

## ***“DISCIPLINE TO MEET AMBITIONS”***

The FY2026/27 Budget seeks to balance fiscal consolidation with a future-ready growth agenda, set against external shocks, geopolitical uncertainty, climate risks and demographic pressures. Built around the guiding principles of responsibility, solidarity, economic efficiency and social justice, the Budget strategy is framed around AI and digitisation, start-ups and SMEs, expansion of economic space, modernisation of core sectors, development of the blue economy and easing of investment constraints.

The economy enters the year with positive momentum. In 2025, GDP expanded by 3.2%, inflation fell to 3.7%, unemployment declined to 5.7%, gross official foreign currency reserves reached USD 10.3 billion, tourist arrivals exceeded 1.4 million, and tourism earnings reached Rs 103.4 billion.

The fiscal position remains the binding constraint. The FY2025/26 deficit is estimated at 6.0% of GDP, public sector debt at 87.8% of GDP, and interest payments at Rs 26.9 billion, representing 10.7% of total Government expenditure. The Budget projects a deficit of 3.7% of GDP in FY2026/27, public sector debt of 85.5% of GDP by end-June 2027, and a debt ratio below 80% of GDP by June 2029.

The defining structural reform is pensions. The Speech states that the existing system had become a major component of Government expenditure, accounting for nearly 25% of expenditure in FY2024/25, while the worker-to-pensioner ratio declined from 16 in 1962 to 4.7 in 2025, with further projected declines. The reform introduces the State Age Pension, a means-tested structure and a revamped contributory retirement framework.

Alongside consolidation, the Budget retains household-facing measures, including the Purchasing Power Shield, food security, access to water, energy security, unchanged VAT rate, and additional support for vulnerable groups. The Budget sets out a reform path built around fiscal repair, economic modernisation and social protection. Its effectiveness will depend on implementation discipline, institutional capacity and the ability to sustain reforms as trade-offs become more visible.