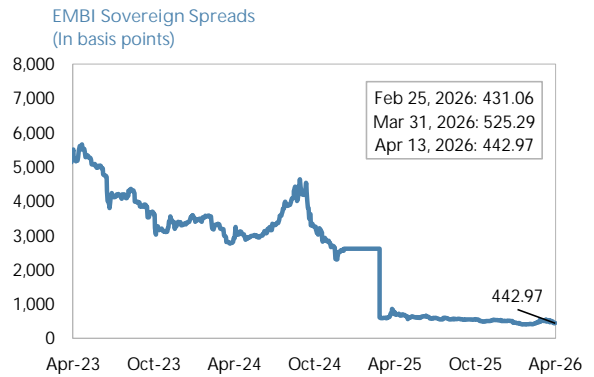
...and reserves were largely stable through 2025.



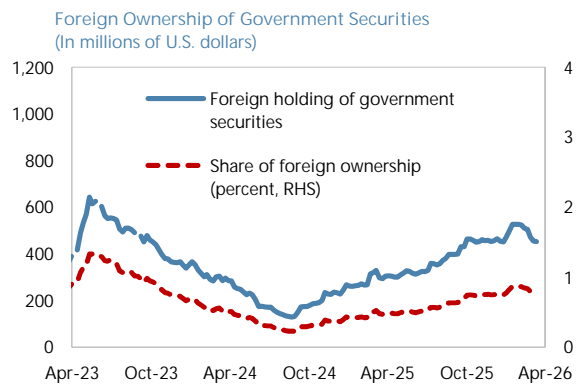
Domestic government bond yields remained relatively resilient.



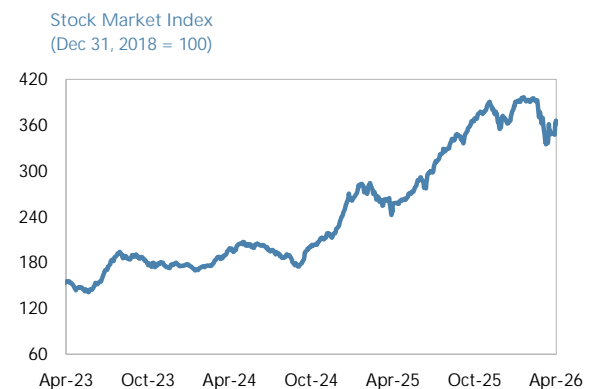
Sovereign spreads have broadly stabilized following the March spike amid the Middle East conflict.



Foreign holdings of government securities have declined amid risk-off sentiment.



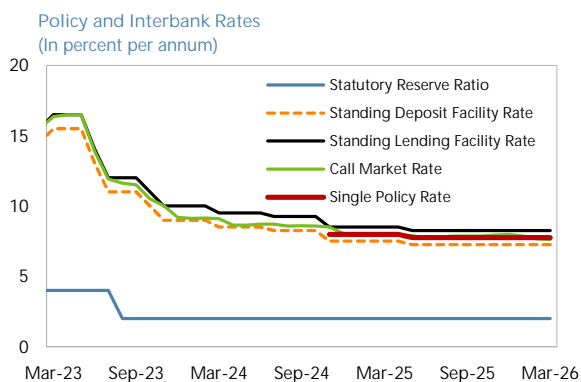
The equity market declined by about 9 percent since the beginning of Middle East conflict.



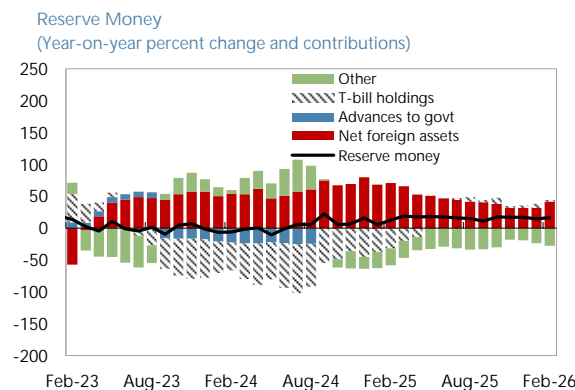
Sources: CBSL; Bloomberg Data L.P.; and IMF staff calculations.

Figure 4. Sri Lanka: Monetary and Banking Sector

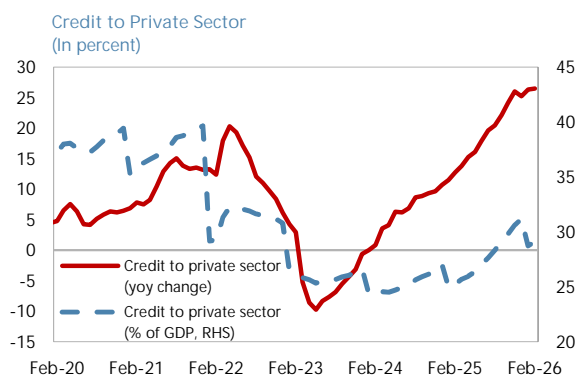
The monetary policy rate has been maintained at 7.75 percent since the 25 basis points cut in May 2025.



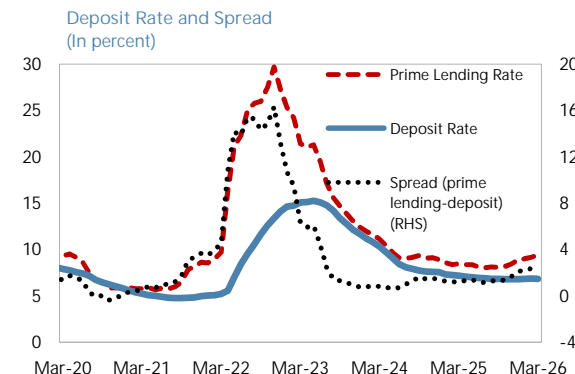
Reserve money growth remains contained, as the increase in net foreign assets is largely offset by other reductions.



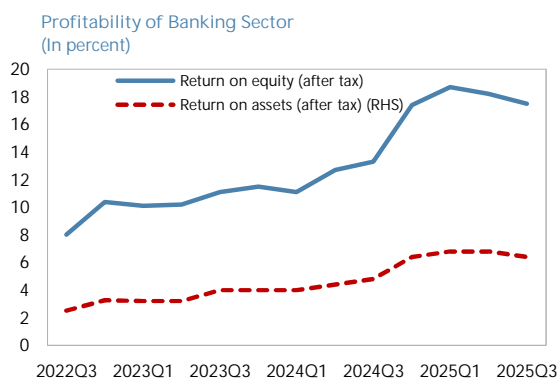
Credit to the private sector is rebounding strongly, with credit-to-GDP ratio gradually returning to pre-crisis levels.



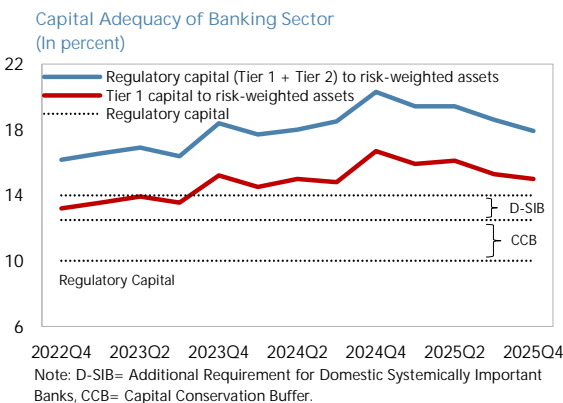
Bank lending and deposit rates have slightly increased, reflecting the pick-up in credit demand.



Banking sector profits have been robust...



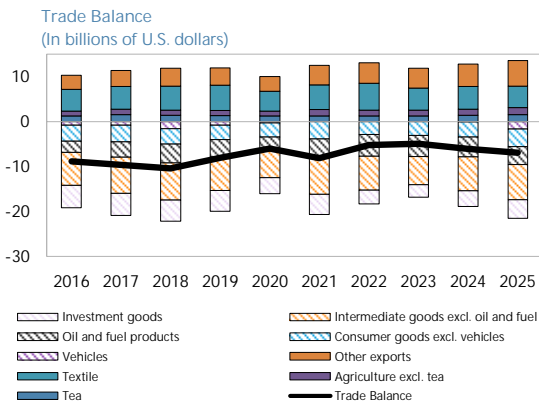
...and capital adequacy ratios remain comfortably above regulatory requirements.



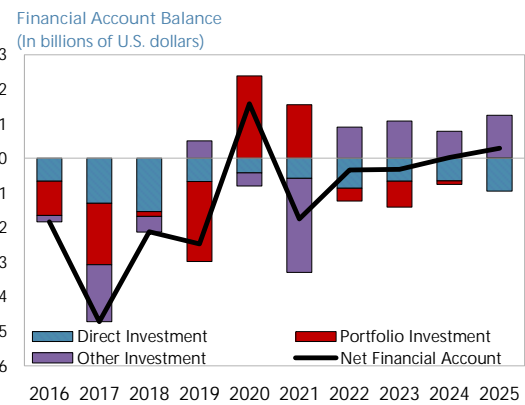
Sources: CBSL; Haver Analytics.; and IMF staff calculations.

Figure 5. Sri Lanka: Balance of Payments

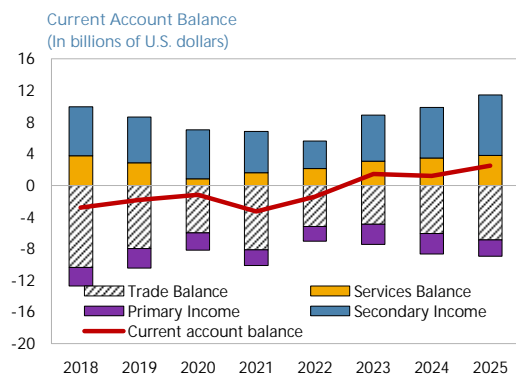
The trade deficit widened on the back of the lifting of restrictions on motor vehicle imports.



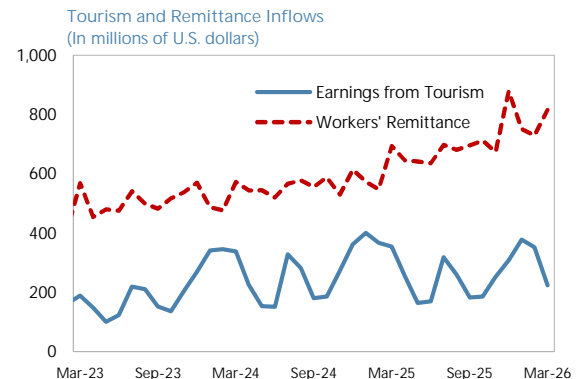
The financial account had improved but foreign direct investment and portfolio investment remained subdued.



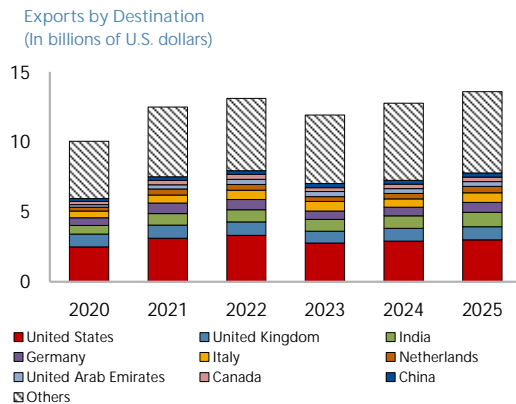
The current account recorded a surplus in a third consecutive year ...



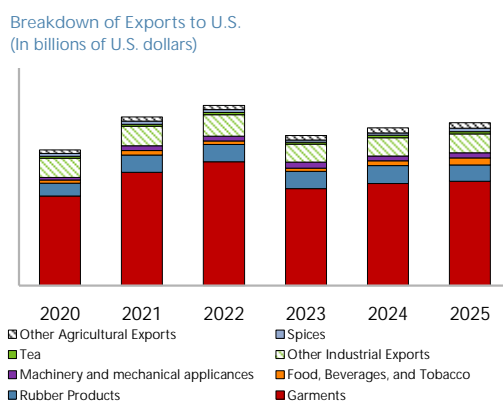
... supported by a strong rebound in remittances, resilient tourism receipts, and the external debt relief.



The U.S. is Sri Lanka's top export destination, making up 22 percent of goods exports (3 percent of GDP) in 2025...



...driven by garment and rubber industries.



Sources: CBSL; Haver Analytics; and IMF staff calculations.

Table 1. Sri Lanka: Selected Economic Indicators

	2024		2025		2026		2027		2028	2029	2030	2031
	Fourth Review	Act.	Fourth Review	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.			
GDP and inflation (in percent)												
Real GDP growth	5.0	5.0	3.5	5.0	3.1	3.0	3.1	3.2	3.1	3.1	3.1	3.1
Inflation (average) 1/	1.2	1.2	3.3	-0.5	5.2	5.0	5.0	5.3	5.0	5.0	5.0	5.0
Inflation (end-of-period) 1/	-1.5	-1.5	8.9	2.1	5.2	6.1	5.0	5.0	5.0	5.0	5.0	5.0
GDP Deflator growth	3.8	4.1	3.6	3.7	5.3	6.2	5.1	5.2	5.0	5.0	5.0	5.0
Nominal GDP growth	9.0	9.3	7.1	8.8	8.5	9.4	8.4	8.5	8.2	8.2	8.2	8.2
Savings and investment (in percent of GDP)												
National savings 2/	25.2	27.6	21.8	31.2	22.2	27.4	22.9	24.2	23.9	23.5	23.3	23.0
Government	-3.2	-3.0	-2.0	0.7	-0.8	-0.4	-0.1	0.2	0.0	-0.1	0.0	0.1
Private	28.4	30.5	23.8	30.6	23.0	27.8	23.0	24.1	23.9	23.6	23.3	22.9
National Investment	27.0	26.3	21.8	29.6	22.1	27.9	22.5	24.3	24.2	24.0	23.9	23.7
Government	5.0	4.8	4.3	5.6	4.5	5.8	4.6	4.7	4.6	4.5	4.4	4.5
Private	21.9	21.6	17.4	24.1	17.6	22.1	17.9	19.6	19.5	19.5	19.4	19.2
Savings-Investment balance	-1.8	1.2	0.0	1.6	0.1	-0.5	0.4	-0.1	-0.3	-0.5	-0.6	-0.7
Government	-8.2	-7.7	-6.3	-4.9	-5.3	-6.3	-4.6	-4.6	-4.6	-4.6	-4.5	-4.4
Private	6.4	8.9	6.4	6.5	5.4	5.8	5.1	4.5	4.4	4.1	3.9	3.7
Public finances (in percent of GDP)												
Revenue and grants	13.7	13.6	15.0	16.7	15.2	15.2	15.3	15.1	15.0	15.0	14.9	15.0
Expenditure	19.3	19.0	20.5	19.0	19.7	20.3	19.2	18.7	18.8	18.8	18.7	18.7
Primary balance	2.2	2.2	2.3	5.4	2.3	1.4	2.3	2.3	2.3	2.3	2.3	2.3
Central government balance	-5.6	-5.4	-5.4	-2.3	-4.5	-5.1	-3.9	-3.7	-3.8	-3.8	-3.7	-3.7
Central government gross financing needs	21.9	21.8	22.6	19.0	19.6	19.8	14.9	14.4	13.7	11.7	11.3	11.8
Central government debt	100.5	100.2	105.1	96.8	103.4	96.3	100.2	93.5	92.5	90.4	88.5	86.5
Public debt 3/	105.2	105.0	109.6	101.1	107.4	100.1	103.6	96.9	95.5	93.2	90.9	88.8
Money and credit (percent change, end of period)												
Reserve money	15.8	15.8	6.5	16.7	8.5	9.8	8.4	8.5	8.2	8.2	8.2	8.2
Broad money	8.6	8.6	6.5	11.5	8.5	17.3	8.4	8.5	8.2	8.2	8.2	8.2
Domestic credit	4.0	4.0	4.5	11.3	3.0	9.8	3.8	7.1	6.2	6.9	7.1	7.7
Credit to private sector	10.7	10.7	9.4	25.2	9.2	14.5	9.3	11.8	9.3	9.3	9.3	9.3
Credit to private sector (adjusted for inflation)	9.5	9.5	6.1	25.7	4.1	9.5	4.3	6.5	4.3	4.3	4.3	4.3
Credit to central government and public corporations	-1.4	-1.4	0.0	-1.4	-3.3	4.3	-2.5	1.1	1.9	3.2	3.7	4.9
Balance of payments (in millions of U.S. dollars)												
Exports	12,772	12,772	12,880	13,581	13,490	14,131	14,194	14,401	15,179	16,004	16,876	17,747
Imports	-18,828	-18,841	-21,363	-21,480	-22,447	-23,095	-23,578	-22,748	-23,987	-25,271	-26,612	-28,051
Current account balance	1,746	1,207	-48	1,719	-77	-534	-439	-115	-302	-628	-774	-937
Current account balance (in percent of GDP)	1.8	1.2	0.0	1.6	-0.1	-0.5	-0.4	-0.1	-0.3	-0.5	-0.6	-0.7
Current account balance net of interest (in percent of GDP)	3.7	2.9	2.1	2.8	2.0	1.4	1.7	1.8	1.7	1.4	1.2	1.2
Export value growth (percent)	7.2	7.2	0.8	6.3	4.7	4.0	5.2	1.9	5.4	5.4	5.4	5.2
Import value growth (percent)	12.0	12.1	13.5	14.0	5.1	7.5	5.0	-1.5	5.4	5.4	5.3	5.4
Gross international reserves (end of period)												
In millions of U.S. dollars	6,122	6,122	7,255	6,838	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods & services	3.0	3.0	3.3	3.1	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.3
In percent of ARA composite metric	50.5	53.2	60.3	59.4	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
Gross official reserves accounting for PBOC Swap conditions (end of period) 4/												
In millions of U.S. dollars	4,686	4,740	7,255	5,395	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods & services	2.3	2.3	3.3	2.4	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.3
In percent of ARA composite metric	38.6	41.2	60.3	46.9	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
External debt (public and private) 4/												
In billions of U.S. dollars	53.9	55.2	54.6	54.8	56.3	56.7	59.9	58.9	60.2	60.8	61.3	61.9
As a percent of GDP	54.4	55.4	55.1	50.3	58.6	51.7	59.4	52.7	51.2	49.1	47.0	45.1
Memorandum items:												
Nominal GDP (in billions of rupees)	29,899	30,096	32,036	32,751	34,754	35,835	37,664	38,891	42,089	45,561	49,313	53,381
Nominal GDP (in billions of U.S. dollars)	99.0	99.6	99.1	108.9	96.1	109.7	100.9	111.7	117.6	123.8	130.4	137.4
Exchange Rate (period average)	302.0	302.1	...	300.9	...	...	...	...	...	...	...	...
Exchange Rate (end of period)	293.0	292.6	...	310.0	...	...	...	...	...	...	...	...

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ Colombo CPI.

2/ Cash basis, excluding accrued but not paid interest.

3/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements). The debt statistics currently assume the external debt restructuring to have been completed at end 2023.

4/ Based on market value when available.

Table 2a. Sri Lanka: Summary of Central Government Operations, 2024-31
(In billions of rupees)

	2024	2025		2026		2027		2028	2029	2030	2031
	Act.	Fourth Review	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.			
Total revenue and grants	4,091	4,819	5,486	5,296	5,449	5,764	5,855	6,314	6,821	7,365	8,015
Total revenue	4,031	4,789	5,449	5,263	5,410	5,728	5,812	6,267	6,770	7,310	7,956
Tax revenue	3,705	4,439	5,049	4,922	5,033	5,364	5,445	5,890	6,378	6,898	7,521
Income taxes	1,026	1,100	1,139	1,177	1,244	1,293	1,349	1,460	1,584	1,715	1,856
VAT	1,310	1,524	1,747	1,740	1,803	1,883	1,942	2,069	2,241	2,421	2,616
Excise taxes	597	828	1,059	915	998	983	1,050	1,125	1,209	1,299	1,393
Other taxes on goods and services	294	315	393	334	385	361	416	447	485	520	559
Taxes on international trade	477	672	712	756	602	787	629	663	723	795	937
Property taxes	0	0	0	0	0	56	58	126	137	148	160
Nontax revenue	326	350	400	342	376	365	367	377	392	413	435
Grants	60	30	36	33	40	36	43	46	50	54	59
Total expenditure and net lending ^{1/}	5,713	6,555	6,230	6,850	7,277	7,220	7,280	7,911	8,556	9,211	9,982
Primary spending	3,440	4,082	3,730	4,490	4,940	4,881	4,961	5,346	5,773	6,231	6,787
Current expenditure ^{2/}	4,922	5,425	5,232	5,551	5,558	5,751	5,750	6,279	6,809	7,334	7,906
Wages and salaries	1,047	1,230	1,164	1,321	1,323	1,446	1,493	1,616	1,750	1,894	2,050
Goods and services	370	416	335	451	401	489	435	471	510	552	597
Subsidies and transfers	1,233	1,306	1,233	1,420	1,497	1,476	1,501	1,626	1,766	1,909	2,063
of which: social safety net transfers	186	237	233	245	240	257	265	287	311	336	364
Other current transfers ^{1/2/}	130										
Interest payments	2,272	2,473	2,501	2,360	2,337	2,339	2,320	2,565	2,783	2,980	3,195
Capital expenditure and net lending	777	1,130	998	1,298	1,719	1,469	1,530	1,632	1,748	1,876	2,076
Capital expenditure	777	1,115	1,013	1,282	1,730	1,452	1,542	1,645	1,762	1,892	2,093
Net lending	0	15	-15	17	-11	18	-12	-13	-14	-15	-16
Overall balance ^{1/3/}	-1,752	-1,736	-745	-1,553	-1,827	-1,456	-1,425	-1,597	-1,736	-1,846	-1,967
Overall balance (program definition) ^{1/3/}	-1,622	-1,736	-745	-1,553	-1,827	-1,456	-1,425	-1,597	-1,736	-1,846	-1,967
Financing	1,752	1,736	745	1,553	1,827	1,456	1,425	1,597	1,736	1,846	1,967
Privatization	0	0	0	0	0	0	0	0	0	0	0
Net external financing	285	460	395	623	687	956	894	438	403	393	316
Net domestic financing	1,467	1,277	349	930	1,140	500	531	1,160	1,332	1,453	1,651
Memorandum items:											
Central government primary balance	520	737	1,756	806	509	883	894	968	1,048	1,134	1,228
Central government primary balance (program definition) ^{1/3/}	650	737	1,756	806	509	883	894	968	1,048	1,134	1,228
Central government debt ^{1/}	30,150	33,659	31,703	35,953	34,494	37,750	36,369	38,923	41,196	43,620	46,196
Nominal GDP (in billion of rupees)	30,096	32,036	32,751	34,754	35,835	37,664	38,891	42,089	45,561	49,313	53,381
Stock of Expenditure Arrears (in billion of rupees)	95	56	7	28	0	0	0	0	0	0	0

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ For 2024, total spending includes current transfer to account for the cash injection for banks' recapitalization. Overall and primary balances of fiscal accounts include this amount but they are excluded from program targets. See Note 3.

2/ Relative to the second review, the bank recap amount has been reclassified to current instead of capital expenditure. This amount is only presented for information and is not included in total spending aggregates. The table show the fiscal balances with and without this amount for transparency purposes only.

3/ As per the EFF TMU and for the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure.

Table 2b. Sri Lanka: Summary of Central Government Operations, 2024-31
(In percent of GDP)

	2024		2025		2026		2027		2028	2029	2030	2031
	Fourth Review	Act.	Fourth Review	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.			
Total revenue and grants	13.7	13.6	15.0	16.7	15.2	15.2	15.3	15.1	15.0	15.0	14.9	15.0
Total revenue	13.5	13.4	14.9	16.6	15.1	15.1	15.2	14.9	14.9	14.9	14.8	14.9
Tax revenue	12.4	12.3	13.9	15.4	14.2	14.0	14.2	14.0	14.0	14.0	14.0	14.1
Income taxes	3.4	3.4	3.4	3.5	3.4	3.5	3.4	3.5	3.5	3.5	3.5	3.5
VAT	4.4	4.4	4.8	5.3	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9
Excise taxes	2.0	2.0	2.6	3.2	2.6	2.8	2.6	2.7	2.7	2.7	2.6	2.6
Other taxes on goods and services	1.0	1.0	1.0	1.2	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.0
Taxes on international trade	1.6	1.6	2.1	2.2	2.2	1.7	2.1	1.6	1.6	1.6	1.6	1.8
Property taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3
Nontax revenue	1.1	1.1	1.1	1.2	1.0	1.1	1.0	0.9	0.9	0.9	0.8	0.8
Grants	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure and net lending ^{1/}	19.3	19.0	20.5	19.0	19.7	20.3	19.2	18.7	18.8	18.8	18.7	18.7
Primary spending	11.5	11.4	12.7	11.4	12.9	13.8	13.0	12.8	12.7	12.7	12.6	12.7
Current expenditure ^{2/}	19.7	19.4	16.9	16.0	16.0	15.5	15.3	14.8	14.9	14.9	14.9	14.8
Wages and salaries	3.5	3.5	3.8	3.6	3.8	3.7	3.8	3.8	3.8	3.8	3.8	3.8
Goods and services	1.2	1.2	1.3	1.0	1.3	1.1	1.3	1.1	1.1	1.1	1.1	1.1
Subsidies and transfers	4.1	4.1	4.1	3.8	4.1	4.2	3.9	3.9	3.9	3.9	3.9	3.9
of which: social safety net transfers	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other current transfers ^{1/ 2/}	0.4	0.4										
Interest payments	7.8	7.6	7.7	7.6	6.8	6.5	6.2	6.0	6.1	6.1	6.0	6.0
Capital expenditure and net lending	2.6	2.6	3.5	3.0	3.7	4.8	3.9	3.9	3.9	3.8	3.8	3.9
Capital expenditure	2.6	2.6	3.5	3.1	3.7	4.8	3.9	4.0	3.9	3.9	3.8	3.9
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance ^{1/ 3/}	-6.1	-5.8	-5.4	-2.3	-4.5	-5.1	-3.9	-3.7	-3.8	-3.8	-3.7	-3.7
Overall balance (program definition) ^{1/3/}	-5.6	-5.4	-5.4	-2.3	-4.5	-5.1	-3.9	-3.7	-3.8	-3.8	-3.7	-3.7
Financing	6.1	5.8	5.4	2.3	4.5	5.1	3.9	3.7	3.8	3.8	3.7	3.7
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external financing	1.0	0.9	1.4	1.2	1.8	1.9	2.5	2.3	1.0	0.9	0.8	0.6
Net domestic financing	5.1	4.9	4.0	1.1	2.7	3.2	1.3	1.4	2.8	2.9	2.9	3.1
Memorandum items:												
Central government primary balance	1.7	1.7	2.3	5.4	2.3	1.4	2.3	2.3	2.3	2.3	2.3	2.3
Central government primary balance (program definition) ^{1/3/}	2.2	2.2	2.3	5.4	2.3	1.4	2.3	2.3	2.3	2.3	2.3	2.3
Central government debt ^{1/}	100.5	100.2	105.1	96.8	103.4	96.3	100.2	93.5	92.5	90.4	88.5	86.5
Nominal GDP (in billion of rupees)	29,899	30,096	32,036	32,751	34,754	35,835	37,664	38,891	42,089	45,561	49,313	53,381
Stock of Expenditure Arrears	0.3	0.3	0.2	0.0	0.1	0.0	0	0	0	0	0	0

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ For 2024, total spending includes current transfer to account for the cash injection for banks' recapitalization. Overall and primary balances of fiscal accounts include this amount but they are excluded from program targets. See Note 3.

2/ Relative to the second review, the bank recap amount has been reclassified to current instead of capital expenditure. This amount is only presented for information and is not included in total spending aggregates. The table show the fiscal balances with and without this amount for transparency purposes only.

3/ As per the EFF TMU and for the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure.

Table 3. Sri Lanka: Monetary Accounts, 2024-27 1/
(In billions of rupees, unless otherwise indicated; end of period)

	2024	2025	2026	2027
	Act.		Proj.	
Central Bank of Sri Lanka				
Net foreign assets	222	713	1,347	2,315
Net domestic assets	1,317	1,083	626	-174
Net claims on central government	1,774	1,828	1,308	838
Other items, net	-450	-722	-659	-989
Reserve Money	1,539	1,796	1,973	2,141
Currency in circulation	1,359	1,569	1,164	1,233
Commercial banks' deposits	181	228	809	908
Monetary survey				
Net foreign assets	573	1,067	1,759	2,760
Monetary authorities	222	713	1,347	2,315
Deposit money banks	351	353	412	445
Net domestic assets	13,749	14,908	16,983	17,580
Net claims on central government	8,270	8,285	8,668	8,766
Credit to corporations	8,813	10,732	12,214	13,591
Public corporations	657	520	520	520
Private corporations	8,156	10,212	11,694	13,071
Other items (net)	-3,334	-4,109	-3,898	-4,777
Broad money	14,322	15,975	18,742	20,340
Memorandum Items				
Gross international reserves (in millions of U.S. dollars)	6,122	6,838	8,645	11,779
Net international reserves (in millions of U.S. dollars)	1,493	3,015	4,635	7,611
Net Foreign Assets of commercial banks (in millions of U.S. dollars)	1,199	1,140	1,200	1,260
Reserve money (in percent of GDP)	5.1	5.5	5.5	5.5
Private credit (in percent of GDP)	27.1	31.2	32.6	33.6
Money multiplier	9.3	8.9	9.5	9.5
Broad money velocity	2.1	2.1	1.9	1.9
	(Annual percentage change)			
Nominal GDP	9.3	8.8	9.4	8.5
Broad money	8.6	11.5	17.3	8.5
Reserve money	15.8	16.7	9.8	8.5
Credit to private sector	10.7	25.2	14.5	11.8
Credit to private sector (adjusted for inflation)	9.5	25.7	9.5	6.5

Sources: Central Bank of Sri Lanka; and IMF staff estimates.

1/ Covers the monetary authorities and commercial banks. Excludes deposit-taking finance companies.

Table 4a. Sri Lanka: Balance of Payments, 2024-31
(In millions of dollars, unless otherwise indicated)

	2024	2025		2026		2027		2028	2029	2030	2031
	Act.	Fourth Review	Prel. 1/	Fourth Review	Proj.	Fourth Review	Proj.	Proj.			
Current account	1,207	-48	1,719	-77	-534	-439	-115	-302	-628	-774	-937
Balance on goods	-6,069	-8,483	-7,899	-8,957	-8,964	-9,383	-8,347	-8,808	-9,267	-9,736	-10,303
Credit (exports)	12,772	12,880	13,581	13,490	14,131	14,194	14,401	15,179	16,004	16,876	17,747
Debit (imports)	-18,841	-21,363	-21,480	-22,447	-23,095	-23,578	-22,748	-23,987	-25,271	-26,612	-28,051
Non-oil imports	-14,487	-16,483	-17,437	-17,672	-17,716	-18,631	-17,862	-19,060	-20,211	-21,407	-22,709
Oil imports	-4,354	-4,880	-4,043	-4,775	-5,379	-4,947	-4,886	-4,927	-5,061	-5,205	-5,342
Balance on services	3,435	3,949	3,707	4,163	3,339	4,280	3,567	3,757	4,009	4,194	4,431
Credit (exports)	6,910	7,489	7,066	7,883	6,752	8,198	7,233	7,583	8,003	8,466	8,894
Debit (imports)	-3,475	-3,539	-3,359	-3,720	-3,414	-3,918	-3,666	-3,825	-3,994	-4,272	-4,462
Primary income, net	-2,598	-2,461	-2,036	-2,351	-2,530	-2,527	-2,783	-3,054	-3,320	-3,609	-3,819
Secondary income, net	6,439	6,947	7,947	7,069	7,621	7,191	7,448	7,803	7,951	8,378	8,754
Of which: workers' remittances (net)	6,429	6,937	7,946	7,059	7,621	7,181	7,447	7,802	7,950	8,377	8,754
Capital account (+ surplus / - deficit)	12	12	-7	12	12	12	12	12	12	12	12
Balance from current account and capital account	1,219	-36	1,712	-65	-522	-427	-103	-290	-616	-762	-925
Financial account (+ net lending / - net borrowing) 2/	1	-371	281	-1,602	-1,491	-3,976	-3,080	-2,672	-1,500	-1,489	-1,621
Direct investments	-649	-800	-946	-900	-955	-1,100	-1,137	-1,202	-1,271	-1,344	-1,420
Portfolio investments	-122	276	8	-20	125	-1,520	-767	-1,145	337	317	298
Equity and investment Fund shares	-3	0	184	0	0	0	0	0	0	0	0
Debt instruments	-119	276	-176	-20	125	-1,520	-767	-1,145	337	317	298
Of which: deposit taking corporations	180	0	-259	0	0	0	0	0	0	0	0
Of which: general government	-286	276	95	-20	125	-1,520	-767	-1,145	337	317	298
T-bills, T-bonds, and SLDBs	179	-13	-248	-20	-205	-20	420	20	20	20	20
Sovereign bonds	-465	289	343	0	330	-1,500	-1,187	-1,165	317	297	278
Other investments 3/	772	153	1,219	-682	-661	-1,356	-1,176	-325	-566	-463	-498
Of which:											
Currency and deposits	795	900	124	630	550	0	-100	-100	-100	-100	-100
Central bank	900	900	900	630	650	0	0	0	0	0	0
Deposit taking corporations	-105	0	-776	0	-100	0	-100	-100	-100	-100	-100
Loans 3/	-233	-858	-8	-1,230	-1,130	-1,258	-978	-239	-481	-277	-512
Deposit taking corporations	10	0	-97	0	160	0	160	160	160	160	160
General government	-818	-858	-153	-1,080	-1,140	-1,108	-1,138	-399	-641	-437	-672
Other sectors	575	0	243	-150	-150	-150	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable/payable (incl. ACU balance)	-42	0	978	0	15	0	15	15	15	15	0
Errors and omissions	-254	0	-808	0	0	0	0	0	0	0	0
Overall balance (- = need of inflow) 2/	964	336	42	1,537	969	3,549	2,977	2,381	885	728	695
Financing (- = inflow)	1,301	1,344	930	2,216	2,011	3,889	3,327	2,381	884	726	735
Change in reserve assets	1,090	1,133	716	2,017	1,806	3,701	3,134	2,160	535	272	239
Use of Fund credit, net	211	211	214	199	205	187	193	221	349	454	496
Purchases/Disbursements	0	0	0	0	0	0	0	0	0	0	0
Repurchases/repayments	211	211	214	199	205	187	193	221	349	454	496
Gross international reserves	1,730	1,133	716	2,017	1,806	3,701	3,134	2,160	535	272	239
Financing gap (- = inflow) 4/	-337	-1,009	-889	-679	-1,042	-340	-350	0	0	0	0
IMF	-337	-1,009	-889	-679	-1,042	-340	-350	0	0	0	0
Other IFIs	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Current account (in percent of GDP)	1.2	0.0	1.6	-0.1	-0.5	-0.4	-0.1	-0.3	-0.5	-0.6	-0.7
Gross international reserves	6,122	7,255	6,838	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods and services	3.0	3.3	3.1	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.3
In percent of ARA composite metric	53.2	60.3	59.4	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
Gross official reserves accounting for PBOC Swap conditions	4,740	7,255	5,395	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods and services	2.3	3.3	2.4	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.3
In percent of ARA composite metric	41.2	60.3	46.9	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
Net international reserves	1,493	2,729	2,340	4,896	3,959	8,444	6,936	9,317	10,202	10,930	11,625
In percent of ARA composite metric	13.0	22.7	20.3	39.9	33.7	65.1	57.1	74.0	79.8	84.0	88.6
Crude Oil import price assumption for Sri Lanka, USD/barrel equivalent	89	75	76	70	98	70	85	83	83	83	82

Sources: Data provided by the CBSL; and IMF staff estimates.

