The Ceylon Chamber of Commerce

Sri Lanka

Quarterly Economic Update

June 2026

62,705 km² Land Area	**89** Out of 189 countries	**93** (Out of 133 economies) Global Innovation Index (2024)	**91** (out of 167 countries) Prosperity Index (2025)

POPULATION STATISTICS

22.1 MILLION
Mid-year Population

5.6Mn
0–14 yrs Age Group

14.8Mn
15–64 yrs Age Group

1.7Mn
65+ yrs Age Group

93.3%
LITERACY RATE

64.3%
DIGITAL LITERACY

36.4%
COMPUTER LITERACY

57.9%
FINANCIAL LITERACY

ECONOMIC DASHBOARD

Economic Growth

5.1% For the Q1 of the year 2026

The Sri Lankan Economy grew by 5.1% in Q1 2026 compared to 4.7% growth in Q1 2025. All three major economic activities positively contributed to this growth. Further, the GDP implicit price deflator for the quarter was recorded as 5.7%.

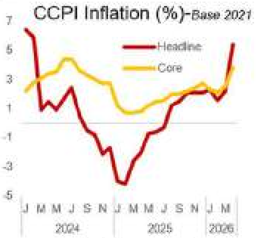
Movement of Purchasing Managers' Index- May 2026

Manufacturing PMI	56.6
Services PMI	56.9
Construction PMI (April)	45.7

Manufacturing & Services indices recorded an increase compared to the previous month.

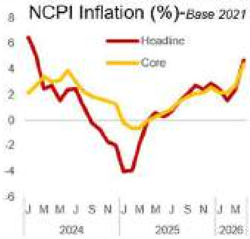
Inflation

CCPI Inflation (%)-*Base 2021*



June 2026	Headline	Core
	6.8%	4.0%

NCPI Inflation (%)-*Base 2021*



May 2026	Headline	Core
	5.4%	4.5%

External Sector

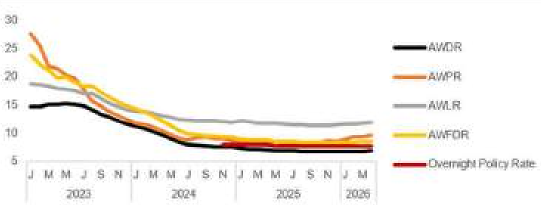
Jan- May 2026

Merchandise Trade

Trade Deficit	USD 4.661 mn
Exports	USD 5,759 mn 7.6% y-o-y growth
Imports	USD 10,420 mn 29% y-o-y growth
Services Net Exports	USD 1,436 mn 20.8% y-o-y decline

Tourist Arrivals	1,022,022 0.8% y-o-y decline
Tourism Earnings	USD 1,360mn 11.9% y-o-y decline
Workers' Remittances	USD 3,910mn 26% y-o-y growth

Interest Rates



Growth in Credit to Private Sector

April 2026

27%

Overnight Policy Interest Rate (OPR): 8.75%

Exchange Rate

Official Reserves

USD 6,873 mn
May 2026

ECONOMIC HIGHLIGHTS FOR H1
GLOBAL ECONOMY

Middle East Conflict Threatens Global Economic Recovery

The Middle East conflict significantly weakened the global economic outlook in 2026, with disruptions around the Strait of Hormuz pushing Brent crude oil prices above USD 100 per barrel. Rising energy, transportation, and food costs increased inflationary pressures worldwide, while the IMF warned of slower global growth if the conflict persists. Import-dependent economies such as Sri Lanka remain particularly vulnerable to higher import costs andweaker external demand.

Trump’s Tariff Escalation

Following a Supreme Court ruling, the United States increased tariffs on most imports from 10% to 15%, the maximum permitted under Section 122 of the Trade Act of 1974. The measures, effective for 150 days, aim to strengthen domestic manufacturing but have intensified global trade tensions and raised concerns about slower economic growth and reduced trade activity.

Global Commodity Outlook 2026: Supply Shocks Drive Price Surge

Global commodity prices are projected to increase by around 16% year-on-year in 2026, marking the first annual rise since 2022. The increase is largely driven by Middle East-related supply disruptions and shipping constraints. However, as supply conditions normalize, commodity prices are expected to decline by approximately 12% in 2027.

