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MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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## Fiscal Risk Management Circular No: 01/2026

Governor, Central Bank of Sri Lanka  
Secretaries to the Ministries  
Heads of Departments  
Head of the Public Debt Management Office  
Head of the Disaster Management Center  
Chief Executive Officer, Public-Private Partnership Unit

## Roles and Responsibilities for the Preparation of the Fiscal Risk Statement 2027

### 1. Introduction

1.1 As per the provisions of the Public Financial Management Act, No.44 of 2024, and in line with international best practices, this circular stipulates the roles and responsibilities of Ministries, Departments, and relevant Agencies in the preparation of the Fiscal Risk Statement (FRS). The objective is to ensure close coordination among all relevant entities, timely data provision, and efficient assessment of fiscal risks arising from different sources.

1.2 This circular applies to all relevant line ministries, departments, and agencies involved in fiscal risk management and reporting, particularly those responsible for macroeconomic forecasting, contingent liabilities, overseeing State-Owned Enterprises (SOEs), Public-Private Partnerships, natural disasters, and other associated fiscal risks.

### 2. Understanding Fiscal Risks

2.1 For the purpose of this circular, fiscal risks are defined as potential factors that could lead to material deviations in the fiscal position compared to what has been estimated in the Budget and Medium-Term Fiscal Framework (MTFF). Examples include:

2.1.1 Revenue shortfalls due to macroeconomic shocks

2.1.2 Unexpected expenditure pressures such as disaster relief

2.1.3 Contingent liabilities materializing from guarantees or SOE operations

2.2 A deviation is considered material if it has a potential fiscal impact exceeding LKR 30 billion (approximately 0.1 percent of GDP).

**3. General Responsibilities for All Ministries and Departments**

All Ministries and Departments are responsible for:

3.1 Continuously identifying potential or emerging fiscal risks within their respective domains that could materially impact revenue, expenditure, or contingent liabilities

3.2 Consulting with the Department of Fiscal Policy (FPD) on whether such risks require analysis and reporting for inclusion in the FRS

3.3 Alerting the FPD to new or changing risk factors that could impact fiscal outcomes

**4. Specific Responsibilities for Nominated Entities for the FRS 2027**

The table below outlines the specific roles and responsibilities of nominated entities for the preparation of the 2027 Fiscal Risk Statement. This allocation may be updated for future years as the FRS evolves.

Related Institution	Roles and Responsibilities
Department of Fiscal Policy (FPD)	<ul style="list-style-type: none"><li>- Serve as the central coordinating agency responsible for consolidating all sectoral analyses and inputs for the preparation of the Fiscal Risk Statement.</li><li>- Ensure consistency and alignment between the Fiscal Risk Statement, the Medium-Term Fiscal Framework, and the Annual Budget.</li><li>- Ensure compliance with reporting timelines and quality standards.</li><li>- Coordinate and prepare the section on macroeconomic fiscal risks.</li><li>- Coordinate and prepare the section on financial sector related fiscal risks, in close collaboration with CBSL and other relevant entities.</li><li>- Coordinate and prepare the section on natural disaster and climate-related fiscal risks, drawing on inputs from relevant technical agencies.</li></ul>

