KPMG

KPMG 2027 Budget Analysis

Sri Lanka: Economic and Sector Outlook



Momentum for Transformative Growth

Table of Contents

Economic Analysis 04

- Sri Lanka's economy 05
- The next phase 13
- Economy transformation at a glance 16

Industry Analysis 18

- Banking industry 19
- Energy sector 27
- Agriculture 33
- Digital 41
- Hospitality 47
- Real estate and construction 51

About KPMG in Sri Lanka 55



© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426
Fax +94 - 11 244 5872
+94 - 11 244 6058
Internet www.kpmg.com/lk

12 November 2026

For the clients of KPMG in Sri Lanka

Sri Lanka's 2027 National Budget will be presented on 12 November 2026, at a defining stage in the country's post crisis economic recovery.

Following the sovereign default and economic crisis of 2022, a period of difficult reforms and adjustment has helped Sri Lanka restore macroeconomic stability, rebuild key buffers and return to growth. The country now stands at an important juncture: translating this hard won stability into sustainable growth while navigating renewed external headwinds.

Against this backdrop, Sri Lanka: Economic & Sector Outlook examines the country's economic journey since 2022, the foundations of its recovery and the factors shaping the outlook ahead. The publication also assesses selected key sectors of the economy, considering their resilience through the post crisis period, their current position, and the opportunities and challenges likely to shape their performance going forward.

Chartered Accountants

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

T. J. S. Rajakarier FCA
W. K. D. C. Abeyrathne FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R. G. H. Raddella ACA
W. W. J. C. Perera FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A.M.R.P. Alahakoon ACA
H.U.S.T Dayananda FCA
Ms. S. Joseph FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

Principals: S.R.I. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R Ziyard ACA, FCMA (UK), FCIT, K. Somasundaram ACMA (UK), Ms. D Corea Dharmaratne

KPMG

KPMG 2027 Budget Analysis

Economic Analysis

Economic Analysis

- Sri Lanka's economy
- The next phase
- Economy at a glance

Industry Analysis

- Banking industry
- Energy sector
- Agriculture
- Digital
- Hospitality
- Real estate and Construction

About KPMG in Sri Lanka



Momentum for Transformative Growth

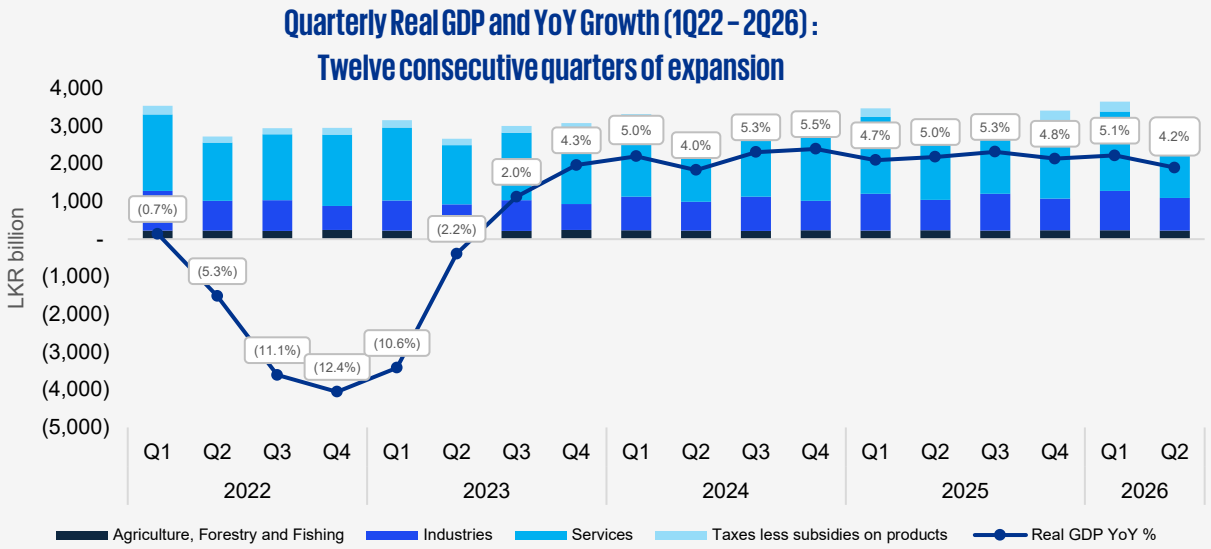
Sri Lanka's Economy: Hard won stability, growth tested by external headwinds

Restoring stability after the crisis

At the height of the 2022 crisis, the shortage of foreign exchange disrupted access to fuel and other essential imports, while rapid increases in prices eroded household purchasing power. Restoring price stability was an immediate priority. The Central Bank of Sri Lanka ("CBSL") raised its policy rates by 700 basis points in Apr-2022; taking the standing deposit and lending facility rates to 13.5% and 14.5%, respectively. Further tightening brought these rates to 15.5% and 16.5% by Mar-2023. Monetary tightening, fiscal restraint, improved supplies and favorable base effects helped bring Colombo headline inflation down from 69.8% in Sep-2022 to 6.3% in Jul-2023.

The Government's tax reforms and the International Monetary Fund ("IMF") supported programme helped put public finances on a firmer footing. As foreign exchange availability improved, businesses could obtain imported inputs more reliably, plan production and rebuild inventories. In Mar-2023, CBSL discontinued its daily exchange rate guidance, allowing greater flexibility in the rupee. As inflation eased, lower interest rates also improved financing conditions. The one-year Treasury bill yield, a benchmark for domestic borrowing costs, fell from 29.3% at end 2022 to 9.0% at end 2024.

Real Gross Domestic Product ("GDP") grew Year on Year ("YoY") by 5.0% in both 2024 and 2025, partly reflecting the recovery of output lost during the crisis. The rebound also supported public finances, as stronger business turnover and household spending lifted income and consumption tax receipts, while recovering imports increased revenue from import related taxes. These gains reinforced the effects of tax reforms and improved compliance.



Sources: CBSL, Department of Census and Statistics ("DCS"), IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Stronger fiscal consolidation gave space for the government to respond better

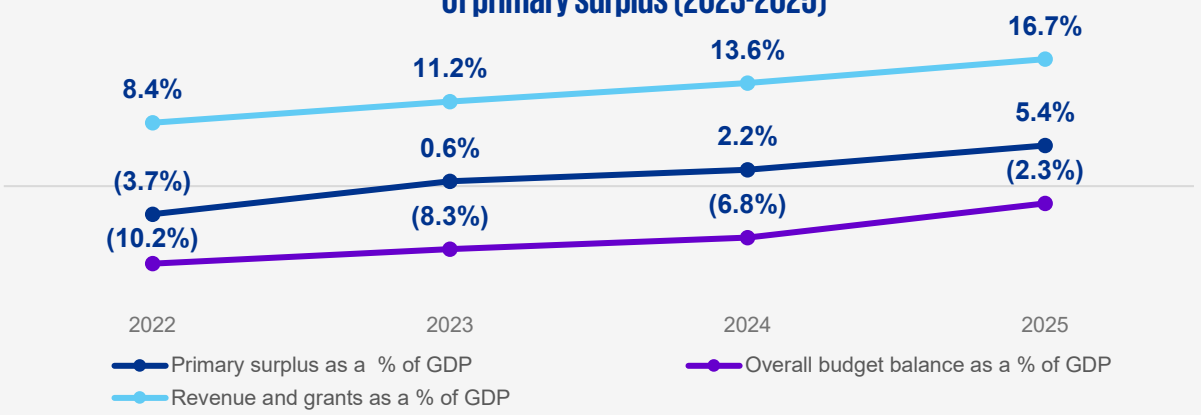
Successive reforms broadened tax coverage and raised collections from a historically low base. The standard Value Added Tax ("VAT") rate rose to 18.0% in Jan-2024, while the annual VAT registration threshold fell from LKR 80.0 million to LKR 60.0 million. The Social Security Contribution Levy ("SSCL"), introduced at 2.5% in Oct-2022, also reached more businesses following a reduction in its registration threshold. Personal income tax reforms initially reduced annual relief from LKR 3.0 million to LKR 1.2 million, before a partial restoration to LKR 1.8 million in Apr-2025. Wider taxpayer registration and reporting requirements complemented these measures by expanding the reach of revenue administration.

Tax revenue rose from approximately LKR 1.8 trillion, or 7.3% of GDP, in 2022 to LKR 5.1 trillion, or 15.4% of GDP, in 2025. The increase reflected both policy changes and the recovery in demand. Vehicle related taxes provided a particularly strong contribution when imports reopened after several years of restrictions.

The distinction between structural and temporary improvements matters for the durability of the fiscal position. Broader VAT coverage, a wider tax base, stronger administration and cost recovery pricing can support recurring fiscal improvement. In contrast, the initial surge in vehicle duties partly reflected pent up demand, while lower than planned capital spending also strengthened the near term fiscal outturn.

In 2025, the primary surplus reached 5.4% of GDP, its third consecutive year in positive territory. The historical comparison puts this achievement in perspective: Sri Lanka recorded a primary surplus in only five years between 1950 and 2022, in 1954, 1955, 1992, 2017 and 2018. Even after interest expenditure, the overall deficit narrowed from 10.2% of GDP in 2022 to 2.3% in 2025. The exceptional size of the 2025 surplus should therefore be distinguished from the more durable improvement in the underlying fiscal framework. In upgrading Sri Lanka's sovereign rating to 'B−' with a Stable Outlook, Fitch forecast the primary surplus to moderate to 2.6% of GDP in 2026, while continuing to expect a declining Debt to GDP ratio.

Revenue and Fiscal Balances (% of GDP) (2022-2025): Three consecutive years of primary surplus (2023-2025)



Sources: CBSL, Inland Revenue Department ("IRD"), KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

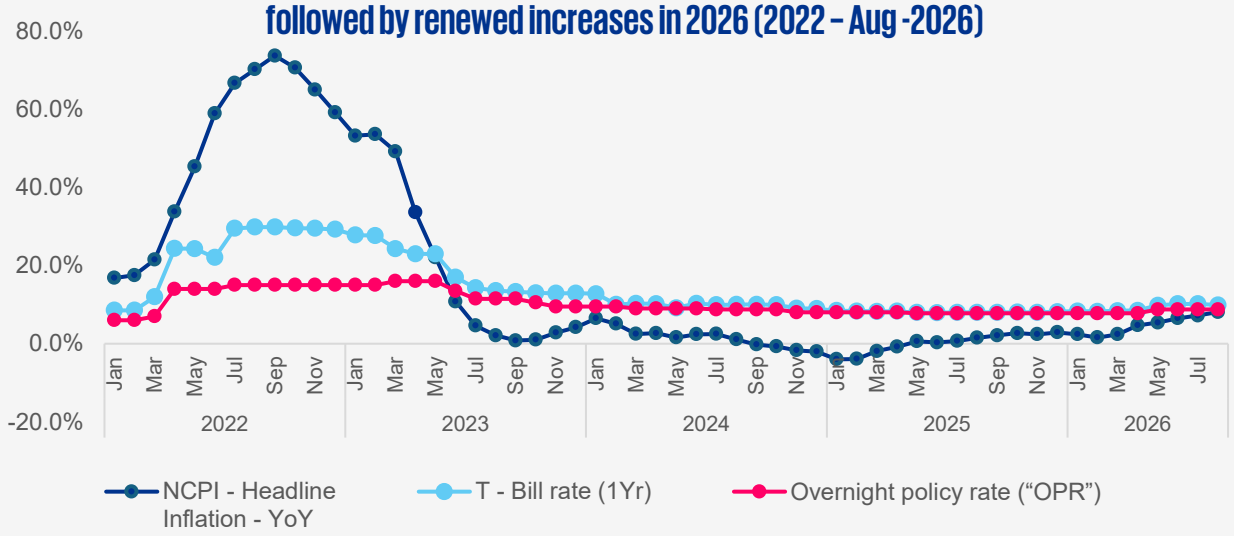
The fiscal turnaround nevertheless gave the Government greater capacity to respond when economic and humanitarian conditions deteriorated.

Lower borrowing costs supported public and private financing

A smaller deficit reduced the Government's need for additional financing, although it still had to refinance maturing debt. Domestic sources provided most of the net financing of the 2025 deficit. With market yields well below crisis era levels, the Treasury could issue and refinance debt on more favorable terms; the benefit to the overall bill accrues progressively as existing debt matures.

Lower lending rates also supported private activity. Credit extended by licensed commercial banks to the private sector grew YoY by 25.2% in 2025, compared with 10.7% YoY growth in 2024. Businesses gained access to working capital and households could bring forward purchases previously deferred. Vehicle imports illustrate the tension that followed: their resumption lifted tax receipts but meeting that demand also required foreign exchange.

Inflation, Policy Rates and Treasury Bill Yields: Sharp declines from crisis peaks, followed by renewed increases in 2026 (2022 – Aug -2026)



Note: The current OPR framework was introduced by CBSL on 27-Nov-2024. Prior to this date, the average of the Standing Deposit Facility Rate ("SDFR") and Standing Lending Facility Rate ("SLFR") has been used as a proxy for OPR.

Stronger foreign exchange inflows supported reserve rebuilding and exchange rate stability

Sri Lanka's external adjustment initially came at a substantial economic cost. In 2022, foreign exchange shortages and import restrictions constrained access to essential supplies and productive inputs. Merchandise imports fell from USD 20.6 billion in 2021 to USD 18.3 billion, while merchandise exports increased from USD 12.5 billion to USD 13.1 billion. Together, higher exports and lower imports narrowed the trade deficit from approximately USD 8.1 billion to USD 5.2 billion. However, the reduction in imports partly reflected shortages of foreign exchange and weaker domestic demand during the crisis. The current account remained in deficit, at approximately USD 1.4 billion.

Sources: CBSL, KPMG analysis

KPMG

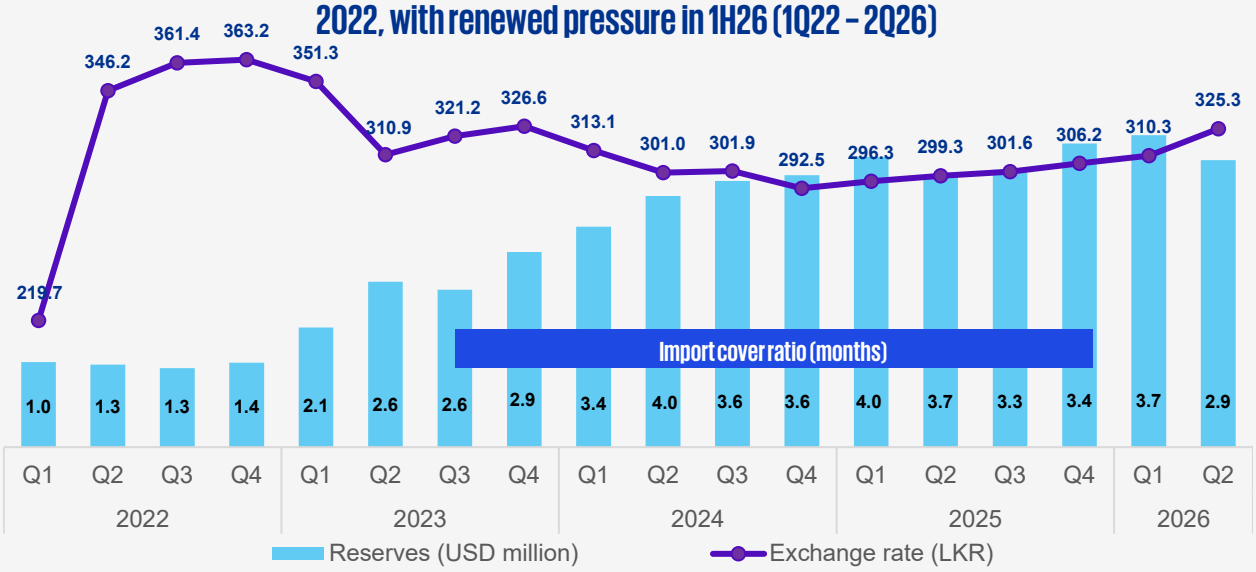
© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The subsequent improvement was supported by recovering foreign exchange earnings. Workers' remittances increased from approximately USD 3.8 billion in 2022 to USD 8.1 billion in 2025, while services, including tourism, transport and Information Technology ("IT")/Business Process Outsource ("BPO"), generated a net surplus of USD 3.8 billion in 2025. These inflows helped offset the merchandise trade deficit and primary income outflows, enabling annual current account surpluses from 2023 onwards. Tourism receipts, however, grew only modestly in 2025 despite stronger arrivals, partly reflecting revised estimates of daily expenditure and duration of stay.