Global Trade Slows Amid Geopolitical and Supply Chain Disruptions

Global trade growth is expected to moderate in 2026 due to geopolitical tensions, rising transport and insurance costs, and supply chain disruptions. Higher energy and commodity prices have weakened trade competitiveness, particularly in import-dependent economies, prompting many countries to diversify export markets and strengthen regional trade partnerships.

Global Risks 2026

The Global Risks Report 2026 identifies geoeconomic confrontation as the most likely trigger of a major global crisis. Rising debt distress, asset bubbles, geopolitical conflicts, and technological risks have increased vulnerabilities across both advanced and emerging economies, while environmental risks continue to pose the greatest long-term threat.

ECONOMIC HIGHLIGHTS FOR H1
SRI LANKAN ECONOMY

IMF Completes 5th and 6th EFF Reviews for Sri Lanka

The IMF completed Sri Lanka's combined 5th and 6th reviews under the Extended Fund Facility (EFF), approving USD 695 million and bringing total disbursements to USD 2.4 billion. While programme performance remained broadly strong, the IMF revised Sri Lanka's 2026 growth forecast to 3% due to risks arising from the Middle East conflict and Cyclone Ditwah.

CBSL Increases the Overnight Policy Rate (OPR)

The Central Bank of Sri Lanka raised the Overnight Policy Rate by 100 basis points to 8.75% in response to rising inflation and external sector pressures. Inflation reached 5.4% in April 2026, while official reserves stood at USD 6.8 billion. The move aims to contain inflation and support external sector stabilityamid higher global energy prices.

Para-Tariff Reforms to Boost Competitiveness and Consumer Welfare

Sri Lanka is gradually removing para-tariffs, including PAL and CESS, with full implementation targeted by 2029. These measures currently contribute to average import duties of around 19%. The reforms are expected to reduce production costs, improve export competitiveness, and lower prices for consumers.

Private Sector Credit Expansion

Private sector credit expanded strongly in 2025, with Licensed Commercial Banks extending approximately Rs. 2.1 trillion in new credit, representing 25.2% year-on-year growth, compared to 10.7% in 2024. Finance companies also recorded nearly 50% growth in lending, supported by stronger consumer demand and the relaxation of vehicle import restrictions.

Sri Lanka's Public Debt Declines in 2025

Sri Lanka's debt-to-GDP ratio improved from 103% in 2024 to 98% in 2025, while total public debt declined to USD 103.9 billion. Progress in debt restructuring, including near-full external creditor participation and the successful restructuring of Sri Lankan Airlines' international sovereign bond obligations in March 2026, strengthened the country's debt sustainabilityoutlook.

NEXT BIG OPPORTUNITIES

The business, investment, partnership, and expansion opportunities featured below have been curated from a range of industries across Sri Lanka. Each opportunity includes key information to help investors, entrepreneurs, and businesses identify potential ventures and collaborations.
If you are interested in exploring any of the opportunities featured below or require further information, please contact Arani Rodrigo Weerasekera at economist@chamber.lk or Saumya Amarasiriwardena at saumya@chamber.lk. We will facilitate an introduction to the relevant business or opportunity owner and connect you with the appropriate stakeholders.

PROJECT OCEAN

Opportunity to acquire a leading Seafood Export company with

-Food Manufacturing
-Sri Lanka

WATERFRONT PROPERTY DEVELOPMENT

Waterfront mixed-use hub in Colombo for retail, leisure, and commercial leasing

-Property Development
-Colombo

JAFFNA ENTERTAINMENT PARK

Modern cultural entertainment hub capturing rising tourism and local demand in Jaffna

-Leisure
-Jaffna

INVESTING IN AGRI VALUE CHAIN IN SRI LANKA

Agri value chain investment driven by agribusiness shift and export potential

-Agriculture
-Multiple locations within Sri

RESORTS DEVELOPMENT

Focused resort development in Yala, Cultural Triangle, and South, with wellness emphasis

-Leisure
-Yala, Cultural Triangle, and South

TAX ENVIRONMENT

REGULATORY ENVIRONMENT AND TAXATION

CENTRAL BANK OF SRI LANKA (CBA) ACT

The CBA redefined the Central Bank's primary objectives, focusing on price stability and financial system stability. The Act prohibits monetary financing of the Government except in exceptional circumstances, such as natural disasters or pandemics. It also formally adopts Flexible Inflation Targeting (FIT) as the monetary policy framework and requires the Minister of Finance and the Central Bank to enter into a monetary policy framework agreement specifying the inflation target. Under the current agreement, the Central Bank must maintain quarterly headline inflation, measured by the Colombo Consumer Price Index (CCPI), at 5% ±2 percentage points.

