

Sri Lanka at a Fiscal Crossroads: Reform, Resilience, and the Role of the Private Sector

Prof. Wasantha Athukorala
Director, PGIHS
University of Peradeniya

Hosted by the Association of Kandy Chartered Accountants (AKCA)

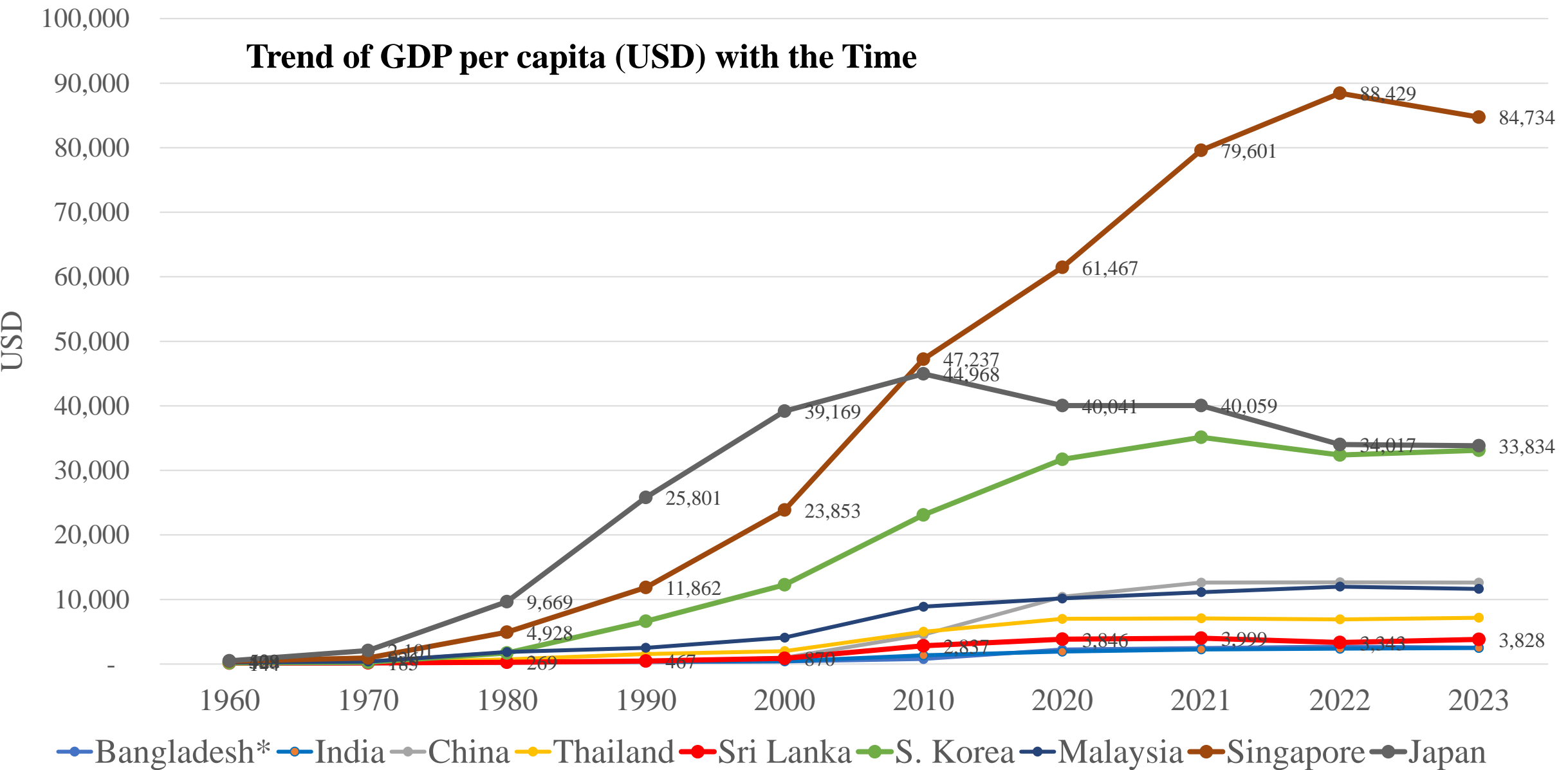


Content

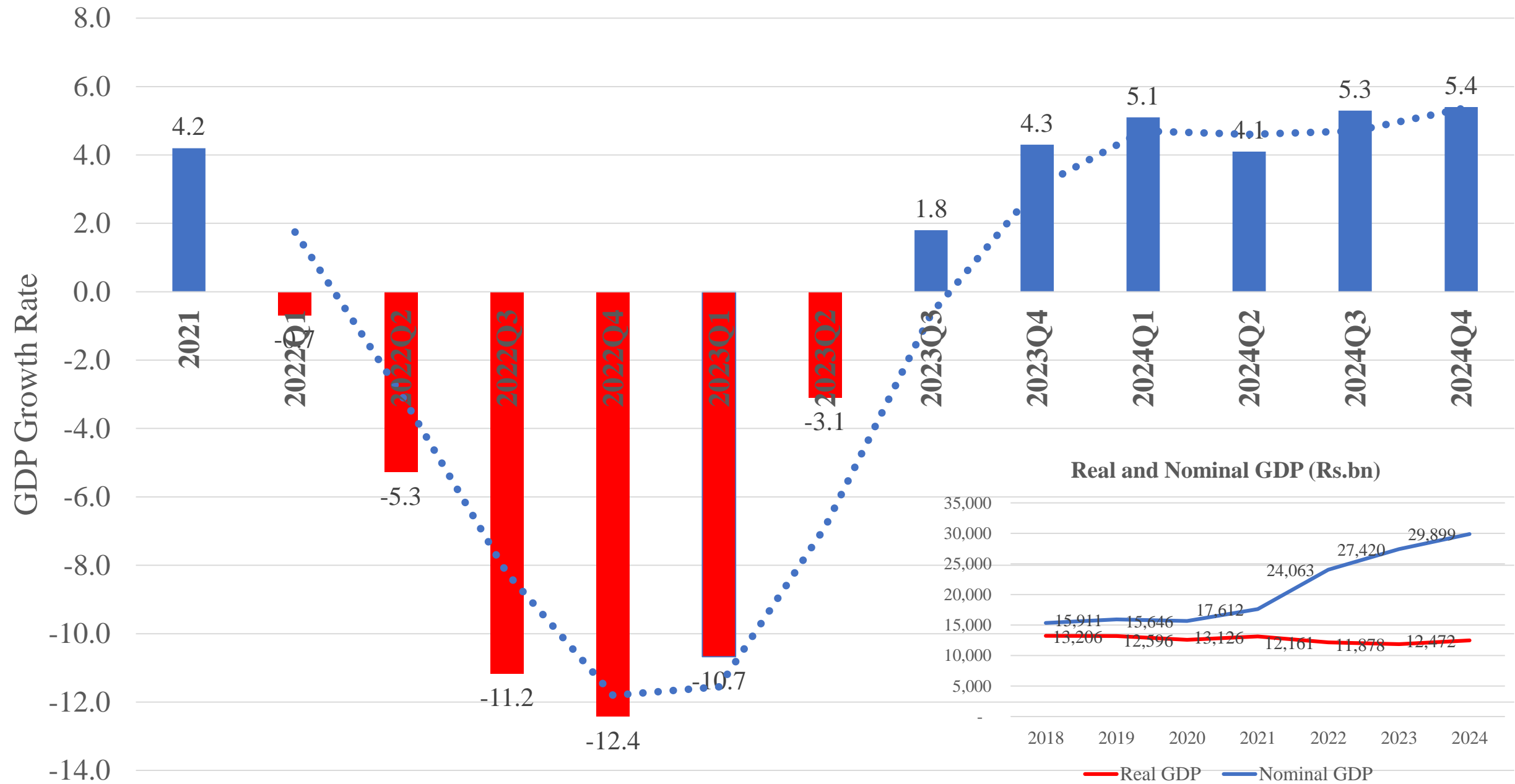
1. Sri Lanka at a Glance: Current Macroeconomic Climate
2. Fiscal Consolidation and Public Sector Reform
3. The Private Sector in Economic Recovery
4. Resilience through Social Protection and Inclusive Growth
5. Challenges to be faced

Tracing the Growth Trajectory: Six Decades of Economic Transformation

Trend of GDP per capita (USD) with the Time



1. Sri Lanka at a Glance (GDP Growth)



Public Debts

2022 (USD 81.67 billion)

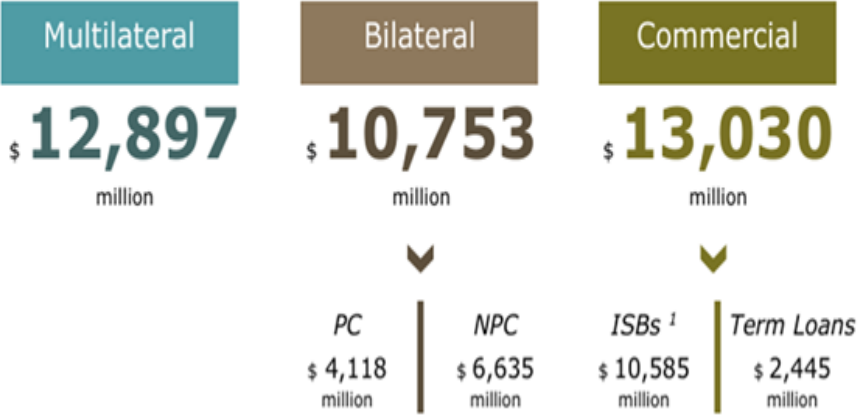
Category	USD million
	End Sep 2022**
Government Debt	76,547.0
Domestic Debt	35,846.7
LKR Denominated	34,163.6
FX Denominated	1,683.1
External Debt	35,052.1
Project/Program Loan	20,312.5
Bilateral	10,813.9
Multilateral	9,498.5
Commercial	14,739.6
ISB	12,550.0
Term Financing Facilities	2,189.6
Guaranteed Debt	5,648.2
LKR Denominated	1,651.6
FX Denominated	3,996.6
Central Bank	5,128.1
Multilateral	1,084.7
SWAP Facilities	2,021.3
ACU Liabilities	2,022.1
	81,675.1

2024 (USD 106.16 bn)

USD million		End December 2024 ²
Debt of the Government	Domestic Debt ³	64,571
	LKR Denominated	62,413
	FX Denominated	2,158
	External Debt	36,680
	Bilateral ⁴	10,753
	Multilateral	12,897
	Commercial ⁵	13,030
	Total Debt of the Government	101,251
	SOE Guaranteed Debt	4,896
	LKR Denominated	1,857
SOE Debt	FX Denominated	3,039
	Total Debt of SOEs ⁶	4,896
	Provincial Councils (PCs)	-
	Local Governments (LGs)	20
PC & LG Debt	LKR Denominated	
	Total PC & LG Debt ⁷	20
Total Public Debt		106,166

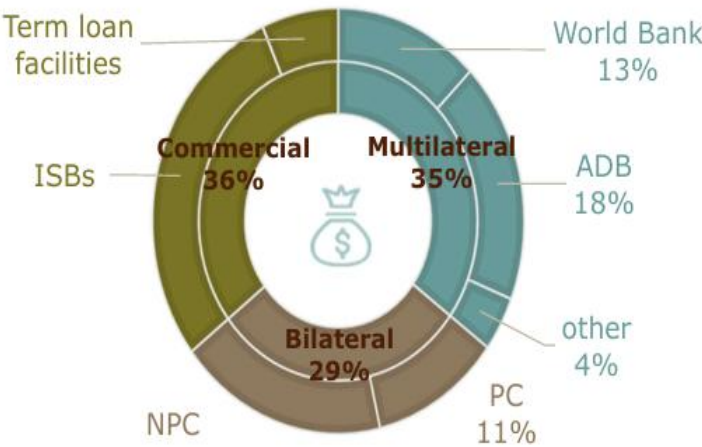
EXTERNAL DEBT OF THE GOVERNMENT

Outstanding of Government External Debt



Total Government external debt as at the end of December, 2024 amounted to USD 36.7 billion. The creditor category-wise composition of external debt is depicted in the following graph;

Composition of Government External Debt –End December 2024



IMF Program

2024 June Article IV

The **IMF program in Sri Lanka**—under the **Extended Fund Facility (EFF)** approved in **March 2023** for **USD 2.9 billion over 48 months**—was designed to restore macroeconomic stability, ensure debt sustainability, and lay the foundation for inclusive and sustainable growth following the country’s severe economic crisis.

