



ANNUAL DEBT MANAGEMENT REPORT

FY 2025

*Public Debt Management Office
Ministry of Finance, Planning and Economic Development*



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CONTENTS

Chapter 1: Paradigm Shift of the Debt Management Operations in Sri Lanka

1.1 Overview	1
1.2 Establishment of Public Debt Management Office	2
1.2.1 Vision, Mission and Objectives	2
1.2.2 Governance Framework of Public Debt Management.....	3
1.2.3 New Conceptual Framework for Debt Management under PDMO	4
1.2.4 Key Milestones of the PDMO in 2025.....	4

Chapter 2: Public Debt and the Debt of the Government

2.1 Overview	7
2.2 Public Debt Stock.....	7
2.3 Government Debt Stock.....	9
2.3.1 Redemption Profile of the Existing Government Debt Portfolio end 2025	9
2.3.2 Structure of the External Debt Portfolio.....	10
2.3.3 Structure of the Domestic Debt Portfolio.....	11

Chapter 3: Debt Flows

3.1 Overview	13
3.2 Debt Inflows- New Borrowings and Disbursements.....	13
3.2.1 Borrowings by Source – Planned and Actual.....	13
3.2.2 Foreign Loans Disbursements and Utilization.....	14
3.3 Debt Outflows - Debt Service Payments	15
3.4 Net Debt Flows	16

Chapter 4: Cost and Risk Indicators of the Government Debt Portfolio

4.1 Overview	17
4.2 Cost of the Government Debt Portfolio	17
4.2.1 Government Debt to GDP Ratio	17
4.2.2 Debt Service Payments to Gross Domestic Products	19
4.2.3 Interest Payment to Government Revenue	19

4.3 Risk of the Government Debt Portfolio	21
4.3.1 Interest Rate Risk.....	21
4.3.2 Average time to Refixing (ATR).....	21
4.3.3 T-bills percentage to the Total Debt and Domestic Debt.....	21
4.3.4 Refinancing risk.....	22
4.3.5 Exchange Rate Risk	22
Chapter 5 :Assessment of Medium Term Debt Management Strategy 2025-2029.....	24
Chapter 6: Developments in Debt Management Operations	
6.1 Domestic Borrowing Initiatives	26
6.1.1 Treasury Bills Primary Market.....	27
6.1.2 Treasury Bonds Primary Market.....	27
6.1.3 Domestic Dollar Bonds (DDBs).....	29
6.2 External Borrowing Initiatives	29
6.2.1 Strategic Approach to External Borrowing.....	29
6.2.2 Foreign Loan Commitments by Development Partners.....	30
6.2.3 Sectorial Distribution of New External Commitments (USD Million)	30
6.2.4 Forward Looking External Financing Strategy	31
6.3 Investor Relations Initiatives.....	32
6.3.1 Engagement with Credit Rating Agencies.....	32
6.3.2 Publication of government debt information and fulfilling the related regulatory and legal requirements	32
6.3.3 Engagement with the International Institute of Finance (IIF) on investor relations.	33
6.3.4 Debt Transparency	33
Chapter 7: Guarantees and On-lending	
7.1 Overview	34
7.2 Government Guaranteed Debt Profile	34
7.2.1 Stock of Loan Guarantees	34
7.2.2 Composition by Creditor Category	34
7.2.3 Composition by Debtors	35
7.2.4 Composition by Currency.....	36
7.2.5 New Guaranteed Debt 2025	36
7.2.6 Guarantee Calls and payments	37

7.3 On-lend Debt Portfolio	37
7.3.1 Stock of On-Lent Debt	37
7.3.2 Composition by funding source.....	38
7.3.3 Composition by Beneficiary Institution	38

Tables

1. Paradigm Shift of the Debt Management Operations in Sri Lanka

1.1: Key Milestones and Achievements of the PDMO in 2025	4
--	---

2. Public Debt and the Debt of the Government

2.1: Outstanding Public Debt as of December 31, 2025	7
2.2: summary of outstanding Domestic Debt.....	11

3. Debt Flows

3.1: Planned Vs. Actual Borrowings – 2025.....	14
3.2: Disbursements of Foreign Loans from 1st January to 31st December 2025	15
3.3: Government Debt Service Payments —2025 (LKR billion).....	16
3.4: Debt Flows in 2025	16

4. Cost and Risk Indicators of the Government Debt Portfolio

4.1: Indicators of Refinancing Risk Table.....	22
--	----

5. Assessment of Medium Term Debt Management Strategy 2025-2029

5.1: Comparison of Cost and Risk Indicators as per the MTDS 2025-2029 and 2026-2030	25
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6. Developments in Debt Management Operations

6.1: Performance of Domestic Borrowing Issuances – 2025*	26
6.2: Primary Market Weighted Average Yield Rates of Treasury bill Auctions * %.....	27
6.3: Primary Market WAYR Movements during the Year 2025.....	28
6.4: Treasury bonds due for settlement in 2025	29
6.5: Result of the DDB Issuances.....	29

6.6: Foreign loan commitments by Development Partners	30
6.7: Sri Lanka’s Credit Rating Upgrades	32

7. Guarantees and On-lending

7.1: Government Guaranteed Debt by Creditor Category	35
7.2: Largest Creditors in the Guaranteed Debt Portfolio	35
7.3: Largest Debtors of the Guarantees.....	36
7.4: Guarantees re-issued/extended in 2025	37

Figures

2. Public Debt and the Debt of the Government

2.1: Composition of Public Debt 2025	8
2.2: Public Debt to GDP	9
2.3: Redemption Profile of Government Debt Portfolio as at end 2025.....	10
2.4: Composition of External Debt by Currency - End 2025.....	10
2.5: External Debt by Interest Rate Type	11
2.6: Composition of External Debt by Creditor Type - End 2025	11
2.7: Composition of Domestic D.....	11
2.8: Domestic Debt Securities by Maturity.....	12
2.9: Domestic Debt Securities by Interest Rate Type.....	12

3. Debt Flows

3.1: Composition of Foreign and Domestic Currency Borrowings	14
3.2: Foreign Loan Disbursements (by lender)	14
3.3: Utilization of Disbursements.....	15

4. Cost and Risk Indicators of the Government Debt Portfolio

4.1: Changes of Government Debt Stock over past 10 years	17
4.2: Primary balance	18
4.3: External Debt service to GDP	19
4.4: Interest Payment to Revenue	19
4.5: Monetary Policy Stance.....	20
4.6: Interest Rate Type	21
4.7: Treasury Bills to Total Debt and Domestic Debt	21
4.8: FX debt to Gross Official Reserves.....	22
4.9: Liquidity Risk of the External Debt.....	22

6. Developments in Debt Management Operations

6.1: Primary Market Weighted Average Yield Rates of Treasury bill Auctions	27
6.2 :Offered Amount vs Accepted Amount in 2025	27
6.3: Primary Market Weighted Average Yield Rate (WAYR) movement for the Year 2024/2025.....	28
6.4: Sectorial Distribution of New External Commitments.....	31
6.5 : Upgrading of the World Bank Debt Transparency Heat Map.....	33

7. Guarantees and On-lending

7.1: Guaranteed Debt Profile by Currency.....	36
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Annexures

Annexure 1-Loans negotiated and signed in 2025	39
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PREFACE

Section 25 of the Public Debt Management Act, No. 33 of 2024 (PDMA) mandates the Public Debt Management Office (PDMO) to prepare an Annual Report on Government borrowings and other debt management operations, outstanding public debt, guarantees and on-lending activities, and other financing arrangements entered into during the preceding financial year.

Further, the PDMA stipulates that the Minister shall review the draft Annual Report and submit it to the Cabinet of Ministers for approval and thereafter table the approved Annual Report before Parliament within one hundred and eighty (180) days following the end of the preceding financial year. The approved report is also required to be published on the official websites of the Ministry of Finance and the Public Debt Management Office.

Accordingly, the PDMO has prepared its Annual Report for the year ended 31 December 2025 in compliance with the provisions of the PDMA. The Annual Report provides a comprehensive account of public debt management operations undertaken during 2025, including,

- The composition and evolution of Government and public debt stock;
- Government borrowing and debt service operations;
- Debt flows and financing activities;
- Cost and risk indicators of the debt portfolio;
- Assessment of the implementation of the Medium-Term Debt Management Strategy (MTDS);
- Government guarantees and on-lending activities; and
- Other relevant debt management developments and financing arrangements

The Report enhances transparency and accountability in public debt management and provides information to the stakeholders on the Government's debt management activities and outcomes during 2025.

EXECUTIVE SUMMARY

The year 2025 marked a historic milestone in Sri Lanka's public debt management operation with the establishment and operationalization of the Public Debt Management Office (PDMO) under the Ministry of Finance. This institutional overhaul was legally empowered by the enactment of the Public Debt Management Act (PDMA), No. 33 of 2024, which became effective on November 25, 2024. Moving away from a historically fragmented and reactive model where debt operations were scattered across the Central Bank of Sri Lanka (CBSL) and multiple departments within the Ministry of Finance, the PDMO successfully centralized these core functions under a single, unified umbrella to foster strategic, forward-looking debt management. This transition represents a key component of the country's broader economic recovery and governance agenda, backed by the International Monetary Fund's Extended Fund Facility (EFF) program.

At end-2025, Sri Lanka's total outstanding public debt stood at LKR 32,195 billion (USD 103.9 billion), compared to LKR 31,062 billion at end-2024. Direct Government debt accounted for over 96 percent of this total, amounting to LKR 31,109 billion (USD 100.4 billion), with domestic debt comprising 62.5 percent (LKR 19,434 billion) and external debt representing 37.5 percent (LKR 11,675 billion). While nominal debt increased moderately due to essential financing needs and currency parity adjustments, the overall debt burden eased remarkably. Driven by a resilient economic expansion featuring real GDP growth of approximately 5.0 percent, the Government Debt-to-GDP ratio fell to 95.0 percent in 2025, down from 98.4 percent in 2024.

Financing operations throughout 2025 strictly adhered to the domestic-oriented financing approach as stipulated in the Medium-Term Debt Management Strategy (MTDS) to minimize foreign exchange risk and foster domestic capital markets. Domestic financing remained the primary funding source, with approximately 93 percent of the government's total financing met through Rupee-denominated instruments. Gross domestic borrowings totaled LKR 7,761 billion, driven by Treasury Bills (LKR 5,347 billion) and Treasury Bonds (LKR 2,398 billion). The year also marked the successful reintroduction of Domestic Dollar Bonds, mobilizing LKR 16 billion (USD 50 million), which indicates recovered liquidity conditions and renewed investor confidence. Externally, the Government secured USD 1,238 million through 15 new concessional loan agreements strictly restricted to bilateral and multilateral development partners, with total external disbursements for the year reaching USD 1,780.3 million.

The execution of sovereign debt restructuring operations combined with aggressive fiscal consolidation significantly corrected the risk profile of the government debt portfolio. Near-term rollover pressures were heavily mitigated as short-term Treasury Bills as a percentage of total debt declined sharply from 14.1 percent at end-2024 to 10.1 percent at end-2025, demonstrating an intentional extension of the maturity structure.

The Average Time to Maturity (ATM) of the government debt portfolio improved to 6.8 years, successfully stretching external restructured debt redemptions out to 2042. Exposure to interest rate shocks was tightly managed, with 88 percent of the entire debt stock maintained at fixed interest rates. Bolstered by robust revenue growth and prudent spending, the government recorded a landmark primary surplus of 5.36 percent of GDP (LKR 1,756 billion), which effectively doubled initial structural targets and provided valuable fiscal buffers, supporting the debt reduction objectives defined in the Public Financial Management Act No. 44 of 2024.

A fundamental operational milestone was achieved in December 2025, when the PDMO officially assumed complete responsibility for issuing Government Securities, which was performed by the CBSL over past seven decades. This followed a seamless supervised transition and rigorous training provided by the Public Debt Department of the CBSL, ensuring uninterrupted market activity.

Reflecting the systematic public availability of timely debt statistics, borrowing plans, and structural details, Sri Lanka achieved an extensive upgrade across multiple dimensions on the World Bank Debt Transparency Heat Map in 2025, with most core elements evaluated as "Fully Met." Concurrently, S&P Global upgraded Sri Lanka's foreign currency sovereign rating from 'SD' to 'CCC+' following the commercial debt restructuring completion.

Enforced by the Public Financial Management Act No. 44 of 2024, a rigid statutory ceiling now caps outstanding government guarantees at 7.5 percent of the GDP. Sri Lanka's total outstanding government-guaranteed debt fell sharply by 25.7 percent to LKR 1,080 billion in 2025 (down from LKR 1,454 billion in 2024), leaving the contingent portfolio at 3.6 percent of average GDP, safely below the legislative limit. This contraction follows the conclusion of guaranteed debt restructurings for major entities such as Sri Lankan Airlines and the Ceylon Petroleum Corporation. Meanwhile, the outstanding stock of on-lent debt, primarily driven by external concessional financing utilized for strategic infrastructure projects and the SME sector stood at LKR 234.14 billion (~0.71 percent of GDP) by end-December 2025.

Ultimately, the 2025 financial year validated the institutional necessity and power of the Public Debt Management Act. Through the centralized agility of the newly operationalized PDMO, Sri Lanka capitalized on debt restructuring successes, structurally reduced rollover risks, contained contingent liabilities, and restored institutional transparency, anchoring public debt firmly back onto a path toward long-term sustainability.

Chapter 1

Paradigm Shift of the Debt Management Operations in Sri Lanka

1.1 Overview

The year 2025 marked a significant milestone in Sri Lanka's public financial management reforms with the establishment and operationalization of the Public Debt Management Office (PDMO) under the Ministry of Finance. This institutional transformation was enabled by the enactment of the Public Debt Management Act, No. 33 of 2024, which came into effect on 25 November 2024. The reform forms a key component of the Government's broader economic recovery and governance agenda, supported under the International Monetary Fund's Extended Fund Facility (EFF) programme, aimed at strengthening fiscal sustainability and enhancing macroeconomic resilience through prudent public debt management.

The need for reform was underscored by the findings of the 2022 Debt Management Performance Assessment (DeMPA) conducted by the World Bank, which highlighted several weaknesses in the existing debt management framework, including fragmented institutional responsibilities, limitations in the legal and governance framework, and inadequate coordination of debt-related functions. Recognizing these challenges, the Government embarked on a comprehensive reform programme to modernize debt management practices and align them with international standards and best practices.

At the core of this transformation are two fundamental pillars: a strengthened legal framework established through the Public Debt Management Act, No. 33 of 2024, and a centralized institutional framework through the creation of the PDMO.

