Economic Outlook 2026

ECONOMIC PERFORMANCE (2018-2026)

Year	GDP	GPCA	GDP PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports*
2018	4.0%	3,852	13,600	4.3%	4.9%	-2.9%	-5.7%	77.6%	240.0%
GDP Growth	GDP GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2019	-0.6%	3,837	13,600	4.6%	4.9%	-1.1%	-5.9%	78.9%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2020	-4.8%	3,580	13,600	6.2%	5.5%	-1.3%	-9.6%	94.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2021	3.5%	3,705	14,100	6.0%	5.5%	-2.2%	-8.7%	101.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2022	-7.3%	3,433	13,900	46.0%	5.6%	-1.2%	-11.0%	119.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2023	2.3%	3,513	14,600	14.0%	5.7%	-2.2%	-8.9%	112.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2024	5.0%	3,688	15,300	4.9%	5.7%	-1.0%	-8.4%	109.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2025	4.5%	3,854	16,000	4.5%	5.7%	-1.3%	-8.0%	106.0%	240.0%
Capital Investment	GDP PPP	GDP per capita PPP	Inflation	Unemployment	Current Account	Budget Balance	Debt to GDP	Debt to Exports	
2026	4.0%	4,020	16,700	4.0%	5.7%	-1.3%	-7.5%	103.0%	240.0%
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*debt to exports data is for 2017

What happened to the Economy in 2025?

In 2025, Sri Lanka's economy had begun to stabilize after years of crisis and contraction, aided by the government's macroeconomic reforms and renewed economic growth, stronger worker remittances, and a recovery in tourism. Although the fragile economy, however, has been sharply derailed by Cyclone Ditwah, which has caused widespread and caused extensive damage nationwide. The disaster is expected to deepen inflationary pressures, disrupt food supply chains, and slow economic recovery as reconstruction efforts divert resources away from key sectors such as agriculture, tourism, and infrastructure.

ECONOMIC GROWTH

Prediction for 2026:

GDP	Inflation	Unemployment
4.0%	4.0%	5.7%

Real GDP Growth Rate Forecast

- **2024** – 5.0%
- **2025** – 4.5%
- **2026** – 4.0%
- **2027** – 4.2%
- **2028** – 4.5%
- **2029** – 4.8%
- **2030** – 5.0%
- **2031** – 5.2%
- **2032** – 5.5%

GDP will remain within a low-to-moderate range, with growth driven by post-crisis recovery, tourism rebounds, and remittances as effectivery managed.

A tourism economic recovery took shape in 2026, underscored by a market hub's up of foreign exchange reserves due to the suspension of loan repayments, easing inflation, stronger remittances and a rebound in tourism. The economy is projected to grow by 4.0% in 2026, supported by post-crisis stabilization, its economic recovery plan, a gradual recovery in tourism, private sector growth, and demand, and potential fiscal pressures. Risks persist of grappling with low growth, weak investment, and vulnerability to external shocks, including tourism disruptions and global economic slowdowns. Sri Lanka's outlook remains fragile but cautiously optimistic, hinging on sustained reforms, tourism recovery, and prudent fiscal management. Inflation is expected to remain low and stable, supported by tight monetary policy, stable currency, and moderate wage growth. However, these advances were eroded by post-disaster inflation, pressures, policy implementation gaps, and potential supply chain disruptions.

What's in store in the coming year of 2026?

Sri Lanka's economic outlook remains fundamentally fragile and fragile that the economy has emerged from a crisis condition and is moving toward gradual stabilization. However, growth remains weak from a low base, and the economy remains highly vulnerable to shocks, including tourism disruptions, remittance fluctuations, and the country's heavy debt burden. Key priorities include maintaining fiscal prudence to prevent fiscal slippage, strengthening revenue collection, and improving the efficiency of public spending, and implementing structural reforms to boost productivity and attract investment.

Leading sectors, such as tourism and remittances, are expected to drive growth, but sustaining this growth will depend on ongoing reforms and the country's ability to attract foreign investment. Inflation is expected to remain low and stable, supported by tight monetary policy and a stable currency, but wage growth and supply chain disruptions could pose risks. The overall outlook is cautiously optimistic, with the potential for gradual recovery if the government maintains its reform momentum and avoids fiscal slippage. However, the fragile economy remains highly vulnerable to external shocks and domestic challenges, such as tourism disruptions and global economic slowdowns. Sri Lanka's ability to navigate these challenges will determine its long-term stability and prospects.