Tranche	Year and Month	USD (mn)
IMF 1st Tranche	2023 March	337
IMF 2nd Tranche	2023 December	337
IMF 3rd Tranche	2024 June	337
IMF 4th Tranche	2025 March	334

Variables	2022	2023	2024	2025	2026	2027	2028	2029
Inflation (average)	45.2	17.4	7.0	5.8	5.4	5.2	5.1	5.0
Nominal GDP growth	36.6	14.8	11.9	9.8	8.5	8.5	8.3	8.3
As a % of GDP								
Revenue and grants	8.4	11.1	13.6	15.1	15.3	15.4	15.4	15.4
Expenditure	18.6	19.4	20.9	20.3	19.9	19.5	19.2	19.2
Primary balance	-3.7	0.6	1.0	2.3	2.3	2.3	2.3	2.3
Budget Deficit	-10.2	-8.3	-7.3	-5.2	-4.6	-4.1	-3.8	-3.8
CG GFNs	34.1	27.8	24.9	23.7	20.5	16.6	13.1	11.9
CG debt	115.9	109.8	108.8	108.4	108.3	106.6	103.2	100.1
Reserves and GDP								
GO reserves (USD)	1,898	4,387	5,605	7,174	9,262	13,466	15,105	15,286
Nominal GDP (Rs. bn)	24,064	27,630	30,917	33,958	36,839	39,959	43,287	46,869

Recovery Process

CB Monetary Policy

- Low inflation level (0.1 % Average)
- Low interest rate (SDR 8 %)
- Normal money transfer (Undiyal/hawala)
- Low risk level of the banks

Fiscal Policy

- Normal energy supply (no power cut, no shortage of gas or fuel)
- Government revenue increased (104 % : 2022 - 2024)
- Low budget deficit (2022- Rs.2,460 to 2024- Rs. 2040 bn)
- Social Protection (Aswasuma 2.4 mn)
- Sectoral recovery (Agriculture -2.2 %, Industry 13.1 % and Service 2.5 % - 2024)

External Sector

Current account surplus

Increasing remittances

USD 6.58 bn 2024 and 2.46 bn (4 months 2025)

Increasing tourism income

USD 3.1 bn -2024 and 1.38 bn (4 months 2025)

Red Light: Trade deficit is increasing

Debt optimization and Restructuring

- Local Debt Optimization : Completed
- Foreign Debt Restructuring : Almost done

Released the short term burden with a cost of working class or Future generation

DDO = EPF Rs 2,668 bn + CB Rs. 2,712 bn

DDO Total = Rs. 5, 380 bn

FDR : Grace Period from 2024 to 2027 (5 bn)

Interest rate reduced to 2.1%

Debt settlement period goes until 2043

2. Fiscal Consolidation and Public Sector Reform

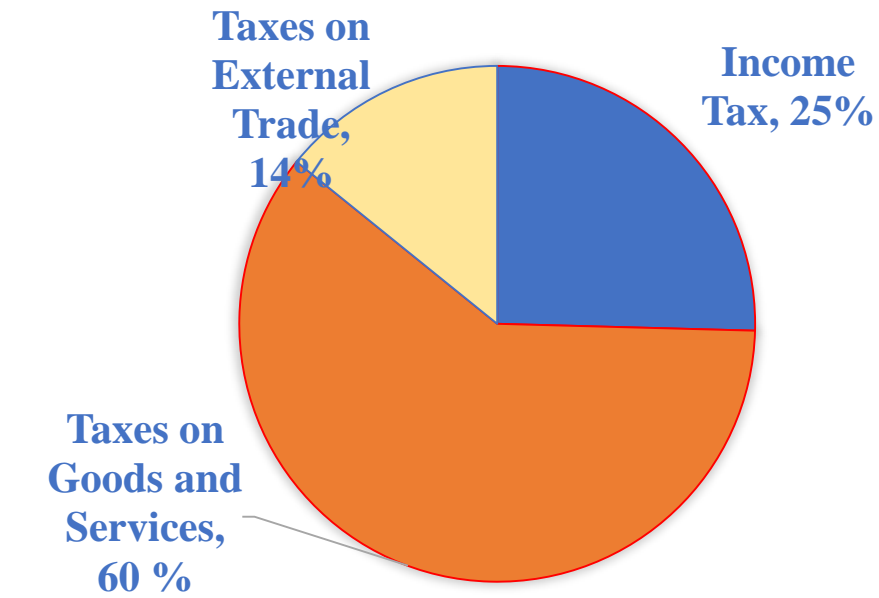
Under the 48-month Extended Fund Facility (EFF) approved in March 2023, Sri Lanka committed to a series of fiscal reforms aimed at restoring macroeconomic stability and ensuring debt sustainability.

- **Revenue Mobilization:** Tax reforms were implemented to increase government revenue, with tax revenue rising to 12.3% of GDP in 2024. The goal is to further elevate this to 15% by 2026.
- **Primary Budget Surplus:** Efforts led to a primary budget surplus in 2023, aligning with the IMF's target of achieving a 2.3% surplus by 2025.
- **Debt Management Reforms:** A new Public Debt Management Act was enacted in June 2024, establishing a centralized debt management office within the Ministry of Finance. This reform aims to enhance debt transparency and governance.
- **Foreign Debt Restructuring:** In December 2024, Sri Lanka finalized a \$12.55 billion debt restructuring agreement, introducing Macro-Linked Bonds (MLBs) to provide debt relief contingent on economic performance and governance improvements (an upfront debt stock reduction of \$3.7 billion, potentially increasing to \$4.9 billion in case of economic downturns, and reduces debt service payments by \$9.6 billion during the four-year IMF program period)
 - **Japan:** In March 2025, Sri Lanka signed a debt restructuring agreement with Japan, covering approximately \$2.5 billion. The repayment is scheduled in semi-annual installments from January 2028 to July 2042.
 - **China:** Sri Lanka reached a preliminary agreement with China in June 2024 to restructure debts owed to the Export-Import Bank of China and China Development Bank. This agreement includes maturity extensions, capital grace periods, and interest rate reductions
 - **India:** Signing of Bilateral Amendatory Agreements between GoSL and the Export - Import Bank (EXIM) of India pertaining to the Line of Credits and Buyer's Credit Loan Agreements under the External Debt Restructuring Process of Sri Lanka

Government Revenue

Revenue target for 2025 : Rs 4,940 billion
Additional Rs. 909 billion: 97 % tax

Tax Composition



APIT Tax:
242,679
5.15 %

Employee	4,711,634
Public	1,146,395
Private	3,565,239

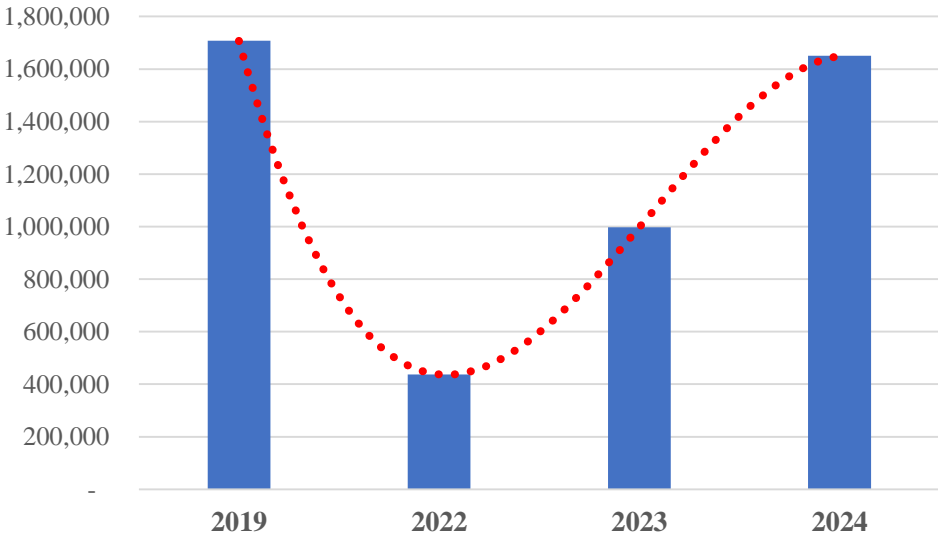
	2019	2022	2024
No. of Income Tax Payers	1,505,552	333,313	1,530,000
Other Taxpayers	199,681	104,234	120,000
Total	1,707,252	437,547	1,650,000

Government Revenue (Rs. bn)

	2023	2024	2025
Tax Revenue	2,721	3,705	4,590
Income Tax	911	1,026	1,167
Taxes on Goods and Services	1,420	2,201	2,772
Taxes on External Trade	389	477	651

Additional Revenue for 2025	Rs. bn
Tax Revenue	885
Income Tax	141
Taxes on Goods and Services	571
Taxes on External Trade	174
Non Tax Revenue	44

Number of Tax Payers

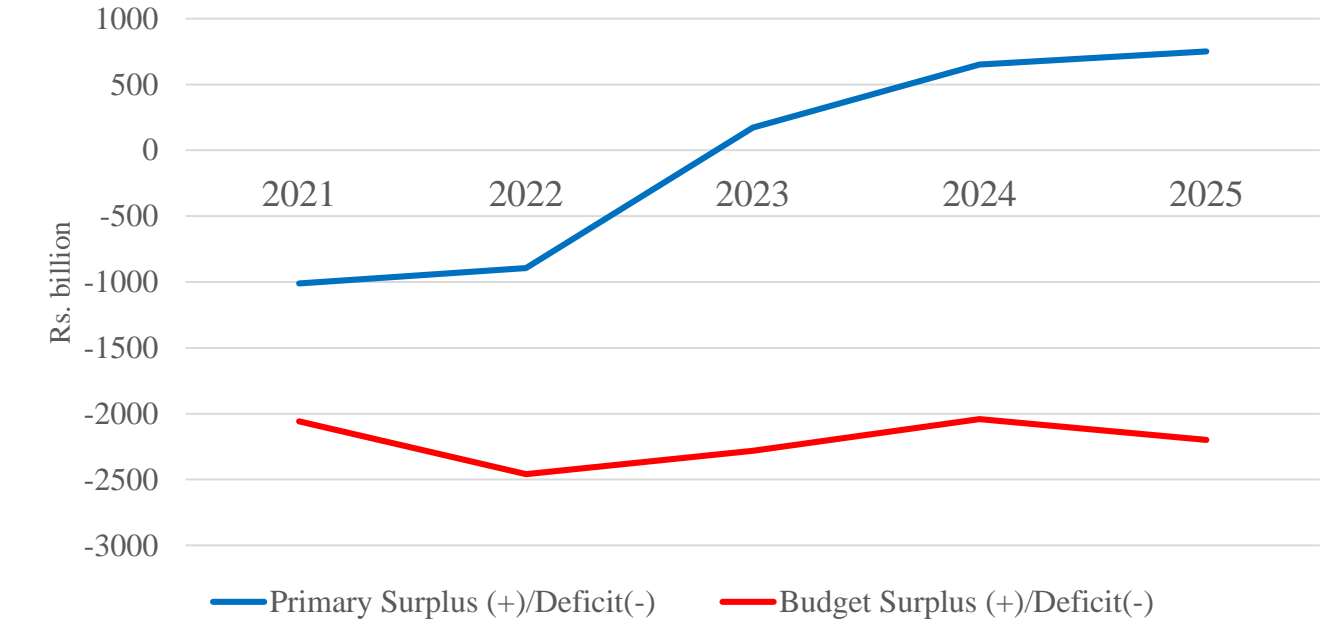


Government Expenditure

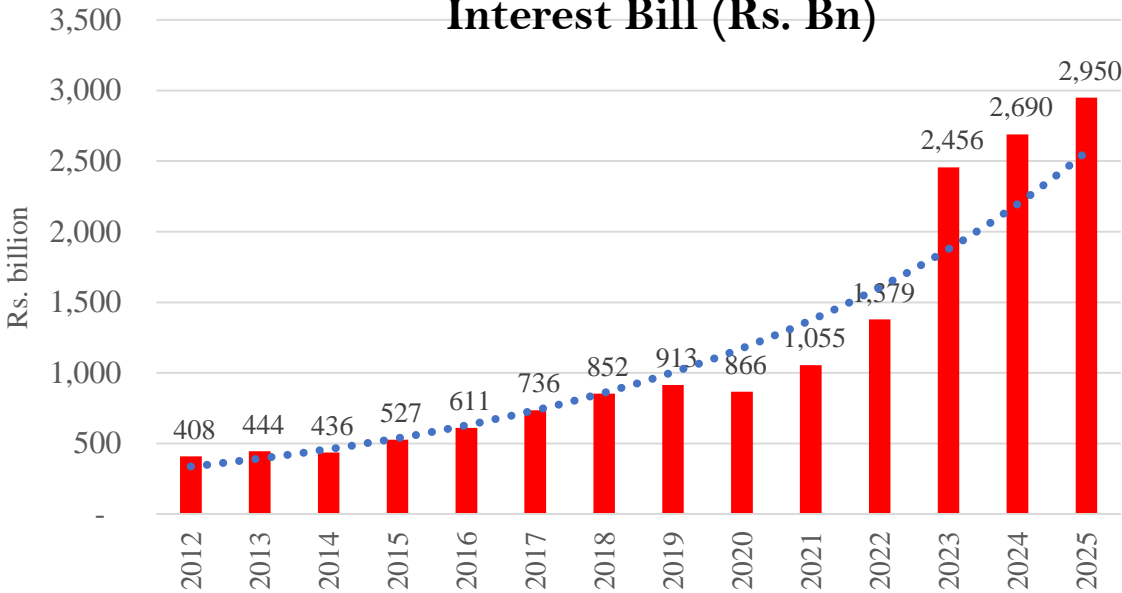
Expenditure target for 2025 : Rs 7,190 billion
Additional Rs. 1059 billion: 52 % recurrent expenditure

Item	2025	% of total exp.
Interest	2,950	40.97
Public Investment	1,315	18.26
Subsidies and Transfers	1,290	17.91
Salaries and Wages	1,230	17.08
Other Goods and Services	416	5.78

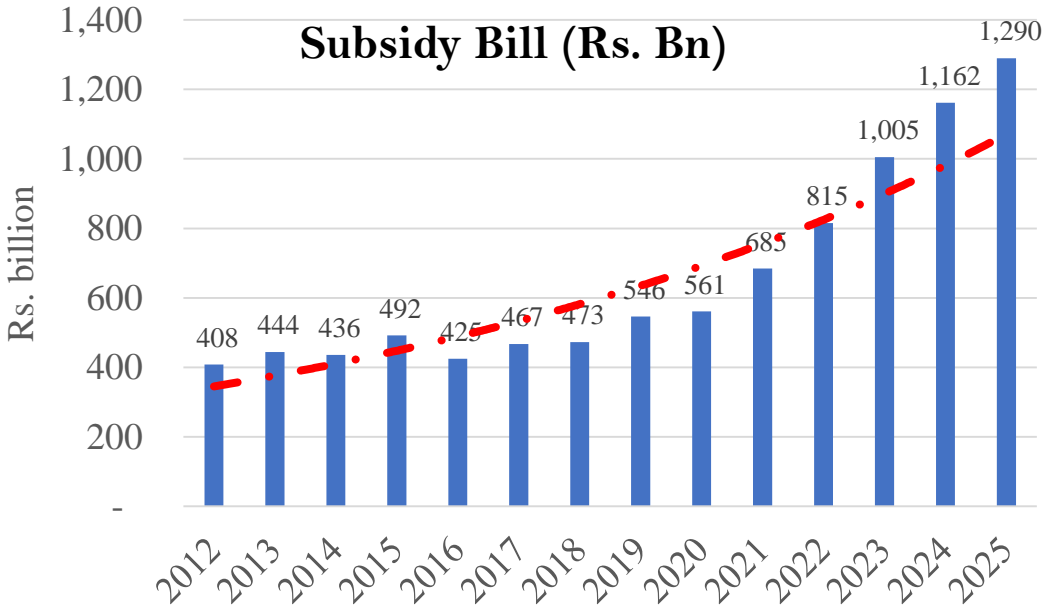
Budget Surplus/Deficit (Rs. bn)



