MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Jul 2026

CONTENT BRIEFING

CONSTRUCTION, MANUFACTURING, AND SERVICES PMI'S CONTINUE TO EXPAND IN MAY 2026

- Construction PMI increased to 59.1 in May 2026, reflecting a rebound in construction activity following the slowdown during the April festive period, supported by higher new orders and employment. Despite the improvement, the sector continued to face challenges from elevated construction material prices, shortages of key inputs, and a limited supply of skilled labour.

- Manufacturing PMI rose to 56.6 in May 2026, indicating continued expansion in manufacturing activity and improved operating conditions compared to the previous month.

- All manufacturing PMI sub-indices remained above the neutral threshold in May, supported by stronger new orders and production in the food & beverages and textiles & apparel sectors. However, respondents continued to highlight the challenging operating environment stemming from the Middle East conflict.

- Services PMI registered 56.9 in May 2026, signaling sustained growth in the services sector, supported by higher business activity and improving demand.

- Services PMI expanded in May 2026, driven by stronger business activity in the financial, professional, and other personal services sectors, alongside growth in real estate, IT programming, and goods transportation. While new business improved, employment and backlogs of work declined due to contract expirations, retirements, and resignations.

Source: FC Research

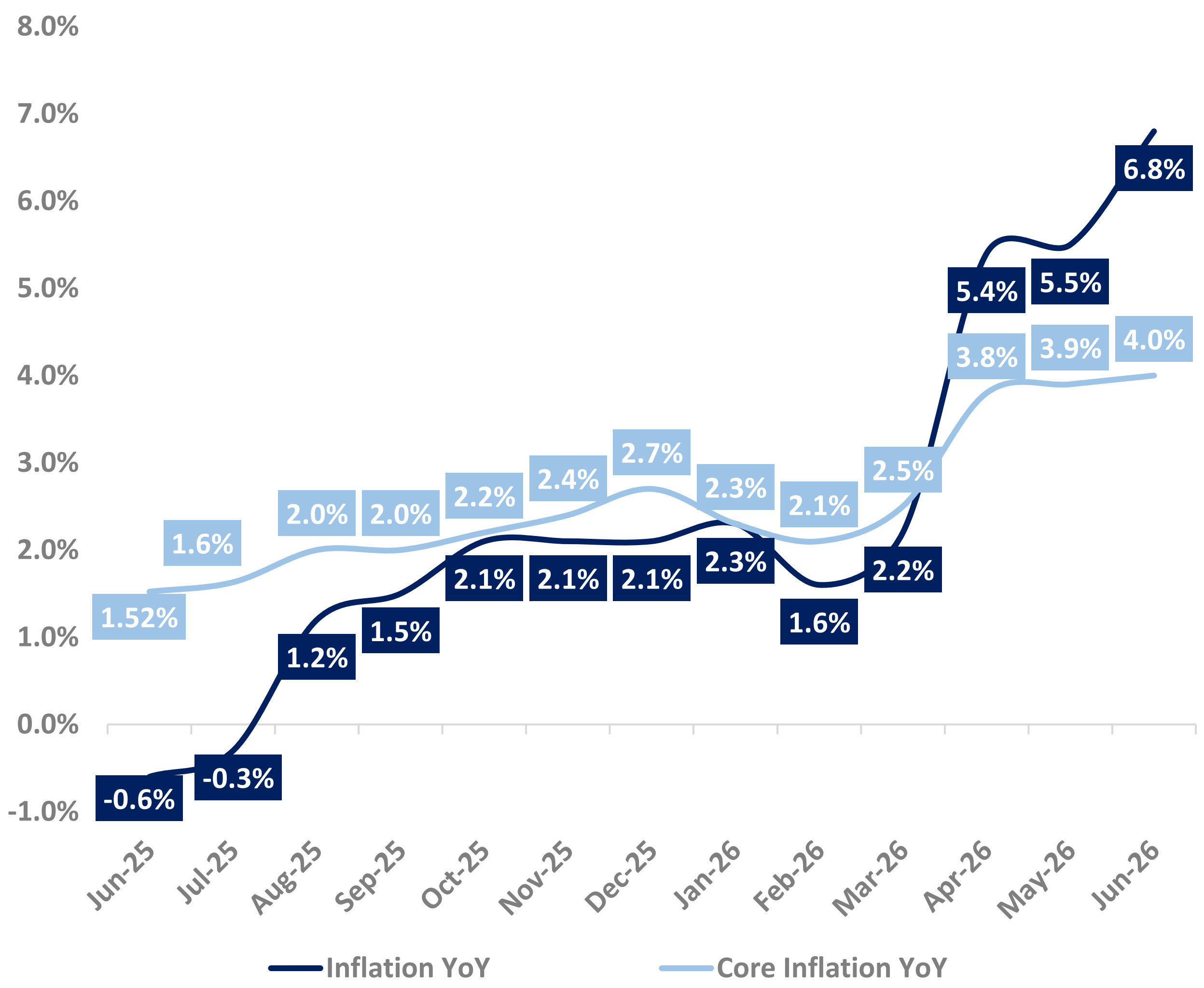
CCPI FOR JUN 2026:

MOM +2.1%

YOY +6.8%

- The CCPI for Jun-26 stood at +2.1% on a MoM basis, compared to the +0.9% level seen in May-26. Food inflation stood at +4.5% for the month, increasing from +0.8% registered in the previous month. Non-food inflation increased by +1.0%, from the +0.9% level recorded in May-26.
- The YoY increase accelerated to +6.8% in Jun-26 from the +5.5% level recorded in May-26. Food inflation increased to +3.6% from the +0.9% level seen in May-26, while non-food inflation sharply increased to +8.4% in June-26 from the +7.8% level seen in the previous month.