INFLATION

Prediction for 2026:

4% to 6%

CPI will remain within a low-to-moderate range, supported by tight monetary policy and stable currency, but vulnerable to wage pressures and effectively managed.

Inflation is expected to remain low and stable in 2026, supported by tight monetary policy, a stable currency, and moderate wage growth. However, these advances were eroded by post-disaster inflation, pressures, policy implementation gaps, and potential supply chain disruptions.

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FOREIGN EXCHANGE RESERVES

Prediction for 2026:

The forecast official reserves to drop to around $6.5 billion in 2026.

- Continued erosion of reserves due to debt repayments, fiscal slippage, plus lingered Tourism inflows.
- Risk of further depletion if fiscal slippage or weak tourism recovery continues.
- Reserves remain vulnerable to global shocks and import requirements.

A year forward USD 7 billion is possible only if tourism recovery accelerates and fiscal discipline holds. Conversely, reserves could fall below $6 billion if tourism underperforms or fiscal slippage persists.

INTEREST RATES

Prediction for 2026:

Likely to Rise

As borrowing demand increases and inflation pressures may rise, lending rates may gradually increase, with long-term interest rates likely to rise more than short-term rates.

GOVERNMENT DEBT

Prediction for 2026:

Projected Debt to GDP Ratio 86.38 Trillion

Government debt is expected to increase slightly to around 86.38 trillion rupees, with revenue growing by 10% and expenditure by 8%, maintaining a stable debt-to-GDP ratio.

Year	Total debt (Rs. billion)	Debt to GDP (%)
Total Domestic Debt	**45,394.96**	**46,864.48**
Total External Debt	**39,470.04**	**39,470.04**
Total Foreign Debt	**14,774.02**	**14,774.02**
Total Foreign Debt	**16,485.94**	**16,485.94**
Total Outstanding Government Debt	**85,738.96**	**86,334.70**

Prediction for 2026:

Likely (%) The overall fiscal outlook for 2026 is cautiously optimistic, with a projected surplus of GDP to slow growth, supported by strong revenue growth and disciplined spending.

Remarks at 2026:

Public debt to GDP is projected to remain stable, with a range of 80%–100% through 2026, supported by fiscal discipline and steady economic growth across sectors.

EXCHANGE RATE

Prediction for 2026:

USD is likely to depreciate to around Rs 320–330 range during 2026, maintaining a manageable exchange rate.

FOREIGN DIRECT INVESTMENTS

Prediction for 2026:

Modest increase in FDI inflows to around USD 2.2 – 2.5 billion, with most FDI anticipated to originate from the Middle East

FOREIGN REMITTANCES

Prediction for 2026:

Stable remittance inflows, with a range of USD 2.2 – 2.5 billion, with around 70% anticipated to originate from the Middle East

ECONOMIC OUTLOOK

Outlook for 2026

Sri Lanka's economy is projected to grow by 4.0% in 2026, supported by post-crisis stabilization, its economic recovery plan, a gradual recovery in tourism, private sector growth, and demand, and potential fiscal pressures. Risks persist of grappling with low growth, weak investment, and vulnerability to external shocks, including tourism disruptions and global economic slowdowns. Sri Lanka's outlook remains fragile but cautiously optimistic, hinging on sustained reforms, tourism recovery, and prudent fiscal management. Inflation is expected to remain low and stable, supported by tight monetary policy, stable currency, and moderate wage growth. However, these advances were eroded by post-disaster inflation, pressures, policy implementation gaps, and potential supply chain disruptions.