Interest Bill (Rs. Bn)



Subsidy Bill (Rs. Bn)



Selected Structural Issues

Issue 1: Daily Government Operation (Rs.bn)

	Receipts	Expend.	Borr. Req.
2024	11.04	16.80	-5.75
2025	13.53	19.70	-6.16

Cost of Interest Payment 8 billion per day

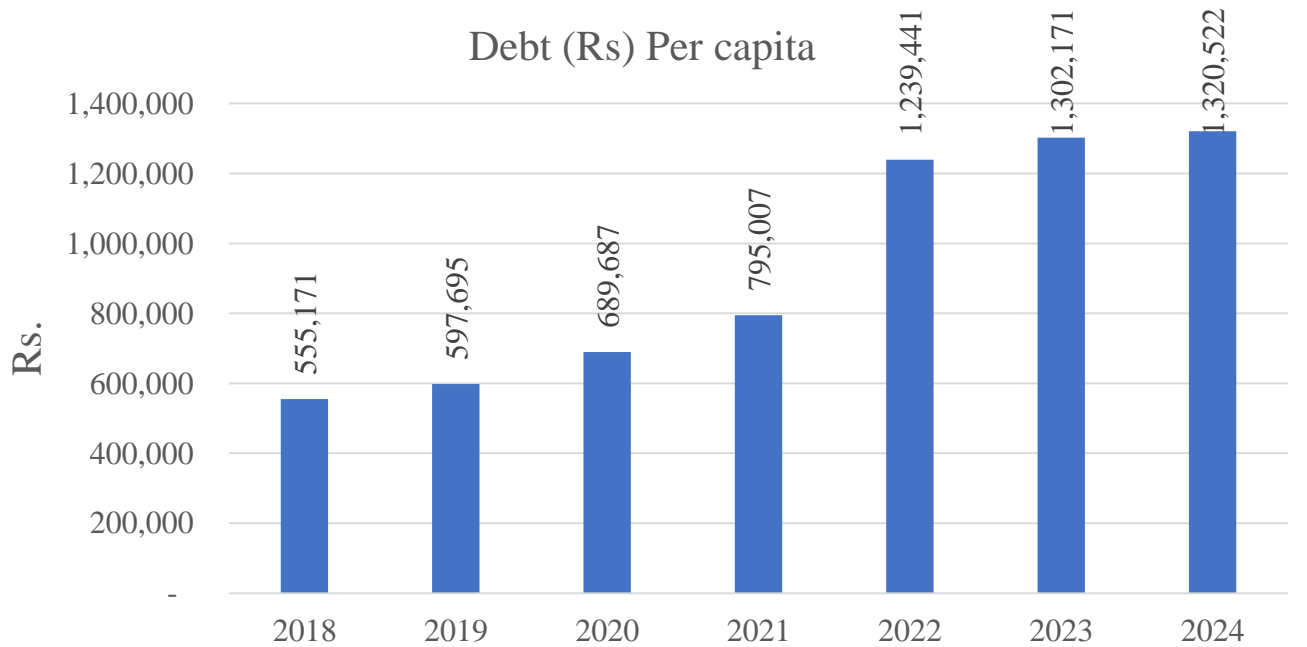
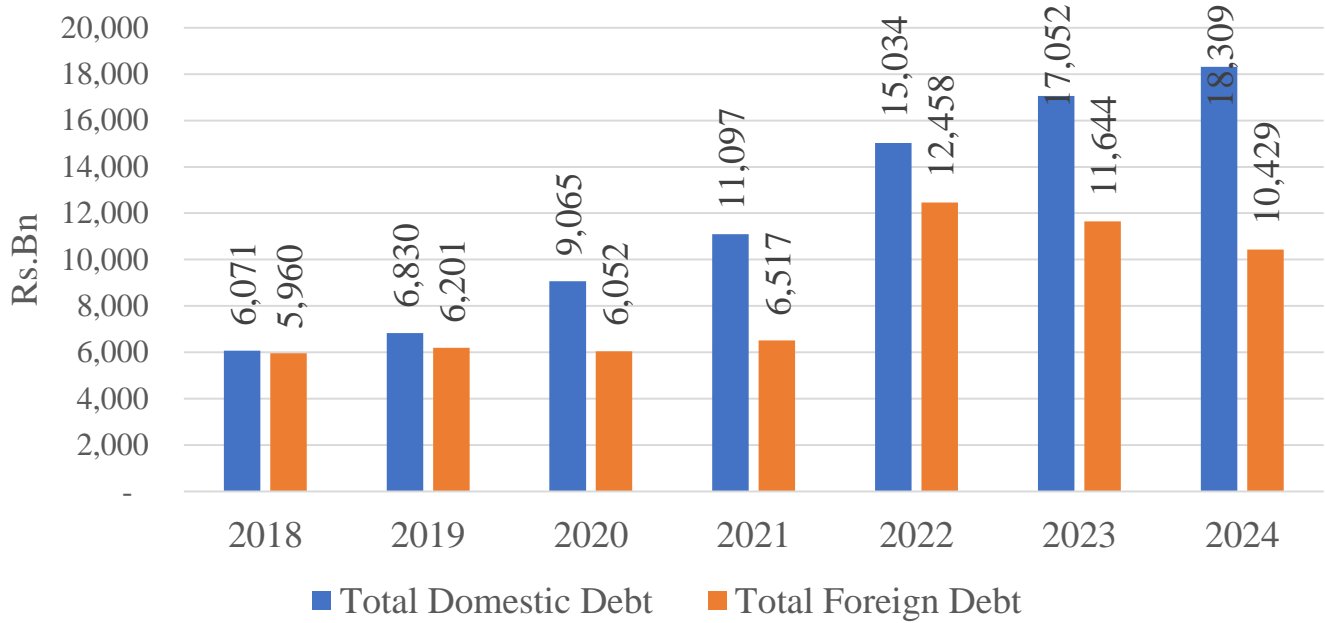
Issue 2: Daily External Trade deficit (per HH)

Imports dependency = Rs. 2,882
Exports dependency = Rs. 1,956
Net Gain = Rs. -926

Issue 3: Labour Force

Economically active population: 8,386,482
Economically inactive population: 9,162,455
Labour force participation is less than 50 %

Issue 4: Public Debt(Rs.bn)



Issue 5: Commodity Concentration

Major Exports (2024)	USD	%
Textiles and garments	5,061	39.63
Tea	1,435	11.24
Petroleum products	1,063	8.33

60 %

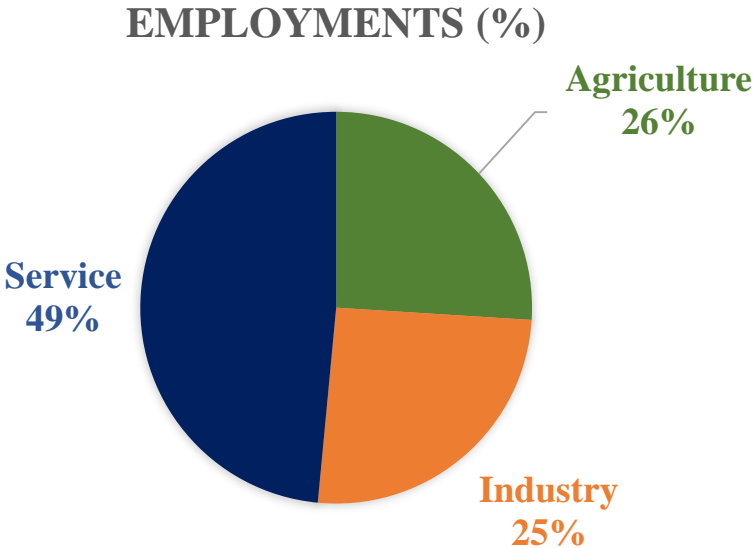
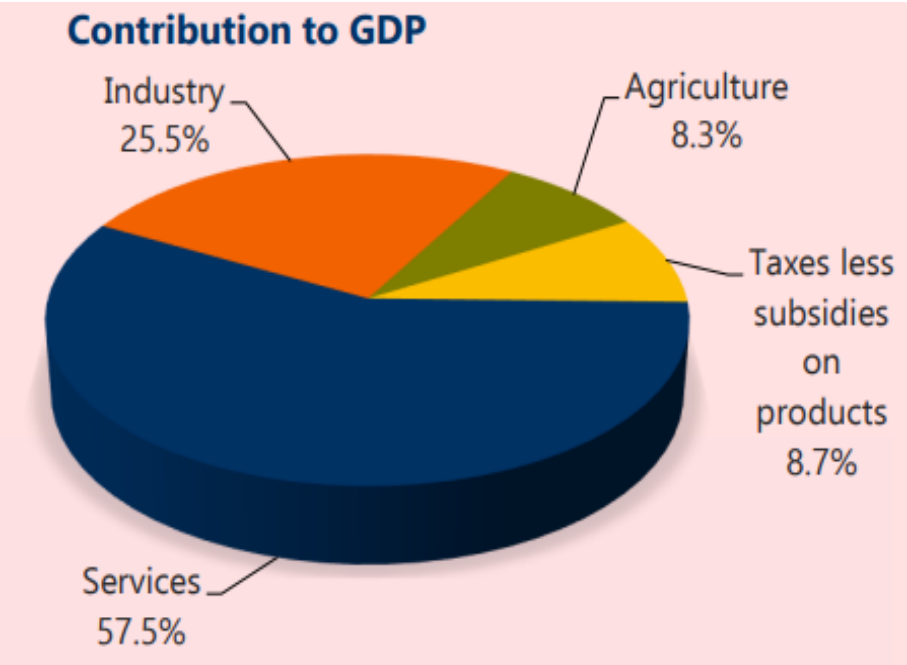
Major Imports (2024)	USD	%
Fuel	4,354	23.11
Textile and textile articles	2,847	15.11
Machinery and equipment	2,363	12.54

50 %

Issue 6: Country Concentration

Exports	%		Imports	%
USA	24.0		China	24.0
UK	7.7		India	21.0
India	7.4		United AE	7.5
Germany	5.2		Singapore	6.9
Italy	4.9		Malaysia	3.9
Netherlands	3.2		Russia	3.0
Total	52.4		Total	66.3

Issue 7: Less Productive Agriculture



Sector	Employed
Agriculture	2,066,651
Industry	2,031,417
Service	3,851,683

Employment Status	
	No.
Sri Lanka	8,069,891
Employee	4,826,117
Public	1,233,472
Private	3,592,644
Employer	226,867
Own Account Worker	2,582,708
Contributing Family Worker	434,200

Selected Public Sector Reforms

To improve efficiency and reduce fiscal burdens, several public sector reforms were initiated:

- **State-Owned Enterprises (SOEs):** Legislation was passed to restructure the Ceylon Electricity Board (CEB), aiming to unbundle its operations and attract investment in renewable energy. This move is part of a broader strategy to make SOEs more profitable and reduce losses.
- **Central Bank Independence:** The Central Bank of Sri Lanka Act was enacted to grant greater autonomy to the central bank, enhancing its ability to manage monetary policy effectively.
- **Governance Enhancements:** Reforms were undertaken to strengthen fiscal governance, including the establishment of a new public debt management office and the implementation of a medium-term debt management strategy.
- **Digitalization of Public Services: Launch of GovPay:** In February 2025, the government introduced GovPay, a centralized digital payment platform developed by the Information and Communication Technology Agency (ICTA) in collaboration with LankaPay. This platform streamlines payments for government services, enhancing efficiency, transparency, and accessibility for citizens and businesses
- **Anti-Corruption Legislation:** In 2023, the government enacted a new Anti-Corruption law to strengthen governance frameworks and combat corruption within the public sector. This legislation is part of broader efforts to enhance transparency and accountability.
- **Campaign Finance Regulation:** The Regulation of Election Expenditure Act, passed in January 2023, introduced limits on campaign spending and prohibited certain types of donations, aiming to promote fair electoral practices and reduce undue influence in politics
- **Public Sector Efficiency Initiatives (Asset Optimization):** The government proposed relocating offices to state-owned buildings and auctioning high-maintenance ministerial vehicles to reduce operational costs and improve asset utilization.
- **Social Welfare and Employment Reforms (Wage Adjustments):** Public sector wages were increased to partially compensate for past high inflation, aiming to alleviate the financial burden on government employees

Tax Policy and Revenue Mobilization

- Tax Policy Reforms: VAT Adjustments, Expansion to Digital Services, Corporate Income Tax (CIT) Revisions, Capital Gains Tax (CGT) Enhancements, Withdrawal of Tax Exemptions, Service Exports, Excise and Other Levies... etc
- Revenue Administration Measures: Mandatory Use of Point-of-Sale (POS) Machines, Tax Administration Modernization
- Key Issues in Sri Lanka's Tax System

1. Narrow Tax Base :Less than **6 % of the labor force pays personal income tax**, Many businesses—especially in the informal sector—remain outside the tax net and High dependence on **indirect taxes** (VAT, import duties), which are **regressive** and disproportionately affect the poor.

2. Frequent Policy Changes :Rapid shifts in tax policies (e.g., sharp tax cuts in 2019, reversed in 2022) create **policy uncertainty** and Investors and private sector actors face difficulty planning due to **unpredictable tax regimes**.

3. Low Tax-to-GDP Ratio: Tax revenue fell to **7.3% of GDP in 2021**, one of the lowest in the region, before rebounding to about **9.8 % in 2023** following reforms (IMF 2024) and The target under the IMF program is to reach **15% by 2026**, but structural constraints persist.

4. Complex and Inefficient Tax Administration: Multiple tax rates, exemptions, and overlapping taxes make compliance difficult and Weak enforcement and administrative inefficiencies limit revenue collection.

5. Inadequate Support for SMEs: Tax burdens, compliance costs, and uncertainty discourage formalization and investment by small and medium enterprises and Limited incentives or tailored schemes to support the growth of startups and innovative firms.

Is the Tax System Growth / Private Sector Friendly?