As foreign exchange availability and financing conditions improved, recovering consumption and investment increased import demand. Merchandise imports reached USD 21.5 billion in 2025, including USD 2.1 billion in personal and commercial vehicles following the reopening of imports. Merchandise exports reached USD 13.6 billion, leaving a trade deficit of USD 7.9 billion. Nevertheless, remittances and the services surplus helped sustain a USD 1.7 billion current account surplus. The recovery therefore became better supported by external inflows, although merchandise export growth remained modest relative to the increase in import demand.

Improved foreign exchange liquidity also enabled CBSL to purchase dollars from the domestic market. Alongside multilateral financing and temporary debt service relief during restructuring, this supported gross official reserves rising from approximately USD 1.9 billion at end 2022 to USD 6.8 billion at end 2025.

Reserves, Exchange Rate and Import Cover: Stronger external buffers since 2022, with renewed pressure in 1H26 (1Q22 – 2Q26)



^Includes approximately USD 1.5 billion relating to the PBoC swap.

The rebuilding materially strengthened Sri Lanka's external liquidity buffer, although gross official reserves should not be interpreted as an equivalent amount of freely deployable resources. Reserve adequacy also depends on import requirements, the timing of foreign currency repayment obligations and the usable composition of reserves, including conditions attached to the People's Bank of China swap.

Sources: CBSL, KPMG analysis

KPMG

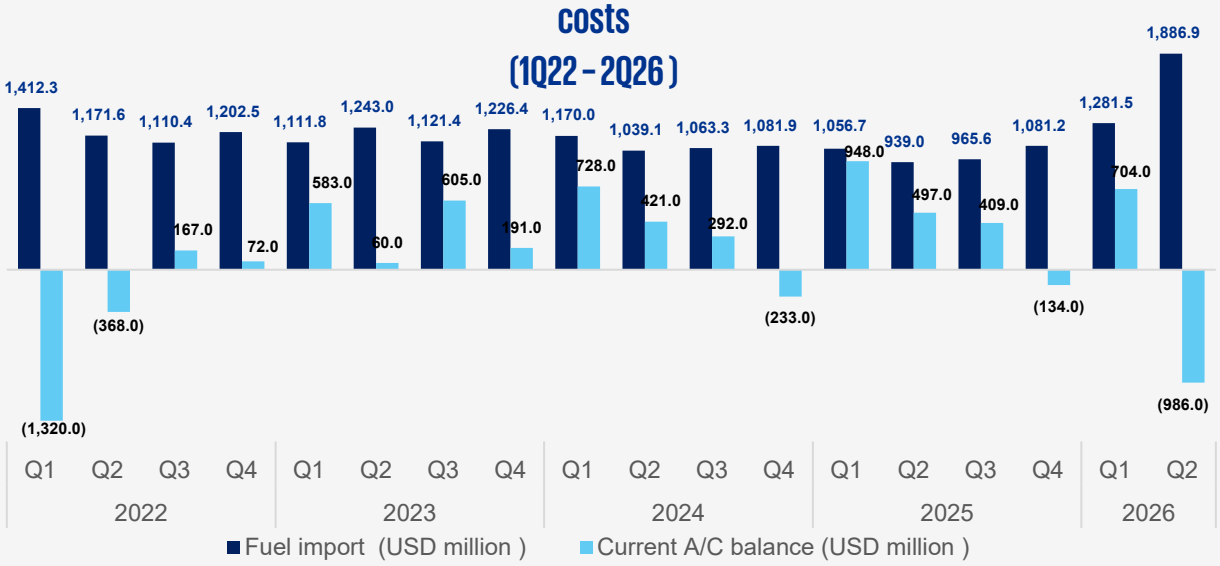
© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The external shock put renewed pressure on the current account

The Middle East conflict changed the composition of Sri Lanka's import pressures. During Jan-Sep 2026, the fuel bill rose by 51.5% YoY to USD 4.5 billion, USD 1.5 billion more than a year earlier.

At the same time, the services surplus narrowed. Despite remittances of USD 6.9 billion over the nine months, the current account moved from a USD 1.9 billion surplus in the corresponding period of 2025 to a USD 420.4 million deficit. A temporary surplus in Aug-2026 gave way to a USD 128.4 million deficit in Sep-2026.

Fuel Imports and the Current Account: External gains tested by rising energy costs (1Q22 – 2Q26)



The authorities responded on both sides of the foreign exchange market. In May-2026, the Government imposed a 50.0% surcharge on the existing 30.0% customs import duty on vehicles to moderate demand. In Jun-2026, CBSL shortened the period for exporters to convert residual export proceeds into rupees after permitted foreign currency payments. Exchange rate flexibility also allowed the rupee to absorb part of the adjustment, although depreciation raised the domestic cost of imports.

Gross official reserves remained around USD 6.9 billion during the third quarter of 2026, with the IMF reporting a similar level at end August 2026. The IMF noted that the economy had otherwise proved resilient, while highlighting the Middle East conflict as an important downside risk. The protection offered by the reserve buffer therefore needs to be considered alongside the size and timing of Sri Lanka's foreign currency repayment obligations.

Sources: CBSL, IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Debt restructuring eased near term financing pressures

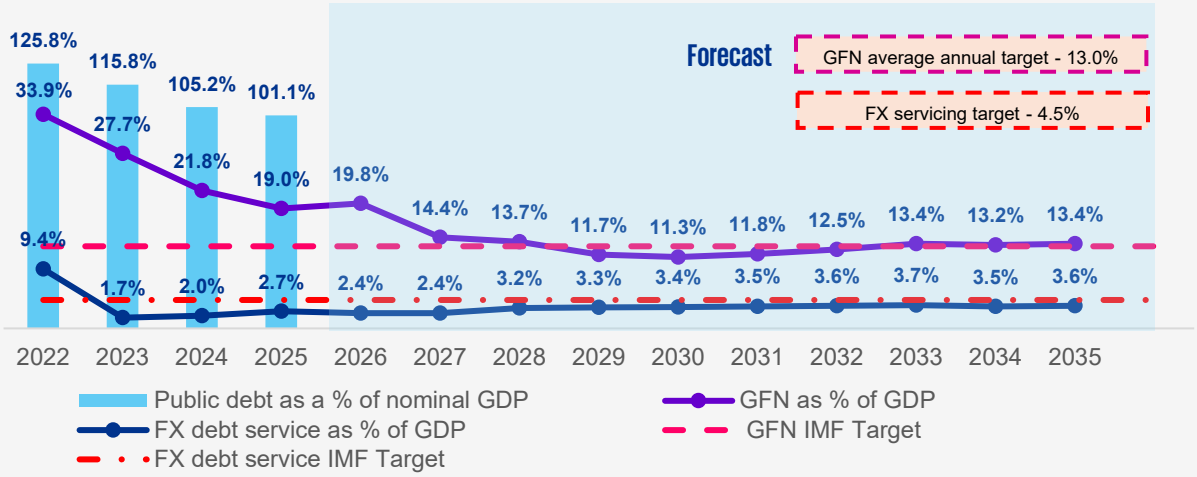
Debt restructuring eased near term repayment pressures, while stronger primary balances reduced the need for new borrowing. By the Aug-2026 investor update, Sri Lanka had agreed restructuring terms with just under 99.0% of external creditors, with over 94.0% of the restructuring implemented.

Under the IMF's public debt definition, debt declined from 125.8% of GDP in 2022 to 101.1% in 2025, with its May-2026 baseline projecting a further decline to 100.1% in 2026. However, central government gross financing needs are projected to rise moderately from 19.0% of GDP in 2025 to 19.8% in 2026, indicating that financing requirements remain elevated despite the improvement in the overall debt ratio.

Part of the improvement in these ratios comes from growth in nominal GDP: debt can decline relative to the economy without falling in rupee terms. There are also countervailing effects. Rupee depreciation raises the domestic value of foreign currency debt, while stronger United States ("US") dollar GDP can trigger higher payments on Sri Lanka's restructured macro linked bonds.

The IMF programme provides three benchmarks for assessing medium term debt sustainability: public debt below 95.0% of GDP by 2032; average annual central government gross financing needs ("GFN") below 13.0% of GDP over 2027-2032; and foreign currency debt service below 4.5% of GDP in each year over the same period. The IMF's May-2026 assessment projected that Sri Lanka would meet these thresholds, conditional on continued reform and implementation of the restructuring strategy. Repayments are already underway, with scheduled external debt service obligations stepping up from 2028.

Public debt and Financing needs: Progress towards the IMF's debt sustainability targets (2022A-2035F)



Sources: CBSL, IMF, KPMG analysis

KPMG

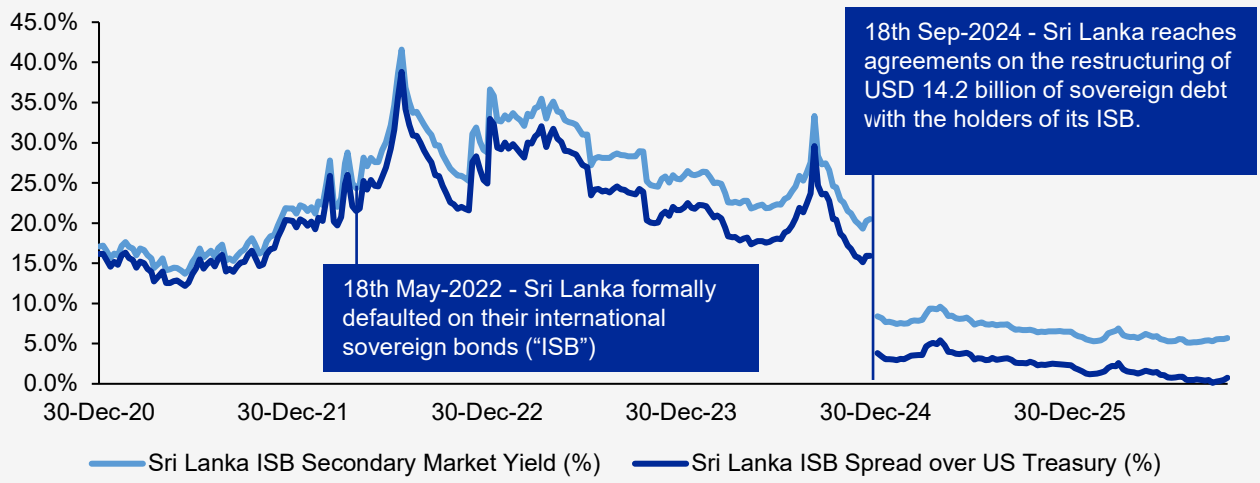
© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

A declining Debt to GDP ratio does not by itself eliminate refinancing and liquidity risks. Sri Lanka must continue generating sufficient fiscal resources and foreign exchange earnings to meet rising debt service requirements as the benefits of the restructuring period gradually unwind.

Reforms improved Creditworthiness and Investor Perceptions

The Dec-2024 international sovereign bond exchange marked the first rating milestone: following its completion, Fitch raised Sri Lanka's long term foreign currency rating from Restricted Default to CCC+. Secondary market prices also reflected a reassessment of risk. IMF analysis reported a weighted average spread of around 1,900 basis points on Sri Lanka's sovereign bonds immediately before the exchange; by mid Jan-2025, the spread on the restructured US dollar governance linked bond due in 2035 was approximately 520 basis points. Because the comparison involves different instruments, it illustrates how investors priced the restructured debt rather than a fall in the borrowing cost on an unchanged bond.

Sovereign Yields and Spreads: From Default distress to improving investor confidence (Dec-'2020 – Oct-2026)



Fitch subsequently upgraded Sri Lanka to B− with a Stable Outlook on 22-Sep-2026, citing the implementation of macro stabilization policies and structural reforms, stronger fiscal and external balances and the rebuilding of foreign exchange reserves.

The rating remains speculative and three notches below the BB− level Sri Lanka held from 2011 to early 2016. The improvement nevertheless marks a material shift from default. The remaining vulnerability lies in the relationship between debt service and the economy's capacity to generate foreign exchange, particularly when an external shock raises the import bill at the same time that the Government faces additional domestic spending requirements.

Sources: CBSL, Fitch ratings, IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Successive shocks tested Sri Lanka's capacity to respond

Cyclone Ditwah in Nov-2025 tested whether the fiscal room rebuilt since 2022 could translate into practical support. The World Bank estimated direct physical damage at USD 4.1 billion. All 25 districts were affected, although damage was particularly severe in the Central Province. Stronger than expected fiscal performance gave the Government room to fund relief and reconstruction, supplemented by external assistance, including USD 206.0 million in IMF emergency financing. Restoring roads and essential services helped businesses resume activity and households regain access to markets.

Reconstruction spending can support near term growth and restore productive capacity, although much of it is directed towards replacing assets and infrastructure that were lost rather than adding to national wealth.

From reconstruction costs to higher energy costs

While reconstruction was underway, the Middle East crisis confronted Sri Lanka with a more persistent cost: a higher price for the energy needed to sustain everyday activity. Higher fuel and transport prices passed part of that cost to households and businesses. Temporary support measures shifted part of the burden to the Budget, while additional Aswesuma assistance targeted households less able to absorb higher living costs.

CBSL raised its policy rate by 100 basis points to 8.8% in May-2026 as energy costs and exchange rate pressures threatened to feed into broader price increases. Tighter monetary conditions sought to limit the persistence of inflation while increasing financing costs for borrowers. Fertilizer supply pressures and weaker hydropower generation associated with El Niño added to the pressure on agricultural production, electricity costs and foreign exchange demand.

Activity nevertheless continued to expand. Real GDP grew by 4.2% YoY in the second quarter of 2026, with industry expanding by 7.3% and services by 2.7%, while agriculture contracted by 2.3%. The IMF subsequently noted that the second quarter result represented a twelfth consecutive quarter of growth, describing the economy as resilient despite successive shocks.

The expansion therefore continued, but its composition showed that the recovery was not uniform across sectors.

Sources: CBSL, World bank, IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The Next Phase: Pursuing growth without compromising stability

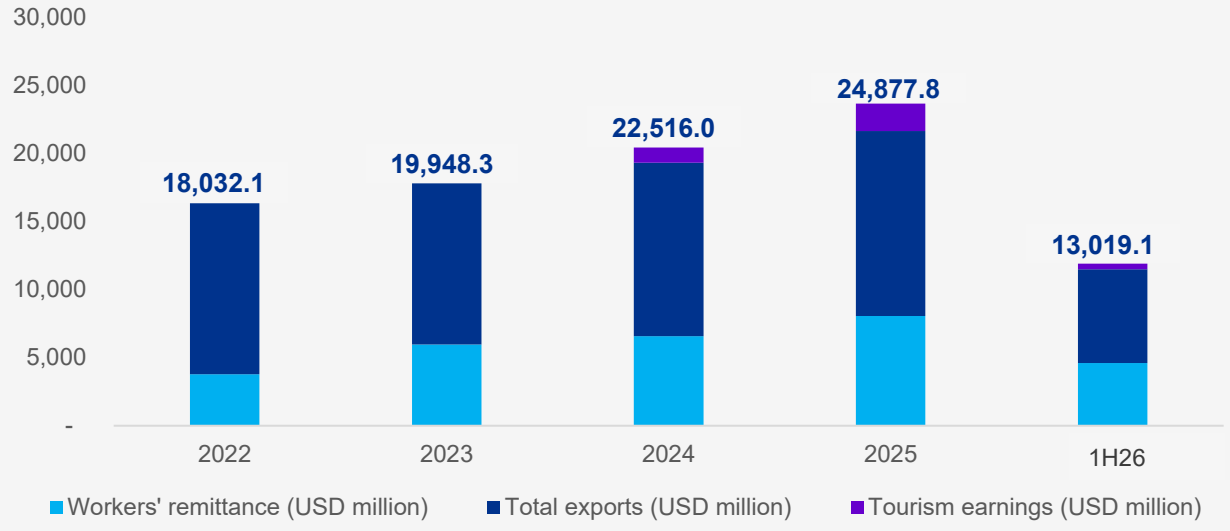
Stronger foundations, renewed pressures

Sri Lanka enters the next phase on a considerably stronger macroeconomic footing than in 2022. Fiscal consolidation, restored monetary stability, reserve rebuilding and debt restructuring have strengthened its capacity to manage disruption. The experience of 2025 and 2026 also demonstrates, however, that stronger buffers do not eliminate Sri Lanka's exposure to external events.

We expect growth to moderate as elevated operating costs, and tighter financing conditions weigh on investment and household spending. Persistent inflation pressures could compress business margins and generate demands for wage adjustments. Inflation should ease over time as the immediate effects of energy and currency pressures fade, although the pace of moderation will depend on global energy prices, domestic supply conditions and the extent to which second round effects remain contained.

External conditions remain the principal source of uncertainty. If elevated energy costs and travel disruptions persist, the current account may remain under pressure, and the tourism peak season may provide less support than otherwise anticipated. Remittances remain an important cushion, but dependence on imported fuel, a narrow export base and exposure to Middle Eastern employment and transport links continue to leave foreign exchange flows vulnerable to external shocks.