1/ Preliminary as of end-March 2026; subject to revisions.

2/ Excluding changes in reserves assets and credit and loans with the IMF.

3/ Excluding credits and loans with the IMF, other than reserves (net purchases and repurchases), and other international institutions' loan disbursement.

4/ In this table, all program financing in 2022-2027 (IFI budget support, debt relief, external arrears) except the IMF financing is included above the line.

Table 4b. Sri Lanka: Balance of Payments, 2024-31
(In percent of GDP, unless otherwise indicated)

	2024	2025		2026		2027		2028	2029	2030	2031
	Act.	Fourth Review	Prel. 1/	Fourth Review	Proj.	Fourth Review	Proj.	Proj.			
Current account	1.2	0.0	1.6	-0.1	-0.5	-0.4	-0.1	-0.3	-0.5	-0.6	-0.7
Balance on goods	-6.1	-8.6	-7.3	-9.3	-8.2	-9.3	-7.5	-7.5	-7.5	-7.5	-7.5
Credit (exports)	12.8	13.0	12.5	14.0	12.9	14.1	12.9	12.9	12.9	12.9	12.9
Debit (imports)	-18.9	-21.5	-19.7	-23.4	-21.1	-23.4	-20.4	-20.4	-20.4	-20.4	-20.4
Non-oil imports	-14.5	-16.6	-16.0	-18.4	-16.2	-18.5	-16.0	-16.2	-16.3	-16.4	-16.5
Oil imports	-4.4	-4.9	-3.7	-5.0	-4.9	-4.9	-4.4	-4.2	-4.1	-4.0	-3.9
Balance on services	3.4	4.0	3.4	4.3	3.0	4.2	3.2	3.2	3.2	3.2	3.2
Credit (exports)	6.9	7.6	6.5	8.2	6.2	8.1	6.5	6.4	6.5	6.5	6.5
Debit (imports)	-3.5	-3.6	-3.1	-3.9	-3.1	-3.9	-3.3	-3.3	-3.2	-3.3	-3.2
Primary income, net	-2.6	-2.5	-1.9	-2.4	-2.3	-2.5	-2.5	-2.6	-2.7	-2.8	-2.8
Secondary income, net	6.5	7.0	7.3	7.4	6.9	7.1	6.7	6.6	6.4	6.4	6.4
Of which: workers' remittances (net)	6.5	7.0	7.3	7.3	6.9	7.1	6.7	6.6	6.4	6.4	6.4
Capital account (+ surplus / - deficit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from current account and capital account	1.2	0.0	1.6	-0.1	-0.5	-0.4	-0.1	-0.2	-0.5	-0.6	-0.7
Financial account (+ net lending / - net borrowing) 2/	0.0	-0.4	0.3	-1.7	-1.4	-3.9	-2.8	-2.3	-1.2	-1.1	-1.2
Direct investments	-0.7	-0.8	-0.9	-0.9	-0.9	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0
Portfolio investments	-0.1	0.3	0.0	0.0	0.1	-1.5	-0.7	-1.0	0.3	0.2	0.2
Equity and investment Fund shares	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt instruments	-0.1	0.3	-0.2	0.0	0.1	-1.5	-0.7	-1.0	0.3	0.2	0.2
Of which: deposit taking corporations	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: general government	-0.3	0.3	0.1	0.0	0.1	-1.5	-0.7	-1.0	0.3	0.2	0.2
T-bills, T-bonds, and SLDBs	0.2	0.0	-0.2	0.0	-0.2	0.0	0.4	0.0	0.0	0.0	0.0
Sovereign bonds	-0.5	0.3	0.3	0.0	0.3	-1.5	-1.1	-1.0	0.3	0.2	0.2
Other investments 3/	0.8	0.2	1.1	-0.7	-0.6	-1.3	-1.1	-0.3	-0.5	-0.4	-0.4
Of which:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.8	0.9	0.1	0.7	0.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Central bank	0.9	0.9	0.8	0.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Deposit taking corporations	-0.1	0.0	-0.7	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Loans 3/	-0.2	-0.9	0.0	-1.3	-1.0	-1.2	-0.9	-0.2	-0.4	-0.2	-0.4
Deposit taking corporations	0.0	0.0	-0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
General government	-0.8	-0.9	-0.1	-1.1	-1.0	-1.1	-1.0	-0.3	-0.5	-0.3	-0.5
Disbursements	-1.5	-2.1	-1.3	-2.5	-2.2	-2.3	-1.9	-1.7	-1.7	-1.7	-1.6
Amortizations	0.7	1.3	1.2	1.4	1.1	1.2	0.9	1.3	1.2	1.4	1.2
Other sectors	0.6	0.0	0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable/payable (incl. ACU balance)	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.3	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (- = need of inflow) 2/	1.0	0.3	0.0	1.6	0.9	3.5	2.7	2.0	0.7	0.6	0.5
Financing (- = inflow)	1.3	1.4	0.9	2.3	1.8	3.9	3.0	2.0	0.7	0.6	0.5
Change in reserve assets	1.1	1.1	0.7	2.1	1.6	3.7	2.8	1.8	0.4	0.2	0.2
Use of Fund credit, net	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Purchases/Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Gross international reserves	1.1	1.1	0.7	2.1	1.6	3.7	2.8	1.8	0.4	0.2	0.2
Financing gap (- = inflow) 4/	-0.3	-1.0	-0.8	-0.7	-1.0	-0.3	-0.3	0.0	0.0	0.0	0.0
IMF	-0.3	-1.0	-0.8	-0.7	-1.0	-0.3	-0.3	0.0	0.0	0.0	0.0
Other IFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account (in percent of GDP)	1.2	0.0	1.6	-0.1	-0.5	-0.4	-0.1	-0.3	-0.5	-0.6	-0.7
Gross international reserves	6,122	7,255	6,838	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods and services	3.0	3.3	3.1	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.5
In percent of ARA composite metric	53.2	60.3	59.4	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
Gross official reserves accounting for PBOC Swap conditions 3/	4,740	7,255	5,395	9,273	8,645	12,974	11,779	13,939	14,474	14,746	14,985
In months of prospective imports of goods and services	2.3	3.3	2.4	4.0	3.9	5.4	5.1	5.7	5.6	5.5	5.5
In percent of ARA composite metric	41.2	60.3	46.9	75.5	73.6	100.0	96.9	110.8	113.2	113.3	114.2
Net international reserves	1,493	2,729	2,340	4,896	3,959	8,444	6,936	9,317	10,202	10,930	11,625
In percent of ARA composite metric	13.0	22.7	20.3	39.9	33.7	65.1	57.1	74.0	79.8	84.0	88.6
Crude Oil import price assumption for Sri Lanka, USD/barrel equivalent	89	75	76	70	98	70	85	83	83	83	82

Sources: Data provided by the CBSL; and IMF staff estimates.

1/ Preliminary as of end-March 2026; subject to revisions.

2/ Excluding changes in reserves assets and credit and loans with the IMF.

3/ Excluding credits and loans with the IMF, other than reserves (net purchases and repurchases), and other international institutions' loan disbursement.

4/ In this table, all program financing in 2022-2027 (IFI budget support, debt relief, external arrears) except the IMF financing is included above the line.

Table 5. Sri Lanka: Composition of Public Debt 1/

	Debt Stock (end of period, incl. arrears and past due interest)			Debt Service on end-2024 debt stock (on the realized and expected restructuring terms)					
	2024			2025	2026	2027	2025	2026	2027
	(In US\$mn)	(Percent total debt)	(Percent GDP)	(In US\$mn)			(Percent GDP)		
Total public debt	107,984	100.0	105.0	26,096	10,381	9,874	23.3	8.5	7.4
External (foreign law)	40,245	37.3	39.1	2,864	2,496	2,417	2.6	2.0	1.8
Multilateral creditors ²	13,953	12.9	13.6	1,360	1,403	1,469	1.2	1.1	1.1
IMF	2,057	1.9	2.0	284	305	286	0.3	0.2	0.2
World Bank	4,637	4.3	4.5	338	338	349	0.3	0.3	0.3
ADB	7,024	6.5	6.8	612	681	759	0.5	0.6	0.6
Other Multilaterals	235	0.2	0.2	126	80	76	0.1	0.1	0.1
Bilateral Creditors	10,976	10.2	10.7	682	289	157	0.6	0.2	0.1
Paris Club	5,497	5.1	5.3	171	69	71	0.2	0.1	0.1
Non-Paris Club	5,283	4.9	5.1	491	202	69	0.4	0.2	0.1
Bonds	10,693	9.9	10.4	693	677	666	0.6	0.6	0.5
Commercial creditors	3,219	3.0	3.1	129	127	125	0.1	0.1	0.1
o/w: China Development Bank	3,058	2.8	3.0	40	40	40	0.0	0.0	0.0
Central bank bilateral currency swaps	1,406	1.3	1.4	-	-	-	0.0	0.0	0.0
Domestic (local law)	67,738	62.7	65.9	23,232	7,885	7,457	20.8	6.4	5.6
T-Bills	13,912	12.9	13.5	15,063	-	-	13.5	0.0	0.0
Bonds	48,324	44.8	47.0	7,736	7,481	7,064	6.9	6.1	5.3
Others	5,502	5.1	5.3	433	403	393	0.4	0.3	0.3
Memo items:									
Collateralized debt ³	0	0	0						
o/w: Related	0	0	0						
o/w: Unrelated	0	0	0						
Contingent liabilities									
o/w: Public guarantees ⁴									
o/w: Other explicit contingent liabilities									
Exchange rate (eop., Rupees/\$)	293								
Nominal GDP (billions of Rupees)	30,096								

1/As reported by the Sri Lankan authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Debt stock and debt service are based on the realized and expected restructuring terms. Government's stock of expenditure arrears are included.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Official Arrears).

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Included in public debt.

Table 6. Sri Lanka: Gross External Financing, 2024-31
(In millions of U.S. dollars, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031
	Act.	Prel.			Proj.			
Current account	1,207	1,719	-534	-115	-302	-628	-774	-937
Balance on goods	-6,069	-7,899	-8,964	-8,347	-8,808	-9,267	-9,736	-10,303
Credit (exports)	12,772	13,581	14,131	14,401	15,179	16,004	16,876	17,747
Debit (imports)	-18,841	-21,480	-23,095	-22,748	-23,987	-25,271	-26,612	-28,051
Balance on services	3,435	3,707	3,339	3,567	3,757	4,009	4,194	4,431
Credit (exports)	6,910	7,066	6,752	7,233	7,583	8,003	8,466	8,894
Debit (imports)	-3,475	-3,359	-3,414	-3,666	-3,825	-3,994	-4,272	-4,462
Primary and secondary income, net	3,842	5,911	5,091	4,665	4,749	4,630	4,769	4,934
Amortization	-2279	-3041	-3090	-1499	-2108	-2178	-2520	-2319
General government	-810	-1,584	-1,586	-1,306	-1,887	-1,828	-2,064	-1,863
Sovereign bonds	-120	-330	-330	-313	-335	-317	-297	-278
Syndicated loans	0	0	0	0	0	0	0	0
Bilateral and multilateral	-690	-1,254	-1,255	-993	-1,551	-1,511	-1,767	-1,586
Central bank	-1111	-1115	-855	-193	-221	-350	-456	-456
IMF repurchases/repayments	-211	-215	-205	-193	-221	-350	-456	-456
Other central bank liabilities, net	-900	-900	-650	0	0	0	0	0
Private sector loans	-358	-343	-650	0	0	0	0	0
Debt service on treated CG and guaranteed debt on pre-restructuring terms	-4,038	-4,366	-2,942	-2,974	-2,513	-2,493	-2,314	-631
Principal	-3,073	-3,529	-2,280	-2,468	-2,131	-2,232	-2,190	-584
Interest	-965	-837	-662	-506	-382	-261	-124	-46
Debt service on treated CG and guaranteed debt debt post-restructuring	654	1,134	942	927	1,739	1,923	1,911	2,066
Principal	153	377	377	377	968	1,157	1,186	1,385
Interest	501	757	566	551	771	765	725	682
Gross external financing needs	-4,456	-4,554	-5,624	-3,660	-3,184	-3,376	-3,696	-1,821
Sources of financing	4,456	4,554	5,624	3,660	3,184	3,376	3,696	1,821
Borrowing	1,806	648	3,638	3825	4320	2940	3165	3096
General government	689	1,145	1,850	2640	3181	1732	1784	1838
T-bills, Tbonsds, and SLDBs, net	-179	248	205	-420	-20	-20	-20	-20
Sovereign bonds	0	0	0	1500	1500	0	0	0
Syndicated loans	0	0	0	0	0	0	0	0
Bilateral and multilateral	850	897	1645	1560	1701	1752	1804	1858
Official capital transfers	18	0	0	0	0	0	0	0
Other capital inflows, net	1,117	-497	1,788	1,185	1,140	1,209	1,381	1,258
Deposit-taking corporations, excl. central bank, net	-45	219	-75	-75	-75	-75	-75	-75
FDI inflows, net	649	946	955	1,137	1,202	1,271	1,344	1,420
Private sector loans	745	442	388	-164	0	0	0	0
Other capital inflows, net 1/	-232	-2,104	519	287	12	12	112	-88
Change in reserve assets	-1,730	-716	-1,806	-3,134	-2,160	-535	-272	-239
External financing gap	4,380	4,623	3,792	2,969	1,024	971	802	-1,036
Exceptional Financing	4,380	4,623	3,792	2,969	1,024	971	802	-1,036
IMF EFF	337	889	1,042	350	0	0	0	0
IFI budget support	658	502	750	571	250	400	400	400
Debt moratorium: external arrears accumulation	644	0	0	0	0	0	0	0
Debt relief 2/	2,740	3,232	2,000	2,048	774	571	402	-1,436

Sources: Central Bank of Sri Lanka; and IMF staff estimates and projections.

1/ Including errors and omissions in 2024 and 2025.

2/ The debt treatment results in larger debt service flows in the outer years, when compared to the original contracted debt obligations, increasing financing needs from 2031 onwards.

Table 7. Sri Lanka: Financial Soundness Indicators—All Banks, 2022-25Q3

	2022				2023				2024				2025		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Capital adequacy															
Regulatory capital to risk weighted assets	15.1	15.2	15.3	16.2	16.5	16.9	16.4	18.4	17.7	18.0	18.5	20.3	19.4	19.4	18.6
Tier 1 capital/risk weighted assets	12.1	12.2	12.4	13.2	13.5	13.9	13.5	15.2	14.5	15.0	14.8	16.8	16.0	16.1	15.3
Equity capital and reserves to assets ratio	7.8	7.6	7.8	8.2	8.5	8.6	8.7	8.7	8.8	8.8	9.0	9.3	9.1	9.2	9.4
Asset quality															
Stage 3 Loans to Total Loans Ratio (excluding undrawn amounts)	8.4	8.9	10.8	11.6	12.9	13.5	13.4	12.8	12.8	12.6	12.6	12.7	12.5	11.9	11.0
Stage 3 Loans to Total Loans Ratio (including undrawn amounts)	8.4	9.4	10.8	11.3	12.7	13.5	13.6	12.8	12.9	12.8	12.4	12.3	12.7	12.0	11.2
Stage 3 Impairment Coverage (including undrawn amounts)	45.1	46.5	43.6	45.2	45.8	44.8	46.9	49.0	50.4	51.1	52.5	54.1	54.1	54.5	55.5
Earnings and profitability															
Return on equity (after tax)	20.4	8.8	8.0	10.4	10.2	10.2	11.1	11.5	11.1	12.7	13.3	17.4	18.7	18.5	17.5
Return on assets (after tax)	1.6	0.7	0.6	0.8	0.8	0.8	1.0	1.0	1.0	1.1	1.2	1.6	1.7	1.7	1.6
Net Interest income to gross income	59.0	66.7	72.5	72.8	81.9	80.2	77.0	77.5	82.0	80.4	81.4	92.8	77.9	78.7	78.7
Staff expenses to noninterest expenses	53.9	53.3	53.7	53.5	50.9	50.7	51.3	50.8	52.8	52.9	54.6	54.3	53.9	53.9	52.2
Total cost to total income	53.7	59.7	66.0	70.0	81.5	83.1	81.6	80.5	79.5	76.7	75.5	76.9	67.5	68.0	68.4
Net interest margin	4.2	4.3	4.1	4.0	3.7	3.5	3.5	3.7	3.8	3.9	4.0	4.4	4.6	4.5	4.3
Liquidity															
Liquid assets to total assets	19.0	14.7	16.8	18.5	22.1	24.5	30.0	32.2	34.6	34.4	35.3	38.6	38.1	38.0	36.1
Assets/funding structure															
Deposits to total assets	75.9	75.6	77.4	78.8	80.5	80.4	81.0	81.5	81.8	82.1	81.8	81.1	80.6	80.7	80.3
Borrowings to total assets	13.0	13.1	11.2	9.6	7.8	7.8	6.9	6.9	6.1	6.1	6.1	5.8	6.2	6.2	6.6

Source: CBSL.

Table 8. Sri Lanka: Projected Payments to the Fund, 2026-37 1/
(In millions of SDRs, unless otherwise indicated)

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Obligations Based on Existing and Prospective Credit (millions of SDRs)												
Millions of SDRs	251.1	265.3	281.1	364.4	426.4	439.6	448.1	414.5	318.7	267.5	155.5	46.8
Principal	148.7	139.9	160.1	253.0	329.3	359.8	381.0	359.8	275.2	232.8	127.0	21.2
GRA	148.7	139.9	160.1	253.0	329.3	359.8	381.0	359.8	275.2	232.8	127.0	21.2
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	102.4	125.4	121.0	111.3	97.2	79.8	67.1	54.6	43.5	34.7	28.5	25.7
Of which:												
GRA Basic rate of charge	66.9	82.9	80.9	74.8	65.6	54.0	41.7	29.2	18.1	9.2	3.0	0.2
Surcharges	6.2	15.8	14.6	11.1	6.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Of which:												
Level-based	6.2	15.8	14.6	10.9	5.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Time-based	0.0	0.0	0.0	0.2	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
(For SLL: Non-refundable commitment fees)												
Total Obligations Based on Existing and Prospective Credit (millions of USD)												
Millions of U.S. dollars	345.6	365.8	388.1	503.7	590.5	609.7	621.6	574.9	442.0	371.1	215.6	65.0
Percent of exports of goods and services	1.7	1.7	1.7	2.1	2.3	2.3	2.2	1.9	1.4	1.1	0.6	0.2
Percent of debt service	8.8	9.3	8.0	10.1	10.8	12.3	11.9	10.5	7.7	6.2	3.4	1.0
Percent of GDP	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.3	0.2	0.1	0.0
Percent of gross international reserves	4.0	3.1	2.8	3.5	4.0	4.1	4.0	3.5	2.6	2.1	1.1	0.3
Percent of quota	43.4	45.8	48.6	63.0	73.7	75.9	77.4	71.6	55.1	46.2	26.9	8.1
Outstanding Fund Credit Based on Existing and Prospective Credit												
Millions of SDRs	2,385.2	2,499.3	2,339.1	2,086.1	1,756.8	1,397.0	1,016.0	656.2	381.0	148.2	21.2	0.0
GRA	2,385.2	2,499.3	2,339.1	2,086.1	1,756.8	1,397.0	1,016.0	656.2	381.0	148.2	21.2	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	3,278.6	3,443.1	3,227.7	2,881.9	2,431.1	1,936.4	1,408.3	909.5	528.1	205.4	29.3	0.0
Percent of exports of goods and services	15.7	15.9	14.2	12.0	9.6	7.3	5.0	3.1	1.7	0.6	0.1	0.0
Percent of debt service	83.7	87.6	66.9	57.7	44.4	38.9	27.0	16.6	9.2	3.4	0.5	0.0
Percent of GDP	3.0	3.1	2.7	2.3	1.9	1.4	1.0	0.6	0.3	0.1	0.0	0.0
Percent of gross international reserves	37.9	29.2	23.2	19.9	16.5	12.9	9.1	5.6	3.1	1.1	0.2	0.0
Percent of quota	412.1	431.8	404.1	360.4	303.5	241.4	175.5	113.4	65.8	25.6	3.7	0.0
Net Use of Fund Credit (millions of SDRs)												
Disbursements and purchases	762.0	254.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	148.7	139.9	160.1	253.0	329.3	359.8	381.0	359.8	275.2	232.8	127.0	21.2
Memorandum Items:												
Exports of goods and services (millions of U.S. dollars)	20,883	21,634	22,762	24,007	25,341	26,641	28,007	29,499	31,069	32,724	34,466	36,302
External debt service (millions of U.S. dollars)	3,917	3,929	4,828	4,997	5,476	4,977	5,218	5,470	5,737	6,017	6,313	6,624
Nominal GDP (millions of U.S. dollars)	109,673	111,666	117,580	123,841	130,420	137,364	144,679	152,383	160,497	169,044	178,045	187,526
Gross International Reserves (millions of U.S. dollars)	8,645	11,779	13,939	14,474	14,746	14,985	15,444	16,265	17,129	18,039	18,997	20,007
SDR per U.S. dollars (period average)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
SDR per U.S. dollars (end-of-period)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDRs)	579	579	579	579	579	579	579	579	579	579	579	579

Source: IMF staff calculations.
1/ Projections as of April 9, 2026.

Table 9. Sri Lanka: Reviews and Purchases Under the Four-Year Extended Arrangement

Availability Date	Amount (millions of SDR)	Percent of Quota (%)	Conditions
At arrangement approval	254	43.9	Board Approval of the Extended Arrangement
September 1, 2023	254	43.9	Completion of the 1st review based on end-June 2023 and continuous performance criteria
April 1, 2024	254	43.9	Completion of the 2nd review based on end-December 2023 and continuous performance criteria
October 1, 2024	254	43.9	Completion of the 3rd review based on end-December 2024 and continuous performance criteria
April 1, 2025	254	43.9	Completion of the 4th review based on continuous performance criteria
October 1, 2025	254	43.9	Completion of the 5th review based on continuous performance criteria
April 1, 2026	254	43.9	Completion of the 6th review based on end-December 2025 and continuous performance criteria
October 1, 2026	254	43.9	Completion of the 7th review based on end-June 2026 and continuous performance criteria
March 1, 2027	254	43.9	Completion of the 8th review based on end-December 2026 and continuous performance criteria
Total	2,286.0	395.0	

Source: IMF staff.

Annex I. Sovereign Risk and Debt Sustainability Framework

Public debt sustainability is restored upon completion of the debt restructuring under the program. Reflecting stronger macroeconomic conditions relative to the Fourth Review, the updated baseline expects the highest macro-linked bonds (MLB) adjustments. Nonetheless, the stronger macroeconomic conditions more than offset the MLB adjustments, resulting in improved public debt indicators. However, risks remain high. Continued fiscal discipline and sustained reform momentum are essential to safeguard public debt sustainability.

1. The macroeconomic outturn exceeded expectations, but the outlook has weakened due to the conflict in the Middle East. The reform program is bearing fruit, delivering macroeconomic stability and robust growth over the past two years. Although Cyclone Ditwah inflicted extensive damage, the government's swift and effective intervention preserved economic resilience. However, the conflict in the Middle East (ME) is expected to significantly weigh on the economy. The 2025 primary balance reached a surplus of 5.4 percent of GDP, well above the program target of 2.3 percent. Capitalizing on these fiscal buffers, the 2026 primary balance target has been lowered to provide temporary support in response to the cyclone and the ME conflict. Reflecting these developments, growth is projected to moderate significantly from 5 percent in 2025 to 3 percent in 2026.

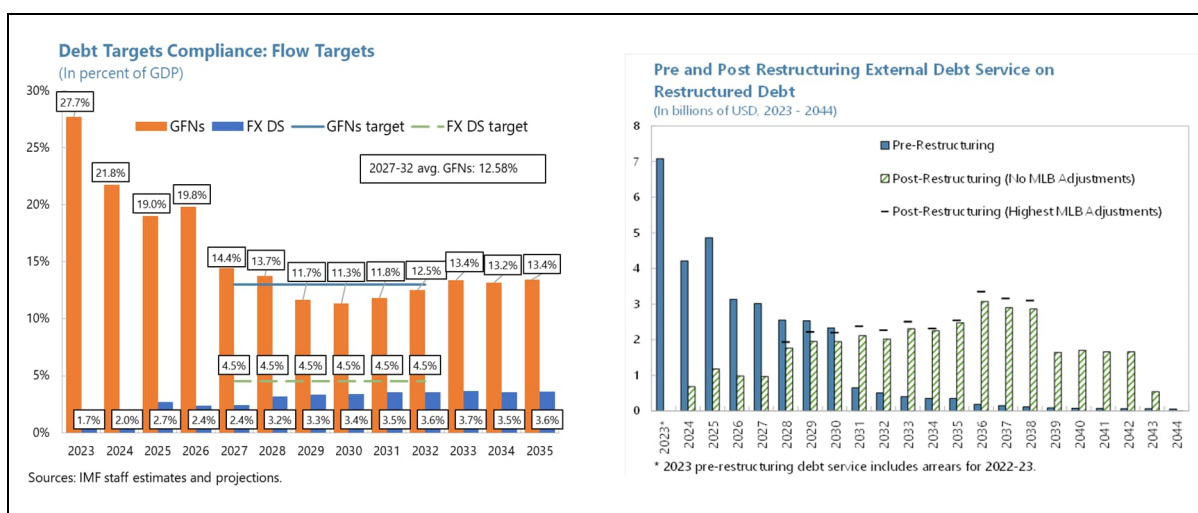
Text Table 1. Sri Lanka: DSA Macroeconomic Assumptions – Differences with Fourth Review

	2024	2025	2026	2027	2028	2029	2030
Real growth (yoy, percent)							
4th Review	5.0	3.5	3.1	3.1	3.1	3.1	3.1
Current	5.0	5.0	3.0	3.2	3.1	3.1	3.1
GDP deflator inflation (yoy, percent)							
4th Review	3.8	3.6	5.3	5.1	5.0	5.0	5.0
Current	4.1	3.7	6.2	5.2	5.0	5.0	5.0
Primary balance (percent of GDP)							
4th Review	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Current	2.2	5.4	1.4	2.3	2.3	2.3	2.3
Nominal GDP (Rs bln)							
4th Review	29,899	32,036	34,754	37,664	40,779	44,163	47,826
Current	30,096	32,751	35,835	38,891	42,089	45,561	49,313

Source: IMF staff estimates and projections.

2. Stronger growth and real exchange rate lead to a higher dollar GDP projection, triggering the highest MLB adjustments. The average dollar GDP in 2025-27 is now projected at US\$110 billion, compared to the highest MLB threshold of US\$107.0 billion. These adjustments lead to 125-200 basis-point higher coupon rates depending on the bond series, and 13 percent principal reinstatement on the restructured Eurobonds, relative to a scenario in which no MLB adjustment is triggered. The contribution of debt relief to close the external financing gap remains significant.

3. Public debt indicators have improved relative to the Fourth Review as stronger macroeconomic fundamentals more than offset the MLB adjustments. The debt targets—gross financing needs (GFNs), foreign exchange (FX) debt service, and debt stock—continue to be met. The improved dollar GDP and larger primary balance surplus more than offset the higher debt burdens from the MLB adjustments. The projected debt-to-GDP ratio at end-2032 declined to 86.7 percent from 88.5 percent in the Fourth Review (compared to the debt sustainability assessment (DSA) target of 95 percent), the average GFN to GDP ratio in 2027-32 declined to 12.6 percent from 12.7 percent in the Fourth Review (compared to the DSA target of 13 percent), and the average FX debt service to GDP ratio in 2027-32 declined to 3.3 percent from 3.6 percent in the Fourth Review (compared to the DSA annual ceiling of 4.5 percent). This DSA update assumes a full execution of authorities' debt restructuring strategy and announced debt treatments.



4. However, debt vulnerabilities remain high and projected improvements in debt sustainability hinge on sustained reform momentum. Sri Lanka's debt restructuring has delivered substantial debt relief and put public debt on a sustainable path. Between 2022 and 2025, public debt-to-GDP declined from 125.8 percent to 101.1 percent, gross financing needs-to-GDP from 33.9 percent to 19.0 percent, and interest-to-revenues from 79 percent to 46 percent. However, post-restructuring debt indicators remain elevated and Sri Lanka is prone to policy slippages, climate risks, and external shocks. The projected improvement in the medium-term debt indicators hinges on sustained revenue-based fiscal consolidation and effective liability management to significantly extend the maturity structure. To this end, reforms to strengthen fiscal discipline, broaden the tax base, build resilience and unlock growth potential are critical.

Figure 1. Sri Lanka: Risk of Sovereign Stress and Sustainability

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	High	Sri Lanka is about to complete its debt restructuring. The fiscal adjustment, combined with debt restructuring will restore debt sustainability. However, downside risks remain high in the post-restructuring scenario as debt levels and gross financing needs stay elevated and the projected improvement in debt dynamics hinges on sustained fiscal discipline.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	High	High	Risks remain high under a restructuring scenario due to relatively high levels of debt and GFNs, a strong sovereign-bank nexus, and the economy's vulnerability to large shocks.
Fanchart	High	...	
GFN	High	...	
Stress test	...	...
Long term	...	High	Long-term risks include slowing growth due to a declining labor force and climate vulnerabilities.
Sustainability assessment 2/		Sustainable	The debt operation will put Sri Lanka on a firm downward path. But the reduction of debt vulnerabilities to safe levels will take time. Meanwhile, external shocks or domestic policy reversals could lead to renewed debt increase.
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
Sri Lanka is recovering from a deep crisis. Debt sustainability is restored, conditional on the completion of its debt restructuring process. However, even after the implementation of a successful program and debt restructuring, debt sustainability risks will remain high for many years.			

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Sri Lanka: Debt Coverage and Disclosures

						Comments		
1. Debt coverage in the DSA: 1/								
			CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?						Yes		
2. Subsectors included in the chosen coverage in (1) above:								
Subsectors captured in the baseline						Inclusion		
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes		
				2	Extra budgetary funds (EBFs)	No		
				3	Social security funds (SSFs)	No		
				4	State governments	No		
				5	Local governments	No		
				6	Public nonfinancial corporations	Yes	Guaranteed debt	
				7	Central bank	Yes	Fund credit and bilateral sw aps	
				8	Other public financial corporations	Yes	Guaranteed debt	
3. Instrument coverage:								
			Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:								
			Basis of recording		Valuation of debt stock			
			Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:								
				Consolidated	Non-consolidated			

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-Government Debt Holdings

Issuer	Holder	Budget.	Extra-	Social	State gov.	Local gov.	Nonfin.	Central	Oth. pub.	Total
		central gov	budget. funds	security funds	govt.	govt.	pub. corp.	bank	fin corp	
1	Budget. central gov							2742	3687	6429
2	Extra-budget. funds									0
3	Social security funds									0
4	State gov.									0
5	Local gov.									0
6	Nonfin pub. corp.								702	702
7	Central bank									0
8	Oth. pub. fin. corp									0
Total		0	0	0	0	0	0	2742	4389	7131

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

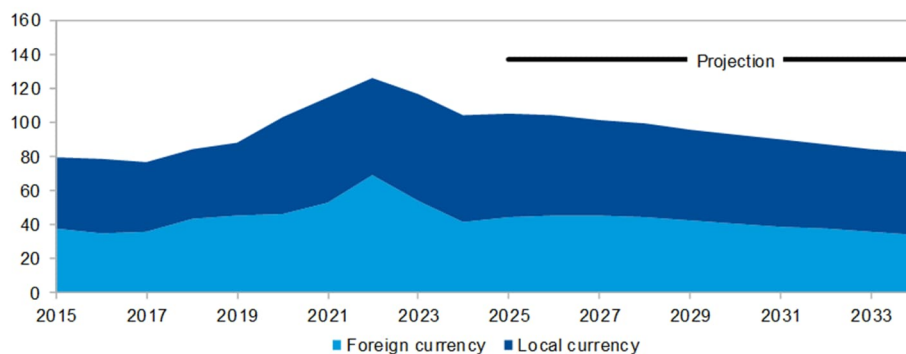
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The DSA perimeter includes (i) central government debt; (ii) SOE debt guaranteed by the central government; and (iii) liabilities of the central bank arising from the 2016-20 EFF and bilateral sw ap arrangements. Note: Oth. pub. fin. corp. holdings of CG debt includes holdings by state-owned banks, but excludes retirement funds. Provincial and local governments do not carry debt as they are not authorized to borrow.