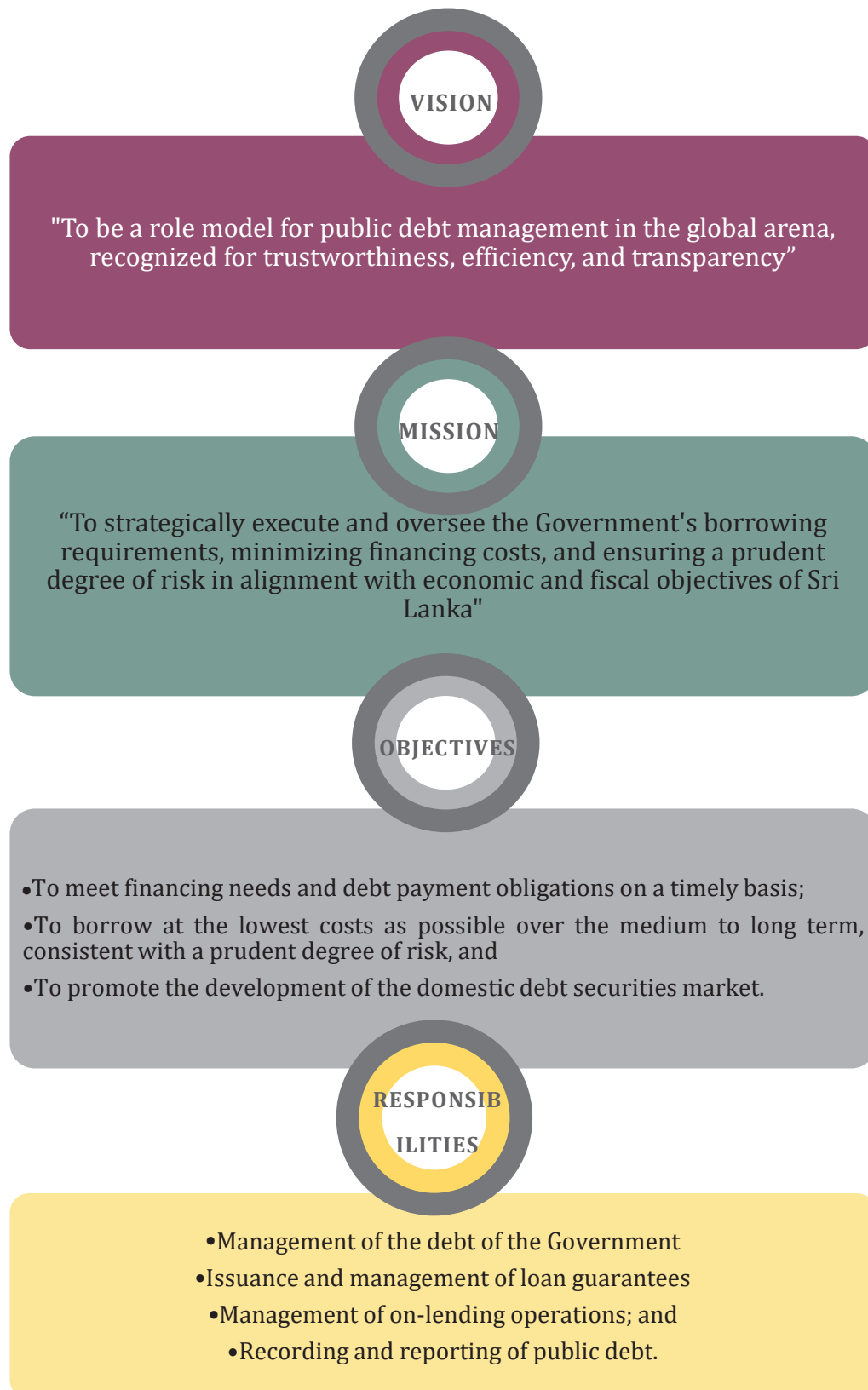
The public debt management reform of Sri Lanka aimed to consolidate the legal framework into a single, comprehensive law and to establish a centralized debt management office aligned with international best practices. The new debt management law marked a legal transition from a reactive and fragmented operations to a strategic, forward-looking, and planned approach under one umbrella to managing public debt. The new legislative framework tasked the PDMO with consolidating debt management functions previously dispersed among the External Resources Department and Treasury Operations Department of the Ministry of Finance and the Public Debt Department of the Central Bank of Sri Lanka.

The PDMO was formally established on 2 December 2024.

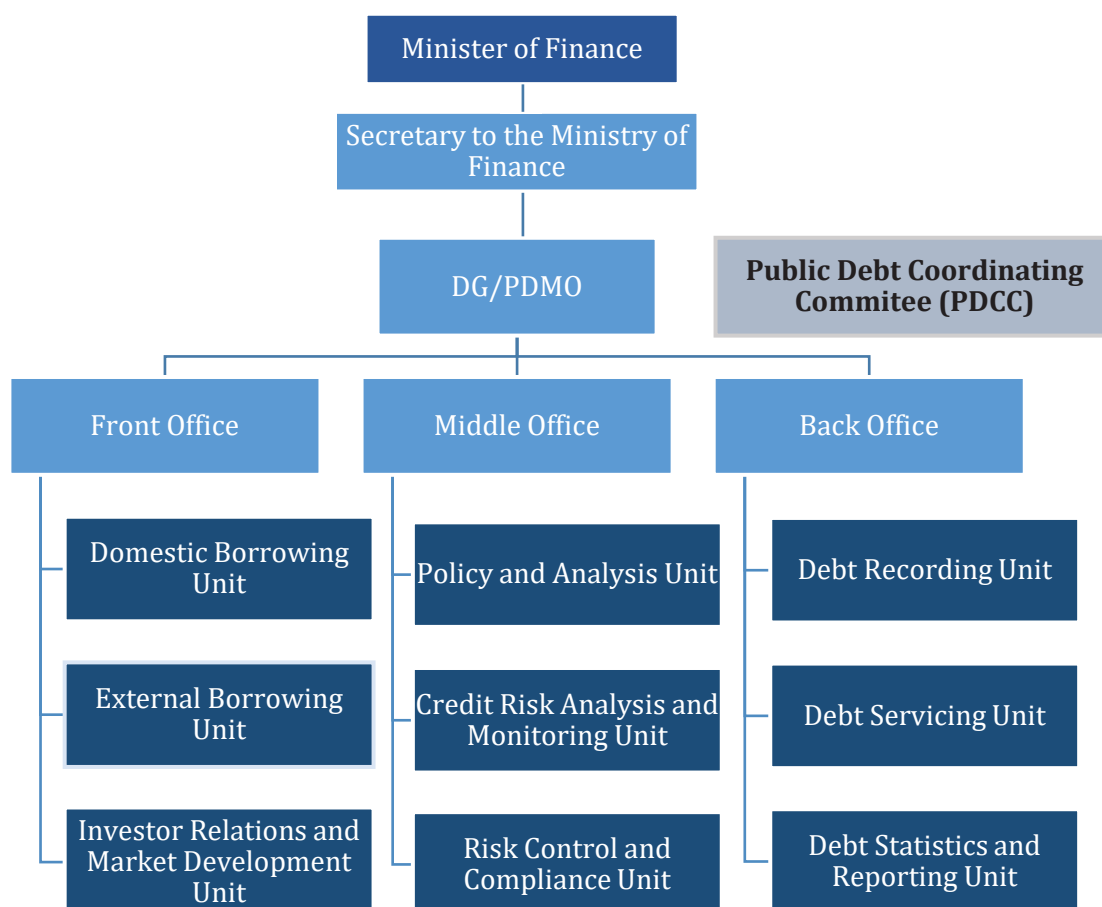
During 2025, substantial progress was made in establishing the governance, operational, and organizational foundations of the PDMO, laying the groundwork for a fully integrated and professional debt management institution capable of supporting the Government's debt sustainability objectives and long-term fiscal stability.

1.2 Establishment of Public Debt Management Office

1.2.1 Vision, Mission and Objectives



1.2.2 Governance Framework of Public Debt Management



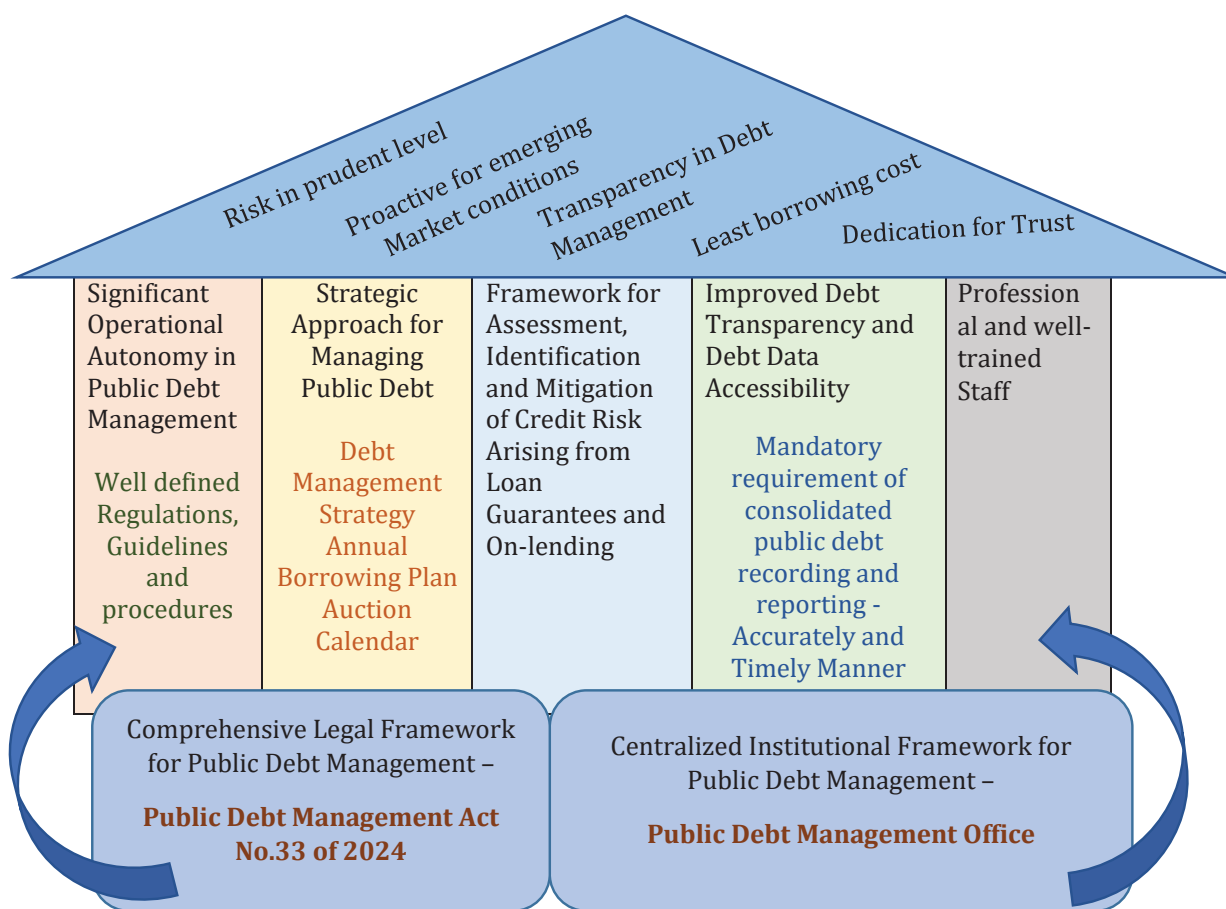
PDMO operates under the policy direction of the Minister of Finance and the administrative oversight of the Secretary to the Ministry of Finance. The Director General serves as the head of the PDMO and is responsible for implementing debt management policies, strategies, and operational activities. The Public Debt Coordinating Committee (PDCC) provides strategic guidance and facilitates coordination among key stakeholders to ensure that debt management operations are aligned with the Government's fiscal and macroeconomic objectives.

The PDMO is structured in accordance with international best practices, adopting the Front Office, Middle Office, and Back Office model to ensure effective segregation of duties and strong internal controls. The Front Office is responsible for domestic and external borrowing operations, investor relations,

and market development. The Middle Office undertakes debt strategy formulation, Debt Sustainability Analysis, policy analysis, risk assessment, and compliance monitoring, while the Back Office manages debt recording, debt servicing, statistics, and reporting functions.

This governance framework strengthens accountability, transparency, and risk management in public debt operations. By clearly separating borrowing, risk management, and settlement functions within a dedicated institution, the PDMO enhances operational efficiency and aligns Sri Lanka's debt management practices with international standards and best practices.

1.2.3 New Conceptual Framework for Debt Management Under PDMO



PDMA and the PDMO serves as the two pillars, on which public debt management best practices have been developed. This sophisticated debt management approach is aligned with the international best

practices while recognizing and respecting country’s specific parameters. The new debt management approach will pave the way to strategically managed public debt portfolio in Sri Lanka.

1.2.4 Key Milestones of the PDMO in 2025

Table 1.1: Key Milestones and Achievements of the PDMO in 2025

Month	Key Achievements
January	<ul style="list-style-type: none"> Recruited initial staff and engaged with a joint IMF–World Bank mission to identify capacity development requirements for PDMO operationalization. Issued Public Debt Management Circular No. 01., dated 20.01.2025. Established the Public Debt Coordinating Committee (PDCC) under the PDMA. Initiated the development of a comprehensive public debt data repository and strengthened debt recording and reporting processes.

Month	Key Achievements
February	<ul style="list-style-type: none"> • Formulated the Medium-Term Debt Management Strategy (MTDS) 2025–2029 and Annual Borrowing Plan (ABP) 2025 • Initiated drafting of PDMO Regulation No. 01/2025.
March	<ul style="list-style-type: none"> • Commenced investor relations initiatives with IMF and World Bank support. • Developed a credit risk assessment framework for government guarantees and on-lending to State-Owned Enterprises (SOEs). • Launched on-the-job training programmes at CBSL to facilitate the transfer of debt management functions. • Participated in the Institute of International Finance (IIF) Investor Relations Survey.
April	<ul style="list-style-type: none"> • Assumed responsibility for government loan guarantee operations from the Treasury Operations Department.
May	<ul style="list-style-type: none"> • Obtained Cabinet approval for the Credit Risk Assessment Methodology • Developed a methodology for foreign loan negotiations.
June	<ul style="list-style-type: none"> • Secured Parliamentary approval for PDMO Regulation No. 01/2025. • Fielded an IMF technical assistance mission to support the preparation of the Standard Operating Procedures Manual
July	<ul style="list-style-type: none"> • Received IMF–World Bank technical assistance for the formulation of the MTDS
August	<ul style="list-style-type: none"> • Successfully migrated data from CSDRMS to the Commonwealth Meridian Debt Management System, modernizing debt recording and management operations.
September	<ul style="list-style-type: none"> • Introduced a rolling quarterly government securities auction calendar, enhancing market transparency and predictability. • Issued PDMO Guidelines defining Front, Middle, and Back Office responsibilities.

Month	Key Achievements
October	<ul style="list-style-type: none"> Commenced practical execution of debt management functions previously undertaken by CBSL under a supervised transition arrangement.
November	<ul style="list-style-type: none"> Issued Primary Dealer Framework Regulation No. 02/2025. Formulated the MTDS 2026–2030 and ABP 2026 and submitted then to Parliament Finalized the Investor Relations and Communication Policy and Investor Relations Strategy Appointed Auction Steering Committee and Debt and Cash Management Committee for the government security auctioning process
December	<ul style="list-style-type: none"> Received joint IMF–World Bank technical assistance for the preparation of the Annual Borrowing Plan. Finalized the PDMO Code of Conduct. Published detailed annual borrowing plan - 2026 Assumed responsibility for the issuance of government debt securities in the domestic market from the CBSL, marking a major milestone in the implementation of the Public Debt Management Act. Issued directions on Primary Issuance of Treasury bills and Treasury bonds - 01.12.2025.

Chapter 2

Public Debt and the Debt of the Government

2.1 Overview

The Public Debt Management Act, No. 33 of 2024, clearly distinguishes between the concepts of "Debt of the Government" and "Public Debt." While debt of the Government refers to liabilities directly incurred by the Government, Public Debt encompasses a broader coverage, including Debt of the Government, guaranteed and non-guaranteed debt of State-Owned Enterprises (SOEs), and guaranteed and non-guaranteed debt of Provincial Councils and Local Governments (PCs and LGs).

In line with Section 23 of the Public Debt Management No. 33 of 2024, the Public Debt Management Office (PDMO) is mandated to establish and maintain a comprehensive Public Debt Repository. Accordingly, during 2025, the PDMO initiated a systematic process of collecting debt information from SOEs, Provincial Councils, and Local Government institutions by issuing circular to all stakeholders. As a result of these efforts, a substantial volume of debt data relating to these entities was successfully gathered and

incorporated into the repository. The PDMO continues to engage with relevant institutions to enhance data coverage, quality, and timeliness, with the objective of developing a complete and reliable Public Debt Repository to support effective debt management, fiscal risk monitoring, and policy formulation.

2.2 Public Debt Stock

At end-2025, Sri Lanka's total public debt, including government-guaranteed debt of State-Owned Enterprises (SOEs) and debt of Provincial Councils and Local Governments, amounted to LKR 32,195 billion (USD 103.9 billion), compared to LKR 31,062 billion (USD 106.2 billion) at end-2024. Government debt remained the largest component of the public debt portfolio, accounting for over 96 percent of total public debt, with domestic debt representing the principal source of financing. Meanwhile, government-guaranteed SOE debt declined significantly during the year, reflecting government commitment to settle called guarantees and concluding the restructuring of guaranteed debt of Sri Lankan Airline and Ceylon Petroleum Corporation.