Sources of Foreign Exchange: Resilient inflows remain exposed to external headwinds (2022 – 1H26)



Sources: CBSL, Department of Census and Statistics ("DCS"), IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Preserving fiscal space and enabling investment

Against this backdrop, we expect the Government to maintain the broad direction of fiscal consolidation through a wider tax base, stronger administration and improved expenditure efficiency. Continuity in the overall revenue framework, combined with selective rather than broad based relief, would help preserve the gains made since 2022. With many of the easier tax policy gains already realized, the next phase of revenue mobilization should increasingly focus on broadening the tax base, strengthening compliance and improving administration rather than relying primarily on further increases in statutory tax rates.

Assistance to vulnerable households should remain targeted, transparent and time bound. Restructuring loss making State Owned Enterprises ("SOE") and, where appropriate, transparently disposing of non-strategic state owned businesses could further strengthen public finances by reducing recurring fiscal losses, contingent liabilities and future claims on Government resources. The more important objective is therefore not the immediate sale proceeds, but reducing the continuing fiscal burden of activities that the State does not need to own.

Financing constraints and implementation bottlenecks create a risk that the full year capital allocation may again be under executed. Prioritizing projects with strong economic returns and improving implementation will matter alongside the size of budgetary allocations. Private investment will need to play a larger role in sustaining growth, supported by predictable policy, fair competition, transparent resource allocation and reliable infrastructure. These are areas where domestic decisions can materially improve the outlook despite a difficult external environment.

Sustaining reform through continued IMF engagement

In Oct-2026, the IMF and Sri Lankan authorities reached staff level agreement on policies required to complete the Seventh Review of the EFF. Executive Board completion remains subject to presentation of a 2027 Budget consistent with programme parameters and completion of the financing assurances review. Upon Board approval, Sri Lanka would gain access to approximately USD 345.0 million, bringing total disbursements under the arrangement to around USD 2.7 billion.

We expect Sri Lanka to complete the current IMF supported programme in 2027, subject to continued implementation of the remaining reform commitments. Completion would itself be significant given Sri Lanka's mixed history of completing IMF supported programmes.

Sources: CBSL, IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Continued engagement with the IMF beyond the current programme could also be valuable as Sri Lanka moves towards a more demanding phase of its post restructuring debt cycle. With external debt service obligations stepping up from 2028 and prospective re-access to international capital markets becoming increasingly relevant, an appropriate successor arrangement could provide a continuing framework for fiscal and structural reform, reinforce policy discipline and strengthen investor confidence. Such an arrangement would not guarantee market access, but credible multilateral oversight during the transition could support the rebuilding of investor trust as Sri Lanka seeks to finance itself increasingly on commercial terms.

Turning resilience into lasting growth

The US policy developments following the midterm elections may influence the direction of Middle East tensions and their implications for energy costs and travel. A durable easing of the conflict would offer Sri Lanka material upside through lower energy and logistics costs; stronger travel flows and improved conditions for disinflation and reserve rebuilding. Continued domestic reform and productive investment would determine how much of that external relief translates into stronger growth, employment and real incomes.

Sri Lanka remains exposed to geopolitical shocks, fluctuations in global energy prices and disruptions to international travel. Its capacity to withstand these pressures, however, depends on the strength of its domestic economic foundations. The experience since 2022 demonstrates that stronger public finances, adequate reserves, credible monetary policy and productive investment can substantially enhance that resilience.

The next stage of the recovery should therefore be judged not only by how quickly Sri Lanka grows, but by whether that growth broadens the tax base, generates foreign exchange, raises productivity and rebuilds the buffers needed to withstand the next shock.

Sources: KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Sri Lanka's economic transformation at a glance

Selected macroeconomic indicators: 2022 vs. 2025

REAL SECTOR

Indicator	Unit	2022	2025
Real GDP growth	%	(7.3%)	5.0%
Real GDP	LKR bn	12,160.9	13,128.6
Nominal GDP	LKR bn	24,063.2	32,750.8
NCPI inflation	%	50.4%	0.2%
CCPI inflation	%	46.4%	(0.5%)
Unemployment Rate	%	4.7%	3.9%
Real sector as a whole		Economic contraction and high inflation	Growth recovery and price stability

MONETARY SECTOR

Indicator	Unit	2022	2025
SLFR	%	15.5%	8.3%
SDFR	%	14.5%	7.3%
1-year T-bill yield	%	28.5%	8.1%
10-year T-bond yield	%	26.1%	10.7%
Private-sector credit	LKR bn	7,411.5	10,212.2
Private-sector credit / GDP	%	30.8%	31.0%
Private-sector credit growth	% YoY	6.2%	25.2%
Monetary sector as a whole		Tight monetary conditions and high rates	Lower rates and credit recovery

FISCAL SECTOR

Indicator	Unit	2022	2025
Government revenue and grants	LKR bn	2,012.6	5,485.6
Government revenue and grants / GDP	%	8.4%	16.7%
Tax revenue	LKR bn	1,751.1	5,049.2
Tax revenue / GDP	%	7.3%	15.4%
Government expenditure	LKR bn	4,472.6	6,230.4
Government expenditure / GDP	%	18.6%	19.0%
Primary balance	LKR bn	(894.8)	1,755.8
Primary balance / GDP	%	(3.7%)	5.4%
Overall budget balance	LKR bn	(2,460.0)	(744.9)
Overall budget balance / GDP	%	(10.2%)	(2.3%)
Fiscal sector as a whole		Large fiscal deficits	Revenue-led fiscal consolidation and primary surplus

Sources: CBSL, DCS, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

DEBT / FINANCING

Indicator	Unit	2022	2025
Public debt / GDP	%	125.8%	101.1%
Gross financing needs / GDP	%	33.9%	19.0%
FX debt service / GDP	%	9.4%	2.7%
Interest payments / revenue	%	79.1%	45.9%
Debt/financing as a whole		Debt distress and restricted market access	Debt restructuring and improved financing conditions

EXTERNAL SECTOR

Indicator	Unit	2022	2025
Total exports	USD mn	13,106.4	13,581.4
Total imports	USD mn	18,291.0	21,480.0
Trade balance	USD mn	(5,184.6)	(7,898.6)
Current account balance	USD mn	(1,448.5)	1,719.3
Current account / GDP	%	(1.9%)	1.6%
BOP overall balance / GDP	%	(3.7%)	1.7%
Gross official reserves	USD mn	1,897.6	6,838.1
Tourism earnings	USD mn	1,136.3	3,219.2
Workers' remittances	USD mn	3,789.4	8,076.2
Exchange rate	LKR/USD	324.6	301.0
External sector as a whole		FX shortage and external imbalance	Reserves rebuilt and external position stabilised

Sources: CBSL, IMF, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Economic Analysis

- Sri Lanka's economy
- The next phase
- Economy at a glance

Industry Analysis

- Banking industry
- Energy sector
- Agriculture
- Digital
- Hospitality
- Real estate and Construction

About KPMG in Sri Lanka



Momentum for Transformative Growth

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Banking Industry



Momentum for Transformative Growth

Sector overview

Sri Lanka's banking sector plays a critical role in underpinning macroeconomic stability, mobilizing domestic liquidity and facilitating private sector capital formation. Following the severe contractions of 2022, the industry has served as a central pillar of national economic recovery, supported by renewed lending demand, solid capital reserves and significant gains in digital transaction efficiency. While balance sheets have expanded and profitability has recovered, the operating environment is shifting towards normalized growth as the sector navigates higher borrowing costs, tightened loan-to-value ("LTV") limits and compressed margins. In this environment, sustained provisioning buffers and operational discipline remain essential to absorbing lagged credit risk and safeguarding systemic resilience.

Balance sheet performance and credit growth

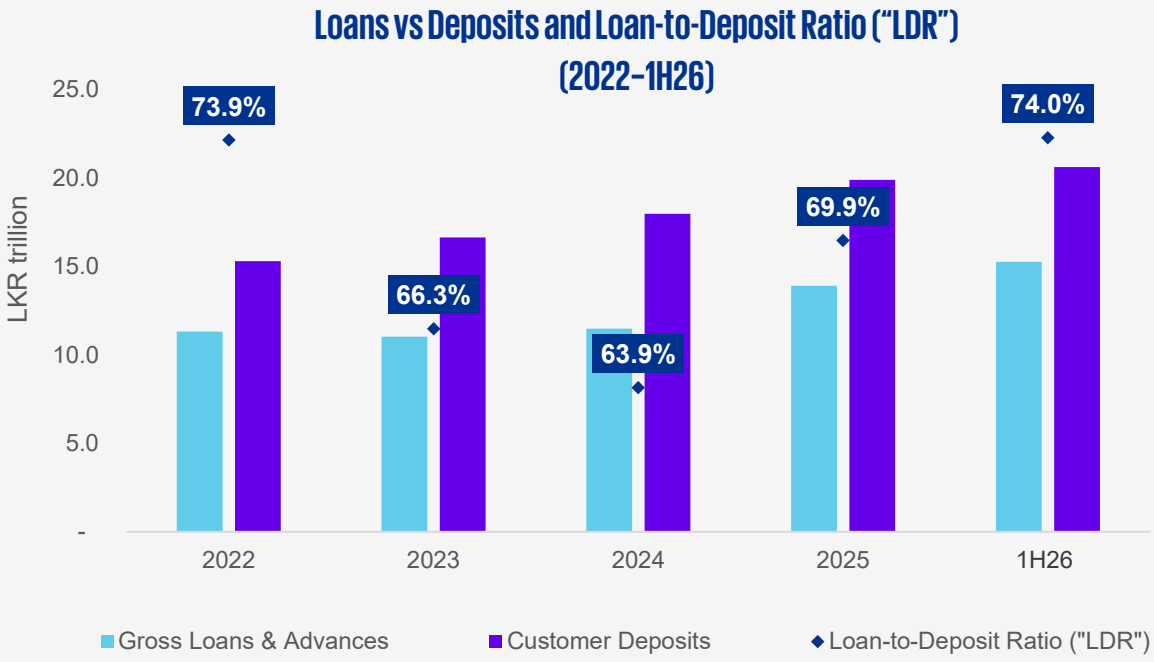
Between 2022 and 2025, the banking industry moved past post crisis recovery and began actively rebuilding its debt and lending capacity. Over this three year period, total banking assets grew at a Compound Annual Growth Rate ("CAGR") of 8.6%, advancing from LKR 19.4 trillion at the end of 2022 to LKR 24.9 trillion by the end of 2025. Lending served as the primary recovery driver; gross loans and advances expanded at a 7.1% CAGR to reach LKR 13.9 trillion, reversing an initial 2.6% contraction recorded in 2023. Private sector credit rebounded even faster, recording an 11.3% CAGR from LKR 7.4 trillion to LKR 10.2 trillion as commercial and retail borrowing resumed. By the first half of 2026, bank lending decisively outpaced asset growth: total assets rose 4.6% to LKR 26.0 trillion, while gross loans expanded by 9.8% to LKR 15.3 trillion and private credit grew 10.5% to LKR 11.3 trillion as banks redeployed liquid reserves to fund borrowing demand.

Customer deposits served as the primary stabilizer for bank liquidity, expanding at a CAGR of 9.2% from LKR 15.3 trillion at the end of 2022 to LKR 19.9 trillion at the end of 2025, outpacing total liabilities, which grew at an 8.1% CAGR to LKR 22.5 trillion. This steady accumulation was supported by attractive yields in the aftermath of crisis era upward adjustments, providing banks with ample liquid buffers as monetary authorities eased the statutory reserve ratio from 4.0% to 2.0% in Aug-2023. However, as CBSL brought policy rates down from above 15.0% to an OPR of 7.75% by mid 2025 over the period of time, market dynamics shifted. By the first half of 2026, softer deposit yields slowed deposit growth to 3.6%, reaching LKR 20.6 trillion, while cheaper financing encouraged an increase in gross loans. To mitigate external price shocks from the Middle East crisis, specifically surging fuel import costs, exchange rate pressure, and resulting second round inflation, and protect external reserves, the CBSL tightened its monetary policy stance in May-2026, raising the OPR by 100 basis points to 8.75%. With borrowing costs now re-elevated, this rate hike is expected to dampen private credit borrowings while incentivizing savings, increasing customer deposit mobilization and realigning banking system liquidity over the coming quarters.

Sources: CBSL, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



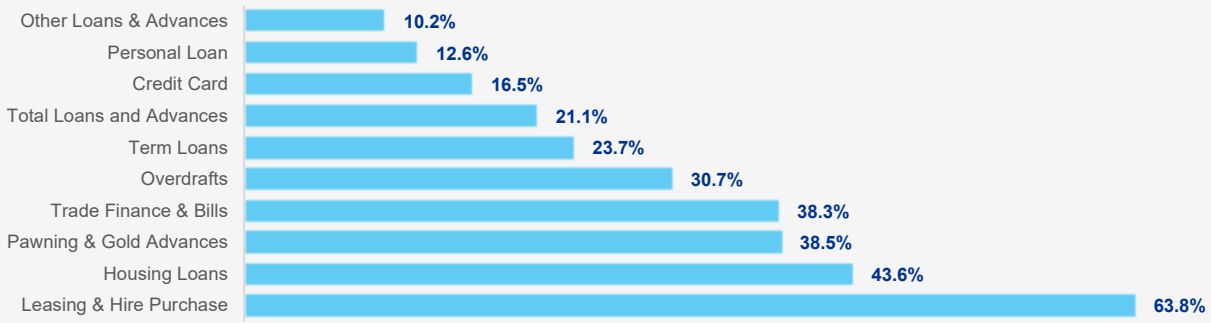
Macroprudential policy was tightened alongside interest rates through progressive reductions in LTV limits. LTV caps on commercial vehicles and light trucks were reduced from 90.0% to 80.0% in Jul-2025, 70.0% in Nov-2025 and 60.0% in May-2026. Caps on passenger motor cars, hybrid vehicles and electric vehicles were lowered to 40.0% in May-2026. In May-2026, authorities also brought previously uncapped pawning and gold facilities under a formal 70.0% statutory LTV limit. This macroprudential cap was introduced in direct response to sharp volatility and price uncertainty in the gold market, ensuring a mandatory 30.0% collateral cushion to protect lenders against sudden commodity price drops and limit credit risk from over leveraged collateral.

Total banking sector loans and advances expanded by 21.1% in 2025, with performance varying widely across sub-segments. Leasing and hire purchase surged by 63.8%, emerging as the fastest growing category as individuals and enterprises moved to satisfy substantial pent up demand following years of vehicle import restrictions. This extraordinary rate of leasing expansion is not expected to persist into late 2026, as weakening pent up demand, tighter LTV restrictions, and the May-2026 policy rate hike should normalize vehicle financing into a more subdued expansion. Pawning and gold advances grew by 38.5%, serving as a critical short term liquidity buffer for households and micro-enterprises navigating elevated price levels, though the new 70.0% statutory LTV cap is anticipated to restrain future advance growth. Credit card balances rose by 16.5%, supported by a steady expansion in active card issuance across subsequent quarters. Meanwhile, a 43.6% expansion in housing loans reflected technical rebound from a lower base rather than broad based residential mortgage demand, a segment we expect to face ongoing constraints under the prevailing rate environment.

Sources: CBSL, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Loans and advances YoY growth by segments (2025)



Asset quality and emerging credit risks

Between 2022 and 2025, banking asset quality moved from crisis induced risk to stabilization and eventual recovery. Following the 2022 economic shock, high borrowing costs and inflation pushed gross Stage 3 loans to an initial peak of LKR 1.4 trillion (13.6% Gross Non Performing Loans (“NPL”)) by third quarter of 2023. Credit risk stabilized throughout 2024: policy rate cuts gave borrowers much needed cash flow relief, while steady overall loan growth helped bring down reported default rates. Improving borrower repayments even allowed banks to briefly reverse a portion of the loan loss provisions during the third quarter of 2024, reducing total reserves to LKR 963.0 billion, before provisioning resumed in the fourth quarter to reinforce balance sheet buffers. Credit health improved noticeably across 2025 as Stage 3 loans receded from a high of LKR 1.5 trillion during the first quarter to LKR 1.3 trillion by year end, bringing the gross NPL ratio down to 9.7%. Instead of unwinding provisions to boost short term profits, banks continued to build loan loss reserves to LKR 1.0 trillion by the end of 2025. This lifted the sector's impairment coverage from 45.2% in 2022 to 58.3% in 2025, ensuring stronger protection against future credit stress. Furthermore, mindful of broader geopolitical uncertainties, banks incorporated post model adjustments ("PMA") to account for risk-elevated sectors whose emerging vulnerabilities could not be adequately captured by historical data driven Expected Credit Loss ("ECL") models.