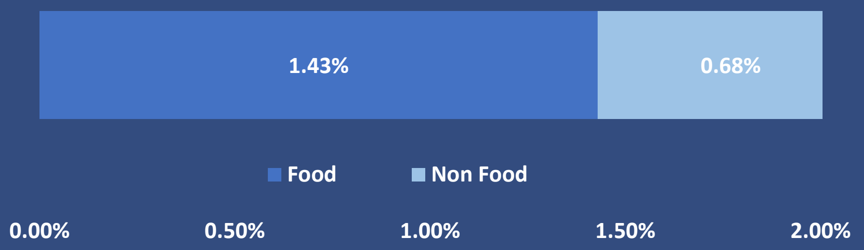
Inflation – CCPI



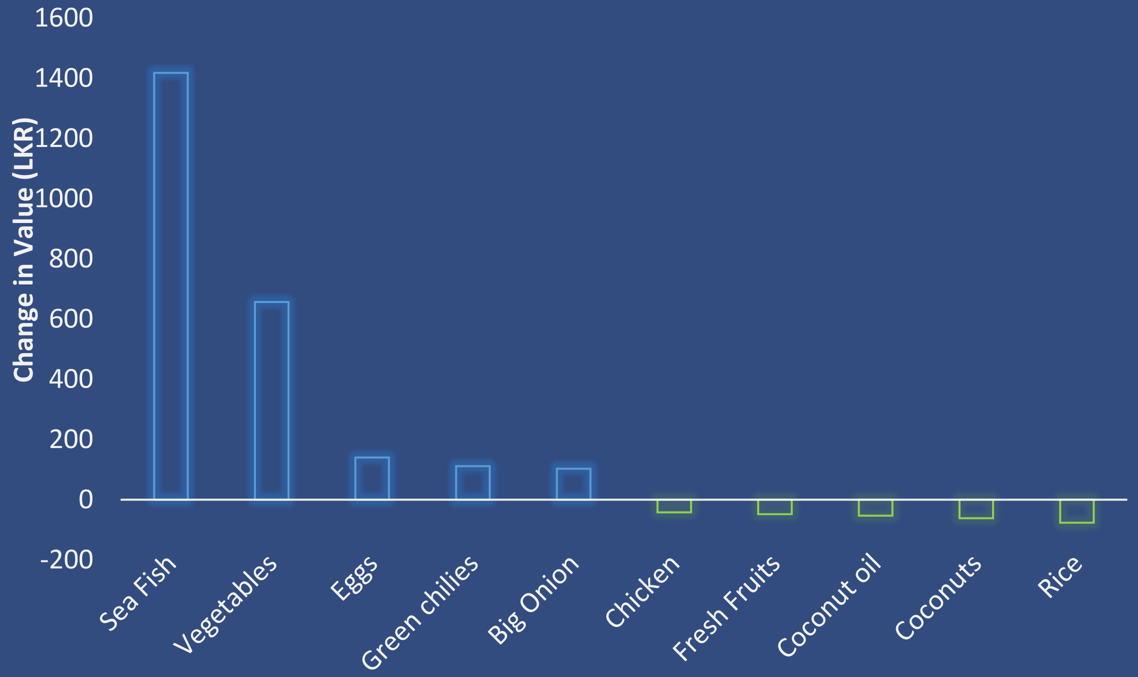
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

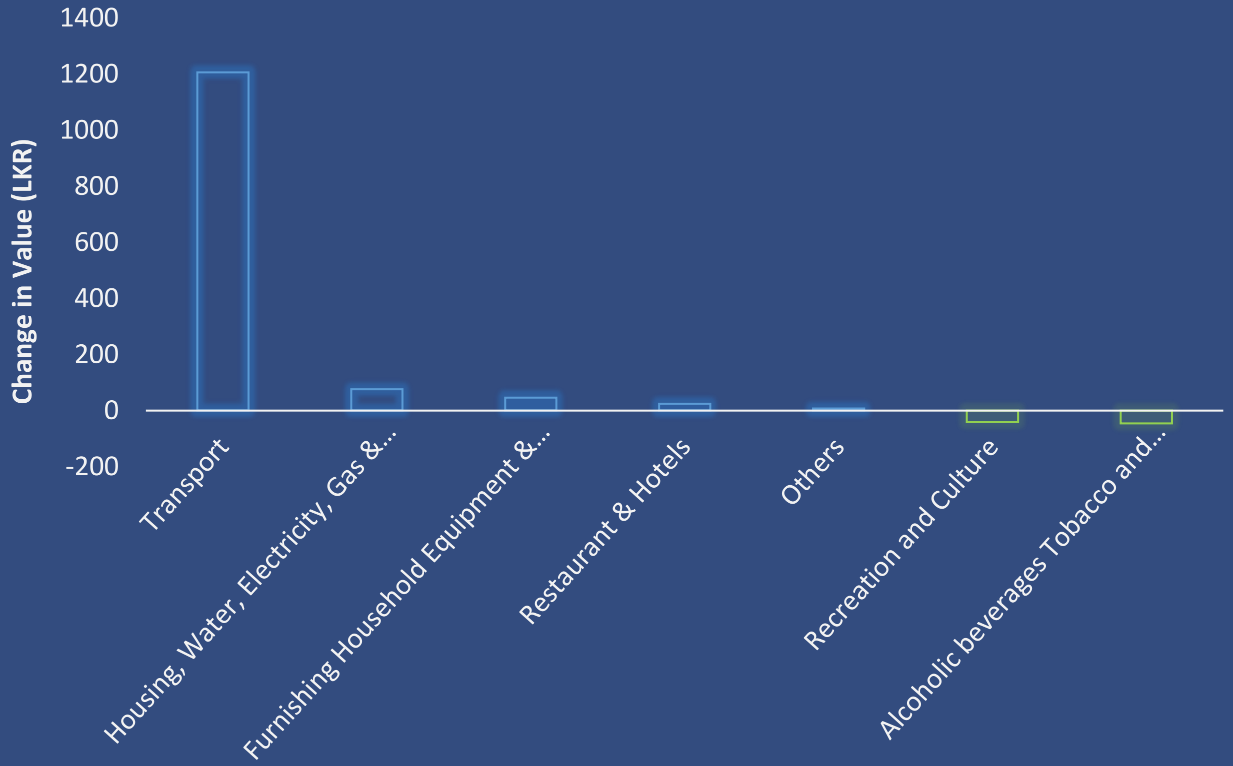
The CCPI Index for Jun-26 increased by +2.1%MoM. The Food category contributed +1.43%, with Sea Fish, Vegetables, Eggs, Green Chilies and Big Onion exerting upward pressure on the group, while Chicken, Fresh Fruits, Coconut Oil, Coconuts and Rice witnessed price decreases. Notably, the Non-Food category contributed +0.68%. Within the Non-Food segment, Transport, Housing, Water, Electricity, Gas & Other Fuels, Furnishing Household Equipment & Routine Household Maintenance, Restaurant & Hotels and Other subcategories registered price increases in Jun-26.



