Sri Lanka government’s 2026 budget intensifies IMF austerity

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12 November 2025

Sri Lankan President Anura Kumara Dissanayake’s 2026 budget, presented to Parliament on November 7, marks a further escalation of the assault on the living conditions of workers and the poor, while granting more concessions to big business.

Dissanayake presented his second budget as his government completes one year since the Janatha Vimukthi Peramuna/National People’s Power (JVP/NPP) won the parliamentary election held on November 14, 2024. Dissanayake won the presidential election two months earlier.

The government’s two budgets have demonstrated that it is a tool of the corporate elite and of international finance.

Dissanayake, who also serves as finance minister, began his speech by falsely claiming that his administration had “embarked on a continuous mission” to deliver grassroots economic benefits.

In reality, every major measure—from taxation and investment policy to public-sector restructuring—strictly follows the dictates of the International Monetary Fund (IMF).

On October 9, IMF mission chief for Sri Lanka Evan Papageorgiou said in Colombo that “the IMF will monitor both the size and quality of government spending.” He added that although the IMF had reached a staff-level agreement to deliver $US347 million, it would be released only on the condition that next year’s budget be “in line with program parameters.” The tranche would be “contingent” on Parliament’s passage of the 2026 budget.

During his budget reading, Dissanayake threateningly said public employees should not “ask for more” and the unemployed should not hold street protests. He warned the poor receiving welfare benefits that assistance would be limited to “genuine” cases.

The 2026 budget projects a deficit of about 3.7 trillion rupees ($US12 billion), to be met through fresh domestic and foreign borrowing, perpetuating the vicious debt cycle. Total government expenditure for 2026 is estimated at nearly 9 trillion rupees, while revenue is projected at 5.3 trillion rupees.

The government expects to raise five trillion rupees in revenue, mainly through indirect taxation and social spending cuts. Dissanayake boasted that tax revenue for this year is projected to rise by a staggering 1.2 trillion rupees from 2024, with roughly 75 percent of this increase collected from value-added tax (VAT) and other indirect taxes that hit consumers.

Where all the revenue extracted from workers and the poor has gone is clear. The budget shows state expenditure of 4.5 trillion rupees allocated for debt servicing. In 2024, $US1,674 million was paid, and for 2025 the amount is $US2,435 million, with only $US487 million yet to be paid, Dissanayake told Parliament.

Amid the unprecedented economic crisis of 2022, the government declared a default on its foreign debts. When the IMF approved a $US3 billion bailout loan in 2023, the Colombo government promised to defer debt servicing until repayments begin in 2028.

The general import duty ceiling will be increased from 20 to 30 percent, which will raise the prices of some electronic goods, plastics and textiles.

Meanwhile, the VAT threshold—covering nearly all goods and services, including fuel, utilities, and food—will now apply to businesses with a monthly turnover as low as three million rupees, dragging thousands of small traders into the tax net and pushing consumer prices further upward.

A major component of the budget is the drastic reduction of public expenditure. Dissanayake reiterated that 33 state institutions would be shut down entirely, while another 57 would be merged, restructured or liquidated. The government’s overall plan is to restructure about 400 state enterprises.

New laws such as the Public Commercial Business Management Act and the Public-Private Partnerships Bill are to be introduced—both designed to accelerate privatization and commercialization of state assets. In addition, a new Investment Protection Act will be introduced in early 2026 to guarantee the “ease of doing business.”

A Public Assets Management Bill will create a centralized digital database for state lands, enabling their commercial exploitation by big business.

These moves, alongside the establishment of technology parks, investor visa schemes and “single-window” systems to bypass environmental and social regulations, reveal a clear drive toward unfettered capital exploitation.

As in previous administrations, Dissanayake’s government has avoided imposing any wealth or capital gains taxes and left corporate tax rates untouched, protecting business elites while placing the tax burden squarely on the working masses.

Unsurprisingly, the chairman of the big business body, the Ceylon Chamber of Commerce (CCC), Krish Balendra, praised the budget for its “fiscal discipline.”

