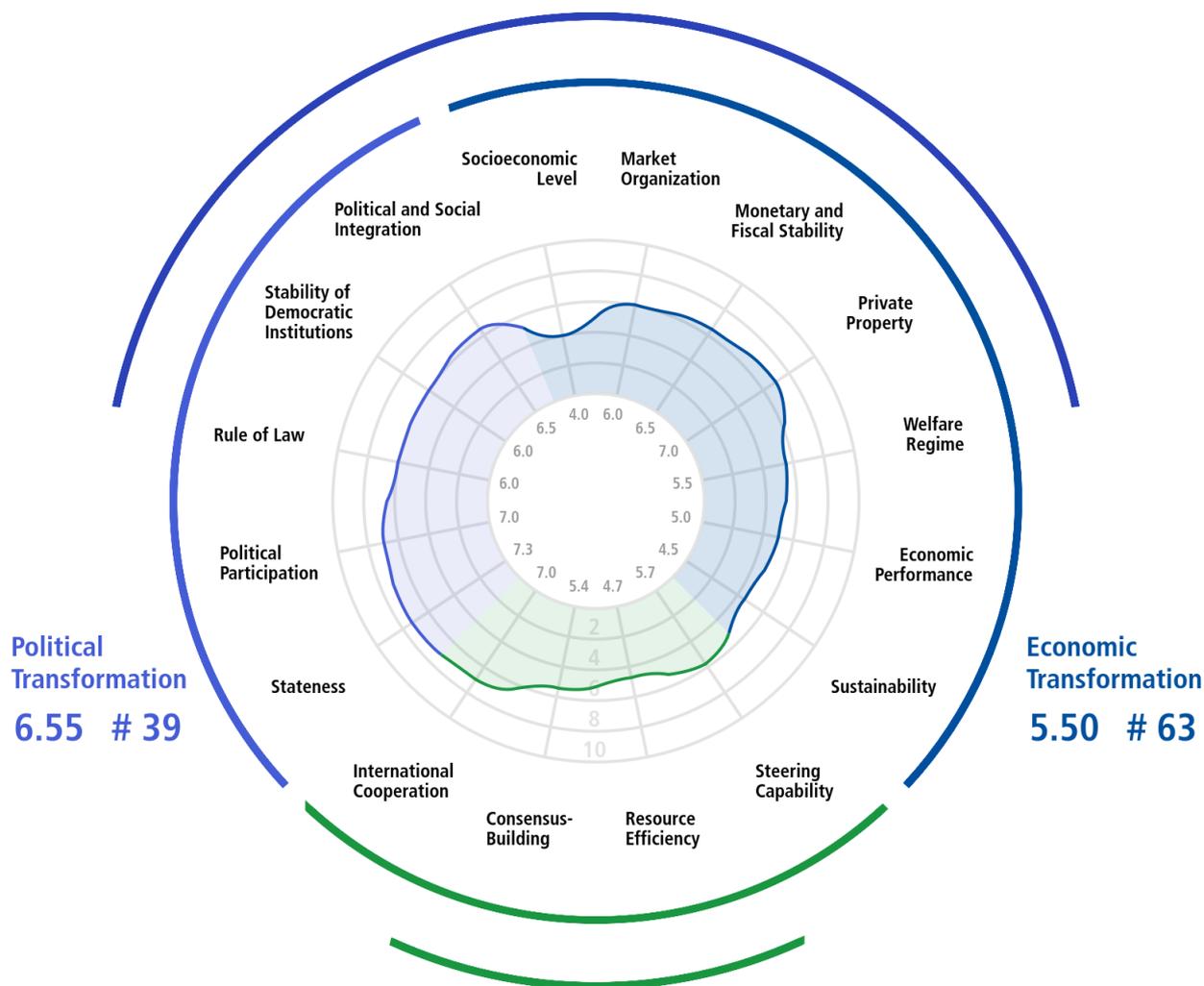


Sri Lanka

Status Index

6.03 # 45

on 1-10 scale out of 137



Political Transformation
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5.00 # 55

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sebastian Plate

Phone +49 5241 81 81263
sebastian.plate@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	21.9	HDI	0.776	GDP p.c., PPP \$	15633
Pop. growth ¹	% p.a.	-0.6	HDI rank of 193	89	Gini Index	37.7
Life expectancy	years	77.5	UN Education Index	0.724	Poverty ³	% 11.3
Urban population	%	19.4	Gender inequality ²	0.367	Aid per capita \$	37.5

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The review period covers 24 months from February 1, 2023, to January 31, 2025. Overall, the period saw economic stabilization and a partial recovery from the significant political upheavals that characterized the previous review period. A major factor was the set of economic initiatives undertaken by the government of President Ranil Wickremesinghe, which held power for all but the last four months of the review period.

In March 2023, Sri Lanka secured an IMF extended fund facility. The extended fund facility is a 48-month program that provides financial assistance to states in economic hardship and is underpinned by economic reform conditions. This marked the 17th program that the IMF has approved for Sri Lanka. The IMF had previously required Sri Lanka to implement reforms in the interest of macroeconomic stability, sustainable public debt and targeted spending on social protection. Additionally, for the first time, the IMF conducted a governance diagnostic assessment (GDA) that focused on anti-corruption, fiscal governance, central bank governance, financial sector oversight, enforcement of contracts and protection of property rights.

The GDA recognized that the crisis in Sri Lanka was not only economic, but also linked to governance failures, which contributed to the dire economic consequences. Remedial action, therefore, needed to address governance challenges. In response, the government designed its own action plan outlining a December 2023 to December 2024 timeframe for implementing the GDA recommendations. In addition, the government also implemented several key conditionalities during the review period. The IMF commended Sri Lanka for achieving all of its quantitative targets, except in the area of social spending. However, by the end of December 2024, several aspects of the GDA remain inadequately implemented or not implemented at all. While the government has enacted important reforms in areas such as anti-corruption legislation, the national budget office, economic transformation and campaign finance, significant challenges remain.

While the economy saw significant improvements, Wickremesinghe's tenure was marked by several incidents that undermined civil liberties, the rule of law and principles of democratic governance. For example, the enactment of the Online Safety Act restricted freedom of expression and association, while election-related court orders were defied. Furthermore, Wickremesinghe threatened to appoint a parliamentary select committee, placing him in conflict with the judiciary. This threat followed a disagreement over a ruling and risked circumventing the constitution by appointing his preferred candidates to important positions without the required approval of the Constitutional Council. It was even suspected that Wickremesinghe would attempt to use extraconstitutional maneuvers to delay the presidential election – a tactic he had previously used in 2018 to scuttle provincial council elections and again in 2023 to delay local authority elections. The presidential election eventually took place as scheduled on September 21, 2024. However, unusually for Sri Lankan elections, no candidate reached the 50% threshold in the first round of vote counting. This triggered an immediate runoff based on preferential votes, which Anura Kumara Disanayake of the National People's Power (NPP) won. President Disanayake immediately dissolved the parliament, and on November 14, 2024, the NPP secured 61.56% of the vote in nationwide parliamentary elections, including significant wins in the Northern and Eastern provinces. The NPP's victory was also historic as it resulted in the appointment of Sri Lanka's third female prime minister.

History and Characteristics of Transformation

The Democratic Socialist Republic of Sri Lanka is an island nation in South Asia, located close to India. From the 16th century on, it was ruled by the Portuguese, the Dutch and later the British, from whom it gained independence in 1948. The Sinhalese make up the majority ethnic community in Sri Lanka (74.9%), while Sri Lankan Tamils, who live predominantly in the Northern and Eastern provinces of the island, constitute the largest minority community (11.15%). A significant portion of the Muslim community lives in the Eastern Province, though it is generally more evenly distributed across all nine provinces of Sri Lanka, comprising 9.3% of the population. The Upcountry Tamil community predominantly lives in the central highlands of Sri Lanka (4.12%).

The United National Party (UNP) was the first political party to form a government in independent Sri Lanka. In the 1950s, Solomon West Ridgeway Dias Bandaranaike formed the Sri Lanka Freedom Party (SLFP). From 1948 to 2015, the UNP and SLFP alternated in forming successive governments. After 2015, the Sri Lanka Podujana Peramuna (SLPP), a breakaway group from the SLFP, under the leadership of former President Mahinda Rajapaksa, significantly increased the complexity of the party system. Gotabaya Rajapaksa, Mahinda's brother, subsequently won the 2019 presidential election. The UNP has been led by President Ranil Wickremesinghe since 1994. Yet, after the 2019 presidential election, large sections of the party broke away and formed the Samagi Jana Balawegaya (SJB).

Sri Lanka's post-independence history has been marred by turbulent political contestations over the nature of the state, several ethnic pogroms, two youth-dominated Marxist insurrections led by the Janatha Vimukthi Peramuna (JVP) and a three-decade-long civil war with the Liberation Tigers of Tamil Eelam (LTTE), which ended in May 2009.

The 1972 constitution, which was Sri Lanka's first autochthonous constitution, disregarded Tamil representation, entrenched the unitary character of the system and granted special constitutional recognition to Buddhism. The second republican constitution of 1978 established a powerful executive presidential system of government, characterized by limited separation of powers and a weak parliament. Both constitutions were drafted by the governing party, which had the required parliamentary majority, and without significant participation by Tamil or opposition politicians.

