



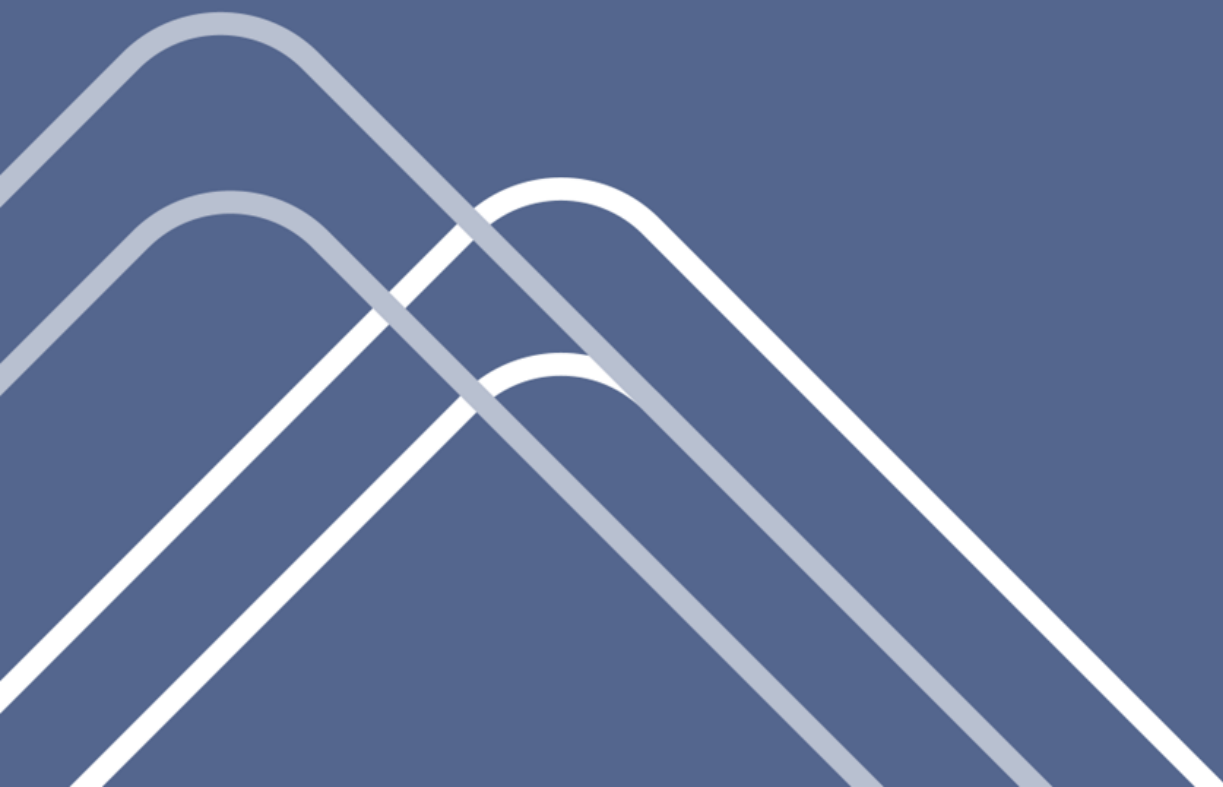
# DOING BUSINESS IN

## Sri Lanka



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# INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Sri Lanka, has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at 31<sup>st</sup> July 2025.

We look forward to helping you do business in Sri Lanka.

# BUSINESS ENVIRONMENT

## BACKGROUND

Following a severe 2022 crisis, Sri Lanka has exhibited strong signs of recovery. GDP rebounded by 5% in 2024, supported by IMF-backed reforms, debt restructuring, and policy stabilisation. Looking ahead, the Central Bank forecasts growth of around 4.5% in 2025, surpassing the World Bank's estimates, despite challenges such as shifting global demand and tariff pressures on apparel exports. Positive monetary developments—including inflation declining to deflationary levels in mid-2024 and consumer prices dropping 0.3% in July 2025- have enhanced investor confidence.