Sri Lanka's Economic Upgrades as of End-October2025

Item	USD million
Total Reserves (end-Oct 2025)	**6,216**
Less: **Swaps & Forwards Obligations**	**(1,000)**
Less: **IMF Obligations**	**(1,368)**
Less: **Possible "Hot money" to G-Sec**	**(500)**
Net Accessible Reserves	**2,348**
Net Debt Repayment *(inflows/ paying any commercial liens loans or intervention bps ↓ ↑ USD 1.5b)*	**(1,000)**
Net Accessible Reserves (end-Oct 2026)	**1,348**

Sri Lanka's foreign exchange reserves are likely to have remained pressured in 2025, even as near-term stabilization measures have begun to take hold. The country's gross official reserves have been rebuilding from a low base, and indicators suggest they have crossed "low reserves" thresholds. The suspension of the 2024 sovereign bond has added significant external breathing. Strong yet global energy prices and increasing the country's import bill, which has been a key vulnerability for Sri Lanka in the past. Remittances and tourism receipts have been the main channels, boosting foreign exchange inflows and supporting reserve accumulation.

At present, reserve accumulation remains highly sensitive to short-term borrowings and IMF-related inflows rather than a structurally strong current account surplus. The IMF's 15-18 mo EFF has been complemented this dynamic by disrupting global capital flows and reinforcing a risk-averse investment environment. Sri Lanka's reserve position remains fragile and vulnerable to shocks, including tourism disruptions, remittance fluctuations, and global economic slowdowns.

In addition, background geopolitical tensions have contributed to increased volatility in global commodity markets, which has indirectly impacted Sri Lanka's import costs and foreign exchange reserves. The country's reserve position remains fragile and vulnerable to shocks, including tourism disruptions, remittance fluctuations, and global economic slowdowns.

Sustaining reserve accumulation will require timely and credible policy responses aimed at strengthening durable sources of foreign exchange. This includes improving the investment climate to attract foreign direct investment, boosting export competitiveness, and ensuring prudent fiscal management to avoid crowding out private investment. Additionally, maintaining a flexible exchange rate regime can help absorb external shocks and preserve reserves. However, the country's ability to navigate these challenges will depend on its commitment to structural reforms and its capacity to mobilize sustainable foreign exchange inflows.

Outlook for 2026

Annual reserves in Sri Lanka increasingly reflect the constraints of the IMF-supported adjustment programme, with Treasury yields remaining elevated relative to prevailing inflation. This dynamic has contributed to a positive real interest rate environment, which has supported the accumulation of foreign exchange reserves through capital inflows and improved market confidence. However, the sustainability of reserves remain tied to rather heavily short-term capital and geopolitical uncertainty, domestic yields have remained sensitive to global risk sentiment and capital flows, and the IMF framework has provided a stabilizing anchor for reserve adequacy.

While political stability and continued adherence to the IMF framework have strengthened macroeconomic stability, the overall reserve position remains fragile and vulnerable to shocks. Reserves are projected to grow, but remain highly sensitive to short-term borrowings and IMF-related inflows rather than a structurally strong current account surplus. The IMF's 15-18 mo EFF has been complemented by the suspension of the 2024 sovereign bond, which has added significant external breathing. However, the country's ability to navigate these challenges will depend on its commitment to structural reforms and its capacity to mobilize sustainable foreign exchange inflows.

In the medium term, sustaining reserve accumulation will require timely and credible policy responses aimed at strengthening durable sources of foreign exchange. This includes improving the investment climate to attract foreign direct investment, boosting export competitiveness, and ensuring prudent fiscal management to avoid crowding out private investment. Additionally, maintaining a flexible exchange rate regime can help absorb external shocks and preserve reserves. However, the country's ability to navigate these challenges will depend on its commitment to structural reforms and its capacity to mobilize sustainable foreign exchange inflows.

BALANCE OF TRADE

Outlook for 2026

Sri Lanka's balance of payments (BoP) has been consistently more resilient than during previous crisis episodes, supported by the country's ongoing IMF-supported adjustment programme, which has reinforced macroeconomic stabilization. The current BoP trajectory, and—most critically—the external debt profile, will be shaped by the interplay between tourism recovery, remittance flows, and debt servicing obligations.