In recent years, the SLPP government under Rajapaksa was primarily responsible for the worst economic crisis in Sri Lanka's history. The considerable hardships citizens faced led to large-scale protests. The protests were largely peaceful until SLPP supporters carried out brutal attacks in May 2022. Gotabaya Rajapaksa was forced to resign as president. After the protests, Sri Lanka approached the IMF for an extended fund facility. To preserve foreign currency reserves and maintain essential services, Sri Lanka also suspended debt repayments in April 2022.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Unlike the previous review period, which was marked by mass protests during the 2022 economic crisis, the state's monopoly on the use of physical force remained unchallenged during this review period, reinforced by Wickremesinghe's crackdown on nationwide protests. However, the gradual improvement in socioeconomic conditions – including fewer electricity cuts, steady fuel supply and the resolution of fertilizer shortages – reduced the most immediate drivers of public anger. Cumulatively, these trends eroded the limited challenge to the state's monopoly on the use of force.

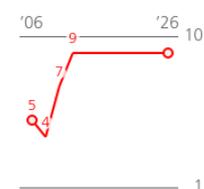
Sri Lanka continues to be deeply divided, and marred by tensions along ethno-religious and linguistic lines. Many of the ethno-religious-linguistic fault lines that underpinned the 30-year civil war with Tamil extremists remain drivers of current conflicts, despite hostilities formally ending in May 2009. Anti-Muslim sentiment has permeated popular discourse as well, reaching its zenith in the aftermath of the 2019 Easter Sunday attacks. While the right to citizenship is not restricted on the basis of ethnicity, religion, gender or political disposition, post-independence citizenship legislation had rendered a significant section of the Upcountry Tamil community stateless. Remaining issues have been resolved through legislation enacted between 1986 and 2009.

Significantly, however, the response to the economic crisis in recent years has not exacerbated these ethno-religious-linguistic fault lines but instead has tended to overshadow these tensions. The NPP secured 61.56% of the vote across ethnic divides in the 2024 parliamentary elections, even becoming the first non-Tamil political party to win the Jaffna electoral district. In general, the NPP secured the highest proportion of seats in every electoral district in the Tamil-dominated Northern and Eastern provinces except one. Another indicator of the centripetal force of the economic crisis was the election of minority-affiliated candidates in majority-Sinhalese districts and vice versa.

Question
Score

Monopoly on the
use of force

9



State identity

7



Although the constitution safeguards freedom of religion, it specifies that “The Republic of Sri Lanka shall give to Buddhism the foremost place.” State funds support Sri Lanka’s four major religions – Buddhism, Hinduism, Islam and Christianity. Nonetheless, Buddhist monks have historically enjoyed significant state patronage, including being consulted by elected representatives on major political decisions. Crucially, however, the review period saw a reduction in aggressive rhetoric by prominent Sinhala-Buddhist nationalist actors against Muslim and Christian minorities.

Influential leagues of Muslim leaders continued to block reform of the Muslim Marriage and Divorce Act, despite several inconsistencies between traditional practices and human rights. These included efforts to raise the minimum marriage age for Muslim women to 18 and to prohibit polygamy. Furthermore, objections from the Catholic Church and certain Buddhist clergy persist regarding the legalization of abortion, decriminalizing same-sex relations and establishing legal amendments to recognize the breakdown of a marriage as grounds for divorce.

Sri Lanka’s administration is primarily controlled by the central government – that is, the Cabinet of Ministers headed by the executive president – with only limited functions devolved to local authorities and provincial councils established in 1987.

Administrative structures providing basic health care and education across the country recovered from the sharp deterioration seen in previous years. This was due primarily to the uninterrupted supply of fuel and electricity during the review period. However, the health sector continues to be affected by shortages of essential medicines and staff because the economic crisis has caused an exodus of trained health care professionals, including specialist doctors.

According to the World Bank’s World Development Indicators for 2022, 95.1% of the population has access to at least basic sanitation, 89.3% use at least basic water services and 47.1% has access to a safely managed water source. Furthermore, the entire population reportedly has access to electricity. The significant increase in charges for electricity and water during the review period, coupled with lower disposable income, led to supply cuts for 1,064,400 users in 2023. It remains unknown how many of these disconnections are permanent.

Government measures to meet IMF targets, including reductions to government spending, have adversely affected the delivery of public services. The NPP government’s 2025 budget allocates LKR 1.9 trillion (about \$6.5 billion) for health, education and social programs. However, with poverty rates doubling to about 25% since state bankruptcy in 2022, the government would need to continue increasing these allocations to adequately fulfill its administrative responsibilities.

No interference of religious dogmas

7

'06 _____ '26 10



_____ 1

Basic administration

6

'06 _____ '26 10



_____ 1

2 | Political Participation

National-level elections have regularly been conducted under universal suffrage in multiparty contests, and election outcomes are typically respected by all contestants. Both elections during the review period – the presidential election in September 2024 and the parliamentary election in November 2024 – were widely considered free and fair. Provincial council elections, which concern devolved government, have not been held since 2014 and have been overdue since 2018.

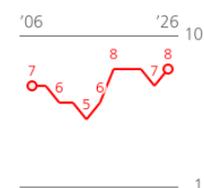
The terms of local authorities lapsed in March 2023. Crucially, however, the elections were not held because of a refusal to disburse funds allocated for the process. This decision defied an interim order by the Supreme Court as part of litigation initiated by several civil society organizations. In a detailed final judgment in August 2024, the Supreme Court maintained that former President Wickremesinghe violated fundamental rights by preventing the elections from being held. It reached the same conclusion regarding members of the Elections Commission, citing their lack of proper planning and management of the process. However, because the presidential and parliamentary elections were taking place in late 2024, local government elections were further delayed.

Democratically elected officials can implement their policies, and the president – who is directly elected by the people – wields extensive powers within the executive and over the legislature. Extraconstitutional veto powers do not exist per se, but the military and the Sinhala-Buddhist establishment have been influential in the political process, especially since 2001. Despite mixed electoral results and not being elected to the parliament in 2024, Buddhist monks continue to enjoy political influence and significant sway with the government on important national issues such as the economy and international cooperation. The military and its nationalist supporters also curtail the government’s capacity to demilitarize the northeast of the country. It is unclear, however, how much influence these groups can exercise with the new NPP government, which appears to have the effective power to govern with a two-thirds majority, at least in the short term.

During President Wickremesinghe’s tenure, economic policy proposals faced considerable opposition, especially from trade unions. In contrast, the NPP enjoys significant support from unions, with many union leaders having been co-opted into executive or legislative decision-making bodies. Trade unions linked to other parties, such as the Frontline Socialist Party, remain highly critical of the NPP and its policies.

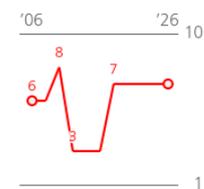
Free and fair elections

8



Effective power to govern

7



There were no states of emergency restricting freedom of association and assembly during the review period. However, the government hastily enacted the Online Safety Act, criminalizing the use of social media to organize protests and gatherings. Vague definitions, coupled with high fines, grant the government extensive power to target political opponents. The NPP government has promised to repeal the law. In addition, the perpetrators of the attacks on peaceful protesters at the Galle Face Green demonstration in 2022 continue to enjoy impunity. Several citizen-led attempts to organize smaller protests during the review period were disrupted.

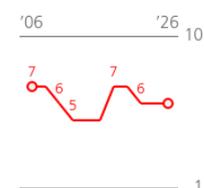
Wickremesinghe's government used the National Secretariat for Non-Governmental Organizations to obtain information and significantly affect NGO activities outside the Western Province. Although the entity has no legal basis, it is routinely used to collect information on the activities of local civil society organizations, and to encourage them to undertake government-approved programs and activities. The NPP government has not reversed this process to date. Extensive surveillance, routinely used as a deterrent to free association and assembly in the Northern and Eastern provinces, continued. This was especially true of gatherings related to land disputes and justice for enforced disappearances.

Officially, there is no government censorship in Sri Lanka. However, mainstream media appear to practice a degree of self-censorship, as evidenced by the lack of reporting on issues, particularly those related to the security forces. State media are – and have been for several decades – fully controlled by the government, while private media outlets – though increasingly critical of the government – continue to be influenced by partisan political agendas.

Law enforcement continued to use the International Covenant on Civil and Political Rights (ICCPR) Act, No. 56 of 2007, which prohibits incitement to war, as well as the provisions of the Prevention of Terrorism Act (PTA) to arrest and detain people for expressing political opinions. This practice has been particularly common on social media. The acts allow for long detention periods at the discretion of the executive, with little judicial oversight. The threat of arbitrary arrest and prolonged detention without charge under such laws has fostered an environment of self-censorship. The use of the ICCPR Act persists despite Supreme Court judgments that have established detailed criteria for its appropriateness.

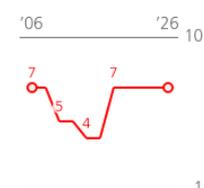
Association / assembly rights

6



Freedom of expression

7



3 | Rule of Law

During the period under review, the 21st amendment to the constitution was fully in effect, including the establishment of fourth-branch institutions as a check on the president's executive power. Consequently, in several instances, the president's nominees were rejected by the Constitutional Council. In one such situation, Wickremesinghe appointed his nominee for police inspector general despite the Constitutional Council's stance, but the Supreme Court suspended the appointment pending further review. On other occasions, the Supreme Court asserted its review authority over the executive. It delivered judgments on the president's power to grant pardons and to make appointments to high positions. The court also intervened, attempting to further delay elections for local authorities.

Regarding the relationship between the legislature and the executive, the parliament remained firmly aligned with both presidents during the review period. Wickremesinghe continued to hold a working majority that supported his legislative agenda. However, he could not amend or adapt the constitution without support from the opposition. In contrast, after the 2024 elections, President Anura Kumara Dissanayake's NPP secured a super parliamentary majority, meeting the quorum for constitutional changes without requiring the support of the opposition.

The NPP alliance, with the JVP as its main constituent party, has promised to abolish the powerful executive presidency in Sri Lanka. However, historical experience indicates that initiatives aimed at reducing the powers of the presidency, let alone abolishing the office altogether, do not succeed.