PUBLIC FINANCIAL MANAGEMENT (PFM) ACT

The PFM Act establishes a comprehensive legal framework for fiscal management, setting out the budget cycle, institutional roles, responsibilities, and accountability requirements. It strengthens fiscal discipline through legally binding fiscal rules, including a primary balance target and a primary expenditure ceiling linked to the Medium-Term Macro-Fiscal Framework (MTFF). The Act caps Government primary expenditure at 13% of estimated nominal GDP for the relevant financial year.

Personal Income Tax	
Annual Employment Income	**Tax Rate**
Up to Rs. 1,800,000	Relief
Next Rs.1,000,000	6%
Next Rs. 500,000	18%
Next Rs. 500,000	24%
Next Rs. 500,000	30%
Above Rs. 4,300,000	36%

Corporate Income Tax	
Entity Type	**Tax Rate**
Standard Companies/ Trusts/ NGOs	30%
Betting, Gaming, Liquor, Tobacco	40%
Provident, Pension, or Gratuity Funds	14%
Dividends (withholding)	15%

Value Added Tax/ Social Security Contribution Levy	
VAT Rate	18%
SSCL Rate	2.5%
VAT/SSCL Annual turnover threshold for mandatory registration	Rs. 60,000,000

REMOVAL OF CESS

Sri Lanka is phasing out the CESS tax on 2,634 imported items between 2026 and 2029 to lower business costs and boost trade. Most general goods will see a 50% tax cut in April 2026, a 25% cut in April 2027, and full removal by 2029. However, 107 sensitive local products will follow a slower path, getting a 25% cut in April 2027, another 25% cut in 2028, and final elimination in 2029.

REPATRIATION OF EXPORT PROCEEDS

The June 2026 amendment to the Repatriation of Export Proceeds rules in Sri Lanka mandate that all residual foreign currency earnings must be converted into Sri Lankan Rupees by the 10th day of the following month, significantly shortening the previous 90-day window. These changes, applicable to both primary and indirect exporters, aim to increase local foreign currency liquidity.

CHANGES

INLAND REVENUE (AMENDMENT) ACT NO. 11 OF 2026

1. Higher Capital Gains Tax (CGT): CGT increased from 10% to 15% for individuals and partnerships,and from 10% to 30% for trusts, unit trusts, mutual funds, and NGOs.

2. Stronger Tax Administration: Mandatory TIN verification introduced for key transactions such as opening bank accounts, land registration, vehicle registration, credit cards, and share transfers. Taxpayer information-sharing powers have also been expanded.

3. Expanded Withholding Tax Regime: WHT requirements extended to a broad range of professionals and service providers, significantly widening the tax net.

4. Investment and Tax Relief Measures: Introduction of a 100% enhanced capital allowance for qualifying investments, carry-forward of unused qualifying payments, tax relief on salary arrears, and exemption of life insurance proceeds from assessable income.

5. Changes to Tax Payments and Residency: Instalment tax payments will generally be based on the previous year's taxable income, while residency rules have been clarified for overseas employees and investor visa holders.

FOREIGN INVESTMENT POLICY OF SRI LANKA

The Sri Lanka's foreign investment policy lies in a combination of following key legislative instruments while supporting national economic development.

- *the Board of Investment (BOI) Law No. 4 of 1978 – BOI was established as the central investment promotion and facilitation agency, granting incentives and approvals for the investors.*
- *the Foreign Exchange Act No. 12 of 2017 – This acts as liberalization foreign exchange controls, allowing greater flexibility in capital flows and repatriation*
- *the Companies Act No. 7 of 2007 – This provides the legal foundation for establishing and operating companies in Sri Lanka*
- *Bilateral Investment Treaties (BITs) and Double Taxation Agreements – This ensures investor protection, dispute resolution mechanisms and avoidance of double taxation.*

Together, these legal frameworks aim to ensure policy consistency, legal protection and ease of doing business for foreign investors. Following the 2022 economic crisis, Sri Lanka initiated a series of IMF supported structural reforms to restore macroeconomic stability and rebuild investor confidence. The period from 2024 to 2026 marks a transition to a more transparent, rule-based investment regime, supported by institutional strengthening, digitalization, and legal and policy modernization. From January 2026 onward, several key reforms and policy shifts have been introduced to reposition Sri Lanka as a competitive FDI destination.