Table 2.1: Outstanding Public Debt as of December 31, 2025

Public Debt (Gross) (including Guarantees)		End December 2024 ¹		End December 2025 ²	
		USD million	LKR billion	USD million	LKR billion
Debt of the Government	Domestic Debt	64,571	18,892	62,693	19,434
	LKR Denominated	62,413	18,261	60,489	18,751
	FX Denominated	2,158	631	2,204	683
	External Debt	36,680	10,732	37,663	11,675
	Bilateral	10,753	3,146	10,678	3,310
	Multilateral ³	12,897	3,774	14,314	4,437
	Market Borrowings	13,030	3,812	12,671	3,928
Total Debt of the Government		101,251	29,624	100,356	31,109

Public Debt (Gross) (including Guarantees)		End December 2024 ¹		End December 2025 ²	
		USD million	LKR billion	USD million	LKR billion
PC & LG Debt	Provincial Councils (PCs)	-	-	-	-
	Local Governments (LGs)	20	6	21	6
	LKR Denominated				
	Total PC & LG Debt⁴	20	6	21	6
SOE Debt	SOE Guaranteed Debt	4,896	1,432	3,484	1,080
	LKR Denominated	1,857	543	1,407	436
	FX Denominated	3,039	889	2,077	644
	Total Debt of SOEs Debt⁵	4,896	1,432	3,484	1,080
Total Public Debt (Gross)		106,166	31,062	103,861	32,195

Source: Public Debt Management Office, Ministry of Public Administration, Provincial Councils & local Government

Notes:

¹ for the conversion of figures in different currencies into USD, the exchange rates as at 31st December 2024 have been used (ex. USD:LKR = 292.5833).

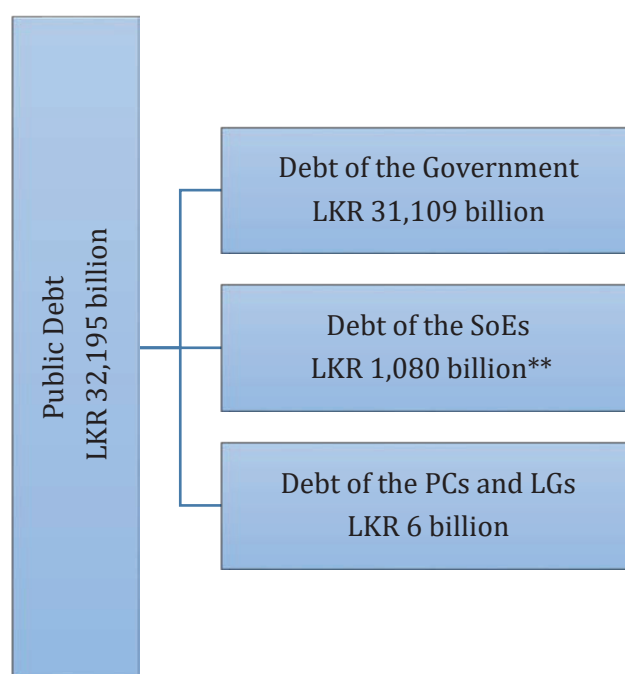
² Provisional, for the conversion of figures in different currencies into USD, the exchange rates as at 31st December 2025 have been used (ex. USD:LKR = 309.9944).

³ includes receipts under IMF's EFF 23-26 program

⁴ Provisional for end of December 2025, Data were collected from the Ministry of Public Administration, Provincial Councils & Local Governments.

⁵ Data were collected from relevant financial banks and institutions

Figure 2.1: Composition of Public Debt 2025



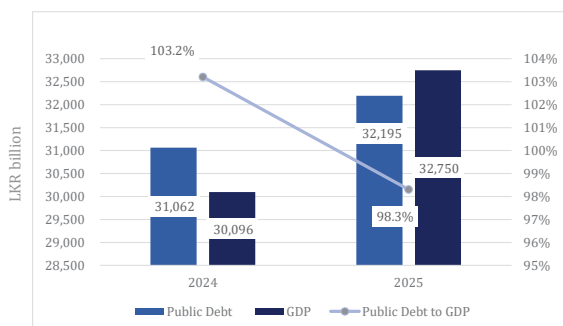
Source: Public Debt Management Office

**includes guaranteed debt only

While the Sri Lanka's public debt level in nominal terms increased slightly in 2025 from LKR 31,062 billion in end 2024 to LKR 32,195 billion, the Public Debt-to-GDP ratio decline significantly to 98.3 percent from 103.2 percent in 2024. This achievement was realized despite the nominal public debt stock increasing from LKR 31,062 billion to LKR 32,195 billion, as economic growth outpaced the growth in debt. The reduction in the debt ratio reflects the positive impact of debt restructuring, prudent borrowing practices, continued fiscal consolidation efforts, and the recovery of economic activity.

Importantly, the decline in the Public Debt-to-GDP ratio is fully consistent with the debt sustainability path agreed under the IMF-supported reform program. The achievement of a debt ratio below 100 percent of GDP by end-2025 demonstrates significant progress toward meeting the medium- to long-term debt sustainability objective of reducing public debt to 95 percent of GDP by 2032.

Figure 2.2: Public Debt to GDP



Source: Public Debt Management Office, Central Bank of Sri Lanka
*Provisional

2.3 Government Debt Stock

The Government debt portfolio is one of the most significant components of the national balance sheet and plays a critical role in fiscal and macroeconomic management. The total outstanding debt of the government reached LKR 31,109 billion at end 2025, representing increase of 5.0 percent from LKR 29,624 billion recorded in end 2024. In US dollar terms, however central government debt declined marginally in 2025 from USD 101.3 billion to

USD 100.4 billion, due to reflecting the impact of exchange rate depreciation.

During 2025, Sri Lanka continued its economic recovery while performing comprehensive debt restructuring initiatives under the IMF supported reform programme. These developments significantly influenced the structure and composition of the Government Debt Portfolio.

2.3.1 Redemption Profile of the Existing Government Debt Portfolio end 2025

As of end-2025, the Government's debt redemption profile reflects the significant progress achieved through the comprehensive debt restructuring process while highlighting the remaining refinancing challenges in the near term. The debt restructuring operations have substantially improved the maturity profile of the debt portfolio by extending maturities, smoothing debt repayments over time, and reducing immediate debt service pressures.

Despite these achievements, the debt portfolio continues to face a concentration of refinancing obligations in 2026, with total debt maturities exceeding LKR 5,000 billion, the majority of which consists of domestic Treasury bill redemptions. Nevertheless, this near-term concentration is largely confined to 2026, after which the debt redemption profile becomes considerably more balanced and predictable.

From 2028 onwards, external debt service obligations gradually increase, reaching annual repayments of approximately LKR 900 billion to LKR 1,000 billion during the mid- to late-2030s. However, as a result of the external debt restructuring process, these obligations have been distributed more evenly across an extended time horizon, avoiding the large repayment spikes that existed prior to restructuring. Consequently, the debt repayment profile remains consistent with debt sustainability objectives and manageable financing requirements. Beyond 2038, debt service obligations gradually decline, providing increased fiscal space and reinforcing the long-term path towards debt sustainability and macroeconomic stability.

Figure 2.3: Redemption Profile of Government Debt Portfolio as at end 2025



Source: Public Debt Management Office
 Subject to change due to FX rate fluctuations and new borrowings
 Includes T-bills outstanding to be matured in 2026

2.3.2 Structure of the External Debt Portfolio

External Debt by Currency

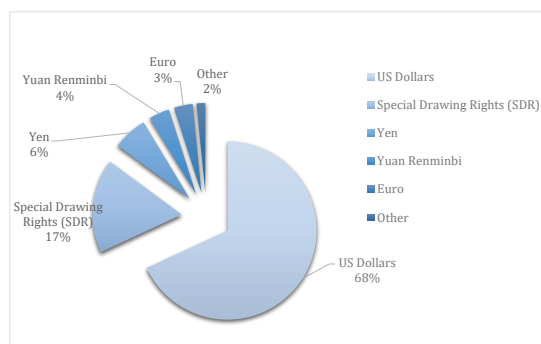
The currency composition of external debt remained concentrated in major international reserve currencies. The United States dollar accounted for the largest share of external debt stock, reflecting its dominant role in international sovereign borrowing. Debt denominated in Special Drawing Rights (SDRs), Japanese yen, Euro, and Chinese Yuan also represented notable portions of the portfolio.

The currency composition of the external debt portfolio exposes the Government to exchange rate risk, particularly due to the significant share of liabilities denominated in United States dollars. Consequently, fluctuations in the exchange rate between the Sri Lankan Rupee and the US dollar have a direct impact on the value of external debt and debt service obligations when measured in domestic currency terms.

To mitigate exchange rate risk and strengthen the resilience of the debt portfolio, PDMO is

pursuing a strategy of gradually increasing the share of Sri Lanka Rupee-denominated financing over the medium term.

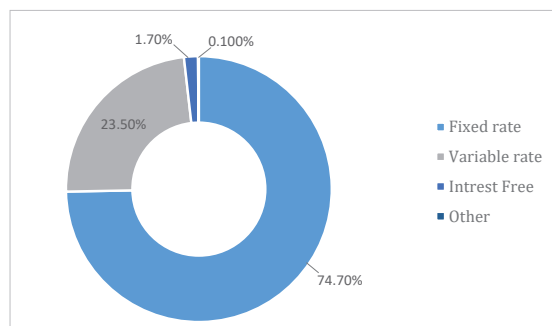
Figure 2.4: Composition of External Debt by Currency - End 2025



Source: Public Debt Management Office

At the end 2025, fixed interest rate instruments continued the majority of Sri Lanka’s external debt portfolio, providing greater predictability in debt service obligations aimed changing global financial conditions. Variable interest rate debt accounted for the remaining share of external liabilities, which was vulnerable to changes in international benchmark interest rates.

Figure 2.5: External Debt by Interest Rate Type

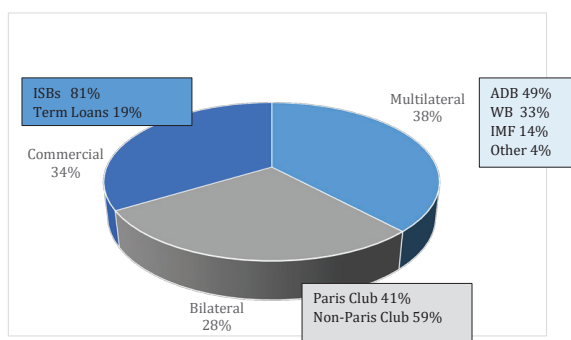


Source: Public Debt Management Office

External Debt by Creditor Type

The external debt portfolio continued to comprise obligations to multilateral institutions, bilateral creditors, and private creditors. Multilateral creditors remained a key source of concessional and long-term financing, accounting for a significant share of outstanding external debt. Bilateral debt consisted primarily of loans from official government agencies and export credit institutions. Private creditor exposure included International Sovereign Bonds (ISBs) and other market-based borrowings.

Figure 2.6: Composition of External Debt by Creditor Type - End 2025



Source: Public Debt Management Office

2.3.3 Structure of the Domestic Debt Portfolio

The Government’s outstanding domestic debt amounted to LKR 19,434 billion (USD 62.7 billion) as at 31 December 2025, compared to LKR 18,892 billion (USD 64.6 billion) at the end of 2024. Domestic debt continued to represent the largest component of the

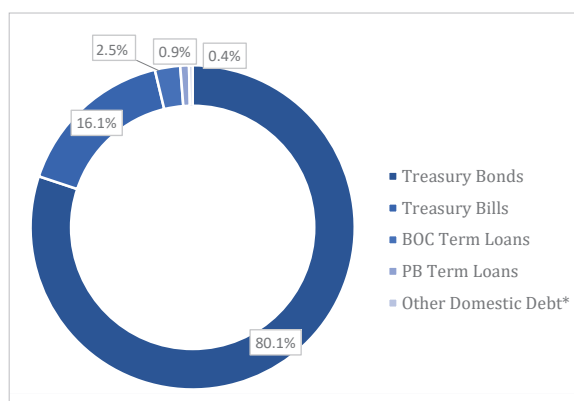
Government’s debt portfolio, accounting for approximately 62 percent of total Government debt at end 2025.

Table 2.2: summary of outstanding Domestic Debt

Source	Outstanding Debt (USD million)	Outstanding Debt (LKR billion)
Treasury Bills	10,122	3,138
Treasury Bonds	50,219	15,567
Domestic Dollar Bond	50	15
Term Loan - BOC	1,582	491
Term Loan - PB	546	169
Suhurupaya Loan		
Account of Ministry of Defense	9	3
Retirement Gratuity Loan Account	119	37
Development Project Loans	46	14
Total	62,693	19,434

Source: Public Debt Management Office

Figure 2.7: Composition of Domestic Debt



Source: Public Debt Management Office

* Domestic dollar bonds, the Suhurupaya Loan Account, the Retirement Gratuity Loan Account, and development project loans.

Treasury securities remained primary instruments of domestic financing. Outstanding Treasury Bonds amounted to LKR 15,567 billion (USD 50.2 billion), representing nearly four fifths of the domestic debt stock, while Treasury Bills stood at LKR 3,138 billion (USD 10.1 billion). Other components of domestic debt included domestic dollar bonds, term loans obtained from state-owned banks, the Suhurupaya Loan Account, the Retirement Gratuity Loan Account, and development project loans.

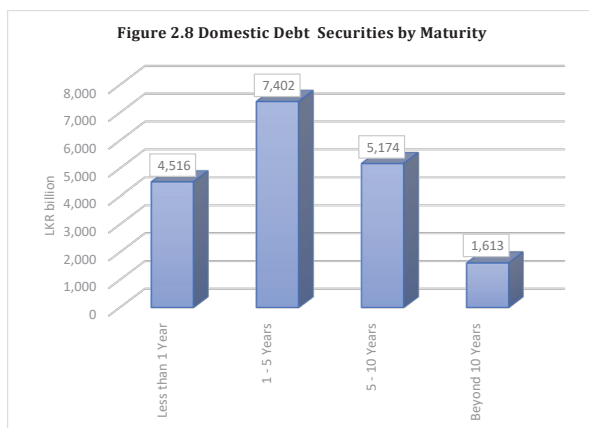
Domestic Debt by Currency

The domestic debt portfolio remained predominantly denominated in Sri Lanka Rupees, reflecting the Government's continued reliance on the domestic market as the principal source of financing. Rupee denominated instruments accounted for LKR 18,751 billion (USD 60.5 billion), while foreign currency denominated domestic debt amounted to LKR 683 billion (USD 2.2 billion) as of end 2025.

Domestic Debt Securities Composition by Maturity

Domestic debt maturing within one year, comprising outstanding Treasury Bills and Treasury Bonds, accounted for 24.1 percent of the total domestic debt stock at end-2025, while the remaining 75.9 percent was scheduled to mature beyond 2026. Despite this maturity distribution, more than 63 percent of government securities are due to mature within the next five years, reflecting the concentration of debt repayments over the medium term and the associated refinancing risk.

Figure 2.8: Domestic Debt Securities by Maturity

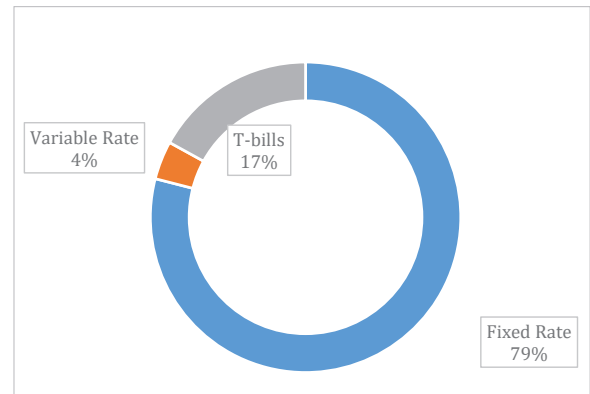


Source: Public Debt Management Office

**includes only the maturities of T-bills and T-bonds*

Domestic Debt Securities by Interest Rate Type

Figure 2.9: Domestic Debt Securities by Interest Rate Type



Source: Public Debt Management Office

As at end-2025, the domestic government debt securities remained predominantly composed of fixed-rate Treasury bonds, which accounted for 79 percent of the total outstanding stock. Treasury Bills represented 17 percent of the portfolio, while variable interest rate securities accounted for the remaining 4 percent.

Chapter 3

Debt Flows

3.1 Overview

In 2025, the Government continued to implement its financing strategy in line with the Medium-Term Debt Management Strategy (MTDS), mobilising resources from both domestic and external sources to meet budgetary requirements and support economic recovery and development priorities. Domestic financing remained the primary source of funding, reflecting the Government's commitment to reducing exposure to foreign exchange risk and further developing the domestic government securities market. The successful reintroduction of Domestic Dollar Bonds also marked an important milestone in diversifying financing sources and demonstrated improved confidence and liquidity conditions in the domestic financial market.

Debt management operations during the year were conducted prudently and remained consistent with the Government's fiscal and debt sustainability objectives. While debt service obligations continued to be met in a timely manner, financing activities and valuation effects contributed to an increase in the outstanding debt stock. Nevertheless, ongoing debt restructuring efforts, improved fiscal performance, and a continued focus on managing refinancing and foreign exchange risks strengthened the overall resilience of the debt portfolio and supported progress toward achieving long-term debt sustainability.