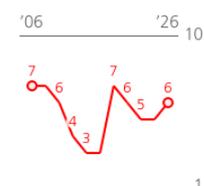
During the review period, adaptations to the judicial appointment process – which had been reversed at the end of the previous review period – became fully operational. The president must now obtain approval from the Constitutional Council before appointing judges to the Supreme Court and Court of Appeal. One nominee proposed by President Wickremesinghe was rejected due to credible allegations of misconduct, and the Supreme Court upheld the council's decision, reinforcing its authority.

The Supreme Court showed increasing willingness to assert its independence, particularly in cases involving executive overreach. It reviewed presidential powers, including those involving appointments, pardons and election delays, thereby reinforcing the rule of law and constitutional governance. While limited in scope, these decisions signal a judiciary more prepared to challenge executive actions.

Improvements in judicial training, especially in legal research and writing, have contributed to better jurisprudence in various areas. However, the executive and legislature still wield disproportionate influence over the judiciary, particularly through impeachment procedures and post-retirement appointments.

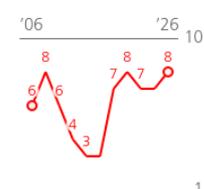
Separation of powers

6



Independent judiciary

8



For decades, Sri Lanka has seen few successful prosecutions of high-level political corruption, despite widespread public perception of entrenched corruption across successive governments. A 2023 survey found that more than 85% of respondents believed corruption had worsened. This sentiment fueled the rise of the NPP, which ran on an anti-corruption platform before the 2024 elections. Notably, more than two-thirds of newly elected members of parliament were first-timers, reflecting public demand for change.

In 2023, the Anti-Corruption Act No. 9 (ACA) was enacted, significantly expanding the powers of the Commission to Investigate Allegations of Bribery and Corruption (CIABOC). The ACA empowers the CIABOC to prosecute offenses such as money-laundering and private sector bribery, mandates an electronic asset declaration system, and tasks the CIABOC with implementing international anti-corruption standards and providing policy oversight. However, enforcement faces hurdles, including limited resources and delays in appointing a director general.

While several high-profile arrests have occurred, concerns persist that political interference and weak evidence have led to the collapse of cases. The NPP has pledged to establish the Independent Public Prosecutor's Office to shield prosecutions from political influence, though its realization remains uncertain. Long-term accountability will require institutional reform, greater capacity in investigative bodies and the political will to end a legacy of impunity.

Sri Lanka's constitution recognizes several civil and political rights. However, the rights to life and privacy are not explicitly recognized. Furthermore, the constitution does not recognize the right to nondiscrimination based on sexual orientation. During the review period, an attempt was made to repeal sections of criminal law prohibiting consensual same-sex relations between adults. Although the bill was declared consistent with the provisions of the constitution, it was never presented to the parliament for a vote. The ICCPR Act No. 56 of 2007 and the PTA continued to be used disproportionately against ethnic and religious minorities in prosecutions and detentions, despite several promises to repeal the PTA. Custodial torture remains a serious concern and the systemic use of torture by police is well documented. During the review period, several Supreme Court verdicts in fundamental rights cases highlighted concerns about the systematic nature of torture. However, few successful prosecutions of alleged perpetrators have taken place.

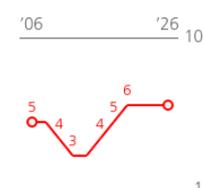
Prosecution of office abuse

4



Civil rights

6



4 | Stability of Democratic Institutions

Sri Lanka maintains a highly centralized government, with the president holding disproportionate power across all branches. During the review period, however, the judiciary imposed limits on presidential authority. Despite formal devolution, provincial councils remain under central control and have been inactive since 2019. Except for one local authority, local government elections have not been held since March 2023.

The judiciary, as a core democratic institution, continues to face significant case backlogs and delays, undermining the efficiency and accessibility of justice for the public. These challenges point to broader institutional weaknesses, including limited resources and procedural inefficiencies. However, infrastructure upgrades at the Supreme Court and Court of Appeal are underway, reflecting recognition of the need to strengthen judicial capacity and improve overall institutional performance.

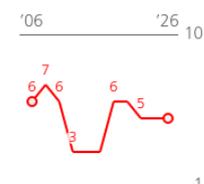
Sri Lanka's long-standing public service remains heavily politicized and often follows the directives of political actors. Institutions established under the 21st amendment – such as the Constitutional Council, and independent commissions for elections, the police, public service and anti-corruption – became operational during the review period but encountered resistance from the executive, particularly President Wickremesinghe. Some of these efforts were curtailed by the courts.

President Wickremesinghe was elected by the parliament in 2022 to serve the remainder of President Rajapaksa's term, who had been forced to resign in light of mass protests. The election followed established constitutional and legal procedure, yet opposition parties questioned the legitimacy of Wickremesinghe's presidency because he lacked a direct mandate from the people.

Skepticism toward the idea of a single strong leader capable of resolving the country's problems persisted among citizens during the review period, reflecting the underlying democratic orientations of Sri Lankans. Support for such a leadership model remained strongest among Buddhist nationalists and, arguably, many within the military. In contrast, the abolition of the executive presidency was a central component of the NPP's political platform, which secured the party a supermajority. In 2024, voter turnout at the presidential election (80%) and the parliamentary election (69%) remained high.

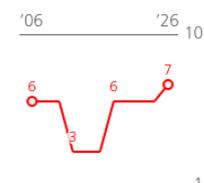
Performance of democratic institutions

5



Commitment to democratic institutions

7



5 | Political and Social Integration

Sri Lanka saw a significant shift in voter support between the 2020 and 2024 parliamentary elections. In 2020, the Sri Lanka Podujana Peramuna (SLPP) received 59% of the vote, whereas the NPP received only 3.14%. Conversely, in 2024, the SLPP received only 3.84% of the vote, compared with the NPP’s 62%. The SLPP’s handling of the economic crisis and perceived corruption undoubtedly contributed to its loss of votes.

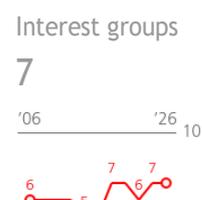
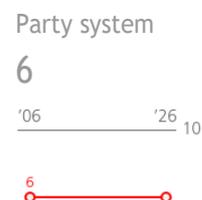
Internal party organization is largely undemocratic, typically personalized and reliant on patronage. Changes in party leadership are, therefore, difficult to achieve. Clientelism plays an important role in political party structures and in the perceived role of national politicians. The NPP has promised an end to such politics, portraying itself as a people’s movement reliant on principles.

Buddhist monks are the most influential interest group within the political system and possess the ability to mobilize citizens around political projects. Trade unions also play an important role in political discourse and in formulating economic policy. Leaders of several large trade unions were elected to the parliament on NPP tickets and now hold important positions within the executive. NGOs in Sri Lanka are actively engaged at both national and local levels. These NGOs, including local welfare and youth societies, vary in size and political affiliation, making them useful forums for local-level organization and lobbying. However, many are dependent on foreign funding.

Large-scale citizen protests observed in recent years relied on significant cooperation among diverse interest groups. Despite an improved economic situation and a highly contested election cycle, the networks among diverse groups have not completely dissipated.

Sri Lanka has experienced peaceful, election-based transfers of power since independence more than 75 years ago, with elections regularly shaped by high voter turnout. A January 2024 survey found that 76.7% of Sri Lankans regard democracy as preferable to any other form of government. Furthermore, a November 2023 survey found that 94.5% support holding elections without delay.

According to a survey conducted in January 2024, Sri Lankans expressed low levels of trust in institutions relevant to democratic governance, including the parliament (22.4%), political parties (19%) and the national government (40.1%). Instead, citizens expressed more confidence in institutions such as provincial councils (45.5%) and their local government (54.7%). Trust in institutions – such as courts (79.2%), the army (84.5%) and the police (66.9%) – is considerably higher than for institutions directly elected by the people.

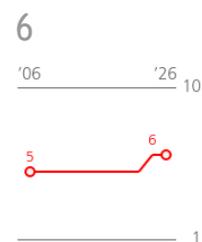


Frustration is especially high over inefficiency and corruption among elected representatives. According to a survey conducted in November 2023, 94% of respondents supported requirements that politicians declare their assets, that all politicians be audited and that their unaccounted wealth be confiscated by the state. Asset declarations for all candidates in the September 2024 presidential election were publicly accessible for the first time.

Sri Lanka's Sinhalese and Tamil groups both exhibit substantial bonding social capital but considerably less bridging social capital. Trust levels are based more on cultural and professional affinities rather than on a common bond of citizenship. A survey conducted in January 2024 found that in-group trust was high across all ethnicities and exceeded 90%, while outward trust toward individuals from other ethnicities was significantly lower, ranging from 59% to 68% across all ethnic groups.

Active local and national self-help organizations exist across all religious and social groups, performing critical functions that would otherwise be the responsibility of the government. These include providing emergency relief during natural disasters and mobilizing resources to augment government spending. These practices are particularly evident in health care, education and small-scale rural infrastructure projects. During natural disasters, citizen groups routinely organize to remedy government shortcomings in the provision of essential services across ethnic identities – a trend also seen during the recent large-scale economic crisis. Even as Sri Lanka continues to recover, no specific ethnic groups have been publicly singled out for blame to date.

Social capital

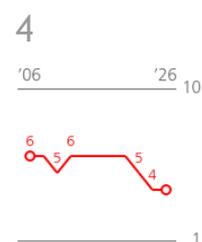


II. Economic Transformation

6 | Level of Socioeconomic Development

Sri Lanka remains South Asia's front-runner on the U.N. Human Development Index (HDI), with a score of 0.780 in 2022. In the private sphere, ethnicity does not appear to hinder individuals' access to economic opportunities. Instead, unequal economic opportunities are evident due to the allocation of resources across different geographical regions.