- **Currently: Not sufficiently.**
- **Disincentivizing investment:** High corporate and income taxes introduced in 2022-23 (corporate tax increased from 24% to 30%) can deter private investment.
- **Discouraging labor formalization:** High payroll and income taxes encourage informal hiring and self-employment.
- **Regressive burden:** Heavy reliance on VAT and import duties increases costs for consumers and businesses, especially SMEs.

How to Improve the Tax System

1. **Broaden the Tax Base:** Expand income tax coverage by **formalizing informal sectors** and **improving taxpayer identification systems** (e.g., e-invoicing, digital registries) and Reduce tax exemptions and preferential treatments that favor a few and erode revenue.
2. **Ensure Stability and Predictability:** Avoid ad hoc changes in tax rates and rules and Implement a **medium-term tax policy framework** aligned with growth and development priorities.
3. **Simplify the Tax Structure:** Introduce a **simplified tax regime for SMEs** with low compliance costs and predictable rates and Reduce the number of rates and streamline indirect taxes.
4. **Strengthen Revenue Administration:** Invest in **digital tax collection systems** (RAMIS is a start but needs expansion) and Improve enforcement and auditing capacity at the Inland Revenue Department.
5. **Link Taxes with Services:** Build taxpayer trust by **demonstrating clear links between taxes and public services** (healthcare, education, infrastructure).
6. **Make It Pro-Growth:** Introduce **investment-linked deductions**, R&D tax credits, or startup tax holidays and Reform import duties to reduce input costs for manufacturers and exporters.

3. The Private Sector in Economic Recovery

Sri Lanka's tax system, while improving under IMF-supported reforms, still faces major structural weaknesses. It is **not yet adequately supportive of private sector-led growth** due to its complexity, regressiveness, and unpredictability. A tax system that is **broader, simpler, stable, and aligned with national development goals** is essential to achieve fiscal sustainability **without stifling entrepreneurship and investment**.

Need to understand the role of Private Sector in the Economy

- **Gross Domestic Product:** Sri Lanka's economy was valued at approximately **\$99 billion** in 2024 (\$ 4, 516 per capita), with the private sector contributing significantly through activities in services, industry, and agriculture.
- **GDP Share:** SMEs contribute approximately **52%** to Sri Lanka's Gross Domestic Product (GDP), underscoring their pivotal role in the nation's economic activities
- **Employment Share:** SMEs provide employment to about **45%** of the national workforce, highlighting their importance in job creation and livelihood provision
- **Enterprise Representation:** SMEs constitute over **75%** of all registered businesses in Sri Lanka, reflecting their dominance in the country's entrepreneurial ecosystem
- **Export Share:** SMEs account for approximately **20%** of Sri Lanka's exports, indicating their role in international trade and foreign exchange earnings

World Bank Support: In May 2025, the World Bank announced a \$1 billion package to stimulate job creation and private sector growth in sectors like energy, agriculture, tourism, and regional development.

The initiative aims to mobilize over \$800 million in private investment, particularly in renewable energy projects

Appro. 20.2% businesses (MSMEs) either permanently or temporarily closed (~~263,200~~)

MSMEs

2018 : 1,300,300

2023 : 1,037,100

DCS(2023)

4. Resilience through Social Protection and Inclusive Growth

As of November 2024, approximately 1,737,141 households across Sri Lanka are receiving benefits under the Aswesuma welfare programme, which replaced the Samurdhi scheme in July 2023.

The Aswesuma programme categorizes beneficiaries into four groups based on a Multidimensional Deprivation Score

- Extremely Poor:** LKR 15,000/month
- Poor:** LKR 7,500/month
- Vulnerable:** LKR 5,000/month
- Transitional:** LKR 2,500/month

2025
42 % of the
population

Aswasuma	2,400,000
No. GN	14,015
No. Recipients	171
Total Families	5,700,000
Average HHs	406
% of Aswasuma	42.04



Simple Solution to improve target

- Make it compulsory to work at least one day per week
Road development, cleaning the area, make it beautiful the landscape
- Use them to cultivate unutilized land in the area

No. of Samurdi Recipients

2013	1,477,173
2014	1,479,811
2015	1,453,073
2016	1,404,655
2017	1,388,242
2018	1,388,543
2019	1,800,182
2020	1,793,285
2021	1,760,485
2022	1,753,458



2022
30 % of the
population

5. Challenges to be faced

1. Decline in Export Earnings, Employment Losses in Key Sectors and Worsening Balance of Payments

- **U.S. tariffs on apparel (44%)** could lead to an estimated **20% drop in garment exports** to the U.S., risking over **\$300 million in losses (If after 3 month)**.
- Reduced export income limits **foreign exchange reserves**, essential for debt repayment and import financing.
- The **apparel sector**, which directly employs around **350,000** people and supports nearly **600,000** indirectly, faces job losses due to factory downsizing or closures.

2. Trade surplus with the U.S. (\$2.49 billion in 2023) may shrink.

- Decreased export revenues and increased import dependency could worsen the **current account deficit** and lead to further currency depreciation.

3. Debt Sustainability Risks

- Sri Lanka's **public debt remains over 100% of GDP**, even after restructuring efforts.
- A drop in foreign exchange earnings could undermine **external debt servicing**, increasing risk of further default or restructuring needs.

4. Limited Fiscal Space

- High debt and interest payments restrict the government's ability to:
 - Stimulate the economy.
 - Invest in productivity-enhancing sectors like education, R&D, and technology.

5. Market Concentration Risk

- Heavy reliance on the U.S. for exports (especially apparel) creates vulnerability to policy changes in a single market.
- Lack of **diversified export markets and products** increases external shock exposure.

6. Investor Confidence and FDI

- U.S. tariffs and macroeconomic instability could **undermine investor confidence**, slowing down **FDI inflows**, especially in manufacturing and tourism.

7. Currency Volatility

- Loss of export earnings may trigger further **Sri Lankan rupee depreciation**, leading to:
 - Higher inflation (especially for imported goods).
 - Greater cost of living pressures.
 - Pressure on central bank reserves and monetary stability.

8. Social and Political Risks

- Economic hardship (job losses, inflation) could lead to **social unrest**, protests, or strikes.
- The government may face **political pressure** to adopt populist policies or delay reforms, risking IMF agreements.

The Dream of a Developed Sri Lanka

Year	Scenario A	Scenario B	Scenario C
2023	3,828	3,828	3,828
2024	3,968	4,082	3,968
2025	4,232	4,353	4,310
2026	4,596	4,727	4,894
2027	4,991	5,134	5,557
2028	5,421	5,576	6,309
2029	5,888	6,056	7,164
2030	6,394	6,577	8,134
2031	6,945	7,143	9,235
2032	7,542	7,758	10,486
2033	8,192	8,426	11,906
2034	8,897	9,151	13,519
2035	9,662	9,938	15,350
2036	10,494	10,794	17,429
2037	11,397	11,723	19,789
2038	12,378	12,732	22,469
2039	13,443	13,828	25,512
2040	14,601	15,018	28,968
2041	15,857	16,310	32,891
2042	17,222	17,714	37,346
2043	18,704	19,239	42,403
2044	20,314	20,894	48,146
2045	22,062	22,693	54,667
2046	23,961	24,646	62,071
2047	26,024	26,767	70,477
2048	28,263	29,071	80,022

Scenario A: What we need?

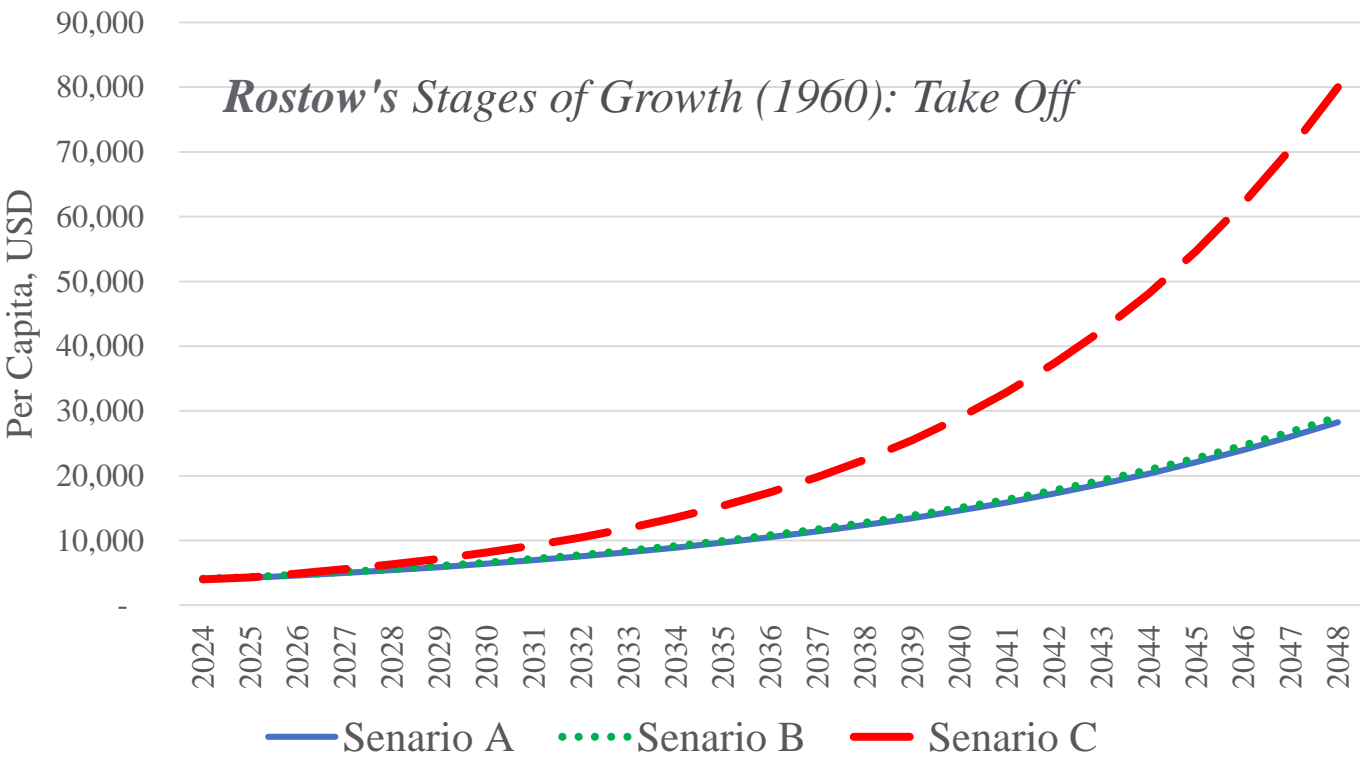
2024: 5 % and 2025: 8 % and after that 10 % nominal GDP growth rate
Others remain constant

Scenario B: What we need?

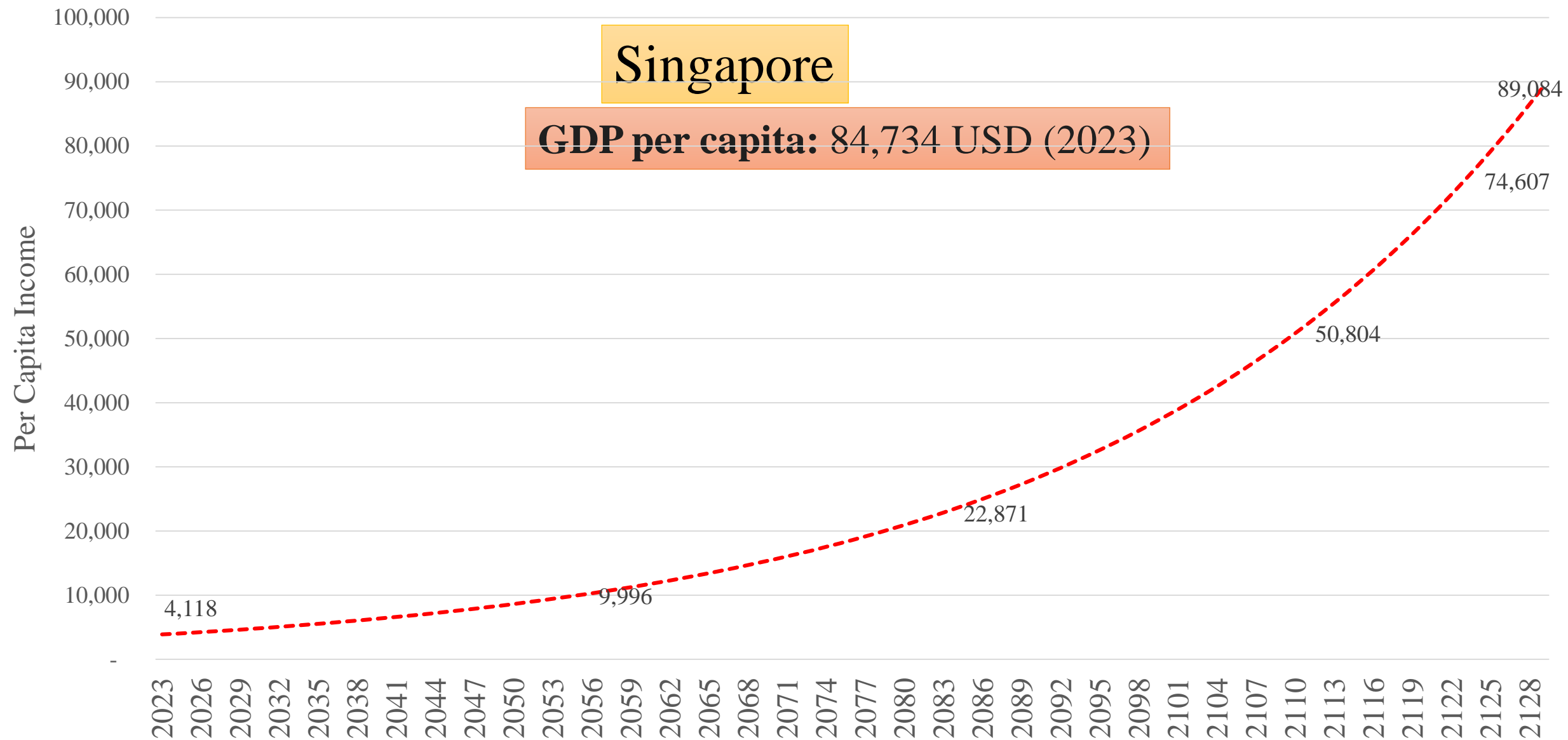
2024: 5 % and 2025: 8 % and after that 12 % nominal GDP growth rate
Others remain constant

Scenario B: What we need?