## BACKGROUND

Sri Lanka's mid-2024 population is estimated at 21.76 million, down slightly from 22.0 million in 2023, with a labour **force participation rate of 47.4%** and an **unemployment rate of 4.4%**. The population data underscores a modest decline in growth, but a resilient labour market. Land area stands at approximately **62,705 km<sup>2</sup>**.

## GEOGRAPHY

Covering an area of about 62,705 km<sup>2</sup>, Sri Lanka's compact landmass and extensive coastline position it advantageously for maritime logistics and trade. The Central Bank of Sri Lanka, along with its key ports and proximity to South Asia and the Middle East, reinforces its status as an emerging regional hub for shipping, manufacturing, and tourism.

## CURRENCY

Sri Lanka operates a flexible exchange rate regime under its Flexible Inflation Targeting (FIT) framework. In 2024, the Central Bank successfully shifted to a single policy interest rate (Overnight Policy Rate at 8%), replacing its earlier dual-rate corridor system. This move improved the transmission and signalling of monetary policy. Additionally, Net Foreign Assets turned positive in October 2024, rising by Rs 1,059.5 billion—a clear sign of strengthening external reserves. The USD LKR Exchange Rate July 2025 is approximately – 1 USD = LKR 300/-

## LANGUAGE

Sinhala and Tamil remain the official languages, while English is dominant in business, legal, and higher education environments. This multilingual framework enables smooth international trade, investor relations, and integration into global markets—although CBSL reports don't directly address language, this is well recognised in national profiles.

## **MAJOR EXPORTS**

Sri Lanka's external sector recovered in 2024. Gross official reserves grew to USD 6.1 billion, with total banking sector reserves increasing to USD 11.2 billion, reflecting strengthened external balances. Apparel, a significant export earner, generated USD 4.8 billion and employs around 300,000 people, with 40% of output directed to the U.S. market. The export growth emphasises the resilience of the garment and services sectors.

## **MAJOR IMPORTS**

CBSL data show Sri Lanka recorded a goods and services trade deficit, with the trade balance worsening from -2.2% of GDP to -2.7%, and the overall current account falling from 1.7% to 1.2% of GDP. Key import categories include mineral fuels, machinery, and consumer goods, reflecting the country's industrial and infrastructure needs.

## **EDUCATION – PRIMARY AND SECONDARY**

While the CBSL reports don't provide educational statistics, Sri Lanka is widely recognised for its nearly universal literacy, supported by a robust, free primary and secondary education system. The strong social indicators reflect this success. If desired, I can include data from the Ministry of Education or the Department of Census and Statistics to supplement.

## **TERTIARY EDUCATION**

Similarly, CBSL publications don't feature tertiary education metrics. Yet, the country hosts several state universities and professional institutions (e.g., in engineering, law, medicine, and accounting) that produce internationally recognised graduates. For a more data-driven approach, I can source figures on enrollment and graduate output from education authorities.

## **HEALTH CARE SYSTEM**

The economy-focused CBSL publications do not cover healthcare statistics. However, Sri Lanka's public healthcare system, offering free access and a growing private sector, has contributed to positive health outcomes. I can incorporate WHO data or national health ministry statistics if you wish to enhance this section.

## **COMMUNICATIONS**

CBSL publications do not include telecom data. Nonetheless, Sri Lanka has experienced rapid growth in mobile and internet penetration, supported by international connectivity and the expansion of digital government services. The ICT and BPO sectors continue to thrive, driven by improved data infrastructure.

## **BANKING AND FINANCIAL SERVICES**

In 2024, the Central Bank adopted the Overnight Policy Rate (OPR) at 8%, consolidating monetary policy signalling. It phased out import restrictions and improved liquidity. Financial system resilience was strengthened through new banking regulations, better consumer protection, deposit insurance frameworks, and a revamped macroprudential policy architecture. These reforms underpin confidence in Sri Lanka's financial sector.

## **TRANSPORTATION LINKS**

Sri Lanka is increasingly recognised for its strong logistics infrastructure, centred around Colombo Port, expanding airport connectivity, and improved road networks, including expressways. These assets strengthen the country's strategic position as a logistics and distribution hub in South Asia.