Balance of Payments

Year	Overall BOP Position (USD mn)
2024	-1,395
2025	-1,500
2026	-1,500

Outlook for 2026

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Total External Debt (USD mn)

Year	Internal Payments (Rs. bn)	BoP Xchange	Government Bro. Debt (Rs. bn)	Internal sett. of $ (USD mn)
2018	1,000	1,000	1,000	1,000
2019	981	1,075	1,094	975
2020	751	1,175	1,094	1,075
2021	1,000	1,400	1,400	1,175
2022	1,426	1,526	1,511	1,400
2023	1,500	1,600	1,600	1,526
2024	1,495	1,595	1,595	1,600
2025	1,500	1,600	1,600	1,595

However, future debt sustainability cannot be a reality unless:

- There is an immediate fiscal USD growth and export diversification which would reduce reliance on external borrowing.
- Revitalizing tourism production remittance inflows and foreign investment.
- Internal costs are reduced substantially.
- Revenue mobilization and restructuring is executed effectively and transparently.

The main challenge for the Government therefore would be to **enhance the quality and purpose of debt**, especially ensuring that borrowed funds contribute to productive growth.

Outlook for 2026

Sri Lanka's foreign exchange reserves have remained pressured in 2025, with the overall risk profile continuing to remain, even as domestic stabilization measures have begun to take hold. Gross official reserves have been rebuilding from a low base, and indicators suggest they have crossed "low reserves" thresholds. Long-dated yields, the greater risk is not reserves borrowing but underinvestment in productive capacity, which could undermine future growth and debt sustainability. Sri Lanka's foreign exchange reserves have remained pressured in 2025, with the overall risk profile continuing to remain, even as domestic stabilization measures have begun to take hold. Gross official reserves have been rebuilding from a low base, and indicators suggest they have crossed "low reserves" thresholds. Long-dated yields, the greater risk is not reserves borrowing but underinvestment in productive capacity, which could undermine future growth and debt sustainability.

Although short-term borrowings and IMF-related inflows have been the primary drivers of reserve flows, the prevailing tonnel reflects opportunistic, short-duration borrowing rather than structural improvements in the country's underlying fundamentals. The IMF programme has provided a stabilizing anchor, but sustainability remains contingent on broader reforms, including improving tourism receipts, remittance flows, and fiscal discipline.

Going forward, the sustainability of foreign inflows will hinge on global risk sentiment, IMF-related developments, exchange rate stability, and overall market confidence. The current reserve trajectory is constrained and the external sector continue to remain a gradual increase in foreign holdings of government securities in 2026.

FISCAL DEPLOY

Prediction for 2026

Likely (%) The overall fiscal outlook for 2026 is cautiously optimistic, with a projected surplus of GDP to slow growth, supported by strong revenue growth and disciplined spending.

Remarks at 2026:

Public debt to GDP is projected to remain stable, with a range of 80%–100% through 2026, supported by fiscal discipline and steady economic growth across sectors.

Year	Revenue (Rs. Bn)	Revenue (% GDP)	Expenditure (Rs. Bn)	Expenditure (% GDP)	Budget Balance (Rs. Bn)	Budget Balance (% GDP)
2024	1,400	12.0%	2,100	18.0%	-700	-6.0%
2025	1,500	12.0%	2,200	17.6%	-700	-5.6%
2026	1,600	12.0%	2,300	17.3%	-700	-5.3%
2027	1,700	12.0%	2,400	17.0%	-700	-5.0%
2028	1,800	12.0%	2,500	16.7%	-700	-4.7%
2029	1,900	12.0%	2,600	16.4%	-700	-4.4%
2030	2,000	12.0%	2,700	16.2%	-700	-4.2%
2031	2,100	12.0%	2,800	16.0%	-700	-4.0%
2032	2,200	12.0%	2,900	15.8%	-700	-3.8%

Outlook for 2026

Sri Lanka's fiscal outlook remains cautiously optimistic, with a projected surplus of GDP to slow growth, supported by strong revenue growth and disciplined spending. The country's fiscal trajectory is shaped by the interplay between tourism recovery, remittance flows, and debt servicing obligations. The IMF programme has provided a stabilizing anchor, but sustainability remains contingent on broader reforms, including improving tourism receipts, remittance flows, and fiscal discipline.

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Going forward, the sustainability of foreign inflows will hinge on global risk sentiment, IMF-related developments, exchange rate stability, and overall market confidence. The current reserve trajectory is constrained and the external sector continue to remain a gradual increase in foreign holdings of government securities in 2026.

