



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Jun 2026

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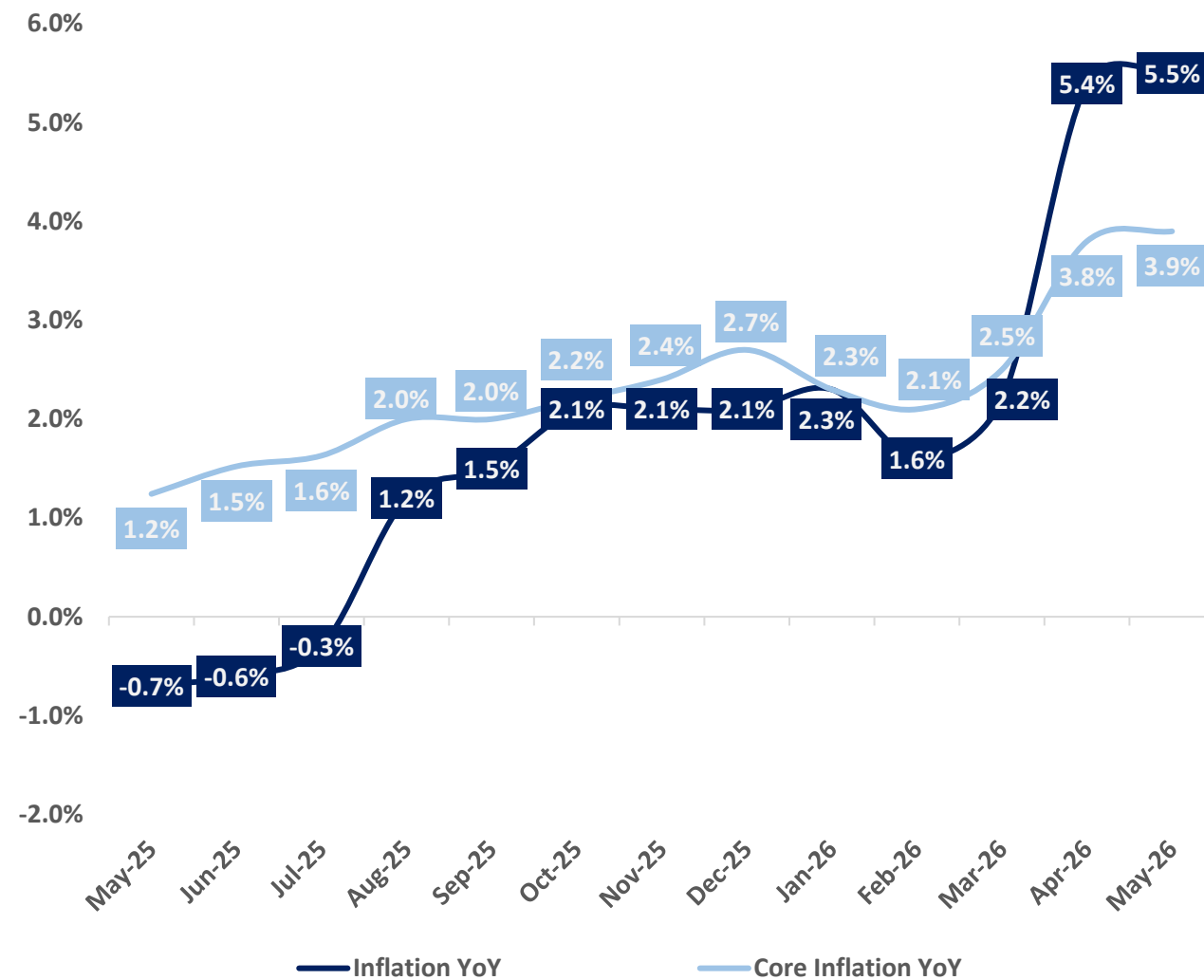
IMF EXECUTIVE BOARD COMPLETES 5TH & 6TH EFF REVIEWS

- ❑ The Board completed the combined fifth and sixth EFF reviews, enabling an immediate disbursement of USD 695Mn to support Sri Lanka's reform program. The latest tranche raises total IMF financial support under the program to approximately USD 2.4Bn.
- ❑ Strong overall program performance: Sri Lanka met all end-December 2025 quantitative targets, reflecting continued progress in macroeconomic stabilization measures.
- ❑ While most structural benchmarks were achieved, some conditions relating to external arrears and import restrictions were not fully met.
- ❑ The economy has remained stable despite pressures from global geopolitical tensions and the impact of Cyclone Ditwah.
- ❑ GDP growth is projected to slow to around 3.0% in 2026, a downward revision from the IMF's pre-conflict forecast of 4.0%, with downside risks stemming from higher oil prices, inflationary pressures, and weaker tourism.
- ❑ The IMF supported a temporary fiscal easing in 2026 through activation of the escape clause under the PFM Act, allowing a lower primary surplus to accommodate reconstruction needs, with a commitment to return to the 2.3% of GDP target and fiscal discipline from 2027 onward.

CCPI FOR MAY 2026: MOM +0.9% YOY +5.5%

- The CCPI for May-26 stood at +0.9% on a MoM basis, compared to the +3.0% level seen in Apr-26. Food inflation stood at +0.8% for the month, moderating from +1.7% registered in the previous month. Non-food inflation increased by +0.9%, from the +3.6% level recorded in Apr-26.
- The YoY increase accelerated to +5.5% in May-26 from the +5.4% level recorded in Apr-26. Food inflation decreased to +0.9% from the +2.8% level seen in Apr-26, while non-food inflation sharply increased to +7.8% in May-26 from the +6.8% level seen in the previous month.

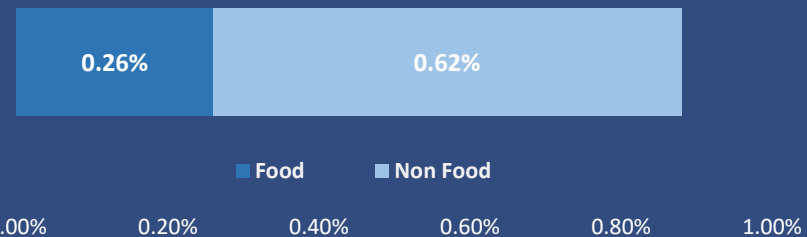
Inflation – CCPI



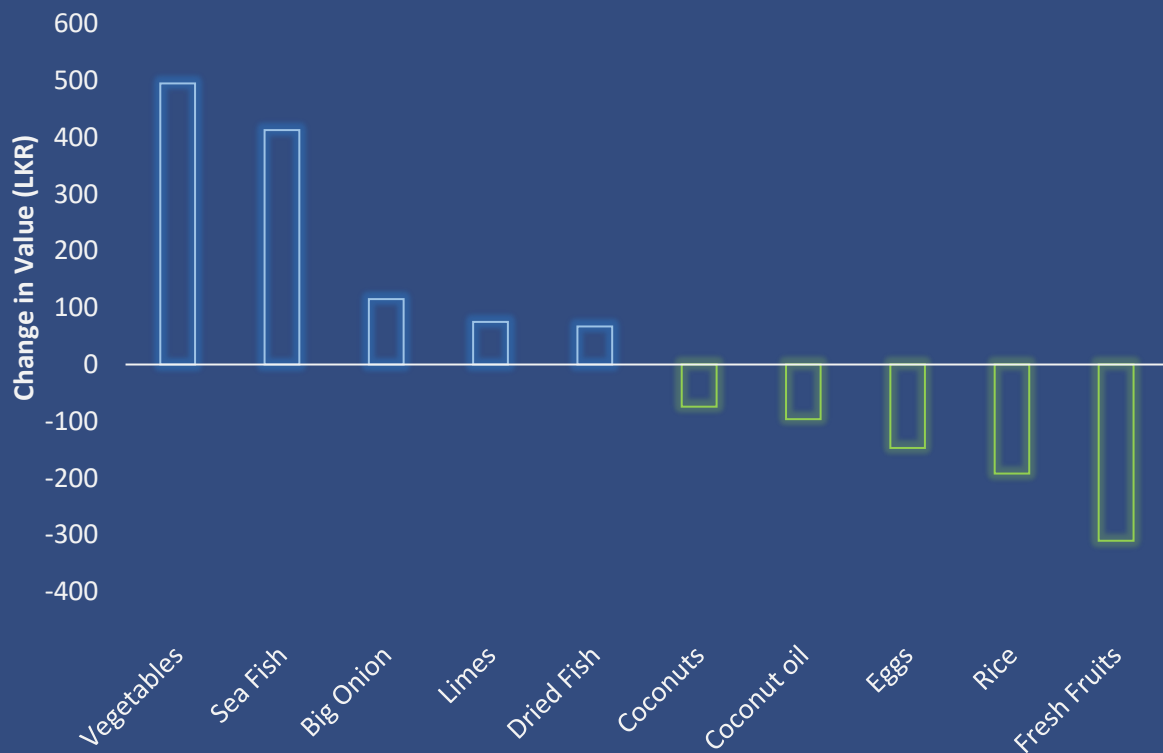


INFLATION ANALYSIS – CCPI-MOM

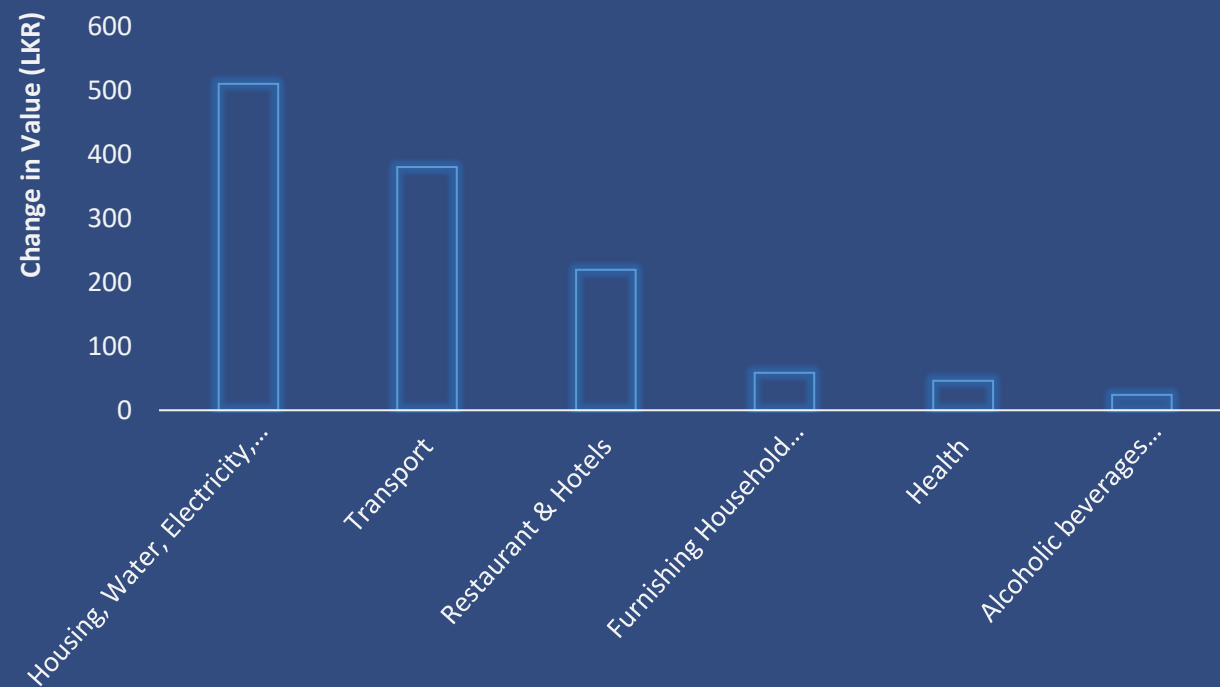
The CCPI Index for May increased by +0.9% MoM. The Food category contributed +0.26%, with Vegetables, Sea Fish, Big Onion, Limes and Dried Fish exerting upward pressure on the group, while Fresh fruits, Rice, Eggs and Coconuts witnessed price decreases. Notably, the Non-Food category contributed +0.62%. Within the Non-Food segment, Housing, Transport, Restaurants and Hotels, and Furnishing & Household maintenance subcategories registered price increases in May-26.