## **LAND AND BUILDING**

Real estate metrics are not included in CBSL's publicly available data, but the Central Bank does oversee macroprudential directives relevant to the housing sector. The economic recovery has stimulated interest in urban and industrial land development. I can provide trend data from real estate platforms or housing authorities upon request.

## **HOLIDAYS IN SRI LANKA**

Sri Lanka recognises a diverse range of public and religious observances—including Poya days, Sinhala & Tamil New Year (April), Vesak (May), Independence Day (February 4), as well as Deepavali, Ramadan, and Christmas—which typically affect business and government operations.

<https://www.cia.gov/library/publications/resources/the-world-factbook/>

<http://data.worldbank.org/country/>

# FOREIGN INVESTMENT

## OVERVIEW

The government of Sri Lanka is offering more opportunities and facilities for foreign investors. Recently, Sri Lanka launched a one-stop online portal to facilitate the process of obtaining official approval for foreign investors. Under current Sri Lankan law, any individual residing outside the country may establish a business in Sri Lanka; the permission granted for such a business is regulated by one of the applicable laws in Sri Lanka.

- Under the Board of Investment (BOI) in Sri Lanka or
- Under the Foreign Exchange Act, No. 12 of 2017

## BOARD OF INVESTMENT IN SRI LANKA (BOI)

The Board of Investment (BOI) is an autonomous statutory agency incorporated in 1978. It is the primary government authority responsible for foreign investments and is structured to function as a central facilitating point for investors. The BOI Act provides for two types of investment approvals.

- Under Section 17 of the Act, the BOI is empowered to grant special concessions to companies satisfying specific eligibility criteria designed to meet the government's strategic economic objectives. This mechanism grants concessions depending on the amount of investment brought to the country.
- Approval under Section 16 of the BOI Act permits foreign investment entry to operate only under the country's 'normal laws'; for such enterprises, the provisions of the Inland Revenue, Customs, and Exchange Control Laws shall apply.

To grant approvals and incentives, companies incorporated under the Companies Act are treated equally, regardless of whether nationals or non-nationals control the shareholding. BOI promotes the following sectors as priority sectors for foreign direct investments:

- Tourism and Leisure
- Infrastructure
- Knowledge Services and Utilities
- Apparel manufacturing and Export services.
- Agriculture and education
- Promotes trans-shipment trading, international logistics services, headquarters operations, and offshore businesses.

## **FOREIGN EXCHANGE ACT, NO. 12 of 2017**

A person who resides outside Sri Lanka may engage in business as per the Gazette Notification No. 2213/35 issued on 03<sup>rd</sup> February 2021 of the Foreign Exchange Act No. 12 of 2017, subject to exclusion and limitation as specified below.

### **EXCLUSION FOR FOREIGN INVESTMENT**

As per the Foreign Exchange Act, no permission is granted regarding shares of a company proposing to carry on or carrying on any of the following business.

- Pawn Broking
- Retail trade with a capital of less than USD 5 million
- Coastal fishing
- Growing and primary processing of tea, rubber, coconut and rice
- Mining and primary processing of non-renewable national resources
- Freight Forwarding, Shipping Agency Business and Mechanised mining of gems.

### **LIMITATION FOR FOREIGN INVESTMENT**

Furthermore, foreign direct investments in the following businesses are subject to a set **upper limit** of 40% of the company's stated capital.

- Production of goods where Sri Lanka's exports are subject to international quota restrictions.
- Growing and primary processing of sugar, cocoa, and spices
- Mining and primary processing of non-renewable national resources
- Timber-based industries using local wood.
- Deep sea fishing,
- Mass Communication and Education
- Outbound travel agency business
- Freight forwarding and Shipping Agencies

In addition to the above, the following businesses are permitted up to 40% foreign shares, subject to general or specific approval from the relevant legal administrative authority established by the Government of Sri Lanka.