Food Category Inflation

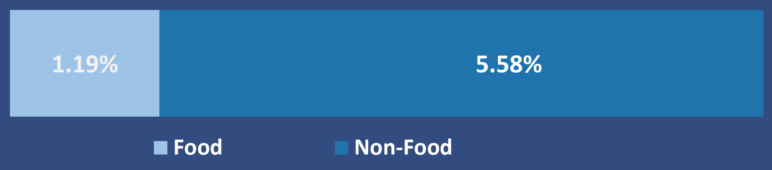


Non-Food Category Inflation

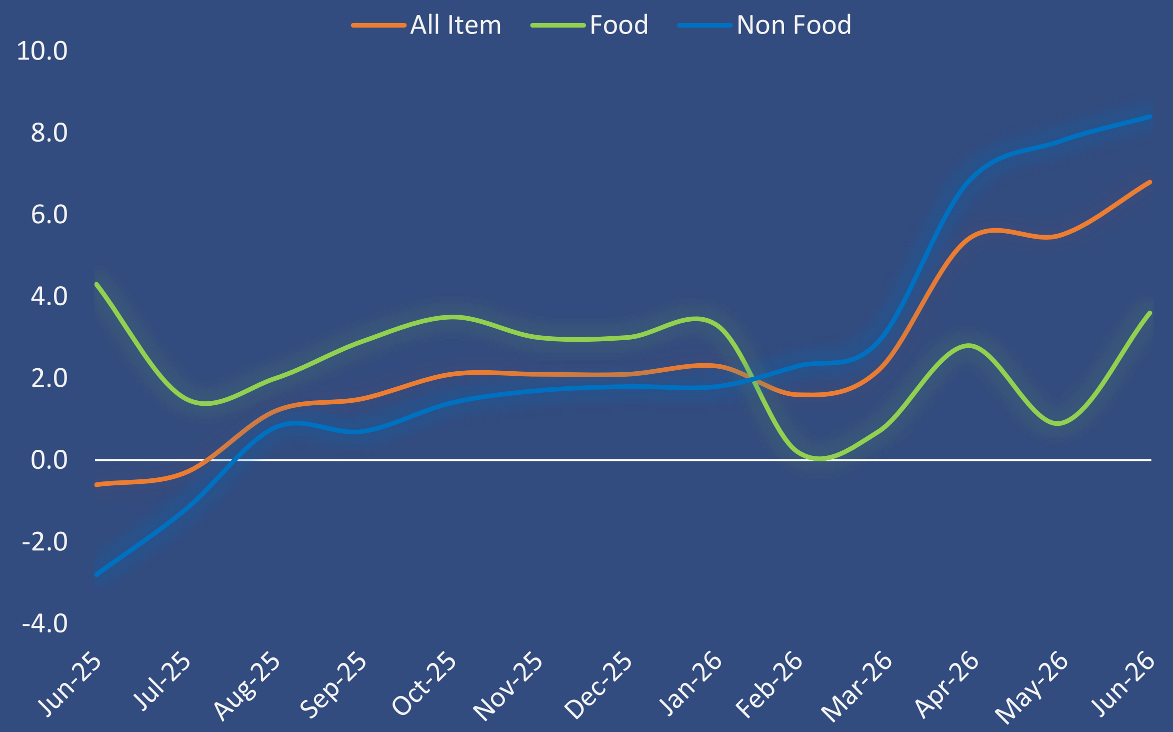


INFLATION ANALYSIS – CCPI-YOY

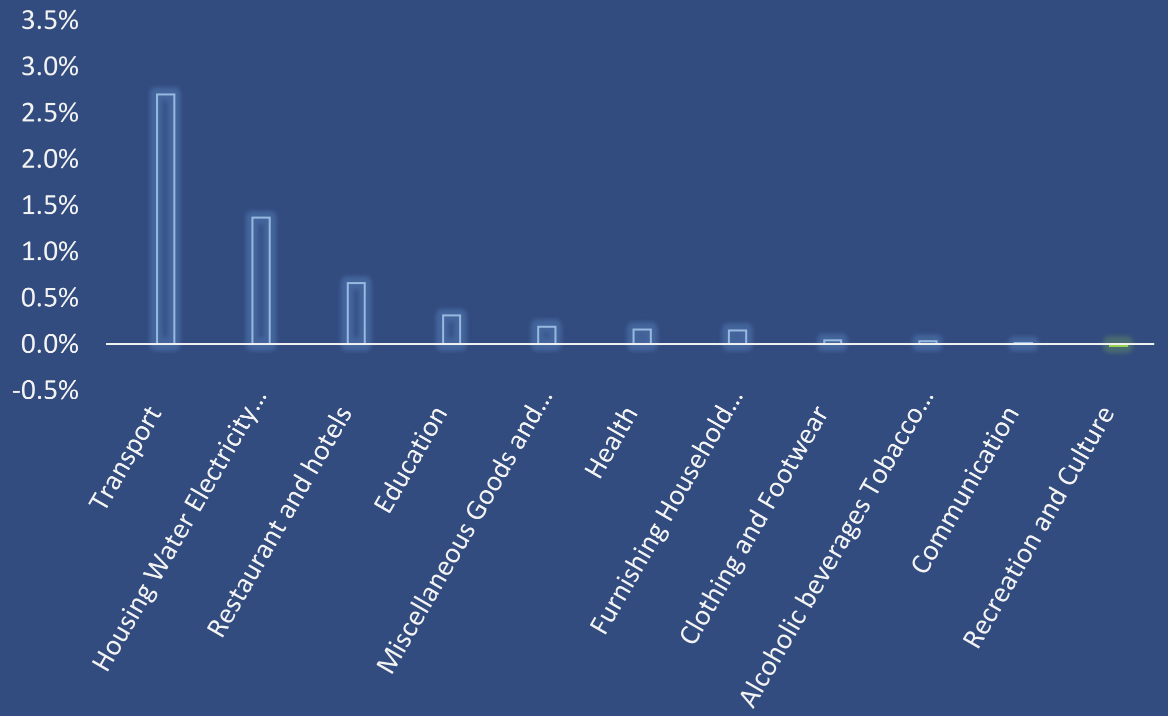
The YoY inflation of CCPI for Jun-26 stood at +6.8%, which marked an increase from the +5.5% level that was seen in May-26. Contribution of Food inflation stood at +1.19%, while that of Non-Food was +5.58%. In the Food segment, Sea Fish, Dried Fish, Milk Powder, Chicken, and Big Onion prices heightened the most. Within the Non-Food segment all sub-components recorded price increases except Recreation and Culture, with highest upticks in Transport, Housing, Water, Electricity, Gas and Other Fuels and Restaurant and hotels.