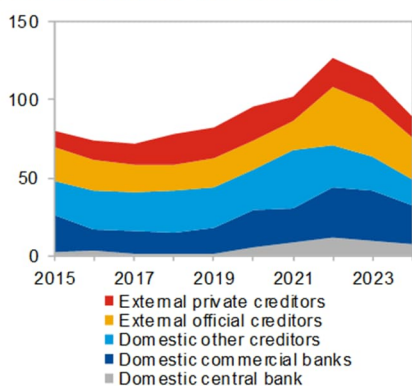
Figure 3. Sri Lanka: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



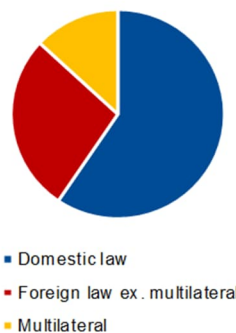
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



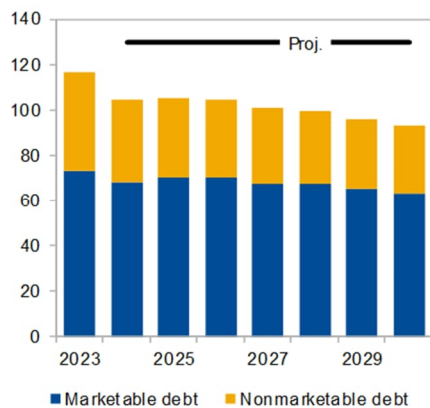
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (Percent)



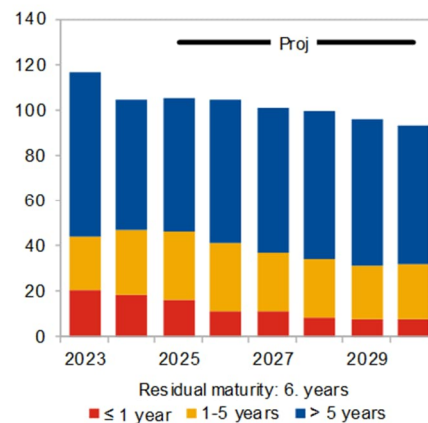
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

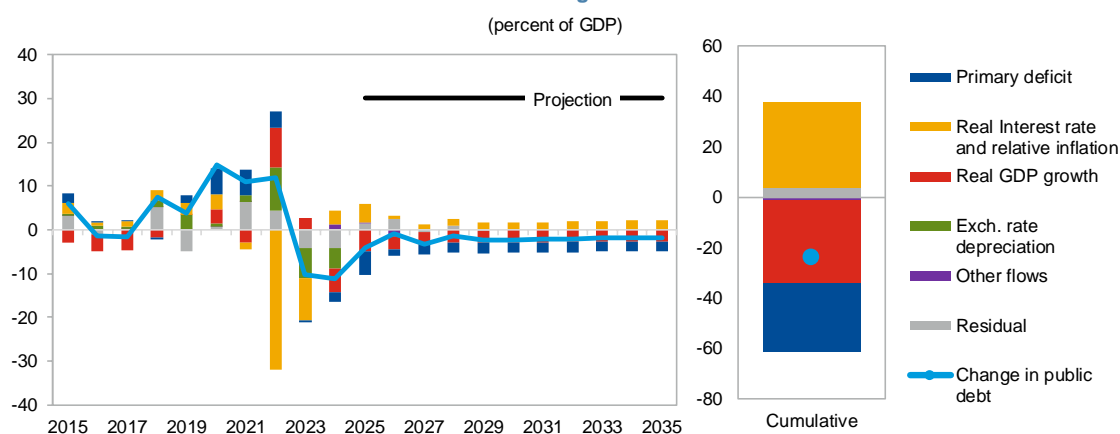
Commentary: Accelerating inflation reduced the real value of domestic debt in 2022, while exchange rate depreciation led to a large increase in external and foreign-currency debt. These dynamics reversed partially in 2023, as the exchange rate appreciated, and inflation slowed down. Foreign-law and multilateral law debt account for close to half of Sri Lanka's debt. The debt operation is assumed to rebalance the maturity profile, increasing the residual maturity.

Figure 4. Sri Lanka: Baseline Scenario

(percent of GDP unless indicated otherwise)

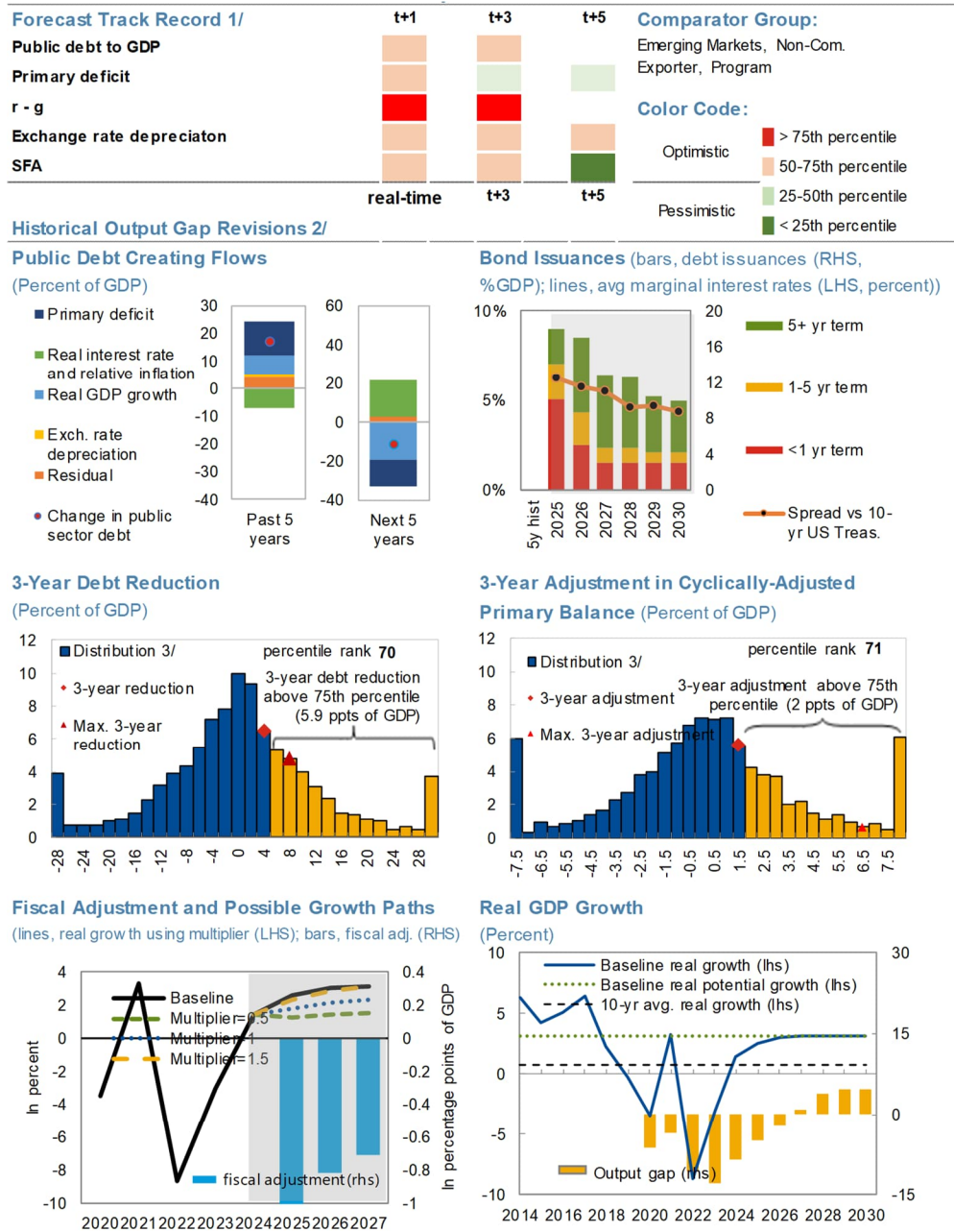
	Prel.	Medium-term projection							Extended projection				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
Public debt	105.0	101.1	100.1	96.9	95.5	93.2	90.9	88.8	86.7	84.8	83.0	81.3	
Change in public debt	-11.2	-3.9	-1.0	-3.2	-1.4	-2.3	-2.2	-2.2	-2.1	-1.9	-1.8	-1.7	
Contribution of identified flows	-7.1	-5.4	-3.4	-2.9	-2.3	-2.2	-2.1	-2.1	-2.0	-1.8	-1.7	-1.7	
Primary deficit	-2.2	-5.4	-1.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	
Noninterest revenues	13.4	16.6	15.1	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	
Noninterest expenditures	11.2	11.3	13.7	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	
Automatic debt dynamics	-6.1	-0.4	-0.6	-0.6	0.0	0.1	0.2	0.2	0.3	0.5	0.6	0.6	
Real interest rate and relative inflation	4.1	4.6	2.4	2.5	2.9	3.0	3.0	3.0	3.0	3.1	3.2	3.1	
Real interest rate	3.2	4.0	0.8	1.2	1.6	1.7	1.8	1.8	1.9	2.1	2.1	2.1	
Relative inflation	0.9	0.6	1.6	1.3	1.3	1.2	1.2	1.2	1.1	1.1	1.0	1.0	
Real growth rate	-5.5	-5.0	-3.0	-3.1	-2.9	-2.9	-2.8	-2.8	-2.7	-2.6	-2.6	-2.5	
Real exchange rate	-4.6	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.2	0.4	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	1.2	0.4	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution of residual	-4.1	1.5	2.5	-0.4	0.9	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Gross financing needs	21.8	19.0	19.8	14.4	13.7	11.7	11.3	11.8	12.5	13.4	13.2	13.4	
of which: debt service	23.9	24.4	21.3	16.7	16.0	14.0	13.6	14.1	14.8	15.7	15.5	15.7	
Local currency	21.9	21.6	18.8	14.2	12.8	10.6	10.2	10.6	11.2	12.0	11.9	12.1	
Foreign currency	2.1	2.8	2.4	2.5	3.2	3.4	3.4	3.6	3.6	3.7	3.6	3.6	
Memo:													
Real GDP growth (percent)	5.0	5.0	3.0	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	
Inflation (GDP deflator; percent)	4.1	3.7	6.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Nominal GDP growth (percent)	9.3	8.8	9.4	8.5	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	
Effective interest rate (percent)	7.1	7.8	7.1	6.5	6.8	6.9	7.0	7.1	7.2	7.5	7.7	7.7	

Contribution to Change in Public Debt



Staff commentary: Public debt increased drastically in 2020-22, due to exchange rate depreciation and large fiscal deficits. In 2024, debt restructuring, primary balance surplus, real exchange rate appreciation, and real growth contributed to the decline in debt to GDP ratio. The first two factors contributed to the negative residual of change in public debt. In 2025, real exchange rate adjustment contributes to the positive residual, and banking sector recap contingency as well as changes to cash buffers contribute to the other transactions category. The restructuring contributes to debt reduction in the long term additionally through reduction in interest rate. The debt reduction over the longer term rests on continued fiscal discipline and adherence to the macroeconomic adjustment program.

Figure 5. Sri Lanka: Realism of Baseline Assumptions



Commentary: Sri Lanka's forecasts in the past have shown optimism for most debt drivers. Domestic yields are presently high but expected to normalize under the program. The fiscal adjustment efforts are ambitious but backed by identified measures that are needed to restore fiscal sustainability. The 3-year debt reduction is driven by the debt restructuring and fiscal prudence. Growth recovery will be slow due to sovereign default and economic crisis, as well as the associated balance sheet impact.

1/ Projections made in the October and April WEO vintage.
 2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.
 3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 6. Sri Lanka: Medium-Term Risk Analysis

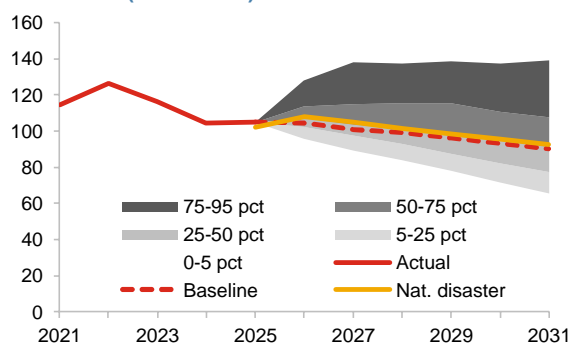
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

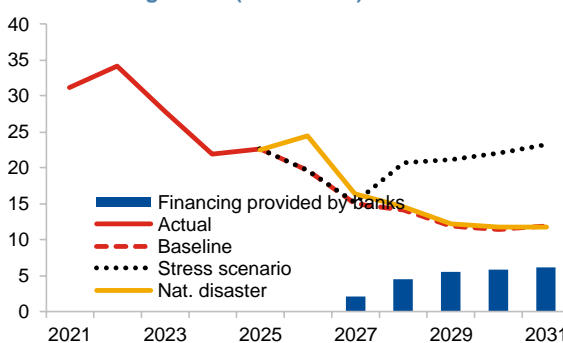
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Non-Com. Exporter, Program				
					0	25	50	75	100
Debt fanchart module	Fanchart width	73.7	1.1	...	[Chart showing interquartile range and Sri Lanka position]				
	Probability of debt not stabilizing (pct)	14.4	0.1	...	[Chart showing interquartile range and Sri Lanka position]				
	Terminal debt level x institutions index	59.8	1.3	...	[Chart showing interquartile range and Sri Lanka position]				
Debt fanchart index		...	2.5	High					
GFN financeability module	Average GFN in baseline	14.0	4.8	...	[Chart showing interquartile range and Sri Lanka position]				
	Bank claims on government (pct bank assets)	40.3	13.1	...	[Chart showing interquartile range and Sri Lanka position]				
	Chg. in claims on govt. in stress (pct bank assets)	2.5	0.8	...	[Chart showing interquartile range and Sri Lanka position]				
GFN financeability index		...	18.7	High					

Legend: [Grey box] Interquartile range [Red vertical bar] Sri Lanka

Final Fanchart (Pct of GDP)



Gross Financing Needs (Pct of GDP)

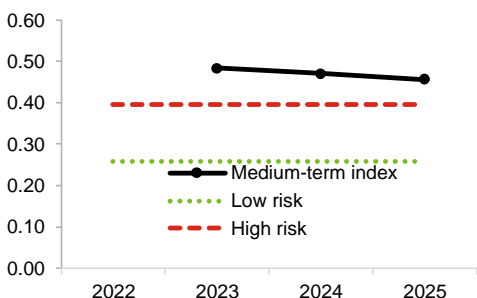


Triggerred stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. [Yellow box] Natural disaster

Medium-Term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.6
GFN financeability index	7.6	17.9	0.5	0.4
Medium-term index (MTI)	0.3	0.4	...	0.5, High

Prob. of missed crisis, 2025-2030 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2025-2030 (if stress predicted): 4.5 pct.

Commentary: Both MT tools (which are now run for 2026-31) point to high level of risks, associated with relatively high levels of debt and GFNs, a strong sovereign-bank nexus, and the economy's vulnerability to large shocks. Debt drivers from 2023 and 2024 are excluded from the historical draws of the debt fanchart in line with the SRDSF guidance note.

Figure 7. Sri Lanka: Long Term Amortization Module

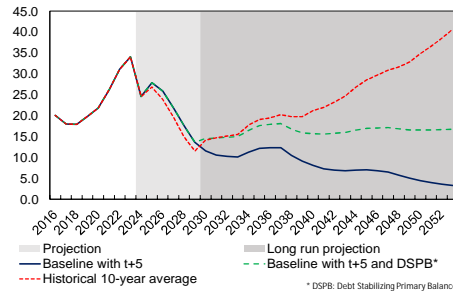
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	Red
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		Green

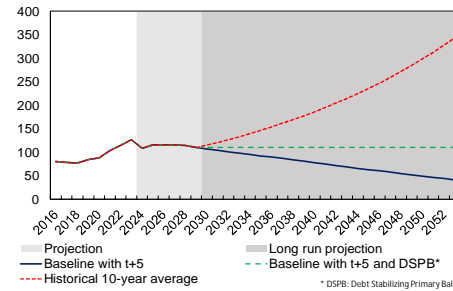
Commentary: The large amortization scenario leads to unsustainable debt given the high debt level and vulnerabilities of Sri Lanka's current public debt.

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



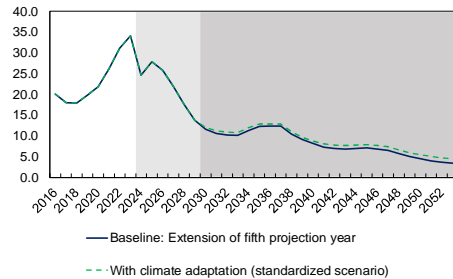
Total Public Debt-to-GDP Ratio



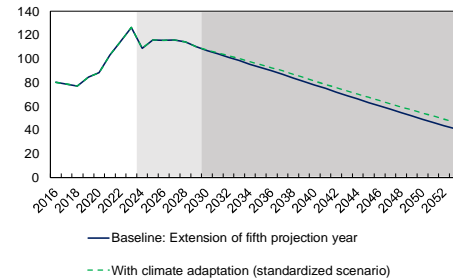
Commentary: The historical scenario leads to unsustainable debt as it is based on the recent multi-year large fiscal slippages leading to the deep crisis. Specifically, the historical average scenario assumes -2.1 percent primary balance deficit to GDP ratio, 1.4 percent real GDP growth, and some real depreciation in each year.

Climate Change: Adaptation

GFN-to-GDP Ratio



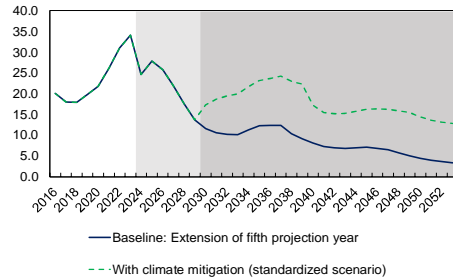
Total Public Debt-to-GDP Ratio



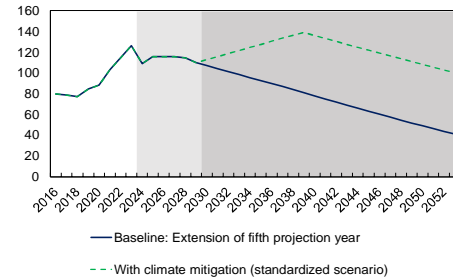
Commentary: The climate change adaptation scenario does not lead to large changes in debt indicators.

Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The climate change mitigation scenario leads to large changes in debt indicators as this is based on 5.7 percent of GDP per year over 10 years period of climate mitigation efforts.

Annex II. Arrears

Sri Lanka: Corrective Actions to Address Non-Complying Purchases	
Key Corrective Actions	Progress
Prepare an arrears clearance strategy	Completed and published.
Prepare time-bound plan for transitioning to ITMIS for issuing purchase orders, effecting commitment control and recording unpaid liabilities	Completed
Ministries, Departments and Agencies to record purchase orders in ITMIS within 15 days of issuance, similarly expense vouchers will be entered in ITMIS within 15 days of receipt ¹	Completed
Notify suppliers that from July 2026 onwards, only ITMIS generated purchase orders will be accepted for supplying goods and services to the central government	Banners have been added to the ITMIS login page and the procurement website. Ministries, departments and agencies have been informed in writing of this requirement and have been instructed to notify their suppliers. The Procurement Commission was notified to amend procurement guidelines with this requirement. A notification will be published in the newspaper on April 2026.
Use ITMIS to produce a monthly report on the size, maturity and composition of the stock of arrears.	To be completed by end-June 2026, with Fund CD support
<p>1/ There is a transitional arrangement in place until ITMIS is fully operational for system-generated purchase orders. During the transition, Ministries, Departments and Agencies are required to promptly enter all purchase orders and expense vouchers into ITMIS within 15 days of issuance or receipt. This transitional arrangement was able to identify arrears related to a software purchase by the Department of Civil Security and incurred due to (i) election-related delays in passing Budget 2025 and (ii) slightly higher commitment than allocated. The agreed corrective actions will help address this as mandatory issuance of purchase orders from ITMIS should prevent commitments without sufficient budgetary provisions and cash. From July 2026 onward, purchase orders for central government procurement must be generated through ITMIS, and only ITMIS-generated purchase orders will be accepted for the supply of goods and services.</p>	

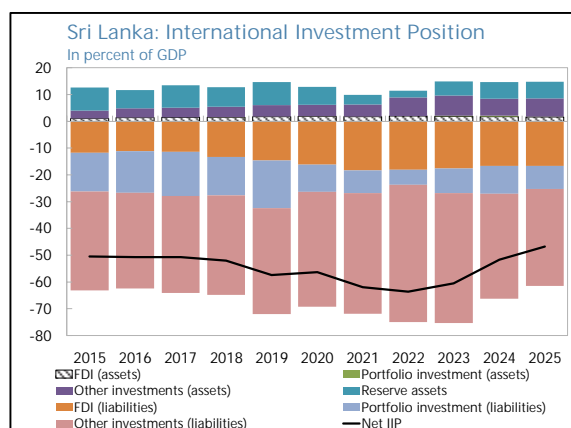
Annex III. External Sector Assessment

Overall Assessment: The external position of Sri Lanka in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies. This assessment is informed and anchored by the External Balance Assessment (EBA) current account (CA) model. Following the default in 2022, Sri Lanka has steadily built external reserves, improved its primary balance, and is on course to complete the public debt restructuring in line with program parameters to restore debt sustainability. The CA balance in 2025 remained in surplus for the third consecutive year, buoyed by remittance inflows, which offset trade deficit widening on the back of relaxed import restrictions at the beginning of 2025.

Potential Policy Responses: Sri Lanka should maintain the Extended Fund Facility-supported adjustment program and reform momentum to fully restore medium-term external sustainability, including through continued fiscal consolidation, increased exchange rate flexibility, rebuilding international reserves, and implementing structural reforms to boost export competitiveness.

Foreign Assets and Liabilities: Position and Trajectory

Background. The Net International Investment Position (NIIP) improved to -47 percent of GDP in 2025Q4, from the low of -69 percent of GDP in 2022Q2. This improvement reflects positive dynamics in the CA balance since 2022, which jointly with accumulation of reserve assets supported growth in assets position. At the same time, liabilities positions declined on the back of private sector deleveraging. Debt instruments and securities make up 82 percent of liabilities. The government is the largest debtor, representing 53 percent of total liabilities.



Assessment. The NIIP has continued to strengthen following the 2022 debt crisis, reaching above -60 percent of GDP in 2024—usually used as a benchmark to indicate higher external vulnerabilities. Nonetheless, the high share of debt liabilities, which is largely attributed to government external debt, poses a significant risk to external sector sustainability. Completion of the debt restructuring process, along with implementation of the EFF-supported adjustment program, including reserve accumulation, is expected to restore external viability.

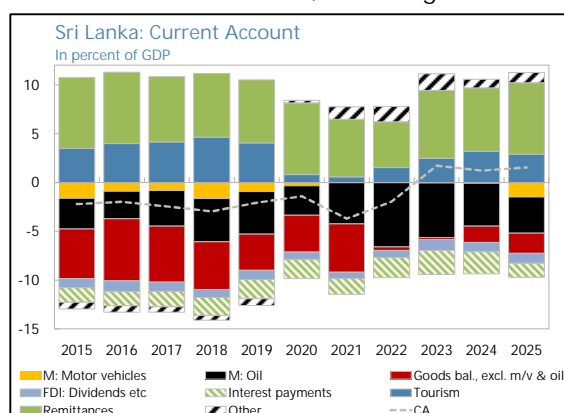
Year	NIIP:	Gross Assets:	Debt Assets:	Gross Liab.:	Debt Liab.:
2025 (% GDP)	-46.8	14.8	13.2	-61.5	-50.4

Current Account

Background. In 2025, the CA recorded a surplus for the third consecutive year on the back of strong remittances, which coupled with robust tourism receipts offset the widened trade deficit, as import restrictions on motor vehicles were removed. Additionally, lower oil prices and otherwise favorable terms of

trade helped contain the trade balance. Interest payments on accrual bases declined, benefiting from debt restructuring and debt service moratorium.

The 2025 cyclically-adjusted CA balance stood at 1.7 percent of GDP. Adjusting for the temporary impact of nonpayment of interest on restructured debt (0.1 percent of GDP) as part of the debt service moratorium, the adjusted CA balance is estimated at 1.6 percent of GDP. As restructuring is completed, Sri Lanka is expected to start paying about 0.7 percent of GDP annually in interest on such debt.



Staff estimate that stabilizing the NIIP-to-GDP ratio at -35 percent of GDP from the crisis levels in 2022 would be reflective of a sustainable external position for Sri Lanka following debt restructuring.

Assessment. Staff assess Sri Lanka's external position to be broadly in line with the level implied by medium-term fundamentals and desirable policy settings. With an adjusted CA balance of 1.6 percent of GDP and an adjusted CA norm of 0.8 percent of GDP, the EBA-based CA gap for 2025 is estimated at 0.8 percent of GDP. The EBA CA model estimates a CA norm of -0.3 percent of GDP. Staff adjusted this norm by 1.1 percent of GDP to reflect a norm that is consistent with the medium-term stabilizing NIIP-to-GDP ratio, accounting for binding external financing needs over the medium term, which lowers the CA deficit that can be sustained without depleting reserves.

This is an improvement from the 2023 result, which was assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policy settings. The result suggests that the ongoing adjustment program is helping to close the CA gap over the medium term. The positive CA gap is mostly explained by the model residual (2.1 percent of GDP), potentially reflecting structural and governance factors not explicitly captured in the model.

Sri Lanka: External Balance Assessment: CA Model

Estimated 2025 CA	[1]	1.6
Cyclical contributions	[2]	-0.1
Cyclically adjusted actual CA	[3] = [1]-[2]	1.7
Additional temporary factors		-0.1
Adjustor for interest payments on restructured debt	[4]	-0.1
Adjusted CA	[5] = [3]+[4]	1.6
CA Norm (from model) 1/	[6]	-0.3
Adjustment to the norm	[7]	1.1
Adjusted CA Norm	[8]=[6]+[7]	0.8
CA Gap	[9]=[5]-[8]	0.8
<i>of which Relative policy gap</i>		<u>-1.4</u>
Fiscal balance		0.2
Health expenditure		0.0
Change in FX reserves		-1.2
Private credit		-0.5
Elasticity	[10]	-0.2
REER gap, in % 2/	[11]=[9]/[10]	-3.9
1/ Cyclically adjusted, including multilateral consistency adjustment		
2/ "-" undervalued ER; "+" overvalued ER		

Real Exchange Rate

Background. The real effective exchange rate (REER) depreciated by 2.3 percent in 2025, reflecting changes in the inflation differential. In 2025, domestic yearly inflation averaged -0.5 percent, while change in the nominal effective exchange rate was muted (0.1 percent y/y).

Assessment. The CA model implied elasticity suggests an undervaluation of the REER of 3.9 percent. While EBA's REER Level model implies 1.4 percent currency overvaluation, reflecting uncertainties around model estimates. Both models point to the marginal deviations and are consistent with CA model bottom-line assessment of external position being broadly in line with the level implied by fundamentals and desirable policies.

Sri Lanka: EBA REER Model (2025)		
Total REER Gap	1/	1.4
of which Relative policy gap		10.4
<i>Health Expenditure</i>		-0.8
<i>Change in Reserves</i>		16.6
<i>Real Interest Rate</i>		-5.4
1/ "-" undervalued ER; "+" overvalued ER		

Capital and Financial Accounts: Flows and Policy Measures

Background. On foreign direct investment, economy attracted net inflows of US\$946 million (1 percent of GDP), the highest level since 2018, driven by debt instruments. On portfolio investments, on net bases there were outflows of US\$8 million (less than 0.1 percent of GDP), with inflow in debt liabilities of US\$176 million (0.2 percent of GDP) offset by outflow in equities of US\$184 million (0.2 percent of GDP). On other investments, on net basis there were outflows of US\$1,224 million (1.1 percent of GDP), concentrated in other accounts receivable and payable by deposit-taking corporations, US\$978 million (1 percent of GDP)

Assessment. Authorities have continued to ease various temporary foreign exchange (FX) control measures that were put in place during the crisis. These measures included various import restrictions, exchange restrictions, multiple currency practices (MCPs), and capital flow management (CFM) measures. Over 2020-22, Sri Lanka introduced import restrictions on many goods, and other measures that gave rise to exchange restrictions and MCPs, adopted new CFMs, and tightened existing CFMs. By end-2024 authorities relaxed most of import restrictions, with only restrictions on motor vehicles remaining, which were also fully relaxed by February 2025. Similarly, by 2025H2, they have removed four out of eight exchange restrictions, three out of six MCPs under the previous MCP policy and, since the new MCP policy became effective, maintain two MCPs. Authorities have also been loosening some CFMs that were introduced or tightened since 2020 by increasing the limits on permitted outward transfers related to certain capital transactions. (For a list of original exchange restrictions, MCPs, and CFMs, see Annex II in IMF/23/408 and for an update see MEFP ¶39). In line with the IMF' Institutional View, staff recommend phasing out these CFMs once conditions allow.

FX Intervention and Reserves Level

Background. Sri Lanka's international reserve position improved in 2025 but remained below the adequate levels as measured by the Assessing Reserve Adequacy (ARA) metric. Gross international reserves (GIR) grew by US\$716 million in 2025, reaching US\$6.8 billion. CBSL mostly limited its FX interventions to the buy side, purchasing US\$2.1 billion compared to US\$108 million in sales. Excluding the People's Bank of China

(PBOC) swap, the GIR in 2025 amounted to US\$5.4 billion, with conditions for the use of the PBOC swap assessed to be met from 2026 onward.

Assessment. In line with IMF program recommendations, CBSL continued to build up its reserve position in line with the program target of achieving GIR at 100 percent of ARA metric by the end of the EFF program. At US\$6.8 billion at end-2025, the GIR was equivalent to 59 percent of ARA metric under a floating exchange rate regime assumption, and 47 percent of ARA metric under the fixed exchange rate assumption (see footnote 14). Accumulating reserves to adequate levels (at least 100 percent of the ARA metric) over the medium-term will ensure that authorities can respond to external shocks to smooth consumption and growth. In this respect, authorities have committed to ensuring more exchange rate flexibility and limiting FX sales to truly disorderly market conditions.

For reference see [“Guidance Note on the Assessment of Reserve Adequacy and Related Considerations”](#); [“Assessing Reserve Adequacy—Specific Proposals”](#); and [“Assessing Reserve Adequacy—Further Considerations”](#).

Annex IV. Risk Assessment Matrix¹

Source of Risks	Likelihood	Expected Impact	Policy Response
Domestic Risks			
Program financing risks arising from lower reserve accumulation, financing shortfalls from external partners, high interest burden, and lower tax revenue collection	High	H: Program becomes underfinanced.	Depending on the triggers, a combination of actions including (i) higher IFI financing and (ii) broader and more frontloaded revenue mobilization measures could be considered.
Capacity constraints, exacerbated by a shift in focus to disaster response and reconstruction needs, slow reform momentum.	High	H: Can weaken investor confidence, undermine program objectives and dampen Sri Lanka's growth potential.	Correct program slippages through remedial actions. Streamline and prioritize reforms in line with the program objectives. Seek additional support from development partners.
Swift post-cyclone response highlights the importance of fiscal buffers, reinvigorating reform appetite. Reconstruction provides an opportunity to improve resilience to climate change.	Medium	M: Challenging reforms are implemented which lift Sri Lanka's growth potential. Resilient infrastructure helps ameliorate the length and severity of the economic downturn following a natural disaster.	Capitalize on the positive sentiment to push forward with difficult structural reforms such as taxation. Use the opportunity to strengthen public investment management frameworks by incorporating climate considerations.
Social unrest, fueled by falling real incomes including from tax hikes and cost recovery pricing in the energy sector, insufficient anti-corruption efforts, unmet election promises, and the rise of youth unrest globally with South Asia as the epicenter.	Medium	M: Can delay or reverse progress of important reforms.	Proactively implement inclusive reforms including social security and anti-corruption reforms. Strengthen communication to increase public understanding of the program design and objectives.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks	Likelihood	Expected Impact	Policy Response
External Risks			
Trade-related Risks			
<ul style="list-style-type: none"> Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism. New Trade Agreements. Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances. 	<p>High</p> <p>Low</p>	<p>H: Protectionism impedes trade and FDI leading to worsening BOP, affecting reserve accumulation and slowing economic growth. Conversely, new trade agreements would strengthen the external position, and support growth by improving access to markets.</p>	<p>In the adverse scenario, allow the exchange rate to adjust to offset BOP pressures. Diversify export markets and continue implementation of reforms to improve international competitiveness. Tighten monetary policy stance if tariffs affect inflation expectations.</p>
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	M: Restricted access to key imports may disrupt economic activity and slow growth adversely impacting the economic recovery. Increases in input costs could trigger inflationary pressure.	Enhance supply chain resilience by diversifying sources of critical imports. Closely monitor implications to inflation and maintain agility of monetary policies. Targeted fiscal support may be needed to protect the vulnerable.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	High	H: Tighter global financing conditions, coupled with Sri Lanka's elevated debt levels, could affect the scope and cost of Sri Lanka's market access, which could have adverse effects on debt sustainability and reserve accumulation. Higher borrowing costs could dampen investment and growth, as well as leading to stress for weaker banks and NBFIs.	Seek alternative sources of external financing. Allow the exchange rate to adjust, intervening only to smooth excessive market volatility. Closely monitor the domestic financial sector vulnerabilities, deploying macroprudential measures as needed to stabilize the sector. Tighter fiscal stance may be warranted.
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	H: Disruptions to critical infrastructure can impair financial markets, affect public service delivery and heighten precautionary behavior by market participants, exacerbating the shock's impact.	Take pre-emptive measures to strengthen systematically important infrastructure such as payment systems. Develop contingency plans to ensure continued provision of critical services.

Source of Risks	Likelihood	Expected Impact	Policy Response
External Risks			
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	M: Increase volatility in inflation dynamics and uncertainties in economic activity.	Closely monitor implications to inflation and maintain agility of monetary policies.

Annex V. Tax Exemption Frameworks

The changes to the tax exemption frameworks improve upon the previous regimes in multiple dimensions, including on tightening eligibility criteria, reducing the size and type of incentives, improving governance and process controls, and increasing monitoring and transparency. This Annex details the improvements for the Strategic Development Projects (SDP) Act and the Port City Act.

SDP Act: is the primary Act for granting tax exemptions to Special Economic Zones (SEZs) and businesses around the country. Both foreign and domestic enterprises stand to benefit from these incentives.

	Previous Regime	Incoming Regime
Eligibility Criteria	Only minimum investment conditions	Minimum investment plus conditions on local job creation. Casinos, betting and gaming businesses are not eligible.
Types of Incentives	Corporate income tax (CIT) rate, value-added tax (VAT), customs duties, import surcharges (Commodity Export Subsidy Scheme (CESS), Ports and Airports Development Levy (PAL)), certain exemptions on personal income tax (PIT)	CIT rate; incentives on indirect taxes restricted to goods imported during the construction period; no exemptions on PIT.
Duration of Incentives	25-year full tax holiday, then 10 years of 50 percent reduction to the CIT rate.	Up to 10 years of full tax holiday. No extensions afterwards and full CIT rate applies.
Overall Guardrails	None.	Five-year review and sunset clause for the exemption regime.
Governance and Process	Cabinet approval and related politicization.	Initial technical cost benefit analysis by Ministry of Finance (MOF), but once eligibility conditions are met, no political approval.
Monitoring and Evaluation	Not well specified.	Requirement for monitoring and post-approval evaluation; periodic review of incentives granted; public disclosure of project outcomes and fiscal impacts; and requirement to file tax returns.

Port City Act is the primary Act for granting exemptions to businesses inside the Port City Economic Zone, which is a piece of reclaimed land in Colombo used to create a new business district. Port City is aimed at attracting foreign investors, but Sri Lankan companies are eligible to receive tax benefits if they repatriate capital held abroad.