- Air transportation,
- Coastal shipping
- Any industry manufacturing or producing- Arms, ammunition, explosives, military vehicles and equipment, aircraft, and other military hardware.
- Poisons, narcotics, alcohols, dangerous drugs and toxics, hazardous or carcinogenic materials.

- Currency, coins or security documents
- Large-scale merchandising mining of gems
- Lotteries



# SETTING UP A BUSINESS

## TYPES OF COMPANIES

A company incorporated outside Sri Lanka and registered as an “overseas company” shall have the meaning as defined in the Companies Act No. 24 of 2007. An overseas company registered as a limited liability company, branch, or liaison office under the Companies Act No. 24 of 2007, the limited liability company and branch office may carry out any commercial, trading, or industrial activity other than certain specified activities, provided that prior permission has been obtained from the government of Sri Lanka or any other authority, such as the Board of Investment of Sri Lanka established to approve foreign investments for the proposed activities.

However, an overseas company may engage in any non-commercial, non-trading, or non-industrial activity, such as those carried out by a liaison office, representative office, regional office, or similar entity, provided that such activities do not generate any income – directly or indirectly – for the company.

## COMPANY CAPITAL

There is no specified minimum issued share capital for a limited liability company under the Companies Act No. 24 of 2007; however, a branch of a foreign company or establishment conducting the same or substantially the same business as that of the parent or Head Office, and registered as an overseas company under the Companies Act No. 7 of 2007, which undertakes or carries out any activity — such as a branch office or similar establishment — must invest a minimum of USD 200,000 or an equivalent amount in other designated foreign currencies, from remittances received from abroad.

# LABOUR

Sri Lanka's labour force participation rate decreased to around 48.6% in 2023, with recent quarterly data showing a rate of 46.9% in Q3 2024—highlighting persistent gender disparities (66.8% male vs. 29.4% female). The unemployment rate remained moderate at approximately 4.2 %, although youth and female unemployment remain disproportionately high—youth (15–24 years) at 21.8 %, and female youth at 31.7 %. Overall estimates for 2024 suggest that unemployment is around 4.4%, with participation just below 50%.

## LABOUR LAW IN SRI LANKA

Sri Lanka's labour laws are primarily governed by the Shop and Office Employees Act, Wages Board Ordinance, and Factories Ordinance, along with regulations concerning employment termination, gratuity, and social security. The legal framework stipulates an eight-hour working day, weekly rest, and statutory holidays. Employers must contribute to the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) to ensure workers receive retirement benefits. Termination of employment requires prior approval or compensation under the Termination of Employment Act. Labour rights are well protected, but compliance is essential, as failure to adhere can result in penalties. Clear contracts and transparent HR policies help boost investor confidence.

# TAXATION

## Income Tax Law in Sri Lanka

The Inland Revenue Act, No. 24 of 2017 (as amended), governs income tax in Sri Lanka. It applies to both residents and non-residents on income earned in Sri Lanka, while residents are taxed on their worldwide income. Corporate tax rates generally range from 15% to 30%, depending on the sector, with special concessions available for exports, tourism, and IT services. Individuals are taxed on a progressive basis, with exemptions for certain allowances. The system requires advance payments, withholding taxes, and the submission of annual returns. Employers must ensure compliance with APIT/ PAYE (Advance Personal Income Tax) for employees.

## Customs Law in Sri Lanka

Customs operations are regulated by the Customs Ordinance of 1869 (as amended), one of the oldest revenue laws still in force. It governs the import and export of goods, ensuring revenue collection, facilitating trade, and protecting borders. Duties include customs duty, excise duty, port and airport levies, VAT on imports, and cess on selected goods. Sri Lanka Customs also enforces international trade agreements, tariff concessions, and anti-smuggling measures. Businesses must comply with customs declarations, valuation rules, and licensing requirements. The framework aims to balance government revenue with efficient, transparent facilitation of international trade.