3.2 Debt Inflows- New Borrowings and Disbursements

The Government continued to mobilize financing from both domestic and external sources to meet budgetary requirements and support development projects in 2025.

Gross new domestic borrowings amounted to 7,761 billion, comprising LKR 2,398 billion raised through Treasury bond issuances, LKR 5,348 billion through Treasury bills and LKR 15.5 billion through domestic Dollar Bonds. Domestic financing remained the principal source of Government borrowing, reflecting the continued emphasis on developing the domestic government securities market and reducing reliance on external financing.

On the external side, the Government secured USD 1,238.1 million (approximately LKR 377 billion) through 15 new loan agreements with bilateral and multilateral development partners during 2025. Total external loan disbursements amounted to USD 1,780.3 million (LKR 539 billion), including drawdowns under both newly contracted and previously committed loans.

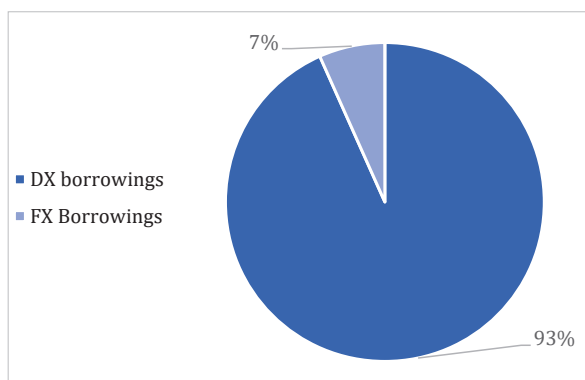
In 2025, the Government successfully managed the currency composition of its financing operations, with approximately 93 percent of its gross financing being met through Sri Lanka Rupee-denominated borrowings, primarily Treasury Bonds and Treasury Bills. This will contribute to the achievement of the Medium-Term Debt Management Strategy (MTDS) targets by containing foreign exchange risk, and supporting the development of the domestic government securities market.

3.2.1 Borrowings by Source - Planned and Actual

The Annual Borrowing Plan for 2025 (ABP-2025) established the framework for financing the Government's budgetary requirements within the borrowing limit approved by Parliament and in accordance with the Medium Term Debt Management Strategy (MTDS)

2025- 2029. The ABP-2025 estimated gross borrowings of LKR 3,100 billion from domestic sources and 700 billion from external sources, excluding Treasury bills rollover.

Figure 3.1: Composition of Foreign and Domestic Currency Borrowings



Source: Public Debt Management Office
FX borrowings include external loan disbursements and Domestic Dollar Bonds
Includes USD 206 million disbursed by the International Monetary Fund (IMF) under the Rapid Financing Facility (RFF).

Table 3.1: Planned Vs. Actual Borrowings – 2025

Source	Planned (LKR Bn)	Actual (LKR Bn)
External Borrowings	700	539*
Domestic — T-bonds	3,000	2,398
Domestic- T-bills (net)	100	(933)
Domestic — Dollar Bonds	—	16
Total Actual Borrowings	3,800	2,020
	(ceiling)	

Source: Public Debt Management Office
FX borrowings include external loan disbursements and Domestic Dollar Bonds
**Includes USD 206 million disbursed by the International Monetary Fund (IMF) under the Rapid Financing Facility (RFF).*

Actual Government borrowings in 2025 remained below the borrowing ceiling approved by the Appropriation Act No. 3 of 2025, reflecting the continued improvement of fiscal performance. This outcome is a positive signal for debt sustainability and is consistent with the Government's commitment for contributing debt reduction objectives stipulated under Public Financial management

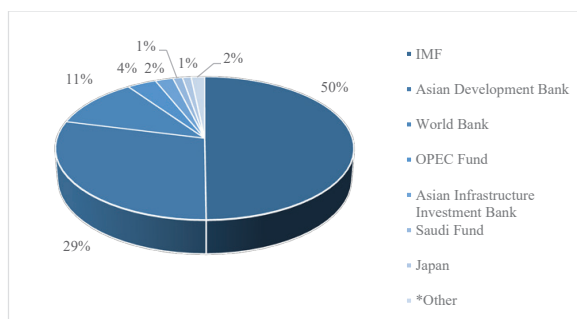
Act No. 44 of 2024. External borrowings of LKR 539 billion were below the planned LKR 700 billion, partly due to timing of disbursements from committed loans.

In 2025, Sri Lanka successfully reintroduced foreign currency-denominated domestic debt instrument, namely Domestic Dollar Bonds (DDBs), and through which the Government raised USD 50 million from the domestic market. This represented the first issuance of a foreign currency-denominated domestic debt instrument since the economic crisis and was undertaken in response to the improved foreign exchange liquidity available in the domestic financial system. The transaction demonstrated renewed investor confidence and contributed to the diversification of the Government's financing sources.

3.2.2 Foreign Loans Disbursements and Utilization

External loan disbursements during 2025 totaled USD 1,780.3 million, reflecting continued support from Sri Lanka's development partners. The International Monetary Fund (IMF) emerged as the largest source of financing, contributing approximately 50 percent of total disbursements, followed by the Asian Development Bank (ADB) and the World Bank (WB), which accounted for 29 percent and 11 percent, respectively.

Figure 3.2: Foreign Loan Disbursements (by lender)



Source: Public Debt Management Office
***Other = International Fund for Agricultural Development, Saudi Fund, Germany, Netherlands, Korea, France**

Table 3.2: Disbursements of Foreign Loans from 1st January to 31st December 2025

Development Partner/ Lending Agency	Disbursements* (USD million)
Bilateral	57.0
Saudi Fund	20.9
Japan	19.2
India	13.1
Korea	1.2
Netherlands	2.6
Multilateral	1,723.3
**International Monetary Fund	887.7
Asian Development Bank	517.3
World Bank	201.6
OPEC Fund	64.2
Asian Infrastructure Investment Bank	39.6
European Investment Bank	9.4
International Fund for Agricultural Development	3.5
Total	1,780.3

Source: Public Debt Management Office

Note: For conversion of disbursements made in different currencies into USD, the exchange rates prevailed on each disbursement date have been used

** For conversion of SDR into USD, month end exchange rate of SDR applied to the end of previous month published by CBSL have been used.

*Provisional

Budget support represented the largest share of external loan disbursements in 2025, accounting for nearly 71 percent of the total amount disbursed during the year. This was followed by humanitarian assistance, which accounted for 4.6 percent of total disbursements, while the tourism and roads and bridges sectors received 4.0

percent and 3.0 percent, respectively. The concentration of disbursements towards budget support reflects the continued priority placed on supporting fiscal stability and the implementation of economic reform programmes.

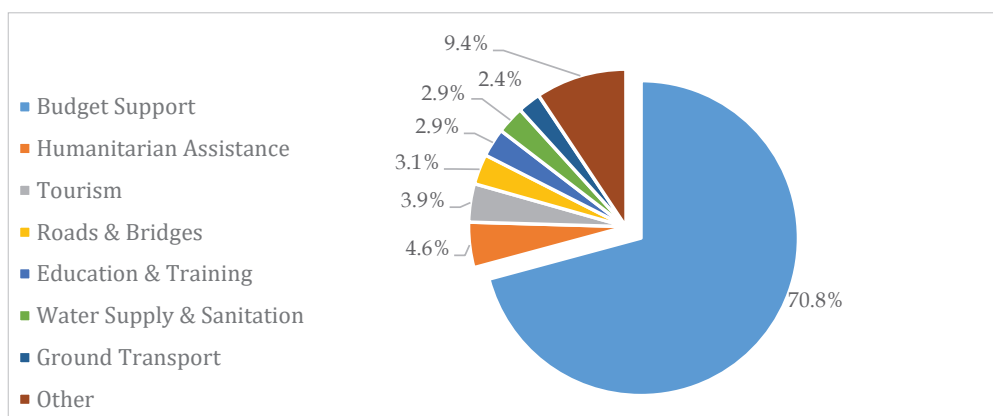
3.3 Debt Outflows - Debt Service Payments

The central government's total debt service obligation encompasses all payments of interest and principal on both domestic and external borrowings. In 2025, the total debt service amounted to LKR 3,919.8 billion, comprising LKR 3,152.8 billion for domestic debt service and LKR 767.0 billion for foreign debt service.

Total interest payments declined by 7.0 percent to LKR 2,500.7 billion in 2025 from LKR 2,689.5 billion in 2024. Domestic interest payments decreased by LKR 130.9 billion to LKR 2,158.2 billion, while foreign interest payments declined by LKR 57.5 billion to LKR 342.5 billion. The decline in interest costs reflects the combined effect of fiscal development and sustained reduction in market interest rates in Sri Lanka following the Central Bank's accommodative monetary policy.

Total principal repayments in 2025 comprised domestic repayments of LKR 994.6 billion (excluding T-bill rollovers) and foreign repayments of LKR 424.5 billion. Domestic principal repayments were marginally higher

Figure 3.3: Utilization of Disbursements



Source: Public Debt Management Office

than the LKR 984.8 billion recorded in 2024, primarily due to the discharge of unpaid treasury guarantees amounting to LKR 18.1

Table 3.3: Government Debt Service Payments —2025 (LKR billion)

Type			
	Principal	Interest	Total
Domestic	994.63	2,158.16	3,152.79
External	424.48	342.52	767.00

Source: Department of Treasury Operations

billion during the year.

In 2025, Government utilized LKR 1,403 billion from Treasury cash flows for the debt service, particularly for the settlement of Treasury bills and coupon payment of Treasury bonds.

3.4 Net Debt Flows

The Government recorded a net debt flow of LKR 609 billion (approximately USD 1,965 million) in 2025, reflecting the combined

Table 3.4: Debt Flows in 2025

	Issuances / Disbursements	Repayments	Net Debt Flow
	LKR bn	LKR bn	LKR bn
T-Bills *	5,347	6,280	(933)
T-Bonds	2,398	969	1,429
External	539**	434	105
Domestic Dollar Bond	16	0	16
Other domestic loans	0	7	(7)
Net Debt Flow 2025	8,300	7,691	609
Valuation and Accounting Adjustments			
Capitalised Restructured Loans			53
Impact of parity changes			823
Changes of the debt stock from 31.12.2024 to 31.12.2025			1,485

Source: Public Debt Management Office Provisional

*Includes inter year maturities

**Includes USD 206 million disbursed by the International Monetary Fund (IMF) under the Rapid Financing Facility (RFF).

impact of borrowing and debt repayments across domestic and external financing sources. Treasury Bonds were the primary contributor to the increase in debt stock, generating a net inflow of LKR 1,429 billion as issuances substantially exceeded maturities. External financing and the reintroduction of Domestic Dollar Bonds (DDBs) also contributed positively, with net inflows of LKR 105 billion and LKR 16 billion, respectively.

These increases were partly offset by net repayments of Treasury Bills amounting to LKR 933 billion and repayments of other domestic debt of LKR 7 billion. Beyond net financing activities, the debt stock was further affected by valuation and accounting adjustments. Exchange rate movements increased the outstanding debt stock by LKR 823 billion, while the capitalization of restructured loans added a further LKR 53 billion. As a result, the total government debt stock increased by LKR 1,485 billion between end-2024 and end-2025, from LKR 29,624 billion to LKR 31,109 billion.

Chapter 4

Cost Risk Indicators of the Government Debt Portfolio

4.1 Overview

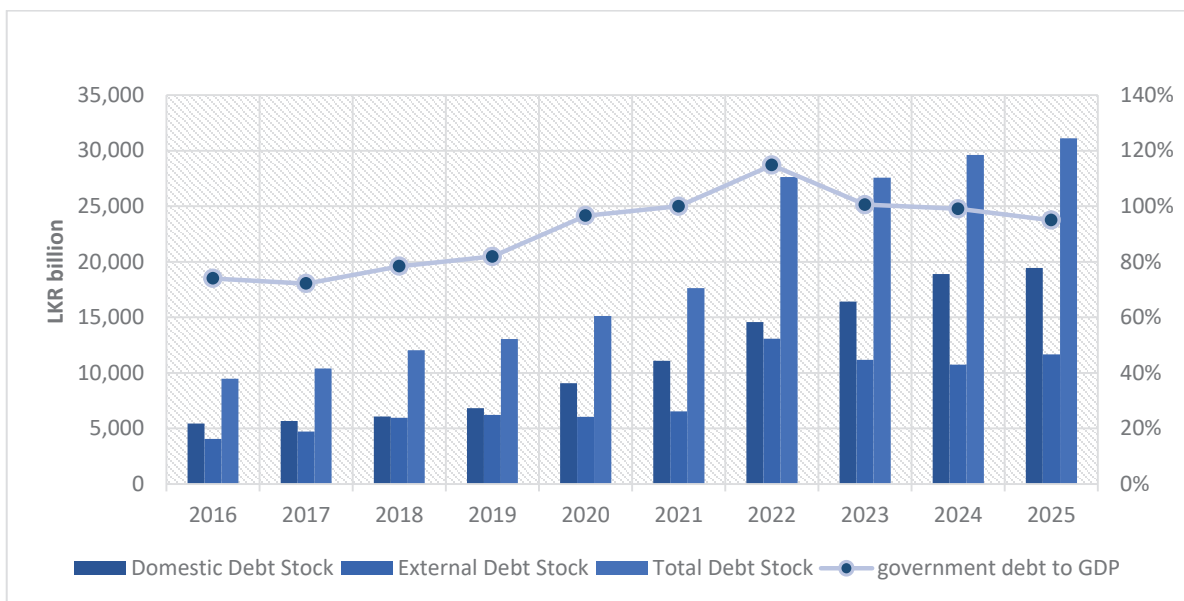
The year 2025 marked a significant step forward in Sri Lanka’s efforts to restore public debt sustainability, supported by the successful completion of major debt restructuring operations, strong fiscal performance, and prudent debt management strategies. Despite an increase in the nominal government debt stock from LKR 29,624 billion in end 2024 to LKR 31,109 billion, the debt burden continued to ease, with declining the debt-to-GDP ratio. Fiscal performance strengthened considerably, with the Government recording a primary surplus almost doubling to IMF target, while the interest payment-to-revenue ratio declined sharply, reflecting robust revenue growth and lower borrowing costs.

The Government also achieved notable improvements in the risk profile of the debt portfolio. The successful debt restructuring exercise extended debt maturities by 2042, resulting in an improvement of Average Time to Maturity and significantly reducing near-term refinancing pressures. The share of fixed-rate debt remained high, limiting exposure to interest rate fluctuations, while the continued reduction in the share of Treasury bills strengthened the maturity structure of domestic debt. Furthermore, improvements in external debt vulnerability indicators, supported by higher reserve buffers and manageable debt service obligations, enhanced the resilience of the public debt portfolio and reinforced progress toward long-term debt sustainability.

4.2 Cost of the Government Debt Portfolio

4.2.1 Government Debt to GDP Ratio

Figure 4.1: Changes of Government Debt Stock over past 10 years



Sources: Public Debt Management Office, Central Bank of Sri Lanka

In 2025, the Government continued to strengthen its debt management position while supporting fiscal sustainability objectives. Total Government debt stock increased moderately to LKR 31,109 billion¹ at the end of 2025, compared with LKR 29,624 billion at the end of 2024. This increase reflects the financing requirements of the Government and the parity changes resulted in exchange rate depreciation. Despite the increase in nominal debt, the overall debt burden eased significantly.

A key achievement in 2025 was the continued decline in the debt-to-GDP ratio to 95 percent, down from 98.4 percent in 2024 and well below the peak recorded in 2022. This improvement indicates that economic growth and strengthened fiscal performance outpaced the growth in debt, resulting in a more sustainable debt position.