The most recent Gini data available are for 2019. Data compiled by Sri Lanka's Department of Census and Statistics indicate that the poorest 20% of households account for 5% of total household income, while the richest 20% account for more than 50%. Women's participation in the labor force remains lower than that of their male counterparts. Sri Lanka's Gender Inequality Index score improved marginally, dropping to 0.376 in 2022. Empowerment in the labor market since 2019 has significantly contributed to this.

Question
ScoreSocioeconomic
barriers

A large percentage of Sri Lanka's population is classified as near poor. According to the World Bank, the poverty rate has risen for the fourth consecutive year, with an estimated 25.9% of Sri Lankans living below the poverty line in 2023. Labor force participation, particularly among women, has also declined.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	88556.7	74143.0	83716.1	98963.2
GDP growth	%	4.2	-7.3	-2.3	5.0
Inflation (CPI)	%	7.0	49.7	16.5	-0.4
Unemployment	%	5.0	4.5	6.0	5.0
Foreign direct investment	% of GDP	0.7	1.2	0.9	0.8
Export growth	%	10.1	9.8	13.2	12.5
Import growth	%	4.1	-19.9	8.9	22.5
Current account balance	\$ M	-3284.3	-1448.5	1558.9	-
Public debt	% of GDP	102.7	115.9	110.4	100.8
External debt	\$ M	58741.9	58717.6	61706.0	-
Total debt service	\$ M	4749.9	3334.7	2825.3	-
Net lending/borrowing	% of GDP	-11.6	-9.2	-9.3	-
Tax revenue	% of GDP	7.4	7.3	9.9	-
Government consumption	% of GDP	9.5	7.2	6.8	7.0
Public education spending	% of GDP	1.5	1.2	1.8	-
Public health spending	% of GDP	1.9	1.8	-	-
R&D expenditure	% of GDP	-	0.1	-	-
Military expenditure	% of GDP	1.7	1.3	1.6	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The state permits 100% foreign investment in any commercial, trading or industrial activity, except for a few sectors such as air transportation, coastal shipping and military hardware. A previously adopted ban on food imports, imposed in the context of a foreign exchange crisis, was phased out during the review period. In light of inflation, the government maintained certified prices for certain products and set maximum retail prices on several consumer goods. However, it did not return to a state of emergency to control the supply of certain basic goods, as was the case during the previous review period.

Significant changes were made to permit foreign participation in the power and energy sector in response to the country's 2022 foreign exchange crisis, but direct investment in the sector has remained limited. Powerful trade unions that supported the NPP hold sway over government figures, which partly explains why the NPP government promised to reverse the legislative mechanism allowing such investments. Despite the new regulatory mechanism that applies exclusively to the Colombo Port City Special Economic Zone, investment in the zone has remained limited. Furthermore, corruption has affected the reception of FDI overall.

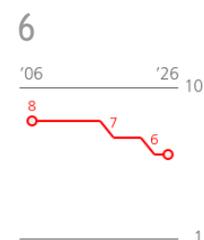
According to ILO estimates, informal workers make up about 67% of the workforce, underscoring the informal sector's significant contribution to the national economy.

The previous government moved to divest from several state-owned enterprises (SOEs). Ultimately, however, the NPP government is unlikely to proceed with these plans. Although it appears open to public-private partnerships, it is reluctant to fully privatize unprofitable SOEs, partly for ideological reasons and partly because of pressure from labor unions.

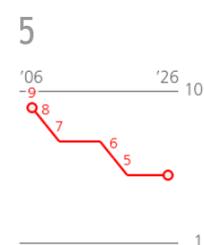
There are inadequacies in the legal framework relating to anti-competition and antitrust laws. The Consumer Affairs Authority, a member of the International Competition Network, was designed to enhance consumer protection by regulating trade and the prices of goods and services, protecting traders and manufacturers from unfair and restrictive trade practices, promoting competitive pricing and ensuring fair competition between traders and manufacturers of goods and services.

However, successive governments have acknowledged the inadequacies of this regulatory framework. Trading in certain commodities, such as rice and sugar, is controlled by individuals with strong ties to influential politicians. In addition to clientelism, some of these groups operate in a cartel-like manner. The authority has had only limited success in undertaking enforcement actions against these entities.

Market
organization



Competition policy



The Public Utilities Commission of Sri Lanka (PUCSL) formally regulates the electricity industry, and by designation oversees the petroleum and water services sectors in Sri Lanka. Under the Sri Lanka Electricity Act No. 20 of 2009, PUCSL began regulating the electricity industry. However, no legal provisions authorize PUCSL to regulate the petroleum and water services industries.

The Sri Lanka Electricity Act, No. 36 of 2024, was enacted during the review period. The act establishes a new framework for the generation, transmission, distribution, trade, supply and procurement of electricity in Sri Lanka. The stated objectives of the act include promoting competition, establishing a wholesale electricity market and mandating the formation of independent corporate entities for electricity-related activities, thereby replacing the centralized system managed by the Ceylon Electricity Board. The act also aims to promote competition by eliminating entry barriers, ensuring nondiscriminatory access to the transmission network and facilitating open competitive procurement of new generation capacity, including renewable energy. However, the law has not taken effect. Although no legislative action has been taken, the NPP government has promised to repeal it.

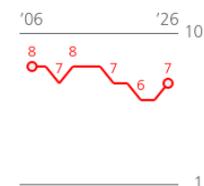
During 2023, the simple average of the most-favored-nation applied total tariffs was reduced to 8.4%. However, imports into Sri Lanka remain subject to numerous paratariff-like charges, effectively rendering Sri Lanka a protectionist country.

In response to the recent foreign exchange crisis, the government extended prohibitions on several types of imports; however, these have gradually been removed over time. On January 31, 2025, while announcing the removal of restrictions on vehicle imports, the government also announced a 50% surcharge on the applicable customs import duty, amounting to a luxury tax on several categories of passenger vehicles. A value-added tax of 18% also applies to vehicles. Thus, depending on the vehicle model, the final price in Sri Lanka could be between four and six times the cost, insurance and freight (CIF) value. Additionally, Sri Lanka employs a host of other non-tariff measures protecting local industries from external competition, including import quotas and standardization requirements.

Following the election of Wickremesinghe as president, the government abandoned its previous import substitution policy and further liberalized foreign trade. Accordingly, during the review period, Sri Lanka actively pursued trade agreements with China, Bangladesh and Indonesia, and the Sri Lanka-Thailand Free Trade Agreement – covering trade in goods, investment, customs procedures and intellectual property rights – was signed in 2024.

Liberalization of
foreign trade

7



The banking sector in Sri Lanka, which comprises licensed commercial banks (LCBs) and licensed specialized banks (LSBs), dominates the financial system and accounts for the largest share of total assets. The central bank is responsible for licensing new LCBs and LSBs, conducting continuous supervision and examination of banks, enforcing regulations and providing directions, orders and guidelines to banks.

The bank's ratio of non-performing loans to total gross loans increased from 4.9% in 2020 to 12% in 2022. In addition, the banking sector has maintained capital adequacy ratios (CARs) well above the minimum regulatory requirements, with a Tier 1 CAR of 14.8% and a total CAR of 17.8% as of June 2024.

Exposure to central government and SEO debt remained high and increased further by LKR 1.2 trillion in the second quarter of 2024. The main driver was investment in rupee-denominated government securities. This followed the banking sector's divestment from Sri Lanka development bonds under the domestic debt optimization (DDO) program during the period, reducing the banking sector's exposure by LKR 225.1 billion.

Throughout the review period, parate execution – the procedure allowing foreclosure on mortgaged assets securing bad loans – remained suspended to prevent banks from foreclosing on non-performing loans. The government cited the need to protect troubled small and medium-sized enterprises after the last economic crisis as the rationale for this suspension. However, the continued suspension of the procedure seems unlikely, as it has caused an increase in non-performing loans in the financial sector.

As of December 31, 2024, the Colombo Stock Exchange (CSE) comprised 284 companies representing 20 Global Industry Classification Standard industry groups, a decrease of six companies since January 2023. The market capitalization of the CSE increased to LKR 5,695.56 billion as of December 31, 2024, from LKR 3,881.14 billion in January 2023.

8 | Monetary and fiscal stability

The review period saw the economy stabilize after a severe crisis. According to the World Bank, inflation moderated to single digits in mid-2023, down from a peak of 69.8% in September 2022. This trend was mirrored by the National Consumer Price Index, which recorded low single-digit year-over-year inflation rates during the first eight months of 2024. During from September 2024 to January 2025, the index recorded single-digit deflation (year-over-year).

According to World Bank data, the Sri Lankan rupee appreciated 10.8% in 2023 after a sharp 81.2% depreciation in 2022. These fluctuations reflect broader economic instability linked to foreign reserve shortages and political uncertainty. Exchange

Banking system

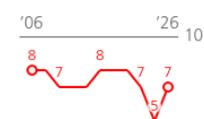
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Monetary stability

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rates affect inflation, trade competitiveness and investor confidence. The rupee's partial recovery was supported by increased remittances, tourism revenue and reform measures tied to international financial assistance. Despite this, it remains vulnerable to external and domestic risks.

The driving force behind fiscal and monetary consolidation was the 48-month extended fund facility established by the IMF, worth about \$3 billion. It calls for several government reforms to restore macroeconomic stability and debt sustainability under the guiding principle of safeguarding financial stability.