Inflation Analysis (YoY)



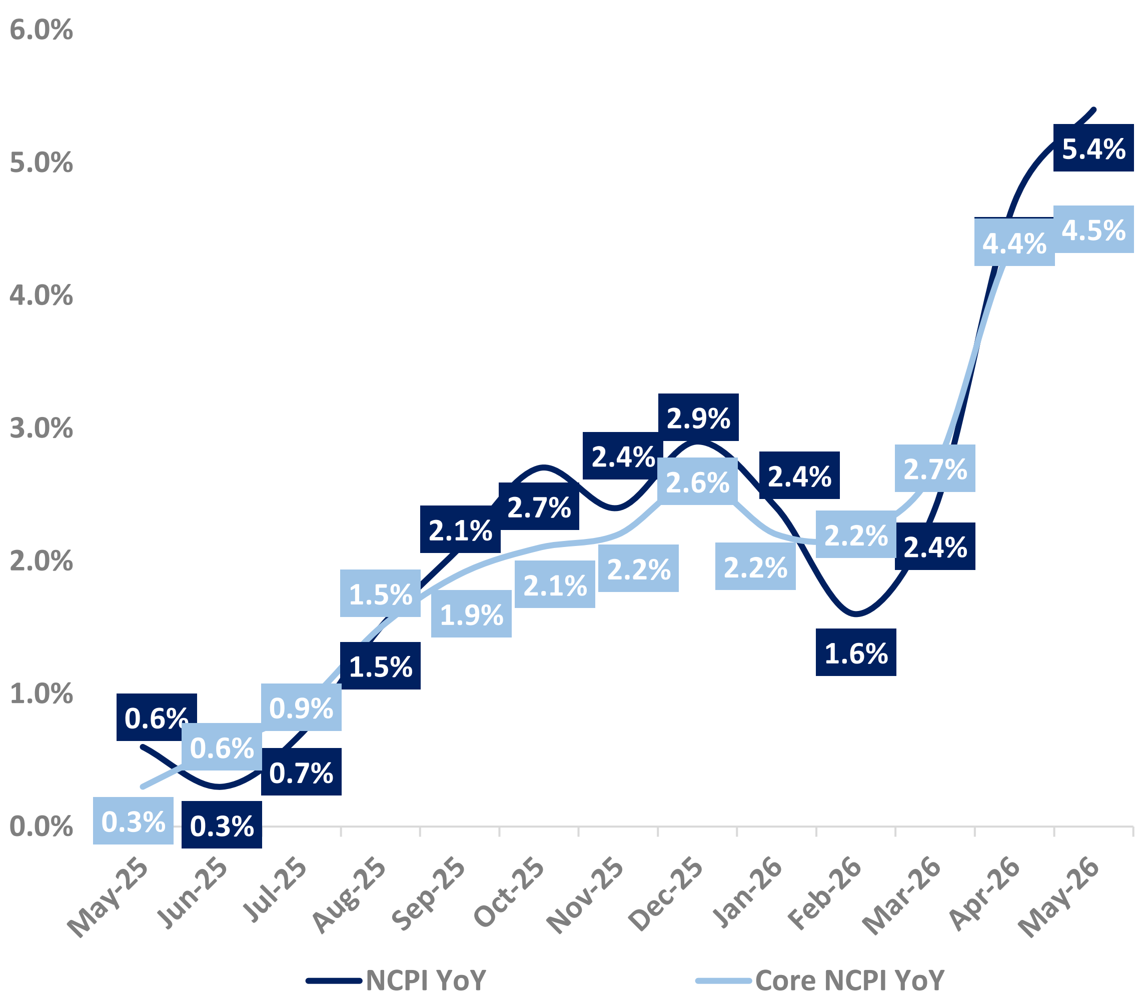
Non-Food Category Inflation



NCPI FOR MAY 2026: INCREASED TO +5.4%YOY

- NCPI for May-26, increased to +5.4%YoY from +4.7%YoY seen in Apr-26.
- This trend was driven by an increase in Non-Food inflation, which rose to +8.6% in May-26 from +7.8% in the previous month. Food inflation also increased to +1.5% from +1.1% in May-26.

