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POLICY STUDIES
OF SRI LANKA

SRI LANKA STATE OF THE ECONOMY 2026

Policy Choices for Durable Growth



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**INSTITUTE OF
POLICY STUDIES
OF SRI LANKA**

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AgeTech	Age Technology
AHEAD	Accelerating Higher Education Expansion and Development
AI	Artificial Intelligence
AIPI	AI Preparedness Index
AL	Advanced Level
ANPR	Automated Number Plate Recognition
APIT	Advanced Personal Income Tax
ART	Agreement on Reciprocal Trade
ASEAN	Association of Southeast Asian Nations
AWPR	Average Weighted Prime Rate
BESS	Battery Energy Storage System
bn	Billion
BOI	Board of Investment
bps	Basis Points
BRIGHT	Building Resilience, Inclusive Growth and Holistic Transformation
BTM	Behind-the-Meter
CAGR	Compound Annual Growth Rate
CBET	Cross-Border Energy Trade
CBICS	Community-Based Integrated Care System
CBSL	Central Bank of Sri Lanka
CCB	Coconut Cultivation Board
CCCI	Ceylon Chamber of Coconut Industries
CCPI	Colombo Consumer Price Index
CDA	Coconut Development Authority
CDB	Coconut Development Board
CEB	Ceylon Electricity Board
CESS	Commodity Export Subsidy Scheme
CETA	Comprehensive Economic and Trade Agreement
CGA	Comprehensive Geriatric Assessment
CID	Customs Import Duty
CIF	Cost, Insurance, and Freight
CO ₂ e	Carbon Dioxide Equivalent
COP	Conference of the Parties
COVID-19	Coronavirus Disease 2019
CPCRI	Central Plantation Crops Research Institute
CPH	Census of Population and Housing
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CRED	Centre for Research on the Epidemiology of Disasters

CRI	Coconut Research Institute
CSEI	Climate Shock Exposure Index
CV	Coefficient of Variation
DALY	Disability-Adjusted Life Year
DCC	Distribution Control Centre
DCS	Department of Census and Statistics, Sri Lanka
DCTS	Developing Countries Trading Scheme
DER	Distributed Energy Resources
DERMS	Distributed Energy Resource Management System
DI	Digital Infrastructure
DSA	Debt Sustainability Analysis
DSFI	Dietary Sourcing Flexibility Index
DXY	US Dollar Index
EDB	Export Development Board
EFF	Extended Fund Facility
EIC	Export-Import CESS
EM-DAT	Emergency Events Database
EME	Emerging Market Economy
EP	Eastern Province
EPF	Employees' Provident Fund
EPZ	Export Processing Zone
ERP	Effective Rate of Protection
ESG	Environmental, Social, and Governance
ESS	Energy Storage System
ETF	Employees' Trust Fund
EU	European Union
EUR	Euro
EV	Electric Vehicle
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GAIN	Global Alliance for Improved Nutrition
GCC	Gulf Cooperation Council
GCE	General Certificate of Education
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GenAI	Generative Artificial Intelligence
GFCF	Gross Fixed Capital Formation
GFN	Gross Financing Needs
GGHE-D	Domestic Government Health Expenditure
GI	Geographical Indication

GND	Grama Niladhari Division
GREAT	Green Energy Acceleration Targets
GSP	Generalised Scheme of Preferences
GSP+	Generalised Scheme of Preferences Plus
GST	Goods and Services Tax
GTE	Gross Enrolment in Tertiary Education
HALE	Healthy Life Expectancy
HCLMP	Human Capital and Labour Market Policies
HDX	Humanitarian Data Exchange
HHI	Herfindahl-Hirschman Index
HIES	Household Income and Expenditure Survey
HIS	Health Information System
HRST	Human Resources in Science and Technology
HS	Harmonised System
HSEI	Household Shock Exposure Index
HVDC	High-Voltage Direct Current
ICC	International Coconut Community
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communications Technology
ICTA	Information and Communication Technology Agency
IDB	Industrial Development Board
IDRC	International Development Research Centre
IE	Industrial Estate
IEA	International Energy Agency
IEEPA	International Emergency Economic Powers Act
IEI	Innovation and Economic Integration
IEU-CEPA	Indonesia-European Union Comprehensive Economic Partnership Agreement
ILO	International Labour Organization
ILOSTAT	International Labour Organization Statistics
IMF	International Monetary Fund
IPS	Institute of Policy Studies of Sri Lanka
IRD	Inland Revenue Department
IRENA	International Renewable Energy Agency
ISCED	International Standard Classification of Education
ISCO	International Standard Classification of Occupations
ISFTA	India-Sri Lanka Free Trade Agreement
ISIC	International Standard Industrial Classification
IT	Information Technology
ITC	International Trade Centre
ITI	Industrial Technology Institute
ITMIS	Integrated Treasury Management Information System