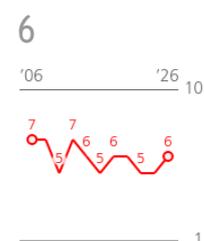
The politicization of the central bank, including its co-optation for short-term political objectives, was widely considered an important cause of acute monetary and fiscal instability during the previous review period. To address these concerns by significantly increasing the institution's autonomy, and as part of the IMF program's governance reforms, the government enacted the Central Bank of Sri Lanka Act, No. 16 of 2023. The law designates the stability of domestic prices and the domestic financial system as the central bank's primary objectives. However, under the new framework, the central bank is also expected to support the government's general economic policy framework, as provided by law, though only to the extent that such support does not impede the achievement of its other primary objectives.

Monetary stability was a primary economic policy objective of Wickremesinghe's government, which enacted major reforms during the review period. The NPP government, although it initially promised to reverse several of these reforms, maintained the same course for at least the first four months after its inauguration.

Government revenue increased during the review period, driven by higher rates on direct and indirect taxes, reduced exemptions, and increased tax collection and enforcement of tax-related legislation. Compared with 2023, tax revenue rose 36.3% in 2024 and total government revenue rose 22.7% over the same period. The fiscal consolidation efforts of Wickremesinghe's government resulted in a primary surplus of 0.6% of GDP in 2023. According to the government's pre-election fiscal position report, a primary surplus of LKR 648.8 billion was recorded in the first eight months of 2024, marking an increase from LKR 55 billion in the first eight months of 2023. This surplus exceeds IMF targets and marks a significant recovery from the primary balance deficit of 3.7% in 2022. Finally, the overall budget deficit also narrowed to 8.3% of GDP in 2023, compared with 10.2% in 2022.

Government debt as a percentage of GDP fell to 103.9% at the end of 2023, down from 114.2% in 2022. During the review period, the government restructured its domestic and foreign debt. According to the Ministry of Finance, the International Sovereign Bond (ISB) restructuring provides Sri Lanka with an upfront debt stock reduction of \$3 billion, which could increase to \$4.3 billion in the event of an economic downturn or fall to \$1.8 billion if economic prospects outperform. Furthermore, debt service payments would be reduced by \$9.6 billion over the four

Fiscal stability



years of the IMF program. However, concerns persist, especially among ISB holders, that the debt relief may not have been sufficient because of flaws in the IMF debt sustainability analysis.

Sri Lanka's gross official reserves increased to \$6.1 billion in December 2024, compared with \$4.4 billion in December 2023. This represents a significant improvement from June 2022, when Sri Lanka's usable reserves were less than \$400 million.

During the review period, the government enacted the Public Debt Management Act, No. 33 of 2024, which established the Public Debt Management Office within the Ministry of Finance to manage government debt, loan guarantees and on-lending operations, as well as to report on the public debt. The act mandates maintaining records of public debt, and submitting quarterly publications and annual reports to the parliament. In addition, in 2023, the Parliamentary Budget Office Act was enacted, establishing the independent Parliamentary Budget Office to support the parliament in fulfilling its public finance responsibilities. Its mandate includes providing nonpartisan analyses, medium-term economic and fiscal outlooks, and estimates of the cost implications of policy proposals.

All of Sri Lanka's SOEs showed a significant recovery during the review period. Accordingly, the 52 key SOEs recorded a profit of LKR 340 billion in 2023. In the first four months of 2024, they recorded a total profit of LKR 185.9 billion. In 2021, the 52 largest SOEs reported a before-tax loss of LKR 86 billion. This change is primarily due to the reforms carried out since late 2022, including the introduction of cost-reflective electricity tariff adjustments, the implementation of a fuel price formula and the restructuring of balance sheets for key SOEs.

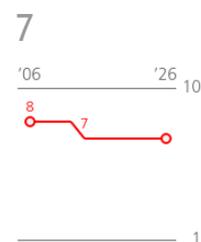
9 | Private Property

There is no constitutional right to property, so private property is regulated by civil law – more precisely, by statutory law, Roman-Dutch common law or, when applicable, personal laws. The many sources of civil law can cause confusion and uncertainty. Private land ownership is limited to 50 acres per person under the Land Reform Law. In addition, the Land (Restrictions on Alienation) Act restricts the transfer of freehold title lands to foreigners, foreign companies and certain institutions with foreign shareholdings in Sri Lanka.

Court proceedings to vindicate property rights are slow. The rights, title and interest in land must be conveyed by deed, a specialized legal instrument that requires specific formalities to be valid.

Local Authority Regulations, the Urban Development Authority Law and the Town and Country Planning Law regulate the use of private property in different parts of the country. The Land Acquisition Act provides the legal basis for the government's

Property rights

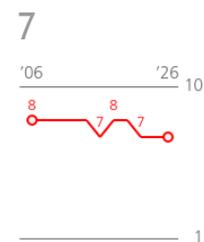


acquisition of private land for a “public purpose.” The Requisitioning of Land Act grants the president the power to authorize a designated competent authority to take possession of any land for a period the president determines. In theory, this period can be extended indefinitely. Both land acquisition and requisition are subject to the safeguards guaranteed in the constitution.

The private sector plays an important role in the economy and, except for some regulated subsectors, the government allows unrestricted foreign investment in any commercial, trading or industrial activity. Relevant procedures for incorporating, operating and winding up private companies are regulated by the Companies Act of 2007.

As of 2019, Sri Lanka had 527 SOEs, most of which were incorporated either by an act of parliament or as private companies. Reforms or privatizations of SOEs were also considered, at least in part, conditions of the IMF program. Crucially, privatizations of SOEs are associated with corruption and limited accountability. During the review period, the government set up an SOE restructuring unit with private sector experts, listed SOEs for privatization and sought expressions of interest through competitive bidding. The process of privatizing SOEs as part of collaborations with foreign governments was viewed as opaque and no significant progress has been made in these privatization programs.

Private enterprise

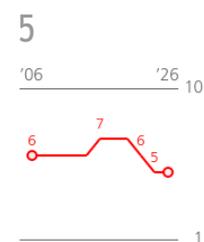


10 | Welfare Regime

Macroeconomic stabilization measures include higher indirect taxes and cost-reflective tariffs in the power and energy sector, leading to a 66% overall price increase in February 2023. These measures have disproportionately affected low-income individuals, contributing to a sharp reversal of Sri Lanka’s progress in reducing poverty.

Crucially, the government has consolidated previous welfare programs and switched to direct cash transfers to the most vulnerable through the Aswesuma program. This program faced considerable criticism both because the amount allocated for individuals was considered too low and because the most vulnerable sections of the population did not receive benefits. In 2023, LKR 915.4 billion was spent on welfare programs targeting social welfare, social security, education, health care and nutrition and development assistance. LKR 1,055.7 billion was allocated for 2024, amounting to 15.4% of the government’s primary expenditure and 3.5% of national GDP. The 2025 budget allocated LKR 1.9 trillion for health care, education and social programs.

Social safety nets



In the first eight months of 2024, the government’s welfare spending totaled LKR 562.4 billion, including LKR 112.7 billion for the Aswesuma program, LKR 9.5 billion for the school nutrition program, LKR 4.4 billion for school textbooks and uniforms, and LKR 24.2 billion for fertilizer subsidies. Despite higher 2024

appropriations, the disbursement rate was worrisome, with only 53% of the total budget spent during that period. In January 2025, the Sri Lankan government allocated LKR 17,500 to individuals identified as extremely poor under its updated Aswesuma welfare program. The program provides tiered cash support based on need, reaching 2.4 million people to ease economic hardship and address cost-of-living pressures.

According to the ILO's World Social Protection Report for 2024 to 2026, 41.3% of the population was covered by insurance for at least one social protection benefit and 66% of the population was covered by insurance for essential health services.

The constitution guarantees the right to be free from discrimination based on race, religion, language, sex and political opinion. However, there are no protections against discrimination based on sexual orientation and consensual same-sex relations remain criminalized. This creates specific disadvantages and vulnerabilities for LGBTQ+ people, including being targeted for bribery by law enforcement.

During the review period, a new anti-corruption law was enacted, specifically recognizing sexual bribery as a crime. In addition, the Women Empowerment Act, No. 37 of 2024 (WEA), was enacted, establishing the National Commission on Women and appointing an ombudsperson for women's rights. The ombudsperson is empowered to investigate infringements of women's rights, intervene in court proceedings, formulate and implement national policy, develop frameworks for women's empowerment, conduct public inquiries, request related information, liaise with state institutions, open regional offices, acquire property, conduct awareness programs, refer women for mediation, make recommendations for legal and policy reforms, assess the impact of legislation, monitor private sector compliance and undertake research. However, the Women Empowerment Act has not yet come into effect.

With some notable exceptions, disparities in access to education, public health and public services are more pronounced regionally than across ethnic or religious divides. Geographic disparities primarily reflect imbalances in economic growth and in the allocation of public funds resulting from political considerations. Formerly war-affected areas face acute economic hardship – specifically, prolonged displacement and landlessness have created disparities that hinder access to public services.

Large segments of the Upcountry Tamil population have experienced statelessness for more than 40 years. This community still encounters obstacles to accessing health care, education and public services due to inadequate infrastructure and limited economic prospects. Moreover, Upcountry Tamils living in Sinhala-speaking administrative regions face a shortage of Tamil-proficient public officials.

Equal opportunity

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Female literacy and life expectancy remain higher than for males. Female enrollment in Sri Lanka's education sector is higher than male enrollment across age groups. However, according to University Grants Commission statistics, female participation in science, technology, engineering and mathematics (STEM) is very low compared with male participation. Furthermore, women's participation in the labor force dropped slightly to 33.2% in 2023 and remains significantly lower than the rate for men.