Related Institution	Roles and Responsibilities
Department of Public Enterprises (PED)	<ul style="list-style-type: none"> <li>- Identify, assess, and report fiscal risks arising from State-Owned Enterprises (SOEs), including operational, financial, and contingent liability risks.</li> <li>- Coordinate and prepare the section on SOE-related fiscal risks and submit the finalized input to the FPD by 10 April 2026.</li> </ul>
Public Debt Management Office (PDMO)	<ul style="list-style-type: none"> <li>- Coordinate and prepare the section on public debt-related fiscal risks, including refinancing, interest rate, and exchange rate risks, as well as risks arising from government guarantees and on-lending arrangements, and submit inputs to the FPD by 10 April 2026.</li> <li>- In the medium term, develop and implement a comprehensive framework for assessing credit risks associated with loan guarantees and on-lending.</li> </ul>
Department of National Budget (NBD)	<ul style="list-style-type: none"> <li>- Assist the FPD in assessing expenditure side fiscal risks, including those arising from disaster response, reconstruction, and budget execution pressures.</li> <li>- Support the integration of identified fiscal risks into budget planning and contingency provisions.</li> </ul>
Department of National Planning (NPD)	<ul style="list-style-type: none"> <li>- Provide data, assessments, and analytical inputs on natural disaster impacts, including damage and loss estimates, based on national databases.</li> <li>- Coordinate and prepare the section on PPP-related fiscal risks, in collaboration with the Public-Private Partnership Unit.</li> <li>- Assist the FPD in preparing the section on disaster-related fiscal risks.</li> </ul>
Central Bank of Sri Lanka	<ul style="list-style-type: none"> <li>- Collaborate with and provide analytical support to the FPD in preparing the section on financial sector related fiscal risks, including macro financial linkages, contingent liabilities, and systemic risk considerations.</li> <li>- Provide macroeconomic and financial sector data relevant for fiscal risk analysis.</li> </ul>

Related Institution	Roles and Responsibilities
Department of Treasury Operations	<ul style="list-style-type: none"> <li>- Assist the Department of Public Enterprises in assessing SOE-related fiscal risks, particularly those related to cash flow pressures and Treasury support.</li> <li>- Assist the Public Debt Management Office in assessing risks related to guarantees and on-lending arrangements.</li> </ul>
Disaster Management Center	<ul style="list-style-type: none"> <li>- Provide data, assessments, and analysis on disaster risk exposure, hazard profiles, and potential fiscal impacts.</li> <li>- Assist the FPD in preparing the section on disaster-related fiscal risks, including risk mitigation measures.</li> </ul>
Public-Private Partnership Unit (PPPU)	<ul style="list-style-type: none"> <li>- Identify, assess, and report fiscal risks arising from Public-Private Partnership (PPP) projects, including explicit and implicit contingent liabilities.</li> <li>- Provide information on government guarantees, minimum revenue guarantees, termination clauses, availability payments, and other fiscal commitments associated with PPP contracts.</li> <li>- Support the assessment of the fiscal impact of PPP-related risks where feasible, including potential government payment obligations and contingent liabilities.</li> <li>- Coordinate with the Department of National Planning and FPD in preparing the section on PPP-related fiscal risks.</li> </ul>

## 5. Working Arrangements

To facilitate effective coordination:

- 5.1 The FPD and other nominated agencies may form technical-level working groups as needed.
- 5.2 Regular coordination meetings may be held to ensure proper alignment of inputs and timely preparation.
- 5.3 The FPD will provide guidance and technical support to other entities as required.

## 6. Submission Timeline

To ensure timely compilation of the Fiscal Risk Statement, key milestones are as follows:

- 6.1 Initial risk assessments to be submitted by: May 08, 2026.

6.2 Final inputs from nominated agencies due on or before: May 15, 2026.

6.3 Draft consolidated FRS to be circulated for review by: May 29, 2026.

## 7. Reporting Format

7.1 All nominated agencies should prepare draft material for inclusion in the FRS 2026 as outlined in Annexure of this circular.

7.2 Each section should include: risk description, assessment methodology, estimation of potential fiscal exposure where feasible, and risk mitigation strategies.

7.3 Accuracy and completeness of data are of utmost importance and any discrepancies should be communicated to the Department of Fiscal Policy at the earliest.

## 8. Effective Date

This circular shall take effect immediately upon issuance. Ministries, Departments, and Agencies are requested to ensure full compliance and facilitate smooth coordination in the preparation of the Fiscal Risk Statement.



**Dr. Harshana Suriyapperuma**  
Secretary to the Treasury and Ministry of Finance,  
Planning and Economic Development

## Guidelines for the preparation of the Fiscal Risk Statement (FRS) 2027

### Introduction

Fiscal risks are potential deviations in fiscal outcomes from expectations due to unforeseen events, including macroeconomic shocks, natural disasters, contingent liabilities, State-Owned Enterprises (SOEs) performance issues, financial sector instability, Public Private Partnership (PPP) exposures, and other events affecting public finances.