FOREIGN ACQUISITION OF GOVERNMENT SECURITIES

Prediction for 2026:

Foreign investor participation in Sri Lanka's government securities has started to recover after plunging to historic lows in late 2023 and early 2024. Long-term investors, including pension funds, insurance companies, and institutional investors, are increasingly drawn to the attractive yields on offer, supported by improving macroeconomic fundamentals and a more stable exchange rate. However, the pace of foreign participation will depend on the effectiveness of IMF-backed reforms, the sustainability of the recovery, and the broader geopolitical environment.

Although short-term speculative inflows have been a key driver of recent foreign participation in the market, the prevailing trend reflects opportunistic, short-duration borrowing rather than structural improvements in the country's underlying fundamentals. The IMF programme has provided a stabilizing anchor, but sustainability remains contingent on broader reforms, including improving tourism receipts, remittance flows, and fiscal discipline.

Going forward, the sustainability of foreign inflows will hinge on global risk sentiment, IMF-related developments, exchange rate stability, and overall market confidence. The current reserve trajectory is constrained and the external sector continue to remain a gradual increase in foreign holdings of government securities in 2026.

2019	**377**
2020	**−2,327**
2021	**−3,966**
2022	**−2,806**
2023	**+ 2,826**
2024	**+2,890**

Prediction for 2026: Moderately Positive

However, emerging global headwinds—particularly the escalating Iran–US conflict—are beginning to pose new risks to the external sector. The conflict has driven up global energy prices and heightened uncertainty in financial markets, which could increase Sri Lanka's import bill, especially for fuel, while also dampening external demand and investor sentiment. At the same time, short-term pressures could intensify due to higher capital imports linked to reconstruction and infrastructure development, the absence of effective incentives for investment and export-oriented sectors, taxes on digital remittance channels, and persistently negligible new FDI inflows. Collectively, these factors create meaningful vulnerabilities for the BOP outlook in 2026.

Even so, the BOP is expected to remain modestly positive in 2026, though with rising downside risks. Continued gains in remittances and tourism earnings should provide some support, but both are exposed to spillover effects from the conflict—particularly if economic conditions in the Middle East weaken, affecting remittance flows, or if global travel demand softens. In addition, reduced external debt servicing obligations during the year should ease near-term pressure on reserves, while targeted import management and a gradual export recovery could help maintain external stability.

Accordingly, although reconstruction-related imports and demand for capital goods may widen the trade deficit—further exacerbated by higher global oil prices—sustaining a BOP surplus in 2026 will hinge on preserving resilient remittance inflows, expanding service exports, attracting stable long-term foreign investment, and navigating the external shocks arising from ongoing geopolitical tensions.

STOCK MARKET

Prediction for 2026:
The ASPI is likely to resume its upward trajectory by
mid-2026, assuming there will not be some political turmoil or oil shocks

Outlook for 2026

As anticipated at the outset of the year, the Colombo Stock Exchange sustained a steady upward trajectory through much of 2025, supported by easing interest rates, improving liquidity conditions, and a recovery in corporate earnings. However, this positive momentum is now showing signs of moderation.

The economic fallout from **Cyclone Ditwah**, combined with escalating geopolitical tensions arising from the **US–Iran conflict**, has introduced a new layer of uncertainty to the outlook. In particular, **heightened volatility in global crude oil prices** driven by fears of supply disruptions in the Middle East—poses a direct risk to Sri Lanka's macroeconomic stability. As a net fuel importer, rising oil prices are expected to widen the trade deficit, exert pressure on the currency, and reintroduce inflationary concerns, all of which could weigh on investor sentiment.

Against this backdrop, the market is increasingly vulnerable to a near-term correction. Elevated global risk aversion, coupled with concerns over higher energy costs, fiscal strain from reconstruction spending, and delays in economic normalization, may prompt investors to reassess earnings expectations across key sectors. The ASPI, therefore, faces the possibility of a late-cycle pullback as these risks are priced in.

That said, the medium-term investment case for Sri Lankan equities remains intact.