2024: 5 % and 2025: 10 % and after that 15 % nominal GDP growth rate
Others remain constant



If the current growth rate continues, it will take approximately 105 years (until 2128) to reach Singapore's present per capita income level



Thank You
Q & A

ASPI / S&P INDEX DETAILS

ASPI INDEX DETAILS

SYMBOL: ASPI

Previous Close

16,473.37
117.46
↑ 0.72%
16,355.91

ASPI Statistics

One year ▼



S&P SL20 INDEX DETAILS

SYMBOL: S&P SL20

Previous Close

4,842.51
26.15
↑ 0.54%
4,816.36

S&P SL20 Statistics

One day ▼



Share Volume : 277,350,198
Turnover (LKR): 4,542,781,186.95

Local Date: 22-May-2025
Local Time: 7:53 PM

Prospects for Exports/Imports sector in 2025

Issue 1: Commodity Concentration

Major Exports (2024)	USD	%	60 %
Textiles and garments	5,061.0	39.63	
Tea	1,435.9	11.24	
Petroleum products	1,063.5	8.33	
Rubber products	975.6	7.64	
Food beverages & tobacco	651.5	5.10	
Machinery and mechanical appl.	485.5	3.80	
Spices	454.7	3.56	
Coconut	416.5	3.26	
Gems, diamonds and jewellery	381.9	2.99	
Chemical products	234.1	1.83	

Trade Balance (USD Mn)

Year	Goods Balance	Services Balance	Primary Income	Secondary Income	CA Balance
2020	-6,008	819	-2,205	6,207	-1,187
2021	-8,139	1,586	-1,959	5,228	-3,284
2022	-5,185	2,110	-1,870	3,496	-1,448
2023	-4,900	3,053	-2,548	5,834	1,439
2024	-6,069	3,435	-2,599	6,439	1,206

Major Imports (2024)	USD	%
Fuel	4,354.39	23.11
Textile and textile articles	2,847.11	15.11
Machinery and equipment	2,363.13	12.54
Chemical products	987.03	5.24
Building materials	927.24	4.92
Plastic and articles thereof	609.28	3.23
Medical and pharmaceuticals	575.58	3.05
Base metals	473.36	2.51
Paper and paperboard and arti.	446.96	2.37
Vegetables	446.00	2.37
Sugar and confectionery	389.51	2.07
Wheat and Maize	382.53	2.03

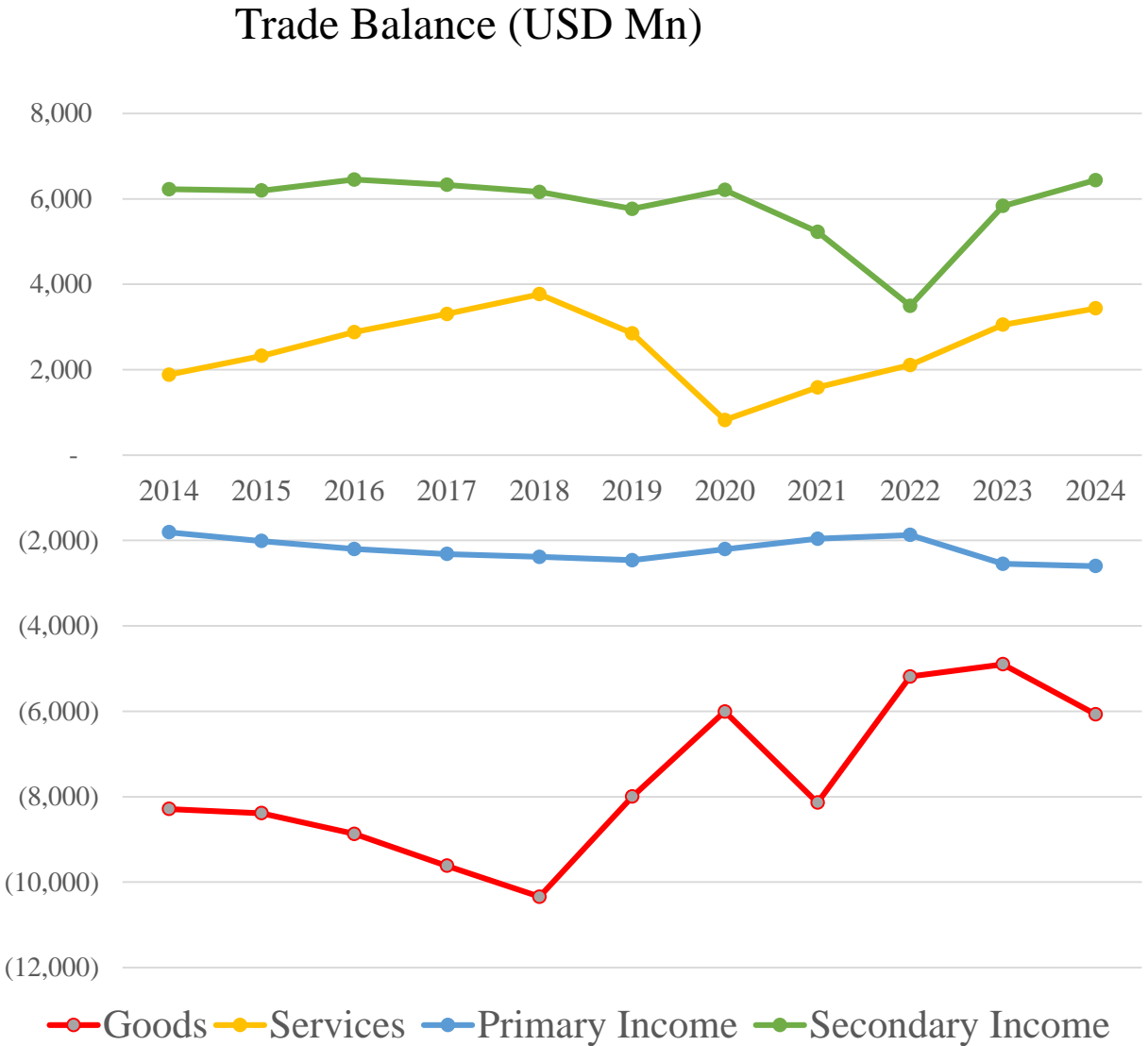
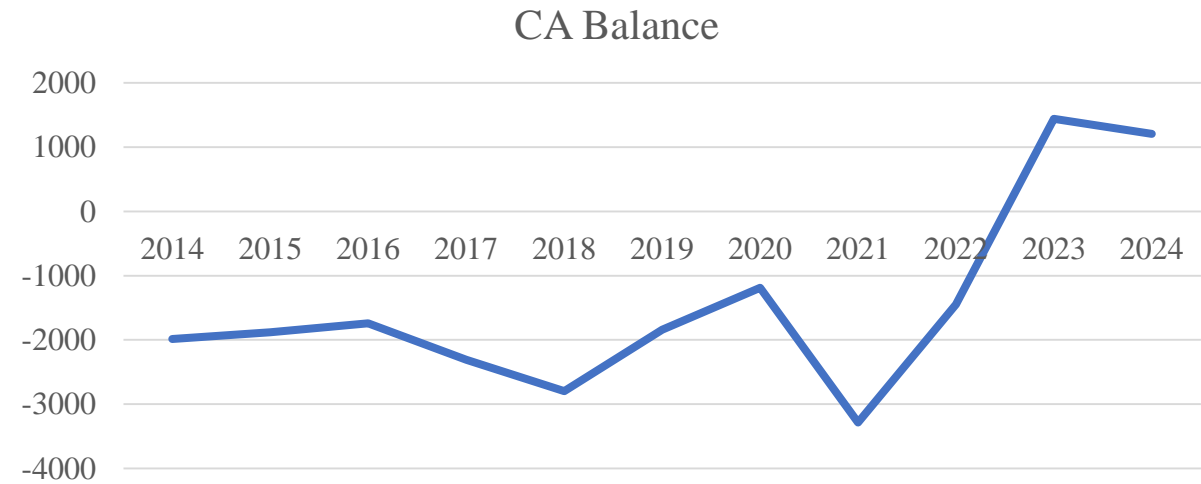
50 %

Issue 2: Country Concentration

Exports	%	Imports	%
USA	24.0	China	24.0
UK	7.7	India	21.0
India	7.4	United AE	7.5
Germany	5.2	Singapore	6.9
Italy	4.9	Malaysia	3.9
Netherlands	3.2	Russia	3.0
Total	52.4	Total	66.3

Trade Balance (USD Mn)

Year	Goods Balance	Services Balance	Primary Income	Secondary Income	CA Balance
2014	-8,287	1,880	-1,808	6,227	-1,988
2015	-8,388	2,325	-2,013	6,193	-1,883
2016	-8,873	2,879	-2,202	6,453	-1,742
2017	-9,619	3,302	-2,319	6,327	-2,309
2018	-10,343	3,766	-2,385	6,163	-2,799
2019	-7,997	2,849	-2,462	5,766	-1,843
2020	-6,008	819	-2,205	6,207	-1,187
2021	-8,139	1,586	-1,959	5,228	-3,284
2022	-5,185	2,110	-1,870	3,496	-1,448
2023	-4,900	3,053	-2,548	5,834	1,439
2024	-6,069	3,435	-2,599	6,439	1,206



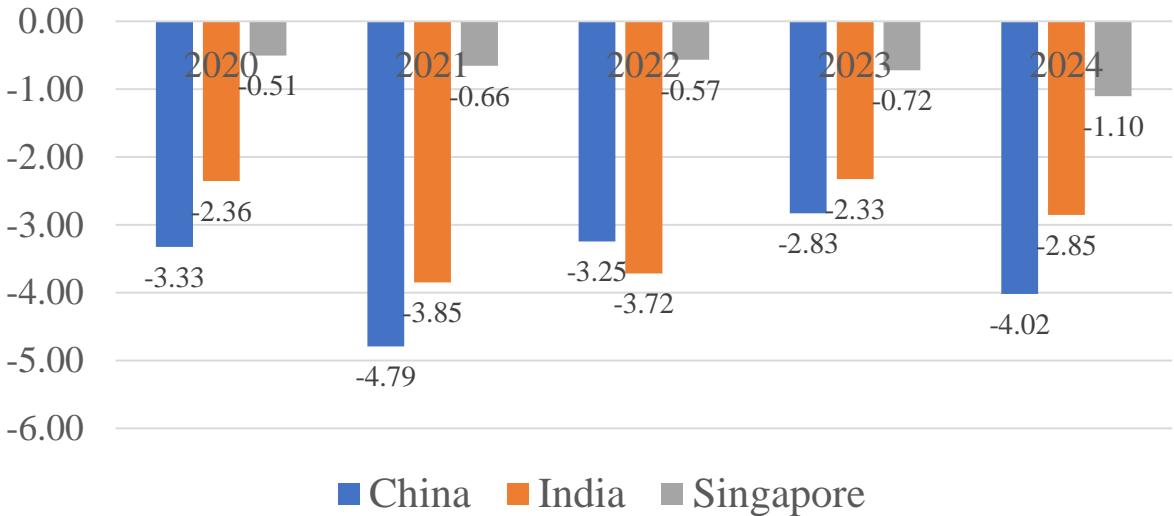
Sri Lanka: Loss from Major Trade Partners

Trade deficits (USD bn)			
China	India	Singapore	Total
-3.33	-2.36	-0.51	-6.19
-4.79	-3.85	-0.66	-9.30
-3.25	-3.72	-0.57	-7.53
-2.83	-2.33	-0.72	-5.88
-4.02	-2.85	-1.10	-7.98
-18.22	-15.11	-3.56	-36.88
		-36.88	



Total Trade loss with these three countries is higher than total foreign Debt in the country USD 36.68 bn

Trade Loss (USD bn)



Identifying prospects for the exports/imports sector in Sri Lanka requires an understanding of the country's comparative advantages, global demand trends, emerging markets, trade agreements, and domestic constraints.