Food Category Inflation



Non-Food Category Inflation

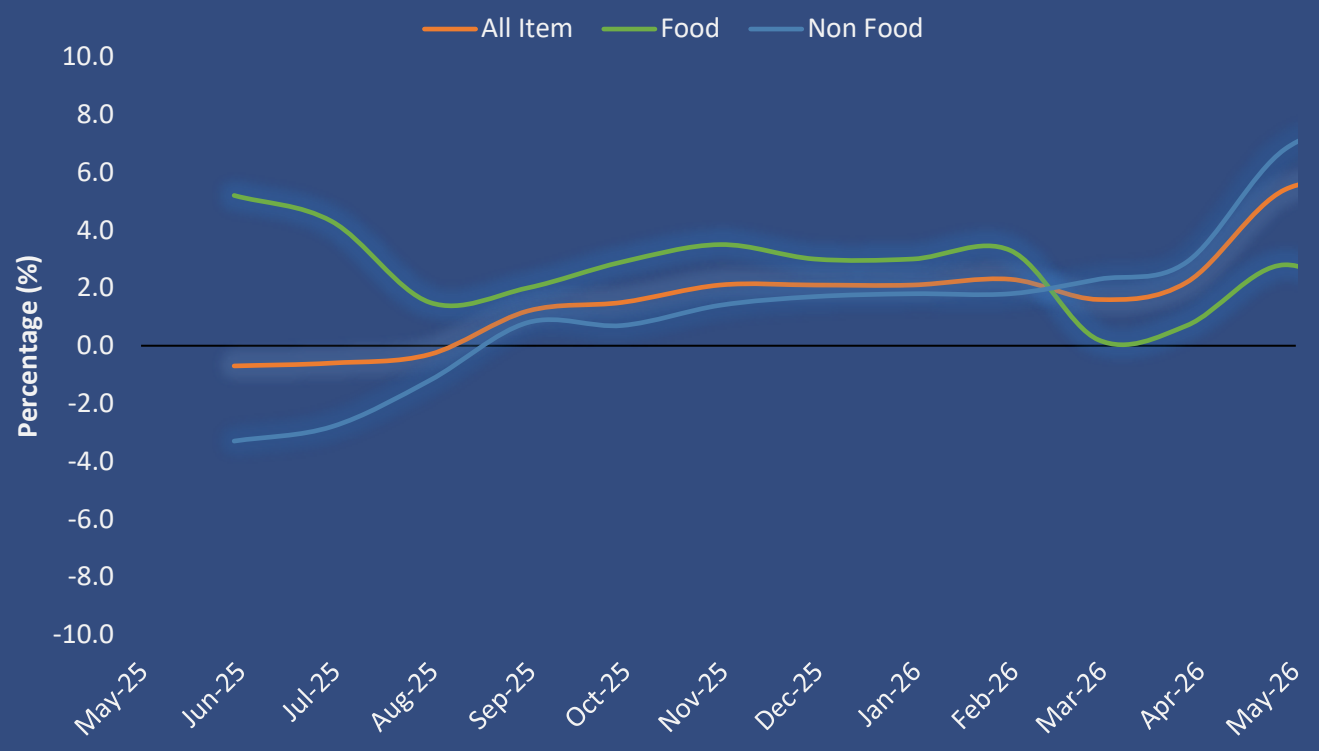


INFLATION ANALYSIS – CCPI-YOY

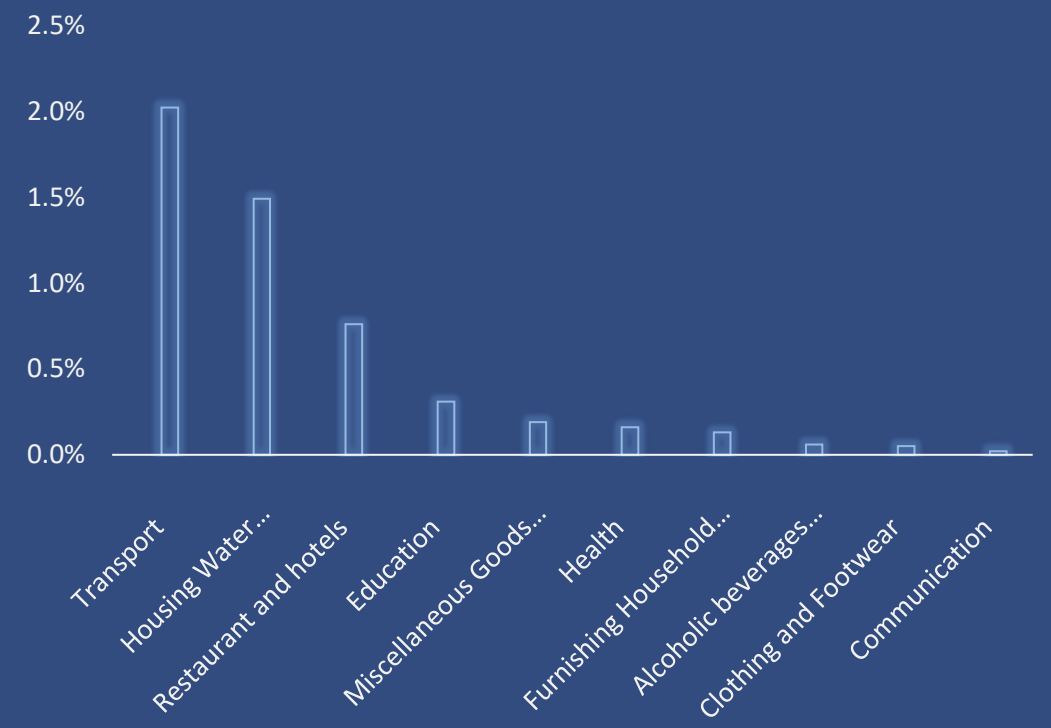
The YoY inflation of CCPI for May-26 stood at +5.5%, which marked an increase from the +5.4% level that was seen in Apr-26. Contribution of Food inflation stood at +0.31%, while that of Non-food was +5.20%. In the Food segment, Sea Fish, Chicken, Dried Fish and Big Onion prices heightened the most. Within the Non-food segment all sub-components recorded price increases, with highest upticks in Transport, Housing, Water, Electricity, Gas and Other Fuels and Restaurant and hotels.



Inflation Analysis (YoY)



Non-Food Category Inflation



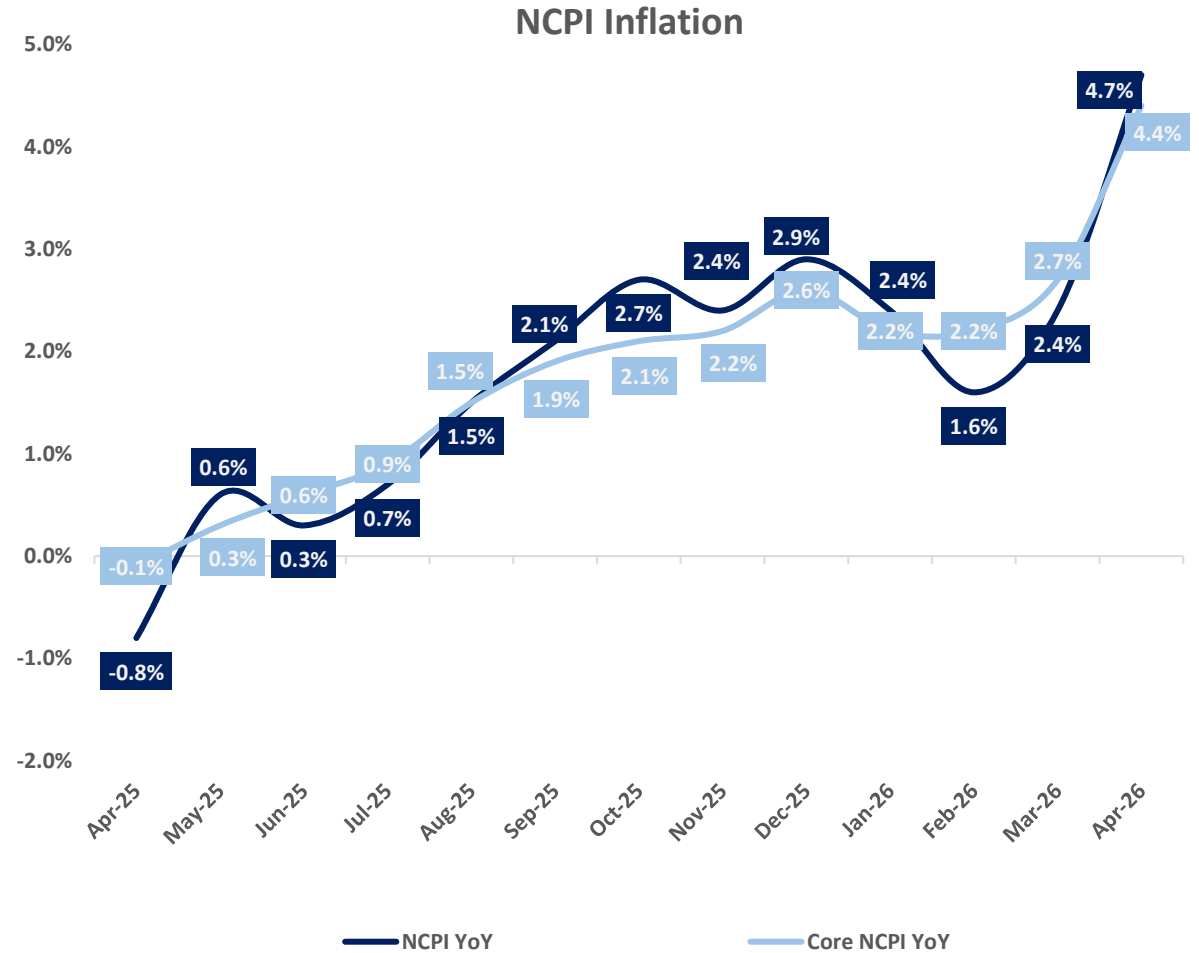


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NCPI FOR APR 2026: INCREASED TO +4.7%YOY

- NCPI for Apr-26, increased to +4.7%YoY from +2.4%YoY seen in Mar-26.
- This trend was driven by an increase in non-food inflation, which rose to +7.8% in Apr-26 from +3.8% in the previous month. Food inflation also increased to +1.1% from +0.7% in Mar-26.