Inflation – NCPI



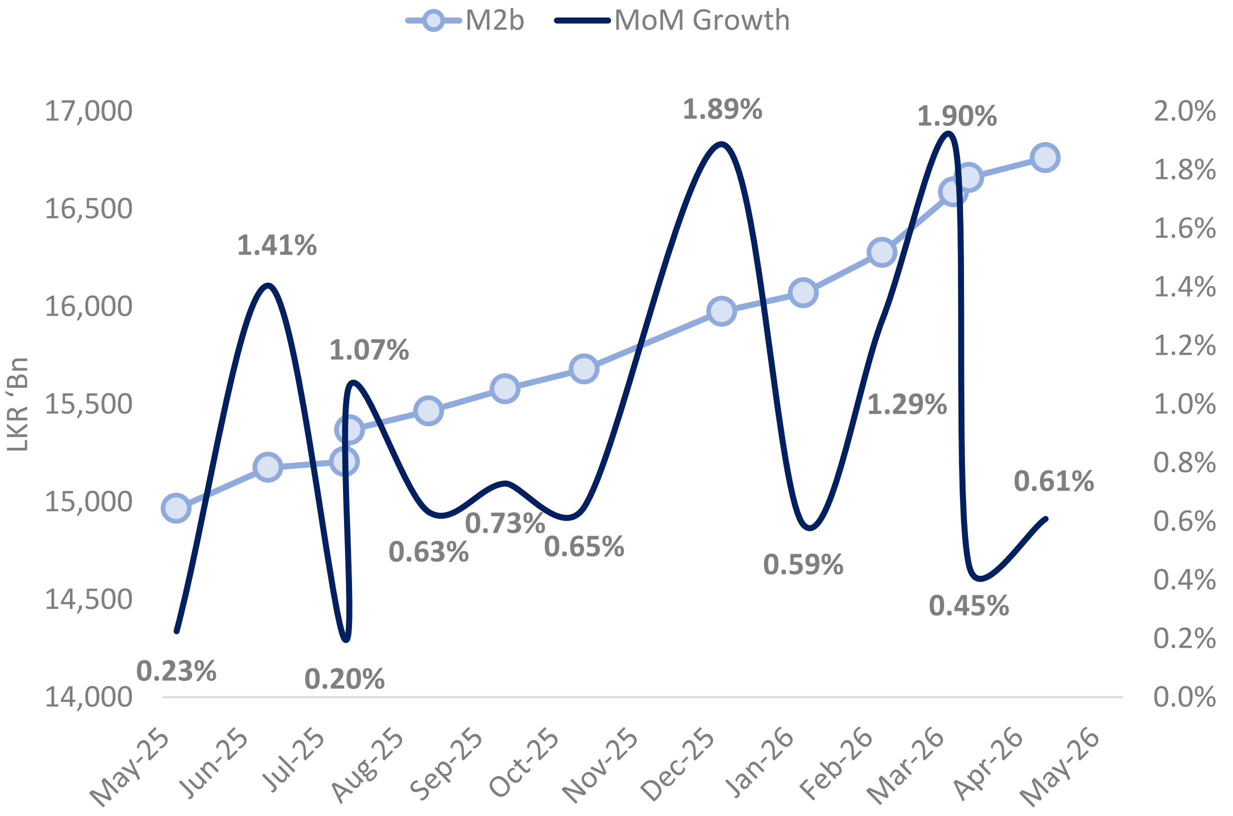
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 238.2Bn in May-26, while credit to the public sector increased by LKR 11.6Bn for the same period.