	Previous Regime	Incoming Regime
Eligibility Criteria	Only minimum investment conditions. Provided to both primary businesses (real estate developers) and secondary businesses (housed in the real estate built by primary businesses).	Minimum investment plus conditions on local job creation.
Types of Incentives	CIT rate, VAT, customs duties, other levies.	CIT rate, incentives on indirect taxes restricted to goods imported during the construction period.
Duration of Incentives	<p>Primary Businesses:</p> <p>25-year full tax holiday, then 10 years of 50 percent reduction to the CIT rate.</p> <p>Secondary Businesses:</p> <p>25-year full tax holiday, then 10 years of 50 percent reduction to the CIT rate.</p>	<p>Primary Businesses:</p> <p>Up to 10 years of full holiday in most cases, and 3 cases of 12-15-year holidays. No extensions afterwards and full CIT rate applies.</p> <p>Secondary Businesses:</p> <p>50 percent reduction to the CIT rate for 4 years, with the provision sunsetting after 3 years.</p>
Governance and Process	Cabinet approval and politicization.	Initial technical cost benefit analysis by MOF. Cabinet approval strictly based on eligibility criteria.
Monitoring and Evaluation	Not well specified.	Requirement for monitoring and evaluation post approval.

Annex VI. Impact of the Conflict in the Middle East on Sri Lanka

The conflict in the Middle East poses risks to Sri Lanka's economy, through balance-of-payments (BOP) channels, including trade, tourism, remittances, and the exchange rate. Staff projections assume that the conflict lasts for three months but the return to normalcy will take time.¹ A prolonged conflict will likely have a significant nonlinear impact—beyond those identified here—prompting policies to stabilize the economy and protect the vulnerable.

1. Staff estimate the conflict impact on Sri Lankan economy through the following channels:

- **Trade.** Sri Lanka is a net importer of oil; in 2025, oil imports amounted to 3.7 percent of GDP, while re-exports amounted to 0.9 percent of GDP. A US\$10/barrel increase in oil price is estimated to widen the trade deficit by 0.6 percent of GDP.
- **Strait of Hormuz.** Closure of the Strait of Hormuz further exacerbates impact on trade, widening the deficit by 0.5 percent of GDP. Sri Lanka's strategic petroleum reserves cover roughly one month of typical fuel consumption, making it vulnerable to supply disruptions—about half of oil imports originated in the Middle East. The strait's closure may also impact tea exports, with 10 percent of the country's tea shipments destined for the Middle East affected by the disrupted shipping lane.
- **Tourism.** Middle East airports are main transit points for most European and North American tourists visiting Sri Lanka. In the first week of the conflict, an estimated 10,000 tourists were stranded in Sri Lanka, which prolonged their stays. Cancellations increased, resulting in about 20 percent y/y drop in tourist arrivals in March. Staff assumed a drop in tourists' arrivals of 45 percent y/y for the period March-June, and recovery to the pre-conflict baseline by September, which amounted to 15 percent shock to annual tourist arrivals. As a result, tourism receipts in the current account (CA) are estimated to decline by 0.4 percent of GDP.
- **Remittances.** Sri Lankan migrants make up 7 percent of the population, which in 2025 sent in foreign exchange (FX) remittances amounting to 7 percent of GDP. The Middle East is a popular destination for low-skilled Sri Lankan migrants (an estimated 80 percent of Sri Lankan migrants departures pre-conflict), which remit 3 percent of GDP annually. Job losses and furloughs of these migrants could sharply reduce FX inflows. At the same time, savings repatriations and formalized remittances due to constrained mobility—informal channel person-handled remittances (such as *Hawala* or *Undiyal*) in the past accounted for up to 45 percent of private transfers to the country—are expected to soften the fallout in remittances. For an assumed

¹ The baseline assumes three-month long conflict from its start. However, after it winds down, the return to normalcy is not immediate. Staff assume oil price will remain substantially higher than the pre-conflict scenario throughout 2026 with a peak in Q2.

annual decline of 5 percent in remittances in nominal terms, staff estimate that remittances inflows will be lower by 0.1 percent of GDP.

- Exchange rate. Taken together, the BOP outflows may increase by 1.4 percent of GDP, which will exert depreciation pressures. Staff estimate that the exchange rate depreciates by 8.7 percent (nominal against the US dollar), which in turn will lead to import compression, of an estimated 3 percent of GDP.

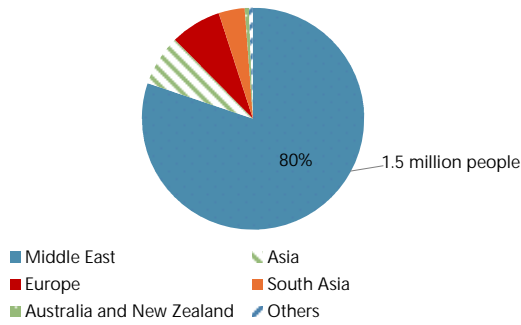
2. The macroeconomic impact of a short-lived conflict may be manageable. The CA balance is expected to weaken by 0.9 percent of GDP, relative to the pre-conflict baseline. Gross international reserves are expected to remain adequate, covering 3.8 months of imports. In turn, 2026 real GDP growth is expected to be lower by 1 percentage points y/y, primarily due to tourism (in gross value added, the sector's share is 2.5 percent of GDP) and reduction in economic activities, and secondarily through lower external demand and remittances. Annual headline inflation—affected through the pass-through from higher fuel prices and depreciation (elasticity of 0.2)—is projected to rise starting in Q2 and increase by 1.1 percentage points to reach 6.1 percent y/y in 2026Q4.

Annex VI. Figure 1. Sri Lanka: Economic Impact from Conflict in the Middle East

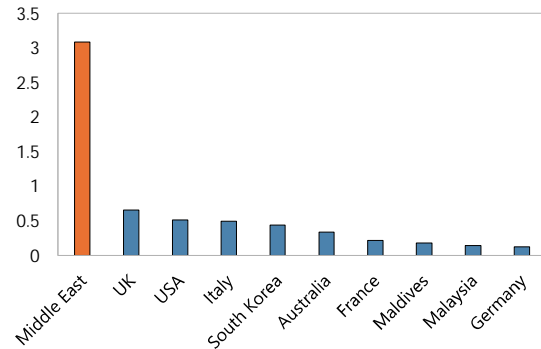
A majority of Sri Lankan migrants (7 percent of the population) work in the Middle East,

sending over 40 percent of the country's remittances from the region.

Migrant Worker Destination
(In percent of total migrants)



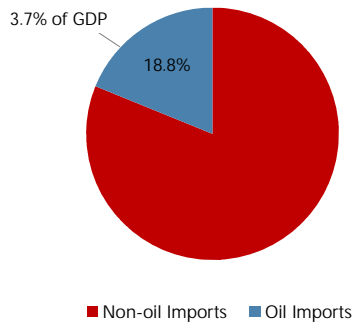
Workers' Remittance by Country
(In percent of GDP)



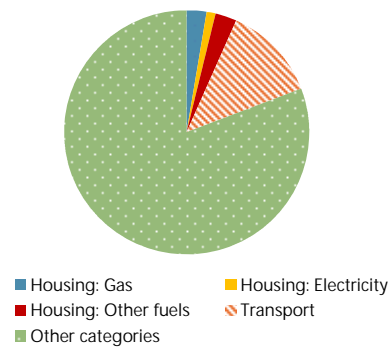
Fuel shortages and rising fuel prices will exert pressure on both the domestic and external sectors.

Rise in oil prices will intensify inflationary pressures.

Breakdown of Imports
(In percent of total imports)



Energy Sensitive Share of CPI
(In percent of CPI basket)

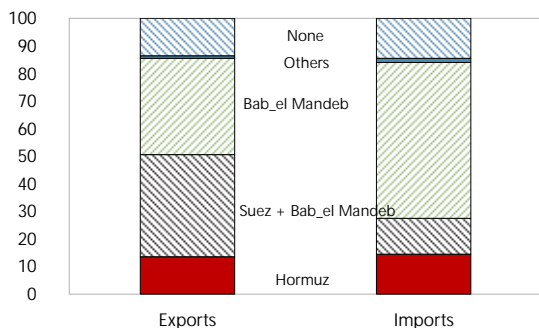


Annex VI. Figure 1. Sri Lanka: Economic Impact from Conflict in the Middle East (concluded)

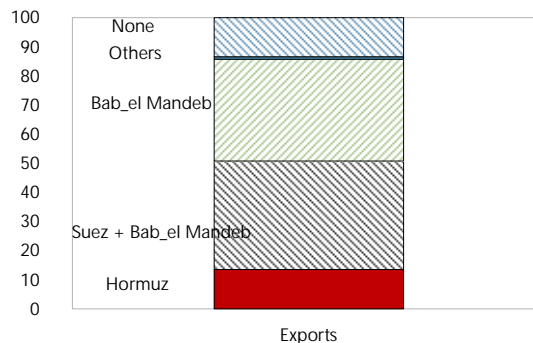
A significant portion of Sri Lanka's maritime trades pass through the Middle East, putting critical exports such as tea and oil imports at risk.

Critical exports such as tea and rubber can be affected by the closure of these shipping lanes.

Trade Exposure to Maritime Route Chokepoints
(In percent of exports and imports)



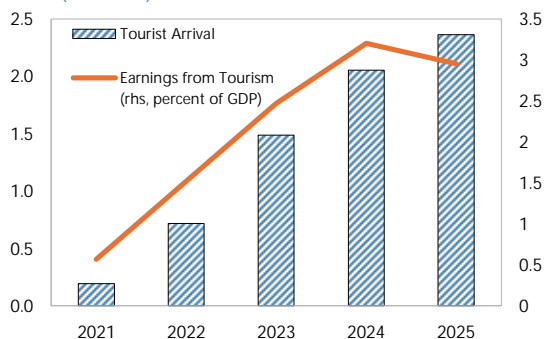
Maritime Route Chokepoints for Tea Exports
(In percent of total exports)



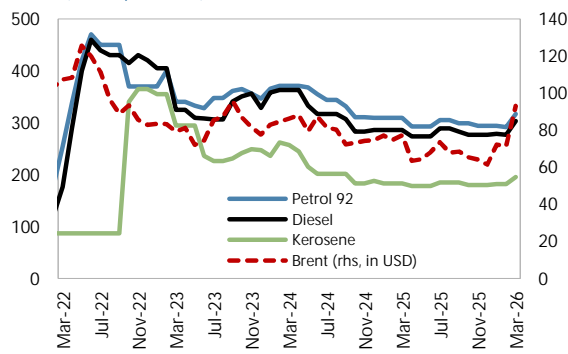
Tourism can be significantly disrupted due to both fewer GCC visitors and flight disruptions.

Local petrol prices started rising following movements in the international market.

Tourist Arrivals and Earnings
(In millions)



Selected Oil Price
(In LKR per barrel)



Sources: CBSL; Haver Analytics; and IMF staff calculations.

Note: Data on migrant worker destination, remittance, imports, CPI, and maritime routes are for 2025. GCC: Gulf Cooperation Council.

Annex VII. Capacity Development

IMF Capacity Development Missions January 2023–May 2026		
TA/Training Missions	Provider	Date
Tax Policy		
VAT and Excise Tax	FAD/LEG	Jan 12-25, 2023
Property and Wealth Tax	FAD	Jun 30-Jul 13, 2023
Property Taxation in Sri Lanka	FAD	Feb 7-21, 2024
Tax Expenditure Quantification and Reporting	FAD	Jul 11-22, 2024
Tax Expenditure Reporting: The Next Steps	FAD/STX	Mar 24-Apr 4, 2025
Towards Empirically Informed Revenue Forecasts	FAD	Jun 4-13, 2025
Tax Policy Analysis Unit: The Way Forward	FAD/STX	Jan 19-30, 2026
Revenue Administration		
TADAT Assessment	SARTTAC (with ADB and WB)	Jan 9-26, 2023
RAMIS	SARTTAC	Mar 7-20, 2023
Developing Data Warehouse Prototype for IRA	FAD	Jul 1, 2024-Jan 28, 2025
Guiding the Development of Tax Administration Reform	FAD (with WB)	Jul 3-11, 2023
Medium-term Revenue Administration Reform Plan	FAD	Aug 21-Sep 3, 2023
Compliance for High-Wealth Individuals (Peripatetic)	FAD/STX	Sep 5-Dec 5, 2023
Strengthened Revenue Administration Management and Governance Arrangements	FAD/SARTTAC	Oct 24-26, 2023
Guiding the Development of a Revenue Authority	FAD (duty station based)	Nov 6, 2023-Jan 19, 2024
Diagnostic Assessment on the Customs and Excise Departments	FAD/SARTTAC	Feb 26 - Mar 7, 2024
Implementation of VAT Refund Model	FAD	Feb 28-Mar 7, 2024
Compliance for High-Wealth Individuals (Peripatetic)	FAD	Jan 29-Feb 2; Jul 1-Sep 13, 2024
Support to Develop a Strategic Plan to Deliver RAMIS 3.0	FAD/LTX/STX (with WB)	Apr 23-30, 2024
Revenue Administration	FAD/STX	Jul 3-12, 2024
Compliance Risk Management	FAD/SARTTAC	July 8-12, 2024
Tax Incentive Reform and Improving Tax Expenditure Reporting	FAD/STX	Jul 11-22, 2024
Compliance Management of High-Wealth Individuals and Criminal Investigations Program Progress Report (Peripatetic)	FAD	Jul 15-Oct 11, 2024
Support for the Development of an Information Technology Strategic Plan (ITSP)	FAD	Aug 8-Sep 9, 2024

IMF Capacity Development Missions January 2023–May 2026		
TA/Training Missions	Provider	Date
Customs Tax Cooperation and Customs Modernization	FAD	Aug 14-17, 2024
Status of Key Tax Reform Measures - Transition of Resident Tax Advisors	FAD/STX	Aug 26-Sep 17, 2024
Implementing Anti-Corruption Measures at the Sri Lanka Customs Department	FAD/STX	Oct 21-29, 2024
Compliance Management of High-Wealth Individuals and Criminal Investigations Program (Peripatetic)	FAD	Nov 11-Dec 31, 2024
SVAT Repeal and VAT Refund Revenue Administration	FAD/STX	Nov 27-Dec 10, 2024
High-Wealth Individual and Tax Crime Investigations	FAD	Dec 3-6, 2024
Compliance Management of High Wealth Individuals	FAD/STX	Jan 2-10, 2025
Repeal of SVAT Communications and Change Management	FAD/STX	Feb 10-21, 2025
Repeal of SVAT and Transition to Risk-Based VAT Refund Processing	FAD/STX	Feb 10-21, 2025
Tax Crime Investigation Unit	FAD/STX	Mar 17-28, 2025
IRD Tax Administration Support	FAD/STX	Mar 24-Apr 25, 2025
Program Design Evaluation of the New Risk-Based VAT Refund Business Process	FAD/STX	Mar 24-Apr 25, 2025
Support for High-Wealth Individuals Compliance Unit	FAD/STX	Apr 15-Jun 20, 2025; Jul 2-11, 2025
Accelerating Compliance in VAT Administration	FAD/STX	May 22-Jun 27, 2025
Leadership and Reform Management	FAD/STX	Jun 25-Jul 4, 2025
Payments Compliance and Arrears Management	FAD/SARTTAC /STX/LTX	Jun 30-Jul 4, 2025
Peripatetic Support for High-Wealth Individuals	FAD/STX	Aug 8-15, 2025
Reform Leadership Workshop Design and Planning	FAD/STX	Sep 8-26, 2025
Implementation Support for VAT Compliance Improvement Program	FAD/STX	Sep 15-17, 2025
VAT Refund Processing Support	FAD/STX	Nov 17-28, 2025
Taxpayer Register Cleanse Support	FAD/STX	Nov 24-Dec 5, 2025
Leadership Workshop for IRD	FAD/STX	Jan 26-Feb 6, 2026
Customs Risk Management	FAD/STX	Feb 11-21, 2026
Follow-up Guidance on the Taxpayer Registry	FAD/STX	Apr 6-15, 2026
Public Financial Management, Expenditure Policy, and Debt Management		Apr 20-30, 2026
Debt Management Reform Plan	MCM/LEG (with WB)	Feb 20-Mar 3, 2023
PFM Law (including fiscal rules)	FAD/LEG	Mar 13-24, 2023
Developing a Fiscal Strategy Statement	FAD	Jun 12-16, 2023

IMF Capacity Development Missions January 2023–May 2026		
TA/Training Missions	Provider	Date
Debt Management Law	LEG/MCM/WB	Jun 26-Jul 7, 2023
Drafting the PFM Bill: Strengthening the PFM Legal Framework	FAD/LEG	Aug 10-21, 2023
Develop Rules/Regulations for the Provision of Sovereign Guarantees and On-lending	FAD/SARTTAC/WB	Oct 10-16, 2023
Debt Management Reform Plan Implementation	MCM/FAD/STX/WB	Oct 16-25, 2023
Strengthening Cash Management Practice	FAD	Feb 13-23, 2024
Improving Fiscal Reporting	SARTTAC	Apr 2024
Review of Chart of Accounts	FAD/SARTTAC	Apr 15-18, 2024
Strengthening Debt Management	MCM (with WB)	Apr 23-May 3, 2024
Strengthening Accounting and Financial Reporting	FAD/SARTTAC	May 2-16, 2024
Review of Fiscal Strategy Statement	FAD/STX	May 14-Jun 28, 2024
Implementing a Medium-Term Budget Framework	FAD	Jun 3-14, 2024
Scoping Mission to Establish a Public Debt Management Office	MCM	Aug 29-30, 2024
Reviewing ITMIS Implementation for Supporting Enhanced Budget Execution and Commitment Controls	FAD/SARTTAC	Sep 3-16, 2024
Revising Financial Regulations	FAD/LTX	Nov 20-29, 2024
Fiscal Risk Statement	FAD/LTX/STX (with WB)	Jan 15-28, 2025
Enhancing the Primary Debt Market and Support to the Establishment of the Public Debt Management Office	FAD/SARTTAC/LTX (with WB)	Jan 20-29, 2025
Developing an Investor Relations Strategy with Focus on Communication Policy	SARTTAC	Mar 17-28, 2025
Developing A Procedures Manual for Public Debt Management	SARTTAC/MCM/STX	Jun 4-17, 2025
Financial Management Regulations	FAD/LTX/STX	Jun 6-20, 2025
Implementing Commitment Controls Through ITMIS	FAD	Jun 17-30, 2025
Fiscal Strategy Statement and Fiscal Risk Statement	FAD/ SARTTAC	Jun 13-23, 2025
Public Investment Management Assessment (PIMA) and Climate PIMA	FAD/STX	Jul 2-16, 2025
Follow-up Assistance on the Chart of Accounts	SARTTAC/STX	Jul 14-25, 2025
PFM Reform Strategy and Action Plan	FAD/STX	Aug 18- Sep 1, 2025
Strengthening Institutional Capacity for MTDS Formulation	SARTTAC/MCM/STX	Aug 25-Sep 3, 2025
Evaluation of Electricity Tariff Methodology	FAD	Sep 10-23, 2025
Drafting the Public Commercial Enterprises Management Act	LEG	Oct 13-22, 2025
Reviewing and Finalizing Financial Management Regulations	FAD/LTX/STX	Oct 27-Nov 7, 2025
Assist in Finalizing the Program Segment of Chart of Accounts	SARTTAC/STX	Dec 8-12, 2025

IMF Capacity Development Missions
January 2023–May 2026

TA/Training Missions	Provider	Date
Development of the Annual Borrowing Plan	MCM/SARTACC/STX	Dec 8-17, 2025
Project Appraisal Methodology	FAD/LTX/STX	Jan 6-16, 2026
Strengthening Primary Dealers Framework	SARTTAC/LTX/STX/LEG	Jan 12-21, 2026
Strengthening the Fiscal Governance of Public Private Partnerships (PPPs)	FAD/LTX/STX	Mar 11 – 24, 2026.
Management of Fiscal Risk Related to State-Owned Enterprises	FAD STX	Mar 30- Apr 10, 2026
Costing and Tariffing Electricity	FAD	Apr 20-24, 2026
Monetary and Foreign Exchange Operations		
Monetary Policy Implementation (training)	CDOT/SARTTAC	Jan 29-Feb 4, 2024
FX Market Development	SARTTAC/MCM	Mar 18-24, 2024
Forecasting and Policy Analysis System	SARTTAC/MCM	Apr 29-May 10, 2024
FX Market Follow-up	SARTTAC/MCM	Jun 24-28, 2024
Developing A Forecasting and Policy Analysis System at the Central Bank of Sri Lanka	SARTTAC/ICD/STX	Apr 28-May 9, 2025
Central Bank Operations, and Financial Stability, Macroprudential Policy Tools Follow-up	MCM	May 9-16, 2023
Operationalizing Macroprudential Policy Framework	MCM	June 13-20, 2023
Central Bank Liquidity Monitoring and Monetary Operations	MCM/SARTTAC	Jul 4-17, 2023
Review of the Payment and Settlement Systems Act	MCM	Aug 2-8, 2023
Borrower-Based Tools and Sectoral Capital Requirements	MCM	Oct 3-17, 2023
Strengthening the Risk Assessment of Central Bank of Sri Lanka	MCM	Nov 6-17, 2023
Central Bank Operations Risk Appetite Framework	MCM	Nov 27-Dec 4, 2023
Strengthening Central Bank of Sri Lanka Capacity in Supervision	MCM/SARTTAC/LTX/STX	Apr 29-May 10, 2024
Domestic Systemically Important Banks (D-SIB) Framework	MCM	Aug 19-21, 2024
Model Validation Follow-up		
Modernizing CBSL's Strategic Communication Framework	SARTTAC	Jan 13-22, 2025
Currency in Circulation Forecasting	SARTTAC/MCM	Mar 18-20, 2025
Central Bank Risk Management	MCM/LEG/SARTTAC	Jun 25-27, 2025
Training on Bank Resolution Implementation	MCM	Aug 18-22, 2025
Messaging to Target Audiences and Communication in Digital Media	SARTTAC/STX	Jul 14-23, 2025
Bank Resolution Planning and Execution	MCM	Aug 18-22, 2025
Establishing a Compliance Framework	SARTTAC/STX	Jan 9, 12-23, 2026

IMF Capacity Development Missions January 2023–May 2026		
TA/Training Missions	Provider	Date
Operationalization of the Deposit Insurance Backstop Funding	MCM/STX	Jan 22-28, 2026
Implementation of Internal Liquidity Adequacy Assessment Process	SARTTAC/LTX/STX	Apr 20-24, 2026
Data Management and Operations	STA	April 28-May 5, 2026
Central Bank Stress Testing	MCM/STX	May 18-22, 2026
Governance and Anti-Corruption		
Governance Diagnostic Scoping Mission	LEG	Mar 9-14, 2023
Governance Diagnostic Mission	LEG/FAD/MCM/FIN	Mar 20-31, 2023
Support the Development of a Strategic Plan for the CIABOC	LEG/STX	Sep 19 - Oct 11, 2024
Implementation of the Governance Diagnostic Recommendations	LEG	Nov 15-22, 2024
Support the Development of a Strategic Plan for the CIABOC (follow-up)	LEG/STX	Jan 13-31, 2025
Implementation of the Governance Diagnostic Recommendations	LEG	Sep 29-Oct 3, 2025
Government Finance Statistics		
Expanding Compilation for Consolidated Central Government (CG)	SARTTAC	Jan 23-27, 2023
Real Sector Statistics		
Expanding the PPI	STA	Apr 17-28, 2023
Institutional Sector Accounts - Sequence of Accounts	SARTTAC	Apr 24-28, 2023
Developing Institutional Sector Accounts	SARTTAC	Nov 20-24, 2023
CPI Update	STA	Mar 11-15, 2024
National Accounts: Input-Output Tables	SARTTAC/STA	Jul 1-5, 2024
Developing Institutional Sector Accounts and GDP Expenditure	SARTTAC	May 26-30, 2025
Review Quarterly GDP Estimates	SARTTAC	Feb 9-13, 2026
Monetary and Financial Sector Statistics		
Monetary and Financial Statistics	STA	Feb 20-Mar 8, 2024
Monetary and Financial Statistics	STA/STX	Apr 27-May 8, 2026
FPP and Macroeconomic Frameworks		
Scoping Mission: Model-Based Financial Programming and Policies (FPP)	ICD/SARTTAC	Jan 30-Feb 3, 2023

IMF Capacity Development Missions
January 2023–May 2026

TA/Training Missions	Provider	Date
Developing a Model-Based FPP Framework	ICD/SARTTAC	Jun 5-9, 2023
Macroeconomic Frameworks TA	ICD/SARTTAC	Sep 4-5, 2023
Customized Macroeconomic Foundation Course for CBSL staff	SARTTAC	May 27-31, 2024
Macroeconomic Frameworks TA	ICD/SARTTAC	Oct 7-11, 2024
Macroeconomic Frameworks TA	ICD	May 15-23, 2025
Macroeconomics Foundation Course for CBSL Officers	ICD/SARTTAC	Jul 7-15, 2025
Macroeconomic Frameworks TA	ICD	Sep 30-Oct 7, 2025
Macroeconomic Frameworks TA	ICD	Jan 28-Feb 3, 2026
Macroeconomic Frameworks TA	ICD/APD/SARTTAC	Feb 18-27, 2026
Macroeconomic Frameworks TA	ICD/APD/SARTTAC	Apr 20-24, 2026
Regional Training		
Monetary Policy Implementation: Foreign Exchange Operations	SARTTAC	Jan 10-12, 2023
National Accounts	SARTTAC	Jan 16-20, 2023
Classification of Functions of Government	SARTTAC	Feb 6-10, 2023
Effective Management of Accelerated Investment in Public Infrastructure	SARTTAC	Feb 13-17, 2023
Collections and Arrears Management	SARTTAC	Feb 27-Mar 3, 2023
Financial Development and Financial Inclusion	SARTTAC	Apr 10-20, 2023
Macroeconomic Diagnostics	SARTTAC	Apr 10-21, 2023
Macroeconomics of Climate Change	SARTTAC	Apr 24-May 4, 2023
Taxpayer Registration	SARTTAC	Apr 24-28, 2023
Fintech Market Development and Policy Implications	SARTTAC	Jul 17-21, 2023
International Trade in Goods and Services	SARTTAC	Jul 24-28, 2023
International Survey on Revenue Administration	SARTTAC	Aug 21-25, 2023
Implementing Modern Cash Management	SARTTAC	Aug 28-Sep 1, 2023
Introduction to Government Finance Statistics	SARTTAC	Aug 28-Sep 1, 2023
Core Elements of Banking Supervision: An Overview and Regional Perspectives	SARTTAC	Sep 11-15, 2023
Nowcasting	SARTTAC	Sep 18-29, 2023
Advanced Government Finance Statistics	SARTTAC	Oct 16-20, 2023
Exchange Rate Policy	SARTTAC	Oct 30-Nov 9, 2023
Quarterly National Accounts and Seasonal Adjustment	SARTTAC	Dec 11-15, 2023
Enhancing Effectiveness of AML/CFT Frameworks: Evolution of the FATF Standard	SARTTAC	Jan 8-12, 2024
Public Sector Debt Statistics	SARTTAC	Jan 15-19, 2024

IMF Capacity Development Missions January 2023–May 2026		
TA/Training Missions	Provider	Date
Navigating Banking Supervision: Unpacking the Latest Supervisory Issues with a Regional Perspective	SARTTAC	Jan 22-25, 2024
Macroeconomics of Climate Change	SARTTAC	Jan 29-Feb 8, 2024
Monetary Policy Implementation	SARTTAC/CDOT	Jan 29-Feb 2, 2024
Fiscal Sustainability	SARTTAC	Feb 5-15, 2024
Effective Leadership for Revenue Administration	SARTTAC	Feb 19-23, 2024
Financial Sector Policies	SARTTAC	Feb 19-29, 2024
Monetary Policy	SARTTAC	Feb 26-Mar 7, 2024
Liquidity Forecasting	SARTTAC/CDOT	Mar 4-8, 2024
High-Frequency Indicators and Monthly Indicators of Economic Growth	SARTTAC	Mar 18-22, 2024
Integrated Risk Management in Customs	SARTTAC	Apr 22-26, 2024
Gender Inequality and Macroeconomics	SARTTAC	Apr 22-26, 2024
Compiling Supply Use Tables/Input Output Tables	SARTTAC	Apr 29-May 3, 2024
Navigating Banking Supervision: Unpacking the Latest Issues with a Regional Perspective	SARTTAC	Jun 24-28, 2024
IFRS9 and Expected Credit Loss Supervision	SARTTAC/MCM	Aug 26-30, 2024
Developing a Medium-Term Debt Management Strategy	SARTTAC	Sep 23-27, 2024
Annual National Accounts	SARTTAC	Sep 30-Oct 4, 2024
Cash Management and Treasury Single Account	SARTTAC	Oct 14-18, 2024
Collections and Arrears Management	SARTTAC	Nov 18-22, 2024
Fiscal Policy Analysis	SARTTAC	Dec 2-12, 2024
Monetary Policy Implementation	SARTTAC/CDOT	Dec 2-6, 2024
Strengthening Revenue Administration for Gender Equality	SARTTAC	Dec 9-11, 2024
Central Bank Communications and Transparency	SARTTAC/CDOT	Dec 9-11, 2024
Institutional Sector Accounts	SARTTAC	Dec 9-13, 2024
Consumer Price Index	SARTTAC	Jan 13-17, 2025
Cyber Risk Supervision	SARTTAC	Jan 20-24, 2025
Implementing Effective Regulation and Supervision of Climate-related Financial Risks	SARTTAC	Jan 27-31, 2025
Liquidity Forecasting and Estimation of Demand for Reserves	SARTTAC/CDOT	Feb 10-14, 2025
Effective Leadership for Revenue Administration	SARTTAC	Feb 17-21, 2025
Fiscal Risk Management	SARTTAC	Mar 3-7, 2025
Digital Transformation of Revenue Administration	SARTTAC	Mar 11-Apr 18, 2025
Emergency Liquidity Assistance	SARTTAC/CDOT	Mar 24-27, 2025
Big Data and Machine Learning for Macroeconomic Statistics	SARTTAC	Apr 7-11, 2025

IMF Capacity Development Missions
January 2023–May 2026

TA/Training Missions	Provider	Date
Central Bank Foreign Exchange Operations and Reference Exchange Rate	SARTTAC/CDOT	Apr 21-24, 2025
Digital Transformation of Revenue Administration	SARTTAC	May 27-30, 2025
Quarterly National Accounts Statistics	SARTTAC	Jun 23-27, 2025
Debt Recording, Reporting, and Monitoring - Interactive Learning and Workshops	SARTTAC	Aug 18-22, 2025
Quantitative Techniques for Debt Management	SARTTAC/MCM/LTX	Oct 6-10, 2025
Fiscal Risk Management	SARTTAC	Oct 13-17, 2025
Navigating eCommerce	SARTTAC/FAD/LTX	Nov 10-14, 2025
Public Investment Management	SARTTAC	Nov 17-21, 2025
All in Customs Administration	FAD/STX	Nov 25, 2025
Compilation of Producer Price Index	SARTTAC	Dec 1-5, 2025
Risk-Based Supervision Seminar for Executive Directors and Senior Managers	SARTTAC/LTX/STX	Jan 13-15, 2026
National Account Statistics	SARTTAC	Jan 19-30, 2026
Effective Leadership for Revenue Administration	SARTTAC	Feb 16-20, 2026
Foreign Borrowing and Loan Negotiation	SARTTAC/MCM/LTX/STX	Feb 23-27, 2026
Credit Risk Assessment and IFRS 9 Practices for Bank Supervisors	SARTTAC/STX	Mar 9-13, 2026
International Tax Administration Strengthening Tool	SARTTAC/FAD	Mar 23-27, 2026
Banking Supervision: Fundamentals of Risk Identification and Supervisory Intervention	SARTTAC/LTX/STX	Mar 23-27, 2026
Collection and Arrears Management	SARTTAC	Apr 6-10, 2026
Compiling Climate Change Indicators: An Accounting Approach	SARTTAC	Apr 6-10, 2026
Workshop on Budget Preparation	SARTTAC/CDOT	Apr 6-10, 2026
Insurance Supervision: IFRS17 Implementation	SARTTAC/LTX/STX	Apr 12-16, 2026
Monetary Policy Implementation	SARTTAC/MCM/LTX/STX	Apr 13-16, 2026
Central Bank Foreign Exchange Operations	SARTTAC/MCM/LTX/STX	Apr 27-30, 2026
Implementing Effective Regulation and Supervision of Climate-related Finance Risks	SARTTAC/MCM/LTX/STX	Apr 27-30, 2026

Source: IMF Staff.

Appendix I. Letter of Intent

May 13, 2026
Colombo

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

As part of our IMF-supported program under the 48-month Extended Fund Facility (EFF) arrangement, we have undertaken ambitious and wide-ranging reforms to steer Sri Lanka out of a deep economic and debt crisis. Our economic reform program is bearing fruit. Macroeconomic stability has been restored. The economy has grown robustly at 5 percent y/y in 2024 and 2025. Foreign reserves have strengthened significantly to over 3 months of imports. Price stability has been maintained since mid-2023. Our multi-year revenue-based fiscal adjustment has more than doubled tax collections and delivered primary surpluses for three consecutive years. Debt restructuring has delivered significant debt relief and put public debt on a sustainable path.

Hard-won gains from the reform program have strengthened resilience and enabled swift responses to recent shocks. In the aftermath of Cyclone Ditwah, we utilized accumulated fiscal space to rapidly deploy emergency relief, restore essential services and provide livelihood assistance, effectively containing disruptions to economic activity. In response to the conflict in the Middle East, we swiftly deployed a package of targeted and temporary measures to cushion the economic impact and protect the poor and vulnerable, while proceeding with energy prices adjustments. The support package comprises fuel and electricity subsidies, fertilizer subsidies for small farmers, support for fishermen, and top-ups to the Aswesuma cash-transfer program.

Our program performance has been generally strong: all end-December quantitative performance criteria (QPC) and indicative targets (IT) were met except for the continuous PC on new external payment arrears due to a cybercrime incident resulting in a small amount of missing external debt payments. As of end-February, 16 out of 22 structural benchmarks (SBs) had been met or implemented with delay. We are on track in restoring cost-recovering electricity and fuel pricing (*prior actions*). All energy subsidies and other relief measures will be on budget, capped at LKR 100 billion in total, and phased out by end-September 2026 to safeguard our hard-earned policy buffers. If needed, we may extend additional support through the Aswesuma cash-transfer program in 2026Q4 to protect the most vulnerable, provided we can still meet our primary surplus target.