The president’s economic advisor and former CCC chairman, Duminda Hulangamuwa, said the government had restored “the private sector as the engine of growth,” adding that “almost every major reference in the budget, from tax incentives to institutional reforms, is directed toward encouraging private sector participation.”

The government is imposing deep cuts to welfare and services. Dissanayake announced that the Aswesuma relief program—a meagre aid scheme for the poorest—will be reformed to target only “genuine low-income earners,” echoing the exact words of IMF and World Bank officials.

Displaying the government’s contemptuous attitude toward the poor receiving welfare benefits, JVP leader and Industry Minister Sunil Handunneththi said at a public event a day before the budget: “Society should be ashamed of receiving Aswesuma. It is like legally begging. We are taking money from whichever government is in power.”

He made this sinister statement as the World Bank estimated that 22 percent of Sri Lankans now live below the poverty line, with another 10 percent just above it. Over half the population faces food insecurity.

Since 2022, real wages have collapsed by 24 percent in the public sector and 14 percent in the private sector. The World Bank said that because of austerity measures during the last two years alone, 3.9 percent of people have fallen into poverty in Sri Lanka.

University students’ stipends were increased to just 10,000 rupees a month, though their demand was for an increase to 15,000 rupees.

Although the public education and health sectors are on the brink, allocations were 301 billion and 516 billion rupees respectively—representing only modest increases of 29 and 40 billion rupees.

Dissanayake announced that plantation workers’ daily wages will be raised by 400 rupees, with half of this paltry increase to be borne by the state on behalf of the companies. It is doubtful that even this negligible “increase” will see the light of day.

He also announced plans to recruit 75,000 new public servants, mainly in law enforcement, revenue collection and technical sectors. Claiming that recruitment will be on a merit basis, the president warned protesting unemployed youth to halt their actions and “go home and study for recruitment exams.”

His over four-hour budget speech revealed open contempt for public anger. The President announced a meager second-phase monthly wage rise for the public sector, part of the last increase announced in the previous budget, amounting to 2,750 rupees—insufficient even for two days’ expenses.

But the JVP/NPP leader threatened public sector employees: “Do not ask for more allowances—the government has no funds. Go home instead of standing on the streets; standing on the streets brings you nothing, as this is the government’s policy.”

Dissanayake’s threats to public employees, the unemployed and welfare recipients underline that the JVP/NPP government will ruthlessly implement the IMF program while brutally suppressing any opposition.

In August, the military was deployed to suppress a postal workers’ strike, and in September, the President invoked the Essential Public Services Act, threatening workers opposing the privatization of the electricity board.

The opposition, including the Samagi Jana Balawegaya, Sri Lanka Podujana Peramuna, and United National Party, offered only token criticisms of the budget in Parliament and the media, as they all support the IMF program.

The bureaucracies of the JVP and other trade unions backing the IMF program have deliberately suppressed workers’ actions.

However, beneath the surface, public anger is growing. On November 10, farmers across multiple regions denounced the budget for not providing any relief to their problems and vowed to continue their protests. Retired teachers also demonstrated on budget day over unmet demands.

Amid a deepening global crisis, the IMF has stepped in across many countries during the past decade to defend international creditors. In recent months, general strikes and youth protests have erupted against brutal austerity programs in countries such as Kenya, Zimbabwe, and Pakistan.

To defeat the IMF austerity program of the JVP/NPP government, the Socialist Equality Party urges workers and the poor to break from all the capitalist parties and mobilise their independent political and industrial strength. To do that, they must form independent action committees in workplaces and rural areas, without allowing union bureaucrats or capitalist parties to organize their struggle.

Sri Lankan workers must unite with workers internationally—including those in advanced countries—who are fighting against austerity measures, wage cuts, job losses and social inequality.

The aim must be to bring a workers’ and peasants’ government to power, advancing a socialist and internationalist program for the repudiation of foreign debt and the collective ownership of key industries and banks to serve the needs of the majority.