RE-ACTIVATION OF THE STRATEGIC DEVELOPMENT PROJECTS (SDP) REGIME

Re-activation of the Strategic Development Projects (SDP) regime

Sri Lanka reactivated the Strategic Development Projects (SDP) incentive framework through Extraordinary Gazette No. 2474/66 issued on 8 February 2026 under the Strategic Development Projects Act No. 14 of 2008 (as amended). The revised regulations establish updated eligibility criteria for project approval, including investment thresholds, employment generation requirements, export potential, technology transfer, and contribution to regional development objectives.

The renewed framework provides a range of targeted fiscal incentives designed to improve Sri Lanka's competitiveness as an investment destination. Approved projects may qualify for corporate income tax concessions, customs duty exemptions, VAT-related benefits, and exemptions from selected import related levies during project implementation. Unlike previous investment incentive schemes, the revised SDP framework seeks to align incentives with measurable economic outcomes, ensuring that fiscal concessions are granted to projects that contribute significantly to economic transformation, export growth, and industrial development.

Colombo Port City Commission (Amendment) Act No.01 of 2026

The enactment of the Colombo Port City Commission (Amendment) Act No. 01 of 2026 marks a further step in strengthening the legal and regulatory framework governing the Colombo Port City Special Economic Zone (SEZ). The amendment is particularly significant given the strategic role envisaged for Colombo Port City as a regional hub for financial services, technology, logistics, professional services, and international business operations. By strengthening the operational framework of the Commission and improving coordination between relevant regulatory authorities, the Government aims to create a more transparent, predictable, and investor-friendly business environment. The reforms are expected to enhance the attractiveness of Port City for international investors seeking access to South Asian markets while benefiting from a dedicated special economic zone with modern infrastructure and streamlined regulatory procedures.

National Export Development Plan (NEDP) 2026–2030

The National Export Development Plan (NEDP) 2026–2030, officially launched in June 2026, provides the strategic framework for Sri Lanka's export-led growth agenda over the next five years. A notable feature of the NEDP is its strong emphasis on creating an enabling trade, investment, and business environment rather than relying solely on traditional export promotion measures. The Plan prioritizes reforms in trade facilitation, customs modernization, logistics development, trade finance, investment climate improvements, standards and quality infrastructure, digitalization, innovation, and skills development. It also identifies eight priority sectors for export expansion and investment attraction: auto components, mineral-based industries, rubber-based industries, marine industries, spices and concentrates, digital products and services, electrical and electronic components, and processed food and beverages. Through these interventions, the Government aims to increase total exports to USD 36 billion by 2030 while attracting greater levels of foreign direct investment to support industrial upgrading, technology transfer, and integration into global production networks.

Revised National Mineral Policy (2026)

The Revised National Mineral Policy, launched on 11 June 2026, represents a major policy shift in the management and utilization of Sri Lanka's mineral resources. The policy seeks to maximize the economic value derived from the country's mineral wealth by promoting domestic processing, value addition, and downstream industrial development rather than the export of raw mineral resources.

A central objective of the revised policy is to attract investment into mineral processing and manufacturing activities that utilize locally available resources such as zircon, garnet, silica, quartz, graphite, and titanium-bearing minerals. The policy encourages the adoption of advanced technologies, sustainable mining practices, environmental safeguards, and greater private sector participation throughout the mineral value chain. By promoting value-added exports and reducing dependence on raw material exports, the Government aims to enhance foreign exchange earnings, strengthen industrial competitiveness, and position Sri Lanka as a regional hub for selected mineral-based industries. The policy also aligns closely with the National Export Development Plan, which identifies mineral-based industries as a strategic sector with significant export and investment potential.