Identifying, analyzing, and disclosing fiscal risks are essential components of prudent fiscal management, enabling policymakers to anticipate potential challenges, improve fiscal transparency, and enhance the Government's capacity to respond to shocks and manage public resources effectively.

In line with the Public Financial Management Act, No. 44 of 2024, and the Fiscal Risk Management Circular No. 01/2027, the Ministry of Finance prepares an annual FRS, consolidating the major fiscal risks facing the government and the mitigation measures in place.

These guidelines are issued to support ministries, departments, and relevant agencies in preparing timely, comprehensive, and standardized inputs for the FRS 2027.

### A. Fiscal Risks arising from Macroeconomic Volatility and Uncertainty

#### a. Analysis Requirements:

- Review how past macroeconomic shocks affected fiscal outcomes, including revenue and expenditure deviations, and examine forecast errors, volatility, and sensitivity to key macroeconomic variables.
- Identify main macroeconomic risks over the FRS/MTFF forecast horizon (GDP growth, inflation, interest rates, exchange rates, commodity prices, external financing conditions).

#### b. Mitigation Measures:

- Describe arrangements for managing macroeconomic risks, including fiscal ceilings, revenue mobilization, expenditure controls, contingency buffers, and forecasting improvements.
- Refer to the Medium-Term Fiscal Framework and fiscal strategy objectives: revenue mobilization, expenditure control, rebuilding buffers, and structural reforms.
- Highlight measures to reduce systematic biases in GDP, revenue, and expenditure forecasts.

### B. Fiscal Risks arising from State-Owned Enterprises

#### a. Overview:

- Provide an overview of the SOE sector, including recent developments, negative equity situations, and liabilities.

- Present financial indicators and risk ratings for high-risk entities.

## **b. Analysis Requirements**

### **1. Overall Assessment**

For the Fiscal Risk Statement, ministries and agencies responsible for SOE oversight (the Department of Public Enterprises) shall undertake the following analytical assessments:

#### **Trend Analysis:**

Assess trends in key financial indicators of major SOEs over the past 3–5 years, including revenue, operating balance, net profit/loss, debt levels, and equity positions.

#### **Stress and Sensitivity Analysis:**

Where feasible, assess the sensitivity of SOE financial performance to key risk factors such as:

- Changes in input costs (fuel, energy, wages),
- Interest rate and exchange rate movements,
- Demand shocks or tariff adjustments,
- Climate- and disaster-related disruptions affecting operations or assets.

#### **Fiscal Exposure Analysis:**

Assess the Government's explicit and implicit fiscal exposure to SOEs, including:

- Budgetary transfers and subsidies,
- Capital injections and equity support,
- Government guarantees and letters of comfort,
- Potential contingent liabilities arising from SOE debt.

#### **Analysis of Financial Performance of the main SOEs of Sri Lanka:**

- Summary of aggregate performance (turnover and profitability) of strategically important SOEs over the past 3–5 years.
- Identify entities with negative equity or losses, and those driving sector results.
- Include charts showing the largest liabilities and contributions to total SOE liabilities.

#### **Analysis of Budgetary Impacts:**

- Aggregate financial flows between SOEs and government over the past 5–10 years (dividends, taxes, levies, subsidies, grants, capital injections).
- Present net flows as a percentage of GDP.

#### **Materiality Assessment:**

Identify SOEs whose financial position or risk profile could give rise to material fiscal impacts, in line with the materiality threshold specified in the Fiscal Risk Management Circular.

## Forward-Looking Assessment:

Provide a forward-looking assessment of SOE-related fiscal risks over the medium term, taking into account:

- Planned reforms,
- Tariff and pricing policies,
- Investment programs,
- Exposure to natural disasters and climate-related risks.