11 | Economic Performance

Having recently experienced its worst economic crisis since independence, Sri Lanka's economy showed signs of stabilizing during the review period. However, low FDI, at only 0.8% of GDP in 2023, and a persistently high susceptibility to external shocks indicate that Sri Lanka's economic position remains precarious.

Sri Lanka's per capita GDP, calculated by the central bank at the current market price, provisionally stood at \$3,830 in 2023. According to the World Bank, per capita GDP (PPP) was \$14,455 in 2023, while the economy contracted 1.7%. However, according to the Ministry of Finance, the economy grew 5% in the first half of 2024, signifying a substantial recovery from the contraction. The World Bank estimates the economy will grow about 4.5% in 2024, and projects 3% growth in 2025 and 2026, countering the government's expectation of about 5% growth in 2025.

According to the World Bank, inflation moderated to single digits in mid-2023, down from a peak of 69.8% in September 2022. This trend was mirrored by the National Consumer Price Index, which recorded low single-digit year-over-year inflation in the first eight months of 2024. Between September 2024 and January 2025, the National Consumer Price Index recorded single-digit, year-over-year deflation. The unemployment rate rose from 5.4% in 2021 to 6.4% in 2023, excluding 2024 data, for which the central bank estimates unemployment at 4.5% in March 2024. Again, this estimate is contradicted by the World Bank, which forecasts 7% unemployment in 2024.

The government's 2025 budget totals LKR 7.2 trillion, compared with LKR 6.1 trillion in 2024. The IMF prefers that the deficit remain below 5.2%, but the projected 2025 deficit is about 6.7%.

Output strength

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12 | Sustainability

Sri Lanka continues to experience the effects of severe weather events, such as extended periods of drought, frequent flooding and heightened vulnerability to tropical cyclones originating in the Bay of Bengal. The country has introduced several environmental protection and sustainability policies, the implementation of which remains sporadic and uneven, including the National Biodiversity Strategic Action Plan (2016 – 2022), and National Policy on Sustainable Consumption and Production for Sri Lanka 2019. As in the previous review period, encroachment on natural reserves and deforestation continue at an accelerated pace despite public campaigns on environmental protection.

Air and water pollution have worsened across the island, especially because of pollution from the Indian subcontinent. Industrial contaminants and unrestricted disposal of untreated sewage continue to pollute fresh water and remain significant problems. Recycling in urban areas remains inadequate.

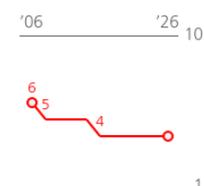
Sri Lanka's electricity grid is primarily powered by coal and thermal power plants. The rapid increase in global oil prices in 2022 led to a push for greater renewable energy production. Solar and wind generation have created their own complications, with the Electricity Board claiming that increased rooftop solar contributed to instability in a grid not designed to operate under such conditions. According to 2023 data from the Ceylon Electricity Board, 30% of power generation came from thermal coal, 20% from thermal oil, 21% from nonconventional renewable energy and 29% from major hydropower.

Sri Lanka provides free primary and secondary education in public schools, which has resulted in consistently high scores on the U.N. education index (0.751 for 2022). Female and male enrollment rates are comparable for primary and secondary education, with the female enrollment rate higher at the university level. The adult literacy rate (15 and over) was 92% in 2022. The government also provides free university education, although resources to incentivize and support students are constrained. Consequently, the gross tertiary enrollment rate for the 2020/21 academic year was 21.6%, or approximately 43,800 students.

Low levels of government funding for higher education remain a problem. Based on available data, public expenditure on education remained low at 1.8% of GDP in 2023. The 2025 budget, however, allocated LKR 619 billion for education, representing the largest share for education to date. Available funding could be further increased through greater private sector participation in education, yet regulatory and monitoring mechanisms for private sector institutions remain weak. The emphasis on research and development in tertiary education institutions is very low.

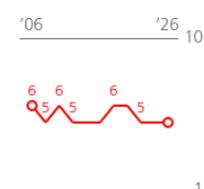
Environmental
policy

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Education policy /
R&D

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Governance

I. Level of Difficulty

Sri Lanka enjoys an advantageous geographic location, and its labor force is highly literate and benefits from publicly provided free health care and primary and secondary education.

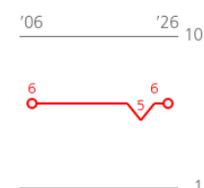
Sri Lanka is highly vulnerable to climate change. According to the World Bank, historical records show that floods and droughts are increasing, raising the risk of landslides during the monsoon season and leaving a large part of the island drought-prone from February to April. Extreme heat and more frequent flooding threaten human health and harm agricultural yields. In 2024, Sri Lanka experienced extensive rainfall, with widespread flooding occurring several times during the year. The Eastern Province has been particularly hard-hit. The adverse effects of climate change are expected to fall disproportionately on the poorest and most marginalized communities, exacerbating poverty and inequality.

Food insecurity remains a significant problem driven by the economic crisis and climate change. According to the World Food Programme, 24% of households were moderately affected by food insecurity and the highest levels were found in the estate sector, where 51% of households were affected. This community is historically marginalized, and a significant portion was rendered stateless between 1948 and 1990.

The World Bank estimates Sri Lanka's GDP will grow by about 4.5% in 2024, reversing the economic contractions of the previous two years. As a result, Sri Lanka's economy has stabilized during the review period, while diligently maintaining compliance with the IMF program. The government also concluded its debt restructuring for both domestic and international debt, allowing the country to regain access to international financial markets. Concerns remain about whether the debt relief will be sufficient going forward and whether further defaults are likely in the short term.

Structural
constraints

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Sri Lanka has a long civil society tradition dating back to British colonial rule. Many early organizations that pressed for self-government and independence from British rule also addressed other social and cultural issues, and some later transformed into political parties. In recent years – particularly during and after the civil war – a culture of organized NGOs has emerged and taken an active role in advocating for human rights. Organizations from the north and the east have continued to operate under difficult circumstances due to militarization and a lack of resources, and they have been at the vanguard on issues of accountability and justice. Despite these challenges, these groups have continued organizing and advocating for change since the end of the war.

Decades of armed conflict and polarization have prevented the emergence of strong civil society associations that transcend ethno-religious cleavages and enhance bridging social capital. In this regard, many groups that would typically function as civil society may not promote tolerance and pluralism, because they espouse ethno-religious and nationalist sentiments framed by an exclusivist ethos.

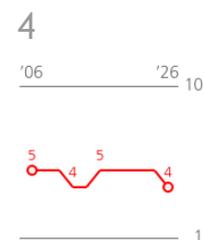
At the same time, civil society has engaged in more bridge-building activities since the 2022 protests and the NPP's adoption of more inclusive, pluralism-conducive rhetoric could further enhance these activities. Civil society groups, such as the National Peace Council, have played a leading role in promoting interreligious work across the island. Moreover, local-level civil society groups, such as farmer groups, were at the forefront of mobilizing against the Gotabaya Rajapaksa government, while also playing a leading role in the rise of the NPP. This reiterates that Sri Lankan civil society is characterized by a keen interest in politics and governance, as well as high levels of participation in elections.

Electoral politics in Sri Lanka remains divided along ethno-religious and linguistic fault lines, and continues to be at risk of exploitation for electoral gain. Despite the conclusion of armed hostilities more than 15 years ago, the political conflicts that fueled the armed conflict remain unresolved. Additionally, new conflicts emerged after the end of the civil war, particularly involving the Muslim minority.

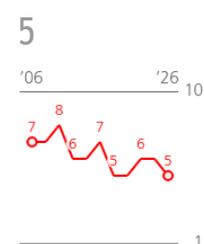
Significantly, during the review period, the NPP became the first non-Tamil party to win the Jaffna electoral district in the Northern Province. Crucially, Sri Lankan ethnic and religious minorities make up a majority of the electorate in the Northern and Eastern provinces. Surprisingly, the NPP won the largest share of seats in all but one electoral district across both provinces. Another significant factor was electoral support for some members that crossed ethnic and linguistic lines in diverse constituencies.

The long-term effects of this election's results are unclear and it remains to be seen whether they signal a long-term shift in ethnonationalist politics. Tensions over land use, anti-terror legislation, the NPP's position on power-sharing, the lack of accountability for wartime abuses and restrictions on memorials all pose significant risks to future ethnic, religious and linguistic harmony in Sri Lanka.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

The review period encompassed the tenures of two presidents, former President Wickremesinghe and incumbent President Dissanayake (NPP). President Wickremesinghe set and adhered to strategic priorities, particularly those Sri Lanka agreed to in return for IMF financing. His government introduced economic reforms, especially in fiscal and monetary policy, that stabilized the economy. Wickremesinghe's government also pursued trade liberalization, negotiating several free trade agreements. Further efforts aimed to secure policy positions such as central bank independence, economic transformation targets and support for budgeting procedures in the parliament, all institutionalized through the enactment of legislation and part of IMF conditionalities to varying degrees.

The public service is highly politicized, with key government positions staffed by political appointees. Career public officials are unable to make independent decisions because of the politicized nature of the public service. Technical competence across the public service has been compromised by generations of political appointees who have entrenched themselves in government and have recruited and provided jobs to constituents on political grounds. Cabinet portfolios are apportioned primarily for reasons of political expediency rather than to advance the government's goals. Decision-making is driven by political actors, often with an eye to short-term gain. Few institutional mechanisms exist to develop long-term plans, and those that do are routinely sidelined.

Because it has controlled the government only since September 2024 and has no prior track record in government, it is difficult to assess the NPP's ability to set and maintain policy priorities. In this short period, the NPP has thus far demonstrated a willingness to stick to the IMF conditionalities, despite being highly critical of them prior to the election. It has also avoided clientelist practices evident in previous governments.