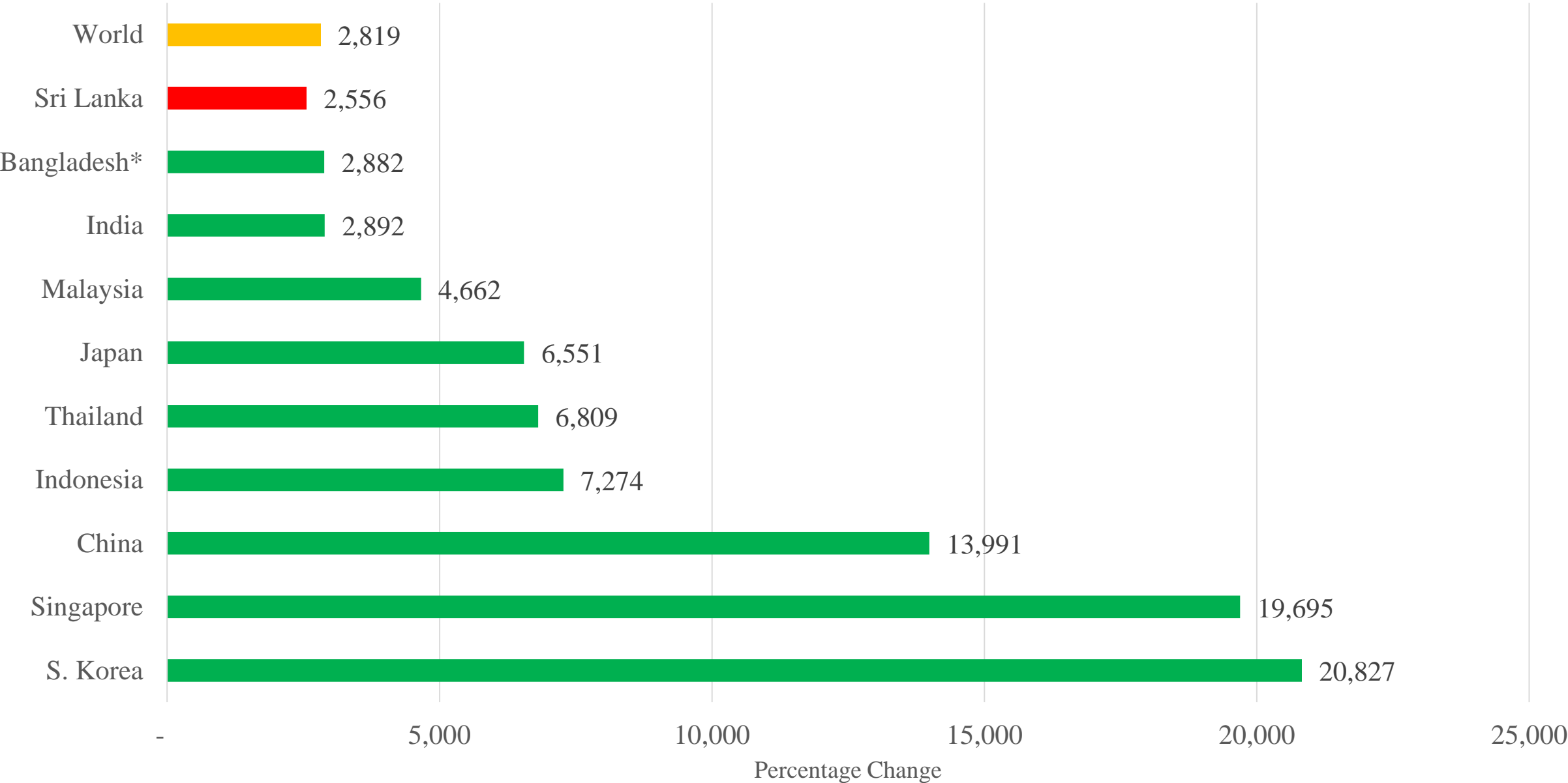
ISB Restructuring (USD/Mn)

Maturity Profile of ISBs

Before Debt Restructuring (USD/ Mn)	12,550
After Debt Restructuring (USD/ Mn)	10,588
Face value gain (USD/ Mn)	1,962
Gain %	15.63

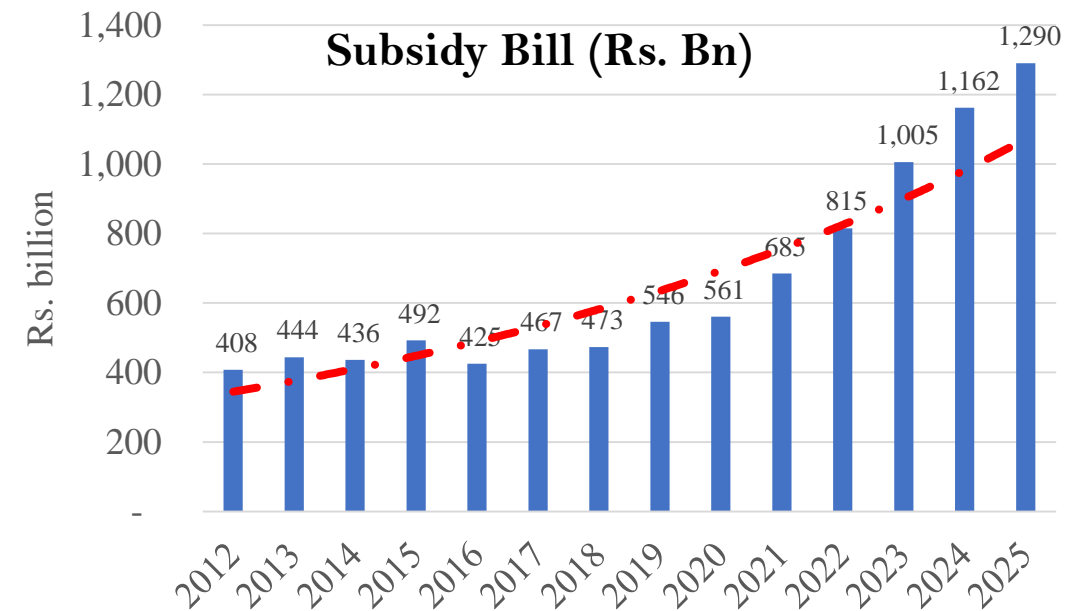
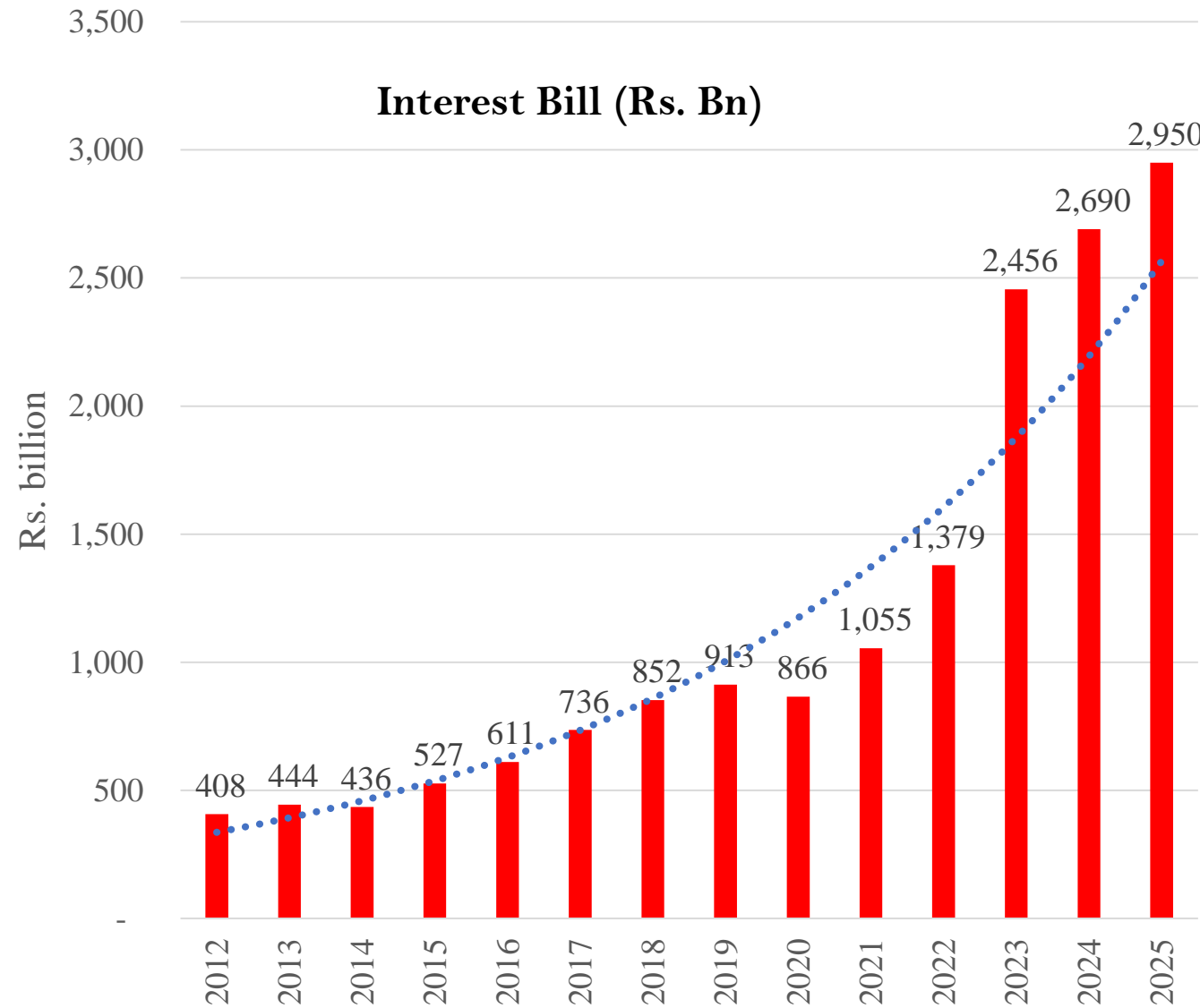


Per Capita Income Change Between 1960 and 2023 (% Change)



Recovery Process: Burden

Interest Bill and Subsidy Bill (Rs. Bn)



Projections of high foreign debt servicing requirements during 2019-2022 have drawn urgent policy attention...



*Projections are based on data as at end Sep 2017

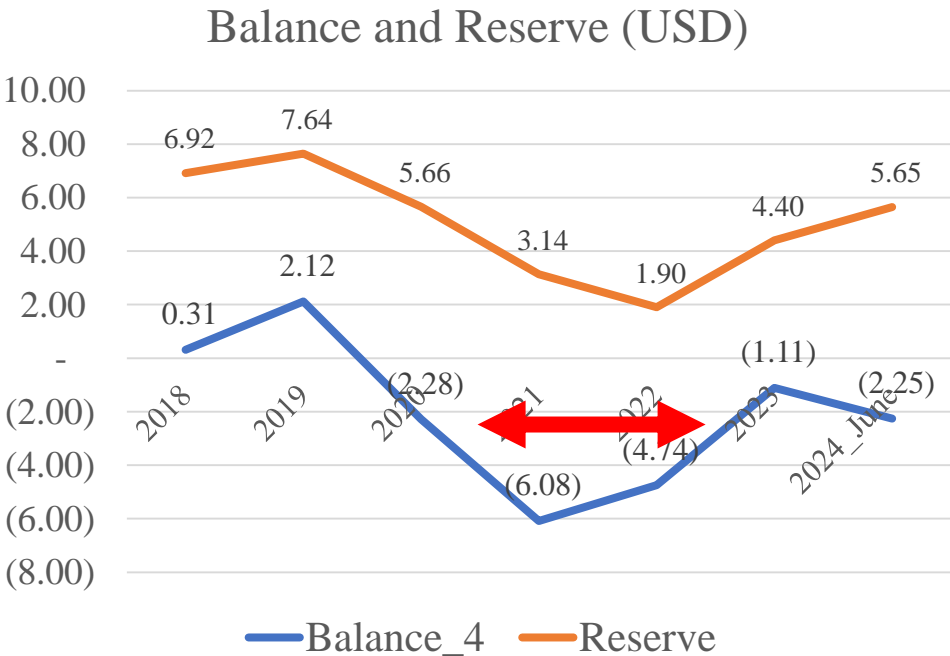
Foreign liability management becomes an immediate priority as the economy is facing the largest ever foreign debt servicing requirements, clustered during 2019-2022...

Recovery Process: Was There a Magic?

USD Reserve Crisis (USD, billion)

	Trade Balance		[1]	Other Inflow		[2]	[1+2]	Outflow [3]	[1+2+3]
Year	Exports	Imports	Balance_1	Tourism	Remittances	Receipts	Balance_2	FD Debt Repay	Balance_3
2018	11.89	22.23	-10.34	4.38	7.02	11.40	1.05	-5.87	-4.82
2019	11.94	19.94	-8.00	3.61	6.72	10.32	2.33	-5.76	-3.43
2020	10.05	16.06	-6.01	0.68	7.10	7.79	1.78	-4.60	-2.82
2021	12.50	20.64	-8.14	0.51	5.49	6.00	-2.14	-4.59	-6.73
2022	13.11	18.29	-5.18	1.14	3.79	4.93	-0.26	-2.48	-2.74
2023	11.91	16.81	-4.90	2.07	5.97	8.04	3.14	-2.59	0.55
2024	12.77	18.84	-6.07	3.17	6.57	9.74	3.67	-2.76	0.91

	[1+2+3]	Borrowing		CB Reserves	Exchange
Year	Balance_3	ISB	Balance_4		Rate
2018	-4.82	2.5	-2.32	6.92	162.54
2019	-3.43	4.4	0.97	7.64	178.78
2020	-2.82	0	-2.82	5.66	185.52
2021	-6.73	0	-6.73	3.14	198.88
2022	-2.74	0	-2.74	1.90	324.55
2023	0.55	0	0.55	4.40	327.53
2024_	0.91	0	0.91	6.06	300.00



Crisis Management: No Magic

By the end of 2022, Sri Lanka achieved natural economic equilibrium.

Key factors contributing to this included:

- Implementation of the IMF Stabilization Arrangement.
- Increased inflow of foreign currency from tourism and remittances.
- Debt default, which helped reduce the outflow of USD.