## 2. SOE Health Check Analysis

The SOE Health Check shall be conducted for fiscal risk identification and monitoring, on a selected set of systemically important SOEs that might have significant actual or potential fiscal risks to the Government. For this purpose, the SOE Health Check Tool (SOE HCT) will be used, and SOE HCT therefore focuses on assessing SOEs' profitability, solvency, and liquidity to assess their financial vulnerability and risk of generating fiscal costs.

**Profitability:** assess an SOE's efficiency in using its assets to generate returns for its shareholders. The net profit margin, operating profit margin, return on working capital, return on assets, return on equity, and cost recovery indicators are calculated by the Tool.

**Solvency:** evaluate an SOE's ability to withstand unexpected losses, repay its debt in the long term, and continue operating as a going concern. The debt to equity, debt to assets, debt to EBITDA (a company's ability to pay off its debt, comparing total debt to earnings before interest, taxes, depreciation, and amortization, debt coverage, cash interest coverage and interest coverage) indicators are used in the Tool.

**Liquidity:** analyze the ability of an SOE to pay off its current liabilities as they become due. This focus is not only on how much cash a business has, but also on how easy it will be for the SOE to convert assets into cash. The current ratio, quick ratio, creditor turnover days and debtor turnover days are determined by the Tool.

### c. Mitigation Measures:

- Discuss policy reforms targeting high-risk SOEs, including governance improvements, operational efficiency, and fiscal risk reduction strategies.

## C. Fiscal Risks arising from Debt Portfolio

### a. Analysis Requirements:

- Summarize Sri Lanka's public debt composition and relevant Medium Term Debt Management Strategy (MTDS) targets.
- Use tables and charts to show term structure, domestic vs FX exposures, fixed vs floating interest rates, debt servicing projections.
- Discuss risk factors: refinancing, interest rate, and exchange rate risk.
- Include on-lending portfolio, latest credit ratings, and assessments.

**b. Mitigation Measures:**

- Describe debt management measures: prudent debt management policy, debt restructuring, portfolio monitoring, quarterly Debt Bulletin, and risk mitigation strategies.

**D. Fiscal Risks arising from Guarantees and on-lending**

**a. Portfolio Analysis:**

- Break down existing loan guarantees and on-lending instruments.

**b. New Guarantees:**

- Provide details of newly issued instruments, purposes, and policy alignment.

**c. Risk Materialization:**

- Discuss historical risk materialization, including past fiscal impacts.

**d. Mitigation Measures:**

- Describe policy frameworks for mitigation, monitoring, provisioning in the budget, and contingency arrangements.

**E. Fiscal Risks arising from Public Private Partnerships (PPP)**

**a. Overview**

- Discussion of PPP-related fiscal risks.
- Overview of government support, guarantees, and contingent liabilities.

**b. Analysis Requirements:**

**Portfolio Analysis:**

- Growth of PPP portfolio (projects and investment value).
- Present sectoral composition and pipeline of projects.
- Describe legal, institutional, and organizational arrangements.

**c. Fiscal Risk Identification:**

- Highlight various types of fiscal risks and likely fiscal impact.
- Refer historical risk materialization, e.g., renegotiated contracts or called guarantees.

d. Mitigation Measures:

- Policy framework for risk monitoring, comprehensive PPP law, recording of contingent liabilities, budget provisioning, and limiting exposure.

F. Fiscal Risks arising from the Financial Sector

a. Overview

Direct fiscal exposures

- Government ownership of banks and insurance entities
- Explicit guarantees and letters of comfort
- Deposit insurance schemes

Implicit fiscal exposures

- Market expectation of sovereign support
- Systemically important institutions

Macro-financial feedback loops

- Sovereign-bank nexus (banks holding government securities)
- Interest rate and exchange rate shocks
- Economic downturn → NPL increase → capital erosion → fiscal pressure

b. Analysis Requirements:

i. Financial Sector Soundness Assessment

- Present 5 to 10 year trends of Financial Soundness Indicators (FSIs) for banking, non-bank, and insurance sectors (profitability, solvency, liquidity, asset quality).

ii. Analysis of Fiscal Exposure

e.g.