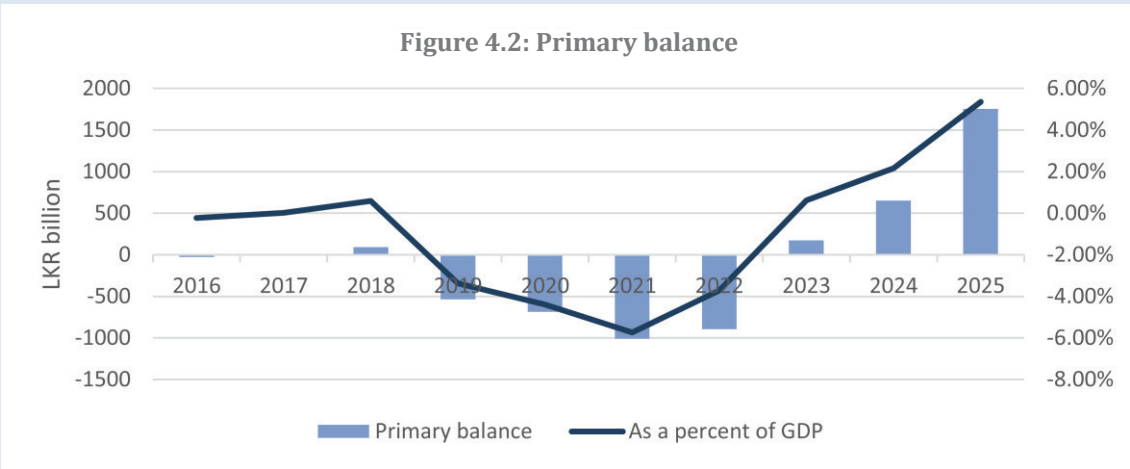
Sri Lanka's economy continued its post-crisis recovery in 2025, recording real GDP growth of approximately 5.0 percent for the second consecutive year. Reflecting the sustained economic expansion, nominal GDP increased to LKR 32,751 billion at end-2025 from LKR 30,096 billion at end-2024.

The debt portfolio remained well balanced, with domestic debt accounting for 62.5 percent of total debt and external debt representing 37.5 percent. The continued reliance on domestic financing helped reduce exposure to external risks while supporting the development of the domestic debt market.

The improvement in debt indicators was further supported by the strong fiscal performance achieved during the year, including a primary surplus of 5.36 percent of GDP, the highest level recorded in the last decade.

Box 1: Primary Balance

The fiscal position strengthened markedly in 2025, with the primary surplus increasing to LKR 1,756 billion, compared with LKR 650 billion in 2024. As a share of GDP, the primary balance rose from 2.16 percent in 2024 to 5.36 percent in 2025, representing the strongest performance in the ten-year period. This substantial improvement reflects continued fiscal consolidation efforts, stronger revenue performance, and prudent expenditure management. The achievement of a primary surplus exceeding 5 percent of GDP even with the Diwah cyclone impact, significantly enhances debt sustainability, strengthens investor confidence, and provides greater fiscal space to address future economic challenges.



Source: Ministry of Finance, Planning and Economic Development

¹ Provisional. Includes government debt in gross basis.

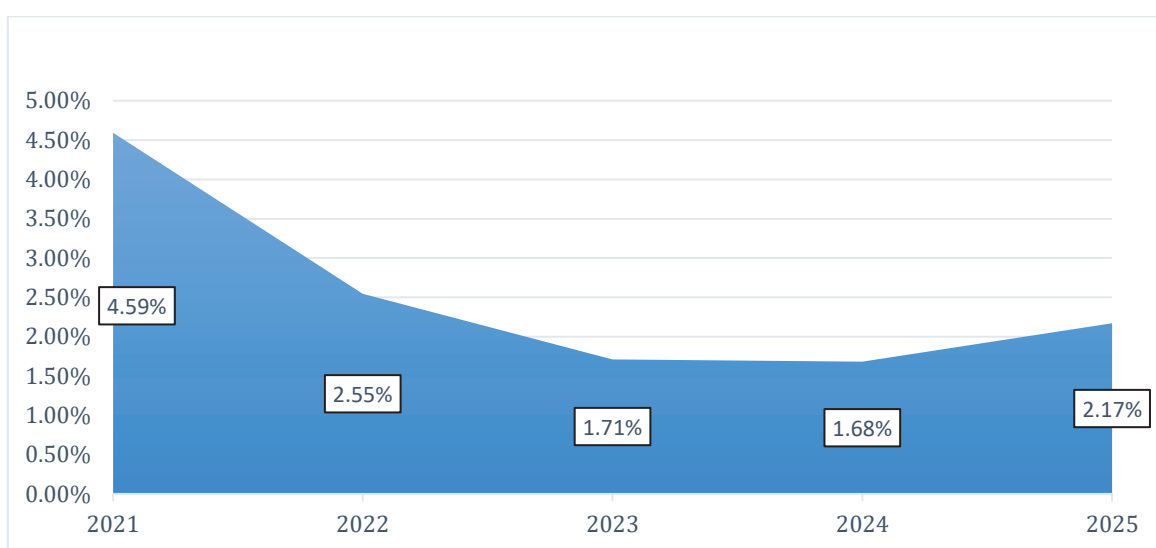
Overall, 2025 marked a year of strengthening debt sustainability, characterized by improved fiscal outcomes, a declining debt burden relative to GDP, and continued progress toward maintaining a stable and resilient public debt portfolio.

4.2.2 Debt Service Payments to Gross Domestic Products

The External Debt Service-to-GDP ratio increased moderately from 1.68 percent in 2024 to 2.17 percent in 2025, reflecting

the gradual normalization of external debt service payments. Despite this increase, the ratio remained well below the IMF Debt Sustainability Analysis (DSA) threshold of 4.5 percent of GDP, indicating a continued improvement in Sri Lanka's external debt sustainability. The successful completion of external debt restructuring has contributed significantly to smoothing the external debt maturity profile, reducing debt service concentrations and refinancing risks over the medium term.

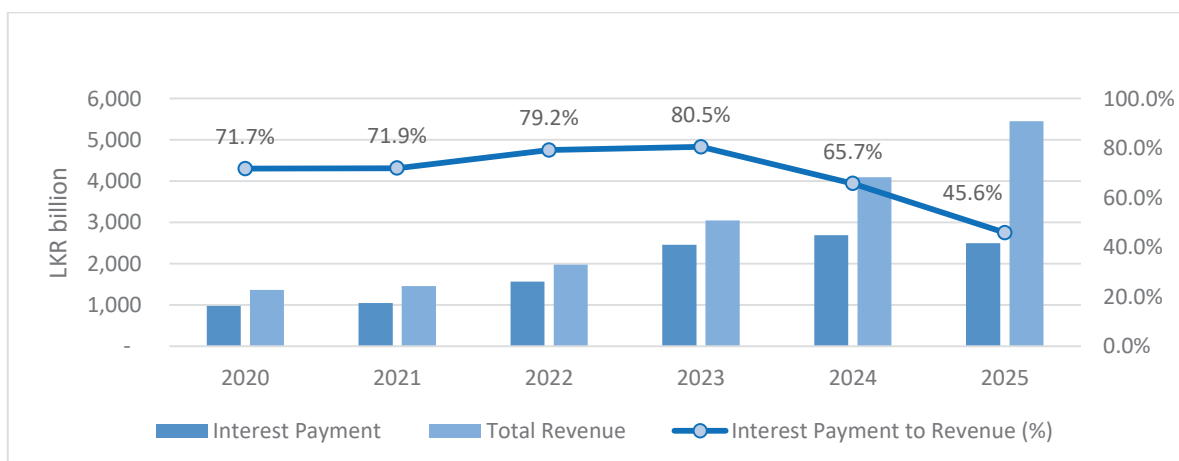
Figure 4.3: External Debt Service to GDP



Source: Public Debt Management Office, Central Bank of Sri Lanka

4.2.3 Interest Payment to Government Revenue

Figure 4.4: Interest Payment to Revenue



Sources: Central Bank of Sri Lanka, Public Debt Management office

Total revenue increased substantially to approximately LKR 5, 486 billion from LKR 4,091 billion in 2024, while interest payments declined to LKR 2,501 billion compared to LKR 2,690 billion in 2024, largely due to lower interest costs associated with the domestic securities market. The reduction in domestic borrowing costs reflects favorable market conditions, active debt management measures, and the accommodative monetary policy measures.

As a result, the interest payment-to-revenue ratio declined sharply to around 46 percent in 2025, compared with approximately 66 percent in 2024 and over 80 percent in 2023.

This marks the lowest ratio in the six-year period and reflects a substantial strengthening of fiscal capacity. The improvement indicates that revenue growth has outpaced the increase in interest payment cost of the government debt, reducing the proportion of Government revenue required to meet interest obligations.

Overall, 2025 marked a significant improvement in debt affordability, driven by reduced domestic interest costs, which was LKR 2,158 billion (5.7 percent reduction from 2024) and strong revenue performance, resulting a substantially lower debt servicing burden on Government finances.

2025 Key Achievements

- Debt-to-GDP ratio declined to 95 percent, continuing the downward trend and improving debt sustainability.
- Interest payment-to-revenue ratio declined to around 46 percent.
- A balanced debt portfolio was maintained, with domestic debt remaining the primary source of financing.
- Revenue growth substantially outpaced the increase in interest payments.
- The Government's capacity to service debt improved, reducing pressure on public finances.
- Lower debt servicing burden supports the achievement of fiscal consolidation and long-term debt sustainability objectives.

Box 2: Monetary Policy Stance

During 2025, the monetary policy stance became more accommodative, with the Central Bank reducing the Overnight Policy Rate (OPR), Standard Deposit Facility Rate (SDFR), and Standard Lending Facility Rate (SLFR) by 25 basis points each. Market interest rates generally declined in response, although the transmission was stronger for deposit rates than for lending rates. Meanwhile, the 1-year Treasury bill yield declined by 51 basis points, reflecting improved market conditions and lower interest rate expectations. Overall, the interest rate environment eased during 2025, supporting credit conditions and reducing funding costs across the economy.

Figure 4.5: Monetary Policy Stance

Rate Type	End 2024 (%)	End 2025 (%)
Standard Lending Facility Rate (SLFR)	8.50	8.25
Standard Deposit Facility Rate (SDFR)	7.50	7.25
Overnight Policy Rate (OPR)	8.00	7.75

Source: Central Bank of Sri Lanka

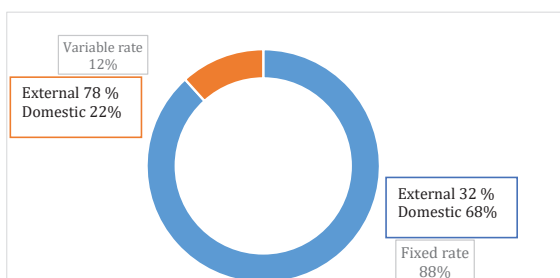
4.3 Risk of the Government Debt Portfolio

4.3.1 Interest Rate Risk

Share of Fixed Rate Debt

At end-2025, fixed-rate instruments accounted for 88 percent of the total government debt portfolio, reflecting a prudent debt management strategy aimed at mitigating interest rate risk. The local currency debt portfolio recorded a particularly high share of fixed-rate debt at 96.0 percent, indicating limited exposure to fluctuations in domestic market interest rates. The FX debt portfolio also maintained a substantial proportion of fixed-rate liabilities at 78.4 percent, providing stability in debt servicing costs despite potential changes in global interest rates.

Figure 4.6: Interest Rate Type



Source: Public Debt Management Office

**Interest free debt and T-bills has been considered as fixed rate debt for the calculation*

The predominance of fixed-rate debt across both domestic and external portfolios enhances the predictability of future interest payments and reduces the Government's vulnerability to adverse interest rate movements. This composition supports debt sustainability by containing refinancing and repricing risks, while contributing to greater budget certainty and fiscal planning.

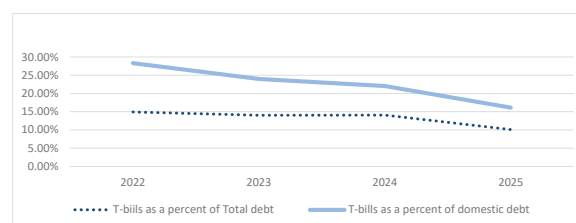
4.3.2 Average time to Refixing (ATR)

The Average Time to Re-fixing (ATR) of the government debt portfolio stood at 6.0 years at end-2025. The ATR of the FX debt portfolio was 7.9 years, significantly higher than the

ATR of the local currency debt portfolio of 4.5 years, indicating that FX debt is less exposed to short-term interest rate fluctuations due to its longer interest rate reset periods and higher share of fixed-rate instruments. In contrast, the relatively lower ATR of local currency debt reflects a greater sensitivity to changes in market interest rates, largely owing to the shorter maturity structure and refinancing characteristics of domestic borrowing instruments.

4.3.3 T-bills percentage to the Total Debt and Domestic Debt

Figure 4.7: Treasury Bills to Total Debt and Domestic Debt



Sources: Public Debt Management office, Central Bank of Sri Lanka

The share of Treasury Bills (T-bills) in both total Government debt and domestic debt continued to decline in 2025, reflecting progress in the Government's strategy to reduce reliance on short-term borrowing and strengthen the maturity structure of the debt portfolio.

T-bills represented 10.1 percent of total Government debt in 2025, down from 14.06 percent in 2024, 14.04 percent in 2023, and 14.93 percent in 2022. This decline of nearly 4 percentage points from the previous year indicates a significant shift towards longer-term financing instruments, helping to reduce refinancing and rollover risks.

Similarly, in the domestic debt T-bills accounted for 16.15 percent in 2025, compared with 22.04 percent in 2024, 24.00 percent in 2023, and 28.32 percent in 2022. The steady reduction over the four-year period demonstrates the Government's success in extending debt maturities through increased use of medium- and long-term securities.

4.3.4 Refinancing risk

Table 4.1: Indicators of Refinancing Risk

Indicator	External	Domestic	Total
Average Time to Maturity (ATM) – Years	9.6	4.7	6.8
Debt Maturing within 1 Year (percent of Total Debt)	3.4	24.3	15.2
Debt Maturing within 1 Year (percent of GDP)	1.5	14.2	15.8

Source: Public Debt Management Office

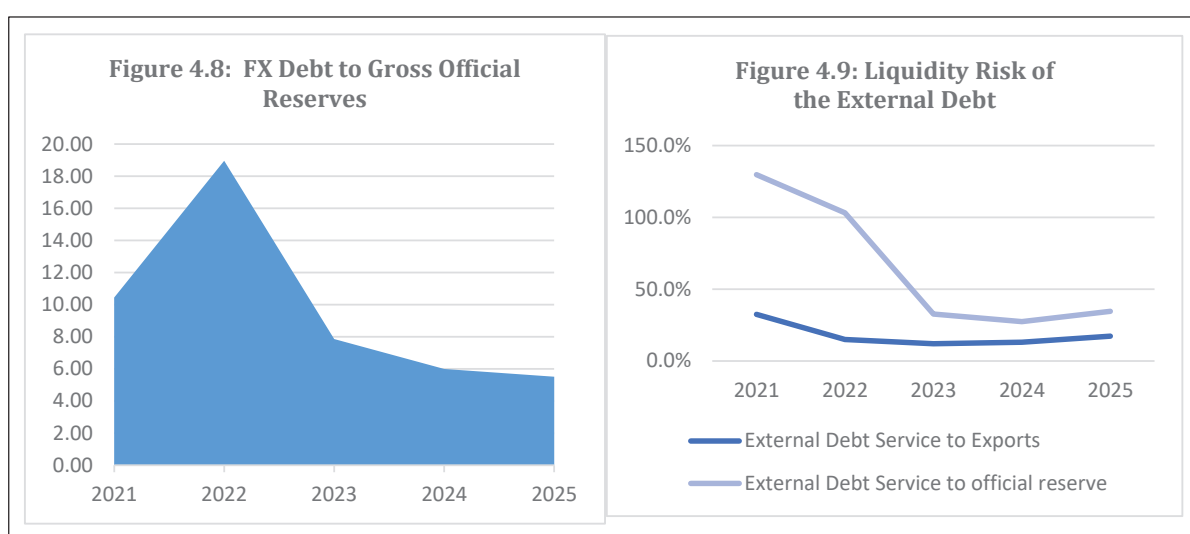
Sri Lanka’s refinancing risk profile improved significantly in 2025, supported by the successful completion of debt restructuring and prudent debt management strategies such as extending the maturity profile of domestic issuances and reducing the reliance of T-bills. These measures helped extend debt maturities and smooth the debt redemption profile, resulting in an Average Time to Maturity (ATM) of 6.8 years for the total debt portfolio. The external debt portfolio maintained a long maturity profile with an ATM of 9.6 years, while the domestic debt portfolio recorded an ATM of 4.7 years, reflecting its relatively shorter maturity structure.

Refinancing risk associated with external debt remained low, with only 3.4 percent of external debt (1.5 percent of GDP) maturing within one year. However, domestic debt

continues to account for the majority of near-term refinancing requirements, with 24.3 percent of domestic debt maturing within one year. Although debt restructuring and the increased use of longer-term financing instruments have significantly reduced refinancing pressures, the concentration of short-term domestic maturities remains a key risk requiring continued monitoring and active debt management.