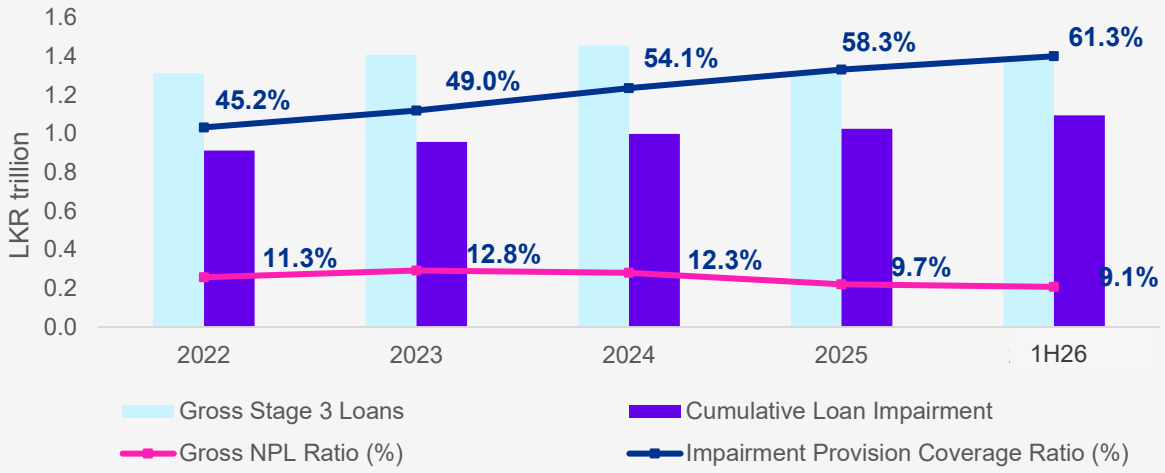
However, this recovery stalled by the second quarter of 2026 as loan repayment pressures began to resurface. Gross Stage 3 loans grew by 5.6% over the six-month period to reach LKR 1,382.9 billion. The apparent improvement in the headline Gross Stage 3 ratio down to 9.1% was largely a denominator effect driven by rapid gross loan growth. In response to these latent pressures, commercial banks continued their provisioning discipline, raising cumulative impairment reserves to LKR 1.1 trillion and elevating the impairment coverage ratio to 61.3% by the second quarter of 2026 to protect their balance sheets against potential loan defaults.

Sources: CBSL, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Asset quality: Stage 3 Loans and impairment coverage (2022–1H26)



These early 2026 trends illustrate the typical lagged impact of monetary tightening and cost pressures on credit health. The May-2026 100 basis point rate hike is set to escalate floating rate debt servicing costs through early 2027, while high utility tariffs, indirect taxes, and living costs continue to erode household disposable income and micro enterprise borrowers. Stricter vehicle LTV caps and the 70.0% gold pawning ceiling further limit borrowers' ability to refinance short term deficits. With Stage 2 loans holding at 8.3% of advances in the second quarter of 2026 representing over LKR 1.3 trillion in exposures that have exhibited a significant increase in credit risk, the banking sector faces potential Stage 3 migration that will require elevated credit provisioning in upcoming quarters. However, given prudent Stage 3 provisioning coverage across commercial banks, we expect the resulting impairment charges shall remain minimal despite this progressive migration from Stage 2 into Stage 3 facilities.

Earnings, efficiency and profitability

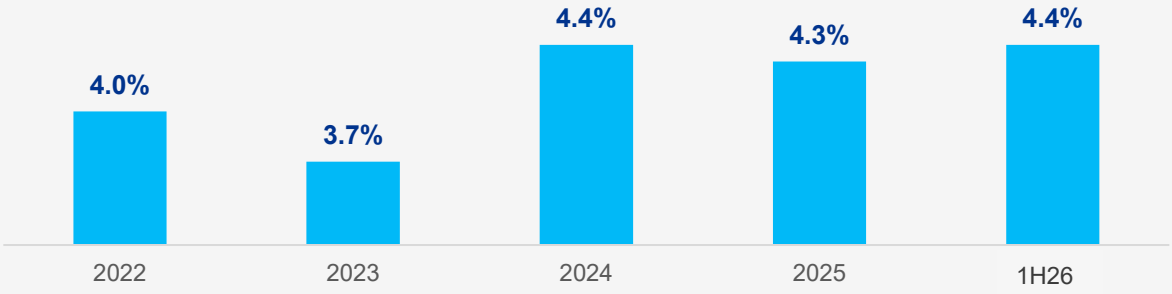
Operating profitability followed a sharp repricing cycle between 2022 and 2025. Net interest income expanded by 36.1% over the four-year horizon, rising from LKR 750.8 billion in 2022 to LKR 1,021.6 billion in 2025, which elevated the Net Interest Margin (“NIM”) from 4.0% to 4.3%. The primary deviation during this trajectory occurred in 2023, when a temporary spike in interest expenses, surging 42.7%, severely compressed margins down to a low of 3.7% before easing deposit costs in 2024 allowed profitability to recover. This expansionary momentum faced renewed pressure in the second quarter of 2026 as funding costs began to rise. Interest expenses increased by 7.8% YoY, narrowing the spread between asset yields and funding costs and moderating net interest income growth to 11.3%. Consequently, after maintaining a margin of 4.4% across 2024 and 4.3% across 2025, the NIM settled at 4.4% during mid 2026, signaling the start of a more competitive funding environment. Looking ahead, we expect this margin compression to be temporary: as the effects of the May-2026 policy rate hike work their way through the financial system, banks should see their floating rate loans reprice more quickly than their term deposits, lifting asset yields and helping restore NIM over the coming quarters.

Sources: CBSL, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

NIM % (2022-1H26)



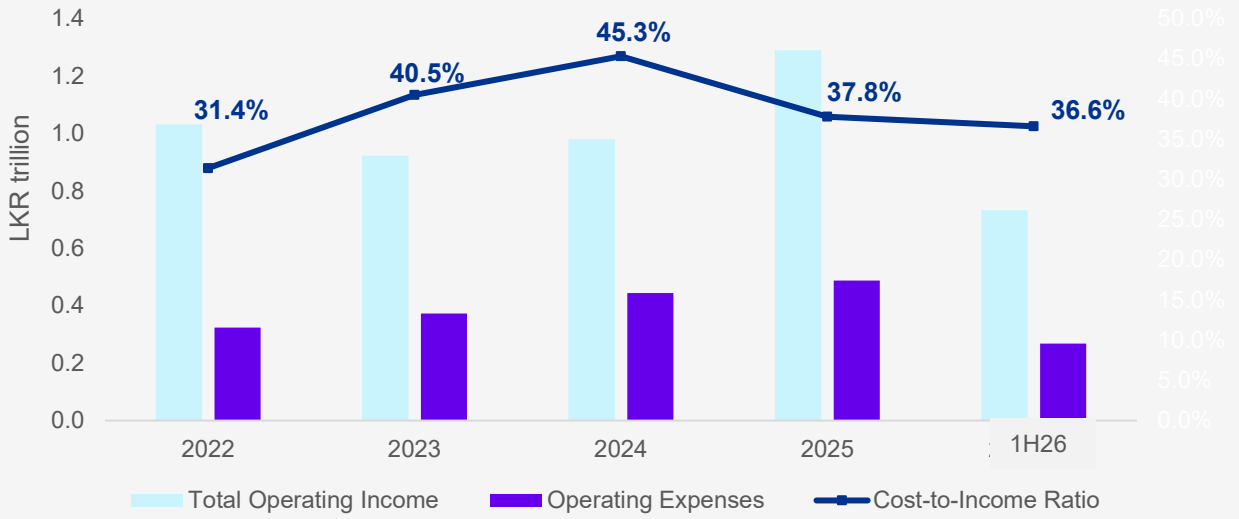
Non-interest income served as important source of income diversification between 2022 and 2025, moving from LKR 280.6 billion, or 27.2% of operating income, to LKR 268.8 billion, or 20.8%. The sole major deviation occurred in 2024, when sharp contractions in foreign exchange gains and bond mark to market valuations drove a 65.8% drop to LKR 71.0 billion, representing just 7.2% of operating income, before a 278.4% rebound in 2025 restored normalized levels. By the second quarter of 2026, momentum strengthened as non-interest income rose 31.8% YoY to LKR 177.8 billion, lifting its share of operating income to 24.3%. This performance was anchored by robust trade financing and resilient credit card turnover, generating fee, acquiring and interchange revenue that offset tightening interest spreads.

Operating expenses expanded by 50.5% between 2022 and 2025, growing from LKR 324.0 billion to LKR 487.8 billion, while the cost to income ratio ("CIR") worsened from 31.4% to 37.8%. The primary deviation occurred in 2023, when inflation and tariff shocks drove expense growth of 15.3% and pushed the CIR to a peak of 45.3% before normalizing. Banks controlled overhead through disciplined restraint of physical branch networks, moving from 3,630 branches in 2022 to 3,637 in 2025, a net addition of just seven locations. Cost growth re-accelerated into the second quarter of 2026, rising 15.8% YoY to LKR 268.4 billion. However, the shift towards digital banking continued to reshape transaction behavior. Core digital channels accounted for 67.5% of retail transaction volumes in the first half of 2026 up from 46.7% in 2022, while the share of transactions through self service cash terminals declined from 48.7% to 30.0% and paper based instruments from 4.6% to 2.5%. Despite the rapid increase in digital adoption, the branch network remained broadly stable at 3,637 locations, allowing banks to accommodate higher transaction volumes without a corresponding expansion in their physical footprint. This supported operating efficiency, with the CIR remaining at 36.6%.

Sources: CBSL, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Operating leverage: Income, expense and CIR % (2022-1H26)



Banking sector profitability recovered strongly between 2022 and 2025, lifted by an exceptional 211.3% surge in profit before tax from LKR 238.5 billion to LKR 742.6 billion. Over this four year span, Return on Asset ("ROA") doubled from 0.8% in late 2022 to peak at 1.6% in 2025, while Return on Equity ("ROE") rose from 10.4% to 16.9%. By the second quarter of 2026, profitability normalized further, steering ROA to 1.7% and ROE to 17.5%. Moving forward, both return metrics face moderate downward pressure as compressing NIM, rising provisioning from lagged credit risk and a 50.5% effective tax burden weigh on earnings against an expanding capital base.

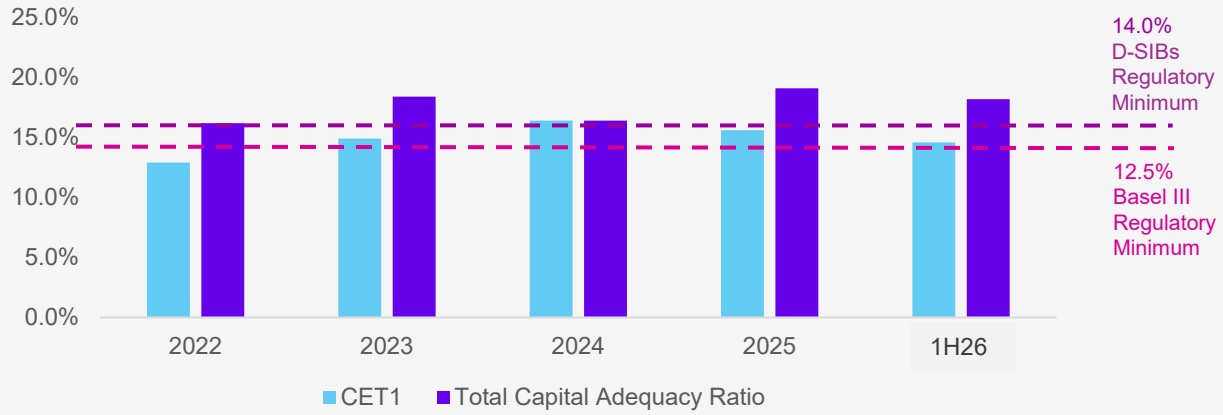
Capital resilience, taxation and outlook

Capital adequacy strengthened throughout the post crisis period, providing loss absorption capacity against emerging credit risk. The sector total Capital Adequacy Ratio ("CAR") rose from 16.2% in 2022 to 19.1% in 2025, while Common Equity Tier 1 ("CET 1") ratio grew from 12.9% to 15.6%. Capital ratios declined during the first half of 2026, with CET 1 settling at 14.6% in the second quarter of 2026, and the total CAR moving to 18.2% in the second quarter of 2026. This 90 basis point reduction in total CAR between late 2025 and mid 2026 was driven by risk weighted asset expansion as commercial banks expanded their lending portfolios by over 23.0%. The sector maintains an approximate 570 to 420 basis point buffer above the 12.5% (banks with assets less than LKR 500.0 billion) to 14.0% Domestic Systemically Important Bank ("D-SIBs") Basel III total regulatory requirement, ensuring adequate loss absorption against lagged credit risk.

Sources: CBSL, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Capital Adequacy Ratios vs Basel III Regulatory Minimum (2022-1H26)



The banking sector remains one of the primary contributors to the state treasury. Commercial banks bear a combined statutory tax drag of roughly 50.5%, combining a 30.0% corporate income tax with indirect levies. In Jul-2026, tax authorities consolidated the 2.5% SSCL into the 18.0% financial services tax, creating a unified 20.5% VAT rate that streamlined tax administration while keeping the effective tax rate unchanged. Sector tax expenses surged from LKR 61.0 billion in 2022 to LKR 270.5 billion in 2025, with annualized first half 2026 contributions topping LKR 336.0 billion. According to our estimates, banking tax contributions rose from 4.8% of total state tax revenue in 2022 to 7.3% and 6.6% during 2025 and the first quarter of 2026 respectively, underscoring the banks contribution to state revenues, while limiting the profits they can retain to build their own capital buffers.

The Sri Lankan banking industry entered the second half of 2026 in a stable condition, supported by capital adequacy above 18.0%, provisioning coverage above 61.0% and a digital payment share of 72.7%. However, the sector is moving past its peak post crisis recovery phase. Credit growth is projected to normalize from 24.0% due to higher policy rates and strict vehicle LTV caps. Across specific segments, leasing will shift into a more subdued expansion, pawning growth will moderate under statutory advance limits, and housing credit will remain constrained by high material costs. The sequential rise in gross Stage 3 loans and accelerating impairment provisions observed in the first half of 2026 confirm that higher borrowing costs and inflation will affect asset quality with a lag, requiring banks to manage migration from their Stage 2 books. As NIM compresses towards 4.0% under rising funding costs, digital operating efficiency and transaction fee growth will be critical to sustaining profitability. With substantial regulatory capital buffers and strong provisioning coverage, the banking sector remains well positioned to absorb these headwinds as credit conditions normalize.

Sources: CBSL, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Energy Sector



Momentum for Transformative Growth

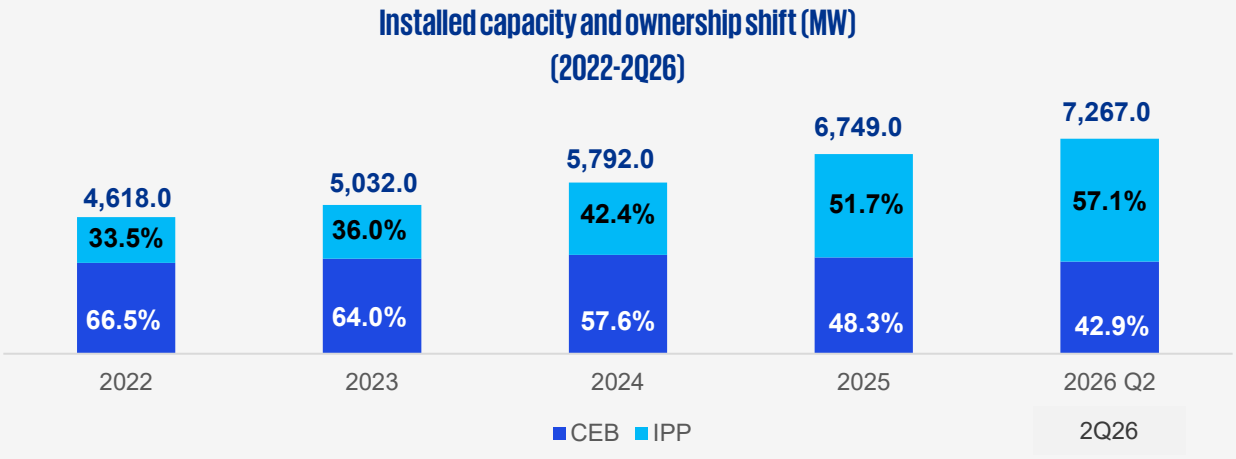
Sector overview

Sri Lanka's post crisis recovery has generated a rapid shift toward clean energy, driven largely by private rooftop solar adoption. However, because installed clean capacity does not guarantee dependable electricity during dry intervals and evening peak hours, grid stability remains vulnerable. Successfully meeting future demand while advancing national decarbonization goals will require pairing ongoing renewable expansion with utility scale battery storage, transmission grid reinforcement, and dependable firm baseload reserves.