Category	Exposure Type	2026 (Rs bn)	% GDP	Risk Assessment
Public Banks	Equity ownership			
Guarantees	Explicit guarantees			
Deposit Insurance	Potential payout			

This exercise will help calculate the government's exposure to the financial sector as a percentage of GDP.

iii. Analysis of quasi-fiscal activities of state-owned financial institutions

Present information on;

- Directed lending programs at below-market rates
- Credit guarantee schemes
- Subsidized lending
- Policy-mandated loan restructurings
- Disaster-related moratoria

This information will facilitate useful information such as impact of capital adequacy and recapitalization requirements.

**iv. Analysis of Government- financial sector flows**

e.g.

Year	Dividends	Taxes	Levies	Capital Injection	Net Fiscal Impact

This information will enable to assess whether the Government's financial institutions are net contributors or net recipients, and the trend of recapitalization episodes, etc.

**v. Fiscal Impact Assessment and Scenario Analysis**

It is recommended to conduct a scenario analysis as follows: If

e.g.

- GDP growth falls by 2 percent
- NPL ratio increases by 3 percentage points
- Interest rate increases by 200 basis points

It is recommended to estimate:

e.g.

- Capital shortfall in state banks
- Potential recapitalization cost (% GDP)
- Impact on primary balance
- Even qualitative scenario analysis improves credibility.

**c. Fiscal Risks Identification**

- Categorize fiscal risks as below;
  - Credit Risk-Risk associated with an increase in Non-Performing Loans (NPL) and other risks to credit through SOEs, real estate, and FX loans
  - Liquidity Risk arising from deposit withdrawals and external funding shocks
  - Capital Risk- falling of Capital Adequacy Ratio below threshold levels and potential recapitalization requirement

- Sovereign-Bank Nexus Risk- Risk arising from high exposure to government securities and risk associated with the impact of sovereign restructuring
- Guarantee Call Risk- Probability of guarantee activation
- Climate and Disaster Risk- Increase of NPL and insurance claims following natural disasters and vulnerability of agricultural and SME loans

It is important to note that, for each risk, required to briefly assess likelihood (Low/Moderate/High), fiscal impact (Low/Moderate/High), transmission channel, and monitoring indicators.

#### **d. Mitigation Measures:**

##### Prudential Safeguards

- Capital buffers
- Liquidity requirements
- Macroprudential tools

##### Institutional Safeguards

- Financial Stability Committee
- Early warning systems
- Crisis management framework

##### Fiscal Safeguards

- Budgetary provision for contingencies
- Explicit guarantee ceilings
- Deposit insurance fund adequacy
- Clear recapitalization framework

##### Structural Reforms

- Strengthening governance of SOFIs
- Limiting quasi-fiscal mandates
- Enhancing transparency of state guarantees

#### **G. Fiscal Risks arising from Natural Disasters and Climate Change**

##### **a. Natural Disasters:**

- Report the incidence and impacts of disasters in Sri Lanka over the past 10 years.
- Present damage, losses, and the number of persons affected.

**b. Estimates of Fiscal Costs:**

- Summarize fiscal costs of natural disasters over the last 10 years.
- Include tables showing direct and indirect costs, e.g., coordination, relief, reconstruction, transfers, insurance, adaptation/mitigation, and revenue losses.
- Include probabilistic estimates where available.

**c. Climate Change:**

- Summarize Nationally Determined Contributions (NDCs) and projections of climate impacts.
- Discuss mitigation/adaptation priorities and associated costs.

**d. Mitigation Measures:**

- Appropriations to responsible ministries and comparison to historical costs.
- Use of virements, budget reserves, contingency funds, and natural disaster funds.
- Insurance and other risk transfer arrangements, including agreements with development partners.
- Fiscal buffers and strategies to maintain resilience against future climate shocks.