4.3.5 Exchange Rate Risk

Sri Lanka’s external debt vulnerability indicators continued to be addressed in 2025, reflecting the positive impact of the ongoing debt restructuring process and the strengthening of the country’s external sector position. The ratio of foreign Currency Debt to Gross Official Reserves to foreign currency debt improved significantly from 18.96 times in 2022 to 5.51 times in 2025, indicating a substantial enhancement in reserve adequacy relative to external debt obligations. Although the pace of improvement moderated in 2025 compared to previous years, the ratio remained well below the elevated levels observed during the external sector crisis, reflecting the rebuilding of reserve buffers. However, the risk exposure of the external debt portfolio is still considerable.



Source: Public Debt Management Office and Central Bank of Sri Lanka
Note: provisional

The External Debt Service-to-Exports ratio increased to 17.4 per cent in 2025 from 13.1 per cent in 2024, primarily reflecting the gradual resumption of external debt servicing following the completion of debt restructuring. Nevertheless, the ratio remained substantially below the pre-crisis level of 32.6 per cent recorded in 2021, indicating that external debt service obligations remain manageable relative to the country's export earnings.

Similarly, the External Debt Service-to-Official Reserves ratio increased moderately to 34.5 per cent in 2025 from 27.3 per cent in 2024 due to higher debt service payments. However, the ratio remained significantly lower than the levels exceeding 100 percent observed during 2021–2022, demonstrating the strengthened

capacity of official reserves to meet external debt service obligations.

Overall, these indicators suggest a notable improvement in Sri Lanka's external debt sustainability and resilience to external financing shocks compared to the period preceding debt restructuring.

The IMF EFF programme targets a continued build-up of gross official reserves toward USD 8–9 billion by end 2026, which would further reduce the external debt-to-reserves ratio. Strengthening reserve adequacy remains a cornerstone of Sri Lanka's macroeconomic stabilization agenda and is essential to managing external sector vulnerabilities and restoring market confidence.

Key Achievements

- 88 percent of total debt remained at fixed interest rates, reducing interest rate risk.
- Average Time to Maturity (ATM) increased to 6.8 years, reflecting successful debt restructuring.
- T-bills as a share of total debt declined from 14.06 percent to 10.11 percent and T-bills as a share of domestic debt fell from 22.04 percent to 16.15 percent, reducing refinancing pressures.
- Only 3.4 percent of external debt matures within one year, significantly limiting short-term rollover risk.
- Domestic debt continued to account for 62.5 percent of total debt, helping contain exchange rate risk.
- External Debt Service-to-Exports ratio reduced from 32.6 percent (2021) to 17.4 percent (2025).
- External Debt Service-to-Official Reserves ratio declined from over 100 percent in 2021–2022 to 34.5 percent in 2025.
- External debt vulnerability indicators remained significantly below pre-crisis levels due to smoothed debt redemption profile and Strengthened reserve adequacy and external liquidity position.
- Debt restructuring significantly reduced external financing pressures and enhanced resilience to exchange rate shocks.

Chapter 5

Assessment of Medium Term Debt Management Strategy 2025-2029

In accordance with Section II of the Public Debt Management Act, No. 33 of 2024, the Public Debt Management Office (PDMO) formulated Sri Lanka's first Medium-Term Debt Management Strategy (MTDS) for the period 2025–2029 in February 2025. The MTDS was submitted to Parliament together with the Annual Budget for the financial year 2025. The introduction of the MTDS marked a significant milestone in public debt management, establishing a strategic and transparent framework for debt management decisions and moving away from the ad hoc borrowing practices that prevailed in the past.

Financing Strategy for 2025-2029

- Domestic oriented financing strategy
- Increase the issuance of medium term to long term Treasury bonds to address refinancing risk and borrowing cost and gradually reduce the reliance on Treasury bills.
- Reduce reliance on external commercial borrowings and limiting the external borrowing to bilateral and multilateral concessional loans.
- Mitigating the borrowing in variable interest rates

Borrowing operations undertaken during 2025 were aligned with the objectives and targets set out in the MTDS. The implementation of the strategy contributed to improving the risk profile of the debt portfolio, particularly in terms of refinancing risk. As of end-2025, Treasury bills as a percentage of total debt declined to 10.1 percent from 14.1 percent as at end-2024, in line with the MTDS target

of reducing reliance on short-term financing instruments. Similarly, debt maturing within one year as a percentage of total debt declined from 19.1 percent to 15.2 percent, while debt maturing within one year as a percentage of GDP decreased from 17.6 percent to 15.8 percent.

The Average Time to Maturity (ATM) of the total debt portfolio increased from 6.7 years to 6.8 years, indicating a gradual extension of debt maturities. These improvements demonstrate the effectiveness of the MTDS in reducing refinancing risks and strengthening the resilience of the public debt portfolio.

The cost of debt also improved during the year, with interest payments declining from 8.9 percent of GDP in 2024 to 7.6 percent in 2025. Foreign currency debt slightly increased 38.5 percent of total debt, due to the impact of exchange rate depreciation.

While certain interest rate risk indicators reflected changes in the debt composition following debt restructuring and market developments, the overall debt portfolio remained broadly aligned with the strategic objectives of the MTDS. The progress achieved during 2025 highlights the successful implementation of the Government's debt management strategy and supports the broader objective of restoring debt sustainability and maintaining macroeconomic stability.

Table 5.1: Comparison of Cost and Risk Indicators as per the MTDS 2025-2029 and 2026-2030

	Cost and Risk Indicators	End 2024	End 2025	Outlook
Cost of debt	Interest payment as percent of GDP	8.9	7.6	Positive
	ATM (years)	6.7	6.8	positive
Refinancing risk	Debt maturing in 1yr (percent of total)	19.1	15.2	Positive
	Debt maturing in 1yr (percent of GDP)	17.6	15.8	Positive
	ATR (years)	6.5	6.0	
Interest rate risk**	Debt refixing in 1yr (percent of total)	21.4	25.9	
	Fixed rate debt incl T-bills (percent of total)	97.3	88.3	
	T-bills (percent of total)	14.1	10.1	Positive
FX risk	FX debt (percent of total debt)	37.5	38.5	Slight increase

Source: Public Debt Management Office, MTDS Analytical Tool

Notes:

- Cost and risk indicators that rely on projected cash flows, including weighted average interest rates and refinancing and interest rate risk indicators, are calculated using projected exchange rate assumptions.
- External debt includes foreign currency-denominated loans contracted domestically.
- Domestic debt includes Sri Lanka Rupee-denominated debt contracted domestically.
- **Comparisons of certain interest rate risk indicators between end-2024 and end-2025 should be interpreted with caution, as variable-rate domestic Treasury bonds were not incorporated in the MTDS 2025–2029 baseline calculations for end-2024.

Chapter 6

Developments in Debt Management Operations

6.1 Domestic Borrowing Initiatives

The year 2025 marked a significant milestone in public debt management with the successful transfer of Government Securities issuance functions from the Central Bank of Sri Lanka (CBSL) to the Public Debt Management Office (PDMO) in December 2025. Following extensive preparatory work and on-the-job training provided by CBSL, the transition was completed smoothly without any disruption to market operations.

Domestic borrowing operations continued to support the Government's financing requirements through the issuance of

Treasury Bills, Treasury Bonds, and other approved debt instruments in line with the Annual Borrowing Plan and the Government's financing strategy. Throughout the year, close coordination was maintained with market participants, government institutions, and regulatory authorities to ensure the efficient functioning of the Government securities market and to maintain investor confidence.

Several initiatives were undertaken to strengthen domestic debt management practices, improve market transparency, and enhance stakeholder engagement. Continuous assessments of market conditions, investor demand, and refinancing requirements

Table: 6.1: Performance of Domestic Borrowing Issuances – 2025*

Instrument	Total Offered	Total bids Received at the Auction	Total Accepted
T-Bills (LKR bn.)			
91 Days	1,166.0	2,521.6	851.2
182 Days	2,234.0	5,495.4	2,443.9
364 Days	2,199.0	4,526.4	2,052.3
Total	5,599.0	12,543.4	5,347.4
T-Bonds(LKR Bn.)			
3 Years	40.0	148.5	44.0
4 Years	551.5	1470.1	568.1
5 Years	570.0	1209.4	502.5
6 Years	245.0	549.8	220.4
8 Years	564.5	1,204.2	498.1
10 Years	480.0	1,106.1	476.6
12 Years	93.0	197.2	88.0
Total	2544.0	5,885.3	2,397.7
Domestic Dollar Bonds (USD Mn)			
1 Year	50.0**	45.5	33.0
2 Years		42.5	17.0
3 Years		1.0	-
Total	50.0	89.0	50.0

Source: Public Debt Management office

* Only issuances with settlement dates falling within the year 2025 have been considered.

** Possible upsizing by an additional three times based on favourable market response.

supported informed borrowing decisions and efficient debt issuance.

In 2025, domestic financing was primarily raised through Treasury Bills, Treasury Bonds, and Domestic Dollar Bonds (DDBs). During the year, total issuances amounted to LKR 5,347.4 billion in Treasury Bills, LKR 2,397.7 billion in Treasury Bonds, and USD 50 million in Domestic Dollar Bonds, reflecting the Government's continued reliance on the domestic market to meet its financing requirements.

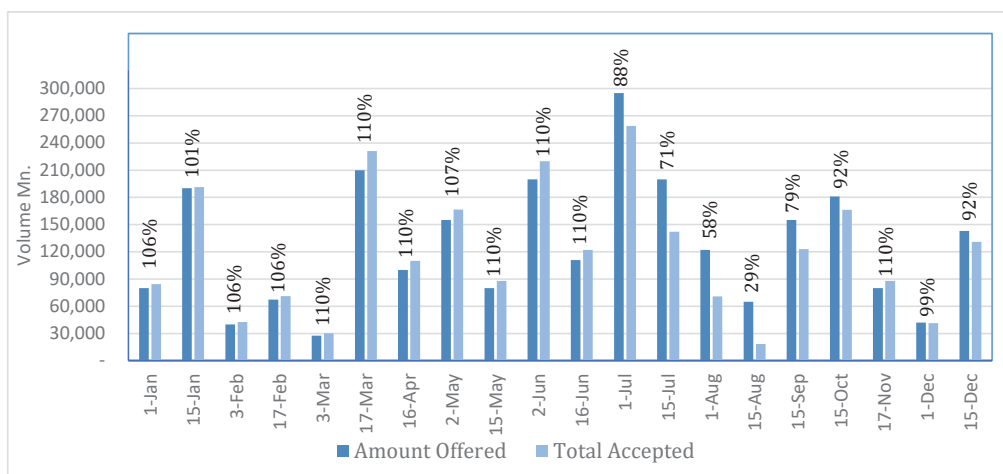
6.1.1 Treasury Bills Primary Market

Treasury bills remained one of the key debt instruments utilized by the PDMO to manage the short-term cash flow requirements of the Government. During 2025, Treasury bills were issued in three standard maturities of 91 days, 182 days, and 364 days.

A total of 53 weekly Treasury bill auctions were conducted during the year 2025. Gross fund mobilization through Treasury bill issuances amounted to LKR. 5,347.4 billion (on a face value basis) in 2025, compared to Rs. 7,900.6 billion in 2024, for refinancing Treasury bills amounting to LKR. 6280.2 billion in 2025. The decline in gross fund mobilization was mainly attributable to stronger revenue generation and strategic approach to reduction of reliance on T-bills and focusing more on long term T-bonds.

6.1.2 Treasury Bonds Primary Market

Figure 6.2: Offered Amount vs Accepted Amount in 2025



Source: Public Debt Management Office

Primary Market Weighted Average Yield Rates (WAYRs) for Treasury bills exhibited a generally stable trend throughout 2025 even though an increase was noticed at the end of 2025. Compared to end-2024 levels, yields on 91-day, 182-day, and 364-day Treasury bills declined by 107, 82, and 77 basis points, respectively by end of 2025. Accordingly, WAYRs stood at 7.55 percent, 7.95 percent, and 8.19 percent for 91-day, 182-day, and 364-day maturities, respectively, at the end of 2025.

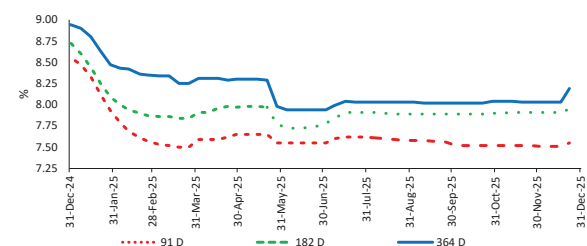
Table 6.2: Primary Market Weighted Average Yield Rates of Treasury Bill Auctions *

Period	%				
	End Quarter 4 2024	End Quarter 1	End Quarter 2	End Quarter 3	End Quarter 4
91 Days	8.62	7.50	7.55	7.57	7.55
182 Days	8.77	7.84	7.75	7.89	7.95
364 Days	8.96	8.25	7.94	8.02	8.19

Source: Public Debt Management Office

* Weighted Average Yield Rate (WAYR) of each quarter end Treasury bill auction

Figure 6.1: Primary Market Weighted Average Yield Rates of Treasury Bill Auctions



Source: Public Debt Management Office

Treasury bonds remained one of the key debt instruments utilized by the PDMO to meet the long-term cash flow requirements of the Government.

Accordingly, Treasury bond issuances were conducted on a regular basis to meet the Government’s medium and long-term financing requirements, by offering multiple maturities ranging from approximately 3 years to 12 years.

The total amount offered at Treasury bond auctions during 2025 amounted to Rs. 2,544.0 billion, while total accepted volume stood at Rs. 2,397.7 billion, resulting in an overall acceptance level of 94.3 per cent from all phases including Direct Issuance Window (DIW). In comparison, during 2024, the total amount offered was to Rs. 2,550.5 billion, of which Rs. 2,571.0 billion was accepted from all phases including Direct Issuance Window (DIW), resulting in an acceptance rate of 100.8 percent.

Auction performance remained relatively strong during the early part of the year, most of the auctions recorded 110 percent of over-acceptance level, indicating strong investor demand. However, during the mid-year period, particularly between July and September 2025,

the acceptance level declined significantly due to uncertainty in global trade conditions and trade policy developments. This was managed through the utilization of the Government’s available cash buffer. Subsequently, acceptance levels showed signs of recovery towards the latter part of the year.

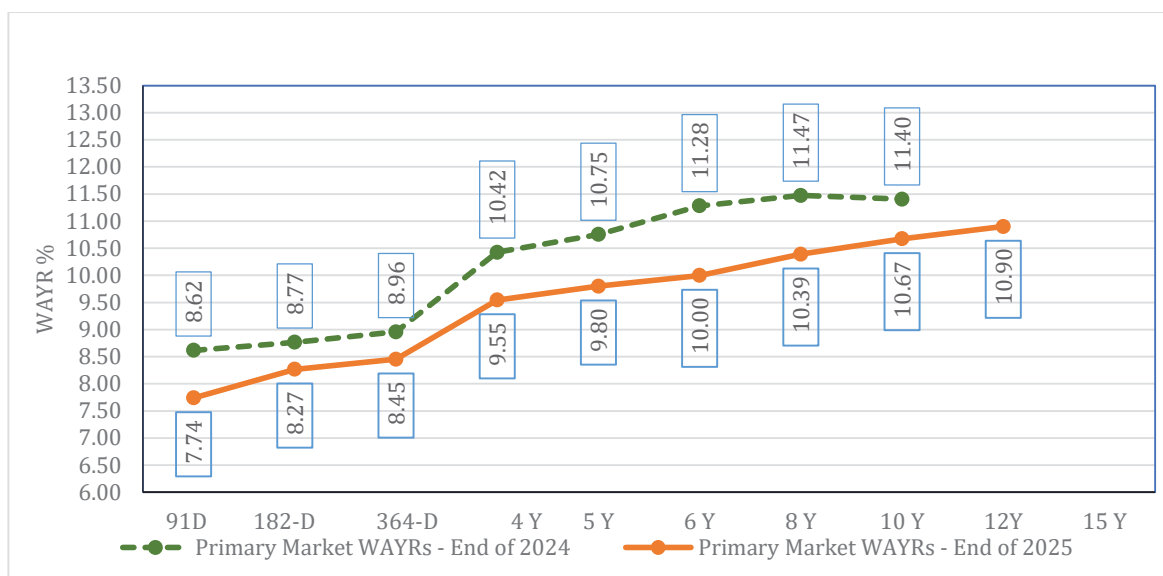
Table 6.3: Primary Market WAYR Movements during the Year 2025

Tenor (Years)	2025			Variation % in 2024
	Lowest Yield	Highest Yield	Variation %	
4	9.41	10.63	11.48%	36.31%
5	9.47	10.73	11.74%	30.02%
6	10.00	11.23	10.95%	26.10%
8	10.29	11.47	10.29%	15.45%
10	10.46	11.50	9.04%	12.48%
12	10.83	11.08	2.26%	N/A

Source: Public Debt Management Office

In primary market yields during 2025, yield volatility was notably higher in the medium-term maturities, while the longer tenors exhibited the lower variation among Treasury securities indicating relatively stable long-term market expectations. However, the overall Yield volatility across all tenors declined in 2025 compared to 2024, reflecting improved stability in the government securities market.