Demand recovery is reshaping Sri Lanka's generation base

Sri Lanka's economic recovery has been accompanied by a gradual rebound in electricity demand across households, businesses and industry. Under Ceylon Electricity Board's ("CEB") long term planning assumptions, net generation requirements are projected to increase from 17,725 Gigawatt-hour ("GWh") in 2025 to 22,927 GWh by 2030, implying annual growth of around 5.2%. Meeting this demand will require additional generation while increasing the importance of reducing exposure to imported fossil fuels.

Installed capacity has already expanded significantly, increasing by 57.4% from 4,618 megawatt ("MW") in 2022 to 7,267 MW by the second quarter of 2026. The expansion has been predominantly private led, with Independent Power Producer ("IPP") capacity increasing by 168.4% from 1,547 MW to 4,152 MW, lifting its share from 33.5% to 57.1%. CEB capacity remained broadly stable at around 3,100 MW, reducing its share from 66.5% to 42.9%. However, irrespective of IPP adding more installed capacity, in terms of actual power generation, CEB generation still stands out with their generation capacity due to their usage of thermal energy technologies which has a high Plant Load Factor ("PLF") compared to IPPs lower PLF renewable energy technologies.

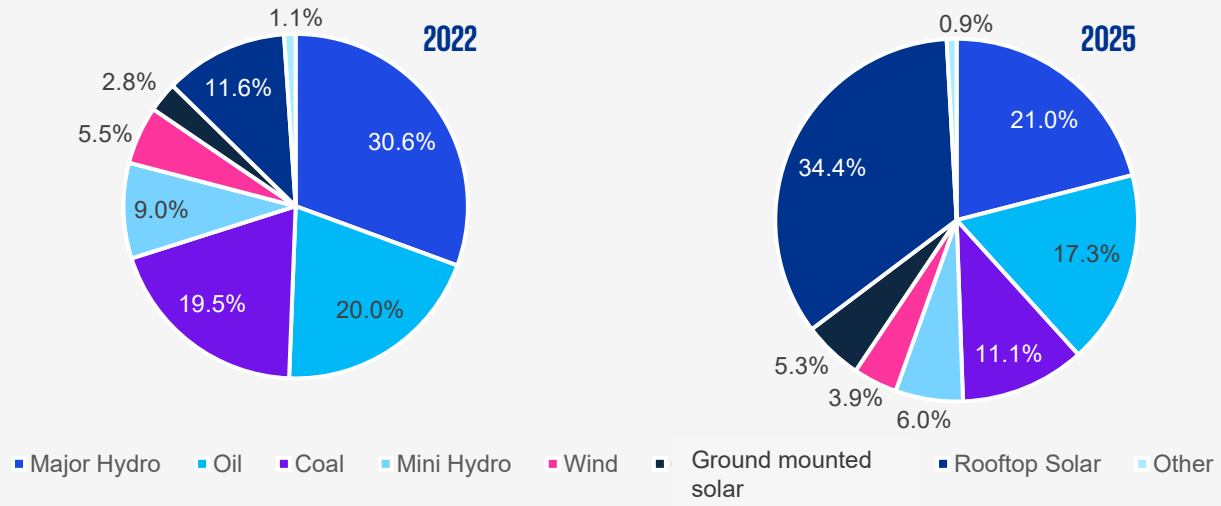


Sources: Public Utilities Commission of Sri Lanka ("PUCSL"), CEB, Sri Lanka Sustainable Energy Authority ("SLSEA"), Ministry of Energy ("MOE"), KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Renewables accounted for most of the installed capacity growth, it increased from 2,794 MW to 5,201 MW, raising its share of installed capacity from 60.5% to 71.6%, while the non-renewable share declined from 39.5% to 28.4%. Rooftop solar was the main contributor, increasing from 535 MW to 2,499 MW, while ground mounted solar rose from 130 MW to 387 MW. The transition therefore reflects both a cleaner generation base and a shift towards more decentralized, privately owned capacity.

Shift in install capacity's energy source mix (2022 and 2025)



Renewable generation has increased, but climate variability remains a constraint

The changing capacity mix has increasingly translated into electricity generation. Total generation increased by 11.7% from 15,943 GWh in 2022 to 17,811 GWh in 2025, while the renewable contribution rose from 52.1% to 60.2%. Major hydro remained the largest renewable source at 6,306 GWh in 2025, while rooftop solar generation more than tripled from 530 GWh in 2022 to 1,674 GWh in 2025. Mini hydro contributed a further 1,425 GWh, wind 774 GWh and ground connected solar 343 GWh.

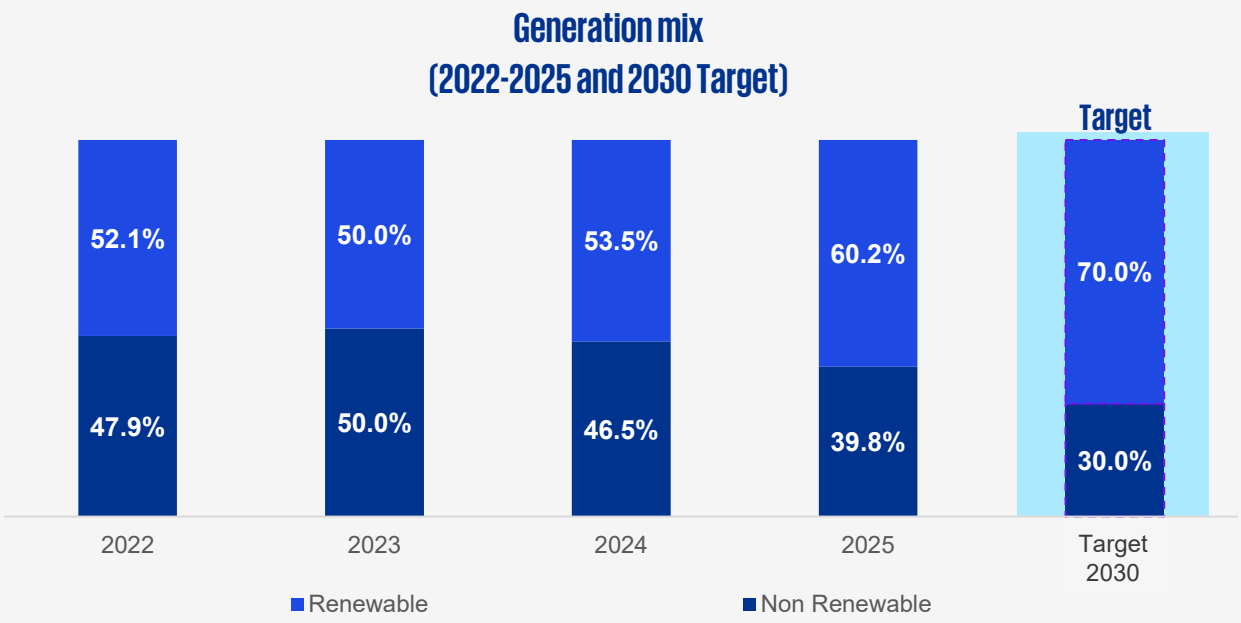
The stronger renewable contribution reduced the non-renewable share of generation from 47.9% in 2022 to 39.8% in 2025 and helped moderate fuel requirements. Power generation fuel sales increased by 34.1% from 571.1 million litres in 2022 to 765.7 million litres in 2023 during weaker hydro conditions, before declining to 568.2 million litres by 2025 as hydro recovered and solar expanded. This illustrates the broader economic benefit of renewable generation through lower dependence on imported fuel and associated foreign exchange requirements.

Sources: PUCSL, CEB, SLSEA, MOE, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

However, the first half of 2026 provides an important contrast, renewable generation fell to 50.2%, while non-renewables increased to 49.8%, despite renewables accounting for more than 70.0% of installed capacity. Weaker hydrological availability, influenced by dry conditions and climate variability, including El Nino related rainfall risk, constrained hydro generation.



Battery Energy Storage Systems ("BESS") to reduce curtailment and optimise existing renewable capacity

The growing contribution from solar and hydro creates a different set of operational challenges. Hydro remains exposed to rainfall, while solar output also cannot fully compensate for this volatility because output is concentrated during daylight hours, while electricity demand remains high into the evening between 18:30 and 22:30. This timing mismatch can result in excess daytime renewable electricity being curtailed while thermal plants are still required several hours later.

Between 2022 and the first half of 2026, Sri Lanka added 2,407 MW of renewable capacity, dominated by rooftop solar. However, solar additions operate at a low blended Plant Load Factor of 12.5%-13.5% (with ground mounted solar averaging 17.0%-19.0% and rooftop solar yielding 11.0%-13.0%). This substantial surge in non-synchronous, intermittent midday generation creates serious grid stability risks and heightens the likelihood of significant solar curtailment during low demand daytime hours.

Sources: PUCSL, CEB, SLSEA, MOE, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

BESS could address this mismatch by storing excess daytime generation and releasing it during the evening peak, while also supporting grid frequency and voltage stability. Sri Lanka is already moving in this direction: a 10 MW / 40 megawatt-hour ("MWh") BESS at Anuradhapura was commissioned in Sep-2026, while a 5 MW / 10.7 MWh Hambantota facility is progressing through commissioning. A further 120 MW / 480 MWh across 12 substations is planned through 2027, alongside an Asian Development Bank ("ADB") supported 100 MW / 100 MWh Kolonnawa facility expected during 2027-2028. These projects form part of a longer term requirement of approximately 900 MW of storage capacity by 2044. Rather than simply adding generation, these investments could allow Sri Lanka to obtain more usable electricity from the renewable capacity already installed.

New renewable capacity, tariffs and grid readiness

Storage alone will not be sufficient as electricity requirements continue to rise. With most major conventional hydropower potential already being utilized, future renewable additions are increasingly expected to come from solar and wind. Identified longer term potential includes approximately 5,200 MW of ground mounted solar, 4,000 MW of offshore wind, 1,860 MW of onshore wind and 1,500 MW of floating solar. The nearer term pipeline also points in this direction, including wind projects of 250 MW from Mannar Phase II, 234 MW from Pooneryn and 100 MW from Mullikulam, while the 5 MW Diyajanani floating-solar project demonstrates the potential to expand solar generation without additional land requirements.

The tariff framework has also been revised to support this investment, although incentives differ by technology and scale. Rooftop solar tariffs have fallen from its peak of 2024/2025 to a range of approximately LKR 23.11/kWh for systems up to 10 kilowatt ("kW") to LKR 15.81/kilowatt-hour ("kWh") for systems above 250 kW, while utility scale tariff rates have increased and the structures include LKR 18.00 with an additional escalable component of LKR 2.72/kWh for ground mounted solar, LKR 20.80 with an escalable component of LKR 4.93/kWh for wind and LKR 30.37 with an escalable component of LKR 4.50/kWh for mini hydro.

The introduction of differentiated tariffs and BESS could improve investment visibility, although the move towards Net Plus for new rooftop connections may lengthen household payback periods.

The reason for the decrease in rooftop solar tariff and the implementation of net plus framework are expected to be due to the constraint in grid availability. Even where households and developers are willing to add solar, some feeders and substations have limited capacity to accommodate further generation. Renewable additions will therefore need to be accompanied by transmission reinforcement, substation upgrades and stronger system control infrastructure. Otherwise, additional capacity could result in connection delays and greater curtailment rather than a proportionate increase in usable renewable generation.

Sources: PUCSL, CEB, SLSEA, MOE, ADB, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Dependable supply remains necessary on the path to 70.0% renewable generation

Greater storage and grid investment will not immediately remove the need for firm generation. The 810 MW Lakvijaya coal plant remains an important source of dependable power, while the 350 MW gas ready Kerawalapitiya combined cycle plant, commissioned in 2025, provides more flexible thermal capacity. As renewable penetration increases, conventional generation could increasingly shift from providing a large share of electricity towards supporting the system during droughts, evening peaks and unexpected renewable shortfalls.

Beyond the electrical grid, Sri Lanka remains fundamentally dependent on imported petroleum to sustain transport, aviation, and industry. The proposed Sapugaskanda refinery modernisation aims to increase throughput towards 100,000 barrels per day, potentially reducing part of the dependence on imported refined products if implemented on commercially sustainable terms.

Sri Lanka's energy transition cannot be viewed merely as a linear shift from thermal power to renewables. While achieving a 60.2% renewable share in 2025 demonstrated meaningful progress, the decline to 50.2% across the first half of 2026 underscored how vulnerable the national grid remains to shifting environmental cycles. Sri Lanka has the resources and geographic location to achieve its target of 70.0% renewable generation, however, reaching this target by 2030 will require BESS to capture and dispatch intermittent output, sustained wind and solar investments will need to match expanding base demand, grid infrastructure to absorb the new generation and sufficient dependable thermal capacity to protect system reliability. If these elements progress together, Sri Lanka could continue moving towards a more renewable led power system while maintaining the energy security required to support economic growth.

Sources: PUCSL, CEB, SLSEA, MOE, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Agriculture



Momentum for Transformative Growth

Sector overview

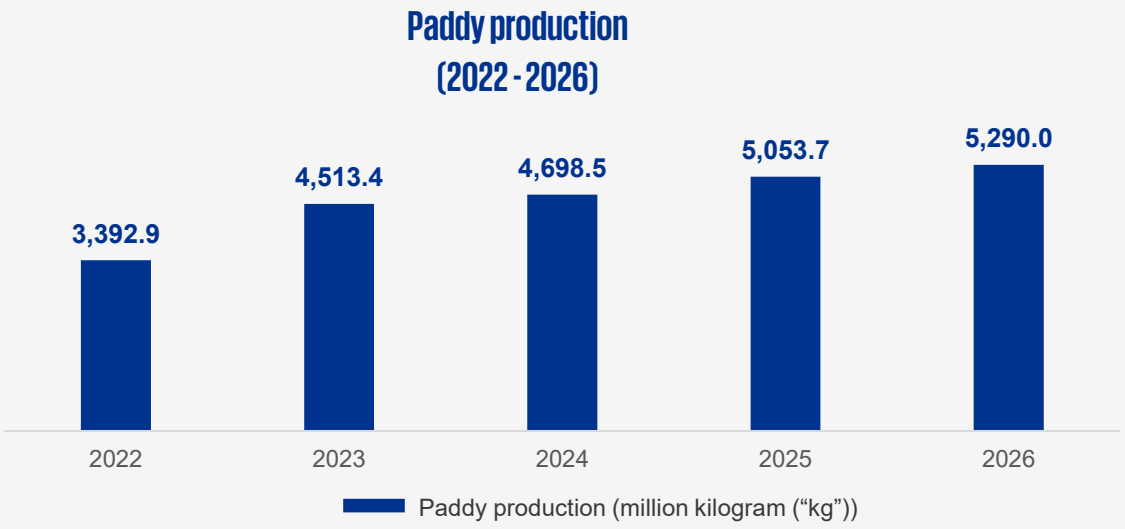
In 2022, Sri Lanka's agricultural sector experienced a severe contraction, disrupted by the overnight ban on chemical fertilizers and agrochemicals, acute macroeconomic instability, severe fuel shortages and currency depreciation. These policy shocks reduced crop yields, inflated production costs and threatened national food security. By 2026, the sector has largely transitioned into a post crisis recovery phase. The stabilization of input supply chains, policy intervention and targeted relief mechanisms have restored production momentum across major agricultural sub-sectors, though performance remains increasingly vulnerable to external trade shocks and severe climate volatility.

Plantations

Sri Lanka's agricultural landscape combines staple paddy cultivation with established tea, rubber and coconut industries amongst others, linking domestic food security with export oriented production. Together, these sectors sustain rural livelihoods and support value chains spanning cultivation, processing and manufacturing. While rice underpins Domestic food supply, Tea, Rubber and Coconut connect the country to international markets through recognized products and value added exports, making this diverse production base integral to Sri Lanka's economic resilience.

Paddy

Following a 2024 baseline harvest of 4.7 million metric tons ("MT"), Sri Lanka's paddy sector suffered a major shock during the 2026 Maha season when Cyclone Ditwah destroyed over 100,000 hectares ("ha") sown. Although Maha output reached 3.1 million MT in 2026 (rising by 15.1% compared with its baseline of 2.7 million MT in 2024 and 14.2% YoY), crop losses, soil degradation and infrastructure damage inflated food prices and spilled over into the 2026 Yala season with an estimated decline of 6.5% YoY, though remaining 9.1% above its baseline. Despite these severe weather headwinds, total paddy production estimate for 2026 reached 5.3 million MT, reflecting a 4.7% YoY increase over 2025 and a 12.6% expansion relative to the 4.7 million MT 2024 baseline.