Inflation – NCPI

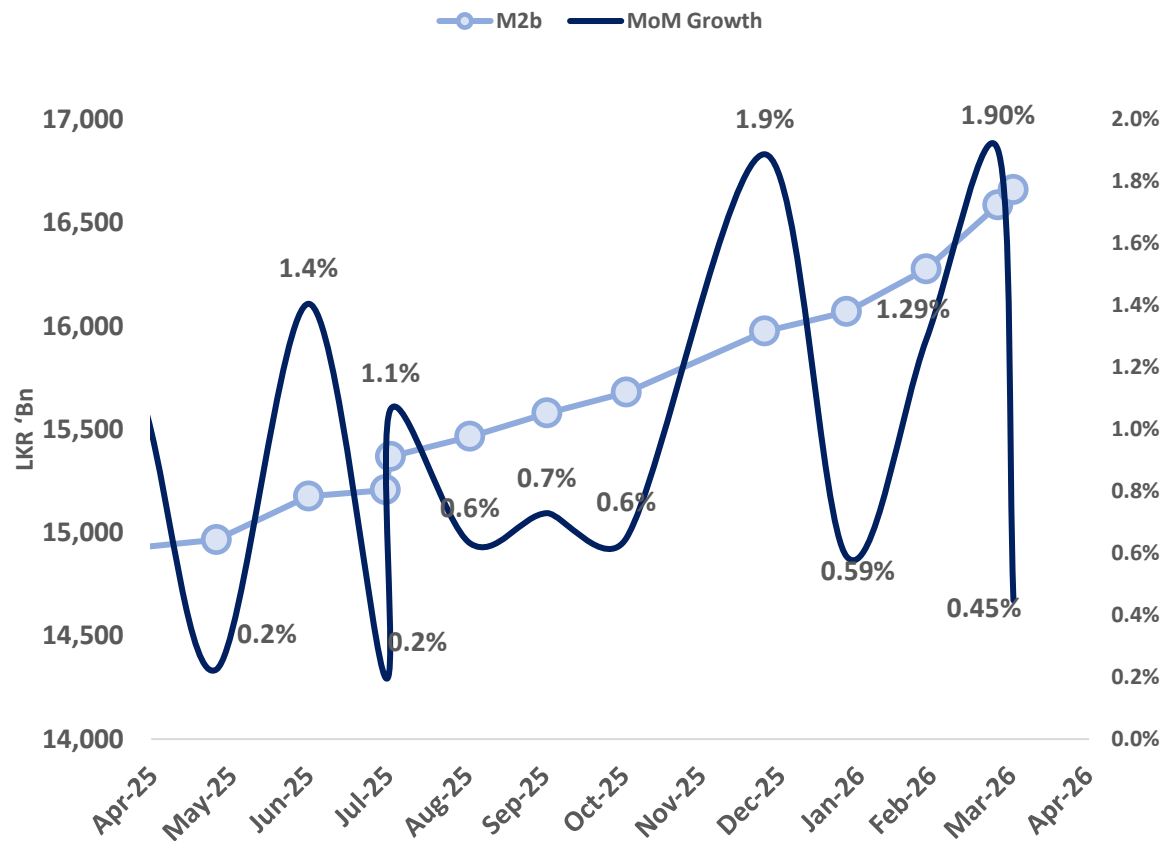


M2B AND CREDIT GROWTH

Private sector credit increased by LKR 100.5Bn in Apr-26, while credit to the public sector increased by LKR 17.7Bn for the same period.

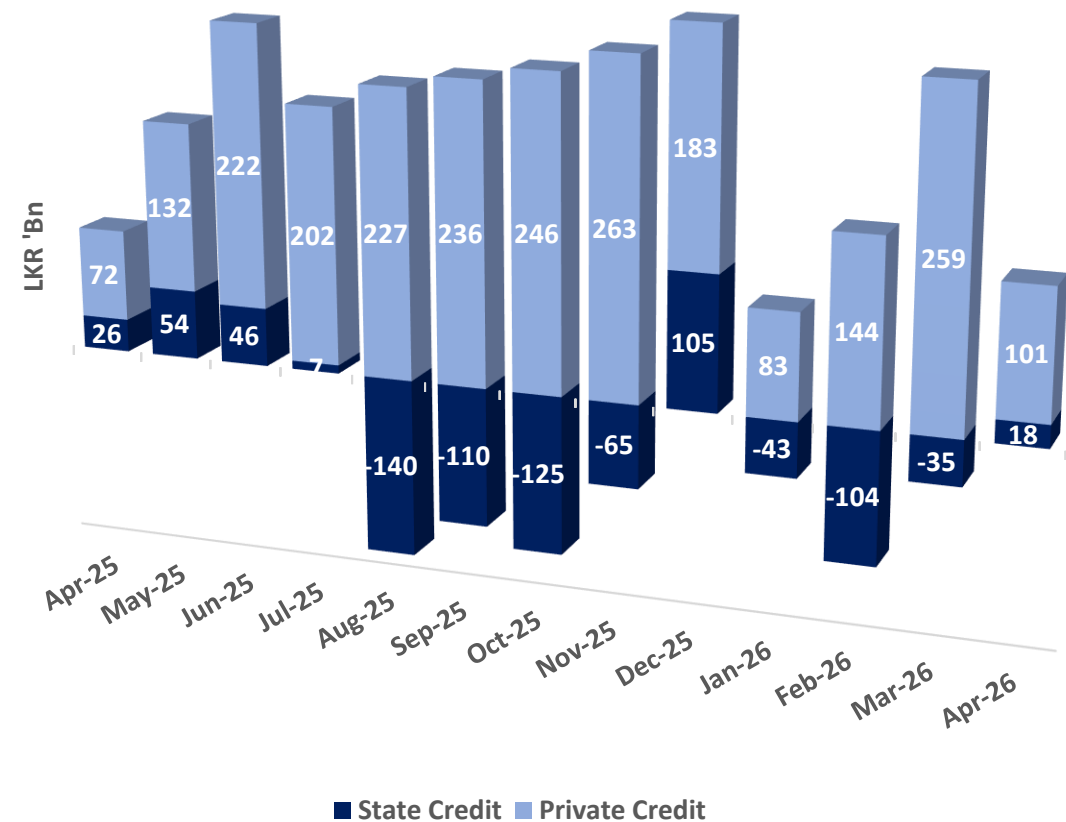
M2b Growth – Apr 2026

MoM +0.4%, YoY +11.6%, YTD +4.3%



State Credit & Private Credit – Apr 2026

Private Credit MoM +0.9%, YoY +27.0%, YTD +5.7%

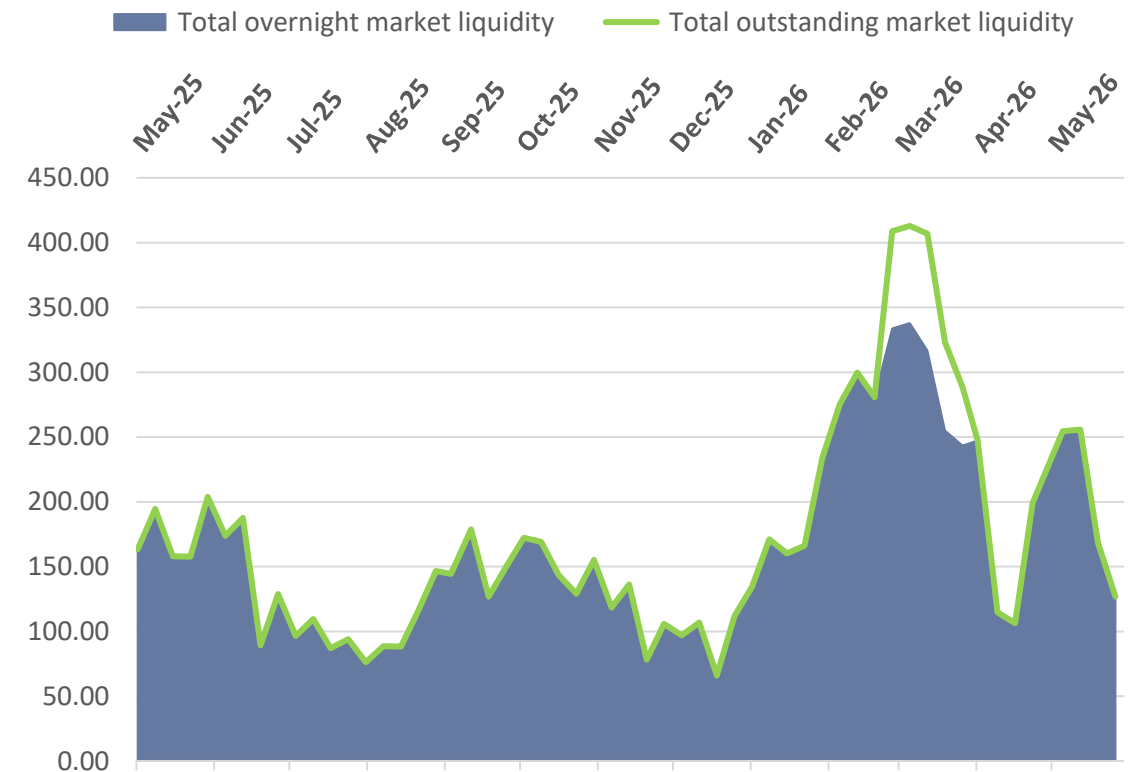
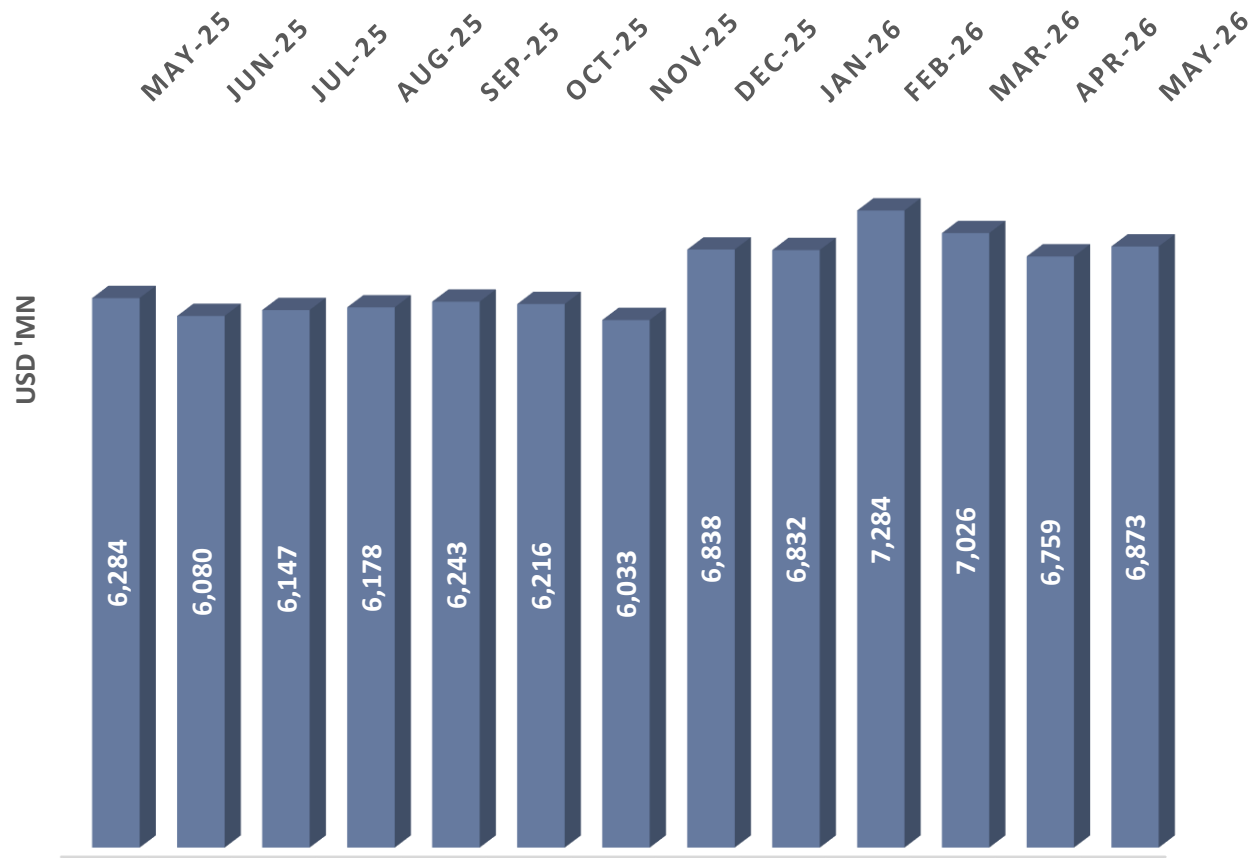




LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 114.0Mn to USD 6,873.0Mn in May-26.