Figure 6.3: Primary Market Weighted Average Yield Rate (WAYR) movement for the Year 2024/2025



WAYR was not available for the 12-year and 15-year tenors in 2024, and for the 15-year tenor in 2025
Source: Public Debt Management Office

The movement of Primary Market Weighted Average Yield Rates (WAYRs) between end-2024 and end-2025 across different maturities is illustrated in figure 6.3. At the end of 2024, yields remained relatively high, particularly in the medium- to long-term tenors. In contrast, by the end of 2025, WAYRs declined across all tenors, reflecting improved market conditions and easing interest rates. A noticeable decline in yield rates is observed in 2025 compared to 2024, particularly in the medium-term tenors. The yields increased gradually from 7.74 percent for the 91-D tenor to 10.90 percent for the 12-year tenor, resulting in a more stable and smoother yield curve compared to end-2024.

Refinancing Maturing Treasury Bonds 2025

Table 6.4: Treasury bonds due for settlement in 2025.

ISIN	Maturity Date	Amount (LKR Bn)
LKB00325A156	15-Jan-25	85
LKB01025C157	15-Mar-25	105
LKB01225E019	1-May-25	117
LKB00425F013	1-Jun-25	149
LKB00325G013	1-Jul-25	273
LKJ00225G157	15-Jul-25	73
LKB01025H016	1-Aug-25	92
LKB00825J156	15-Oct-25	73

Source: Public Debt Management Office

Despite a challenging maturity profile, with total debt redemptions amounting to LKR 967 billion in 2025 and significant concentrations during the middle of the year, the Government successfully refinanced all maturing obligations in a timely manner. The successful rollover of these maturities, including the largest single redemption of LKR 273 billion in July 2025, reflects strong investor confidence, effective borrowing operations, and prudent debt management practices that helped mitigate refinancing risks and maintain market stability.

6.1.3 Domestic Dollar Bonds (DDBs)

Domestic Dollar Bonds (DDBs) in Sri Lanka are a type of Government domestic debt security denominated in US dollars, primarily to mobilize foreign currency from local investors.

The first auction of DDBs was conducted by the PDMO on 03 December 2025 for raising

a total of US dollars 50 million (possible upsizing by additional three times) under fixed rate arrangement, with maturities of 1, 2, and 3 years. Locally incorporated licensed commercial banks were allowed to invest in this issuance. This issuance marked the first foreign currency denominated domestic government debt security issuance after 2022, following the discontinuation of Sri Lanka Development Bonds (SLDBs).

Out of the bids received, US dollars 33 million was accepted from 1-year instrument at a weighted average rate of 5.7 per cent, US dollars 17 million from 2-year instrument at 6.1 per cent, while no bids were accepted from 3-year instrument.

Table 6.5 : Result of the DDB Issuances

Tenure	1 Year	2 Years	3 Years
Bids Received (USD Mn)	45.5	42.5	1.0
Amount Accepted (USD Mn)	33.0	17.0	-
Weighted Average Fixed Rate (%)	5.7	6.1	-

Source: Public Debt Management Office

6.2 External Borrowing Initiatives

6.2.1 Strategic Approach to External Borrowing

The year 2025 marked an important phase in the Government's transition from debt restructuring towards sustainable debt management and economic recovery. Following the substantial completion of the sovereign debt restructuring process and the finalization of the majority of restructuring agreements with external creditors, the Government's external financing strategy increasingly focused on preserving the debt sustainability gains achieved through the restructuring effort while ensuring adequate financing for economic recovery and development priorities. While debt sustainability has been restored through the restructuring process, maintaining these gains remains dependent on continued fiscal discipline, prudent borrowing practices and sustained reform momentum.

In line with the objectives of the IMF-supported economic reform programme and the Medium-Term Debt Management Strategy (MTDS), external financing operations during the year were guided by the principles of fiscal sustainability, prudent risk management

and debt affordability. Priority was given to concessional and semi-concessional financing from development partners, while financing decisions were carefully assessed to ensure consistency with the Government's medium-term debt sustainability objectives and broader macroeconomic reform agenda.

PDMO facilitated execution of external financing arrangements while ensuring that borrowing decisions are aligned with the MTDS, financing requirements and prudent debt management practices. Particular attention is given to the cost-risk profile of the Government debt portfolio, taking into account the refinancing, foreign exchange and interest rate risks identified through the debt management framework and the strategic priorities outlined in the Medium-Term Debt Management Strategy.

6.2.2 Foreign Loan Commitments by Development Partners

During 2025, PDMO negotiated new external financing commitments amounting to approximately USD 1,238 million. The financing arrangement reflected a multilateral funding base, comprising approximately USD 790 million from the Asian Development Bank (ADB), USD 180 million from the World Bank Group (WB), USD 52 million from the Asian Infrastructure Investment Bank (AIIB) and USD 10 million from Saudi Fund for Development. These financing arrangements were secured on terms that supported the Government's financing requirements while remaining consistent with debt sustainability objectives and the cost-risk parameters established under the debt management framework. The Proceeds of the AIIB loan amounting to USD 52 million (equivalent LKR 15.7 billion) was on-lent to the Ceylon Electricity Board (CEB) and accordingly, a Subsidiary Loan Agreement was signed in 2025.

In addition to financing obtained through traditional multilateral and bilateral channels, the Government secured emergency financing of SDR 150.5 million (approximately USD 206 million) under the IMF's Rapid Financing Instrument (RFI) in December 2025 following Cyclone Ditwah.

The average time to maturity (ATM) of foreign currency loan commitments secured in 2025 exceeded 21 years, reflecting strong alignment with the targets set out in the Medium-Term Debt Management Strategy (MTDS) to lengthen the maturity profile of external borrowings. The extended maturities contribute to mitigating refinancing risk by spreading debt service obligations over a longer horizon and strengthening the overall resilience of the external debt portfolio.

However, around 73 percent of the foreign loan commitments secured during 2025 were contracted at floating interest rates. As a result, the external debt portfolio remains exposed to movements in international interest rates, underscoring the importance of management of interest rate risk within the Government's debt management framework.

Details of the foreign loan commitments contracted during 2025 are provided in Annex I.

Table 6.6: Foreign loan commitments by Development Partners

Development Partner/ Lending Agency	Amount (USD Million)
Asian Development Bank (ADB)	790
International Monetary Fund (IMF)	206
World Bank (WB)	180
Asian Infrastructure Investment Bank (AIIB)	52
Saudi Fund for Development*	10
Total	1,238

*Source: Public Debt Management Office
Financial values committed in difference currencies have been converted into USD using the daily average exchange rates published by Central Bank of Sri Lanka prevailed on each agreement date.*

For conversion of SDR into USD, month end exchange rate of SDR applied to the end of previous month published by the Central Bank of Sri Lanka have been used

**Enhancement*

6.2.3 Sectorial Distribution of New External Commitments (USD Million)

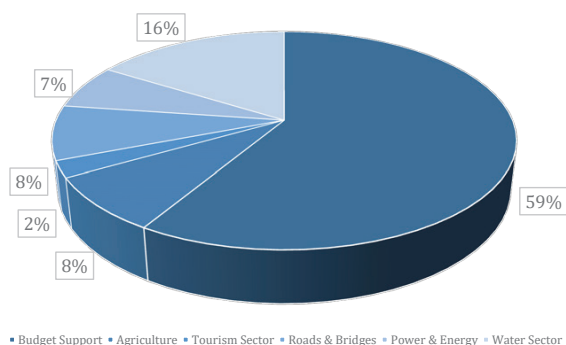
The financing secured during the year supported a broad range of priority sectors critical to economic recovery and long-term development. Infrastructure and connectivity projects accounted for the largest share of financing, including the Second

Integrated Road Investment Programme, urban development initiatives and climate-resilient infrastructure investments. These investments are expected to improve national connectivity, enhance economic productivity and strengthen resilience to climate-related challenges.

The energy sector received significant support through financing for transmission infrastructure, power sector reforms and energy security initiatives, contributing to improved reliability and sustainability of the national energy system. Financing was also secured for water resource management and irrigation development through the Mahaweli Water Security Investment Programme, supporting water security, agricultural productivity and climate resilience. In addition, external financing was mobilized to strengthen healthcare delivery systems, governance arrangements and institutional capacity within the health sector.

Programme-based financing was also secured to support macroeconomic stabilization, structural reforms and private sector development initiatives, thereby contributing to the Government's broader economic reform agenda. These operations played an important role in supporting fiscal and external sector stability while facilitating the implementation of key policy reforms and strengthening the foundations for sustainable economic growth.

Figure 6.4: Sectorial Distribution of New External Commitments



Source: Public Debt Management Office

6.2.4 Forward Looking External Financing Strategy

Following the near completion of the debt restructuring process, preparatory activities were also initiated by PDMO future liability

management operations (LMOs) and the gradual re-establishment of access to market-based financing. Recognizing the refinancing, foreign exchange and interest rate risks identified in the Government debt portfolio and the strategic measures proposed to address them, technical assessments, stakeholder consultations and capacity-building initiatives were undertaken to strengthen institutional readiness for the implementation of liability management tools. Concurrently, preparatory work was undertaken to support the Government's future re-engagement with international capital markets, including assessments of financing options, investor engagement strategies and institutional arrangements required for potential future international sovereign bond issuances, subject to market conditions and debt sustainability considerations. These efforts are intended to support the proactive management of portfolio risks, improve the maturity structure of Government debt, diversify financing sources and contribute to a more resilient and sustainable Government debt portfolio over the medium term.

Throughout the corresponding year, continued engagement with development partners through country strategy discussions, portfolio reviews and technical missions helped strengthen development cooperation and improve coordination of external financing activities. At the same time, progress in finalizing bilateral debt restructuring agreements further reinforced confidence in the Government's debt management framework and its commitment to restoring and maintaining debt sustainability.

The external financing mobilized in 2025 reflects the Government's transition from debt restructuring towards sustainable debt management and economic recovery. By securing financing aligned with debt sustainability requirements and commitments under the IMF-supported economic reform programme, the Government was able to maintain access to development financing while safeguarding the gains achieved through the debt restructuring process. The continued emphasis on concessional financing, prudent risk management and institutional reforms has further strengthened the Government's

capacity to manage debt sustainably and respond to emerging financing needs while maintaining confidence among creditors, investors and development partners. These efforts contributed to supporting priority public investments, strengthening creditor confidence and laying the foundation for sustainable and resilient economic growth.

6.3 Investor Relations Initiatives

The Investor Relations and Market Development Unit (IRU) was established in 2025 within the Public Debt Management Office (PDMO) as the first of its kind in Sri Lanka. The Unit is mainly responsible for establishing and maintaining of active and regular contacts with domestic and foreign investors as well as the development of the Government securities market. PDMO facilitated high-level engagement with investors regularly through investor calls, meetings with credit rating agencies, and other investor relations initiatives.

6.3.1 Engagement with Credit Rating Agencies

Sri Lanka obtains sovereign credit rating services from three major Credit Rating Agencies: Moody's Investors Service, S&P Global Ratings, and Fitch Ratings. The PDMO facilitated country visits for representatives of all three agencies in 2025 and coordinated conference calls to provide timely updates on economic developments and related policy measures whenever necessary. These engagements strengthened communication channels and enhanced the provision of accurate and transparent information to the rating agencies.

As a result of these constructive interactions and improved information sharing, On 19 September 2025, S&P Global Ratings upgraded Sri Lanka's foreign currency sovereign credit ratings from the long-standing 'SD' (Selective Default) status to 'CCC+', reflecting Sri Lanka's recent efforts to complete the restructuring of remaining commercial debt, which also supported by strong economic recovery, rapid

fiscal consolidation and reform, accumulation of foreign exchange reserves, an improving external position, and sustained progress in reducing fiscal risks from SOEs. improved confidence in the country's economic outlook and reform progress.

Moody's Investors Service and Fitch Ratings affirmed Sri Lanka's sovereign credit ratings at Caa1 and CCC+, respectively, with stable outlooks, and Fitch Ratings also affirmed CCC+, reflecting continued confidence in the country's ongoing economic recovery and reform efforts., while refraining from any further downgrades.

Table 6.7: Sri Lanka's Credit Rating Upgrades

Agency	Before Upgrade	After Upgrade	Outlook
Fitch Ratings	RD (Restricted Default)	CCC+	-
Moody's Ratings	Ca	Caa1	Stable
S&P Global Ratings	SD (Selective Default)	CCC+	Stable

Source: Public Debt Management Office

Building on the progress achieved in debt transparency, initiatives were also undertaken to support future sovereign credit rating improvements through the identification of key areas requiring attention and the assessment of immediate measures that could be implemented within the existing policy and institutional framework. As part of these efforts, a technical workshop was held and expert assistance was sought to identify practical actions and low-hanging opportunities that could further strengthen Sri Lanka's credit profile and support ongoing engagement with international investors and credit rating agencies.

6.3.2 Publication of government debt information and fulfilling the related regulatory and legal requirements

Establishment of an interim website for the PDMO ensured easy access to important information on debt and related updates. The website also facilitated the publication of weekly, quarterly and annual information

related to debt of the Government of Sri Lanka, improving transparency and communication with the public and market participants.

Furthermore, initiatives such as the Investor Relations & Communication Policy (IRCP) and Investor Relations Strategy (IRS) were adopted internally in early 2026 implemented to strengthen investor confidence, enhance communication practices, and promote effective relationships with both local and international investors.

6.3.3 Engagement with the International Institute of Finance (IIF) on investor relations

Engagement with the International Institute of Finance (IIF) on investor relations marked a significant milestone, as it represented the first formal engagement of Sri Lanka with the organization. This collaboration provided an opportunity to strengthen investor communication practices, improve transparency, and showcase that the country aligns with international best practices in investor relations. Through these efforts, substantial progress was achieved in enhancing the country’s investor relations framework, leading to a notable improvement in performance scores. As per the IIF’s Investor Relations and Debt Transparency Report, published on 09 July 2025, which covered 54

emerging markets and developing economies from various geographical regions, Sri Lanka recorded the 5th place of the most significant score improvements (+9.1) in 2025 elevating its overall score to 37.33 out of 50 from 25.2 in 2023 and 28.21 in 2024.

6.3.4 Debt Transparency

Sri Lanka recorded substantial progress in debt transparency during 2025, reflecting continued improvements in public debt management and reporting practices. Following the successful completion of sovereign debt restructuring, debt-related information became more comprehensive, timely and accessible to stakeholders. The publication of debt statistics, borrowing plans, debt management strategies and restructuring outcomes strengthened transparency and aligned reporting practices more closely with international standards advocated by the World Bank and the IMF.

The enhanced transparency framework contributed to improved investor confidence, supported market development, and reinforced the credibility of Sri Lanka's public debt management operations. By 2025, most key debt transparency dimensions were assessed as fully met, demonstrating the Government's commitment to accountability, sound governance and sustainable debt management.

Figure: 6.5: Upgrading of the World Bank Debt Transparency Heat Map

Transparency Dimension	2024 Status	2025 Status
Data Accessibility	Fully	Fully
Instrument Coverage	Fully	Fully
Sectorial Coverage	Limited	Partial
Information on Recently Contracted External loans	Not Scored	Red
Periodicity	Fully	Fully
Time lag	Limited	Fully
Debt Management Strategy	Red	Fully
Annual Borrowing Plan	Red	Fully
Additional Statistics and memo items	Limited	Fully

Red	N/A	Orange	Limited	Yellow	Partial	Green	Fully	Grey	Not Scored
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Source: <https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report/2025>

Chapter 7

Guarantees and On-lending

7.1 Overview

Over the years, the Government of Sri Lanka (GOSL) has extended substantial financial support to State-Owned Enterprises (SOEs) through the provision of loan guarantees and on-lending facilities, primarily to facilitate service delivery and support infrastructure development.