IWMS	Integrated Welfare Management System
JICA	Japan International Cooperation Agency
LECO	Lanka Electricity Company
LFS	Labour Force Survey
LFP	Lithium Iron Phosphate
LFPR	Labour Force Participation Rate
LHS	Left-Hand Side
LIC	Low-Income Country
LKR	Sri Lankan Rupee
LP	Labour Productivity
LQ	Location Quotient
LTGEP	Long-Term Generation Expansion Plan
LTV	Loan-to-Value
MA	Market Access
MA-GDP	GDP-Weighted Market Access
MA-Pop	Population-Weighted Market Access
MEHE	Ministry of Education, Higher Education, and Vocational Education
MFN	Most-Favoured Nation
MIS	Management Information System
mn	Million
MOU	Memorandum of Understanding
MSME	Micro, Small, and Medium Enterprise
MT	Metric Tonne
MTDS	Medium-Term Debt Management Strategy
NCD	Non-Communicable Disease
NCP	North Central Province
NCG	Net Credit to Government
NCPI	National Consumer Price Index
NDC	Nationally Determined Contribution
NEG	New Economic Geography
NP	Northern Province
NPP	National People's Power
NRE	New Renewable Energy
NSO	National System Operator
NSPS	National Social Protection Strategy
NSW	National Single Window
NTNSP	National Transmission Network Service Provider
NVQ	National Vocational Qualification
NWP	North Western Province
OECD	Organisation for Economic Co-operation and Development
OL	Ordinary Level
OOPHE	Out-of-Pocket Health Expenditure

OPR	Overnight Policy Rate
PACM	Paris Agreement Crediting Mechanism
PAL	Ports and Airports Development Levy
PBOC	People's Bank of China
PCA	Philippine Coconut Authority
PDMA	Public Debt Management Act
PDMO	Public Debt Management Office
PHC	Primary Health Care
PIP	Public Investment Programme
PMCI	Primary Medical Care Institution
PPI	Producer Price Index
PPP	Public-Private Partnership
PSP	Public Service Pensions
PUCSL	Public Utilities Commission of Sri Lanka
PV	Photovoltaic
Q	Quarter
R&D	Research and Development
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RE	Renewable Energy
REDMAP	Renewable Energy Development Master Action Plan
RHS	Right-Hand Side
ROO	Rules of Origin
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SCL	Special Commodity Levy
SDG	Sustainable Development Goal
SEA	Sustainable Energy Authority
SGP	Sabaragamuwa Province
SL-GAP	Sri Lanka Good Agricultural Practices
SLQF	Sri Lanka Qualifications Framework
SLSCI	Sri Lanka Standard Classification of Industries
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SP	Social Protection (Chapter 9); Southern Province (Chapter 6)
SRDSF	Sovereign Risk and Debt Sustainability Framework
SRDSF-MAC	Sovereign Risk and Debt Sustainability Framework for Market Access Countries
SRW	Soft Red Winter (wheat)
SSCL	Social Security Contribution Levy
STEM	Science, Technology, Engineering, and Mathematics
SUR	Surcharge

SUT	Supply and Use Table
TEWA	Termination of Employment of Workmen Act
TFP	Total Factor Productivity
TVEC	Tertiary and Vocational Education Commission
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UCLouvain	Université Catholique de Louvain
UGC	University Grants Commission
UK	United Kingdom
UNIDO	United Nations Industrial Development Organization
UP	Uva Province
US	United States
USD	United States Dollar
VAT	Value-Added Tax
VPP	Virtual Power Plant
VRE	Variable Renewable Energy
WHO	World Health Organization
WP	Western Province
XID	Excise Duty
4Ps	Pantawid Pamilyang Pilipino Program

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1993	Export Sector
1994	Agriculture Sector
1995	Poverty Alleviation
1996	Workers' Charter
1997	Private Sector Expansion
1998	Demographic Change and Social Safety Nets
1999	Free Trade in South Asia
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2006	Agriculture Reforms: Irrigation Water Charges and Land Policy
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2008	Political Economy Dilemma of Reforms
2009	The Global Economic Crisis: Issues, Impacts and Outlook
2010	Growth and Stability in Post-conflict Economic Recovery
2011	Post-conflict Growth and Recovery
2012	Keeping Sri Lanka on the Growth Expressway
2013	The Transition to a Middle-Income Economy
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2022	From Crisis to Recovery: Driving Policy Action Through SDGs
2023	Economic Policy Choices: From Stabilisation to Growth
2024	Economic Scars of Multiple Crises: From Data to Policy
2025	Technology for Change: Driving the Digital Economy
2026	Policy Choices for Durable Growth

Sri Lanka: State of the Economy 2026

Policy Choices for Durable Growth

Sri Lanka has stabilised, with two consecutive years of growth, single-digit inflation for most of the recovery, and a completed debt restructuring. Steady progress under the IMF programme has restored a measure of confidence sooner than consensus expected in the immediate aftermath of the 2022 crisis. But stabilisation is only a platform for durable growth — and 2026 has tested how solid that platform really is. Durable growth goes beyond positive GDP growth: it must be sustained beyond rebound effects, built on productivity and investment, feasible within tight fiscal and external constraints, and felt by households who are still earning less in real terms than before the crisis.

Lingering effects of a cyclone, an oil price shock that doubled the fuel import bill within months, and an inflation rate that climbed from 1.6% to 7.3% in five months have shown how easily recovery-driven growth can be challenged. Amid these headwinds, revised growth estimates have diverged from the country's medium-term target of 7%, raising the question of whether Sri Lanka is merely growing again or growing differently, and underscoring the need for policy changes that strengthen the economy's resilience.

This year's report follows this tension across the economy, from macroeconomic management and public finance to labour markets, education, health, social protection, energy, and climate resilience — asking not whether Sri Lanka can grow, but whether it can grow in a way that lasts.



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