Looking ahead, we remain fully committed to our economic reform agenda under the EFF. Our objectives are to: (i) pursue an ambitious revenue-based fiscal consolidation, underpinned by strong social safety nets, fiscal institutional reforms, and cost-recovery energy pricing; (ii) restore public debt

sustainability; (iii) maintain price stability and rebuild reserves under greater exchange rate flexibility; (iv) safeguard financial sector stability; and (v) advance structural reforms to address corruption vulnerabilities and unlock Sri Lanka's growth potential.

The policies we will implement are presented in the attached Memorandum of Economic and Financial Policies (MEFP). We believe the economic and financial policies set forth in the MEFP are sufficient to achieve program objectives. We stand ready to take additional measures if necessary to ensure these objectives are met. We will consult with the Fund in advance on the adoption of such measures, and in advance of any revisions to the policies in the MEFP, in accordance with the Fund policies. We will refrain from policies inconsistent with program objectives and provide Fund staff timely and accurate data for program monitoring.

Regarding program conditionality, we hereby request: (i) approval of the new and/or modified QPCs and ITs through end-December 2026; (ii) approval of the newly proposed and reformulated SBs through end-February 2027; (iii) completion of the financing assurances review; and (iv) temporary approval of existing exchange restrictions and multiple currency practices. The program will continue to be monitored through semi-annual reviews, QPCs, ITs, and SBs as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

Based on our performance and strength of policies outlined in the MEFP, we request the IMF Executive Board approve the completion of the combined Fifth and Sixth Reviews under the EFF and the purchase of SDR 508 million (87.8 percent of quota) upon approval. We request a waiver of nonobservance of the continuous PC on external payment arrears on the basis of minor nonobservance and adoption of corrective actions. The investigations are ongoing and we will clear these arrears as soon as feasible. We will strengthen our safeguards by implementing standard operating procedures by end-June and operationalizing the new debt management information system by end-August 2026. We also continue implementing the agreed corrective actions, related to the previous non-complying purchases, to improve fiscal reporting and strengthen commitment control.

Consistent with our commitment to transparency policy, we consent to the IMF's publication of this letter, MEFP, TMU, and the Staff Report.

Sincerely yours,

/s/

Anura Kumara Disanayake
Minister of Finance, Planning,
and Economic Development

/s/

Nandalal Weerasinghe
Governor
Central Bank of Sri Lanka

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Context and Macroeconomic Developments

1. We remain fully committed to the economic reform program supported by the Extended Fund Facility (EFF). The IMF Executive Board approved the Fourth Review of Sri Lanka's four-year EFF program (July 1, 2025). Separately, emergency financing under the Rapid Financing Instrument to address urgent needs in the aftermath of Cyclone Ditwah was approved on December 19, 2025. We are committed to successfully completing the EFF program, and achieving its objectives of (i) revenue-based fiscal consolidation, fiscal structural reforms including cost-recovery fuel and electricity pricing, supported by enhanced social safety nets to protect the most vulnerable; (ii) implementing the debt restructuring strategy to preserve public debt sustainability; (iii) safeguarding price stability and rebuilding international reserves under continued exchange rate flexibility; (iv) preserving financial system stability; (v) sustaining governance and anti-corruption reforms; and (vi) implementing broader structural reforms to unlock Sri Lanka's growth potential.

2. Hard-won gains from the reform program have strengthened resilience and enabled a swift response to recent shocks. In the aftermath of Cyclone Ditwah we utilized accumulated fiscal space to rapidly deploy emergency relief, restore essential services and provide livelihood assistance, effectively containing disruptions to economic activity. We are accelerating efforts to ensure that cyclone-related support is effectively disbursed to all eligible households. More recently, the conflict in the Middle East has heightened external risks and we are addressing its ramifications (para 21). While growth was robust prior to these shocks—reaching 5 percent in 2025 and high frequency indicators pointing to sustained growth momentum—heightened global uncertainty may affect near-term dynamics. Inflation returned to positive territory in August 2025 and averaged 2.0 percent y/y in Q1 2026, but risks from global energy prices remain elevated. Gross international reserves reached US\$7.3 billion at end-February 2026, covering about 60 percent of ARA metric. The financial sector appears stable, with ample capital buffers and limited exposure to the cyclone, although continued vigilance is warranted amid elevated external uncertainty.

3. We will focus on implementing policies that lift sustainable growth. Our debt restructuring process has now largely concluded, providing a substantial contribution towards restoring debt sustainability. In the final year of the program, we will focus on consolidating gains and supporting underlying growth drivers. Policy priorities include strengthening public financial management (PFM), improving the effectiveness of public investment, advancing electricity sector reforms, and improving the investment climate, including through tax reform. We will enhance social safety nets to protect the vulnerable. Deep-rooted governance issues continue to be addressed with a comprehensive anti-corruption agenda.

4. We are progressing with corrective actions related to the non-complying purchases, which stemmed from weaknesses in arrears monitoring and reporting. These actions are focused on eliminating the root cause of arrears by improving fiscal reporting and strengthening

commitment controls. As of end-March 2026, we have cleared all arrears related to the non-complying purchases. We recognize the importance of accurate data reporting, and we are taking all necessary steps to avoid new instances of such non-complying purchases.

II. Economic Program

5. We have continued to implement the ambitious reform agenda under the EFF.

- End-June 2025 quantitative performance criteria (QPC) and indicative targets (ITs) were met, except those on the stock of arrears and social spending. Despite the disruption from the cyclone, all end-December 2025 QPCs and ITs were met, except the continuous performance criterion on new external payment arrears due to a cybercrime incident resulting in a small amount (approximately US\$2.5 million) of missing external debt payments to one foreign creditor. Accordingly, we request a waiver of nonobservance based on minor breach and adoption of corrective actions. Specifically, we will clear the arrears as soon as feasible, and we will strengthen our safeguards to prevent such incidents in the future by (i) implementing the standard operating procedures by end-June 2026 and (ii) operationalizing the new debt management information system (Meridien) by end-August 2026.
- Inflation in 2025Q4 and 2026Q1, at 2.1 percent and 2.0 percent respectively, fell between the inner and outer lower bands of the MPCC, requiring a staff-level consultation but not a Board-level consultation. The low inflation was largely due to favorable energy prices.
- Sixteen out of 22 structural benchmarks (SBs) due by end-February 2026 were met or implemented with delay. Of the missed SBs, the objectives of two SBs were achieved through alternate means, namely by: amending the PUCSL Rules on Procedure for Review and Adjustment of Tariffs (rather than the PUCSL Act); and through a Memorandum of Understanding between Customs and the Board of Investment (rather than amendments to the Customs Act). Since January, cost-recovery electricity pricing has not been met (¶123). Adoption of PFM regulations was delayed due to substantive operational and governance considerations arising during finalization and to appropriately sequence completion of the regulations to ensure internal consistency, legal clarity, and effective implementation, while allowing adequate consultation across key stakeholders. We eased fiscal policy in 2026 to respond to the cyclone, which meant that the 2026 Budget and approved Supplementary Budget deviated from the program parameters at that time. We are fully committed to completing the delayed SBs and delivering on post-cyclone program parameters.
- To this end, we will ensure the implementation of the prior actions (PAs) and SBs (Table 2), and the achievement of the quantitative targets (Table 1).

III. Advancing Revenue-Based Fiscal Consolidation, Structural Fiscal Reforms, and Social Safety Nets

6. Our 2025 central government revenue and primary balance significantly exceeded program targets. The primary surplus of 5.4 percent of GDP was well above the program target of 2.3 percent and was driven by elevated motor-vehicle-related revenues, robust domestic VAT collection and under execution of capital expenditure. Tax revenue reached 15.4 percent of GDP, its highest level in the last decade. We are using this overperformance for post-cyclone reconstruction and to lower debt servicing costs.

7. We have temporarily eased fiscal policy in 2026 to accommodate post-cyclone relief and reconstruction efforts and to address the shock from higher fuel prices. The first reading of the 2026 Appropriation Bill was in line with the pre-cyclone program parameters. However, a Supplementary Budget—approved by Parliament on December 19, 2025—was needed to support relief and reconstruction efforts. We triggered the escape clause under the PFM Act (section 16) to allow for a higher primary expenditure ceiling and a lower primary balance. We will ensure our reconstruction spending is prioritized in line with the recovery needs and sectoral priorities identified in the Post-Disaster Needs Assessment (PDNA) report. Following the fuel shock, we will provide up to 0.26 percent of GDP in fuel subsidies and we will increase spending on Aswesuma by 0.02 percent of GDP. These efforts will be financed through the use of the annual budget reserve and the reallocation of budgetary resources from capital to recurrent expenditure, in line with the Appropriation Act and subject to parliamentary approval. We will not increase total expenditure, and we envisage a 1.4 percent of GDP primary balance floor in 2026 (QPC). Consistent with the PFM Act, following activation of the escape clause after the cyclone, we will publish a fiscal recovery plan by June 2026, outlining the measures and timeline to return to the fiscal rules. We will also ensure that the funds received for the Rebuilding Sri Lanka initiative operates under a robust governance framework, with transparency and accountability arrangements, public reporting, and audit requirements consistent with the safeguards for disaster-related spending. We will (i) require companies bidding for emergency and reconstruction related public procurement contracts to disclose their ultimate beneficial ownership information as part of the bidding documentation; (ii) publish a semiannual report on cyclone related procurement, detailing the source of funding, allocation by program and spending category, as well as ultimate beneficial owners of awarded contracts; and (iii) in the same semi-annual report, disclose aggregated execution of cyclone-related spending by program and spending category (proposed SB, August 2026 and February 2027).

8. Spending for the fuel subsidy and for social safety nets will be accommodated through reallocations and the annual budget reserve. Primary spending will rise to 13.8 percent of GDP (from 11.4 percent of GDP in 2025). Cyclone-related expenditure accounts for over 2.3 percent of GDP of this increase, of which 0.9 percent of GDP is allocated to rebuilding public infrastructure. The budget envelope already included a planned increase in the wage bill, and new subsidy and transfer schemes, including the second stage of pension revisions, greater support for plantation workers through a salary subsidy and higher allocation for the Prajashakthi poverty program. In addition, we are providing targeted mortgage interest support to civil servants and higher festival advances.

Finally, multiple smaller state-owned enterprises (SOEs) have accumulated unpaid liabilities to state-owned banks and provident funds. We are settling 0.1 percent of GDP of these liabilities using 2025 fiscal savings and 2026 Budget allocations. Going forward, we will work to minimize the risk of such obligations arising again. In addition, we have discontinued the senior citizens' interest subsidy scheme in 2025, and the settlement of interest subsidy will be completed by end of 2027. We will support the vulnerable elderly in alternative ways.

9. We will continue to implement necessary revenue measures to reach the 2026 program targets. We will institute the first phase of the National Tariff Policy in 2026 by removing CESS para tariffs on intermediate inputs, with a fiscal cost of 0.1 percent of GDP. We remain committed to phasing out para tariffs in the medium term while adhering to the revenue goals of the EFF. To ensure alignment with program parameters in 2026, the cabinet has approved a package of revenue measures, including lowering VAT and Social Security Contribution Levy (SSCL) thresholds, imposition of SSCL on imported vehicles at the point of customs, imposition of VAT on imported fabric, removal of SCL and imposition of CID, VAT and SSCL on coconut and palm oils, while lowering the enhanced capital allowance threshold of US\$3 million to US\$250,000 for new investments. In addition, compliance gains, along with previously announced measures, such as VAT on digital services and increased CIT on exports of services and liquor, tobacco and betting, gaming industries, will drive revenue gains. We expect growth in non-vehicle imports to continue and contribute to buoyant revenues. However, following the significant increase in motor vehicle imports in 2025, we expect that most of the pent-up demand has been satisfied. Overall, tax revenues are expected at 14.0 percent of GDP in 2026, and total revenues at 15.1 percent of GDP, consistent with program parameters (QPC). We will continue to monitor, in real time, motor vehicle imports and associated taxes. If projected revenues do not fully materialize in line with program parameters, we commit to adopting additional high-quality measures to compensate for the shortfall. Any overperformance of revenue will be locked in to reduce debt-servicing costs.

10. In 2027, we are committed to return to the medium-term primary surplus target under the EFF program of 2.3 percent of GDP. We will present to Parliament the 2027 Appropriation Bill that will be in line with program parameters by end-October 2026 and Parliament will approve the Bill by end-December 2026 (proposed SBs). In 2027, post-cyclone reconstruction needs will be met through capital expenditure prioritization. The Cabinet will approve revenue measures to support fiscal consolidation during 2027 in line with program parameters by end-September 2026 (proposed SB, end-September 2026). IMF's tax diagnostic technical assistance expected in July 2026 will set the stage to develop a Medium-Term Revenue Strategy (MTRS) which will inform these revenue measures (¶14). Any fiscal overperformance will continue to be used to pay down debt in line with the government's debt servicing and cash management objectives and considering the government's cash buffers.

11. We repealed the simplified VAT (SVAT) system and we will continue to provide VAT refunds in a timely manner. On September 30, 2025, we repealed the SVAT system, switching to a risk-based refund system for eligible exporters and projects. We have developed a risk-based refund system to support exporters' cash flow and boost VAT compliance. To achieve this, in mid-July 2025,

the Inland Revenue Department (IRD) successfully executed and reported the results of a simulation exercise to test the new refund arrangements (SB). Going forward, IRD will work to deliver refunds within the legally mandated timeframes supported by enhanced monitoring, adequate staffing, and close engagement with businesses. We will maintain sufficient staffing levels and operational capacity to mitigate the risk of refund or audit backlogs and sustain this performance over the medium term, while safeguarding revenue outcome. Based on information reported by IRD, refund performance will continue to be monitored, including the issuance of VAT refunds for low- and medium-risk eligible exporters. As of March 2026, IRD reports that 99 percent of VAT refunds for low and medium-risk eligible exporters for October, 96 percent for November, and 90 percent for December were issued. We will periodically review the risk-based refund system and will continue to ensure that the number of exporters eligible for VAT refunds under the revamped system is manageable given IRD capacity limitations. Relatedly, we will continue tracking and reporting Key Performance Indicators (KPIs) up to December 2026 (SB and Annex I).

12. We will implement the next steps of the VAT compliance improvement program. IRD mobilized the VAT compliance improvement program in June 2025. This focused on the SVAT repeal transition period by raising awareness among high-risk businesses of their new VAT obligations following the repeal. Beginning in October, IRD reinstated field visits to improve taxpayer compliance. In January 2026, the VAT Compliance Improvement Program (VCIP) shifted to covering the traditional VAT regime. Relatedly, IRD and Customs will continue working to minimize the use, and validate the veracity of temporary VAT numbers and ensure their use for their intended purpose. The taxpayer registry will be cleaned and updated, so that it can be an effective tool for analyzing and improving compliance. We will finalize phase I of the process of cleaning and updating the registry along with the finalization of a compliance improvement program (proposed SB, end-July 2026). This will outline strategies for a robust and repeatable process for review and removal of registrants no longer engaged in the tax system, ensuring the veracity of new registrants and identifying, assessing, and prioritizing related registration compliance risks for key taxpayer segments. These steps are expected to improve the tax registry's integrity and compliance, and to help reduce administrative costs and revenue gains. Going forward, the taxpayer registry will be updated on a continuous basis.

13. We will advance reforms to modernize tax administration and enhance taxpayer compliance. We will further strengthen the use of a compliance risk management (CRM) framework to guide enforcement, audit selection, and taxpayer services. To guide these efforts, the IRD is preparing an IRD Modernization Strategy and Implementation Plan. A Steering Committee has been established to oversee revenue enhancements and structural reforms. The IRD will continue implementing the simplified personal income tax return, including a pre-filled option, to facilitate compliance and improve filing accuracy. All taxes administered by the IRD will be processed through the Revenue Administration Management Information System (RAMIS), with controls in place to ensure that tax collection is conducted exclusively through this platform. Compliance initiatives will be strengthened, including continued outreach to re-registered VAT taxpayers who exited the system during 2020-22. In addition, the High Wealth Individuals (HWI) program has initiated risk-based audits targeting high-risks individuals and related entities. The second HWI unit, established

in 2026, will continue to manage audit cases in line with IRD capacity and risk-management priorities.

14. We will, with the support of IMF technical assistance, conduct tax diagnostics. We will also develop an MTRS consistent with our macroeconomic framework, with a view to sustaining tax reform beyond the program period, strengthening revenue mobilization, and improving the business environment. The MTRS, which will be developed by the Revenue Management Committee under the PFM Act, will be informed by the findings of the tax diagnostics and will aim to make the tax system more efficient and equitable by broadening tax bases, rationalizing tax expenditures, and improving tax administration and compliance. The MTRS will articulate clear medium-term revenue objectives and provide a time-bound and sequenced reform framework across tax policy, revenue administration, and the legal framework. The design of the New Tax Policy (NTP) and the selection of any compensatory revenue measures, including those related to the phase-out of para-tariffs, will be guided by the MTRS and informed by IMF's technical assistance. The tax diagnostics and the MTRS objectives will be developed and published, in consultation with IMF staff (proposed SB, end-October 2026). By end-November 2026, Cabinet will approve appropriate medium-term revenue measures to offset the phase out of para tariffs in 2028 and 2029, if the removal results in the government not being able to meet the revenue targets as agreed with the IMF (proposed SB, end-November 2026).

15. We will undertake further work to adopt property taxes by 2027H1. We will accelerate current efforts toward building the data infrastructure for property taxation. Building comprehensive information on property valuations is key for the successful implementation of property tax. The first step in the process requires a database of historical valuation records. To this end, we have completed digitizing the valuation records held by the government valuation department, starting with municipal councils. We developed a database of market-value estimates and put in place a provisional digital nationwide Sales Price and Rents Register (SPRR), with data on more than 75,000 properties. We have had delays in finalizing the SPRR because of the absence of linking variables which can help combine it with the historical digitized property records database. We resolved these issues by hiring additional staff to add identifying variables to the database and established the final SPRR in end-January 2026 (SB). Finally, we will combine the historical digitized property records with the SPRR to generate a final database of properties with estimated market values by June 2026. This database will be the key resource for the assessment of property values and the basis for several taxes, including property taxation and real-estate capital gains taxation. We will also ensure that this database is accessible to IRD (including the HWI unit), the valuation department, the land registry, and the public by December 2026. A Cabinet decision was approved in April to define key design parameters including the modality of property taxes, the tax imposition and collection authority, and implementing agencies. We will continue to advance on the tax design informed by the advice that will be provided by the IMF during the upcoming tax diagnostic technical assistance. Concurrently, we will engage with the implementing and collection agencies to accelerate the operational groundwork for property taxation.

16. We will implement measures to ensure the effective execution of capital spending and improve the quality and prioritization of public investment. Over the past three years, the capital spending budget has averaged 3 percent of GDP with significant under-execution (1 percent of GDP under-execution per year in 2023-25). Building on the recommendations of the IMF's 2025 Public Investment Management Assessment (PIMA) and Climate-PIMA, we will strengthen project readiness, appraisal, selection, and portfolio oversight. As a first step, by August 2026, we will prepare and publish a standardized methodology for assessing project readiness, including feasibility analysis, implementation readiness, and climate-resilience screening, together with transparent and standardized project selection criteria for the Public Investment Committee (PIC), incorporating climate-resilience and fiscal-risk considerations (proposed SB, August 2026). We will ensure that large and mega infrastructure projects do not enter the Public Investment Program (PIP) without rigorous appraisal. The implementation of the methodology will be supported by capacity-building and training, with assistance from development partners. To operationalize the new framework, line ministries will, as part of the 2027 budget cycle, submit budget requests to secure funding for pre-feasibility and feasibility studies. The results of these studies will be submitted to the Department of National Planning (DNP) and will form the basis for the appraisal of new projects proposed for inclusion in the 2028 budget cycle. In parallel, the existing public investment portfolio will be reviewed and streamlined based on transparent and pre-defined criteria, including project readiness and appraisal status, alignment with national policy priorities and available fiscal space, implementation capacity, and consistency with the medium-term fiscal framework, to ensure that only well-prepared and prioritized projects are included in the PIP and the budget. To strengthen transparency, we will publish annually the PIP and, alongside the budget, a Major Public Investment Projects document that elaborates the projects included in the approved annual budget in accordance with Section 20(2) of the PFM Act.

17. We will finalize our disaster risk financing strategy to lower fiscal vulnerabilities and strengthen preparedness for climate-related shocks. The strategy—to be completed by December 2026—will support a layered disaster risk financing approach centered on strengthening budgetary contingencies and fiscal buffers, and clarifying financing arrangements for disaster response and recovery. Consistent with this approach, the strategy will seek to better align available budget resources with the scale and frequency of disaster risks, while gradually strengthening the role of ex-ante financing over time. In parallel, we will strengthen disaster-related fiscal risk analysis by improving the identification and assessment of risks to critical public infrastructure, including through better use of available hazard and exposure information.

18. We will continue to revamp our PFM procedures. We will adopt and publish implementing regulations under the PFM Act by end-July 2026 to operationalize budget execution, commitment controls, and enforcement mechanisms (SB). We have submitted to Parliament all documentation required by the PFM law for the 2026 Budget. We will submit to Parliament the draft bills on public-private partnerships (PPPs), SOEs, and public procurement consistent with the PFM law and the IMF's Governance Diagnostic Assessment, with assistance from development partners. We will fully integrate PPPs with the public investment management process as required under the PFM law. We updated and published the Fiscal Strategy Statement (FSS), with a Fiscal Risks

Statement in June 2025. Going forward, we will strengthen the FSS by ensuring that it includes dedicated sections on PPPs and SOEs, and that it progressively quantifies the main sources of fiscal risks stemming from PPPs and SOEs. To support this effort, we will compile and maintain a comprehensive PPP database covering all ongoing agreements, including power purchase agreements (PPAs), establish clear protocols for its regular update and analysis, and develop a dedicated PPP fiscal risk management function within the Ministry of Finance. We will continue ensuring that the FSS and its medium-term fiscal framework (MTFF) comply with the fiscal responsibility framework specified in the PFM law and that the draft annual budget estimates presented to Parliament and the 2027 Appropriation Bill are fully consistent with the FSS and MTFF. In addition, we will publish by end-June 2026, a medium-term PFM Reform Strategy and Action Plan with clear timelines, KPIs, and a monitoring and reporting mechanism.

19. We will continue to improve our digital PFM infrastructure. We completed the roll-out of the core modules of the Integrated Treasury Management Information System (ITMIS) to all spending heads by end-September 2025. Next, we plan to use ITMIS to make central government payments; cheque payments using ITMIS will be rolled out by May 2026 and electronic funds transfers by September 2026. We will also integrate the e-GP system with ITMIS, when the system is ready. Relatedly, we remain committed to improving analytical capacity within MOF including by enhancing the timeliness, accuracy, and coverage of fiscal data.

20. We will repay past arrears and enhance our PFM processes to prevent the accumulation of arrears and improve their recording, reporting, and monitoring. We accumulated arrears of around 0.6 percent of GDP as of end-June 2023. This includes arrears under the previous interest subsidy scheme introduced in 2015. We have cleared these arrears, based on the published arrears clearance strategy following the steps of verification, classification, prioritization, and liquidation, while still complying with the spending ceiling and primary balance targets. We commit to not incur new domestic arrears in the future. We continue to strengthen our PFM practices and accelerate the transition to ITMIS based commitment controls to prevent the accumulation of arrears and improve their timely accounting and reporting to Treasury. Going forward, we will:

- ensure there are reporting mechanisms for monitoring expenditure commitments, invoices received and verified, accounts payable, payments made, and remaining arrears. These reporting systems will capture the size, maturity, and composition of the stock of arrears, as defined in the TMU. We will continue working toward operationalizing this functionality in ITMIS by June 2026 (SB). As an intermediate step, effective September 1, 2025, all offline purchase orders and expense vouchers are manually recorded in ITMIS within 15 days, allowing us to capture comprehensive information on all unpaid invoices in the system within the next six months;
- improve cash management, including by developing accurate and timely short-term estimates of cash inflows and outflows, and making adequate budgetary provision for the cash cost of arrears clearance;

- strengthen system-based commitment controls to ensure that expenditure is not to be initiated without available budget and cash; and
- finalize the roll-out and full implementation of ITMIS to be able to manage and track budget execution in a timely manner.

21. The impact of high energy prices arising from the conflict in the Middle East will be ameliorated through limited fuel subsidies and targeted support for the most vulnerable. We instituted fuel rationing on March 15 to address concerns about hoarding and managing fuel supply given limitations in access to fuel in the global markets. The rationing is pursued through fixed quantity amounts per vehicle through a QR code system that is linked to vehicle registration. Supplies to key productive sectors (like fisheries and agriculture) are delivered through institutional arrangements. This is the system that was in place in 2022. In response to the Middle East conflict, we pre-emptively increased fuel prices twice in March to partially reflect higher fuel import costs that will impact CPC profitability for April. To ameliorate the burden on the population, we are providing a package of temporary support comprising of (i) fuel subsidies, (ii) fuel subsidies for fishermen, (iii) electricity subsidies for households with monthly consumption below 180kWh and the low consumption segments for some non-residential tariffs], (iv) fertilizer subsidies for small farmers, and (v) a one-off cash top-up to Aswesuma households to support the poor and vulnerable.

22. We will restore cost-recovery fuel pricing and gradually phase out the subsidies while protecting the most vulnerable, to safeguard fiscal and debt sustainability. CPC is expected to incur losses. We will restore fuel cost-recovery for CPC from May 1 and compensate CPC for these past losses through an explicit on-budget transfer (PA1). We will ensure (i) fuel, electricity, and fertilizer subsidies and Aswesuma support are on budget; (ii) electricity subsidies are targeted only to households consuming less than 180 kWh per month the low consumption segments of some non-residential tariffs; and (iii) all subsidies and Aswesuma support combined are limited to LKR100 billion in total, and are fully phased out once the limit is reached or by end-September, whichever is earlier (proposed SB). We will publish a Cabinet decision formalizing these measures (PA1). For subsidies until September, we will improve targeting and strengthen the price signals of energy prices through a two-tier quota with only the first tier benefiting from subsidies. Henceforth, we will continue to set monthly retail fuel prices at cost recovery (continuous SB) and comply with the program IT related to on-budget transfers. If the Middle East conflict persists and oil prices remain high, we will protect the poor and vulnerable through additional top-ups to Aswesuma after September 2026 when the subsidies are phased out, provided we can still meet our primary surplus target.

23. To mitigate fiscal risks from the utilities, we will restore cost recovery for electricity. We restored forward-looking cost-recovery electricity pricing in June 2025, and we preserved it with the October 2025 tariff announcement. However, cost-recovery pricing was breached once again since January due to delays in the submission of information by CEB to PUCSL. The Q2 tariff decision increased prices by 10.9 percent on average but did not fully reflect the recent increases in fuel prices and the expected changes in the composition of electricity dispatch which became evident in

late March. We will restore cost-recovery electricity pricing on a forward-looking basis and compensate for past losses based on the current methodology, with a new tariff revision (post-March 30) that reflects increase in fuel prices and changes in the composition of electricity dispatch (PA2). Going forward, tariffs will remain at cost recovery with transparent, formula-based, forward-looking adjustments and compensation for past losses (continuous SB). We amended the Electricity Act in August 2025 that allowed us to unbundle CEB on March 10, 2026. Going forward, we will ensure robust fiscal oversight including monitoring of financial liabilities of new electricity companies, clearly delineated mandates and efficient operations of the new companies, and we will preserve the autonomy of PUCSL.

24. The new electricity tariff methodology will be approved taking into account technical advice from the IMF and other stakeholders. The implementation of the Electricity Act amendments includes a new national electricity policy and national tariff policy. In this process, we are reviewing the electricity tariff methodology with the support of IMF Technical Assistance in September 2025 (SB), and April 2026, as well as additional support from development partners. The new tariff methodology will aim to achieve cost recovery with transparent and evidence-based tariff adjustments, which will reduce volatility and lead to greater predictability. In accordance with these principles, we will approve a new electricity tariff methodology by end-August 2026 consistent with IMF technical advice (proposed SB).

25. Following the unbundling of CEB, the Bulk Supply Transaction Account (BSTA) will operate as a clearing account for the National System Operator (NSO), supported by a complete and enforceable invoicing and settlement framework. The BSTA intends to provide a transparent record of short-term imbalances in the single-buyer electricity market, but its effective operation depends on a complete invoicing and payment system. We will establish this system across all contractual arrangements, namely, Power Purchase Agreements (PPAs) between the system operator and generation companies, Fuel Supply Agreements (FSAs) between generation companies and fuel providers, and Power Sales Agreements (PSAs) between distribution licenses and the system operator. We will implement these prerequisites and enforce standardized invoicing and settlement procedures under these agreements so that the BSTA ensures timely, accurate cash-flow tracking. We will use the BSTA as an automatic trigger for tariff revisions.

26. We will monitor continuously the financial performance of the unbundled utility companies, to ensure that they do not run arrears. The dispatch audit of CEB's operational costs to identify efficiency gains in electricity generation and transmission was completed in November 15, 2025. The financial performance of CEB's unbundled companies should be assessed through additional scrutiny of other dimensions (e.g., cash management processes, short/long term loan contracting processes, actuarial position of the provident fund). The MOF, as unique shareholder, will review and monitor monthly the operating cash flow needs for each unbundled public utility company.

27. We will strengthen the accountability of the regulator for cost recovery electricity tariff. The PUCSL Rules on Procedure for Review and Adjustment of Tariffs under Section 30(3) of the Sri Lanka Electricity Act has been amended to establish a legal mandate for PUCSL to report

quarterly on cost-recovery pricing, and the first of these quarterly reports has been published on PUCSL's website in April 2026. Each report will include the status of cost-recovery electricity pricing as well as CEB's projected and actual energy costs for the previous quarter. In addition, PUCSL's annual report to Parliament, submitted by end-June 2026, will summarize the extent to which cost recovery has been achieved in the electricity tariff-setting process for the year. This assessment will consolidate evidence from the quarterly reports, identify any deviations between projected and actual costs, explain the underlying reasons for such deviations, and outline measures to address any systemic departures from cost-recovery pricing.

28. We will press ahead with structural reforms to improve financial viability of SOEs.

- CPC. A small margin in the fuel pricing formula is utilized by CPC to repay US\$251 million of the old financial obligations. Of this amount, US\$75.96 million remains to be repaid as of end-March 2026, and we will ensure that these repayments continue every month.
- CEB. We plan to settle CEB's remaining legacy debt (incurred prior to 2023), estimated at about Rs. 180 billion as of end-2024. As of end-February 2026, the remaining balance stands at around Rs. 97.9 billion. Repayment of this debt is included in the electricity tariff calculation starting in June 2025.
- SriLankan Airlines. We are implementing a medium-term strategic plan for SriLankan Airlines (SLA), to restore operational viability.

29. To strengthen SOE governance and enhance their financial transparency:

- We will clarify the mandates of key SOEs through Statements of Corporate Intent and hold their boards of directors accountable for delivering satisfactory results informed by KPIs; ensure that all 52 major SOEs publish their audited financial statements by end-June of the following year. We have published the 2024 audited statements of 45 SOEs. As of end-March 2026, the 2025 audited statements of 6 SOEs have been published, the financial statements of 27 SOEs were submitted to the Auditor General. The financial statements of 12 SOEs have not been completed. Another 6 SOEs' are yet to submit their financial statements as their financial year ends on March 31.
- We will submit to Parliament a new SOE Bill to strengthen transparency, accountability, and governance for the government's holding company and SOEs. The law will clarify legal hierarchy and alignment with the PFM Act and Public Debt Management (PDM) Act, appointment of boards through independence criteria, reinforce the Ministry of Finance's oversight role, and enhance performance monitoring, financial reporting, disclosure, procurement integrity, and anti-corruption coverage of SOEs and the government's holding company. State-owned banks will not be included in the SOE bill, and the Act will ensure that any decision to include them in the future will require express agreement by CBSL. Such provision would help safeguard financial sector integrity and preserve the operational autonomy of state owned- banks.

30. We will continue strengthening the framework for SOE borrowing, as required by the PDM Act. New SOE borrowing should be limited to the financing of commercially viable activities, and, except for project loans on-lent by the Treasury and short-term trade financing, there will be no new borrowing in foreign currency (FX) for non-financial SOEs with less than 20 percent of revenues denominated in FX. Guarantees on FX borrowing will remain allowed on exceptional basis to facilitate IFI financing to SOEs under very strict conditions.

31. We will further strengthen social safety net programs through improved targeting and coverage given high poverty, and help mitigate the impact of shocks on the poor and vulnerable. We met the social spending IT at end-December 2025 after missing it by a very small margin in June and September, supported by accelerated Aswesuma cash transfers and school stationery allowance disbursements in Q4 2025. In response to heightened post-cyclone vulnerabilities, we extended the benefits payment period for the vulnerable category under Aswesuma by 6 months through end-June 2026. We aim to finalize the on-boarding of second-round beneficiaries by completing enumeration (97 percent completed as of end-March) and grievance resolution by end-June 2026 and expedite disbursements under the empowerment program, which have been slower than envisaged due to administrative delays and cyclone-related disruptions. We will also complete the recertification of Aswesuma applicants by updating their data in the social registry, reranking them based on their deprivation score, and publishing the updated list of beneficiaries by end-July 2026 (proposed SB). Recertification will improve the accuracy of the social registry data, thereby minimizing inclusion and exclusion errors. To this end, we will instruct local level officers to prioritize recertification under Aswesuma. We will extend for another 3 years the Aswesuma welfare benefit payment scheme, scheduled to expire end-June-2027. From August 1, 2026, we will ensure categorical payments to elderly, disabled, and kidney patients are delivered through the social registry with beneficiaries selected using objective and verifiable eligibility criteria to ensure support is targeted¹. Accordingly, we have committed to a minimum spending floor of LKR 238 billion or 0.7 percent of GDP for social spending in 2026, which includes the additional LKR8 billion monthly cash top-up for Aswesuma households referred to in para 21. From January 2027 onwards, we will ensure that the school stationery allowance is delivered through the social registry, and from June 2027 onwards, that all future social safety net (SSN) cash support, is delivered through the social registry with beneficiaries selected using objective and verifiable eligibility criteria to ensure support is targeted.

32. We will adopt a data-driven consultative process to review the Aswesuma eligibility criteria and will aim to improve shock-responsiveness of SSNs. We have appointed an expert committee to review existing Aswesuma eligibility criteria. We will ensure that all relevant stakeholders are consulted during the review process. The criteria will also factor in the 2025-26 household survey (HIES) data, to better capture multidimensional poverty and climate vulnerabilities, with revised selection cut-offs, while maintaining coverage above the poverty rate. To strengthen shock-responsiveness, we will improve the interoperability between the social registry and the

¹ Beneficiaries of categorical payments currently on legacy lists are expected to be brought into, and start receiving Aswesuma payments through the social registry with the completion of the recertification exercise. Ineligible legacy list beneficiaries identified following recertification will be transitioned out of the Aswesuma scheme by end-2026.