President Wickremesinghe's administration successfully implemented policies to meet IMF conditionalities, including tax revenue increases, spending cuts, cost-reflective pricing mechanisms and privatization of SOEs. He pursued this agenda even though his main parliamentary support did not share his economic views.

However, Wickremesinghe was often undermined by his closest confidants, who faced serious allegations of corruption across a variety of issues, including efforts related to SOE restructuring, FDI and government modernization. These accusations often overshadowed the implementation of policy priorities and wasted political capital.

Question
Score

Prioritization

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Implementation

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President Wickremesinghe's government implemented several policies restricting civil liberties and fundamental rights, most prominently the Online Safety Act, which established broad offenses and a responsible commission with extensive powers. No consultation occurred during drafting and the legislation was pushed through even though it disregarded specific amendments required by the Supreme Court.

Given its limited track record and short tenure since assuming office in 2024, it is difficult to assess the NPP's ability to set and maintain policy priorities. The NPP faces two main challenges: its inexperience in government, which has led to several mistakes during this period, and the difficulty of reconciling its pre-election promises, especially in economic terms, with the realities of governance.

The government continues to tout innovation as a key policy platform for simplifying government processes and driving economic growth. However, actual progress has been limited to date.

President Wickremesinghe proved unwilling or unable to learn from past experiences and, therefore, did not adapt his strategies. He served as prime minister on several occasions before becoming president and attempted to push through reforms. However, political forces affiliated with the SLPP undermined him, despite his extensive efforts to appease the SLPP, and protect the party and its leaders from accountability. He surrounded himself with close confidants who had a history of corruption allegations, which severely weakened the credibility of his prevention efforts and undermined his policy objectives.

President Wickremesinghe also relied on the state of the economy and the need for an IMF bailout to push through reforms. By directly tying reforms to IMF conditionalities, he failed to build the domestic constituencies typically needed to sustain them. This allowed the NPP to successfully campaign against his policies and defeat him in the presidential election. However, this has also placed the NPP in a position where it must now implement reforms that it had opposed during the campaign. It remains to be seen how the NPP will reconcile its strong principled positions on economic reforms with the realities of governance. Thus far, during its short time in government, it has opted for calculated pragmatism over ideological consistency.

Policy learning

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15 | Resource Efficiency

The civil service in Sri Lanka is overstaffed and appointments of new public officials are highly politicized. During the review period, the government froze all new recruitment to the public sector. Combined with a significant number of public servant retirements, this resulted in salaries and wages declining marginally in nominal terms and as a share of GDP. However, according to the Ministry of Finance, salaries and wages still constitute 20% of total recurrent government expenditure, while the government plans to provide 30,000 graduates with state employment. It appears that these individuals will fill necessary vacant positions rather than aggravate bureaucratic redundancy.

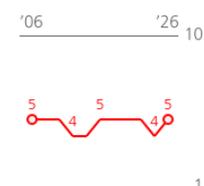
Sri Lanka's budget deficit narrowed during the review period, mainly because of increased government revenue. Central government debt as a share of GDP fell to 101.8% in September 2024, down from 114.2% in 2022. The government also successfully concluded the restructuring of its domestic and foreign debt. Successive governments have continued to undermine the Fiscal Management Responsibility Act, a law designed to compel the government to report and explain budget deviations. During the review period, however, compliance with the law improved significantly, as the Ministry of Finance and the central bank provided more timely macroeconomic data, improving accessibility.

Military per capita spending is disproportionately high compared with international peers and continues to rise more than a decade after the war. In the 2025 budget, the allocation for the military increased 3%, contradicting the president's statements that the armed forces needed to be downsized. The military engages in various commercial activities, especially in the Northern Province, often competing with local businesses and the agricultural sector. Other sectors that saw increased spending in the 2025 budget, however, are health and education.

As in previous decades, meaningful and transparent consultation and coordination remain a challenge for the government. An emphasis on quick decision-making has made this even more challenging, leading to insufficient consideration of trade-offs among policy goals and their individual impacts. This often results in zero-sum analyses and inadequate efforts to prioritize sustainability or to understand long-term impacts. These trends continued during the review period, with the government failing to engage in credible consultations in creating the multitude of reforms undertaken. Particularly problematic was the process used to enact several laws intended to meet IMF conditionalities. As a result, the government squandered a valuable opportunity to build local support for these reform efforts and thereby ensure their sustainability. Typically, the allocation of responsibilities to different ministries is driven by political bargaining and expediency rather than by a rational allocation process. This impedes coordination and adequate policy implementation.

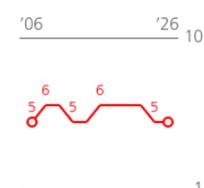
Efficient use of assets

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Policy coordination

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The Commission to Investigate Allegations of Bribery or Corruption (CIABOC), the National Audit Commission (NAC) and the National Procurement Commission (NPC) are all important institutions for preventing and punishing corruption. Following the adoption of the 21st constitutional amendment, the president's powers to appoint members to these institutions have been limited, thereby significantly weakening a vector of political influence on them. During the review period, the new Anti-Corruption Act No. 9 of 2023 (ACA) was enacted, significantly enhancing the CIABOC's mandate. However, effective implementation and operationalization remain challenging due to a lack of resources.

The NAC assumes key responsibilities for implementing the National Audit Act, including the authority to impose fines on public officials for losses caused by fraud or negligence. During the review period, the NPC published procurement guidelines. However, much high-value procurement is conducted under the direct oversight of the Cabinet of Ministers, which has historically allowed large-scale corruption to thrive in these fields. The procurement of IT solutions to process and issue visas for individuals entering Sri Lanka, as well as a case involving the procurement of Sri Lankan passports exemplify such failures. Both projects had significant economic implications for tourism and foreign remittances.

The law regulating election expenditures took effect during the review period, and was applied during the presidential and parliamentary elections. Serious shortcomings in the law make monitoring expenditures increasingly difficult. Furthermore, the law contains several loopholes that were exploited by candidates. To regulate expenditures effectively and meaningfully, significant changes are required.

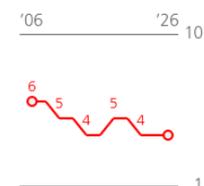
During the 2024 election campaign, the NPP emphasized corruption and government waste. Since taking power, the NPP has highlighted corruption under previous regimes and seems determined to avoid corrupt practices in its own governance. The government's anti-corruption discourse and apparently sincere effort to ensure the rule of law could augur a positive change in governance.

16 | Consensus-Building

The review period saw a tentative consolidation of commitment to democratization, as well as a recognition of the need for checks and balances, and the accountability of decision-makers. President Wickremesinghe attempted to broaden the scope of presidential powers, demanding the appointment of a parliamentary committee to investigate judges for rulings that did not align with his interests, and defying court rulings and decisions of the Constitutional Council. However, in every instance, pushback was immediate and sustained.

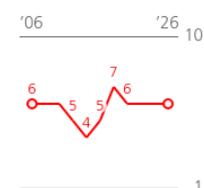
Anti-corruption policy

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Consensus on goals

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Prior to the 2024 election, the NPP was critical of IMF conditionalities, debt restructuring and the reform of SOEs. However, there was considerable convergence on economic policy issues among the other main political parties. The NPP's stance softened over the course of 2024 and after the inauguration of the government under its rule, it confirmed its commitment to adhering to the IMF program and to complying with the previously negotiated debt-restructuring provisions. The gap between words and practice creates political difficulties for the NPP; however, the shift might lead to a more critical and rational public discourse around future economic reforms. The NPP's commitment to a market economy is, therefore, rooted in the pragmatism it has exhibited toward IMF conditionalities.

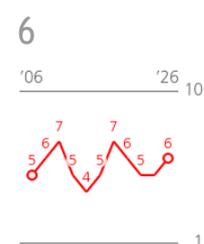
For much of the review period, the SLPP was the only party commanding a working majority in the parliament. The government promised several reforms to the PTA, anti-corruption legislation and proceeds-of-crime law that it had initiated primarily in response to domestic protests, international pressure and IMF conditionalities. While President Wickremesinghe enacted economic reforms with partial support from the SLPP, reforms on democratization and the devolution of political power were nonstarters for his administration. In fact, the opposite occurred, as several initiatives that significantly curtailed civil liberties were advanced following his inauguration.

The political significance of actors opposed to pluralism and inclusive politics on ethno-religious grounds has weakened, particularly following the most recent parliamentary elections. The victorious NPP has never been in government before. As such, its approach to governance is uncertain. The NPP's manifesto promised to repeal the PTA and the Online Safety Act, and to abolish the executive presidency. The NPP's two-thirds supermajority means it has the votes needed to deliver on its promises.

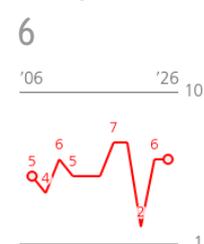
During the review period, class-based cleavages became increasingly salient, largely due to the socioeconomic fallout of the prolonged economic crisis. The burden of economic reforms, particularly those implemented in line with IMF conditionalities, fell disproportionately on lower-income and marginalized groups. This exacerbated existing inequalities and fueled public frustration, especially as elites appeared largely insulated from the harshest impacts of austerity measures. Alongside class divisions, Sri Lanka continues to grapple with long-standing ethnic, regional and political cleavages, many of which were temporarily muted by the urgency of the economic collapse but remain unresolved and potentially destabilizing.

President Wickremesinghe repeatedly emphasized that his top priority was economic stabilization. However, he failed to build consensus for key reforms and actively undercut even limited opposition support for economic recovery measures. Meanwhile, opposition parties – including those that later formed the NPP-led government – also lacked a coherent, forward-looking strategy for navigating the crisis, reflecting broader fragmentation within the political establishment. The

Anti-democratic actors



Cleavage / conflict management



implementation of IMF-mandated reforms heightened political tensions as their regressive impact on vulnerable communities deepened divisions and narrowed the space for collaborative policymaking.