Sources: CBSL, DCS, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Compounding these weather and climate related anomalies, the sector faced acute cost push pressures originating from international fertilizer markets. Global supply chains experienced severe friction due to the Middle East crisis, which drove up crude oil prices, maritime freight rates and shipping insurance premiums. These geopolitical disruptions inflated import bills for chemical inputs, leading to a visible contraction in national fertilizer stock buffers with a 28.0% YoY decline over Jan-Jul 2026 and forcing authorities into a difficult balancing act of rationing and securing costly shipments (such as urea imports sourced via regional routes). The combination of scarce or expensive agrochemicals and lower seasonal yields elevated production costs for farmers, feeding directly into broader domestic food inflation.

To insulate the rural economy and stabilize the agricultural base, the Government introduced targeted institutional and financial reforms. Most notably, the Cabinet approved a substantial fertilizer financial subsidy package of LKR 30,000.0 per ha (up to a max of 2 ha) backed by a total budgetary allocation of approximately LKR 16.0 billion for the 2026/27 Maha season. These proactive policy measures, alongside efforts to maintain buffer stocks and enhance post disaster recovery frameworks, are critical to easing farmer cost burdens, mitigating food price volatility and safeguarding long term food security against external macroeconomic shocks. Looking ahead, the country is expected to achieve self sufficiency in rice, albeit at elevated prices as higher fertilizer and input costs feed directly into broader food inflation.

Tea

Sri Lanka's tea industry combines a longstanding cultivation heritage and strong international presence, recognized globally for its distinctive quality and regional flavor profiles. Cultivated across high, medium and low grown regions, the industry predominantly produces orthodox tea through traditional processing methods. Supported by an extensive network of smallholders and plantation estates, the sector sustains rural livelihoods while generating foreign exchange and supporting value added activities in blending, packaging and branding.



Sources: CBSL, Office of the Cabinet of Ministers, Export Development Board ("EDB"), KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Sri Lanka's tea production continued its post fertilizer crisis recovery, rising from 251.8 million kg in 2022 to 264.6 million kg in 2025, before moderating to 191.8 million kg during Jan-Sep 2026, down by 3.8% YoY compared with the corresponding period in 2025. National sale averages ("NSA") during Jan-Sep increased to LKR 1,170.2/kg, up from LKR 1,160.6/kg in the corresponding period of 2025. Turkey, Iraq and Russia remained the principal export markets. The export mix reflects a steady pivot towards value addition, with packeted tea leading export market share at 44.6% in Jan-Sep 2026 (though lower compared with 45.1% in 2025), consistently outperforming unrefined bulk tea, which held an identical 41.8% share across both periods.

Geopolitical turmoil in the Middle East led to higher insurance premiums and route disruptions, contracting Jan-Sep 2026 cumulative export earnings to USD 1,083.6 million from USD 1,163.0 million in the corresponding period of 2025, a YoY decline of 6.8%. This represented 10.1% of Sri Lanka's total merchandise export earnings. Estate profitability was further constrained by rising labour costs, following an increase in daily worker compensation from LKR 1,350.0 to LKR 1,750.0, alongside persistent labour shortages.

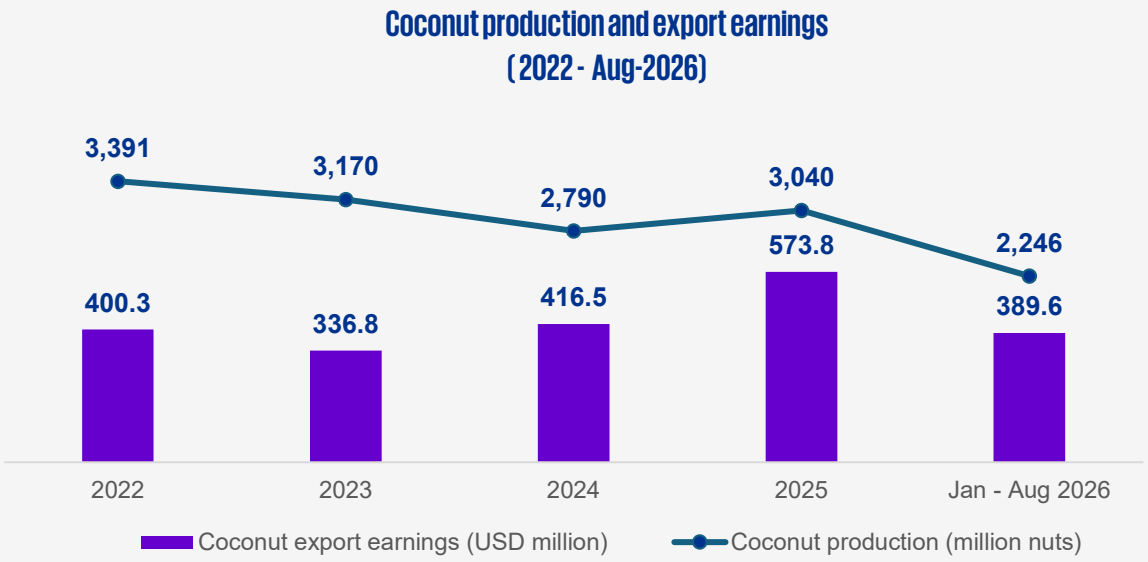
Yields face persistent climate shocks, including Cyclone Ditwah, which destroyed over 1.0 million kg of green leaf and reduced Dec-2025 export earnings to USD 105.8 million (down from USD 131.6 million in Dec-2024), alongside ongoing risks from El Nino cycles. In response, policy prioritizes fertilizer access, replanting and value addition, anchored by the flagship "Ceylon Tea Village" plan to construct 500 tea villages, aiming to scale national output to 400.0 million kg and generate USD 2.5 billion in export revenue by 2030 through productivity and quality enhancement. As Sri Lanka exports 98.9% of its total tea production, the sector remains a vital pillar of national export earnings. However, with the Middle East absorbing approximately 52.0% of total tea exports, ongoing geopolitical conflict in the region continues to pose downside risks to tea export earnings.

Coconut

The coconut industry bridges domestic food needs across the island and international trade, combining a deeply rooted cultivation base with a diversified processing industry. Its product portfolio spans coconut milk, desiccated coconut and virgin coconut oil, alongside coir based products and shell derived activated carbon. Supported largely by smallholder cultivation, the sector sustains rural livelihoods and generates foreign exchange by transforming the kernel, husk and shell into food and industrial products for global markets.

Sources: CBSL, EDB, Tea Exporters Association ("TEA"), KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



Sri Lanka's coconut production declined from approximately 3.4 billion nuts in 2022 to 3.0 billion nuts in 2025, though cumulative output increased from 1.9 billion nuts in Jan-Aug 2025 to 2.3 billion nuts in Jan-Aug 2026, a growth rate of 21.3% YoY. The coconut sector performance softened, with cumulative export earnings rising from USD 909.1 million in Jan-Sep 2025 to USD 942.5 million in Jan-Sep 2026, reflecting 3.7% YoY growth and representing 8.8% of Sri Lanka's total merchandise export earnings. However, increased harvest availability placed downward pressure on domestic market pricing throughout 2026, with monthly average coconut auction prices consistently contracting YoY, moderating to LKR 116,145.7 per 1,000 nuts in Aug-2026, a decline of 16.0% YoY from LKR 138,247.0 in Aug-2025.

In 2025, coconut kernel products dominated exports, contributing 58.8% (USD 727.4 million) of total earnings, followed by fiber based products at 23.8% (USD 293.8 million) and shell based and other products at 17.4% (USD 214.6 million). In 2026, the 3.7% YoY growth was mainly driven by fiber based products expanding by 7.4% YoY and shell based products by 45.9% YoY.

Although domestic monthly average coconut auction prices have recently moderated alongside temporary production gains, any persistent supply disruptions could ultimately feed into broader consumer inflation, given that coconut remains a fundamental staple item in the national diet.

Sources: CBSL, EDB, Coconut Grower's Association, Coconut Development Authority ("CDA"), KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Rubber

Sri Lanka's rubber industry combines a longstanding plantation base with specialized manufacturing capabilities, linking natural rubber cultivation to a diversified export industry. Recognized internationally for industrial solid tyres, latex gloves and engineered rubber products, the country has established a strong presence in value added market segments. Spanning cultivation, primary processing and finished goods manufacturing, the sector connects agricultural production with industrial activity and remains an important contributor to national export earnings.

Rubber production and export earnings (2022 - Aug -2026)



Sri Lanka's natural rubber output experienced a structural contraction from 70.9 million kg in 2022 to 66.5 million kg in 2025, producing 44.5 million kg during Jan-Aug 2026, a 3.7% YoY decline from the corresponding period in 2025. Globally, rising crude oil prices and geopolitical tensions elevated the production cost of petrochemical derived synthetic rubber. This shift enhanced the cost competitiveness of natural rubber, driving strong demand and lifting global market prices throughout early 2026, as evidenced by the increase in rubber auction prices for Ribbed Smoked Sheet-1 ("RSS-1") from LKR 786.3/kg in Apr to LKR 850.0/kg in May.

Natural rubber exports increased to USD 773.9 million in Jan-Sep 2026, reflecting a strong YoY growth of 8.4% from the corresponding period in 2025. However, severe raw material shortages persist as domestic supply fails to keep pace with processing demand. This shortfall is driven by ageing trees, a sharp contraction in annual replanting (falling from 1,277 ha in 2022 to 350 ha in 2025), land conversion to alternative crops and tapper shortages.

Sources: CBSL,EDB, Rubber Development Department, KPMG analysis

KPMG

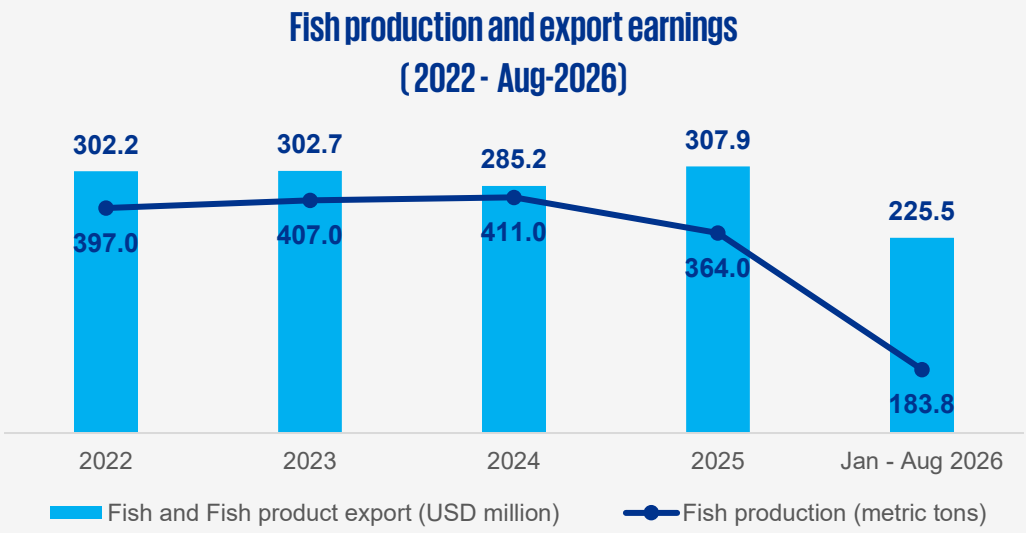
© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Yields suffered from El Nino climate volatility and severe flooding and landslides from Cyclone Ditwah, which caused LKR 618.1 billion in national post disaster damages. These bottlenecks left domestic manufacturers increasingly dependent on imported natural rubber. Policy responses in Mar-2026 introduced Ditwah replanting relief of up to LKR 400,000/ha alongside a LKR 1,212.0 million initiative to restore 3,300 ha during 2026-2028. Coupled with intercropping subsidies and land rehabilitation by the Rubber Development Department, the sector outlook remains cautiously optimistic, with elevated crude oil prices serving as a key demand driver for natural rubber by raising the cost of competing synthetic rubber. However, long term export capacity recovery remains conditional on accelerating replanting programs, resolving labour bottlenecks and embedding climate resilient cultivation practices.

Aquaculture

The aquaculture industry offers a platform for diversifying seafood production, drawing on the island's freshwater, brackish water and coastal resources. Led by commercial shrimp farming, with opportunities to expand finfish and other high value species, the sector complements capture fisheries while supporting livelihoods and export earnings. Further development of sustainable farming systems and value added processing offers scope to strengthen domestic seafood supply and deepen access to international markets.

Sri Lanka's fisheries sector continues to demonstrate strong export momentum and a sustained trade surplus. Export earnings rose from USD 302.2 million in 2022 to USD 307.9 million in 2025 and reached USD 225.5 million during Jan-Aug 2026, representing 11.8% YoY. Export earnings concentrated in food fish (52.0%), prawns (18.3%) and crabs (15.3%), with high value crustacean categories recording rapid expansion, notably prawns (153.0%) and crabs (89.6%).



Sources: CBSL,EDB, Ministry of Fisheries, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

In sharp contrast to export growth, the domestic fish harvest contracted significantly during Jan-Sep 2026, dropping 26.5% YoY to 207,454.0 MT due to declines in marine (-20.0%) and inland (-61.2%) production. Dedicated aquaculture remains heavily underdeveloped, contributing just 1,008.0 MT (0.5% of national output) after declining 78.4% YoY. Persistent declines in wild fish harvests highlighted by the National Aquatic Resources Research and Development Agency ("NARA"), increasing climate risks such as El Nino and post harvest losses of nearly 40.0%, highlight severe raw material constraints for exporters.

The industry is backed by a robust operational foundation, encompassing 23 harbors, 1,083 landing sites, 109 ice plants and 71 boatyards that collectively provide a solid platform for private capital deployment. Bridging existing supply deficits and securing high value European Union ("EU"), US and Japanese markets will depend on accelerating commercial aquaculture development (hatcheries, feed production and biosecurity protocols), modernizing cold chain infrastructure to minimize post harvest loss, scaling targeted concessional credit facilities and implementing end to end digital traceability from farm to export.

Sources: CBSL,EDB, Ministry of Fisheries, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Digital



Momentum for Transformative Growth

Sector overview

Sri Lanka's digital sector is becoming an increasingly important part of the economy, supporting export earnings, public sector modernization and the growing adoption of digital services and payments. Following the 2022 economic crisis, the sector has also provided a source of economic diversification, supported by a growing technology services base and increasing demand for digital solutions. Against the national ambition of building a USD 15.0 billion digital economy and increasing IT exports to USD 5.0 billion by 2030, the next phase of growth will depend on strengthening connectivity, expanding digital skills and moving further into higher value technology services

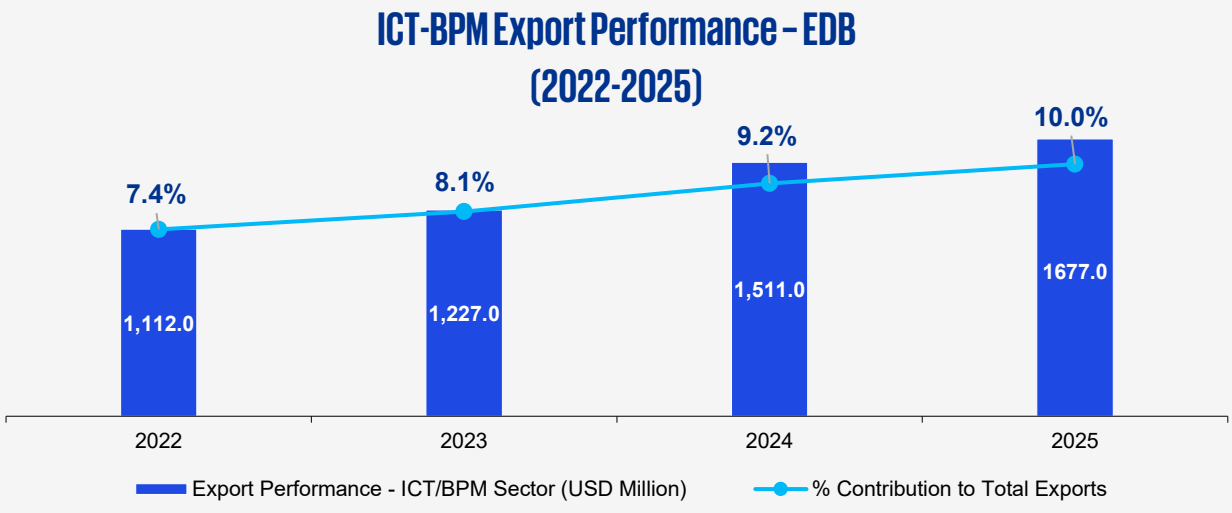
.

Sector size, performance, and economic contribution

Sri Lanka's domestic IT sector has continued to expand, with its contribution to real GDP increasing from 1.9% in 2022 to 2.6% in the second quarter of 2026. EDB estimates also indicate that Information and Communication Technology ("ICT") and Business Process Management ("BPM") export earnings increased 48.4% from USD 1,112.0 million in 2022 to USD 1,677.0 million in 2025. However, export earnings would need to grow further over the coming years to reach the national target of USD 5.0 billion by 2030.