Strategies with default Reliefs and IMF EFF (USD, Billion)

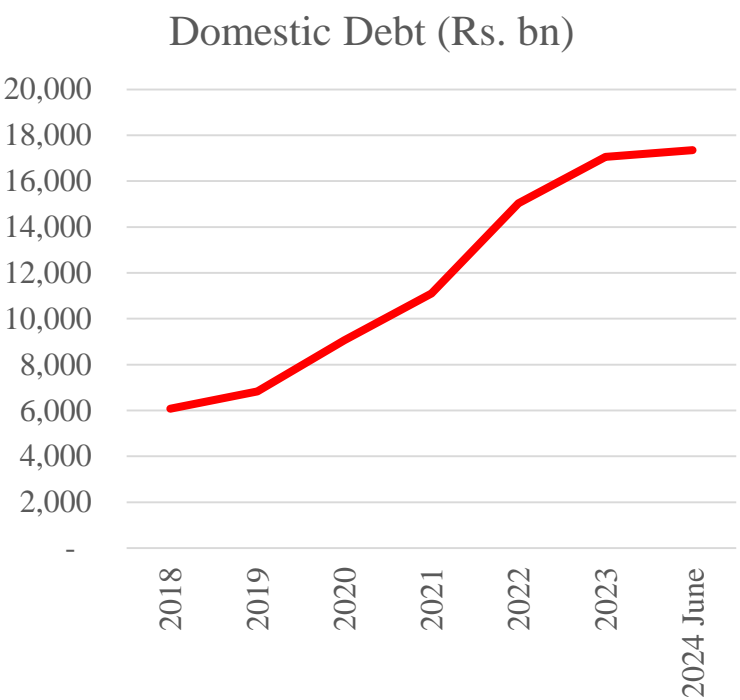
Year	Balance_4	CB Reserve	Default Relief	India+ China + IMF+WB	Recovered Surplus	Default relief is greater than the Recovered surplus
2019		7.64				
2020		5.66				
2021	-6.73	3.14				
2022	-2.74	1.89	2.50	3.00	0.26	
2023	0.55	4.40	2.50	2.00	2.55	
2024	0.91	5.65	1.50	2.00	2.84	

2022 April 12: Stopped paying foreign debt

Resulted in a surplus due to less outflow

No shortages of foreign currency

Sufficient funds are available to import essentials

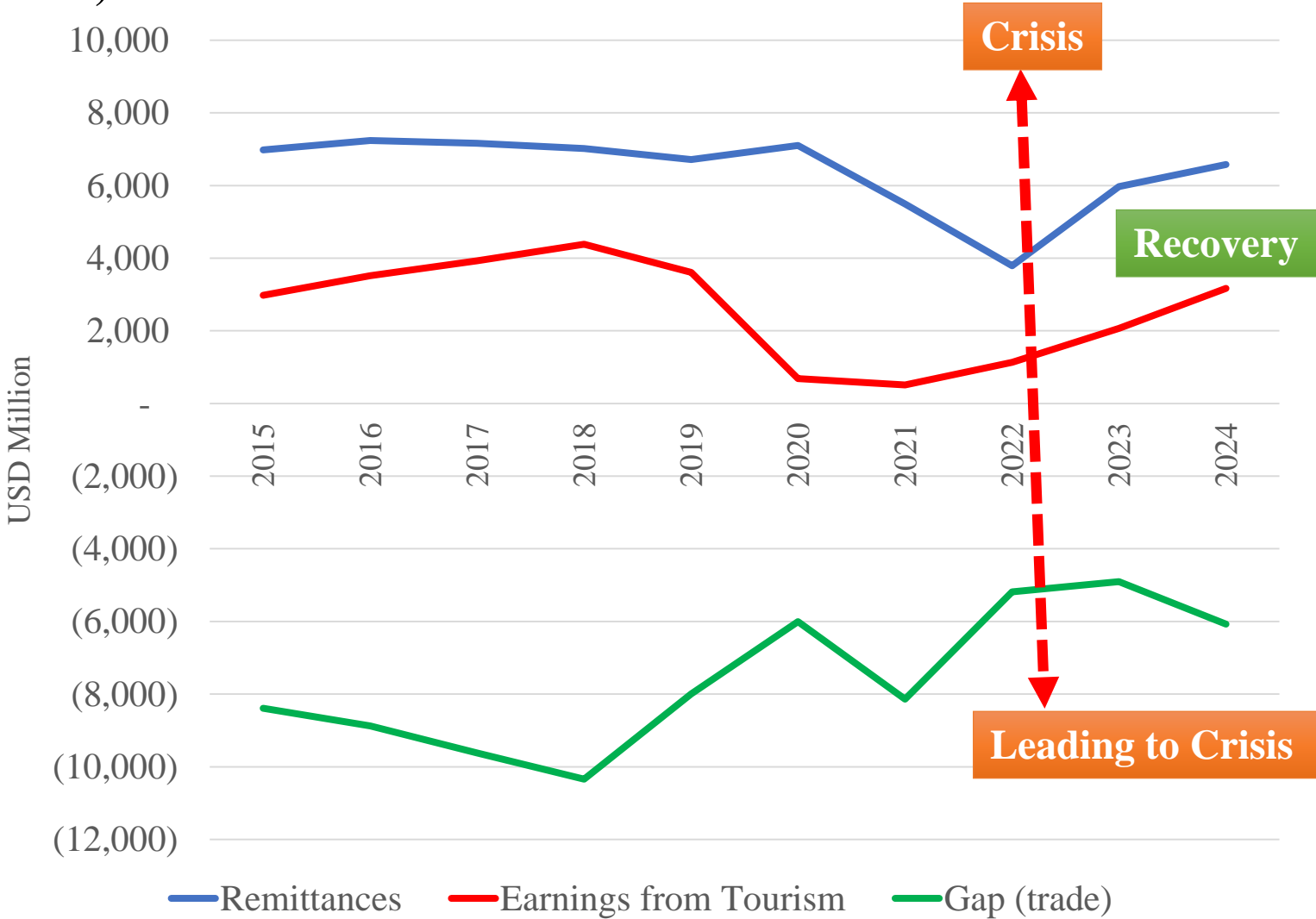


Cost of the Crisis Management (again policy failure)

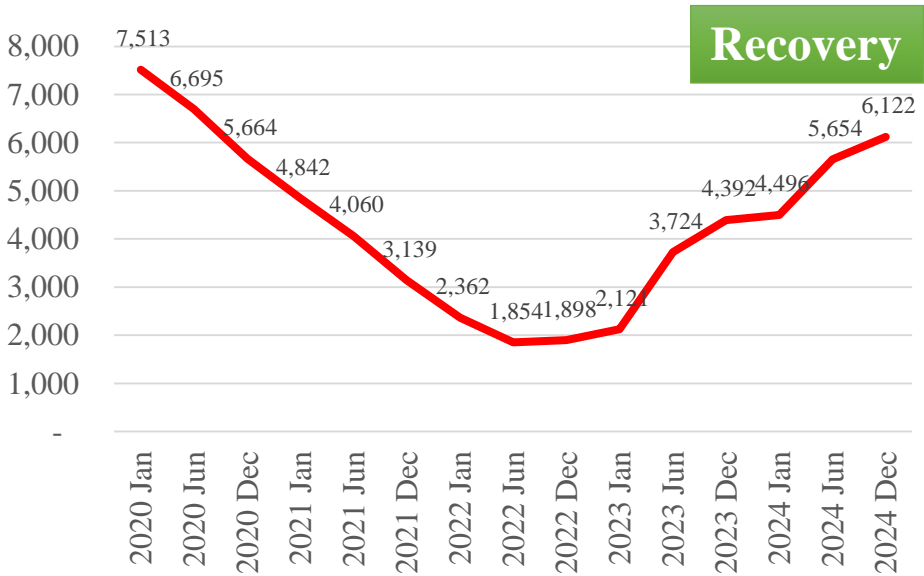
- Depreciated exchange rate (cost) + Expectation [USD 1 = 202....363..... 300]
- Increase interest rate (cost) [**2022 = Rs 1,565 bn, 2023 = Rs 2,193bn, 2024 = Rs. 2,651bn 2025 = Rs. 2,950bn**
- Increase inflation (cost) - NCPI 106 %
- Increase gov. debt (cost) - Domestic Debt 2021 = Rs. 11,097 bn , 2022 = Rs. 15,034 bn, 2024 = Rs. 17,570bn

Recovery Process: Foreign Exchange (USD Mn)

Year	Remittances	Tourism	Gap (trade)
2015	6,980	2,981	(8,388)
2016	7,242	3,518	(8,873)
2017	7,164	3,925	(9,619)
2018	7,015	4,381	(10,343)
2019	6,717	3,607	(7,997)
2020	7,104	682	(6,008)
2021	5,491	507	(8,139)
2022	3,789	1,136	(5,185)
2023	5,970	2,068	(4,900)
2024	6,575	3,169	(6,069)



Central Bank Reserves (USD Mn)



2022 March: PBOC swap equivalent to around US dollars 1.5 billion

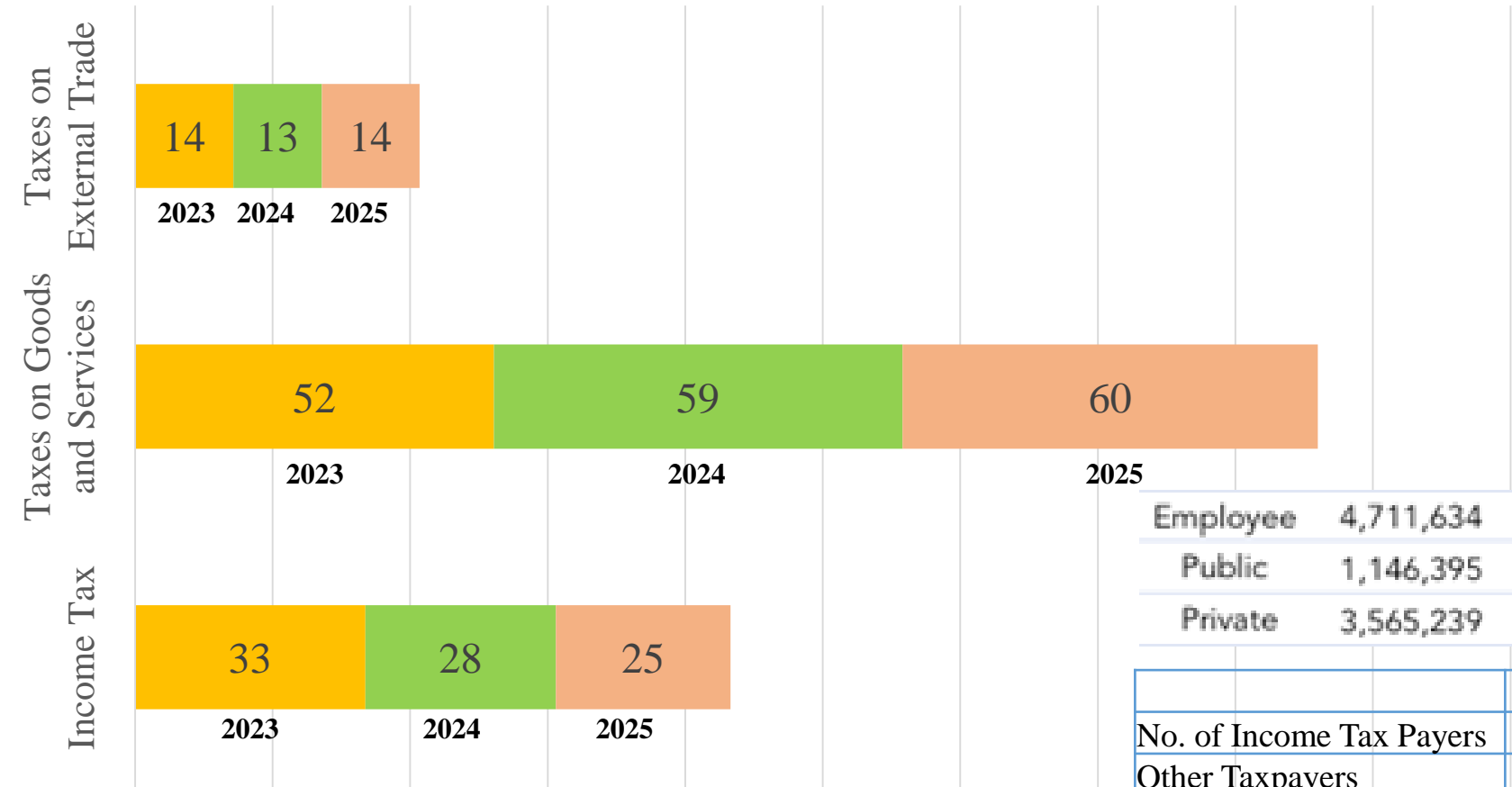
Budget Speech: Revenue Sources

Revenue target for 2025 : Rs 4,940 billion
Additional Rs. 909 billion: 97 % tax

Government Revenue (Rs. bn)

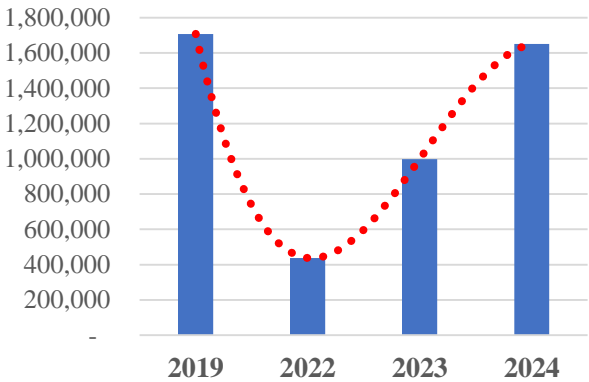
	2021	2022	2023	2024	2025
Tax Revenue	1,298	1,752	2,721	3,705	4,590
Income Tax	302	534	911	1,026	1,167
Taxes on Goods and Services	646	876	1,420	2,201	2,772
Taxes on External Trade	350	341	389	477	651

Tax Revenue Sources (% of total tax revenue)



Additional Revenue for 2025	Rs. bn
Tax Revenue	885
Income Tax	141
Taxes on Goods and Services	571
Taxes on External Trade	174
Non Tax Revenue	44

Number of Tax Payers



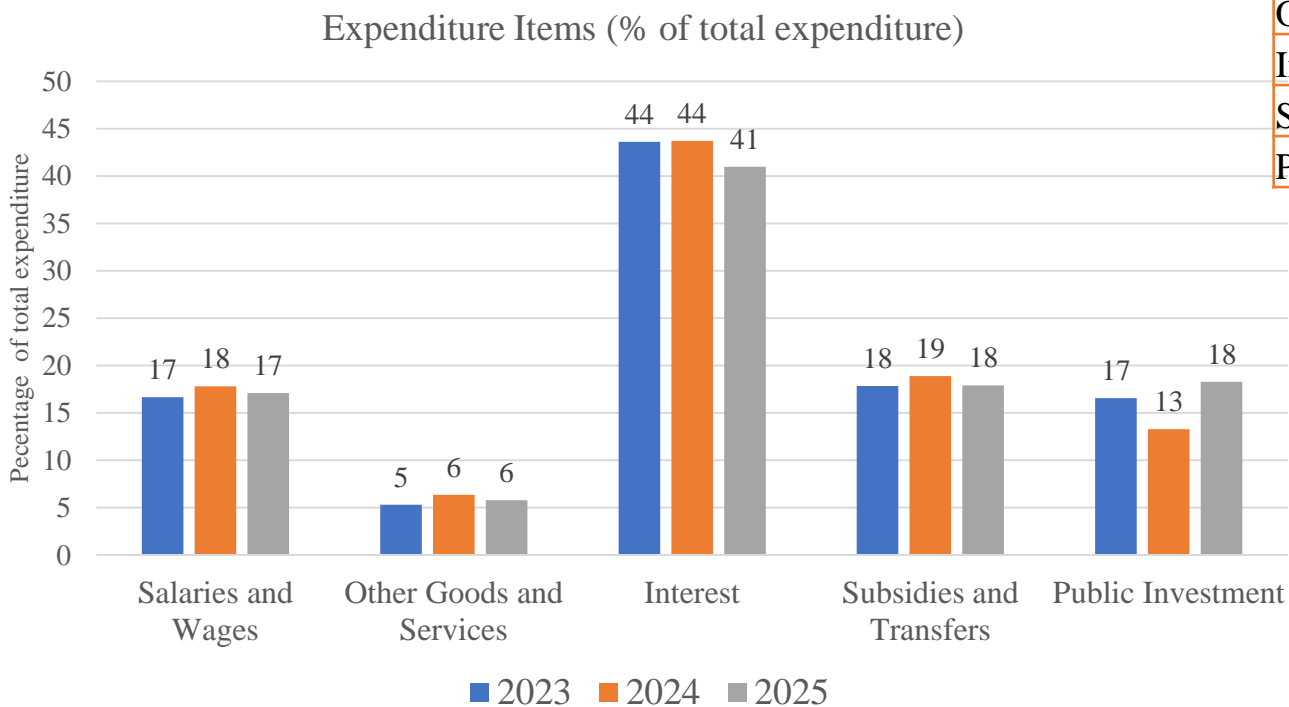
APIT Tax:
242,679
5.15 %

Employee	4,711,634
Public	1,146,395
Private	3,565,239

	2019	2022	2023	2024
No. of Income Tax Payers	1,505,552	333,313	879,778	1,530,000
Other Taxpayers	199,681	104,234	118,080	120,000
Total	1,707,252	437,547	997,858	1,650,000