Recognizing the weaknesses in governance frameworks especially in the assessment, monitoring, and management of guarantees and on-lending, the Government has undertaken significant legal and institutional reforms to strengthen the management of loan guarantees and on-lending and its associated risks.

The Public Debt Management Act No. 33 of 2024 (PDMA) establishes the legal framework for the issuance and management of loan guarantees and on-lending. Under this Act, the Public Debt Management Office (PDMO) is mandated to conduct comprehensive credit risk assessments as a prerequisite for the approval of such instruments. In line with this mandate, the PDMO has developed and operationalized a structured credit risk assessment methodology for SOEs to mitigate the risk.

In addition, the Public Financial Management Act No. 44 of 2024 (PFMA), enacted in August 2024, introduces a statutory limit on government guarantees. Accordingly, the total outstanding stock of government guarantees at the end of each financial year is capped at 7.5 percent of the average Gross Domestic Product (GDP) of the relevant financial year and the preceding two years. This provision represents a critical step toward strengthening fiscal discipline and enhancing transparency in the management of loan guarantees.

7.2 Government Guaranteed Debt Profile

Government guarantees constitute a significant component of the Government's contingent liabilities, with the outstanding stock of guarantees amounting to LKR 1,080 billion. While guarantees facilitate access to financing for strategically important SOEs, they also expose the Government to potential fiscal costs in the event of default. Accordingly, the guaranteed debt portfolio is closely monitored by PDMO as part of the Government's broader fiscal risk management framework.

7.2.1 Stock of Loan Guarantees

As at end-December 2025, the total outstanding government guaranteed debt amounted to LKR 1,080 billion, compared to LKR 1,454 billion recorded at end-December 2024. This represents a substantial decline of LKR 374 billion, equivalent to a 25.7 percent reduction during the year.

The outstanding guarantee portfolio represented approximately 3.6 percent of the average Gross Domestic Product (GDP) of 2025 and the preceding two years, remaining well below the statutory ceiling established under the PFMA. The decline in the stock of government-guaranteed debt compared to 2024, reflects a significant improvement in the government's contingent liability position.

7.2.2. Composition by Creditor Category

The guaranteed debt portfolio comprises obligations owed to both external and domestic creditors. As at end December 2025, guarantees associated with external creditors accounted for 58 percent of the total portfolio, while domestic creditors represent 42 percent. Within the external portfolio, bilateral creditors constituted the

largest share. Within the domestic portfolio, the majority of exposures were concentrated in loans obtained from the domestic banking institutions.

Table 7.1: Government Guaranteed Debt by Creditor Category

Creditor Categories	Outstanding as at end 2025 (LKR Mn)
Foreign Creditors	625,450
Multilateral	137,966
Bilateral	487,484
Domestic Creditors	454,733
Domestic Banks (FX-linked)	18,457
Domestic Banks (LKR-linked)	435,486
Other Domestic Institutions* (LKR-linked)	790
Grand Total	1,080,183

Source: public debt Management Office

*Other Domestic Institutions - Paddy Marketing Board & Export Development Board

Among individual creditors, the Reserves Bank of India, the Asian Development Bank, and the China Development Bank represented the largest external exposures, while Bank

of Ceylon, National Saving Bank, and the People's Bank constituted the largest domestic creditors.

7.2.3. Composition by Debtors

The guaranteed debt portfolio remains concentrated among a number of strategically important SOEs operating in infrastructure, utilities, transportation and finance.

As at end December 2025, the largest beneficiaries of the government guarantees were the National Water Supply and Drainage Board (NWSDB), Road Development Authority (RDA), Central Bank of Sri Lanka (CBSL), Ceylon Electricity Board (CEB), Ceylon Petroleum Corporation (CPC), Airport and Aviation Services (Sri Lanka) Limited (AASL), and Sri Lankan Airlines Limited (SLA).

The concentration of guaranteed debt among these entities reflects the significant financial requirements and their critical role in supporting economic development. At the same time, concentration highlights the necessity of regular credit risk assessment and continuous financial performance monitoring.

Table 7.2: Largest Creditors in the Guaranteed Debt Portfolio

Creditors	Debtors	Outstanding (LKR Mn)
Foreign Creditors		625,450
Reserve Bank of India	CBSL	201,940
Asian Development Bank	CEB, RDB, LECO	113,167
China Development Bank	NWSDB	60,055
DB Trustees (Hong Kong) Limited	SLA	54,249
Japan International Cooperation Agency	AASL	53,393
Other		142,647
Domestic Creditors		454,733
Bank Of Ceylon (BOC)	RDA, NWSDB, CEB, KDU, NSBM, Lanka Coal, State Engineering, SDCC, BMC, SLRC, CPC	228,061
National Savings Bank (NSB)	NWSDB, RDA, CEB, KDU	125,513
Peoples Bank (PB)	RDA, NWSDB, CPC, CSC, SSPC, SPC	59,835
Other		41,325
Total		1,080,183

Source: Public Debt Management Office

*SLA: Sri Lankan Airline, CBSL: Central Bank of Sri Lanka, CEB: Ceylon Electricity Board, RDA: Road Development Authority, CPC: Ceylon Petroleum Corporation, AASL: Airport & Aviation Services (Sri Lanka) Limited, NWSDB: National Water Supply & Drainage Board, LECO: Lanka Electricity Company (Pvt) Limited, KDU: General Sir John Kothalawala Defence University, NSBM: National School of Business Management Limited, CSC: Ceylon Shipping Corporation Limited, SSPC: Sri Lanka State Plantation Corporation, SPC: State Printing Corporation, SDCC: State Development and Construction Corporation, BMC: Building Material Corporation Limited, SLRC: Sri Lanka Rupavahini Corporation

Table 7.3: Largest Debtors of the Guarantees

Debtors	Outstanding (LKR Mn)
National Water Supply & Drainage Board (NWSDB)	237,689
Road Development Authority (RDA)	209,463
Central Bank of Sri Lanka (CBSL)	201,939
Ceylon Electricity Board (CEB)	113,976
Ceylon Petroleum Corporation (CPC)	79,592
Airport & Aviation Services (Sri Lanka) Limited (AASL)	66,534
Sri Lankan Airlines Limited (SLA)	57,844
Other	113,142
Total	1,080,183

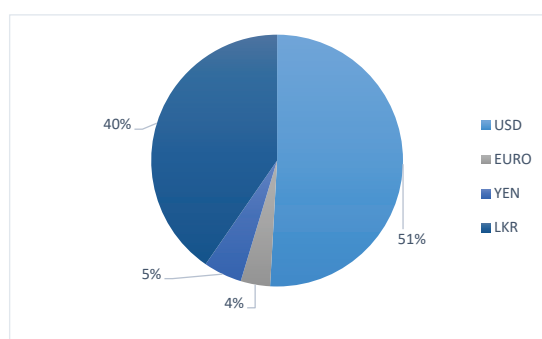
Source: Public Debt Management Office

7.2.4. Composition by Currency

The currency composition of the guaranteed debt portfolio is important determinant of fiscal risk, particularly in the context of exchange rate fluctuations.

As at end December 2025, approximately 60 percent of outstanding guaranteed debt amounted to LKR 643,908 million was denominated in foreign currency, while 40 percent amounted to LKR 436,276 million, was denominated in Sri Lankan Rupees. The dominance of foreign currency denominated obligations exposes the portfolio to exchange rate risk. The United States Dollar remained the principal foreign currency exposure within the guaranteed debt portfolio, followed by the Euro and Japanese Yen.

Figure 7.1: Guaranteed Debt Profile by Currency



Source: Public Debt Management Office

7.2.5. New Guaranteed Debt 2025

No new government loan guarantees were issued in respect of new borrowing operations during 2025. However, several modifications were made to the existing guarantee portfolio in connection with debt restructuring arrangements and extensions of guarantee validity periods.

During the year, the Government extended the validity period of a payment guarantee issued to International Air Transport Association on behalf of Sri Lankan Airlines Limited amounting to USD 11.6 million for a further period of one year. In addition, the guarantee issued to Reserve Bank of India on behalf of the Central Bank of Sri Lanka in respect of the Special Swap Agreement, amounting to USD 1,101.43 million, was extended by one and a half years. Guarantee issued to Bank of Ceylon on behalf of Lanka Coal Company Pvt Ltd has also been extended until 22/10/2026.

Furthermore, a government guarantee amounting to USD 5.38 million has been issued in relation to overdue interest and other associated charges arising from two restructured loan facilities obtained by the National Water Supply and Drainage Board (NWSDB) from the Export-Import Bank of India.

In line with the debt restructuring process, guarantees relating to restructured loan facilities obtained from the Export-Import Bank of India and the China Development Bank by NWSDB and from Japan International Cooperation Agency by Airport and Aviation Services (Sri Lanka) Limited were reissued under the revised terms and conditions of the respective financing agreements. These actions did not result in new borrowings and it was the continuity of existing financing facilities. However, credit risk assessments have been conducted and guarantee fees were imposed when reissuing the guarantees as per the provisions of PDMA.

Table 7.4: Guarantees re-issued/extended in 2025

Project/Guarantee Name	Creditor	Debtor	Loan Amount (USD million)	Date of Expiry
Restructured Guarantees under External Debt Restructuring				
Katana Water Supply Project (KWSP) -	CDB	NWSDB	Original - 54.79 Restructured - 45.80	21/08/2042
Thambuttegama Water Supply project -	CDB	NWSDB	Original - 102.54 Restructured - 40.55	20/10/2036
Gampaha, Attanagalle and Minuwangoda Integrated Water Supply Scheme	CDB	NWSDB	Original - 195.08 Restructured - 118.51	20/03/2032
Polgahawela, Pothuhera and Alawwa Integrated Water Supply Project	Indian EXIM Bank	NWSDB	Original - 91.8 Restructured - 59.13 Non -Restructured - 1.68	05/06/2042
Aluthgama, Mathugama and Agalawaththa Integrated Water Supply Project	Indian EXIM Bank	NWSDB	Original -164.9 Restructured - 90.16 Non -Restructured - 1.42	05/06/2042
Funded Interest Term Loan	Indian EXIM Bank	NWSDB	5.38	05/06/2042
Bandaranaike International Airport Development Project	JICA	AASL	Rescheduled debt - JPY 15,091,857,367 Non-rescheduled debt - JPY 13,426,321,054	28/03/2052
Other Guarantee Extensions				
Guarantee issued for International Air Transport Association (IATA)	IATA	SLA	11.6	31/07/2026
Guarantee issued for Reserve Bank of India (RBI)	RBI	CBSL	1,101.43	03/01/2027
Guarantee issued for BOC	BOC	Lanka Coal Company (Pvt) Ltd	22,000 (LKR million)	22/10/2026

Source: Public Debt Management Office

7.2.6. Guarantee Calls and payments

Government guarantees may result in direct fiscal costs when beneficiary entities are unable to meet their debt servicing obligations.

During 2025, the Treasury fulfilled guarantee obligations amounting to LKR 18.098 billion in respect of liabilities incurred by several SOEs. The beneficiary entities included the State Engineering Corporation, North Sea Limited, Ceylon Fisheries Corporation, Mihin Lanka (Pvt) Ltd, Paddy Marketing Board, Lanka Sathosa Ltd, Techno Park Development Company (Pvt) Ltd, and National Paper Company Ltd.

7.3. On-lent Debt Portfolio

The Government of Sri Lanka also contracts specially from external financing on behalf of SOEs and other public sector entities,

particularly for the implementation of infrastructure projects and priority development initiatives. Such arrangements are often preferred by implementing agencies, as sovereign borrowing enables access to financing on more favorable terms while facilitating the effective implementation of nationally significant investment programs and policy measures. The development partners also prefer this mechanism as the Government is responsible for servicing the underlying debt obligations to creditors while beneficiary entities are required to repay the Government under agreed on-lending arrangements.

7.3.1. Stock of On-Lent Debt

As at end-December 2025, the outstanding stock of on-lent debt amounted to LKR 234.14 billion, or around 0.71 percent of GDP, compared with LKR 195.0 billion recorded

at end December 2024. This represents an increase of LKR 39.1 billion, or approximately 20 percent, during the year.

7.3.2. Composition by funding source

The on-lending portfolio is largely financed through external borrowings obtained from multilateral and bilateral development partners. As at end December 2025, foreign loans amounted to LKR 204.5 billion representing approximately 87.3 percent of the total portfolio.

The Government's utilization of external development financing, particularly for programmes supporting the development of the Small and Medium Enterprise (SME) sector and other priority economic development initiatives.

7.3.3. Composition by Beneficiary Institution

The on-lending portfolio remains concentrated among a limited number of strategically important institutions. As at end December 2025, the largest beneficiaries were the Sri Lanka Ports Authority (SLPA), Central Bank of Sri Lanka (projects financed through the World Bank and administered by the CBSL), Development Finance Corporation of Ceylon (DFCC), and Commercial Bank PLC.

The Sri Lanka Ports Authority accounted for the largest share of outstanding on-lent debt, reflecting the substantial financing requirements associated with port infrastructure development and modernization projects.

Loans negotiated and Signed in 2025

No.	Project	Signed Date	Lender	Loan Amount-USD millions	Interest	Tenure	Principal Repayment Period	Grace Period	Front End Fee	Commitment Fee on Undrawn balance	Service Fee	On-Lending Agreement
01	4645-SRI Second Integrated Road Investment Program - Tranche 5	31.10.2025	ADB	90	SOFRA + 0.7%	29	21	8	-	0.15%	-	N/A
02	4624-SRI Strengthening Integrated Health Care and Governance for Universal Health Coverage Program	17.10.2025	ADB	100	SOFRA + 0.6%	26	21	5	-	0.15%	-	N/A
03	4669-SRI Sustainable Tourism Sector Development Program - Sub Program 1	17.11.2025	ADB	70	2%	25	20	5	-	-	-	N/A
04	4670-SRI Sustainable Tourism Sector Development Program - Sub Program 2	17.11.2025	ADB	30	SOFRA + 0.6%	25	20	5	-	0.15%	-	N/A
05	4679-SRI Strengthening Macroeconomic Resilience and Transparency Program - Subprogram	17.11.2025	ADB	100	2%	25	20	5	-	-	-	N/A
06	4741-SRI Mahaweli Water Security Investment Program Stage - 2 Project	15.12.2025	ADB	200	SOFRA + 0.6%	25	20	5	-	0.15%	-	N/A
07	4709-SRI Power Sector Reforms and Financial Sustainability Program-Sub Program 2	5.12.2025	ADB	100	SOFRA + 0.5%	15	12	3	-	0.15%	-	N/A
08	4675-SRI Financial Sector Stability and Reforms Program -Sub Program 3	17.11.2025	ADB	100	2%	25	20	5	-	-	-	N/A
09	L0455A Kerawalapitiya -Port L 2nd Transmission Line Project	07.10.2025	AIIB	52	SOFRA+Variable Spread-1%	25	20	5	0.25%	0.25%	-	On - lending Agreement Signed

Loans negotiated and Signed in 2025

No.	Project	Signed Date	Lender	Loan Amount- USD millions	Interest	Tenure	Principal Repayment Period	Grace Period	Front End Fee	Commitment Fee on Undrawn balance	Service Fee	On-Lending Agreement
10	7743-LK Integrated Rurban Development and Climate Resilience Program	08.09.2025	WB-IDA	100	1.25% + basis adjustment	30	25	5	-	0.50%	0.75%+Basis adjustment (in the event of basis adjustment)	N/A
11	7820-LK Secure Affordable and Sustainable Energy for Sri Lanka Project	03.12.2025	WB-IDA	30	No	12	6	6	-	0.50%	-	-
12	7857-LK General Education Modernisation Project -Additional Financing	19.12.2025	WB	24.5	1.25%+Basis Adjustment	30	25	5	-	0.50%	0.75%+Basis adjustment (in the event of basis adjustment negative 0.75% will be applicable)	N/A
13	7858-LK General Education Modernisation Project -Additional Financing	19.12.2015	WB	25.5	No	12	6	6	-	0.50%	-	N/A
14	09/574- Saudi Fund for Development	10.01.2025	SFD	10	2%	20	15	5	0	-	-	N/A
15	IMF Rapid Financing Instrument (RFI)	19.10.2025	IMF	206	3.312% + surcharge on credit outstanding about 300% of quota 200 basis point, more than 36 months 75 basis	5	2	3	0	-	- 0.50%	N/A