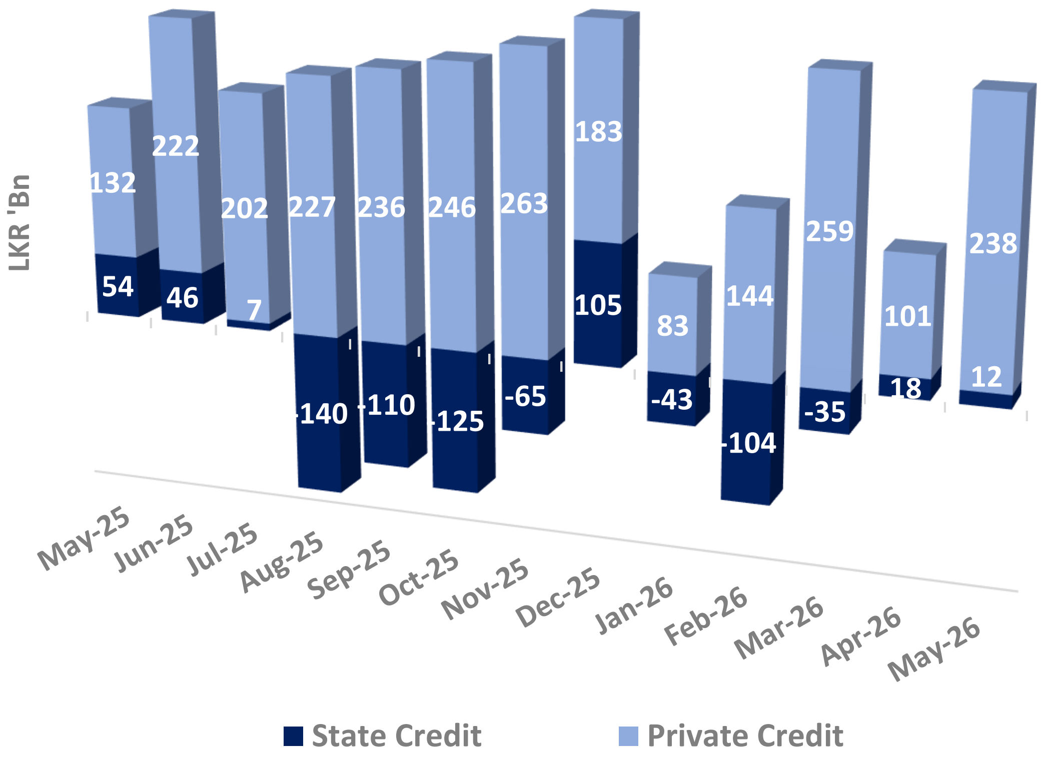
M2b Growth – May 2026

MoM +0.6%, YoY +12.0%, YTD +4.9%



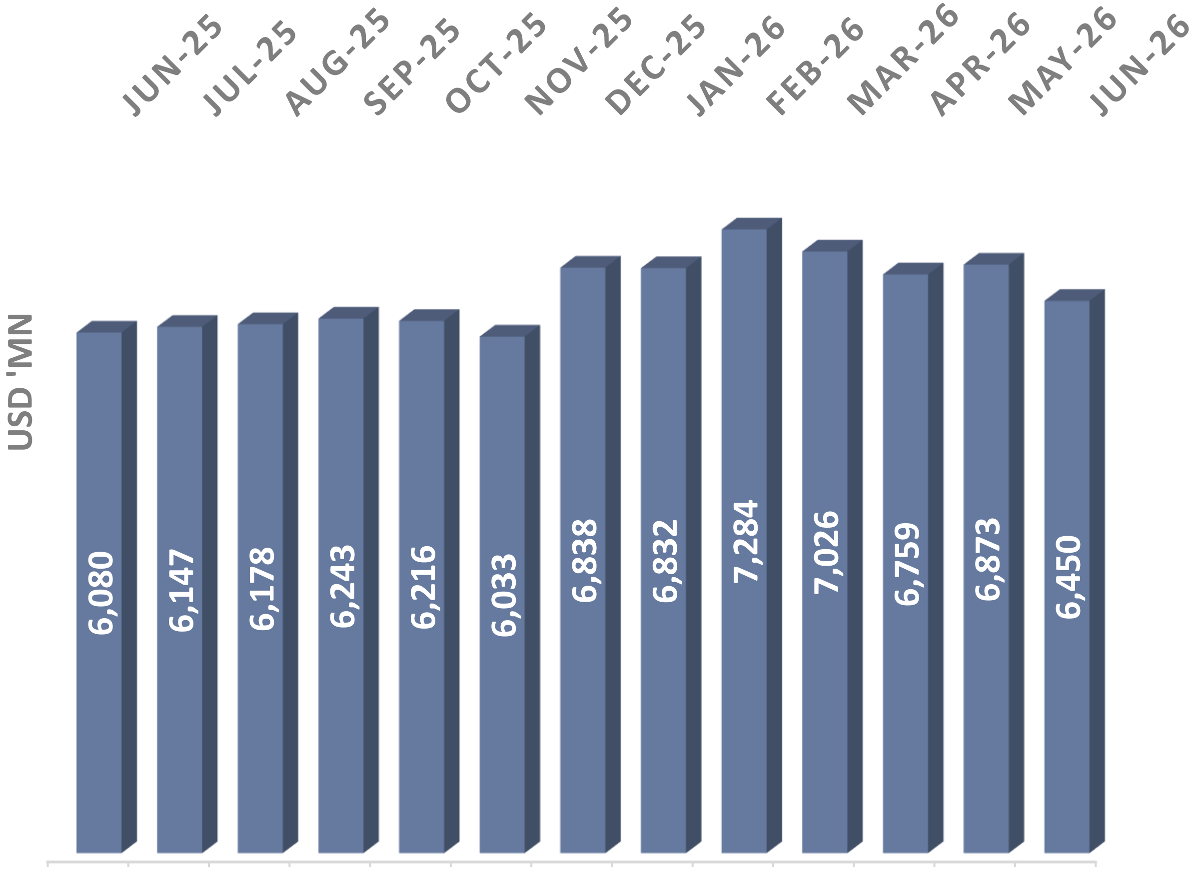
State Credit & Private Credit – May 2026

Private Credit MoM +2.2%, YoY +27.8%, YTD +8.1%

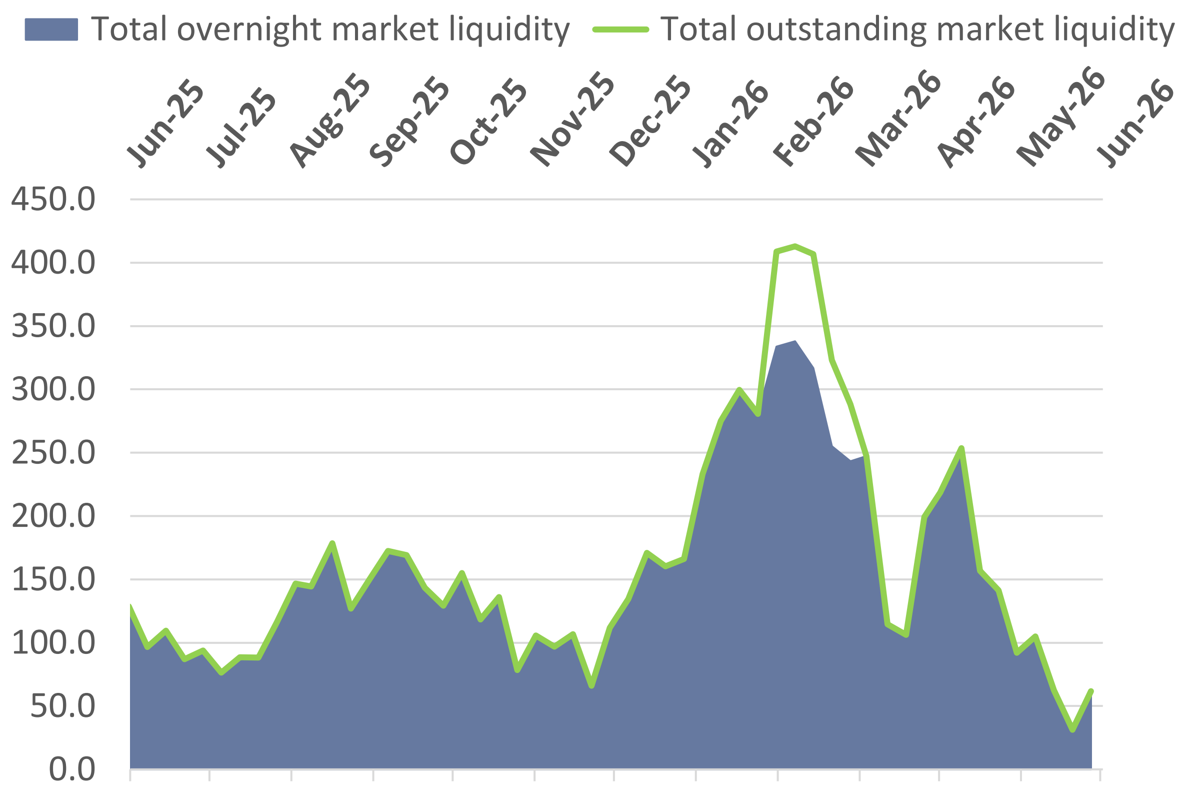


LIQUIDITY & RESERVES

- Foreign Reserves decreased by USD 423.0Mn to USD 6,540Mn in Jun-26.



- Both overnight market liquidity and outstanding market liquidity decreased in Jun-26 compared to the previous month and stood at LKR 61.6Bn by end Jun-26.