CBSL data show a different trend, with formal IT-BPO export credits declining 5.7% from USD 848.4 million in 2024 to USD 799.7 million in 2025. This difference largely reflects the way the two sources measure sector earnings, with EDB capturing broader industry turnover and contracted billings, while CBSL records foreign exchange receipts flowing through the domestic banking system under IMF guidelines.

Formal foreign exchange inflows weakened further during the first nine months of 2026, with export credits declining 15.5% YoY to USD 525.0 million, while telecommunications and software import payments increased 3.8% to USD 203.3 million. As a result, the sector's net foreign exchange surplus narrowed to USD 321.7 million.



Sources: CBSL, EDB, DCS, IRD, GovPay, Telecommunications Regulatory Commission of Sri Lanka ("TRCSL"), Sri Lanka Telecom PLC ("SLT"), Credit Information Bureau ("CRIB"), KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

However, the difference between broader industry earnings and formal foreign exchange receipts does not necessarily indicate a similar decline in underlying domestic industry activity. Part of the gap reflects spending by local businesses, banks and telecommunications companies on foreign cloud hosting, productivity software and other technology services. Export receipts are also affected by earnings retained offshore, freelancer income held outside the domestic banking system and the continuing migration of skilled technology workers, with 86.0% of surveyed firms citing employee attrition. At the same time, the nature of Sri Lanka's technology sector is gradually changing. While official trade reporting continues to group much of the sector's earnings under broader outsourcing categories, 22.0% of surveyed firms are already developing proprietary software, agentic artificial intelligence ("AI") systems and enterprise cloud solutions. This represents a gradual shift beyond traditional outsourcing and support services towards higher value technology solutions, which may provide a stronger base for recurring foreign earnings and a more differentiated market position over time.

Digital infrastructure, affordability, and access

Sri Lanka's digital infrastructure has expanded considerably, although access remains uneven between mobile and fixed connectivity. Mobile data is relatively affordable, with data costs ranging from around LKR 49.9 per gigabit ("GB") for smaller packages to around LKR 18.3 per GB for 300 GB packages, supporting the country's increasingly mobile first digital economy. Fixed broadband remains comparatively expensive, however, limiting wider adoption among households and smaller businesses and increasing their dependence on mobile connectivity.

Competition in the connectivity market increased following Starlink's commercial launch in Jul-2025 under a five-year Telecommunications Regulatory Commission of Sri Lanka ("TRCSL") licence. However, monthly subscription costs of LKR 9,200-15,000, together with the initial equipment cost, limited adoption to 8,455 accounts by Jun-2026. Commercial 5G also commenced in Dec-2025, with Dialog deploying more than 1,000 sites across all 25 districts by Apr-2026, while Mobitel expanded its network across 18 districts.

Despite these developments, fixed infrastructure remains less developed. Fibre accounts for only 19.5% of fixed connections, while internet usage continues to show a geographic divide, with penetration at 74.7% in urban areas compared with 60.5% in rural areas. Investment is beginning to address these gaps, including the USD 50.0 million World Bank Digital Transformation facility and EDOTCO's USD 10.0 million programme to develop 130 macro towers and 300 smart poles through 2029. Expanding fixed and last mile connectivity therefore remains important if wider digital adoption is to translate into increased economic participation across the country.

Sources: CBSL, EDB, DCS, IRD, GovPay, TRCSL, SLT, CRIB, KPMG analysis

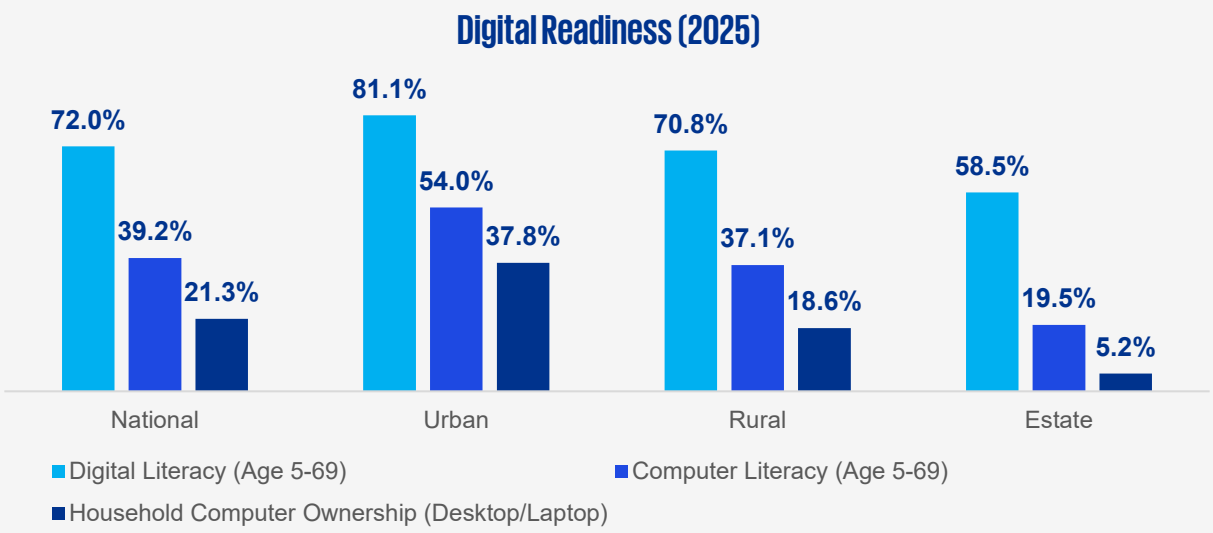
KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Digital readiness and adoption

Sri Lanka has developed a highly connected mobile user base, with mobile penetration reaching 135.2 subscriptions per 100 people by Jun-2026, while smartphones and tablets accounted for 71.0% of end user network equipment. However, household computer ownership remains considerably lower at 21.3% nationally, falling further to 16.6% in rural areas. This highlights an important distinction between widespread access to mobile digital services and access to the equipment required for more advanced technology based work.

A similar gap is evident in digital skills. Digital literacy among people aged 5-69 reached 72.0% in 2025, compared with computer literacy of 39.2%, leaving a 32.8% point gap. While a large proportion of the population is therefore comfortable using smartphones, applications and digital services, the availability of stronger computer based skills remains more limited. Narrowing this gap will be important as the sector moves towards more specialised areas such as software development, AI and cloud based services.



Public sector digitalisation has progressed alongside consumer adoption. GovPay increased from approximately LKR 2.0 billion in late 2025 to LKR 7.0 billion across 629,728 transactions by Nov-2026, covering 306 institutions and 4,440 citizen services.

Under the Revenue Administration Management Information System (“RAMIS”), registered taxpayers reached 1.5 million in 2025, while electronic individual income tax filing reached 99.9% compliance within one month.

Aswesuma welfare payments have also increasingly moved towards bank account transfers through the Sri Lanka Interbank Payment System (”SLIPS”) network.

Sources: CBSL, EDB, DCS, IRD, GovPay, TRCSL, SLT, CRIB, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

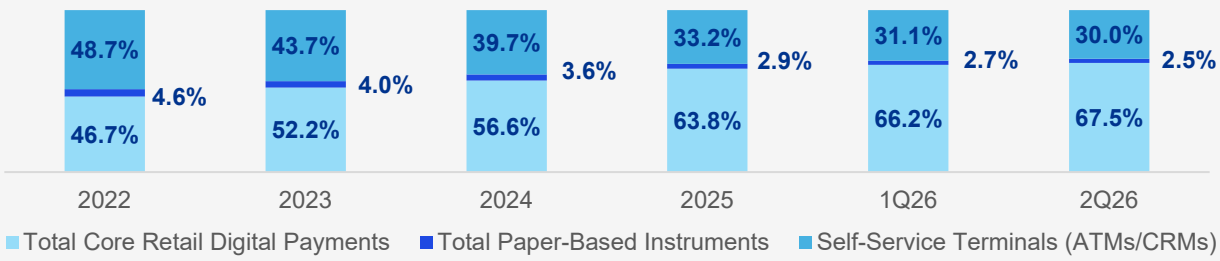
Together, these developments are reducing dependence on manual government processes while creating clearer digital transaction records. However, implementation has been slower in some areas. The Sri Lanka Unique Digital Identity ("SLUDI") programme had reached only 20.0% completion by late 2025 and subsequently missed its third quarter of 2026 deployment milestone, with Phase 1 hardware security procurement closing only in late Oct-2026. The progress made across other digital services therefore sits alongside continued implementation challenges in some of the larger digital infrastructure programmes.

Sri Lanka's shift towards digital payments has accelerated considerably since 2022. Core retail digital payments increased from 46.7% of transaction volume in 2022 to 67.5% by the second quarter of 2026, while cash access transactions through ATMs and CRMs declined from 48.7% to 30.0% over the same period. Common Electronic Fund Transfer Switch ("CEFTS") fast payment values also increased from LKR 8.9 trillion in 2022 to LKR 23.1 trillion in 2025, reaching a further LKR 6.9 trillion during second quarter of 2026. These trends reflect a clear change in how consumers and businesses are making everyday payments.

At the merchant level, Sri Lanka continues to expand its physical point of sale ("POS") network, which grew 12.8% from 2025 to the second quarter of 2026. In comparison, India's terminal base contracted 13.5%, as smaller merchants increasingly shifted towards lower cost QR payments. Unlike conventional POS terminals, QR payments do not require merchants to invest in or maintain physical terminal hardware, making them more accessible to smaller businesses. India supported widespread adoption by keeping Unified Payments Interface ("UPI") transactions free of charge for more than six years, with a 0.4% fee only recently being considered for transactions above INR 2,000.0.

In Sri Lanka, digital payment charges of around 3.0% can place greater pressure on the margins of smaller merchants, creating a barrier to wider adoption. The introduction of a zero fee threshold for LANKAQR transactions below LKR 5,000 directly addresses this issue. LANKAQR merchant transactions increased 39.4% YoY to 0.4 million in second quarter of 2026, from 0.3 million in the second quarter of 2025, while transaction value increased 48.6% to LKR 1.7 billion. Continuing to support low cost QR payment channels could therefore make digital payment acceptance more practical and affordable for smaller merchants.

Structural shift in retail payment volume (2022-2Q26)



Sources: CBSL, EDB, DCS, IRD, GovPay, TRCSL, SLT, CRIB, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Credit information has also become more accessible through MyCRIB, which provides verified credit scores and real time profile alerts. Cross border payment connectivity remains mixed: international payment options support tourist spending through Google Pay and LankaPay integrations with UPI and PhonePe, while domestic freelancers continue to lack direct inward merchant receiving and checkout capabilities through PayPal.

Sector outlook, governance, and investment assessment

Public sector digitalisation has increased the use of traceable online transactions across government payments, tax administration and welfare transfers. GovPay, RAMIS and digital Aswesuma transfers reduce dependence on manual processes and create clearer transaction records. While these initiatives do not remove broader governance risks, they provide greater visibility over transactions and support administrative transparency.

Sri Lanka also continues to provide a base for international BPO and knowledge services, supported by competitive operating costs, its time zone, commercial 5G coverage, a 69,000 kilometre fibre backbone and 72.0% digital literacy. The Government's 2030 roadmap further supports this direction through rural connectivity and public sector digitalisation initiatives.

However, further progress will depend on addressing the remaining infrastructure and skills gaps. Fixed broadband costs remain high, fibre penetration stands at 19.5%, and computer literacy remains at 39.2%. Technical talent migration and limitations in two way international payment capabilities also remain key constraints. Addressing these areas will be important if Sri Lanka is to strengthen its position as a scalable and globally competitive digital destination.

Sources: CBSL, EDB, DCS, IRD, GovPay, TRCSL, SLT, CRIB, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Industry Analysis

Hospitality



Momentum for Transformative Growth

Sector overview

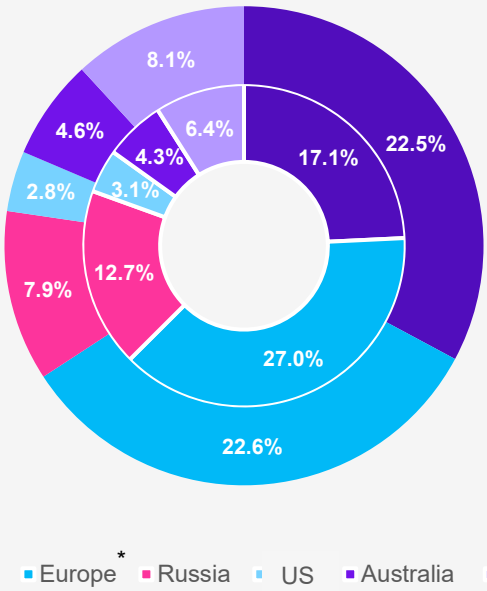
Sri Lanka's hospitality sector serves as an important source of foreign exchange, employment and regional economic activity, with extensive linkages to transport, food services and local businesses. Following the sharp downturn in 2022, tourism has become an essential pillar of the economic recovery. However, while arrivals have recovered strongly, visitor spending has recovered more gradually, making tourist spend, length of stay and accommodation yields increasingly important.

Tourist arrivals have recovered, but the mix has changed

Tourist arrivals increased from 719,978 in 2022 to 2.36 million in 2025, marginally surpassing the 2018 arrivals of 2.33 million. India became a major driver of the recovery, with arrivals increasing from 123,004 to 531,511, representing around 22.5% of 2025 arrivals. However, 2026 momentum was affected by Middle East geopolitical disruption and interruptions across major Gulf transit hubs used by European and other long haul travelers.

The source market mix has consequently shifted towards regional travel, while several traditional European and Russian markets have softened. This matters because regional visitors generally exhibit different stay patterns from long haul travelers. The overall average stay declined from approximately 9.4 nights in 2022 to 8.3 nights in 2025, while Indian visitors stayed for around 5 nights on average in 2025, the level below several long haul source markets. Stronger arrival numbers therefore do not necessarily translate into an equivalent increase in tourist nights.

Top 10 tourist source markets based on arrivals (2022 and 2025)



*

*Note: *The tourist arrivals under Europe are namely from: United Kingdom, Germany, France, Poland and Netherlands.*

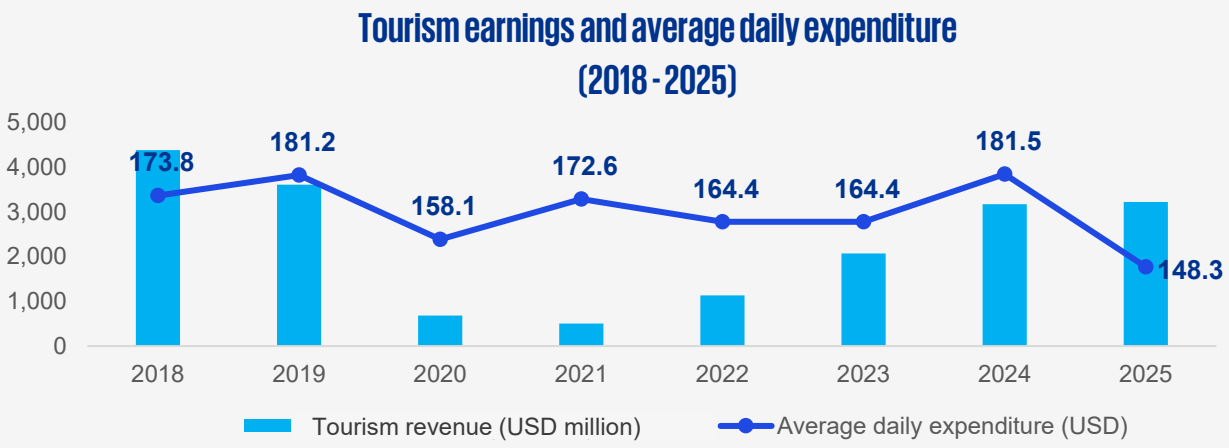
Sources: CBSL, Sri Lanka Tourism Development Authority ("SLTDA"), KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Tourism earnings lag behind growth in arrivals

Tourism earnings recovered from approximately USD 1.1 billion in 2022 to USD 3.2 billion in 2025 but did not increase proportionately with arrivals. The changing source market mix and shorter stays partly explain this gap, as total visitor expenditure depends on both daily spending and the number of nights spent in the country. The purpose of travel also matters, with leisure, Visiting Friends and Relatives ("VFR"), Meetings, Incentives, Conferences and Exhibitions ("MICE"), etc. having distinct expenditure and accommodation patterns.

This pressure is also reflected in the expenditure assumptions used to calculate tourism receipts. SLTDA reduced estimated average daily expenditure from USD 171.8 to USD 148.3 from Aug-2025, before refining its methodology to better reflect country specific stays. While partly methodological, the revision reinforces the broader message that the recovery in tourism value has been slower than the recovery in tourist volumes.