National Disaster Relief Services Center database to enable timely emergency support during disasters. Going forward, all SSN reforms will continue to be guided by the National Social Protection Strategy, published in September 2025, our integrated framework for implementing and financing Sri Lanka's SSN programs.

IV. Restoring Public Debt Sustainability

33. We remain committed to restoring debt sustainability. The comprehensive debt restructuring is anchored on debt sustainability targets established under the EFF program, which include: (i) reducing public debt below 95 percent of GDP by 2032; (ii) reducing the central government's average annual gross financing needs over 2027-32 to below 13 percent of GDP; (iii) reducing the central government's annual debt service in foreign currency below 4.5 percent of GDP for every year in 2027-32; and (iv) closing the balance of payments (BOP) financing gaps of US\$17.1 billion over the EFF program period. The debt restructuring is nearing completion, and we expect to complete the full process by end-June 2026.

34. The Public Debt Management Office (PDMO) will continue to strengthen its institutional capacity. Progress has been steady; the PDMO has been conducting domestic bond auctions since December 2025.

- Our immediate priorities are to implement standard operating procedures (SOP) by end-June 2026 and operationalize the new debt management information system (Meridien) by end-August 2026. The SOP, finalized with IMF technical assistance support in December 2025, will strengthen payment procedures and enhance safeguards against cybersecurity incidents. The Meridien system operationalization will involve verifying and updating loan and creditor data. The new system will facilitate robust verification of account details and payment amounts to further reduce the operational risk.
- Furthermore, we will: (i) finalize and adopt a code of conduct; (ii) undertake a comprehensive review of the primary dealer regulatory framework; (iii) establish data-exchange arrangements with key stakeholders—including the Treasury, line ministries, and SOEs—to ensure timely and accurate debt reporting; (iv) strengthen liability-management operations and implement the maturity extension envisaged under the DSA; (v) build capacity to support a return to international capital markets, with assistance from IMF technical support; and (vi) strengthen the capacity to produce and publish annual DSAs.

V. Safeguarding Price Stability and Exchange Rate Flexibility

35. In accordance with the Central Bank Act, the central bank will not provide monetary financing to the government. The discontinuation of monetary financing is monitored through a QPC on the ceiling of CBSL's net credit to the government and a continuous QPC prohibiting purchases of Treasury securities in the primary market.

36. We remain firmly committed to our price stability mandate with inflation target of 5 percent. For program purposes, this will be monitored under the Monetary Policy Consultation Clause (MPCC). We will continue a prudent and data-driven approach in calibrating the monetary policy stance.

37. We remain firmly committed to exchange rate flexibility. Since March 2023, we have allowed the rupee to move in line with fundamentals and we are limiting FX sale interventions to disorderly market conditions that could lead to destabilizing inflation and/or significant balance sheet effects. We will transparently disclose our interventions to guide market expectations and ensure that our FX interventions are consistent with the Net Official International Reserves (NIR) targets. We continue encouraging financial market deepening, including by implementing appropriate recommendations of IMF TA.

38. We are committed to Net International Reserves (NIR) above the floor target (QPC). We are gradually rebuilding gross international reserves including through outright FX purchases in the market, supported by a non-interest current account surplus, new external financing and other non-debt creating inflows, and sovereign debt relief. In 2025, we conducted FX purchases on a net basis of US\$2.0 billion, and in 2026 we are committed to purchase on a net basis at least another US\$2.2 billion. Although we were able to purchase USD 661 million on a net basis in the first two months of 2026, given the uncertainty arising by the conflict in the Middle East, we are compelled to backload our purchases in the rest of the year. We will re-evaluate our purchase commitment at the Seventh Review in consultation with IMF staff. We strive to save any overperformance in NIR accumulation. As a signal of our proactive approach to reserves accumulation, we have a cap on the adjustor for NIR target in cases of shortfall in project financing.

39. We have lifted import restrictions and will continue to phase out the administrative measures imposed to support the BOP, including those introduced on an emergency basis as conditions allow. These measures include import restrictions, exchange restrictions, multiple currency practices (MCPs), and capital flow management (CFM) measures. After the temporary suspension of non-priority imports to relieve BOP pressures in 2020-22, we have begun a gradual lifting of these since September 2022. We have removed restrictions on personal vehicles on January 31, 2025, except for a few categories specified in the gazette for environmental and safety reasons. The following restrictions remain that we plan to eliminate when conditions allow:

- Exchange restrictions: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; (ii) the levy of a 14 percent remittance tax on nonresidents' profits; (iii) limits on repatriation by nonresidents of proceeds derived from current transactions; and (iv) the requirement to provide a tax clearance certificate prior to permitting transfers for certain current transactions.
- Two MCPs arising from the following official actions which create impermissible spreads: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; and (ii) the levy of a 14 percent remittance tax on nonresidents' profits.

- Since 2020, we have introduced new CFMs and tightened existing CFMs, including on payments made by residents on capital transactions outside of Sri Lanka during the pandemic and recent crisis.² Out of these, we removed the surrender requirement for banks on purchases of proceeds from both goods and service exports and inward worker remittances and, since program approval, relaxed the CFMs on outward remittances on capital transactions made by residents and outward transfers of funds by emigrants.
- While the above exchange restrictions, MCPs and CFMs could help mitigate FX shortages in the near term, we believe they should not be a substitute for the comprehensive policy package and ongoing macroeconomic adjustment. We are committed to phasing these measures out as macroeconomic situation stabilizes. To this end, we have already revoked some of these restrictions, and have developed and shared with IMF staff, for consultation, a plan for the phased removal of these measures during the program period, as we make progress with achieving macroeconomic stability.
- We are seeking temporary approval of all exchange restrictions and MCPs. During the program period, we will not: (i) introduce or intensify exchange restrictions or multiple currency practices (MCPs); (ii) impose or intensify import restrictions for BOP purposes, or (iii) conclude any bilateral payment agreements inconsistent with Article VIII (continuous PC).

VI. Ensuring Financial Stability

40. We are dedicated to maintaining a healthy and well-capitalized banking system. Our previous efforts have ensured that the banking sector is robust. Although the impaired/stage 3 ratio is still elevated, it has declined from 12.3 percent at end-2024 to 9.7 percent at the end-2025. We will ensure that *parate executions* will continue to be available for banks as a mechanism for collateral recovery. We will enact the Rescue, Rehabilitation and Insolvency Bill which provides orderly insolvency processes to support NPL recovery and allow banks to allocate their capital efficiently to new credit, fostering economic growth. CBSL will also continue to monitor the capital position of banks through forward-looking stress tests and stands ready to impose capital requirements under Pillar 2 of the Basel capital standards, if necessary.

41. We will continue to improve governance of the State-Owned Banks (SOBs). The MOF concluded the selection of members of the Board of Directors of SOBs by July 2025 (SB) and the banks submitted the names of the appointees and required documents to CBSL for the fitness and propriety assessment. The selection process followed the Cabinet-approved framework which ensures that SOB board nominations are merit-based, independent and transparent. In December, we finalized the fitness and propriety assessment of those independent directors who submitted the

² CFMs introduced or tightened since 2020 include: (i) a repatriation requirement for exports of goods and services; (ii) a surrender requirement for exporters on proceeds from exports of goods; (iii) a surrender requirement for banks on purchases of export proceeds; (iv) a surrender requirement for banks on purchases of inward worker remittances; (v) suspension/limitation of outward remittances on capital transactions made by residents; (vi) restrictions on purchases of Sri Lankan ISBs by local banks; and (vii) limitations on outward transfers of funds by emigrants.

completed documents. MOF will continue to support the absorption of the two not systemically important state-owned housing banks by Bank of Ceylon and People's Bank. CBSL may provide forbearance, if needed, provided that any forbearance measures are time-bound, limited to the extent necessary to manage the transition, and will not affect the stability of the acquiring banks.

42. The frameworks for financial sector supervision and crisis management are being modernized. CBSL is reviewing the Finance Business Act to enhance supervision, regulation, and resolution framework of finance companies (FCs), and the Finance Leasing Act to address irregularities in leasing activities. The proposed amendments to the Finance Business Act (FBA) approved by the Governing Board of CBSL have been referred to the Ministry of Finance, Planning and Economic Development in early March 2026, seeking the approval of the Cabinet of Ministers. The resolution regime applicable to banks under the Banking (Special Provisions) Act No. 17, of 2023, has been incorporated to the proposed amendments to FBA to facilitate timely and effective intervention in distressed FCs. The Phase II of the Masterplan (with an implementation period of three years, i.e., 2025-2028) was introduced to LFCs Sector aiming to develop a more resilient sector in the medium to long term.

43. We ensured that regulations applicable to offshore banking in Port City are compliant with the Basel Committee's standards. Amendments to the Port City Act safeguard CBSL's supervisory, regulatory and licensing withdrawal powers over any bank established in Port City. Moreover, the regulations applicable to Port City are conducive to financial system stability.

VII. Reducing Corruption Vulnerabilities

44. We remain committed to advancing governance and anti-corruption reforms as a central pillar of our program. We will demonstrate specific improvements in governance, building on the legal and organizational foundations established under the program. The implementation and progress report for the 2025 Government Action Plan (GAP) on governance reforms and the 2026 GAP were published in March 2026. Going forward, implementation of the GAP will be regularly assessed, and a performance report will be published on a semi-annual basis. We will continue to monitor progress in implementing the recommendations of the Governance Diagnostic Assessment.

45. We strive to bolster anticorruption (AC) legal frameworks and institutions. We will safeguard the budgetary and staffing independence of the CIABOC (Commission to Investigate Allegations of Bribery or Corruption) in line with the AC Act. We facilitated the swift recruitment of employees and officers to the CIABOC by adopting a Cabinet Memorandum on the secondment of staff. Additionally, remuneration of the Cadre proposed by CIABOC under 26(1) of the ACA was passed by the Parliament enabling recruitment of dedicated staff to CIABOC. We will support the completion of CIABOC's restructuring plan in line with the AC Act and CIABOC's strategic action plan. The CIABOC has strengthened the asset declaration (AD) system (SB) by: (i) allowing public access to published ADs through foreign and local phone numbers or email accounts and posted forms to be downloadable; (ii) publishing the remaining ADs of senior officials along with the list of

non-filers; (iii) revising the existing form to include beneficial ownership information; and (iv) modifying current rules on redactions so that some information on the value of bank accounts and other assets is disclosed to the public. We reported on the compliance and adoption rate of the enhanced ADs by senior officials for the 2025 asset declarations. We are reviewing non-submission cases and indicting, where warranted, high-level officials that failed to submit the AD. To increase the AD regime effectiveness, we launched an electronic declaration system. The first draft of the code of conduct covering the performance and disciplinary control of judicial officers will be ready by 2027Q1.

46. We aim to strengthen tax exemptions frameworks.

- We submitted to Parliament amendments to the SDP and Port City Acts, consistent with IMF TA, that introduce transparent, rules-based eligibility criteria to increase the effectiveness of granted tax incentives in line with best practices, limit the types and duration of incentives, and improve transparency (SBs). Both the SDP and Port City regulations have been published in the gazette. We will also continue to publish, semi-annually, on the designated websites ([Promise](#) and [MOF](#)) all required documents stipulated in the SB. Finally, we published the improved annual tax expenditure statement incorporating recommendations from IMF TA in November 2025.
- Prior to the passage of amendments above—to minimize revenue losses and curb corruption risks—since December 2023, we did not provide any tax exemptions or incentives or approving new projects under the Strategic Development Projects (SDP) Act, No. 14 of 2008. We did not provide any further Business of Strategic Importance status and corresponding tax exemptions to any other businesses under the Port City Act and regulations in effect at May 28, 2025. In line with these commitments, we adhered to the continuous SB on not granting new tax exemptions based on the Port City and SDP Acts that were in effect on May 28, 2025. All further applications, including those in pending stages will be considered under the amended Port City Act and regulations and in consultation with IMF staff. The continuous SB is now removed following successful amendments to the SDP and Port City Acts and regulations. We will continue providing quarterly data to the IMF team on the list of all firms receiving new exemptions under both Port City and SDP Acts.
- Any incentives under the new Investment and Trade Commission Act and any amendments to BOI Act should adopt rules-based eligibility criteria that limit the types and duration of incentives and improve transparency.

47. We are committed to canceling tax exemptions on motor vehicle imports for public officials. Under a long-standing benefits scheme, duty-free permits are being issued to public officials. We maintained the suspension on the use of permits for importing vehicles on January 31st, 2025, under the EFF in line with our revenue-based fiscal consolidation objective. Going forward, we will maintain the suspension on the use of these permits, and we will review the mechanism to discontinue the scheme and cancel the existing permits (potentially costing 0.6 percent of GDP) in the 2027 Budget.

48. We prioritize anti-corruption reforms in our Customs department to curb revenue leakages. We finalized changes to the Memorandum of Understanding between Customs Department and the BOI on November 13, 2025 to provide, through a gradual process, the Customs Department of Sri Lanka (CDSL) with clear and unfettered responsibility for the clearance, movement, and control of goods to and from the special economic zones (SEZ) (SB). Given the critical need for protecting trade facilitation efforts, we will take a gradual approach to operationalizing customs clearance of imports and exports in the SEZs over time. The amended MOU outlines such a process, including a pilot program. Customs' role in the clearance process for SEZs will be expanded after key triggers on performance towards timely and effective goods clearance are met in the pilot program. We will enhance customs compliance by (i) implementing more robust risk assessment so that percentage of shipments assigned to the green channel approaches 80 percent; and (ii) enhancing customs services on trade facilitation for exporters and importers, including SEZs and beyond. We are working towards closing the *long rooms* and eliminating face-to-face document review of customs declarations by December 2026. As an intermediate milestone, by October 2026, we will eliminate face to face reviews of customs declarations for Authorized Economic Operators and a further 150 fast-tracked companies (proposed SB). Together, these companies account for approximately 15 percent of customs declarations. Starting in August 2025, we regularly published a quarterly report on the implementation progress of anti-corruption measures by each revenue department, including digitization and automation.

49. We will reduce corruption vulnerabilities in procurement processes. We have operationalized the National Procurement Commission and adopted an action plan. With the assistance of the ADB, we will enact a Public Procurement Law in 2026 that reflects international best practice including inclusion of explicit beneficial ownership disclosure requirements within the procurement process, and we will eliminate procurement contracts awarded through a non-competitive process. The development of the e-procurement (e-GP) system has been delayed, with a full rollout now expected by December 2028. We remain committed to strengthening the e-procurement system and we are now focused on appointing a new vendor to develop the system through a competitive bidding process, which will conclude by August 2026. We will agree on a timebound rollout schedule with the new vendor.

50. We aim to improve public asset oversight and management. We are committed to strengthening the regulatory framework overseeing and managing public assets. We have convened a taskforce to review the management and use of state lands, who will submit their recommendations to Cabinet to promote its effectiveness, transparency and consolidation by end-December 2025. We will submit to Parliament the Public Asset Management Bill with a view to improving the transparency, management, and disposal of public assets by December 2026. We amended the National Audit Act to facilitate the effective levying of fines on officials, including Chief Accounting Officers who fail to fulfill their responsibilities in overseeing and managing public assets.

51. We will strengthen our AML/CFT framework. We have enhanced the transparency of legal persons and arrangements, amending the Companies Act in August 2025 to introduce

beneficial ownership requirements in line with the FATF standards. Subsequently, we operationalized the Beneficial Ownership Registry, including by implementing the associated regulations. We published the 2024/25 National ML/TF Risk Assessment, and this will inform the consequent update of the National AML/CFT Policy. We are preparing for the comprehensive AML/CFT assessment by the Asia Pacific Group on Money Laundering in 2026 and will complete the following:

- Adopt policies for verification of beneficial ownership (BO) information submitted to the BO Registry and conduct verification of BO information for 80 percent of registered companies, who have submitted the BO information to ROC, prioritizing higher risk legal entities (e.g., companies in sectors identified as high risk in the NRA, foreign-owned companies) by end-September 2026 (proposed SB);
- Address remaining technical compliance gaps with the FATF Standards by amending the AML/CFT framework, including the Financial Transaction Reporting Act, the Prevention of Money Laundering Act and the Convention on Suppression of Terrorist Financing Act;
- Implement measures to improve the effectiveness of ML investigations, prosecutions, and asset recovery, including increasing the number of investigations related to the threats identified in the updated NRA and developing the confiscation policy guidelines under the Proceeds of Crime Act. The first annual progress report on implementation of the Proceeds of Crime Act will be published in December 2026;
- Strengthen the use of financial intelligence to identify potential corruption activities and the cooperation between FIU, law enforcement, and CIABOC to facilitate parallel investigations; and
- Review and improve the risk-based AML/CFT supervision of financial institutions through better supervisory capacity and regular supervisory engagements focused on on-site inspections, compliance with internal controls and beneficial ownership requirements, and enhanced due diligence measures for politically exposed persons.

VIII. Advancing Growth-Enhancing Structural Reforms

52. Our growth-enhancing reform agenda will focus on key areas critical for unlocking Sri Lanka's growth potential.

- Trade reforms to bolster exports. We will implement: (i) regulations to rationalize para-tariffs with due consideration to revenue implications; (ii) custom reforms to facilitate trade including through recommendations under the Trade Facilitation Agreements, a National Single Window; and (iii) a National Export Strategy with a focus on expediting negotiations of Free Trade Agreements and entry into regional trade blocks. Our priorities include improving export competitiveness while enabling the positioning in global value chains, developing the industrial sector to cater for both domestic and global markets, as well transforming information technology, business process outsourcing, and tourism sectors to key service exports.

- Private sector development. With the support of development partners, we will facilitate investments by: (i) reducing red tape and modernizing the regulatory and business environments; (ii) reducing electricity costs by improving the generation mix and electricity distribution efficiency; (iii) reducing the public sector's role in the economy to enable a more efficient resource allocation and foster competition; and (iv) developing e-land titling and registry to improve access to land and property rights more broadly.
- Labor market reforms. We will: (i) strengthen labor laws to improve labor market flexibility and introduce new measures to improve labor force participation; (ii) improve education outcomes to boost productivity and close gender gaps; (iii) promote financial inclusion including through credit guarantee schemes supporting female entrepreneurs; and (iv) increase quantity, quality, and affordability of child and elderly care facilities. A Cabinet-approved committee is reviewing existing labor laws across four pillars: (1) labor standards and social security (including wages, working conditions, leave, and modern work arrangements), (2) occupational health and safety, (3) industrial relations and disputes, and (4) trade unions.
- Climate. We will address climate-related vulnerabilities given their far-reaching implications with large impacts on livelihoods and overall food security. The severity and frequency of climate-related disasters have intensified, underscoring the pressing need to find immediate solutions. Efforts are underway to enhance electricity generation from renewable resources including solar and wind. Private sector financing and multilateral financing are expected to help meet the envisaged annual investments. We will also proactively engage with multilateral partners to build the technical capacity to catalyze the rapid implementation of climate mitigation and adaptation efforts.
- Digitalization. We aim to build an inclusive, resilient, and innovation-driven digital economy. Our strategy focuses on expanding interoperable digital public infrastructure, improving accessibility and affordability of connectivity, and digitalizing government payments and services. To this end, our key initiatives include *SL-UDI* (national digital ID), *GovPay* (interoperable digital government payment platform), *National Single Window* for trade facilitation, and *OneRegistry* (interoperable digital social registry). Our digitalization agenda will boost productivity, enhance spending and revenue efficiency, and enable financial deepening to promote inclusive growth.

IX. Program Risks and Contingency Planning

53. We stand ready to deploy contingency measures should downside risks materialize. Program overperformance will be saved to help achieve program objectives, while underperformance will be corrected with remedial measures. We commit to undertaking contingency revenue measures immediately if signs of a shortfall emerge (¶19). Targeted spending cuts will be the last line of defense, instead of depending solely on across-the-board under-execution. We stand ready to adjust monetary policy on a data-driven basis should inflation risks materialize. Reserves underperformance would be remedied by the introduction of explicit FX

intervention rules to avoid hindering necessary exchange rate adjustment. To ensure program performance remains on track, we are conducting weekly monitoring meetings with the IMF.

X. Program Monitoring and Safeguards

54. Our program is subject to semiannual reviews with performance criteria, MPCC bands, and indicative targets set out in Table 1 and structural benchmarks in Table 2 attached to this MEFP and TMU. We continue to request the use of IMF financing for budget support, and, in this respect, the Memorandum of Understanding between CBSL and the MOF on responsibilities for servicing financial obligations to the IMF continues to apply. The CBSL has implemented the majority of the 2023 safeguards assessment recommendations, reducing risks highlighted in this assessment. The EFF arrangement will continue to be subject to semiannual reviews with the seventh and eight reviews occurring on or after October 1, 2026 and March 1, 2027, respectively.

55. We request that the Executive Board approves the modification of existing and introduction of new quantitative targets and SBs listed in Tables 1 and 2, and a waiver of nonobservance of the continuous PC on external payment arrears. The continuous PC on new external payment arrears was not observed since November due to cybersecurity incidents that resulted in missing external debt payments of US\$2.5 million (0.002 percent of GDP). Accordingly, we request a waiver of nonobservance on the basis of temporary and minor breach. The incidents were recently identified and investigations are ongoing, including in coordination with the foreign counterpart. We will clear the external arrears as soon as feasible.

Table 1. Sri Lanka: Proposed Quantitative Performance Criteria (PC) and Indicative Targets (IT)
(Cumulative from the beginning of the year to the end of the period, unless otherwise noted)

	2025												2026										
	end-June				end-Sep				end-Dec				end-Mar					end-June			end-Sep		end-Dec
	PC	Adj. PC	Outturn	Status	IT	Adj. IT	Outturn	Status	PC	Adj. PC	Outturn	Status	Fourth Review	IT	Adj. IT	Outturn	Status	Fourth Review	Proposed PC	Proposed IT	Proposed PC		
Quantitative performance criteria																							
Central government primary balance (floor, in billion rupees)	130		859	Met	300		1465	Met	730		1756	Met	95	95				180	72	85	509		
Program net official international reserves (Program NIR, floor, end of period stock, in million US\$) 1/ 2/	-595	-991	-64	Met	-233	-916	21	Met	448	182	297	Met	593	593	485	426	Not Met	949	-778	284	944		
Net credit to the government of the CBSL (ceiling, end of period stock, in billion rupees) 3/	2,560		2,504	Met	2,560		2,507	Met	2,560		2,501	Met	2,515	2,515		2,506	Met	2,515	2,515	2,510	2,510		
Stock of expenditure arrears of the central government (ceiling, in billion rupees)	0		106	Not Met	na		na	na	na		na	na	na	na				na	na	na	na		
New expenditure arrears of the central government (ceiling, in billion rupees) 4/					0		0	Met	0		0	Met	0	0				0	0	0	0		
Central government tax revenue (floor, in billion rupees)	1,650		2,152	Met	2,750		3,563	Met	4,350		5,049	Met	850	850				1,850	2,000	3,275	5,033		
Continuous performance criteria (cumulative from beginning of the program)																							
New external payment arrears by the nonfinancial public sector and the CBSL (ceiling, in million US\$)	0		0	Met	0		0	Met	0	1.09	Not met		0	0		2.5	Not Met	0	2.6	0	0		
CBSL purchases of government securities in the primary market	0		0	Met	0		0	Met	0		0	Met	0	0		0	Met	0	0	0	0		
Monetary policy consultation clause																							
Year-on-year inflation in Colombo Consumers Price Index (in percent) 5/																							
Outer band (upper limit)	8.0				8.0				8.0				8.0	8.0				8.0	8.0	8.0	8.0		
Inner band (upper limit)	6.5				6.5				6.5				6.5	6.5				6.5	6.5	6.5	6.5		
Actual / Center point	5.0		-1.1	Not Met	5.0		0.8	Not Met	5.0	2.1	Met		5.0	5.0		2.0	Met	5.0	5.0	5.0	5.0		
Inner band (lower limit)	3.5				3.5				3.5				3.5	3.5				3.5	3.5	3.5	3.5		
Outer band (lower limit)	2.0				2.0				2.0				2.0	2.0				2.0	2.0	2.0	2.0		
Indicative targets																							
Social spending by the central government (floor, in billion rupees)	114		108	Not Met	167		166	Not Met	237		239	Met	58	58				116	118	174	238		
Identified stock of expenditure arrears of the central government (ceiling, in billion rupees) 6/	na			na	126		53	Met	56		5	Met	51	51		0	Met	37	0	0	0		
Cost of non-commercial obligations (NCOs) for fuel and electricity (net of government transfers) (ceiling, in billion rupees) 7/	0		0	Met	0		0	Met	0				0	0				0	0	0	0		
Treasury guarantees (ceiling, in billion rupees)	2,100		1,431	Met	2,100		1,327	Met	2,100		1,079	Met	2,100	2,100				2,100	2,100	2,100	2,100		
Treasury FX guarantees (ceiling, in billion rupees)	1,275		836	Met	1,275		775	Met	1,275		642	Met	1,275	1,275				1,275	1,275	1,275	1,275		

1/ The CBSL's conventional definition of net official international reserves (NIR) includes outstanding liabilities in foreign exchange swaps with domestic commercial banks. The Program NIR excludes the outstanding liabilities in foreign exchange swaps with domestic commercial banks from the CBSL's conventional NIR definition. See TMU for details.

2/ Program NIR will be adjusted upward/downward by the cumulative amounts of (i) foreign program financing by the central government, (ii) net borrowings from SLDBs and FCBUs by the central government in FX terms, (iii) external commercial loans (including Eurobonds and syndicated loans) by the central government, (iv) the amount of project loans and grants FX cash flows disbursed to the central government, and (v) proceeds from commercialization of public assets to non-residents, that are higher/lower than assumed under the program; and by the cumulative amounts of (vi) amortization of total external debt owed by the central government (excl. IMF), (vii) interest payments on total external debt owed by the central government, (viii) interest payments on SLDBs and FCBUs by the central government in US dollar terms, and (ix) an amortization and interest payments in FX for restructured CPC loans, that are lower/higher than assumed under the program. See TMU for details.

3/ Excludes holdings of treasury securities for monetary policy purposes and Rupee-denominated government deposits. See TMU for details on the calculation for the test date.

4/ Defined as a cumulative flow, starting from July 1, 2025.

5/ See the TMU for how to measure year-on-year inflation.

6/ Identified as of May 14, 2025.

7/ NCOs refer to the obligation of CPC and CEB to supply fuel and electricity at administered prices. See TMU for how to measure the cost of NCOs.

Sources: Authorities; and IMF Staff.

Table 2. Sri Lanka: Structural Benchmarks and Prior Action

	Date	Status
Prior Action		
1. Compensate CPC for past losses through an explicit on-budget transfer of and publish a cabinet decision ensuring fuel, electricity, and fertilizer subsidies and Aswesuma support to mitigate the impact of Middle East conflict are on budget, limiting them to a total of LKR100 billion, and fully phasing out once the limit is reached or by end-September 2026, whichever is earlier.		
2. Restore cost-recovery electricity pricing on forward-looking basis and compensate for past losses based on the current methodology, with a new tariff revision (post-March 30) that reflects increase in fuel prices and changes in the energy generation mix.		
Structural Benchmarks: Fiscal, SOE, and Social Safety Net Reforms		
1. Set retail fuel prices to their cost-recovery levels with monthly formula-based adjustments, and compensate the CPC for providing any fuel subsidies with on-budget transfers.	Continuous	Not Met in April 2026. Note: It was also breached in December 2025 but restored in January 2026.
2. Maintain cost-recovery level of the end-user electricity tariff schedule (overall across different types of final consumers) with quarterly formula-based adjustments, on a forward-looking basis in January, April, July and October each year (effective from January 1, April 1, July 1, and October 1 respectively; the NSO submits tariff revision requests to the Public Utility Commission of Sri Lanka by end-October (for January tariff revisions), end-January (for April tariff revisions), end-April (for July tariff revisions) and end-July (for October tariff revisions); compensate the electricity sector for providing any residual subsidies with on-budget transfers; and use tariff surcharges in the interim, in case the public utilities are making losses.	Continuous	Not met since January 2026
3. Provide no new exemptions to businesses based on the SDP and Port City Acts and regulations in effect as of May 28, 2025.	Continuous; will be discontinued once the revised SDP and Port City Acts and regulations are effective.	Met

Table 2. Sri Lanka: Structural Benchmarks and Prior Action (continued)

	Date	Status
4. Track and report the updated quarterly Key Performance Indicators (KPIs) of tax compliance (Annex IV).	End-August 2025, end-November 2025, end-February 2026, end-May 2026, and December 2026	Met for end-August, end-November 2025, and end-February.
5. IRD will report the results of a simulation exercise to test the new refund arrangements which will come into place once SVAT is repealed.	End-June 2025	Not met, implemented with delay on July 18, 2025.
6. Establish a digital SPRR.	End-June 2025	Not met, implemented with delay on January 22, 2026.
7. Abolish the SVAT system.	End-September 2025	Met
8. Cabinet approval of revenue measures requiring legislative amendments to support fiscal consolidation during 2026, in line with program parameters.	End-September 2025	Not met, implemented with delay on November 7, 2025.
9. Submission to parliament for the first reading of the 2026 Appropriation Bill that is in line with program parameters.	End-October 2025	Met
10. Conduct a review of the electricity tariff methodology in consultation with IMF staff.	End-November 2025	Met
11. Adopt implementing regulations under the Public Financial Management Act.	End-December 2025	Not met.
12. Parliamentary approval of the 2026 Appropriation Act and the spending allocations in line with program parameters	End-December 2025	Not met.
13. Amend the PUCSL Act to mandate PUCSL to submit to parliament quarterly reports on maintaining cost-recovery electricity pricing and publish the reports.	End-January 2026	Not met, but the objective was achieved through amendments to PUCSL Rules in January 2026.
14. MOF will use ITMIS to produce a monthly report on the size, maturity, and composition of the stock of arrears, as defined in the TMU.	End-June 2026	On track
Newly Proposed and Reformulated		
15. IRD to complete cleaning and updating the taxpayer registry in consultation with IMF staff.	End-July 2026	
16. Complete the recertification of Aswesuma applicants by updating their data in the social registry, reranking them based on their deprivation score, and publishing the updated list of beneficiaries.	End-July 2026	

Table 2. Sri Lanka: Structural Benchmarks and Prior Action (continued)

	Date	Status
17. Prepare and publish (i) a standardized methodology for assessing project readiness, including feasibility, implementation readiness, and climate-resilience screening, and (ii) transparent and standardized project selection criteria for the Public Investment Committee, incorporating climate-resilience and fiscal-risk considerations, in consultation with IMF staff.	End-August 2026	
18. We will (i) require companies bidding for emergency and reconstruction related public procurement contracts to disclose their ultimate beneficial ownership information as part of the bidding documentation; (ii) publish a semi-annual report on cyclone related procurement, detailing the sources of funding, allocation by program and spending category, as well as ultimate beneficial owners of awarded contracts; and (iii) in the same semi-annual report, disclose aggregated execution of cyclone-related spending by program and spending category	August 2026 and February 2027	
19. Adopt and publish implementing regulations under the Public Financial Management Act to operationalize budget execution, commitment controls, and enforcement mechanisms.	End-July 2026	
20. Approve and publish a new electricity tariff methodology consistent with IMF technical advice that establishes transparent cost classifications and rules-based pass-through of costs to ensure full cost recovery and mitigating tariff volatility	End-August 2026	
21. Cabinet approval of revenue measures requiring legislative amendments to support fiscal consolidation during 2027, in line with program parameters.	End-September 2026	
22. Implement the cabinet decision set as a prior action for the completion of the combined Fifth and Sixth review under the EFF by ensuring that (i) fuel, electricity, and fertilizer subsidies, and Aswesuma support are on budget; (ii) electricity subsidies are targeted only to households consuming less than 180 kWh per month, and the low consumption segments for some non-residential tariffs; and (iii) all subsidies and Aswesuma support combined are limited to LKR100 billion in total, and are fully phased out once the limit is reached or by end-September, 2026, whichever is earlier.	End-September 2026	
23. Submission to parliament for the first reading of the 2027 Appropriation Bill that is in line with program parameters.	End-October 2026	

Table 2. Sri Lanka: Structural Benchmarks and Prior Action (continued)

	Date	Status
24. Parliamentary approval of the 2027 Appropriation Act and the spending allocations in line with program parameters.	End-December, 2026	
25. Publish tax diagnostics and MTRS objectives, in consultation with IMF staff.	End-October 2026	
26. Cabinet approval of appropriate revenue measures to offset the phase out of para tariffs in 2028 and 2029, if the removal results in the government not being able to meet the revenue targets as agreed with the IMF.	End-November 2026	
Structural Benchmarks: Financial Sector		
27. MOF to conclude the selection of members of the Board of Directors of SOBs and submit to CBSL for fitness and propriety assessment to: (i) ensure the boards have not less than nine and not more than thirteen members, and (ii) that independent directors comprise the majority of the total number of directors of each SOB board.	End-July 2025	Met
Structural Benchmarks: Governance		
28. Strengthen the existing asset declaration system by (i) allowing public access to published declarations through foreign and local phone numbers or email accounts and posted forms to be downloadable, (ii) publishing the remaining asset declarations of senior officials along with the list of non-filers, (iii) revising the existing form to include beneficial ownership information, and (iv) modifying current rules on redactions so that information on the value of bank accounts and other assets is disclosed to the public.	End-June 2025	Met
29. Submission to parliament of revisions of the SDP Act, with IMF technical assistance, that introduce transparent, rules-based eligibility criteria, to increase the effectiveness of granted tax expenditures, and to limit the duration for which incentives can be granted.	End-August 2025	Not met, implemented with delay on November 11, 2025.
30. Publish on a semi-annual basis on a designated website (i) all public procurement contract above Rs. 1 billion, along with comprehensive information in a searchable format on contract award winners; (ii) a list of all firms receiving tax exemptions through the Board of Investments, the SDP and Port City, and an estimation of the value of these tax exemptions; and (iii) a list of firms receiving tax exemptions on luxury vehicle imports.	End-June 2025 and end-December 2025	Met for end-June and end-December 2025.