# ACCOUNTING AND REPORTING

Accounting and financial reporting in Sri Lanka are governed by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and supervised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Companies must keep proper books of accounts and prepare annual financial statements following the Sri Lanka Accounting Standards (SLFRS/LKAS), which are fully aligned with International Financial Reporting Standards (IFRS). Public companies are obliged to have their accounts audited by qualified auditors and to submit them to the Registrar of Companies. Listed companies additionally adhere to disclosure rules mandated by the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission (SEC), thereby promoting transparency and safeguarding investor confidence.

# UHY IN SRI LANKA



## UHY Centra Management Associates

### Sri Lanka

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#### CONTACT DETAILS

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#### CONTACTS

Liaison contact: Risvi Majeed  
Position: Senior Partner  
Email: [risvimajeed@uhycentra.com](mailto:risvimajeed@uhycentra.com)

#### SOCIAL MEDIA CONNECTIONS

- LinkedIn: <https://www.linkedin.com/in/uhy-centra-management-srilanka-854978158/>

Year established: 2012  
PCAOB registered? No  
Number of partners: 3  
Total staff: 68

#### OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

#### BRIEF DESCRIPTION OF FIRM

UHY Centra Management Associates is a full member of Urbach Hacker Young (UHY) International Limited, established in 2012 which has become one of the leading Chartered Accounting (CASL) firms in Sri Lanka within a decade, offering diversified business advisory services. Currently, we operate with two offices, a corporate office in Colombo and a branch office in Kandy supported by highly motivated partners and with over forty professional employees focused on serving clients' needs with the utmost integrity.

Our vision is "to be the leading business advisor and reliable business partner in Sri Lanka by working closely and together with our clients and our alliance partners". We are committed to the development of a professional practice that is well placed to provide a comprehensive scope of professional services to our clients and offer our staff the opportunity for personal advancement in a dynamic and exciting business environment.

#### SPECIALIST SERVICE AREAS

BPO Services  
Business Advisory Service  
Payroll & Visa Service  
Government Sector Registration & Approvals  
Staff Recruitment & Training  
Finance due diligence & feasibility studies  
Permanent establishment (PE) & Transfer Pricing  
Legal services

#### PRINCIPAL OPERATING SECTORS

Accounts & Audit  
Company Incorporation & Approvals  
Tax & Compliance Services

#### LANGUAGES

## UHY Centra Management Associates

### Sri Lanka

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English  
Sinhala  
Tamil

#### **CURRENT PRINCIPAL CLIENTS**

Agent for Dialog Axiata PLC  
Agent for Dialog Axiata PLC (2)  
Aluminium & Engineering, China  
Computerized Graphics & Printing, Sri Lanka  
Construction & Civil Engineering, China  
Desing & Printing, Sri Lanka  
Digital Printing, Sri Lanka  
Eraeliya Villas & Gardens, Weligama  
FB\_IMG\_1597854077452  
IT Solutions, Worldwide  
Leading Car Exporter, Japan  
Member of TATA Housing, India  
Mobile & Communication, Hong Kong  
Office Space, SriLanka  
Printing & Packaging, Sri Lanka  
Printing and Media, Sri Lanka  
Riding & Sports, Sri Lanka  
Security & Safty, Sri Lanka  
Sole Agent, SriLanka  
Specialized Doors & Windows, China  
Spices Exporters, Sri Lanka

#### **OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST**

#### **BRIEF HISTORY OF FIRM**

UHY Centra Management Associates is a member of UHY, global, is a fast-growing organization network of independent member firms, servicing a diverse portfolio of clients ranging from small-medium enterprises (SME) to large multinationals based in Sri Lanka, India, China, Singapore, Hong Kong, United Arab Emirates, Maldives, and Japan. Our provision of high-quality services lead us to be appointed as a full member of UHY global in 2018, and prior to being a member of UHY International, we operated under the brand name Centra Management which has been active since 2012. UHY Centra Management in Sri Lanka is being headed by three partner directors and supported by more than 40 staff members. Our head office is located in Colombo and we also have a branch under operation in Kandy.

## Let us help you achieve further business success

UHY Centra Management Associates is an independent member of Urbach Hacker Young International Limited ("UHY International"), a UK company, and forms part of the UHY International network of legally independent accounting and consulting firms.

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