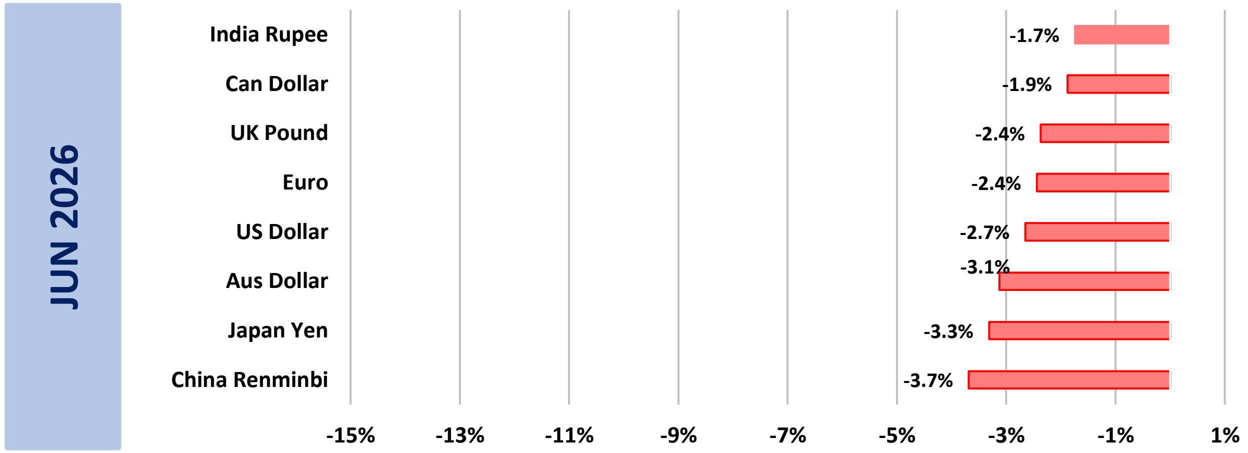


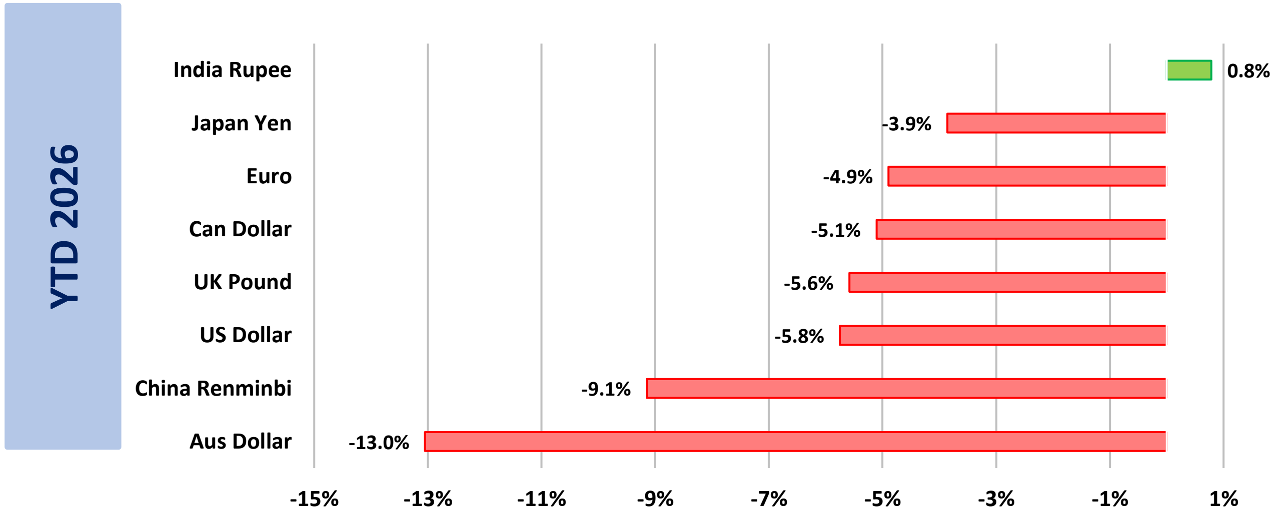
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

CURRENCY MOVEMENT

USD:LKR Movement

Sri Lankan Rupee vs Global Currencies





GOVERNMENT SECURITIES – NEW ISSUES

First Capital
A Janashakthi Group Company

Bill and Bond auctions for Jun 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
5-Jun-26	112,214		112,214
12-Jun-26	75,254	92,553	167,807
19-Jun-26	75,170		75,170
26-Jun-26	71,521		71,521
Total Issued			**426,712**