Within the NPP, ideological divides persist, particularly over the legitimacy of the IMF road map. Trade unions and the more doctrinaire base of the JVP, the largest party within the NPP, have historically rejected IMF-led reforms, doubting their effectiveness at solving Sri Lanka's structural problems. However, after taking power, the NPP had to moderate its position and adopt a more pragmatic stance, recognizing the lack of viable alternatives in the immediate term.

While ethnic conflict has receded in political prominence during the economic crisis, its root causes – such as land disputes, militarization of Tamil-majority areas and the lack of accountability for wartime atrocities – remain unresolved. The absence of meaningful reconciliation or justice mechanisms continues to pose a long-term risk to peace and stability, raising the possibility of renewed ethnic tensions if these underlying issues are not addressed.

Sri Lanka lacks a culture of meaningful public consultation. Mechanisms designed to capture diverse views and concerns are difficult to implement. When consultations do occur, they are largely formalities and rarely have a meaningful influence on decision-making. Robust civil society participation is essential to building consensus on necessary economic reform and ensuring that substantial reforms have public support. Successive governments have instead co-opted civil society actors for various government positions from time to time.

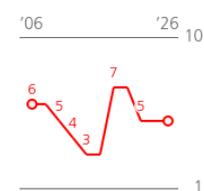
The internal functioning of the NPP government and its decision-making processes are not publicly known. Unlike the SLPP, UNP and SJB, which are driven mainly by personalities, the NPP's decision-making appears more polycentric. This makes communication with the government more difficult, and places greater responsibility on it to reach out and consult stakeholders meaningfully.

During the period under review, little was done to address postwar reconciliation in Sri Lanka, especially during the tenure of President Wickremesinghe. The government's engagement with U.N. processes remained unproductive, and government action in the formerly conflict-affected Northern and Eastern provinces exacerbated existing divisions. Land, for instance, continues to be a contentious issue. For example, encroachment on private and state land by Buddhist monks and the military remains a significant driver of uncertainty and feelings of relative deprivation. No meaningful action has been taken to address these issues, and even initiatives, such as the drafting of a law for a truth and reconciliation commission, were not undertaken in consultation with affected communities.

Additionally, the government pushed through several development programs with little or no consultation with local actors and in disregard of the impacts on local communities. These actions further increased tensions among communities. Post-

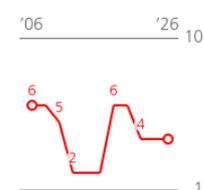
Public consultation

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Reconciliation

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conflict land disputes in the Northern and Eastern provinces need to be managed, and early warning mechanisms established to prevent and mitigate potential violence. Unfortunately, this did not seem to be a government priority during the review period.

The NPP obtained support from ethnic minorities in the Northern and Eastern provinces without making serious promises on reconciliation. The JVP, the largest party in the NPP alliance, has a history of violent insurrection against the Sri Lankan state in the 1970s and 1980s. Given this, the NPP has an opportunity to address concerns about enforced disappearances and memorialization. However, doubts remain about the NPP's ability to deal with broader issues of reconciliation, devolution of power and accountability for serious crimes.

17 | International Cooperation

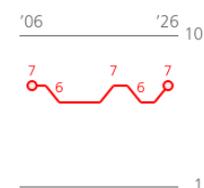
President Wickremesinghe's government secured support from India, Japan and the United States for Sri Lanka's request for an IMF extended fund facility in March 2023. This external support has been critical to the long-term reform effort.

Ensuring the sustainability of Sri Lanka's foreign debt was another key objective during the review period. Toward this end, the government had to negotiate its bilateral debt with the Official Creditor Committee (OCC) in Paris, the China Exim Bank and other bilateral partners. The OCC, co-chaired by India, Japan and France, was the first to reach an agreement with Sri Lanka, followed by China. Given the complexities of such debt-restructuring negotiations, including balancing the interests of China, the OCC and the ISB creditor committee, the government concluded the negotiations within a relatively short period. While concerns remain about whether the resulting debt restructuring is sufficient for Sri Lanka's unstrained development going forward, the concessions obtained need to be evaluated in light of the IMF debt sustainability analysis.

The government pursued a strategy of liberalizing trade and encouraging FDI. To this end, the government obtained input from international partners, with key bureaucrats from the United States, China, Germany and India visiting Sri Lanka regularly. Details of actual policy integration remain unclear because the meetings were high level and provided few specifics to the public, but the frequency and ongoing nature of these engagements indicate at least some buy-in from the Sri Lankan government.

Effective use of support

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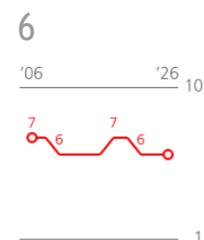
The Sri Lankan state's image as a credible partner in the international community has diminished, primarily because of the conduct of successive governments in U.N. Human Rights Council (UNHRC) processes. Different administrations have taken contradictory approaches, alternating between confrontation and cooperation. However, even when governments have promised to cooperate with the UNHRC, they have typically failed to deliver. The state continues to show poor compliance with core International Human Rights Law conventions, most of which have not been incorporated into the domestic legal system. Compliance with International Labour Organization (ILO) conventions remains an exception and is typically high.

While Sri Lanka continued to renege on its promises to the UNHRC and under other U.N. processes, its economic engagement with international actors has improved its credibility. The country successfully concluded complex negotiations to restructure its debt with China, the OCC and the ISB creditor committee, which involved managing competing stakeholder interests, both economic and broader geopolitical. While it remains to be seen whether Sri Lanka can follow through on the promises made, the relatively timely conclusion of the negotiations has been immensely beneficial to the country's image.

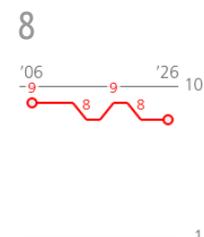
Sri Lanka has strong political, economic and cultural relations with its neighbors in South Asia. Its relationship with India improved considerably during the review period, even as Sri Lanka maintained a strong relationship with China. Sri Lanka's relationship with India had been strained by what India considers a lack of progress on India-supported development projects, and delays in initiating projects related to FDI and free trade. The main reason for delays in some of these projects has been domestic objections in Sri Lanka, driven in part by fears that the existing trade deficit with India would widen and that Indian personnel might push Sri Lankans out of their jobs. With the election of the NPP government, progress has been made on some projects, particularly concerning oil tanks in Trincomalee. Nevertheless, concerns remain regarding projects linked to the Adani Group, particularly vis-à-vis costs and environmental impact. Further complicating cooperation, anti-Indian sentiment has been brewing in the Northern Province, especially given the illegal bottom trawling that Indian fishermen resort to in Sri Lankan waters.

Sri Lanka is an active member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the Indian Ocean Rim Association. After the election of the NPP government, Sri Lanka also applied to join BRICS as a full member. However, this application was not accepted, as the group decided not to expand membership. Sri Lanka is instead set to join the bloc's New Development Bank.

Credibility



Regional cooperation



Strategic Outlook

During the review period, Sri Lanka's economy stabilized, although a full recovery remains uncertain. The country still faces key short-term challenges.

First, it is unclear whether the NPP will continue to pursue a pragmatic economic policy approach and uphold the IMF program. While the NPP lacks the fiscal or monetary leeway to abandon the program in the short term, questions persist about a potential follow-up program two years from now. Considering the developments between 2019 and 2022, rejecting such a program could lead to a further crisis and the NPP would be well advised to negotiate an IMF program that builds on the success of the current one.

The second challenge concerns debt repayment and economic development. Sri Lanka will have to begin repayments to the OCC in 2028, shortly after the conclusion of the current extended fund facility program. To manage the foreign currency outflows and the expected economic impact, the country will have to expand sources of foreign currency inflows and achieve significant economic growth. Failure to do so could lead to another crippling economic crisis, including balance of payments issues and additional looming debt repayments.

SOE reform constitutes the third challenge for Sri Lanka, which is yet to be addressed by the new NPP government. An economic emergency would provide the NPP with an opportunity to rationally and transparently privatize or semi-privatize unprofitable SOEs such as Sri Lankan Airlines.

Another challenge is ensuring a fair and equitable economic recovery because failure to do so will lead to more protests and possibly violence. It is advisable for the IMF to be transparent about its conditions and to ensure that the most vulnerable communities are not disproportionately affected.

A fifth challenge pertains to sustainable societal reconciliation in the interest of lasting peace. To that end, the government must establish credible accountability and truth-seeking mechanisms. Regarding the devolution of power, the government should craft a political consensus that provides regions with greater autonomy to support economic development. It should also assuage Sinhala-majority fears by emphasizing strong safeguards against secession as well as the indivisibility of the state.

Climate change, which is already impacting Sri Lanka, is another significant challenge. The government should proactively address climate change through mitigation and adaptation measures to prepare for increasingly frequent natural disasters and communicable diseases.

Finally, the NPP will have to safeguard the progress made in strengthening democracy and the rule of law. The party's election promises included repealing the Online Safety Act and the Prevention of Terrorism Act, and amending the ICCPR Act, which would provide a good starting

point for achieving this. Furthermore, the NPP should ensure that the Public Prosecutor's Office is robust and insulated from political pressure, and ensure accountability for past corruption, while diligently preventing it in the present.

Sri Lanka stands at a critical crossroads where economic stabilization must transition into long-term, inclusive growth. Navigating upcoming debt obligations, institutional reforms and reconciliation efforts will require sustained political will, policy consistency and social consensus.