The Ceylon Chamber of Commerce

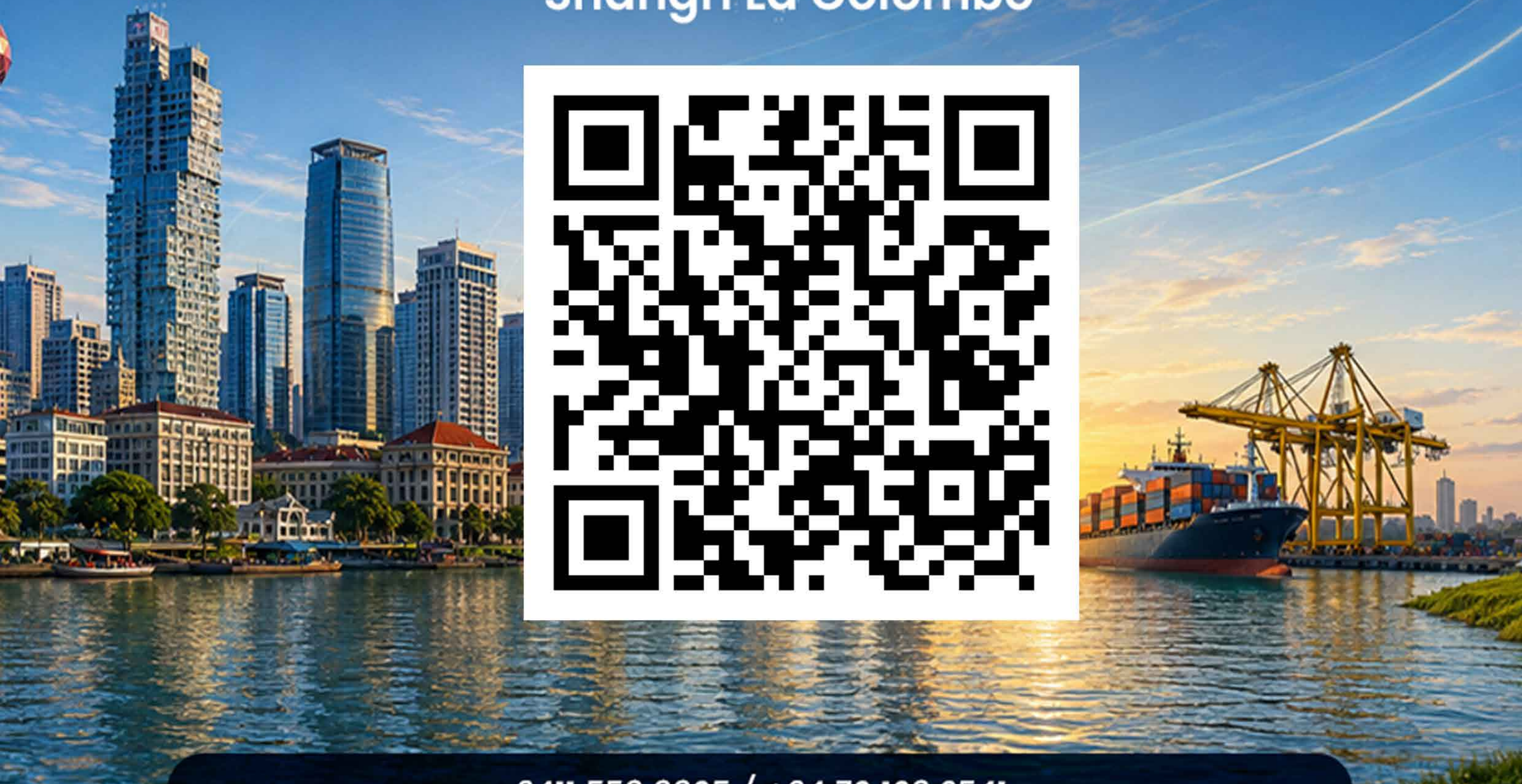
Sri Lanka Economic and Investment Summit 2026

Positioning Sri Lanka in a Changing Global Economy: Resilience, Reform, and the Future of Economic Policy

12Th – 13Th

OCTOBER 2026

Shangri La Colombo



9411 558 8805 / +94 70 108 2541
alikie@chamber.lk / events.division@chamber.lk