Table 2. Sri Lanka: Structural Benchmarks and Prior Action (concluded)

	Date	Status
31. Submission to Parliament of legislation ensuring the Customs Department has a clear and unfettered responsibility for the clearance, movement, and control of goods to and from special economic zones.	End-October 2025	Not met, but the objective was achieved through an MOU between BOI and Customs in November 2025.
32. Submission to Parliament of amendments to the Port City Act, based on IMF technical assistance, that introduce transparent, rules-based eligibility criteria, to increase the effectiveness of granted tax exemptions, and to limit the duration for which incentives can be granted.	End-October 2025	Not met, implemented with delay on December 5, 2025.
Newly Proposed and Reformulated		
33. Publish on a semi-annual basis on a designated website (i) all public procurement contract above Rs. 1 billion, along with comprehensive information in a searchable format on contract award winners; (ii) a list of all firms receiving tax exemptions through the Board of Investments, the SDP and Port City, and an estimation of the value of these tax exemptions.	End-June 2026 and end-December 2026.	
34. Adopt policies for verification of beneficial ownership (BO) information submitted to the BO Registry and conduct verification of BO information for 80 percent of registered companies, who have submitted the BO information to ROC, prioritizing higher risk legal entities (e.g., companies in sectors identified as high risk in the NRA, foreign-owned companies)	End-September 2026	
35. Eliminate face-to-face reviews of customs declarations for Authorized Economic Operators and a further 150 fast-tracked companies	End-October 2026	

KPI	Baseline	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target & Outcomes	September 2025 Target & Outcomes	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target	Proposed September 2026 Target	Proposed December 2026 Target
KPI-1.1: Risk Based Audit	No cases initially selected on systematic, data-driven, risk basis	Target: 30 new LTO cases selected	40 new LTO cases selected in Q4.	50 new LTO cases selected in Q1, &	50 new LTO cases selected in Q2.	50 new LTO cases selected in Q3.	50 new LTO cases selected in Q4.	50 percent of new LTO cases selected in Q1.	50 percent of new LTO cases selected in Q2.	60 percent of new LTO cases selected in Q3.	60 percent of new LTO cases selected in Q4.
Shift to data-driven, risk-based audit case selection and assignment, away from discretion-based selection by auditor and/or supervisor.		2 percent of new non-LTO cases selected. Outcome: 38 LTO cases & 2 percent of non-LTO cases (18)	5 percent of new non-LTO cases in Q4 Outcome: 50 new LTO cases & over 5% of new non-LTO cases (513)	10 percent of new non-LTO cases in Q1 Outcome: 63 new LTO cases and more than 10% of new non-LTO cases (304)	10 percent of new non-LTO cases in Q2 Outcome: 63 LTO cases & over 10% of non-LTO cases (376)	10 percent of new non-LTO cases in Q3	10 percent of new non-LTO cases in Q4	20 percent of new non-LTO cases selected in Q1	30 percent of non LTO cases selected in Q2.	30 percent of non LTO cases selected in Q3.	40 percent of non LTO cases selected in Q4.
KPI-2.1: Tax Return Filing Compliance of Large Taxpayers	From 2023 TADAT Assessment (P4.12): On-Time CIT Filing: 93.4 percent This is the percentage of expected tax returns from large taxpayers by the due date: (1) VAT – one-month after monthly or quarterly deadline; (2) PAYE by April 30; (3) CIT by November 30	89 % of VAT returns on time Outcome: 89.6% of VAT returns on time	91 % of VAT returns on time Outcome: 90.8% of VAT returns on time 95 % of CIT returns on time Outcome: 92.5 % of CIT returns on time	95 % of VAT returns on time Outcome: 91.6% of VAT returns on time	95 % of VAT returns on time Outcome: 92.1% of VAT returns on time 90 % of PAYE returns on time Outcome: 65.1% of PAYE returns on-time	95 % of VAT returns on time	95 % of VAT returns on time 95 % of CIT returns on time	95 % of VAT returns on time	95 % of VAT returns on time 70 % of PAYE returns on time. (90% by end for Q3.)	95 % of VAT returns on time	95 % of VAT returns on time 95 % of CIT returns on time
KPI-2.2: Tax Return Filing Compliance of Non-Large Taxpayers	From 2023 TADAT Assessment (P4.12): On-Time CIT Filing: 32 percent This is the percentage of expected tax returns from non- large	56 % of VAT returns on time Outcome: 55.8 % of VAT returns on-time	60 % of VAT returns on time Outcome: 49.5% VAT returns on time 50 % of CIT returns on time	65 % of VAT returns on time Outcome: 56.6% VAT returns on time	67 % of VAT returns on time Outcome: 55.6% VAT returns on time 60 % of PAYE returns on time	69% of VAT returns on time	70 % of VAT returns on time	70 % of VAT returns on time	70 % of VAT returns on time.	72% of VAT returns on time	75 % of VAT returns on time 70 % of CIT returns on-time

KPI	Baseline	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target & Outcomes	September 2025 Target & Outcomes	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target	Proposed September 2026 Target	Proposed December 2026 Target
taxpayers by the due date.			Outcome: 28.7% of CIT returns on time		Outcome: 15.0% PAYE returns on time		60 % of CIT returns on-time		25 % of PAYE returns on time. (60% by end Q3.)		
KPI-2.3: Electronic Filing of Individual Income Tax (IIT) Returns	From 2023 TADAT assessment (P4.14): 23 percent of IIT returns electronically filed in 2021	40 % filed electronically	50 % filed electronically.	60 % filed electronically	60 % filed electronically	60 % filed electronically	80 % filed on time electronically	95 % filed electronically	98 % filed electronically	98 % filed electronically	98% filed on time electronically
First three quarters will reflect 2022/23 IIT returns, Q4 will reflect 2023/24 IIT return.		Outcome: 34.2% achieved	Outcome: 98.4 % filed electronically	Outcome: 98.4 % filed electronically	Outcome: 98.4 % filed electronically		<i>The requirement for on-time filing should be applied to reporting in this quarter. Cannot be introduced until Q4 FY 26</i>	This measurement is to recognize the remaining FY 25 returns to be processed.	This measurement is to recognize the remaining FY 25 returns to be processed.	This measurement is to recognize the remaining FY 25 returns to be processed.	<i>The requirement for on-time filing should be applied to reporting in this quarter.</i>
(Adjust for mandatory electronic filing 2024) year.)											
KPI-2.4: VAT refund performance	There is no historical performance from which to determine a baseline.						<i>Issue 90% of VAT refunds for low and medium risk eligible exporters within 45 days</i>	<i>Issue 90% of VAT refunds for low and medium risk eligible exporters within 45 days</i>	<i>Issue 90% of VAT refunds for low and medium risk eligible exporters within 45 days</i>	Issue 95% of VAT refunds for low and medium risk eligible exporters within 45 days	Issue 100% of VAT refunds for low and medium risk eligible exporters within 45 days
KPI-3.1: Management of Collectible debt	From 2023 TADAT assessment (P5.18): At end of 2021, ratio of collectible debt to annual collections was 13.75 percent, but deteriorated to 15.4	Target: Collectible debt is not above 13 % of 2024 revenue target	Collectible debt is not above 12 % of 2024 revenue target.	Collectible debt is not above 11 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2026 revenue target	At least XX percent of revenues are paid voluntarily and on time.	At least XX percent of revenues are paid voluntarily and on time.	At least XX percent of revenues are paid voluntarily and on time.
Collectible debt is that portion of arrears owed to IRD that is not subject to dispute and where there is no legal		Outcome: 8.3% achieved	Outcome: 8.3% achieved	Outcome: 8.0% achieved	Outcome: 8.0% achieved			At least XX percent of revenues are paid voluntarily and on time.			

KPI	Baseline	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target & Outcomes	September 2025 Target & Outcomes	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target	Proposed September 2026 Target	Proposed December 2026 Target
impediment to collection action.	percent by end-2022.							<i>Baseline to be determined.</i>			
KPI-4.1: VAT Registration	The registered VAT population was nearly 29,000 before the 2019 changes and has fallen to 12,000. IRD seeks to rebuild VAT and SSCL taxpayer base to 20,000 by end-2024	Target: 18,000 active VAT & 11,000 SSCL registered taxpayers Outcome: VAT – 20, 214 SSCL – 11,269	20,000 active VAT & 12,000 SSCL registered taxpayers. Outcome: VAT – 21,281 SSCL – 12,102. Target met.	22,000 active VAT & 13,000 SSCL registered taxpayers Outcome: VAT – 22,172 SSCL – 12,724.	23,000 active VAT & 14,000 SSCL registered taxpayers Outcome: VAT – 27,318 SSCL – 13985.	24,000 active VAT & 15,000 SSCL registered taxpayers	25,000 active VAT & 16,000 SSCL registered taxpayers	26,000 active VAT & 17,000 SSCL registered taxpayers	27,000 active VAT & 18,000 SSCL registered taxpayers	28,000 active VAT & 18,000 SSCL registered taxpayers	29,000 active VAT & 18,000 SSCL registered taxpayers

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out a framework for monitoring the performance of Sri Lanka under the program supported by the Extended Arrangement under the Extended Fund Facility (EFF). It specifies the performance criteria and indicative targets (including adjustors) under which Sri Lanka's performance will be assessed through semiannual reviews. Monitoring procedures and reporting requirements are also specified.

2. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) are listed as follows.

- a) a quantitative performance criterion on central government primary balance (floor);
- b) a quantitative performance criterion on central government tax revenue (floor);
- c) a quantitative performance criterion on new expenditure arrears of the central government (ceiling);
- d) a quantitative performance criterion on net official international reserves (floor);
- e) a quantitative performance criterion on the CBSL's net credit to the government (ceiling);
- f) a continuous quantitative performance criterion on new external payment arrears of the nonfinancial public sector and the CBSL (ceiling);
- g) performance criterion on new CBSL's purchases of government securities in the primary market;
- h) a monetary policy consultation clause;
- i) an indicative target on social safety net spending (floor);
- j) an indicative target on cost of non-commercial obligations for fuel and electricity (net of government transfers) (ceiling);
- k) an indicative target on treasury guarantees (ceiling);
- l) an indicative target on foreign exchange treasury guarantees (ceiling); and
- m) an indicative target on the stock of expenditure arrears of the central government (ceiling).

3. Throughout this TMU, the central government is defined to include line ministries, departments, and other public institutions. The Central Bank of Sri Lanka (CBSL), state-owned enterprises, parastatals and other agencies that do not receive subventions from the central government are excluded from the definition of central government. Debt is defined in accordance with paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

I. PERFORMANCE CRITERIA

A. Performance Criterion on Central Government Primary Balance

4. Unless otherwise specified, all definitions follow the GFSM1986. The primary balance of the central government on cash basis is defined as central government revenues and grants minus expenditures and net lending, plus interest payments. The proceeds from privatization or commercialization of public assets to residents or non-residents (as defined in paragraph 10) will not be recorded as part of central government revenues. Spending will be recorded in the period during which cash disbursements are made.

5. For the purpose of program monitoring, the primary balance of the central government on cash basis will be measured as the overall balance of the central government plus the interest payment of the central government. The overall balance of the central government is measured from the financing side, as the negative of the sum of the items listed below. Here, net borrowings refer to gross disbursements minus principal repayments.

- a) Net borrowings from issuances of Treasury Bills, Treasury Bonds, and loans in local currency.
- b) Net decreases in the balances (deposits minus overdrafts) of the central government in the banking system.
- c) Net increases in CBSL advances, net of changes in central government deposits at the CBSL.
- d) Net borrowings from Sri Lankan Development Bonds (SLDBs) and domestic loans in foreign currency. In 2023, the total amount was Rs minus 393 billion.
- e) Commercial borrowings issued under foreign law, including international sovereign bonds and syndicated loans.
- f) Net borrowings from official project and program loans and trade credit lines.
- g) Net borrowings from all other bonds, loans, and advances contracted by the central government.
- h) Proceeds from privatization or commercialization of public asset to residents and nonresidents.

6. For the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure. Accordingly, the primary balance as defined in paragraph 5 will be reduced by the amounts transferred to banks. By contrast, the government's equity injections into other corporations (both private and state-owned) will be recorded as central government expenditure, consistent with GFSM 1986. Accordingly, the primary balance as defined in paragraph 5 will not be reduced by the amounts transferred to other corporations. Net lending by the government is recorded as a government expenditure, in line with

GFSM1986. For example, funds lent by the government to CPC in 2022 related to fuel credit lines from India are recorded above the line (increasing the deficit). A repayment will similarly be recorded above the line (reducing the deficit).

B. Performance Criterion on New Expenditure Arrears of the Central Government

7. Expenditure arrears of the central government are defined as financial liabilities unpaid at the maturity date, the latter established by written law or by contract. More specifically: (i) any invoice that has been received by a spending agency of the central government from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, after the due date; and (ii) wages, pensions, or transfers expensed by the central government, for which payment has not been made to domestic or foreign residents by the legally defined date for payment. The maturity dates of other types of payment arrears follow the same principles. In case that the maturity period is not established by either any written law or by contract, the maturity period should be 90 days from the date of the relevant invoice or of satisfaction of the terms of the relevant contract. The QPC will be defined on a cumulative basis starting from July 1, 2025, and will not be reset every year. External interest payment arrears are excluded from this QPC as they are covered under the continuous performance criterion on new external payment arrears (see II.A).

C. Performance Criterion on Central Government Tax Revenue

8. Central government tax revenue refers to revenues from taxes collected by the central government. It excludes all revenues from asset sales, grants, and non-tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the year.

D. Performance Criterion on Net Official International Reserves

9. For the purpose of program monitoring, the stock of net official international reserves (NIR) will be measured as the difference between (a) and (b) below, and will be called the “Program NIR.” The Program NIR at the test dates will be evaluated at the program exchange rates and gold price specified in paragraph 10.

- a) The CBSL’s conventional definition of the NIR, which is the sum of (i) the difference between the gross foreign assets and liabilities of the CBSL and (ii) the balance of State Treasury’s (DSTs) Special Dollar, Japanese Yen, and Chinese Yuan Revolving accounts, both expressed in terms of market values. Gross foreign assets of the CBSL consists of monetary gold; foreign exchange balances held outside Sri Lanka; foreign securities (valued in market prices); foreign bills purchased and discounted; the reserve position at the IMF and SDR holdings; and the Crown Agent’s credit balance. Foreign exchange balances, securities, and bills denominated in Chinese Yuan, including the assets held under the People’s Bank of China (PBOC) swap arrangement, are part of the gross foreign assets of the CBSL. Excluded from gross

foreign assets will be participation in international financial institutions; holdings of nonconvertible currencies;¹ holdings of precious metals other than monetary gold; claims on residents (e.g., statutory reserves on foreign currency deposits of commercial banks and central bank foreign currency deposits with resident commercial banks); pledged, non-liquid, collateralized or otherwise encumbered foreign assets (such as the ringfenced assets of the Sri Lanka Deposit Insurance Scheme and the government's war risk insurance deposit with Lloyds during 2001/02; except for assets held under the PBOC swap arrangement); claims on overseas subsidiaries of domestic commercial banks and claims in foreign exchange arising from derivative transactions (such as futures, forwards, swaps and options). Gross foreign liabilities are all foreign currency denominated liabilities of the CBSL to non-residents (including currency swap arrangements with foreign central banks); the use of Fund credit (including for budget support purposes); and Asian Clearing Union debit balance. Commitments to sell foreign exchange to residents arising from derivatives such as futures, forwards, swaps, and options, such as commitments arising from currency swaps with domestic commercial banks, are not included in the gross foreign liabilities. DST accounts are foreign currency accounts held by the Treasury and managed by the CBSL as an agent of the government.

- b) The CBSL's outstanding liabilities (i.e., net short positions) in foreign exchange swaps with domestic commercial banks.

10. For the purpose of measuring the Program NIR, all foreign-currency related assets and liabilities will be converted into U.S. dollar terms at the exchange rates prevailing on January 3, 2023, as specified in Table 1. Monetary gold will be valued at US\$1,831.615 per troy ounce, which was the price prevailing on January 3, 2023 as per CBSL.

**Table 1. Sri Lanka: Program Exchange Rates
(Rates as of January 3, 2023)**

Currency	Units of Currency per 1 US dollar
Sri Lanka rupee	363.11
British pound	0.838012
Japanese yen	132.650000
Canadian dollar	1.365800
Euro	0.948317
Chinese yuan	6.892800
Australian dollar	1.497006
Swiss franc	0.939650
SDR	0.752014

Memorandum:

Gold price, US\$/oz	1831.62
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Source: IMF, CBSL

Note: JPY and AUD rates as of December 23, 2022

¹ Convertible currencies include the currencies of the SDR basket (U.S dollar, U.K pound, Japanese yen, Chinese yuan, Euro) as well as Canadian dollar, Australian dollar, and Swiss franc.

The Following Adjustment Will Apply:

11. If (i) the amount of foreign program financing (exclusive of EFF purchases) by the central government, (ii) the amount of net borrowings from SLDBs and FCUBUs by the central government in FX terms, (iii) the amount of external commercial loans (including international sovereign bonds and syndicated loans) borrowed by the central government, (iv) the amount of project loans and grants disbursed as FX cash flows to the central government, and (v) proceeds from commercialization of public assets to non-residents—as set out in Table 2a. or 2b.—are higher/lower in U.S. dollar terms than assumed under the program, the floor on the program NIR will be adjusted upward/downward by the maximum of the cumulative differences on the test date and the caps on the adjustors as specified. The proceeds from commercialization of public assets are defined as cash receipts from the sale or lease of publicly held assets. Such assets will include, but not be limited to, publicly held land, public holdings of infrastructure or commercial real estate, and public or quasi-public enterprises. These adjustors will apply to the NIR floor for end-December 2022 and thereafter.

12. If the sum of amortization of total external debt and interest payments on total external debt owed by the central government (excluding IMF) in U.S. dollar terms, as well as the sum of interest payments on SLDBs and FCUBUs by the central government in U.S. dollar terms—as set out in Table 2a. or 2b.—is higher/lower than assumed under the program, the floor on the Program NIR will be adjusted downward/upward by the cumulative differences on the test date. Total external debt refers to external debt owed by the central government to all foreign creditors (excluding IMF), as defined in the *2013 External Debt Statistics: Guide for Compilers and Users*. These adjustors will apply to the NIR floor for end-December 2022 and thereafter.

Table 2a. Sri Lanka: Program Assumptions (2025)
(Cumulative from the beginning of each calendar year, in million US\$)

	Mar. 2025	Jun. 2025	Sep. 2025	Dec. 2025
Foreign program financing of the central government	188	288	573	725
Net borrowings from SLDBs and FCUBUs by the central government	0	0	0	0
External commercial loans (including Eurobonds and syndicated loans) by the central government	0	0	0	0
Proceeds from commercialization of public assets to non-residents	0	0	0	0
Amortization of total external debt owed by the central government (excl. IMF)	370	741	1,111	1,435
Interest and Amortization payments on FX restructured CPC loans by central government	58	116	174	213
Interest payments on total external debt owed by the central government (excl. IMF)	290	580	870	1,189
Interest payments on SLDBs and FCUBUs by the central government in US dollar terms	0	0	0	0
Project loans and grants disbursed to the central government	175	350	525	700

13. The adjustor on the amount of project loans and grants disbursed as FX cash flows to the central government will be capped at \$100 million in 2026. The other adjustors will be uncapped.

Table 2b. Sri Lanka: Program Assumptions (2026)
(Cumulative from the beginning of each calendar year, in million US\$)

	Mar-26	Jun-26	Sep-26	Dec-26
Foreign program financing of the central government	65	0	530	680
Net borrowings from SLDBs and FCBUs by the central government in FX terms	0	0	75	300
Other inflows (interest on investments)	0	60	80	100
Other inflows (inflows to DST from other government institutions)	0	44	62	80
External commercial loans (including Eurobonds and syndicated loans) by the central government	0	0	0	0
Proceeds from commercialization of public assets to non-residents	0	0	0	0
Amortization of total external debt owed by the central government (excl. IMF)	294	933	1,110	1,388
Interest and Amortization payments on FX restructured CPC loans by central government	53	106	106	213
Interest payments on total external debt owed by the central government (excl. IMF)	274	622	898	1,138
Interest payments on SLDBs and FCBUs by the central government in US dollar terms	0	12	12	25
Project loans and grant FX cash amounts disbursed to the central government	175	146	243	340

14. In the event NIR outcome outperforms its program target(s), the CBSL will consult with IMF staff on raising the targets for subsequent test dates accordingly to safeguard such overperformance.

E. Performance Criterion on the CBSL's Net Credit to the Government (NCG)

15. The CBSL's net credit to the Government (NCG) will be measured as the difference between a) and b) below.

- a) The CBSL's claims on the central government, which include provisional advances, government securities acquired by the CBSL through primary market purchases, the central government's special direct issuances to the CBSL, and long-term or outright open market operations. For the program monitoring purpose, government securities acquired through purchases of government securities, solely for monetary policy purposes (e.g., standing lending facility and short-term open market operations) and emergency liquidity assistance (ELA) operations, on a temporary basis with an agreement to reverse the transaction in less than 90 days, will be excluded from the CBSL's claims on the central government. For the program monitoring purpose, the stock of government securities held by the CBSL will be measured in the face value.
- b) The central government's Rupee-denominated deposits at the CBSL. The deposits related to foreign program financing (including IMF purchases) placed at the government's account at the CBSL are not part of the central government's Rupee-denominated deposits at the CBSL.

The Following Adjustment Will Apply:

16. The ceiling on the CBSL's NCG will be adjusted upward by the amount of shortfalls in foreign program financing of the central government (measured against programmed amounts as set out in Table 2). This adjustor will only apply to the NCG ceiling during six months after the Board date of the First review. The foreign currency amounts will be converted to Sri Lankan rupees using the program exchange rates defined in paragraph 9.

II. CONTINUOUS PERFORMANCE CRITERIA

A. Performance Criterion on New External Payment Arrears of the Nonfinancial Public Sector and the CBSL

17. A continuous performance criterion applies to the non-accumulation of new external payments arrears on external debt contracted or guaranteed by the nonfinancial public sector and the CBSL. The nonfinancial public sector is defined following the 2001 Government Finance Statistics Manual and the 1993 System of National Accounts. It includes (but is not limited to) the central government as defined in paragraph 3 and nonfinancial public enterprises, i.e., boards, enterprises, and agencies in which the government holds a controlling stake. External payments arrears consist of debt-service obligations (principal and interest) to nonresidents that have not been paid at the time they are due, as specified in the contractual agreements, subject to any applicable grace period. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of program monitoring. Arrears resulting from the nonpayment of debt service, for which a rescheduling or restructuring agreement is being sought, are excluded from this definition. This continuous performance criterion will be monitored continuously by authorities and any non-observance will be immediately report to the Fund. On April 22, 2026 the Sri Lankan authorities announced a hacking (phishing) incident relating to a foreign currency repayment. Accordingly the continuous QPC has been set to US\$2.6 million in relation to this.

B. Performance Criterion on New CBSL's Purchases of Government Securities in the Primary Market

18. A continuous performance criterion applies a ceiling of zero on new purchases of government securities by the CBSL in the primary market on the continuous basis.

The Following Adjustment Will Apply:

19. The ceiling (¶17) will be adjusted upward by the amount of shortfalls in foreign program financing of the central government (measured against programmed amounts as set out in Table 2). This adjustor will only apply to the ceiling ((¶17) during six months after the Board date of the First review. The foreign currency amounts will be converted to Sri Lankan rupees using the program exchange rates defined in paragraph 9.

C. Other Continuous Performance Criteria

20. During the program period, Sri Lanka will not:
- a) impose or intensify restrictions on the making of payments and transfers for current international transactions;
 - b) introduce or modify multiple currency practices (MCPs);
 - c) conclude bilateral payment agreements that are inconsistent with Article VIII of IMF Articles of Agreement; and
 - d) impose or intensify import restrictions for balance of payments purposes.

III. MONETARY POLICY CONSULTATION CLAUSE

21. The inflation target bands around the projected 12-month rate of inflation in consumer prices, as measured by the headline Colombo Consumer Price Index (CCPI) published by the Department of Census and Statistics of Sri Lanka, are specified in Table 1 attached to the MEFP. The CCPI index (2021=100) will be used to measure actual inflation. For this purpose, the year-on-year inflation for each test date is measured as follows:

$$\{ \text{CCPI}^*(t) - \text{CCPI}^*(t-12) \} / \text{CCPI}^*(t-12)$$

where

t = the month within which the test date is included

CCPI(t) = CCPI index (all items) for month t

CCPI(t-k) = CCPI index (all items) as of k months before t

$\text{CCPI}^*(t) = \{ \text{CCPI}(t-2) + \text{CCPI}(t-1) + \text{CCPI}(t) \} / 3$

$\text{CCPI}^*(t-12) = \{ \text{CCPI}(t-14) + \text{CCPI}(t-13) + \text{CCPI}(t-12) \} / 3$

If the observed year-on-year inflation for the test date falls outside the outer bands specified in Table 1 attached to the MEFP, authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for the deviation; and (iii) on proposed policy response. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, if the observed year-on-year inflation falls outside the inner bands specified in Table 1 attached to the MEFP for the test date, authorities will complete a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

IV. INDICATIVE TARGETS

A. Indicative Target on Social Safety Net Spending

22. The Social Safety Net (SSN) spending is the central government's spending on SSN programs comprising of: (1) Aswesuma cash transfers, consisting (i) cash grants for low-income households, (ii) assistance to the elderly (over 70 years of age), (iii) allowance for disabled people, (iv) financial support for kidney patients, and (v) financial assistance to purchase school stationery; and (2) support under the empowerment program. These classifications are in line with the reporting in the Ministry of Finance Annual Report as in Table 9).

B. Indicative Target on Cost of Non-Commercial Obligations for Fuel and Electricity (Net of Government Transfers)

23. The non-commercial obligations (NCOs) for fuel and electricity refer to the obligations of Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB) and the National System Operator (NSO) to supply fuel and electricity at prices below cost-recovery levels. The indicative target is set on the cost of fuel and electricity NCOs net of government transfers, which corresponds to the cost of the NCOs that are not compensated by the central government budget.

24. The cost of NCOs for fuel during each quarter is measured as the cost of sales (including fuel cost, terminal charges, transport charges, personnel cost, other operational expenses, exchange rate variation, and finance cost; excluding sales taxes) minus revenues (net of sales taxes) with regard to fuel supplies by CPC for transport, power generation, aviation, industries, kerosene and LPG, and agrochemicals. If the revenues (net of taxes) exceed the cost of sales, the cost of NCOs for fuel is zero. The government transfers to cover the cost of fuel NCOs are measured as central government current transfers disbursed to CPC.

25. The cost of NCOs for electricity during each quarter will be measured as total expenditures (including energy purchases and allowed revenue for transmission) minus total sales revenues from 5 distribution licenses under CEB (NSO starting from March 2026), as shown in the statement of the Bulk Supply Transaction Account managed by CEB (NSO starting from March 2026). If the total sales revenues exceed the total expenditures, the cost of NCOs for electricity is zero. The government transfers to cover the cost of electricity NCOs are measured as central government transfers disbursed (including capital injection as specified in paragraph 6) to CEB (NSO starting March 2026).

26. For the purpose of program monitoring, the cost of fuel and electricity NCOs net of government transfers is calculated as follows. This takes account of a time lag in estimating the cost of fuel and electricity NCOs.

For the test date of end-March of year t (Y_t):

$$\text{NCO}(Y_{t-1}Q4) - G(Y_tQ1)$$

For the test date of end-June of year y (Y_t):

$$\{ \text{NCO}(Y_{t-1}\text{Q4}) + \text{NCO}(Y_t\text{Q1}) \} - \{ \text{G}(Y_t\text{Q1}) + \text{G}(Y_t\text{Q2}) \}$$

For the test date of end-September of year y (Y_t):

$$\{ \text{NCO}(Y_{t-1}\text{Q4}) + \text{NCO}(Y_t\text{Q1}) + \text{NCO}(Y_t\text{Q2}) \} - \{ \text{G}(Y_t\text{Q1}) + \text{G}(Y_t\text{Q2}) + \text{G}(Y_t\text{Q3}) \}$$

For the test date of end-December of year y (Y_t):

$$\{ \text{NCO}(Y_{t-1}\text{Q4}) + \text{NCO}(Y_t\text{Q1}) + \text{NCO}(Y_t\text{Q2}) + \text{NCO}(Y_t\text{Q3}) \} \\ - \{ \text{G}(Y_t\text{Q1}) + \text{G}(Y_t\text{Q2}) + \text{G}(Y_t\text{Q3}) + \text{G}(Y_t\text{Q4}) \}$$

where

$\text{NCO}(q)$ = cost of NCOs for fuel and electricity during quarter "q"

$\text{NCO}_{\text{fuel}}(q)$ = cost of NCOs for fuel during quarter "q"

$\text{NCO}_{\text{electricity}}(q)$ = cost of NCOs for electricity during quarter "q"

$\text{NCO}(q) = \text{NCO}_{\text{fuel}}(q) + \text{NCO}_{\text{electricity}}(q)$

$\text{G}(q)$ = central government transfers to CPC and CEB/NSO disbursed during quarter "q"

$\text{G}_{\text{fuel}}(q)$ = central government transfers to CPC disbursed during quarter "q"

$\text{G}_{\text{electricity}}(q)$ = central government transfers to CEB/NSO disbursed during quarter "q"

$\text{G}(q) = \text{G}_{\text{fuel}}(q) + \text{G}_{\text{electricity}}(q)$.

C. Indicative Target on Treasury Guarantees

27. Treasury guarantees are defined as outstanding debt guarantees issued by the central government. A guarantee of a debt refers to any explicit legal obligation of the central government to service such a debt in the event of nonpayment by the recipient. Treasury guarantees exclude letters of comfort. Outstanding guarantees are defined as the drawn amounts of guaranteed debts. They differ from issued guarantees, which are defined as the total amount of guaranteed debts (including for debts that are not disbursed yet). Treasury guarantees include outstanding treasury guarantees published in the Statement of Contingent Liabilities contained in the Annual Report of the Ministry of Finance. Rupee values for guarantees issued in other currencies will be calculated using the exchange rate for the last day of the calendar year as it appears in the Statement of Contingent Liabilities in the Annual Report of the Ministry of Finance.

D. Indicative Target on Foreign Exchange Treasury Guarantees

28. Foreign exchange treasury guarantees are defined as outstanding debt guarantees issued in foreign currency by the central government. A guarantee of a debt refers to any explicit legal obligation of the central government to service such a debt in the event of nonpayment by the recipient. Treasury guarantees exclude letters of comfort. Outstanding guarantees are defined as the drawn amounts of guaranteed debts. They differ from issued guarantees, which are defined as the total amount of guaranteed debts (including for debts that are not disbursed yet). Treasury guarantees include outstanding treasury guarantees published in the Statement of Contingent Liabilities contained in the Annual Report of the Ministry of Finance. Rupee values for the FC guarantees will be calculated using the exchange rate for the last day of the calendar year as it appears in the Statement of Contingent Liabilities in the Annual Report of the Ministry of Finance.

E. Indicative Target on Stock of Central Government's Expenditure Arrears

29. The same definition of arrears as in Para 7 will apply. The stock of arrears will be based on those identified as of May 14, 2025.

F. Structural Benchmark on Fuel, Electricity, Fertilizer and Additional Aswesuma Support.

30. The LKR100 billion ceiling applies to all fuel and electricity subsidies, as well as fertilizer subsidies in excess of 36.9 billion included in the 2026 budget, and Aswesuma support exceeding LKR240 billion included in the 2026 budget. Provision of electricity subsidies to households with consumption higher than 180 KWh or to consumers on the general tariff with consumptions above 360 KWh would be considered a breach of the structural benchmark. The assessment would be based on the change in tariffs relative to those prevalent on April 1, 2026.

V. DATA REPORTING REQUIREMENTS

31. Sri Lanka shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Sri Lanka in achieving the objectives and policies set forth in the Memorandum of Economic and Financial Policies and Letters of Intent. All the program monitoring data will be provided by the Ministry of Finance and the CBSL. For the purpose of monitoring the fiscal performance and expenditure arrears under the program, data will be provided in the format as shown in Tables 3, 4, and 5. For the purpose of monitoring the NCG targets under the program, data will be provided in the format shown in Table 6. For the purpose of monitoring the external sector performance under the program, data will be provided in the format shown in Tables 7 and 8. For the purpose of monitoring the performance against the indicative target on social safety net spending, data will be provided in the format shown in Table 9 on a quarterly basis. For the purpose of monitoring the financial performance of three state-owned enterprises—NSO, CPC, and Sri Lankan

Airlines—data will be provided in the format shown in Tables 10, 11, and 12, respectively, on a quarterly basis. In addition, BSTA weekly operation statements of the NSO will be provided no later than seven days after the end of each week. For the purpose of monitoring the performance against the indicative target on the cost of fuel NCO (net of government transfers), data will be provided in the format shown in Table 13 on a quarterly basis. For the purpose of monitoring the performance against the indicative target on treasury guarantees, data will be provided in the format shown in Table 14 on a quarterly basis. For the purposes of the assessment of Multiple Currency Practices, data and information on official exchange rate action and impact on rates will be provided, as requested by IMF staff.

32. Data relating to the fiscal targets (Table 3, Table 4, and Table 5) will be furnished within no more than five weeks after the end of each month, except for the data on salaries and wages, goods and services, subsidies and transfers (and its subcomponents) that will be furnished within no more than seven weeks after the end of each month (the data on total recurrent expenditure and interest payments will be furnished within no more than five weeks after the end of each month). Data relating to the monetary targets (Table 6) will be furnished within no more than four weeks after the end of each month. Data relating to the external targets (Table 7 and Table 8) will be furnished within no more than 25 days after the end of each month. Data relating to the indicative target on social safety net spending (Table 9) will be furnished within no more than two months after the end of each quarter. Data relating to the three state-owned enterprises (Tables 10-12) will be furnished within no more than 2 months after the end of each quarter. Data relating to the indicative target on the cost of fuel NCO (net of government transfers) (Table 13) will be furnished within no more than 5 weeks after the end of each quarter. Data relating to the indicative target on treasury guarantees (Table 14) will be furnished within no more than two months after the end of each quarter.

33. For the purpose of monitoring the financial sector, authorities will provide a quarterly written update and the following information on a bank-by-bank basis:

- Liquidity monitoring template, with breakdown by currency (daily)
- LCR template, with breakdown by currency (monthly)
- Net open foreign currency positions (weekly)
- Exposures to the central government and large SOEs (NSO, CPC, SLA, RDA), with breakdown by entity, currency, and instrument (monthly)
- Maturities of exposures to the central government and large SOEs (NSO, CPC, SLA, RDA), (monthly)
- Arrears of state-owned banks (monthly)
- Impairment schedule including breakdown of impairments on public sector exposures (monthly)

- Monthly supervisory returns to CBSL including statements of financial position and comprehensive income (monthly)
- Top 10 largest depositors (quarterly)
- Large exposures exceeding 15 percent of capital (quarterly)
- Capital adequacy template (quarterly)
- Financial soundness indicators (quarterly)
- Daily financial sector data will be provided within one week of the end of the reporting period; weekly data within two weeks; monthly data within four weeks; quarterly data within six weeks.