- Both overnight market liquidity and outstanding market liquidity decreased in May-26 compared to the previous month and stood at LKR 92.2Bn by end May-26.



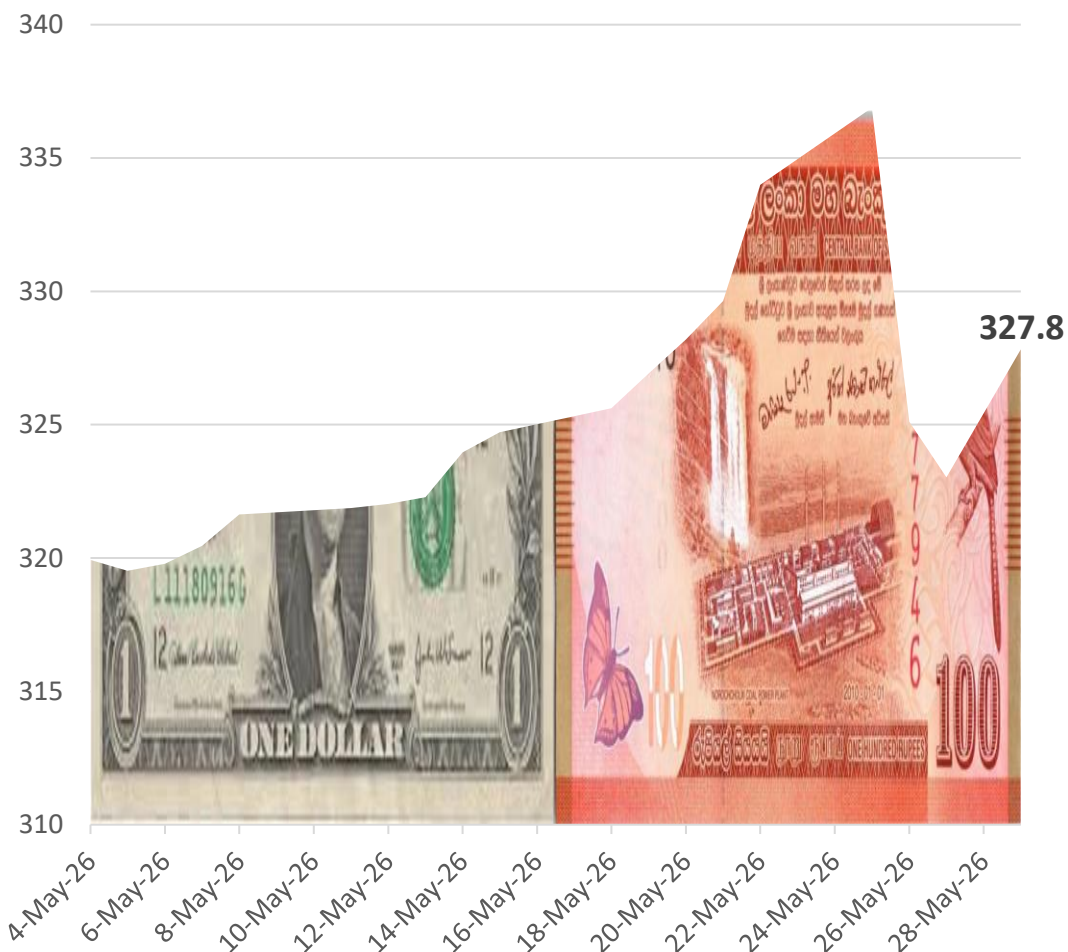
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

CURRENCY MOVEMENT

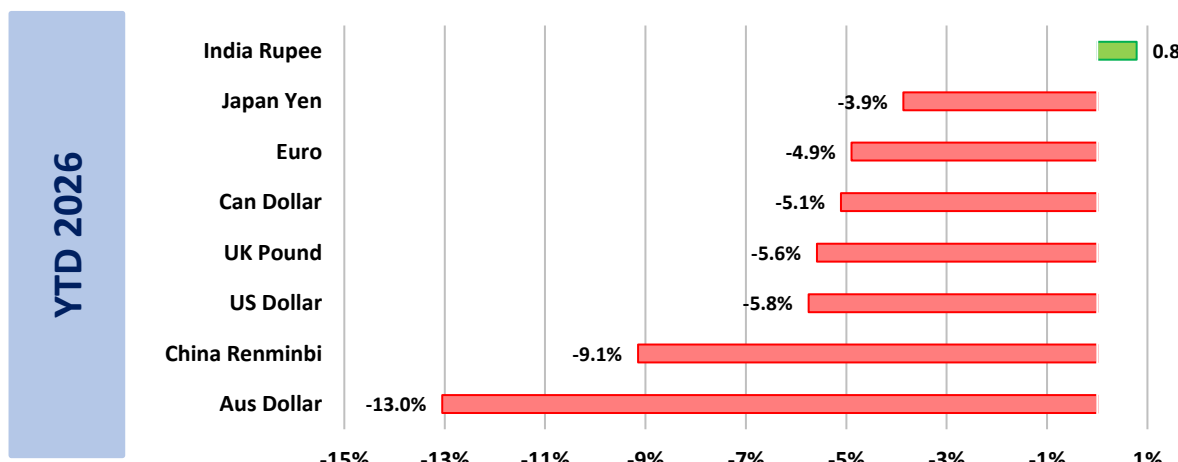
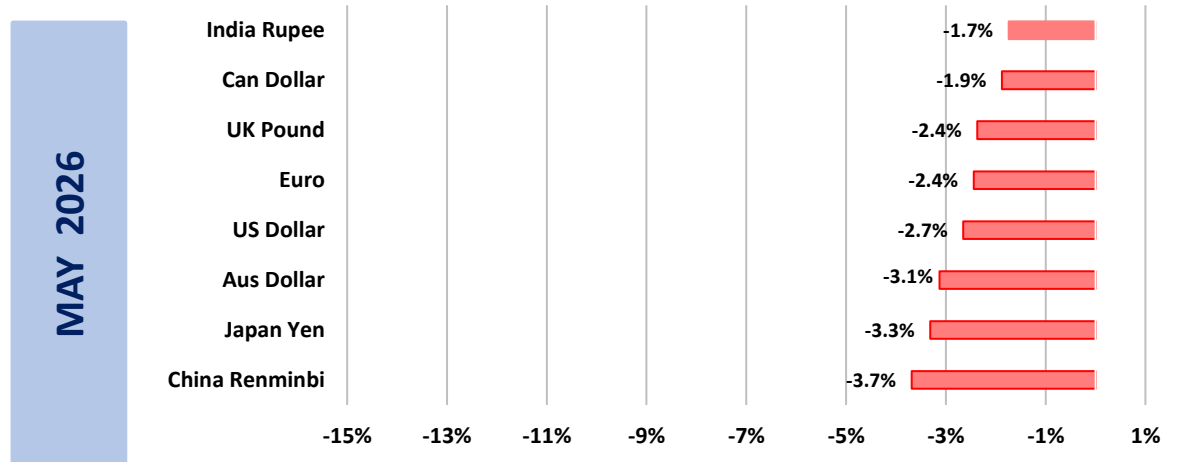


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USD:LKR Movement



Sri Lankan Rupee vs Global Currencies



Bill and Bond auctions for May 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
1-May-26	136,941		136,941
8-May-26	108,440		108,440
15-May-26	88,000	189,620	277,620
22-May-26	67,337		67,337
29-May-26	99,859		99,859
Total Issued			690,197

Net settlements for May 2026

Net Settlement	May 2026	YTD
Maturities	649,123	2,950,167
Coupon Payment	129,287	648,802
New Issues	690,197	2,749,490
Excess/ (Deficit)	(88,213)	(849,479)

CBSL Holdings of Gov. Securities	YTD	
As at End May 2026	2,507,921	
As at End Apr 2026	2,508,921	
Increase/ (Decrease)	(1,000)	(1,000)

CBSL HOLDINGS OF GOV. SECURITIES...

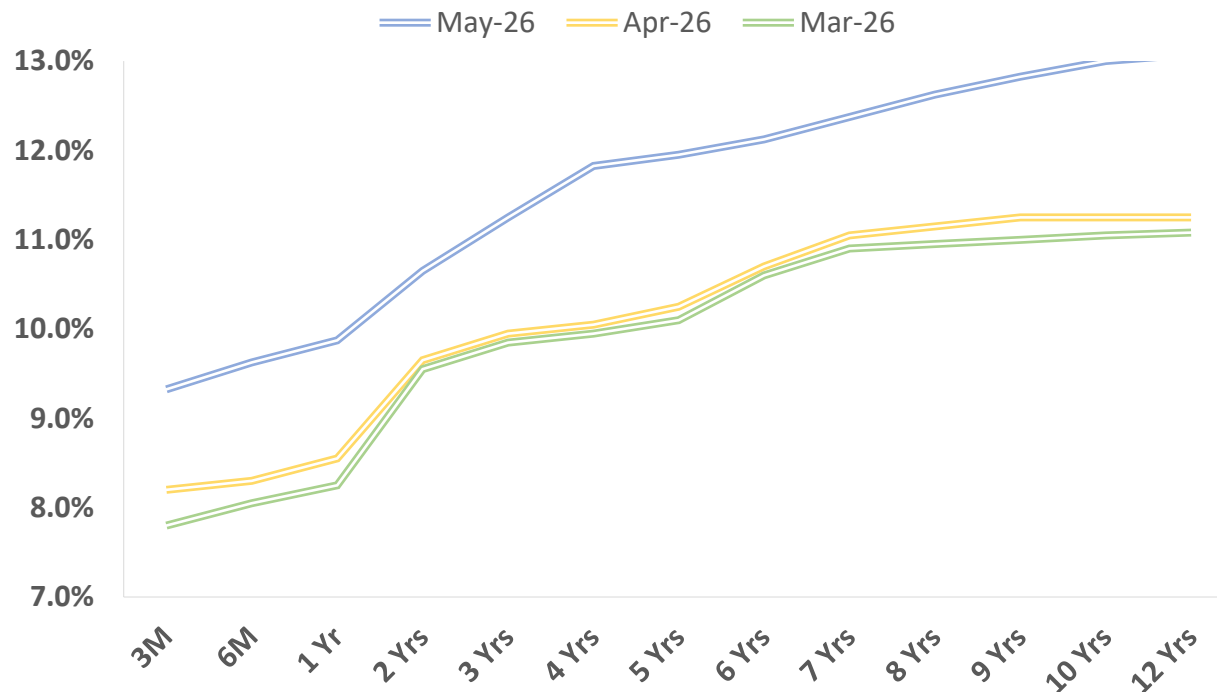
...contracted slightly in May 2026



TREASURY BILLS AND BONDS – MAY 2026

The secondary market began the month of May 2026 on a subdued note, with investors remaining largely on the sidelines despite a pickup in inflation. Selling pressure gradually emerged amid escalating geopolitical tensions and rising oil prices, pushing yields higher across the curve. While yields briefly eased mid-month on selective buying interest ahead of the Treasury bond auction, the CBSL's unexpected 100bps policy rate hike to 8.75% on 25-May-2026, ultimately drove a sharp repricing in rates.

