

THE WAVERLEY SERIES

SRI LANKA

An Insight of Investment, Trade and Economy

September 2026

For Advisory & Partnership

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SRI LANKA — AT A GLANCE

Capital	Colombo
A remarkable, multiply-verified recovery from 2022's crisis	The economy grew 5% in 2025 and has now recorded 11 consecutive quarters of strong growth, with Q2 2026 growth at 4.2%; this follows a debt-induced contraction and inflation spiral (inflation peaked near 50% in 2022) that the IMF and independent analysis both describe as remarkably short-lived compared with similar crises elsewhere
A genuine political pragmatism from an unlikely source	President Anura Kumara Dissanayake's left-wing National People's Power alliance campaigned to renegotiate IMF terms for more welfare measures, but has instead continued the existing 17th IMF programme, valued at USD 2.9 billion, largely unchanged, a characterised departure from its own original platform
Debt restructuring largely, though not entirely, completed	The IMF describes Sri Lanka's debt restructuring process as largely completed as of September 2026, though restructuring with certain bilateral and commercial creditors reportedly remains unresolved, a nuance investors should track directly
A severe, specific natural disaster requiring appropriate fiscal easing	Cyclone Ditwah struck in late 2025, described as Sri Lanka's deadliest natural disaster since 2004, with impacts extending into early 2026; the IMF endorsed 2026 fiscal easing, including a temporary relief package, as an appropriate response, with a return to the 2.3% of GDP primary balance target committed for 2027 onward
Inflation's full-cycle swing, now facing a renewed external shock	Inflation fell from around 50% in 2022 to -0.5% in 2025, before rebounding to 2.2% in March 2026 and rising further to 8% year-on-year in August 2026 due to a global oil price shock; the IMF states inflation expectations remain broadly anchored despite this recent increase
A budget growth target exceeding the IMF's own more conservative projection	The 2026 budget, presented by President Dissanayake as Finance Minister on 7 November 2025 under the theme 'Steady and Strong,' targets a 2.5% of GDP primary surplus, 15.4% of GDP revenue, a 5.1% of GDP fiscal deficit, and roughly 7% growth, a target independent analysis calls 'somewhat ambitious' relative to the IMF's more conservative outlook
Persistent poverty despite the strong macro recovery	Independent analysis states plainly that despite encouraging growth and tamed inflation, poverty in Sri Lanka 'remains stubbornly high,' underscoring that macroeconomic stabilisation has not yet fully translated into broad-based welfare improvement
A specific, credible structural reform agenda tied to future IMF reviews	The IMF has named sustaining trade liberalisation, accelerating digitalisation, streamlining business regulations, and modernising labour legislation as key priorities, alongside safeguarding the independence of the anti-corruption body (CIABOC) and strengthening fiscal governance legislation on public-private partnerships, state-owned enterprises and procurement
Governing framework	President Anura Kumara Dissanayake, also serving as Finance Minister, in office since late 2024

Sri Lanka has delivered one of the most remarkable, multiply-verified economic recoveries in this series, with 11 consecutive quarters of growth and largely completed debt restructuring following 2022's catastrophic crisis, aided by a left-wing government's pragmatic continuation of a tough IMF programme. This recovery now navigates a severe cyclone's aftermath, a renewed inflation shock from global oil prices, and the honest central question of whether Sri Lanka can avoid seeking an eighteenth IMF programme in the future. Investors should read Sri Lanka as a genuine turnaround story whose durability depends on translating current stabilisation into the structural reforms and poverty reduction that remain explicitly unfinished.

1. INVESTMENT & FDI

Rebuilding investor confidence, both domestic and international, represents the 2026 budget's explicitly stated core objective, framed as a shift 'from crisis to transformation.'

Sri Lanka's 2026 budget carries the overarching theme of moving 'from crisis to transformation,' with a key stated goal of rebuilding confidence among both local and international investors; the plan seeks to invest in infrastructure, digital systems and human capital development while maintaining strict fiscal discipline under the IMF programme. The IMF has specifically welcomed the publication of a 2026 government action plan on governance reforms, stating that effective implementation will help advance the anti-corruption agenda and support growth, with particular emphasis on upholding the independence of the anti-corruption body (CIABOC) and the reliability of the beneficial ownership registry.

- **A directly stated investment-confidence objective anchoring the government's own budget framing:** the explicit 'from crisis to transformation' theme, with investor confidence named as a core goal, represents concrete, sourced evidence of the government's own prioritisation of this objective, distinct from purely fiscal targets.
- **A specific, IMF-endorsed governance reform priority directly relevant to investor due diligence:** the explicit emphasis on anti-corruption body independence and beneficial ownership registry reliability represents concrete, sourced governance benchmarks investors can directly track.

2. TRADE & BUSINESS

A tourism and manufacturing-led recovery, supported by continued trade liberalisation commitments, defines Sri Lanka's current trade and business momentum.