34. For the purposes of monitoring tax exemptions granted under the SDP and Port City Acts, authorities will provide data on a monthly basis on the list of all firms receiving new exemptions under both the Port City and SDP Acts. This data will be provided two weeks after the end of each month.

Table 3. Sri Lanka: Central Government Operations
(In millions of rupees)

Total Revenue and Grants
Total Revenue
Tax Revenue
Income Taxes
Personal & corporate
Corporate & non-corporate
Personal
Corporate
Personal Income Tax (PAYE)
Economic Service Charge
Interest Income tax
Tax on goods & services
VAT
Domestic
Imports
Excise Taxes
Liquor
Cigarettes
Motor vehicles
Petroleum
Other
Other taxes & levies incl. SSCL
Social Security Contribution L
Domestic
Imports
Other Taxes and Levies
Tax on external trade
Import Duties
Cess Levy
Special Commodity Levy
Ports & Airporst Development Levy
Non Tax Revenue
Property Income
Fines, Fees and Charges
Other
Grants
Total Expenditure
Current Expenditure
Salaries & wages
Goods & services
Interest payments
Subsidies & transfers
Public Corporations
Public Institutions
Households
Capital Expenditure
Net Lending
Primary balance
Overall balance
Total Financing
Total Foreign Financing (Net)
Total Domestic Financing (Net)
Privatization

Table 4. Sri Lanka: Central Government Financing
(In millions of rupees)

	(i) Borrowing/ Cash inflow	(ii) Repayment/ Cash outflow	(iii) Net
1. Domestic financing in local currency			
T-bills 1/			
T-bonds 1/			
Loans			
Deposits and overdrafts at banks			
CBSL advances and deposits			
Other (specify)			
2. Domestic financing in foreign currency			
Sri Lanka Development Bond (SLDB) 1/			
Loans			
Other (specify)			
3. Net foreign financing			
International Sovereign Bonds 2/			
Official project loans			
Official program loans			
Official trade credit			
Syndicated loans			
Other (specify)			
4. Change in Treasury Single Account 3/			
5. Privatization receipts			
Total financing (1+2+3+4+5)			
1/ including net purchases by non-residents			
2/ including net purchases by residents			
3/ A negative sign means an increase in the TSA and vice versa.			
Note: The template has been modified to include the change in the Treasury Single Account as a financing item.			

Table 5. Sri Lanka: Unpaid Bills and Arrears 1/
(In millions of rupees)

Recurrent
Capital
Total

o.w. more than 3 months:
Recurrent
Capital
Total

1/ as agreed for the purpose of monitoring the program

Table 6. Sri Lanka: CBSL's Balance Sheet 1/
(In millions of rupees)

Net foreign assets

Foreign assets

Foreign liabilities

o.w. Reserve liabilities

Net domestic assets

Net credit to government

Claims on government

Provisional advances

Treasury bills, o.w.,

Acquired through primary market purchases 1/

Acquired through standing lending facility operations

Acquired through ST OMOs

Acquired through LT OMOs

Acquired through outright OMOs

Acquired through emergency liquidity assistance

Treasury bonds, o.w.,

Acquired through standing lending facility operations

Acquired through ST OMOs

Acquired through LT OMOs

Acquired through outright OMOs

Government deposits 2/

Claims on commercial banks

Other items (net)

Reserve money

Currency in circulation

Commercial bank deposits

Memo: Net worth of the CBSL

1/ includes direct issuances of treasury securities by the government to the CBSL.

2/ Rupee-denominated deposits, excluding those converted from foreign program financing.

Table 7. Sri Lanka: Foreign Exchange Cashflows of the Central Bank and the Government 1/
(In millions of U.S. dollars)

1. Total inflows, without swaps
Loans (public sector)
Program loans (budget support)
Project loans and grants
SLDBs
FCBUs
Commerical loans
Syndicated loans
Sovereign bonds
Interest On Investment (Inflows)
Inflows to Other Gvt. Institutions
Other inflows
NIR rebalancing item including interest receipts and capital gains
Change in balances in DST account
o/w proceeds from public assets
2. Total outflows, without swaps
Public sector debt service
Public sector amortization (excl. to IMF)
Official loans
multilateral creditors
India credit lines
other loans
SLDBs
FCBU loans
Syndicated loans
Settlement of ISBs
Public sector interest payment (incl. to IMF)
Interest to IMF
Interest to external creditors
Interest on domestic FX debt (SLDB, FCBU, etc)
3. Net FX purchases from market
Outright purchases of FX from commercial banks
Outright sales of FX to commercial banks
4. Swaps with domestic commercial banks
OMO FX swap transactions-inflows
OMO FX swap transactions-outflows
Net inflows (incl. swaps = 1-2+3+4) at current rates
Net inflows (excl. swaps = 1-2+3) at current rates
Net International Reserves (at market rates)
Net International Reserves (at program rates)
Gross International Reserves (at market rates)
Changes in Reserve Related Liabilities
Change in ACU liabilities
Change in liabilities to IMF
existing debt service (amortization)
new purchases
International swaps with foreign CBs
inflows
outflows
Valuation changes
Changes in CBSL other liabilities

1/ As agreed for the purpose of monitoring the program.

Table 8. Sri Lanka: Gross Official Reserve Position 1/
(In millions of U.S. dollars)

Date	Central Bank				Government			Gross Official Reserves					Liabilities					Net International Reserves (CBSL Definition)	NIR excluding Outstanding assets of BOC London branch deposit, NZD assets and SEK assets	NIR excluding Ring-fenced funds and Outstanding assets of BOC London branch deposit, NZD assets and SEK assets	IMF-EFF liability of the Government	IMF-EFF Programme NIR at market exchange rate (h)
	Reserves managed by IOD	PBoC swap proceeds	Ring-fenced funds	Reserve Position at I.M.F. & SDR hot	Total	Crown Agent's Credit Balance	D S T's Special Dollar Revolving Cr. balance	Total	(with PBoC swap)	Outstanding assets of BOC London branch deposit, NZD assets and SEK assets (d)	(excluding outstanding assets of BOC London branch deposit, NZD assets and SEK assets) (e)	(excluding Ring-fenced funds and outstanding assets of BOC London branch deposit, NZD assets and SEK assets) (f)	(without PBoC Swap)	Other Deposits	Asian Clearing Union	Drawings from the IMF	International Currency Swap						PBoC Swap (g)	RBI Special Swap Account	Total
	1		2	3	4	5	6	7	9	10	(9)-(10)	(9)-(10)-(2)	11	12	13	(14)+(15)	14	15	(11)+(12)+(13)+(14)+(15)			
					(1)+(2)+(3)			(5)+(6)	(4)+(7)													

1/ As agreed for the purpose of monitoring the program.

Table 9. Sri Lanka: Social Safety Net Spending 1/ (by Month)
(In millions of rupees)

Budget Code	Total	Of which, externally financed
	Total Social Safety Net Spending = (1)+(2)	
	Cash transfers to empower the vulnerable and needy	
	(1) Aswesuma cash transfers	
102-1-2-040-1501		
102-1-2-040-1501 -033		
102-1-2-040-1501 -034		
102-1-2-040-1501 -035		
102-1-2-040-1501 -036		
102-1-2-040-1501 -037		
102-1-2-040-1501 -039		
	(2) Empowerment Program	
331-2-02-003-1504		
331-2-02-003-2202		
124-2-05-002-2202		
237-1-01-020-2202-12		
1/ In line with the reporting of the Ministry of Finance Annual Report		

Table 10. Sri Lanka: Financial Outturn of National System Operator 1/
(In millions of rupees)

Total revenue
Sale of electricity
Other income
Total expenditure
Direct generation cost
Generation, transmission, and distribution O&M cost
Corporate expenses
Interest on borrowings and delayed payments
Depreciation
Other cost
Operating profit/loss
Liquidity position
Borrowings from banks
Payments to banks
Outstanding debt to banks
Purchases from CPC and IPP
Payments to CPC and IPP
Outstanding to CPC and IPP

1/ As agreed for the purpose of monitoring the program.

Table 11. Sri Lanka: Financial Outturn of Ceylon Petroleum Corporation 1/
(In millions of rupees)

Total revenue
Octane 90
Diesel
Other products
Other income
Total expenditure
Cost of sales
Sales and distribution
Administration
Finance cost
Depreciation
Other cost
Operating profit/loss
Outstanding dues to state banks

1/ As agreed for the purpose of monitoring the program.

Table 12. Sri Lanka: Financial Outturn of Sri Lankan Airlines 1/
(In millions of rupees)

Total revenue
Passenger
Cargo
Other income
Total expenditure
Aircraft fuel cost
Employee cost
Other operating expenses
Financial cost
Operating profit/loss
Capital contribution

1/ As agreed for the purpose of monitoring the program.

Table 13. Sri Lanka: Cost of Non-Commercial Obligations for Fuel 1/
(In millions of rupees, unless otherwise noted)

Product	a=e-b	b=c-d	c	d	e=f+g+h+i +j+k+l	f	g	h	i	j	k	l	m
	Cost of NCOs	revenue (net of sales	Sales revenue	Sales taxes	(net of sales taxes)	Cost of sales	Terminal charge	Transport charge	Personnel cost	Other expenses	Exchange rate variation	Finance cost	Sales quantity
	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Rs millions	Million liters
A. TRANSPORT													
Super petrol (92 octane)													
Unladen petrol (95 octane)													
Auto diesel													
Super diesel													
B. POWER GENERATION													
Auto diesel													
Fuel oil 800 ¹													
Fuel oil 1500 ¹													
Fuel oil 1500 ¹ low sulphur													
Fuel oil 200 ¹													
Naphtha													
C. AVIATION													
Jet A-1 (Foreign)													
Jet A-1 (Sri Lankan Airline)													
Jet A-1 (Local)													
Avgas													
D. INDUSTRIES													
Ind Kero													
Fuel oil 800 ¹													
S.B.P.													
Bitumen													
Lubricant													
E. DOMESTIC													
Kerosene													
LPG													
F. AGRO													
Agro chemicals													
Total (A-F)													
Memorandum item:													
Central government current transfers to CP													[x]

1/ As agreed for the purpose of monitoring the program.

Table 14. Sri Lanka: Treasury Guarantees 1/
(In millions of rupees)

	Treasury Guarantees Issued	Treasury Guarantees Outstanding
Total Treasury Guarantees		
National System Operator		
Ceylon Petroleum Corporation		
National Water Supply and Drainage Board		
Road Development Authority		
SriLankan Airlines		
Other		
1/ As agreed for the purpose of monitoring the indicative target under the program.		



SRI LANKA

May 20, 2026

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

Prepared By

Asia and Pacific Department

This supplement provides information as of May 19 that has become available following the issuance of the staff report. The information adds to the staff appraisal.

1. Recent data shows the Middle East conflict is weighing on economic activity. The current account was US\$531 million in surplus for Q1 2026, as strong remittances and resilient services offset the widening in the goods trade deficit. The value of fuel imports increased by 75 percent y/y in March, mostly due to price increases. Tourist arrivals declined by 22 percent y/y in April, though remittances remained buoyant (19 percent y/y increase in April). As of end-April, gross international reserves stood at US\$6,759 million (3 months of prospective imports), down by US\$510 million since end-February 2026, out of which US\$373 million were due to International Sovereign Bond repayment, as expected. Both manufacturing and services PMI contracted in April, following an expansion in March.
2. Authorities completed both prior actions and restored cost-recovery fuel and electricity pricing. On May 11, authorities published the [cabinet decision](#) relating to the Middle East conflict support package. In addition to the May 2 fuel price increase, authorities completed on May 19 the on-budget transfer to compensate CPC for April losses. Moreover, an extraordinary electricity tariff revision took effect on May 11 with an average increase of 11 percent (in addition to the previous 10.9 percent increase on April 1).
3. All remaining end-March 2026 indicative targets (ITs) were met. The fiscal outturn for Q1 was strong, with tax revenues and the primary balance comfortably exceeding the ITs. Preliminary data up to end-April suggests taxes on motor vehicles

remain robust. Except for new external arrears, all other end-March ITs, such as on expenditure arrears, social spending, and Treasury guarantees were also met.

4. Authorities are requesting a waiver for non-observance of the continuous performance criterion (PC) on not imposing or intensifying import restrictions for balance of payments purposes. On May 15, authorities temporarily increased the customs duty on some motor vehicle imports from 30 to 45 percent. The surcharge came into effect from May 16, for a period of 3 months, in an effort to delay non-essential imports, reduce dollar demand, and safeguard foreign exchange reserves. The measure raises the total tax burden on imported vehicles from 161 to 189 percent, increases reliance on trade taxes, and follows the depreciation of the exchange rate by about 2.7 percent since mid-April.

5. Authorities are addressing a payment incident arising from the Aswesuma cash transfer top-up made in April in response to the Middle East shock. Due to the urgency of disbursing the funds, authorities resorted to manual processing, which resulted in duplicate and missed payments, amounting to about 0.001 percent of GDP. All duplicate payments are expected to be recovered and missed payments settled by end-May. Authorities are also upgrading their Integrated Welfare Management System with support from the World Bank to eliminate the need for manual workarounds in the future.

6. Staff Appraisal. Staff support authorities' request for a waiver for non-observance of the continuous PC (¶14) considering the authorities' commitment for a temporary application of the measure and the significant size and impact of the external shock. Staff will continue to explore with authorities alternative measures to preserve macroeconomic stability if the shock persists.

Supplementary Letter of Intent

May 20, 2026
Colombo

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

The continuous performance criterion on not imposing or intensifying import restrictions for balance of payments purposes was not observed as we increased the customs duty on some motor vehicles to reduce imports. This measure is temporary, only for 3 months, and we request a waiver for non-observance of the continuous performance criterion.

Sincerely yours,

/s/

Anura Kumara Dissanayake
Minister of Finance, Planning,
and Economic Development

/s/

Nandalal Weerasinghe
Governor
Central Bank of Sri Lanka

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

**Statement Urjit Patel, Executive Director for Sri Lanka
and Sujeetha Jegajeevan, Alternate Executive Director
May 27, 2026**

On behalf of the Sri Lankan authorities, we thank Executive Directors and Management for their steadfast support throughout the ongoing Extended Fund Facility (EFF) and the timely approval of the Rapid Financing Instrument (RFI) in December 2025. We appreciate the country team, led by Mission Chief Mr. Evan Papageorgiou, for their constructive dialogue and close collaboration in swiftly completing the RFI request and current reviews under the EFF. The recent visit of Managing Director Ms. Kristalina Georgieva further strengthened Sri Lanka's partnership with the Fund. We are also grateful to our multilateral partners, mainly the World Bank and the Asian Development Bank, for their assistance to pursue economic reforms in parallel to the EFF. As we move toward the conclusion of the debt restructuring process, we acknowledge the support and financial assistance of our bilateral partners and commercial creditors.

The program-anchored macroeconomic adjustment played a vital role in restoring stability in Sri Lanka. Against this backdrop, the authorities are endeavoring to strengthen economic resilience and promoting economic growth under challenging global landscape, through continued policy discipline and strong reform implementation.

PROGRAM PERFORMANCE

From the standpoint of severe socioeconomic fallout experienced four years ago, Sri Lanka's macroeconomic stabilization advanced faster than anticipated under the ongoing program. This swift recovery reflects strong, coordinated policies, and strengthened legal and institutional underpinnings. Importantly, citizens' resilience helped maintain broad support for the adjustment and moderate reform fatigue. Despite unprecedented global headwinds and a devastating natural disaster in 2025, **key macroeconomic variables outperformed the program projections at approval in March 2023 (Figure 1).**

Progress under the current reviews has remained strong. Quantitative performance criteria (QPC) and indicative targets (IT) for end-December 2025 were fully met. Of twenty-two structural benchmarks (SB), sixteen were met or met with delay by end-February 2026, and the objectives of two others were achieved through alternative modalities agreed with staff. The continuous SBs on cost-recovery pricing for fuel (in April 2026) and electricity (since January 2026) were missed, in part due to the surge in global energy prices amid the Middle East tensions; these have now been completed as prior actions. Previously reported domestic arrears have been fully cleared and the authorities remain committed to avoiding new arrears. A cybercrime incident (US\$2.5 million) led to a missed bilateral debt service payment and nonobservance of the continuous PC on external arrears. The authorities are committed to settling these arrears at the earliest.

RECENT ECONOMIC DEVELOPMENTS AND RISKS TO THE OUTLOOK

Despite unfavorable global conditions and weather-related calamities, Sri Lanka demonstrated resilience and the economy nearly regained the ground lost during the pandemic and the subsequent economic crisis. In 2024 and 2025, real growth was 5% in each year, bringing real GDP in domestic currency closer to its pre-pandemic level. This was further supported by a relatively strong currency, which helped to

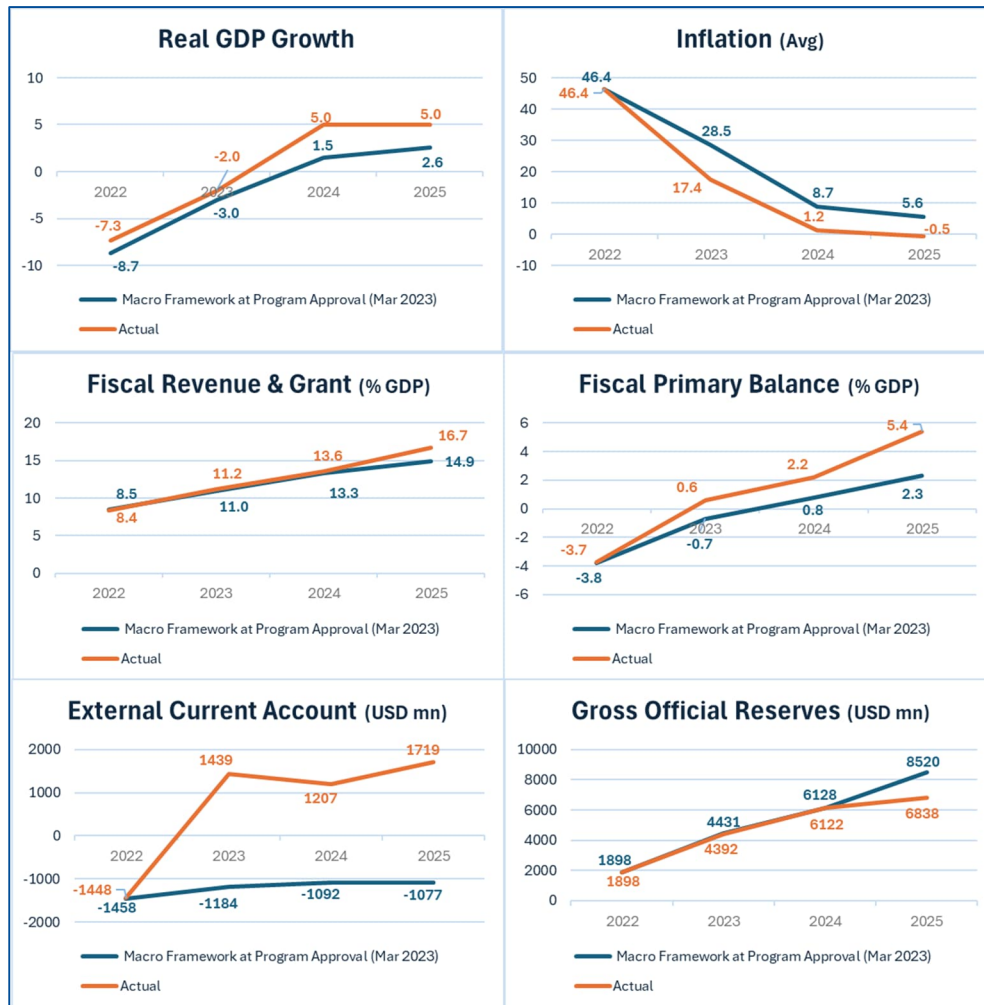
elevate nominal GDP to exceed US\$100 billion for the first time (US\$109 billion) and lifting per-capita GDP to US\$5,003. The recovery was broad-based, with the industry sector that was hit hardest during the downturn gaining momentum. Domestic demand, led by private consumption and gross fixed capital formation, drove the expansion in gross domestic expenditure, while net external demand made a larger negative contribution.

Inflation in Sri Lanka has followed an atypical path in recent years. After peaking in late 2022, price stability was restored rapidly through appropriate monetary policy, better-anchored expectations, and easing global commodity prices. Inflation remained exceptionally low in 2024 and 2025, including nearly a year of deflation, driven mainly by declines in energy and transport prices reflecting low-cost electricity generation from favorable weather and subdued global energy prices. Since August 2025, firming aggregate demand in response to the transmission of accommodative monetary policy, the fading of energy-related deflation, and food-price movements have eased deflationary pressures. Meanwhile, core inflation stayed subdued but positive. These benign inflationary conditions have helped to absorb price pressures arising from the Middle East conflict, thus far. Inflation rose to 5.4% in April 2026 largely due to the direct and spillover effects of surging energy prices.

The external sector remained resilient, recording current account surpluses for three consecutive years. Although the merchandise trade deficit widened recently amid stronger imports, including pent-up demand for motor vehicles following the removal of restrictions, surpluses in services trade and sizeable workers' remittances offset the deficit. The external current account recorded a surplus of US\$1.7 billion (1.6% of GDP) in 2025, with similar conditions continuing in the first quarter of 2026 as well. However, the outlook remains fragile, reflecting heightened risks from geopolitical developments in the Middle East. The Sri Lanka rupee weakened against the US dollar by 5.6% in 2025 and a further 2.9% by end-April 2026. External buffers continued to improve despite tighter foreign exchange liquidity, and ongoing external debt-servicing commitments of the Government and the Central Bank. Gross official reserves were maintained at around four months of imports before the Middle East tension began to weigh on the external sector.

Financial sector continued to be robust with improvements in key financial soundness indicators. Capital and liquidity buffers of the banking system were maintained well above regulatory standards, while asset base and profitability were further enhanced. Stage 3 loan ratios registered continuous improvement, though the level is elevated compared to the pre-crisis levels. Non-bank financial sector's performance also improved under stable macroeconomic conditions and broad-based economic expansion.

Figure 1: Sri Lanka's Post-Crisis Macroeconomic Performance under the EFF



Meanwhile, Cyclone Ditwah, which struck in late 2025, hampered Sri Lanka's socioeconomic recovery. Over six hundred lives were lost, and millions were affected directly and indirectly, while key public infrastructure in affected regions suffered sizeable destruction. Sri Lanka received immediate humanitarian assistance and reconstruction support from multilateral donors, bilateral partners, and international and local well-wishers, including RFI funding from the Fund. Further, Parliament approved a Supplementary Budget of LKR 500 billion in December 2025 to be fully financed by the fiscal overperformance in 2025 and additional funding of LKR 100 billion through reallocation for post-cyclone relief and reconstruction. Nevertheless, cyclone-related spending would trigger the escape clause under the Public Finance Management (PFM) Act by breaching the primary expenditure ceiling and reducing the primary balance in 2026. The Government remains committed to returning to comply with the fiscal rules as per the fiscal recovery plan to be published in June 2026. Cyclone-related expenditure is estimated at about 2.3% of GDP, including 0.9% of GDP for infrastructure rebuilding, with spending priorities guided by the Post-Disaster Needs Assessment (PDNA) to be published in June 2026. The authorities will underpin reconstruction initiatives with a robust governance and accountability framework. Additionally, a disaster risk financing strategy will be finalized by end-2026 to guide future disaster response buttressed by strengthened budgetary contingencies and buffers.

While climate vulnerabilities remain a key risk, the Middle East conflict has emerged as a new external shock, testing the country's resilience. As a net energy importer, Sri Lanka faces challenges in maintaining energy security and meeting energy demand at affordable cost. This global supply shock could spill over through multiple channels, including weaker tourism, trade, and remittances, and heightened pressures on the currency and reserve accumulation. Meanwhile, sustained conflict and supply-chain disruptions could have lasting macroeconomic impacts through tightening financial conditions, fading external demand as well as weakening investor sentiment. The authorities have taken several initiatives to navigate the immediate challenges and provide transitory support to vulnerable groups. Urgent measures were centered on energy price passthrough and fuel rationing, alongside efforts to strengthen supply and build stocks. A temporary, targeted, budget-neutral fiscal support package capped at LKR 100 billion has also been approved to finance fuel and electricity subsidies and social spending. Balance of payments pressures are being partly managed through exchange rate adjustment with minimal intervention to limit excessive volatility. As an additional measure to manage immediate pressure on the balance of payments, the Government has announced a 50% surcharge on customs import duty applicable on motor vehicles for three months commencing 15 May 2026. Prolonged supply-chain disruptions and associated price increases would weigh on growth momentum in 2026, while near-term inflation is likely to be elevated, as in other energy import-dependent countries. Sri Lanka is better placed now with stronger buffers than in the recent past to withstand this global shock, provided the shock is transitory. However, as a small open economy that is still in the recovery phase, the capacity to absorb severe and prolonged global shocks remains constrained.

FISCAL CONSOLIDATION AND FISCAL REFORMS

Sri Lanka's progress in restoring fiscal discipline has been impressive and is increasingly cited as a successful case study among crisis-hit countries. The fiscal primary balance recorded a complete turnaround, from a primary deficit of 5.7% of GDP in 2021 (pre-crisis peak) to a surplus of 5.4% of GDP in 2025. Additionally, this marks the first time Sri Lanka has achieved primary surpluses for three consecutive years. This improvement remains broadly consistent even after normalizing for the increased tax collection in 2025 linked to pent-up vehicle import demand. The fiscal revenue collection exceeded projections in the first quarter of 2026 as well, reinforcing the continuation of revenue-based fiscal consolidation. To sustain momentum, Cabinet approved a package of revenue measures for 2026. Together with compliance gains and previously announced measures, these are expected to meet the program revenue target for 2026. In the meantime, preparatory work, which includes development of a digital property registry with market values and Cabinet approval of key design parameters, is under way to introduce property tax in the first half of 2027. In parallel, the Integrated Treasury Management System (ITMIS) will be expanded, and e-GP (electronic government procurement) system will be integrated with ITMIS once it is completed. The Government remains committed to a medium-term primary surplus target of 2.3% and will seek Cabinet approval of revenue measures for 2027 by September 2026. A tax diagnostic exercise, with IMF technical assistance, will be completed soon and will underpin a Medium-Term Revenue Strategy for the post-program period.

Fiscal adjustment is institutionally anchored, reflecting commitments to strengthening fiscal policy framework and implementation capacity over the medium-term. The simplified VAT system was repealed through a consultative process and replaced with a risk-based refund system. Work has commenced to strengthen VAT compliance, including cleaning and validating the taxpayer registry. As part

of tax modernization, the Inland Revenue Department (IRD) is preparing a modernization strategy and implementation plan and moving towards exclusive tax collection through the Revenue Administration Management Information System (RAMIS). A risk-based comprehensive audit program, focusing on High Wealth Individuals, has been launched to strengthen compliance and tax collections. The authorities are also committed to addressing under-execution of capital expenditure to better harness its growth benefits. In this regard, a standardized methodology for assessing project readiness and standardized project selection criteria will be published in August 2026. Future project approvals and funding requests in the budgetary process will be streamlined to enable timely implementation of high-impact, economically viable projects.

Sri Lanka’s reform program identified a vital role for strengthening operational efficacy and governance of SOEs. Cost-recovery pricing for electricity and fuel was introduced as a continuous structural benchmark in the program. The Electricity Act was amended in August 2025 to enable unbundling of the Ceylon Electricity Board (CEB) and separation of generation, transmission, and distribution to improve efficiency, transparency, and financial viability. Subsequently, the CEB was unbundled in March 2026. Drawing on IMF technical assistance and stakeholder consultation, a new electricity tariff methodology will be approved by August 2026 to support transparent and evidence-based tariff adjustments. As an additional safeguard to sustain cost recovery, regulatory rules were amended to legally mandate the Public Utilities Commission to publish quarterly cost-recovery reports; the first report was issued in April 2026. The authorities uphold commitment to advancing broader SOE reforms, beyond the energy sector as well. An SOE bill be enacted soon to establish a holding-company structure to strengthen governance, transparency, and accountability of SOEs.

SOCIAL SAFETY NET (SSN) REFORMS

Sri Lanka continues to prioritize the protection of the poor and vulnerable during macroeconomic adjustment and in the face of heightened shocks, despite constrained fiscal space. Measures to strengthen the social safety net (*Aswesuma*) have continued while meeting minimum social spending targets under the program. To reduce inclusion and exclusion errors, recertified and newly ranked beneficiary lists will be published by end-July 2026 in line with the proposed structural benchmark. The authorities intend to extend *Aswesuma* for a further three years and expedite disbursements under the empowerment program. As an enhancement measure, eligibility criteria will be reviewed by an expert committee in consultation with stakeholders taking multidimensional poverty and climate vulnerability into consideration. Going forward, SSN reforms will be guided by the National Social Protection Strategy (2025); and interoperability between the social registry and the National Disaster Relief Services Center database will be maintained to streamline disaster response.

RESTORING PUBLIC DEBT SUSTAINABILITY

With debt relief secured through debt restructuring, continued fiscal reforms and prudent public debt management, the authorities are committed to preserving public debt sustainability going forward. Debt restructuring is nearing completion, most recently with completion of the remaining guaranteed debt of a state-owned enterprise. As a priority the institutional capacity of the newly established and centralized Public Debt Management Office (PDMO) will be strengthened further. As immediate measures to enhance safeguard against possible operational risks, standard operating procedures and a new public debt management information system (Meridien) will be operationalized soon. Meanwhile, the

PDMO's technical and institutional capacity to undertake liability management operations and facilitate returning to international capital markets over time will be strengthened, under an enhanced governance and regulatory framework.

MAINTAINING PRICE STABILITY AND EXTERNAL STABILITY

Monetary policy is conducted under the Flexible Inflation Targeting (FIT) framework in a data-driven, increasingly transparent and accountable manner. Benign demand-driven inflationary pressures coupled with supportive supply conditions for an extended period enabled the continuation of accommodative monetary policy stance in Sri Lanka since mid-2023. Gradual acceleration of aggregate demand supported by the transmission of monetary policy easing along with near-term supply driven price pressures associated with global geopolitical tensions has brought forward the projected time frame for inflation to reach the target of 5% to the second quarter of 2026. As per the available information, inflation is projected to hover within the allowable band under the Monetary Policy Consultative Clause (MPCC). The Central Bank is closely monitoring global developments and domestic spillovers and stands ready to take appropriate policy actions to maintain price stability. Further, exchange rate flexibility is maintained in line with the FIT framework. Foreign exchange supply by the CBSL is restricted only to mitigate disorderly adjustments in exchange rate. Most past administrative measures imposed to support the balance of payments have now been lifted, and authorities are committed to gradually relaxing the remaining capital flow measures, while refraining from introducing new restrictions.

SAFEGUARDING FINANCIAL SECTOR STABILITY AND RESILIENCE

Legal and regulatory frameworks are being strengthened to further enhance financial sector stability and resilience. Following the enactment and amendments of key laws governing banking sector regulation, supervision, governance, and resolution, a new law is underway for facilitating orderly insolvency process. Meanwhile, the authorities are committed to further strengthening the governance of the state banks by swiftly addressing delays in the appointment of competent directors to the Boards. Laws governing finance companies and leasing companies are currently amended to strengthen regulation, supervision, and resolution of non-bank financial institutions. Meanwhile, the Central Bank's regulatory and supervisory powers over banks established in Colombo Port City are safeguarded through legal amendments. Following a fraud incident reported in a regulated bank recently, the Central Bank has sought capacity development support to strengthen operational risk management for supervision and AML/CFT compliances.

GOVERNANCE AND ANTI-CORRUPTION REFORMS

Governance and anti-corruption reforms are advancing, supported by a strengthened legal and institutional framework and increasingly tangible deliverables. Building on a revamped legal and institutional framework under the program, implementation of the Government Action Plan (GAP), aligned with the Governance Diagnostic Assessment, is advancing. The 2025 progress report of GAP was published in March 2026 and will be issued biannually going forward. Transparency, coverage, and accessibility of senior public officials' asset declarations have been strengthened, while non-submission cases are being reviewed for corrective action. Governance reforms also include streamlining tax exemptions for businesses and individuals. Accordingly, rule-based, transparent criteria on the type and duration of incentives for large investment projects were introduced. Alongside, a review to discontinue the vehicle import tax exemption for public servants will be undertaken. The authorities will continue to publish

public procurement contracts above the agreed threshold and the list of firms receiving tax exemptions on a biannual basis. Following the operationalization of the National Procurement Commission, a Public Procurement Law will be enacted in line with international best practices to mitigate corruption vulnerabilities. Sri Lanka is preparing for the Asia Pacific Group's AML/CFT country assessment in 2026, while further efforts are under way to strengthen beneficial ownership verification, inter-agency cooperation, investigations, and asset recovery, and risk-based AML/CFT supervision of financial institutions.

GROWTH PROMOTING STRUCTURAL REFORMS

Building on restored macroeconomic stability and a resilient financial sector, Sri Lanka is addressing impediments to sustainable and equitable growth through a broad structural reform agenda. The reforms focus on external trade competitiveness, a private sector-oriented growth strategy, and labor market reforms. Importantly, a digitalization strategy is being advanced to raise growth potential and support greater inclusivity, while climate vulnerabilities are being integrated into the reform agenda. Rationalization of para-tariffs, trade facilitation, and customs reforms are under way to reduce barriers to trade. Alongside this, the National Export Strategy is currently formulated to deepen trade integration and diversify exports. Modernization of the business and regulatory environment, energy sector reform, and labor and land reforms, together with reducing the role of the government in commercial activities, aim to create a more conducive environment for private investment, employment, and growth.

CONCLUSION

Sri Lanka's robust performance under the ongoing EFF is not automatic; it reflects strong reform ownership across political cycles and the patience and resilience of citizens. Front-loaded reforms under the program helped lay a solid foundation, underpinned by strengthened legal and institutional arrangements and a renewed commitment to governance and anti-corruption. With support of the IMF and other development partners, capacity development has been prioritized to strengthen technical and institutional capabilities, enabling Sri Lanka to navigate a rapidly changing environment with confidence. Building on restored macroeconomic fundamentals, the authorities are increasingly directing policy efforts toward structural reforms to support sustained and inclusive growth and to secure lasting reform gains. At the same time, successive global shocks and climate vulnerabilities underscore the importance of staying the course with disciplined policies to rebuild buffers and strengthen resilience. Given that the ongoing program is nearing completion within the next year, the authorities remain steadfast in preserving hard-won gains and putting in place additional safeguards to sustain fiscal discipline and monetary and financial sector stability in the post-program period.