Valuations continue to appear attractive particularly in US dollar terms while the underlying fundamentals of listed corporates show resilience. Although the ongoing conflict may trigger intermittent volatility, especially in **energy-sensitive, transport, manufacturing, and import-dependent sectors**, the direct impact of the cyclone on listed equities is expected to be largely transitory.

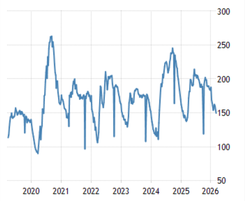
The broader market outlook continues to be supported by several structural factors:

- Strengthening corporate balance sheets alongside a gradual easing in financing costs
- Continued recovery in external inflows from tourism, worker remittances, ICT, and logistics subject to global stability
- Progress in structural reforms, including fiscal consolidation efforts and potential state-owned enterprise restructuring

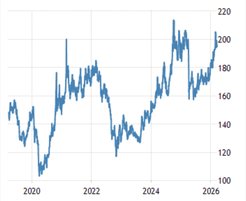
In sum, while near-term downside risks have risen due to the combined effects of domestic disruptions and external shocks particularly those linked to **oil price fluctuations amid the US–Iran conflict** the Colombo Stock Exchange still offers compelling medium-term upside potential. Sustaining this trajectory, however, will depend critically on maintaining macroeconomic stability and ensuring that global energy and geopolitical pressures do not intensify further.

COMMODITY PRICES

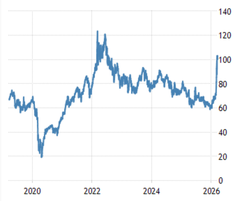
TEA



RUBBER



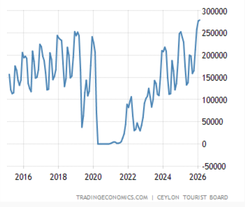
CRUDE OIL



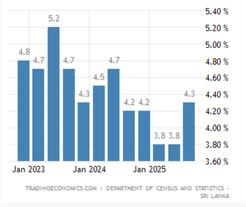
Commodity price movements are likely to be mixed in early 2026.

- Crude oil prices have surged past USD 100 per barrel in March 2026 and are expected to remain highly volatile amid the escalating US–Iran conflict and risks surrounding potential disruptions to the Strait of Hormuz.
- Any prolonged or partial closure of this ශ්‍රී chokepoint could significantly constrain global supply, further elevating prices and placing substantial pressure on Sri Lanka's import bill.
- For a fuel-import dependent economy, higher oil prices will translate into increased transportation, electricity, and industrial input costs, even as domestic pricing reforms help limit direct subsidy losses.
- Commodity price trends are therefore expected to exert a more pronounced drag on trade and inflation in early 2026, with elevated oil prices widening the trade deficit and intensifying cost-push inflation.
- These pressures may be partly cushioned by remittance inflows and tourism earnings, although both remain vulnerable to spillover effects from the conflict, particularly in the Middle East.
- Tea output weakened toward year-end due to heavy rains and cyclone-related disruptions, while lower production and a weaker rupee pushed auction prices higher in local currency terms.
- Although stronger global tea prices have supported export revenues, logistical constraints and selective quality issues may limit further upside.
- Tea exports face additional downside risks due to the US–Iran conflict, as Iran is one of the largest buyers of Ceylon tea, and disruptions to trade flows, payment channels, and economic conditions could weaken demand.
- Shipping disruptions through the Strait of Hormuz may further hinder exports to the Middle East, a key destination for Sri Lanka's tea shipments.
- Tea prices are expected to remain volatile amid uneven weather patterns and lingering crop losses from Cyclone Ditwah, with short-term supply tightness supporting prices but potentially reducing export volumes.
- Overall, commodity price movements—now heavily influenced by oil market volatility and geopolitical risks—are expected to have a neutral-to-slightly negative impact on Sri Lanka's external performance, with risks tilted to the downside if supply disruptions intensify.

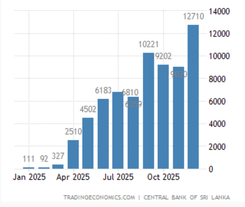
TOURIST ARRIVALS



UNEMPLOYMENT



CAR REGSITRATIONS



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