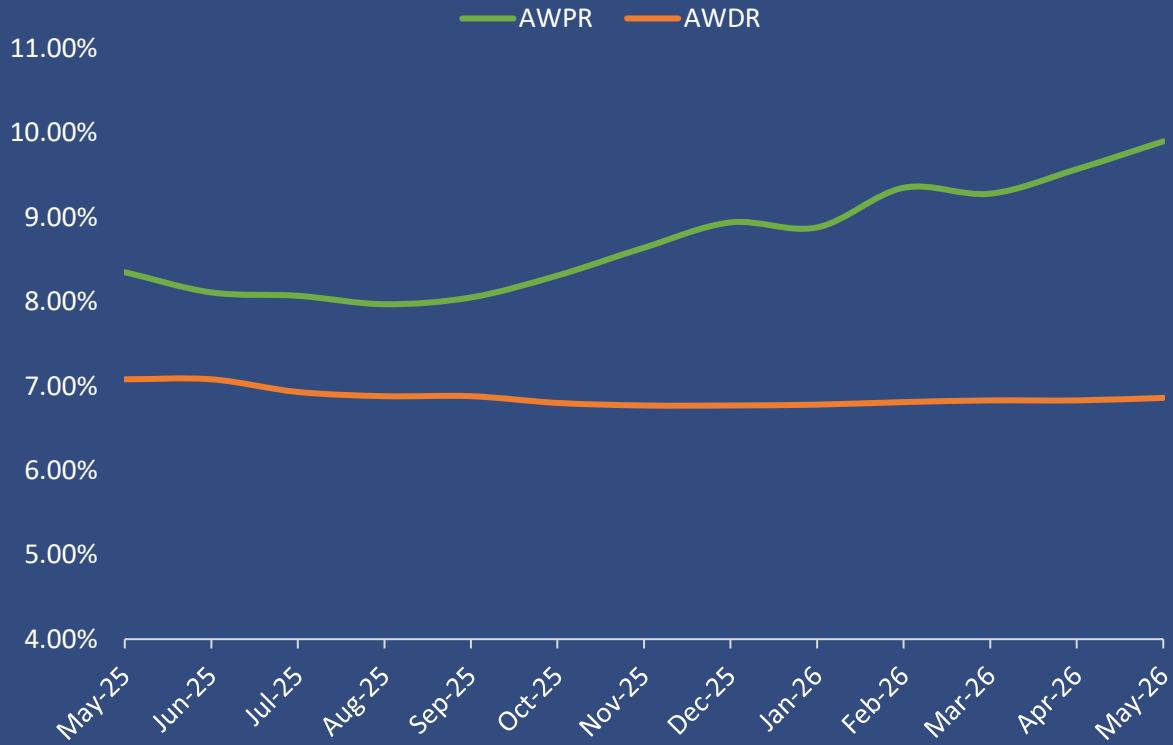
At the T-Bill auction on 06-May-2026, the PDMO raised the full offered amount of LKR 100.0Bn, with yields remaining broadly stable. During the first half of the month, intermittent buying interest and improved global risk sentiment supported activity, while the T-Bond auction on 12-May-2026 raised LKR 176.6Bn through the 2030, 2034 and 2036 maturities, although investor appetite remained weak at the longer end as the 2039 maturity was fully rejected. At the T-Bill auction on 13-May-2026, the PDMO raised the full offered amount of LKR 80.0Bn, with yields edging marginally lower. However, sentiment deteriorated during the latter half of the month as rising oil prices and external uncertainties triggered sustained selling pressure across the curve. At the T-Bill auction on 20-May-2026, the PDMO raised only LKR 67.2Bn against an offer of LKR 140.0Bn, with yields increasing across shorter tenors. Liquidity in the banking system stood at LKR 92.15Bn by end-May.



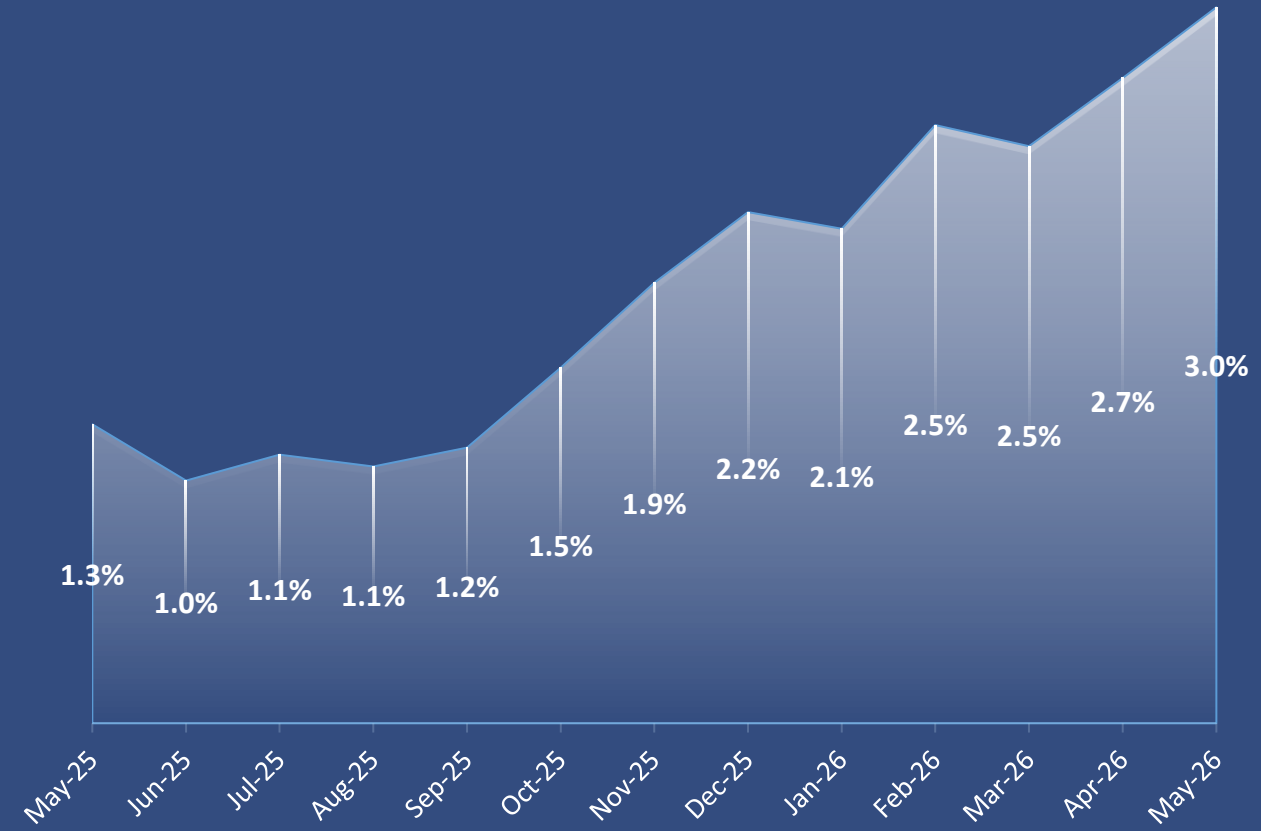
Interest Rate Change (bps)

Tenure	May 2026	Apr 2026	Change (bps)	Mar 2026	Change (bps)
3M	9.33%	8.20%	+113	7.80%	+153
6M	9.63%	8.30%	+133	8.05%	+158
1 Yr	9.88%	8.55%	+133	8.25%	+163
2 Yrs	10.65%	9.65%	+100	9.55%	+110
3 Yrs	11.25%	9.95%	+130	9.85%	+140
4 Yrs	11.83%	10.05%	+178	9.95%	+188
5 Yrs	11.95%	10.25%	+170	10.10%	+185
6 Yrs	12.13%	10.70%	+143	10.60%	+153
7 Yrs	12.38%	11.05%	+133	10.90%	+148
8 Yrs	12.63%	11.15%	+148	10.95%	+168
9 Yrs	12.83%	11.25%	+158	11.00%	+183
10 Yrs	13.00%	11.25%	+175	11.05%	+195
12 Yrs	13.08%	11.25%	+183	11.08%	+200
15 Yrs	N/A	N/A	N/A	N/A	N/A
20 Yrs	N/A	N/A	N/A	N/A	N/A

AWPR vs AWDR



Interest Spread



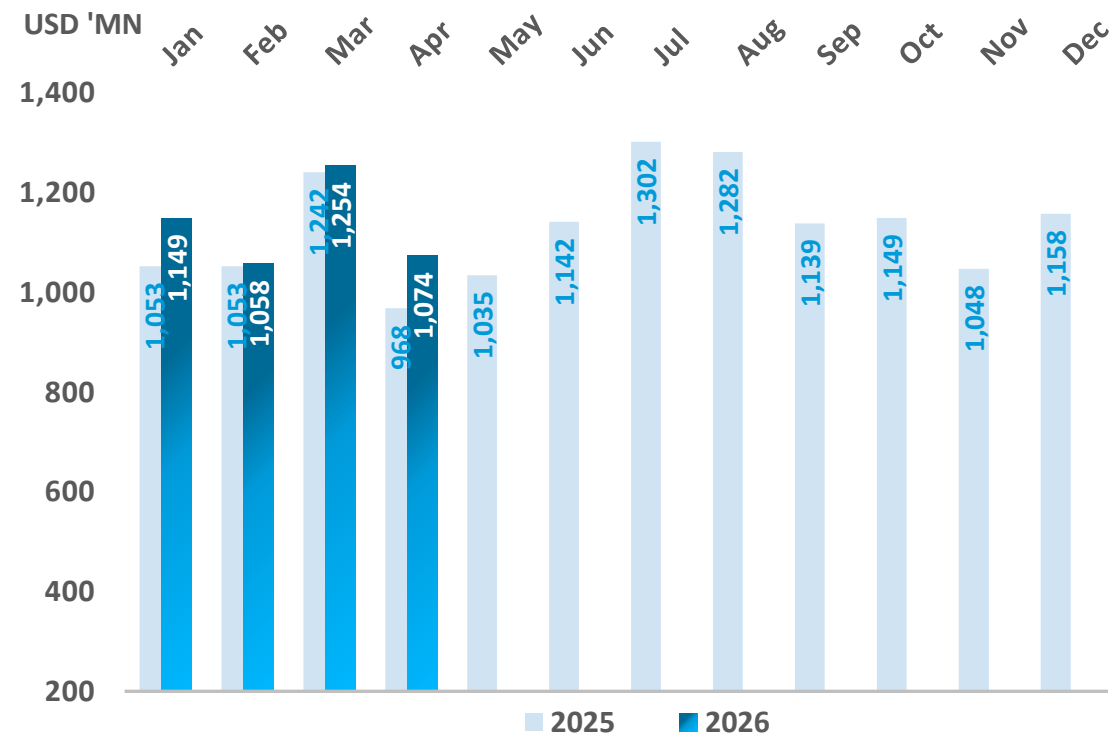
FINANCE SECTOR RATE MOVEMENTS



EXTERNAL SECTOR - APR 2026 - EXPORTS

In Apr-26, exports stood at USD 1,074.1Mn, reflecting a 10.9%YoY increase. Growth was driven by a 13.5% (YoY) surge in industrial exports, alongside agricultural exports and mineral and other exports rising by 2.1% (YoY) and 5.6% (YoY) respectively. Within industrial exports, petroleum products (+115.4%YoY), food, beverage and tobacco (+41.2%YoY), and machinery and mechanical appliances (+34.5%YoY) registered significant increases. In the agricultural segment, coconut exports rose 27.8%YoY, followed by seafood exports (+13.1%YoY).