Budget Speech: Expenditure and Deficits

Expenditure target for 2025 : Rs 7,190 billion
Additional Rs. 1059 billion: 52 % recurrent expenditure

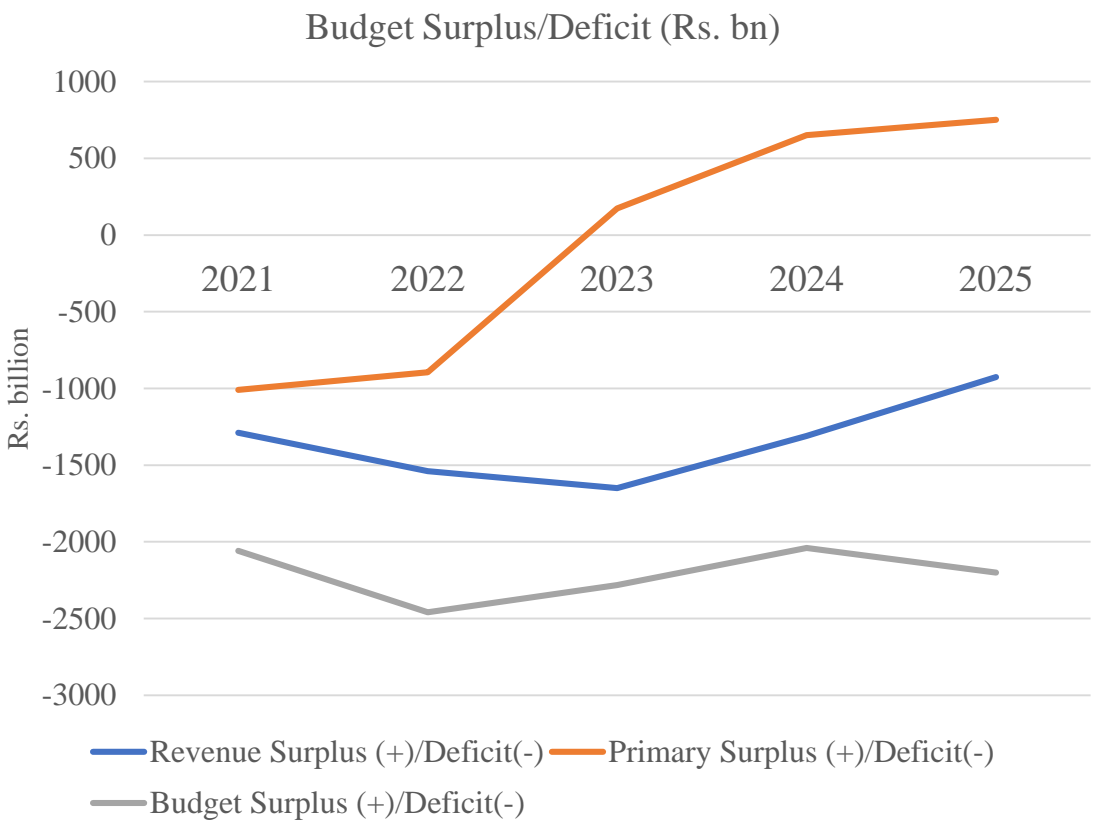


Expenditure as a % of Revenue

Item	2025	2024
Interest	59.72	66.73
Public Investment	26.62	20.27
Subsidies and Transfers	26.11	28.83
Salaries and Wages	24.90	27.19
Other Goods and Services	8.42	9.72

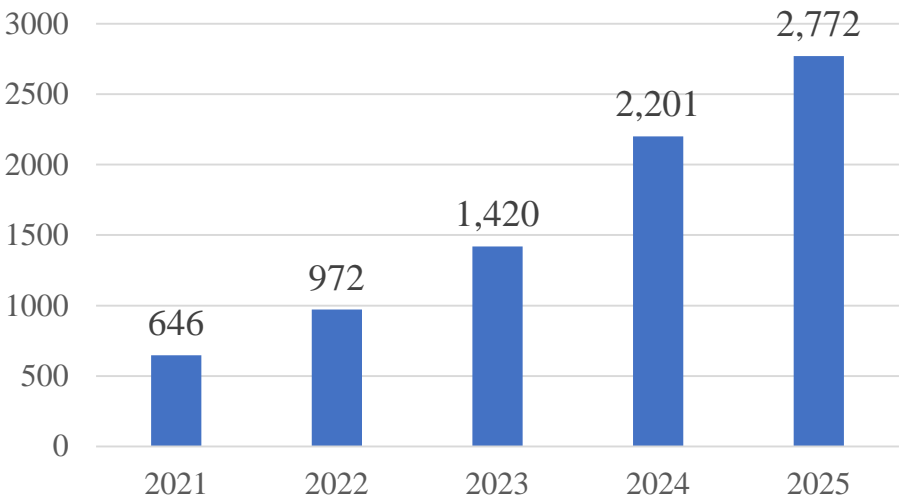
Government Expenditure (Rs. bn)

	2021	2022	2023	2024	2025
Total Expenditure	3,522	4,473	5,357	6,131	7,190
Salaries and Wages	846	956	939	1,096	1,230
Other Goods and Services	169	183	300	392	416
Interest	1,048	1,565	2,656	2,690	2,950
Subsidies and Transfers	685	815	1,005	1,162	1,290
Public Investment	719	953	933	817	1,315

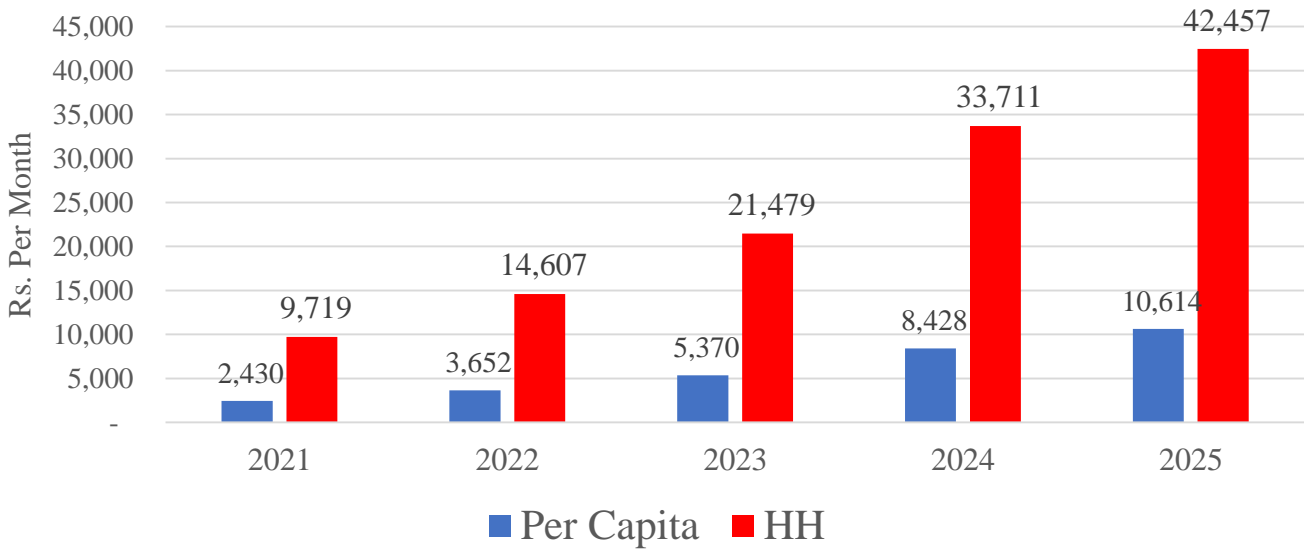


Taxes on Goods and Services

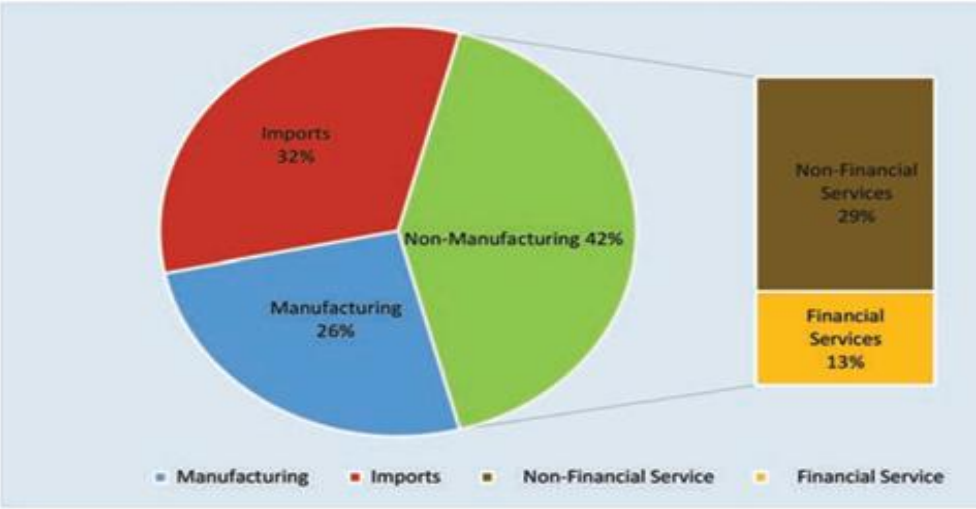
Revenue (Rs. bn)



Four Members Family VAT Burden: Rs./ per month



Sector Wise Value Added Tax Collection



How To Reduce VAT 18 % to 10 % and generate similar Revenue...?

Rs.billion	2024
Total Value Added in the country	29,898
VAT (18 %)	2,201
VAT Coverage (40 %)	12,228
	Simple Solution
If Coverage (74 %)	22,010
VAT (10 %)	2,201

Source: Inland Revenue Department

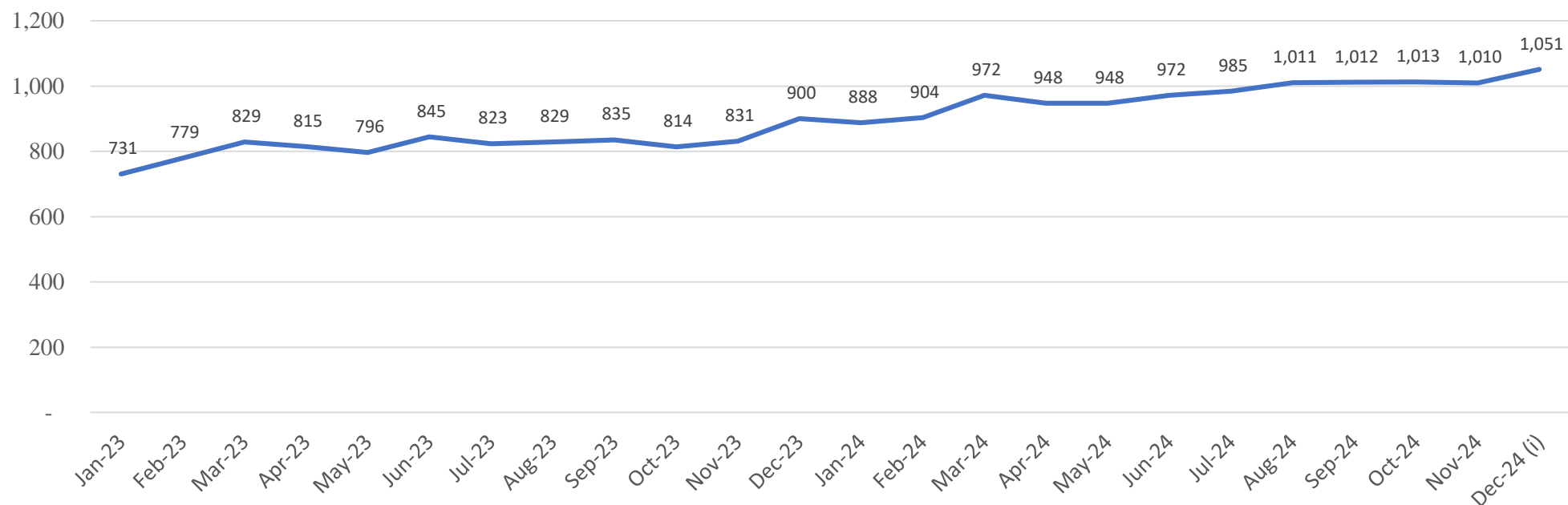


Price of the Market Basket

2021 (Rs.)	50,728
2025 April. (Rs.)	104,755

106.5 %
increase

Currency held by Public (Rs. Bn)



Rankings on Doing Business topics - Sri Lanka