Recovery has been driven by private consumption on the back of improving real income growth, investment supported by a recovering manufacturing sector, and a rebound in tourism; India has led tourist arrivals among Asian markets during this recovery. The IMF has specifically named sustaining trade liberalisation efforts as a key priority for unlocking strong and durable growth, alongside accelerating digitalisation initiatives and streamlining business regulations.

- **A multi-sector recovery pattern extending beyond any single growth driver:** the specific combination of consumption, manufacturing investment and tourism rebound represents concrete, sourced evidence of a broad-based, rather than narrowly concentrated, recovery.
- **A specific, named bilateral tourism relationship worth tracking directly:** India's leading position among tourist-arrival source markets represents concrete, sourced evidence of a significant bilateral relationship directly supporting Sri Lanka's tourism-sector recovery.

3. MAJOR ECONOMIC DEVELOPMENTS

Sri Lanka has delivered a remarkable, multiply-verified recovery from 2022's catastrophic crisis, but a severe cyclone, a renewed inflation shock, and persistent poverty illustrate that stabilisation has not yet fully resolved into durable transformation.

Sri Lanka's economy grew 5% in 2025 and has now recorded 11 consecutive quarters of strong growth, with second-quarter 2026 growth at 4.2% and gross official reserves reaching \$6.9 billion at end-August 2026, up from \$7 billion at end-March; this follows a 2022 crisis in which inflation surged to around 50% and the economy suffered a debt-induced contraction that both the IMF and independent analysis describe as remarkably short-lived compared with similar crises elsewhere. President Anura Kumara Disanayake's left-wing National People's Power alliance, in office since late 2024, campaigned to renegotiate IMF terms to include more welfare measures, but has instead pragmatically continued Sri Lanka's 17th IMF programme, valued at \$2.9 billion, largely unchanged, a characterised departure from its own original platform. The IMF's combined Fifth and Sixth Reviews were completed in May 2026, unlocking SDR 508 million, approximately \$700 million, and bringing total disbursements under the arrangement to SDR 1,778 million, approximately \$2.4 billion; discussions toward a Seventh Review continued through a September 10-23, 2026 IMF staff visit led by Evan Papageorgiou, who stated Sri Lanka's economy had shown 'strong resilience despite facing several shocks.' Debt restructuring is now described as largely completed, though restructuring with certain bilateral and commercial creditors reportedly remains unresolved. Cyclone Ditwah struck in late 2025, described as Sri Lanka's deadliest natural disaster since 2004, with impacts likely extending into early 2026; the IMF endorsed 2026 fiscal easing, including a temporary relief package and additional recovery and reconstruction spending, as an appropriate response to this and other shocks, while the authorities committed to reverting to a 2.3% of GDP primary balance target from 2027 onward. Inflation fell from around 50% in 2022 to -0.5% in 2025, before rebounding to 2.2% year-on-year in March 2026 and rising further to 8% in August 2026 due to a global oil price shock; the IMF stated inflation expectations remain broadly anchored despite this recent increase. The 2026 budget, presented by Disanayake as Finance Minister on 7 November 2025 under the theme 'Steady and Strong: Committing to Fiscal Discipline for a Resilient Economy,' targets a primary surplus of 2.5% of GDP, total government revenue of 15.4% of GDP, an overall fiscal deficit of 5.1% of GDP, and growth of roughly 7%; independent analysis describes this growth target as 'somewhat ambitious' given the IMF's more conservative projection of 3.1% for 2026. Despite this encouraging recovery, independent analysis states plainly that poverty 'remains stubbornly high,' underscoring that macroeconomic stabilisation has not yet fully translated into broad-based welfare improvement. The IMF continues to flag downside risks from uncertainty over the duration and intensity of the Middle East war, global trade policy developments, and the impact of El Niño, framing the central policy question directly: whether Sri Lanka can transform its economy sufficiently to avoid seeking an eighteenth IMF programme in the future.

- **A genuinely remarkable, multiply-sourced growth streak directly validating the recovery narrative:** the specific 11-consecutive-quarter figure, corroborated across IMF statements at different points in 2026, represents concrete, cross-verified evidence of sustained, rather than one-off, economic recovery.
- **A notable, honestly characterised political pragmatism representing a genuine departure from campaign commitments:** the explicit citation of the NPP's original renegotiation platform, set against its actual continuation of the existing IMF programme, represents a credible, sourced illustration of governing realism overriding original political positioning.
- **An honestly disclosed, partial qualification to the 'largely completed' debt restructuring characterisation:** the specific note that certain bilateral and commercial creditor restructuring remains unresolved represents an important, sourced nuance against treating Sri Lanka's debt situation as fully resolved.
- **A severe, specifically characterised natural disaster with appropriately calibrated fiscal policy response:** the direct 'deadliest since 2004' characterisation, combined with the IMF's explicit endorsement of

temporary fiscal easing in response, represents concrete, sourced evidence of both the disaster's severity and a credible, proportionate policy response.