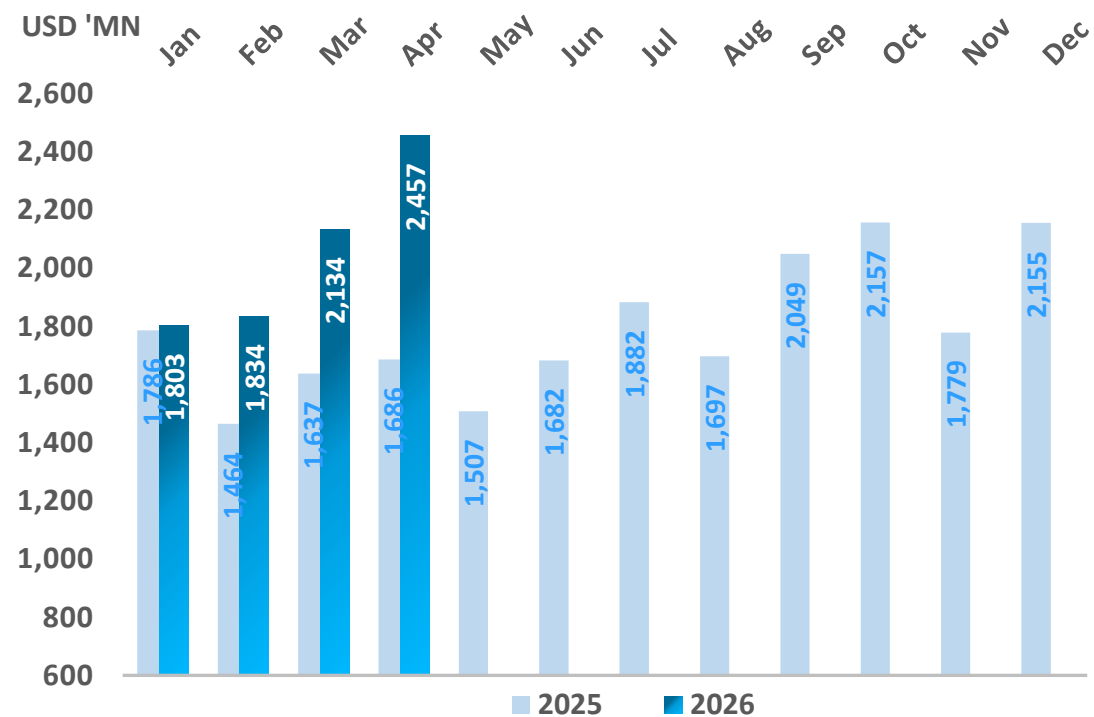
Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- Apr	746.0	847.0	13.5
- YTD	3,372.9	3,551.8	5.3
Agricultural			
- Apr	217.3	222.0	2.1
- YTD	928.6	962.1	3.6
Mineral & Other Exports			
- Apr	4.9	5.1	5.6
- YTD	14.1	21.0	48.8
Total			
- Apr	968.2	1,074.1	10.9
- YTD	4,315.6	4,534.9	5.1



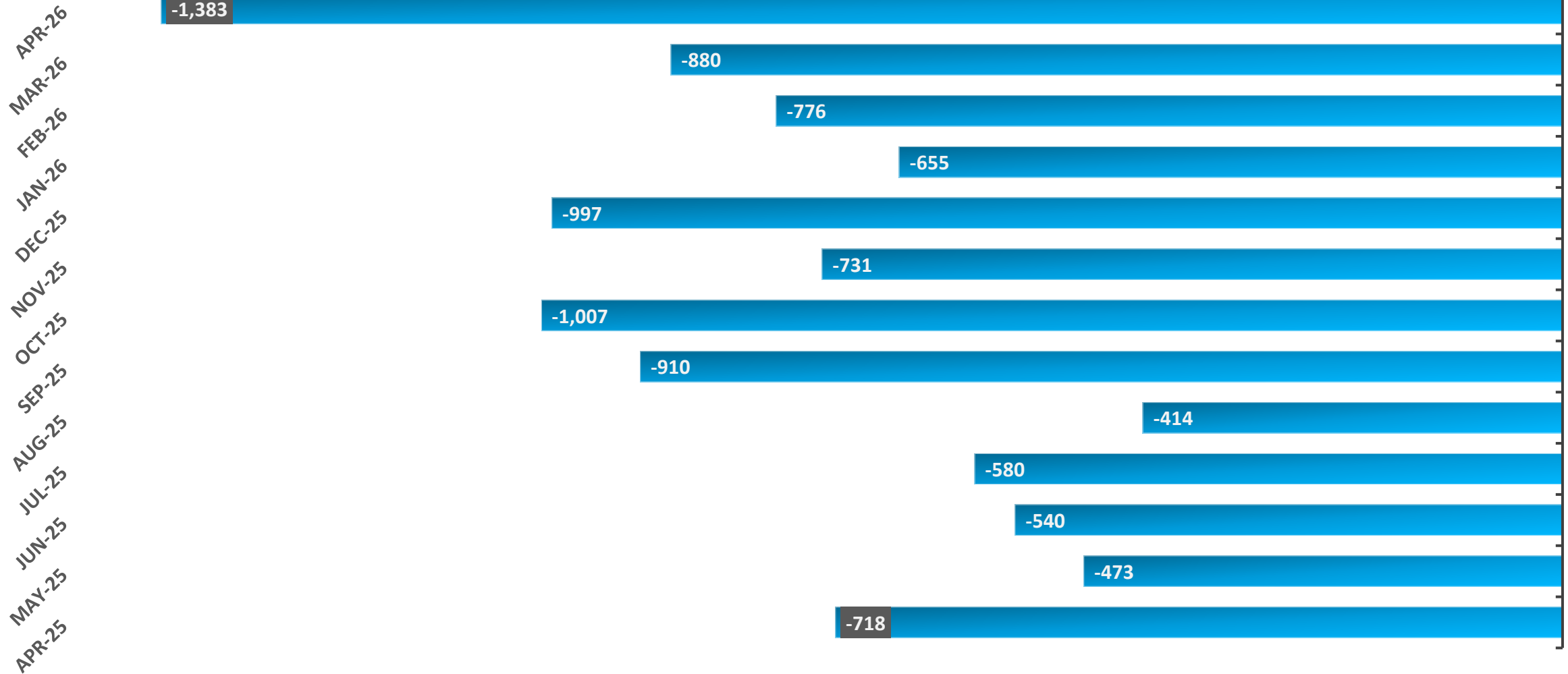
EXTERNAL SECTOR - APR 2026 - IMPORTS

In Apr-26, imports climbed to USD 2,456.7Mn, registering a YoY increase of 45.7%. All other subcomponents also rose during the month, with the Intermediate goods segment recording the highest growth (+62.4%YoY), followed by consumer goods (+34.6%YoY) and investment goods and other (14.1%YoY). Within the broader consumer goods category, food and beverage imports drove this increase, rising by 47.6%YoY, while non-food imports rose by 26.3%YoY. Fuel imports (+149.9%YoY) and fertilizer (+213.6%YoY) significantly contributed to the rise in intermediate goods segment during the period under review.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- Apr	410.9	553.1	34.6
- YTD	1,508.3	2,002.7	32.8
Intermediate			
- Apr	930.1	1,510.2	62.4
- YTD	3,787.2	4,699.8	24.1
Investment goods & other			
- Apr	344.8	393.4	14.1
- YTD	1,277.4	1,525.4	19.4
Total			
- Apr	1,685.9	2,456.7	45.7
- YTD	6,572.9	8,227.9	25.2



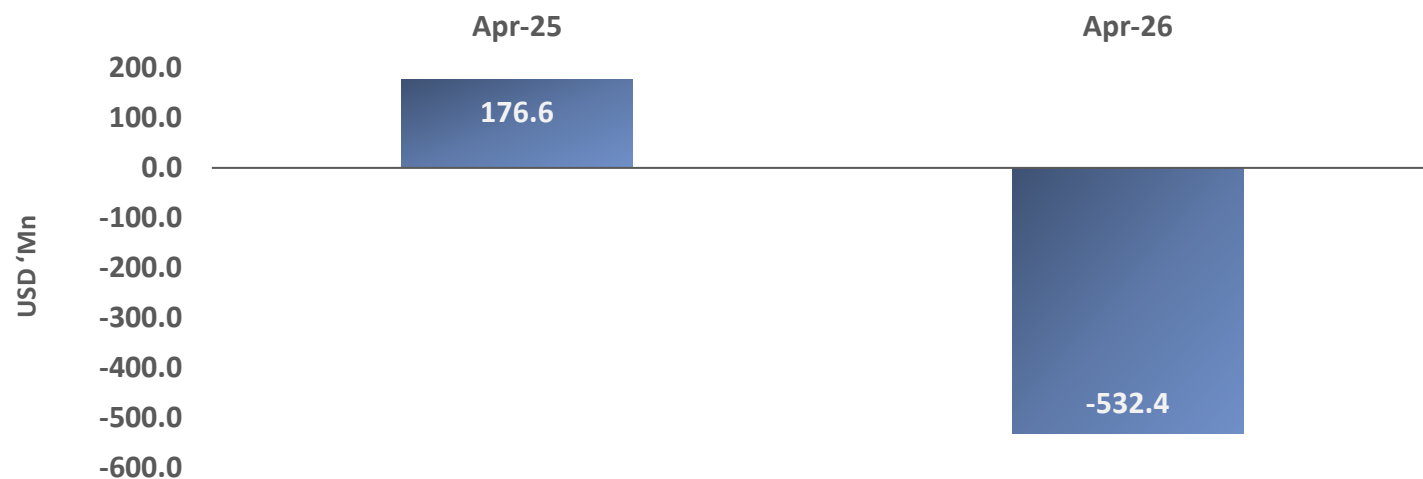
Balance of Trade



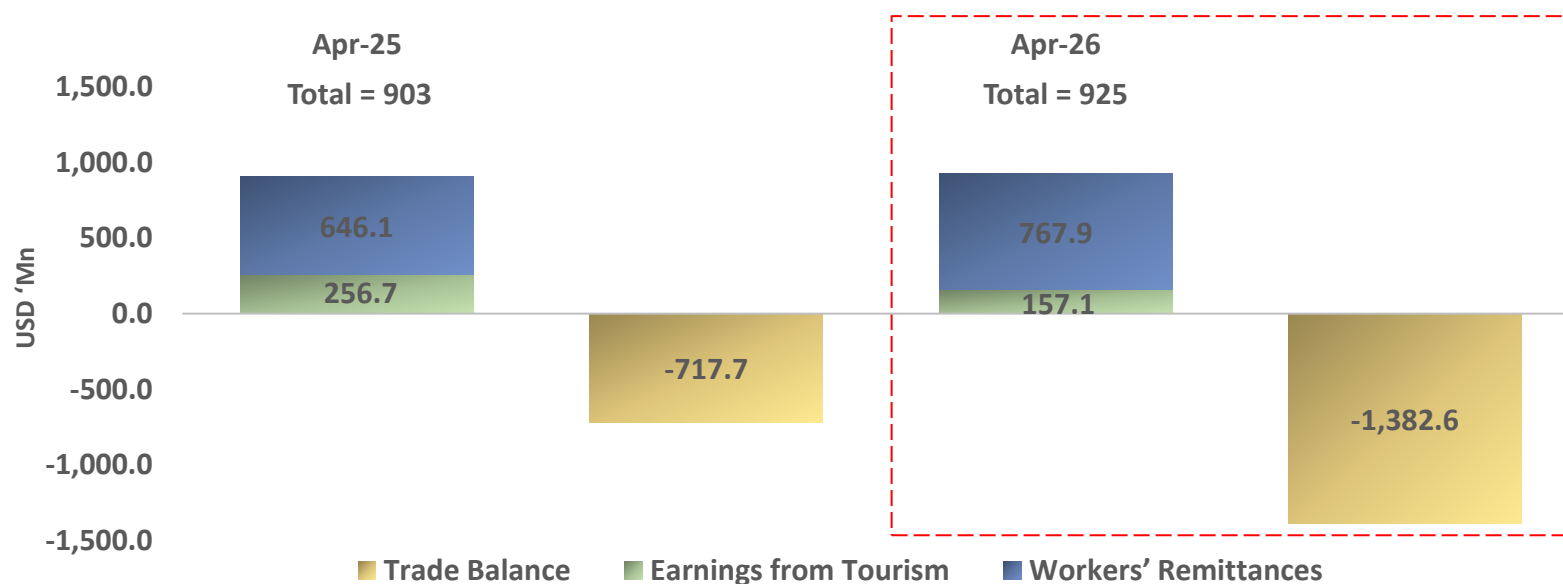
The Current Account Balance for Apr-26 recorded a deficit of USD 532.4Mn compared to a surplus of USD 176.6Mn seen in Apr-25.