More accommodation is competing for tourist spend

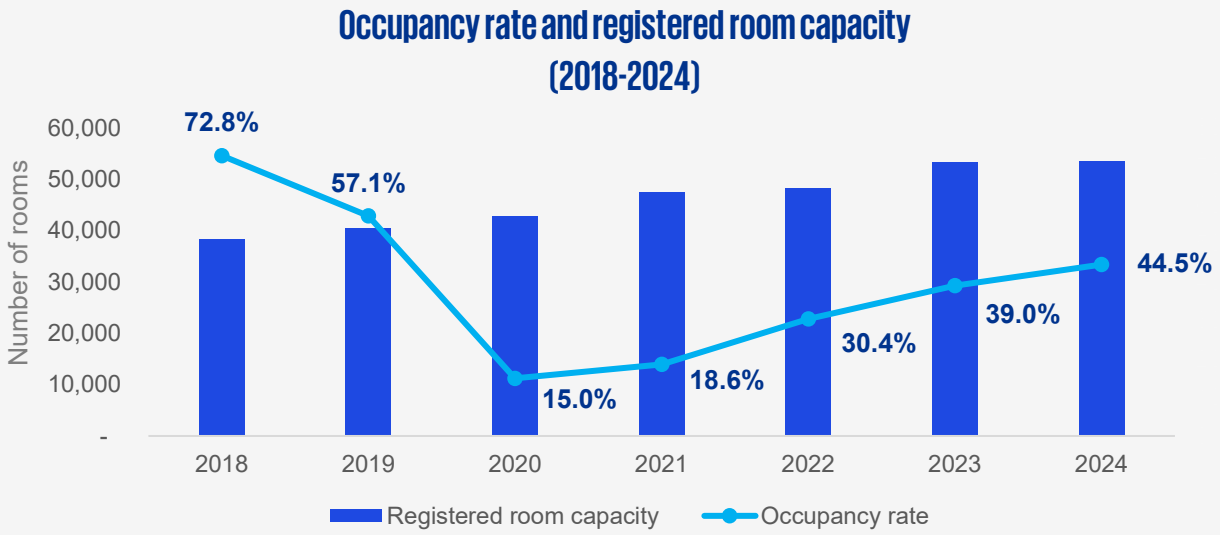
Accommodation supply has expanded alongside the recovery in arrivals. Registered establishments increased from 4,390 in 2024 to 4,927 in 2025, while registered room capacity rose YoY by 11.6%, from 53,378 to 59,578 rooms. Beyond this registered inventory, a SLTDA published assessment estimates that over 55,000 additional rooms operate outside its registration system. The broader mix of hotels, villas, guesthouses and homestays points to an increasingly fragmented and competitive market, with properties competing on price, location, service quality and distinctive visitor experiences.

Sources: CBSL, SLTDA, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Lower priced accommodation could place pressure on formal hotel occupancy and room rates, particularly as shorter staying and price sensitive travel expands. However, smaller accommodation providers also broaden tourism participation by channeling visitor expenditure towards households and rural communities. The challenge is therefore to improve registration and quality standards without diminishing the regional and rural economic benefits created by smaller tourism businesses.



From volume recovery to value creation

With leisure remaining the dominant travel purpose, future development could increasingly focus on extending stays and increasing visitor spend rather than arrivals alone. Improving wildlife, cultural, wellness and experience led tourism, alongside MICE and better connectivity to lesser visited destinations, could encourage tourists to remain longer while spreading expenditure more widely. Government destination marketing and tourism infrastructure investment could support this shift.

Nevertheless, the sector remains exposed to geopolitical disruption, Gulf transit connectivity, aviation capacity, fuel prices and weaker discretionary spending in key source markets. Sri Lanka's recovery is therefore well established in volume terms, but the next stage may be more dependent on value. Longer stays, stronger visitor spending and more diversified tourism experiences could help translate higher arrivals into stronger foreign exchange earnings and hotel yields, although the pace of improvement shall remain sensitive to the external conditions.

Sources: CBSL, SLTDA, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027
Budget Analysis

Industry Analysis

Real Estate and Construction



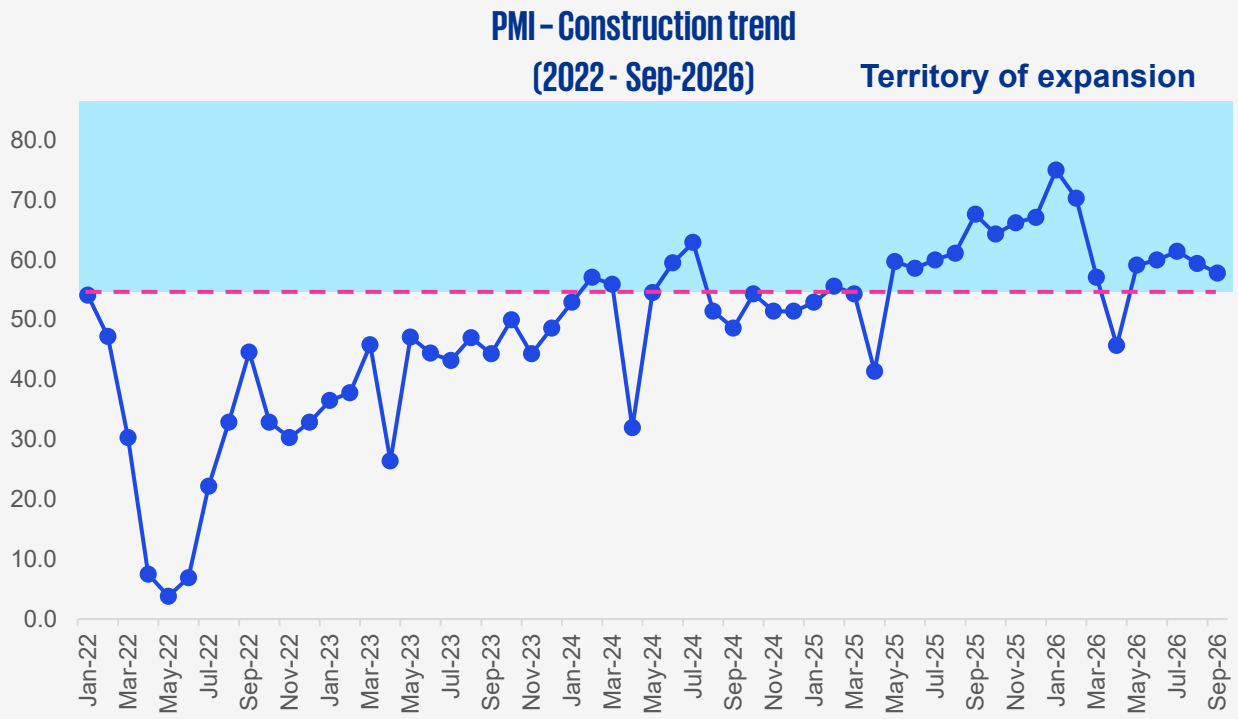
Momentum for Transformative Growth

Real estate and Construction

Real estate and construction play a vital role in shaping the country's economic development, urban growth and infrastructure landscape. The construction industry drives the development of residential, commercial, industrial and public infrastructure, while the real estate sector supports investment, property development and evolving housing demands. Together, these sectors reflect the country's changing economic conditions, market opportunities and development priorities. With growing urbanization, infrastructure expansion and investor interest, they continue to present significant potential for growth and transformation

Construction: Strong recovery following the 2022 to 2023 contraction

Following structural challenges from 2020 and the economic crisis, Sri Lanka's construction sector contracted sharply YoY by 20.9% in 2022 and 20.8% in 2023, prior to entering a strong recovery, with real value added expanding YoY by 20.1% in 2024 and 9.2% in 2025, followed by 13.9% YoY growth in the second quarter of 2026. The turnaround is also evident in the Construction Purchasing Manager Index ("PMI"), which recovered significantly from its 2022 low of 3.8 in May-2022 as project activity and new orders gradually returned. Cement demand provides further evidence of this recovery, with total cement supply reaching 3.6 million MT during Jan-Aug 2026, supported by a 17.3% YoY increase in domestic production to 3.2 million MT, despite finished cement imports declining by 12.8% YoY to 0.4 million MT.



Sources: CBSL, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Rising input, labor and financing costs could moderate the recovery

However, the recovery has increasingly faced supply side and cost pressures. The Middle East crisis in mid 2026 pushed up global crude, freight and key construction input costs, including steel, aluminium and bitumen, while shortages of bitumen and longer supplier lead times further affected material availability and project execution. Financing conditions also tightened amid inflationary pressures, increasing borrowing costs and potentially weighing on project affordability and demand. The 29.5% Month-on-Month ("MoM") decline in imported building materials from Jul-Aug 2026 further points to softer demand and procurement activity.

At the same time, recovering construction activity has increased demand for skilled workers against an already constrained labor pool, adding to labor cost pressures, with the overall construction wage rate index rising from 156.2 in 2022 to 191.5 in 2025, an increase of 22.6%. Together, higher material, transport, financing and labor costs, alongside supply chain constraints, could pressure contractor margins and moderate the pace of project execution.

Activity remains expansionary.

Despite these pressures, construction activity remained in expansionary territory, with the Construction PMI at 57.8 in Sep-2026, although this was below 59.4 in Aug-2026. The easing could indicate some moderation in the pace of activity rather than a contraction. Going forward, growth could become more moderate as the sector faces constraints on both sides of the market: supply side pressures from labor shortages, higher wages, material constraints and supply chain delays, alongside demand side pressures from higher construction costs, affordability constraints and potentially higher interest rates.

Sources: CBSL, KPMG analysis

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

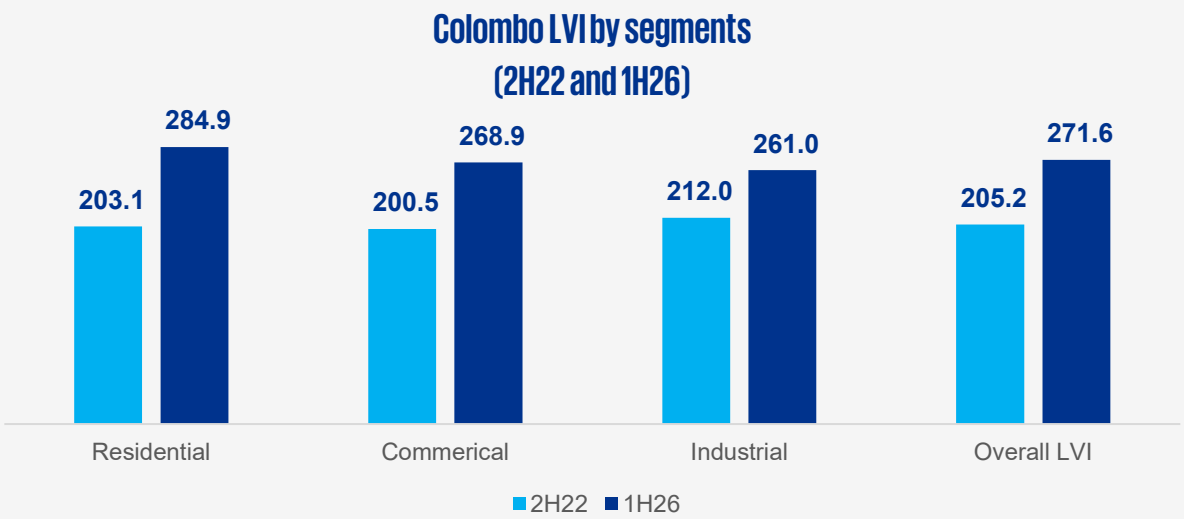
Real estate: Property values continue to recover, although growth is moderating

Sri Lanka's real estate market continued to recover alongside improving economic conditions, with property values in the Western Province maintaining an upward trend. The Colombo Land Valuation Indicator ("LVI") increased YoY by 27.6% from 205.2 in the second half of 2022 to 261.9 in the second half of 2025, reflecting a sustained recovery in land values from the crisis period.

The upward trend continued into first half of 2026, with the overall index reaching 271.6, up 5.9% YoY, led by residential land values at 6.7%, followed by commercial at 5.7% and industrial at 5.2%. While the pace of appreciation has moderated, continued growth across all three segments indicates underlying resilience in property demand, supported by improving credit conditions, housing requirements and the recovery in tourism related activity.

However, rising property prices have not translated into an equally broad improvement in transaction activity. In the second quarter of 2026, asking prices in Colombo District increased by 15.2% YoY for land, 9.0% for houses and 12.6% for condominiums, while the Condominium Property Sales Volume Index declined by 6.7% YoY. Transactions were concentrated within the LKR 25.0 million to LKR 50.0 million price range, while volumes below LKR 25.0 million declined, indicating affordability constraints among more price sensitive buyers.

Accordingly, while underlying property values could remain supported by housing demand, tourism related activity and institutional housing initiatives, higher construction costs, affordability pressures and potentially higher financing costs could constrain transaction volumes and moderate near term market activity.



Sources: CBSL, KPMG analysis

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

About KPMG in Sri Lanka

Economic Analysis

- Sri Lanka's economy
- The next phase
- Economy at a Glance

Industry Analysis

- Banking industry
- Energy sector
- Agriculture
- Digital
- Hospitality
- Real estate and Construction

About KPMG in Sri Lanka



Momentum for Transformative Growth

KPMG in Sri Lanka at a glance

Momentum for Transformative Growth

Professionals in KPMG in Sri Lanka:

1,200+
People Locally

19
Partners

By service line



- Tax **51**
- Audit **823**
- Advisory **314**

Combined Global Revenues

$39.8

USD in Billions - FY 2025

Part of

138

Countries in the Global Network

Established in

1897

The Oldest Chartered Accountancy Firm in the Country

Celebrating Excellence Spanning 125 Years & Beyond

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Leadership Team – KPMG in Sri Lanka

Momentum for Transformative Growth



Ranjani Joseph
Partner - Chief Operating Officer



Chamara Abeyrathne
Partner – Head of Audit



Upul Karunaratne
Partner – Audit



Dhammika Rajapakse
Partner - Audit



Thamali Rodrigo
Partner – Head of Enterprise



Harsha Rajan
Partner – Audit



Shameel Nayeem
Partner – Audit



Raditha Alahakoon
Partner - Department of Professional Practice



Pyumi Sumanasekara
Partner - Sustainability



Sachiru Dayananda
Partner - Audit

Audit



Suren Rajakarier
Country Managing Partner



Jagath Perera
Partner – Governance, Risk & Compliance



Shiluka Goonewardene
Principal - Head of Advisory



Kamaya Perera
Partner - Head of Management Consulting



Karthikeyan Somasundaram
Principal – Deal Advisory



Dushani Corea
Principal – Deal Advisory

Advisory



Suresh R. I. Perera
Principal - Head of Tax & Regulatory



Rifka Ziyard
Principal - Tax & Regulatory



Hasitha Raddella
Partner - Tax & Regulatory

Tax

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Awards and Recognitions

Momentum for Transformative Growth

2025
KPMG in Sri Lanka ranks first in the Auditors League **2024/2025** by **LMD 100**

2023
One of **LMD's most Respected Entities** in Sri Lanka for **2023**

2022
Sector winner in **Financial Services** by **LMD's most Respected Entity** in Sri Lanka for **2022**

2022
KPMG firms named a **"Strong Performer"** by **Forrester - The Forrester Wave™**: Oracle Cloud Apps Implementation Services Partners, Q2 2022

2021
KPMG in Sri Lanka **ACCA Platinum Employer Status for Training and Professional Development**

2021
Sector winner in **Financial Services** by **LMD's most respected entity** in Sri Lanka for **2021**

2021
Best Corporate Advisory Firm - Sri Lanka **2021 Global Economics Awards**

2019
First in **Financial Services** Category **LMD Most Respected 2019**

2019
Forrester Wave Leader – 2019 – Global Cyber Security Consulting Services

2018
Sri Lanka **Tax Firm of the Year Asia Tax Awards 2018**

2018
Oracle SaaS Partner of the Year 2018
Oracle ERP Partner of the Year 2018
Oracle SCM Partner of the Year 2018

2017
First in the **Auditors League** in Sri Lanka **LMD 100 - 2017**

2017
First in the **Auditors League** in Sri Lanka **LMD 100 - 2017**

KPMG

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG

KPMG 2027 Budget Analysis

Contact Us:

For enquiries relating to this report

Raguram Raamakrishnan

Director – Corporate Finance – Deal Advisory

T: +94 11 542 6233

E: rraamakrishnan@kpmg.com

Contributors:

Raguram Raamakrishnan
Director – Corporate Finance

Ramaluxmmy Ramalingam
Senior Analyst – Corporate Finance

Anargi Perera
Analyst – Corporate Finance

Dhaneshwer Jayaramesh
Analyst – Corporate Finance

Connect With Us:

KPMG Sri Lanka | @kpmgsl | @kpmgsrilanka | @KPMGSriLanka



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2026 KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks of KPMG International.