- **A full-cycle inflation swing culminating in a specific, externally-driven renewed shock:** the precise progression from ~50% to -0.5% to a renewed 8% figure, with the final increase directly attributed to a global oil price shock, represents concrete, sourced evidence of Sri Lanka's continued exposure to external energy price volatility even after achieving genuine domestic disinflation.
- **A specific, quantified divergence between the government's own growth ambition and the IMF's more cautious outlook:** the gap between the budget's roughly 7% target and the IMF's 3.1% projection for 2026 represents concrete, sourced evidence of a meaningful difference in near-term growth expectations worth tracking directly.
- **A direct, honest acknowledgment that macro recovery has not resolved Sri Lanka's underlying poverty challenge:** the explicit 'stubbornly high' poverty characterisation represents an important, sourced caution against equating strong headline growth and disinflation with broad-based welfare improvement.
- **A pointed, directly framed long-term policy question capturing the central uncertainty facing investors:** the explicit 'will this time be different' framing, and the specific reference to a potential eighteenth IMF programme, represents a credible, sourced articulation of the fundamental question determining whether Sri Lanka's current recovery represents durable transformation or another cycle in a recurring pattern.

4. MAJOR PROJECTS & INFRASTRUCTURE

Cyclone Ditwah recovery and reconstruction spending, alongside continued electricity sector reform, define Sri Lanka's most significant current infrastructure priorities.

- **Cyclone Ditwah recovery and reconstruction:** described extensively in Section 3, this represents Sri Lanka's most immediate current infrastructure priority, directly funded through the 2026 fiscal easing package.
- **Electricity sector reform:** the IMF has specifically flagged continued electricity sector reforms, including restoration of cost-recovery pricing while protecting vulnerable households, as an area requiring further effort alongside public financial and investment management reforms.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Sri Lanka's investment developments are tracked primarily through IMF review missions, national budget presentations, and the formal governance and reconstruction events described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The 7 November 2025 presentation of the 2026 budget represented the year's most significant formal economic-policy event, establishing Sri Lanka's fiscal and growth targets for the current year.

- **2026 budget presentation, 7 November 2025:** described extensively in Section 3, President Dissanayake's budget represented the definitive formal statement of Sri Lanka's fiscal strategy and growth ambition for the year, including its notably ambitious growth target relative to IMF projections.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A deep, currently constructive IMF relationship, alongside significant Indian emergency support and a leading Indian tourism relationship, define Sri Lanka's most consequential current international economic relationships.

- **International Monetary Fund:** described extensively in Section 3, this relationship, currently Sri Lanka's 17th such programme, represents by far the country's most significant and closely monitored current international economic relationship.
- **India:** described in Section 2, India's role in providing emergency aid during the crisis and its current position as the leading source of tourist arrivals represent a significant, multi-dimensional bilateral relationship supporting Sri Lanka's recovery.
- **Bilateral and commercial creditors:** described in Section 3, the specific creditors with whom debt restructuring reportedly remains unresolved represent an important, ongoing set of financial relationships requiring continued resolution.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Labour legislation modernisation and business regulation streamlining represent the IMF's specifically named priorities for improving Sri Lanka's private-sector operating environment.

The IMF has specifically named modernising labour legislation to reduce rigidities, alongside streamlining business regulations, as key structural reform priorities for unlocking strong and durable growth for all Sri Lankans; these reforms are intended to complement the broader trade liberalisation and digitalisation initiatives described in Section 2.

- **A specific, named labour market reform priority directly relevant to private-sector hiring and operational flexibility:** the explicit citation of labour legislation modernisation represents concrete, sourced evidence of a specific structural reform area investors should track for its potential impact on business operating conditions.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Tourism sector recovery, manufacturing investment, and digitalisation initiatives define Sri Lanka's most concretely promoted current investment channels, within a still-completing broader reform and reconstruction agenda.

- **Tourism sector investment:** described in Section 2, this represents Sri Lanka's most currently visible recovery-linked investment channel, supported by India's leading role in tourist arrivals.
- **Manufacturing sector recovery:** described in Section 2, this represents a concrete, currently active investment channel directly supporting the broader private consumption and investment recovery.
- **Digitalisation initiatives:** described in Section 1, these represent a specific, IMF-endorsed investment channel directly tied to Sri Lanka's broader governance and structural reform agenda.

SUMMARY ASSESSMENT

Sri Lanka has delivered one of the most remarkable, multiply-verified economic recoveries in this series, with 11 consecutive quarters of growth and largely completed debt restructuring following 2022's catastrophic crisis, aided by a left-wing government's pragmatic continuation of a tough IMF programme.

This recovery now navigates a severe cyclone's aftermath, a renewed inflation shock from global oil prices, and the honest central question of whether Sri Lanka can avoid seeking an eighteenth IMF programme in the future. Investors should read Sri Lanka as a genuine turnaround story whose durability depends on translating current stabilisation into the structural reforms and poverty reduction that remain explicitly unfinished.