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Workers' Remittances increased to USD 767.9Mn in Apr-26 (+18.8%YoY) while Earnings from Tourism declined to USD 157.1Mn (-38.8%YoY).



CURRENT ACCOUNT BALANCE CONTRACTED YOY IN APR-26

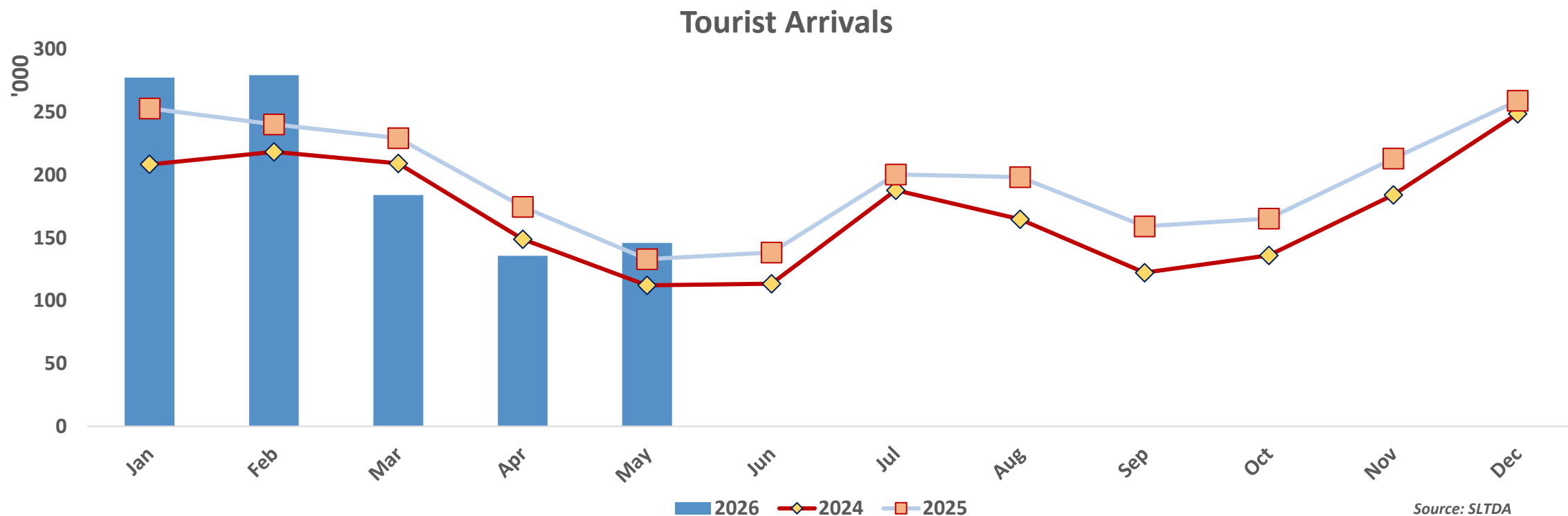
APR USD 'Mn	2025	2026	Change (%)
Trade Balance	-717.7	-1,382.6	-92.6
Earnings from Tourism	256.7	157.1	-38.8
Workers' Remittances	646.1	767.9	+18.8

YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-2,257.3	-3,692.9	-63.6
Earnings from Tourism	1,379.0	1,111.1	-19.4
Workers' Remittances	2,460.5	3,062.8	+24.5

TOURIST ARRIVALS - MAY 2026

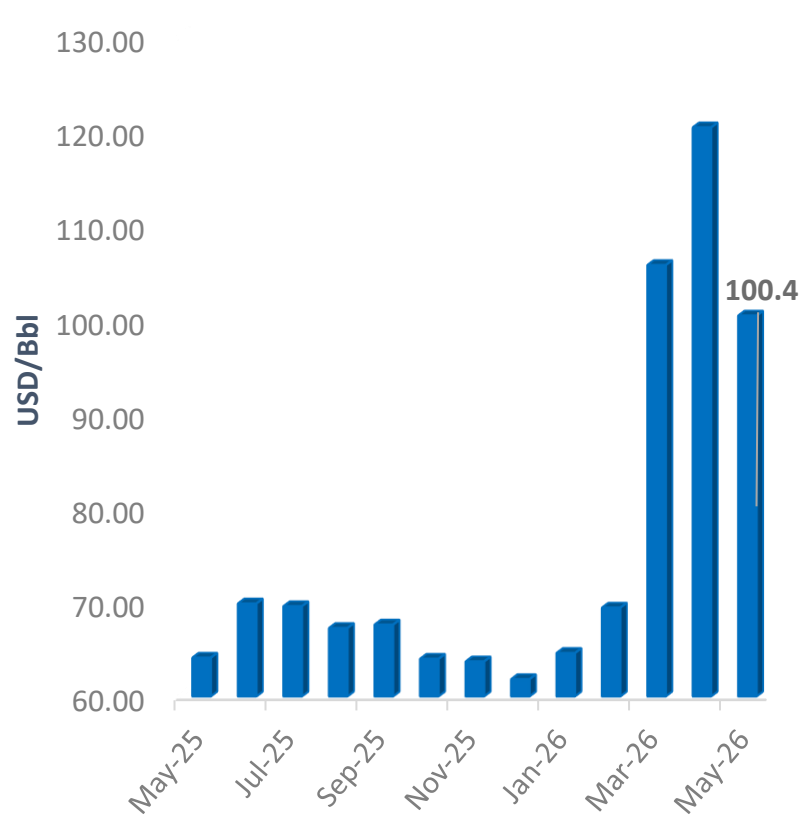
[MAY 145,745: UP +9.6YoY] [MoM: UP +7.4%]

Total tourist arrivals for May-26 reached 145,745, denoting a YoY uptick of 9.6% and a MoM uptick of 7.4%. India emerged as the top source market, accounting for 41.4% of total arrivals during the month. This was followed by the United Kingdom and China which both accounted for 6.3%, while Germany and Australia accounted for 4.6% and 4.4% of total arrivals, respectively.

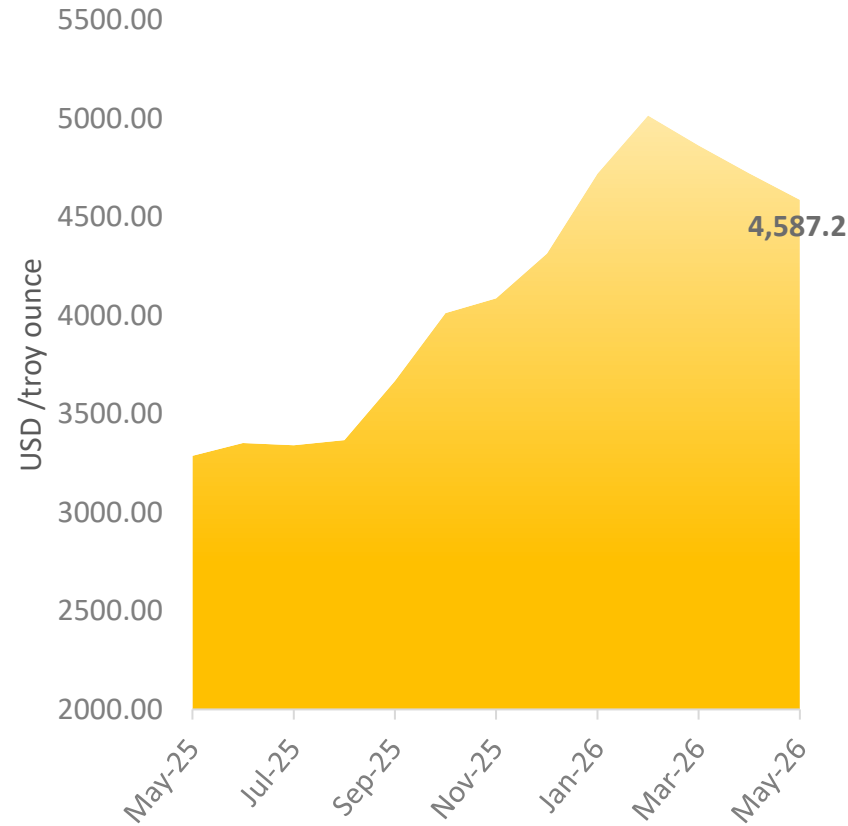


COMMODITY PRICES - MAY 2026

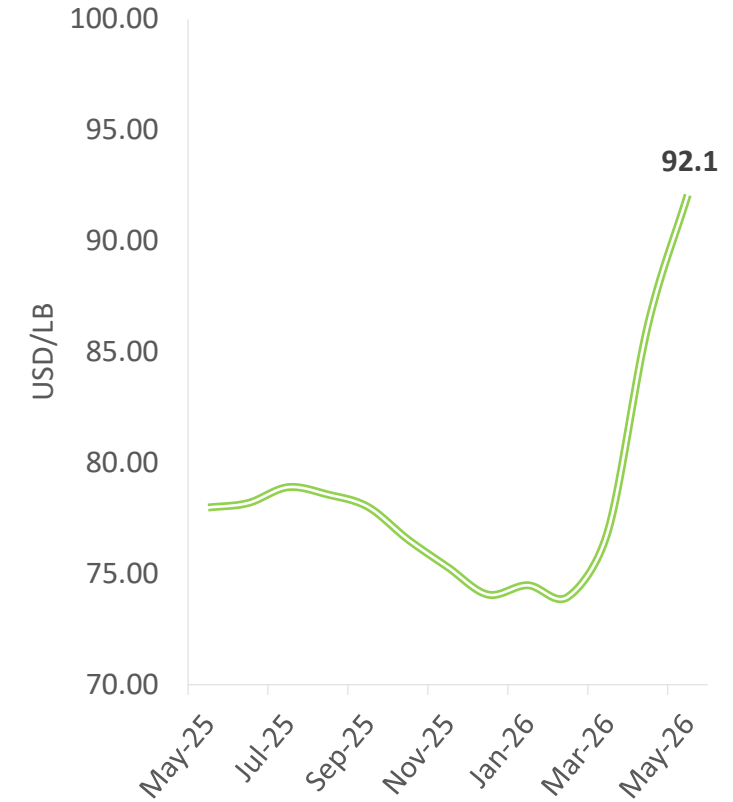
Crude oil



Gold



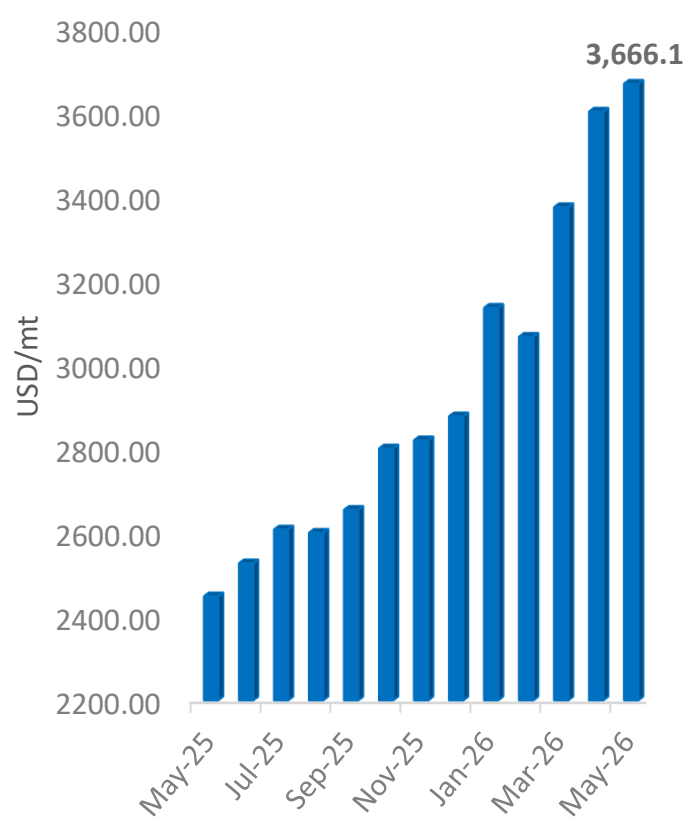
Cotton



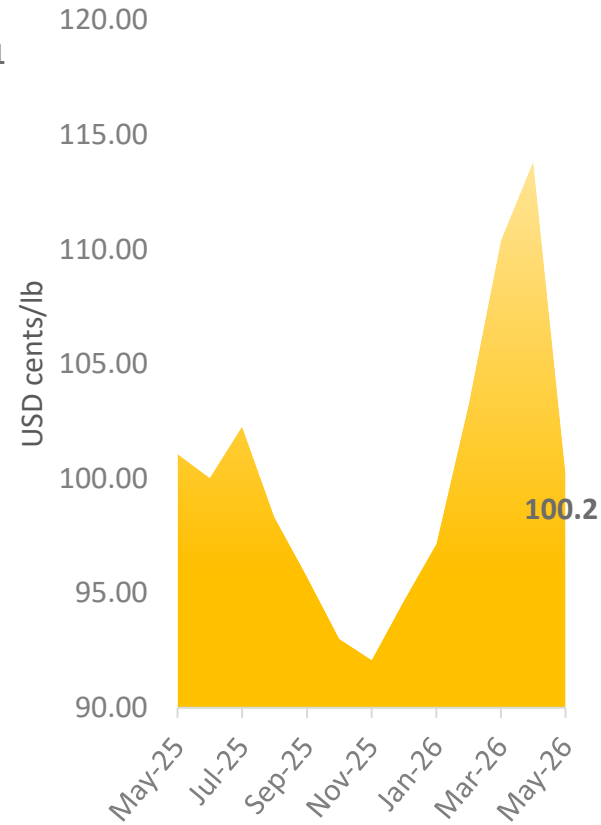
Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

COMMODITY PRICES - MAY 2026 CONT'D

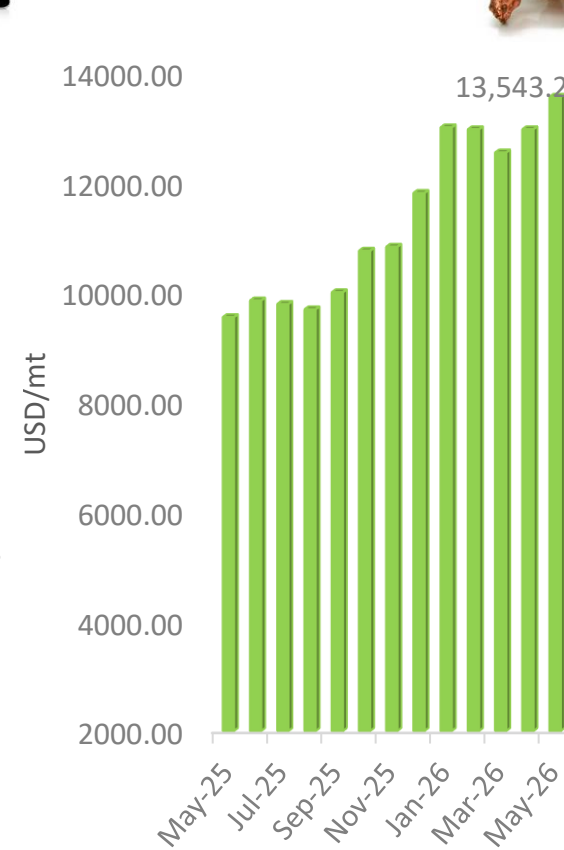
Aluminum



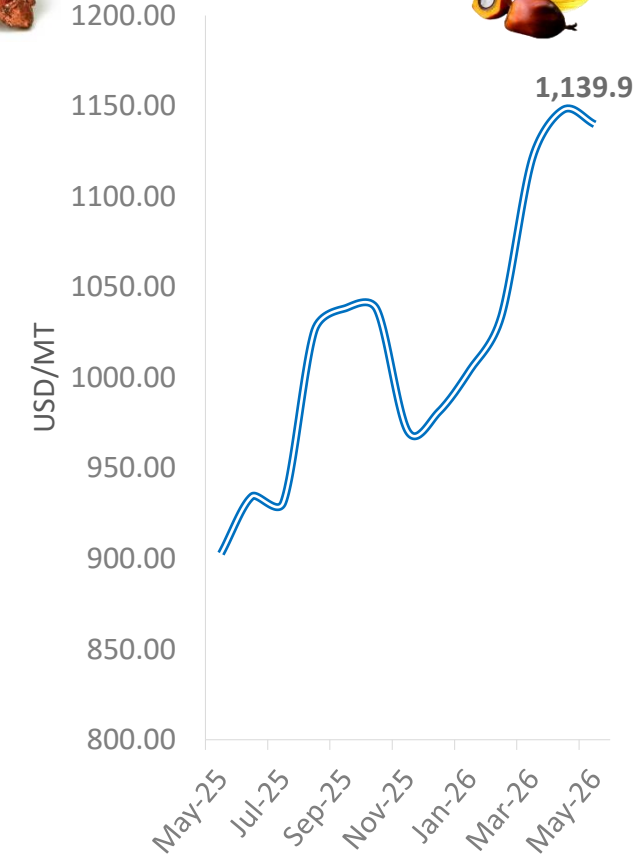
Rubber



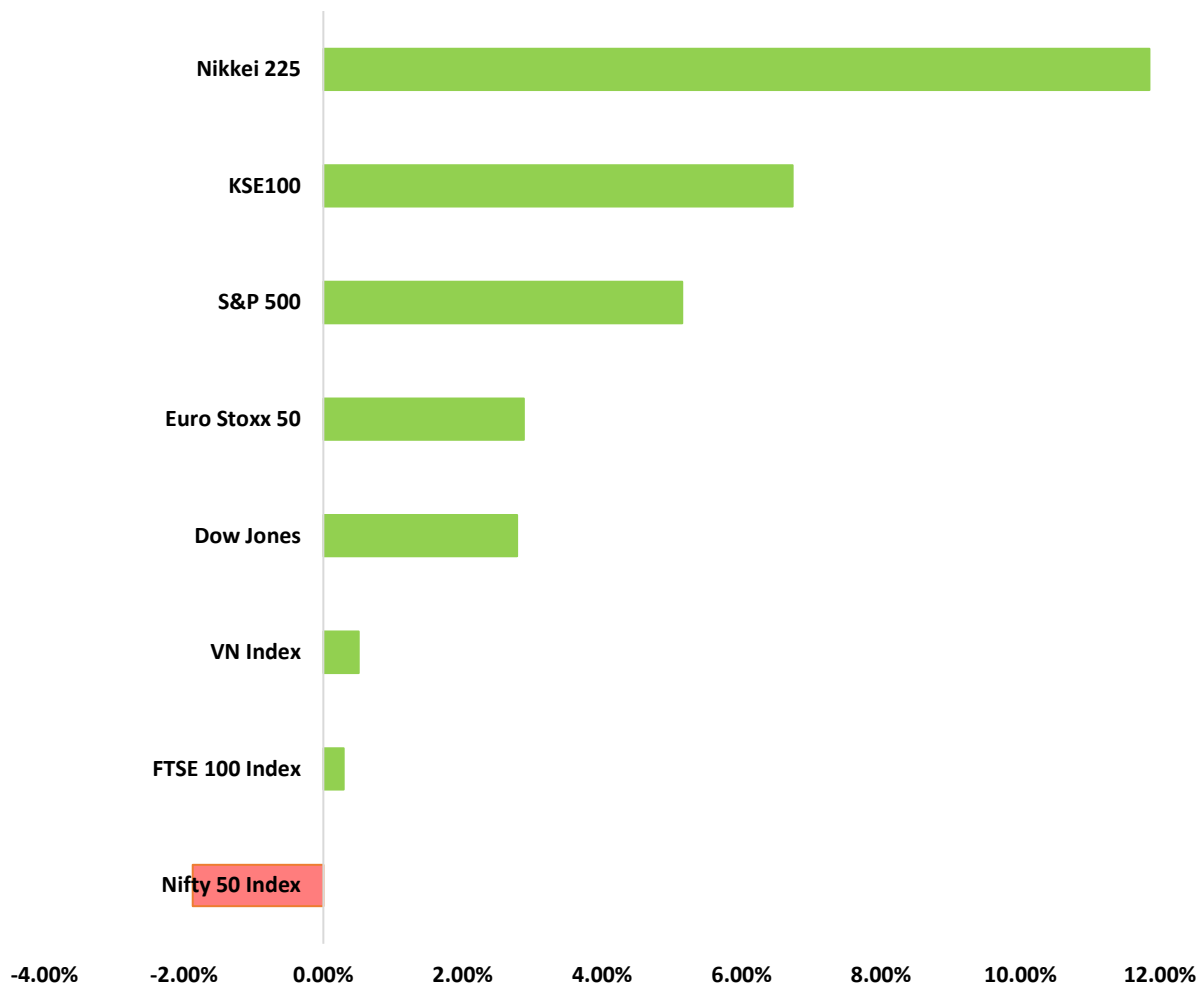
Copper



Palm oil

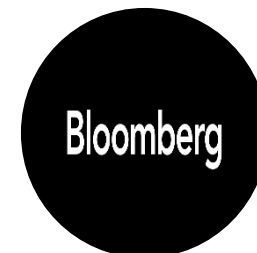


Note: price of no. 3 rubber smoked sheets have been taken as the rubber prices whilst for palm oil, prices of Malaysia palm oil futures have been considered



Oil Falls as Traders Weigh Signs of Iran Peace Deal Progress

Oil tumbled on optimism that the US and Iran will reach a peace deal, even as President Donald Trump signaled that the warring sides remain far apart in negotiations. West Texas Intermediate crude fell almost 6% to settle below \$89 a barrel, the lowest close since April 17.



Berkshire's new CEO overhauls portfolio, dumping a slate of stocks

Berkshire Hathaway's equity portfolio got one of its biggest renovations ever during Greg Abel's first three months as the company's CEO, according to a new SEC filing. Two new names, Delta Air Lines and Macy's, have been added to the list, along with increases for four holdings. Google parent Alphabet got the biggest boost as Berkshire increased the number of shares it owns by 224% in the first quarter.



Gold rises as Treasury yields, oil ease; market eyes MidEast developments

Gold prices rose 1% on Wednesday, as hopes for a resolution to the Iran conflict pressured oil markets, relieving some inflation fears and knocking U.S. Treasury yields from their recent highs.

Spot gold gained 1.1% to \$4,531.99 per ounce by 14:10 p.m. ET (1810 GMT). Prices hit their lowest in more than seven weeks earlier in the session.





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MANAGING RISKS”*



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