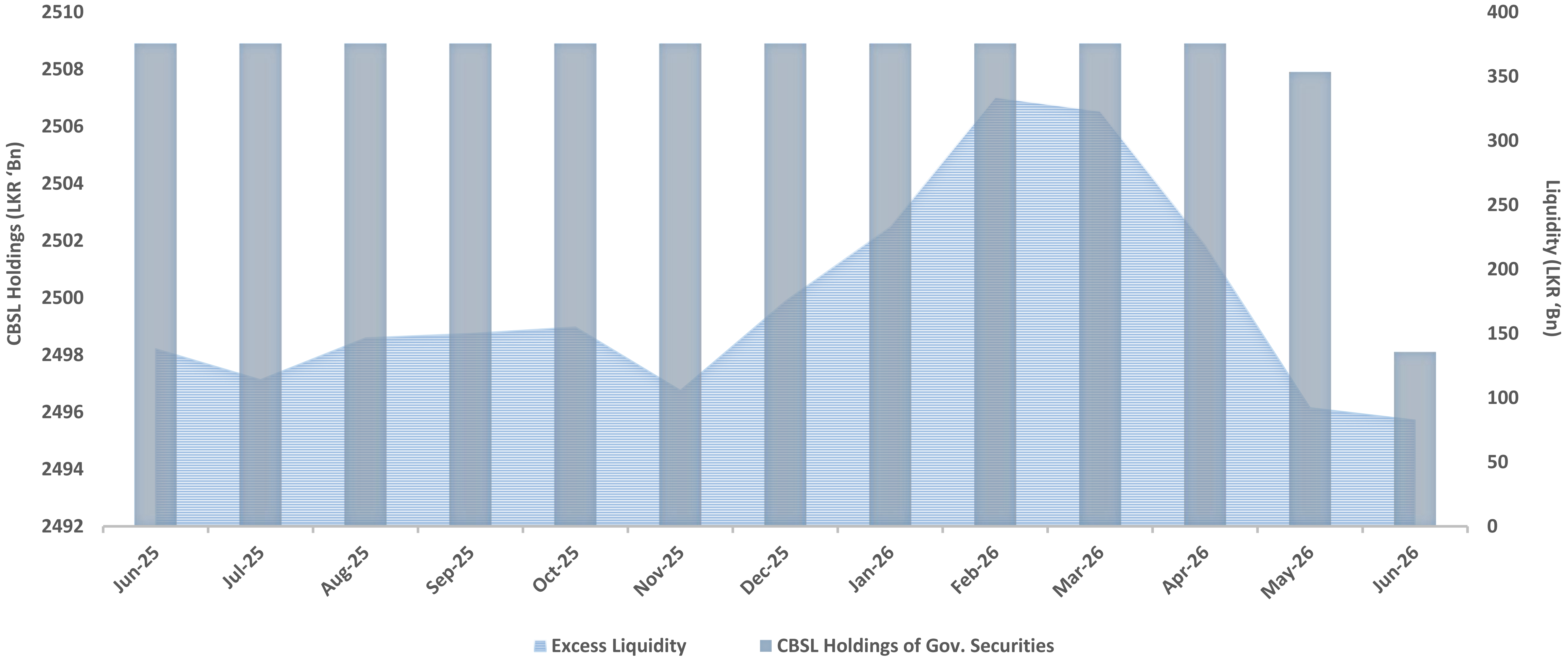
Net settlements for Jun 2026

Net Settlement	June 2026	YTD
Maturities	711,832	3,661,999
Coupon Payment	216,082	864,884
New Issues	426,712	3,176,202
Excess/ (Deficit)	(501,202)	(1,350,681)

CBSL Holdings of Gov. Securities		YTD
As at End Jun 2026	2,498,100	
As at End May 2026	2,507,921	
Increase/ (Decrease)	**-9,821**	**-10,820**

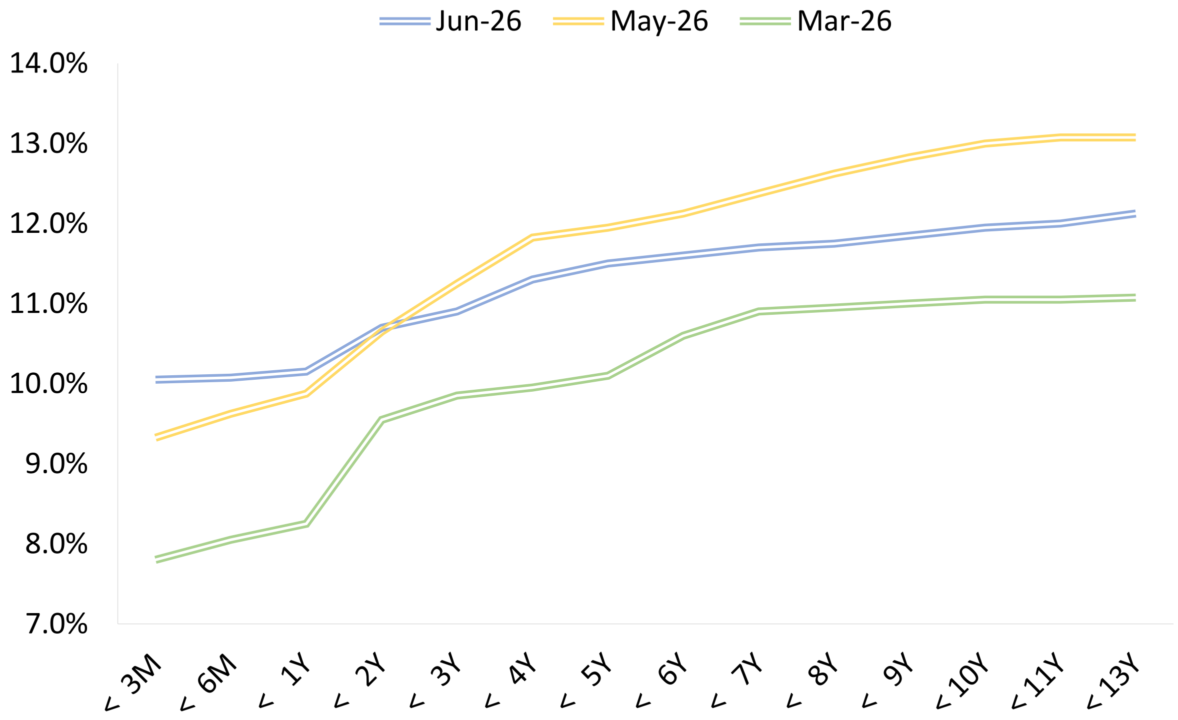
CBSL HOLDINGS OF GOV. SECURITIES…

…contracted slightly in Jun 2026



TREASURY BILLS AND BONDS –JUN 2026

The secondary market commenced June 2026 on a subdued note, with investor participation remaining muted amid cautious sentiment and thin trading volumes. Selling pressure during the early part of the month, coupled with weak demand at T-Bill auctions, pushed yields higher across the curve. However, sentiment improved during the second half of the month as geopolitical tensions in the Middle East eased, oil prices declined, and continued guidance from the PDMO renewed buying interest, driving secondary market yields lower. While intermittent buying interest supported the market towards month-end, investor sentiment remained mixed, with activity largely driven by primary dealers and banking sector participants. At the T-Bill auctions held on 03rd June and 10th June 2026, the PDMO accepted only a portion of the offered amount, with weighted average yields rising across all three maturities, reflecting weak investor appetite. However, at the T-Bond auction on 11th June 2026, the PDMO raised LKR 80.7Bn against an offered amount of LKR 150.0Bn through the 2030 and 2032 maturities, while bids received for the 2037 maturity were rejected in full. The auction also provided pricing guidance to the market, which, together with improving global risk sentiment and the easing of geopolitical tensions in the Middle East, revived buying interest and resulted in a downward shift in the secondary market yield curve. Reflecting the improved sentiment, the T-Bill auction held on 17th June 2026 attracted stronger demand, enabling the PDMO to raise the full offered amount, with weighted average yields declining across the 3-month and 6-month tenors. At the final Treasury bill auction of the month on 24 June 2026, the PDMO again raised the full offered amount of LKR 70.0Bn; however, weighted average yields edged higher across all maturities, indicating a more cautious investor stance towards month-end.

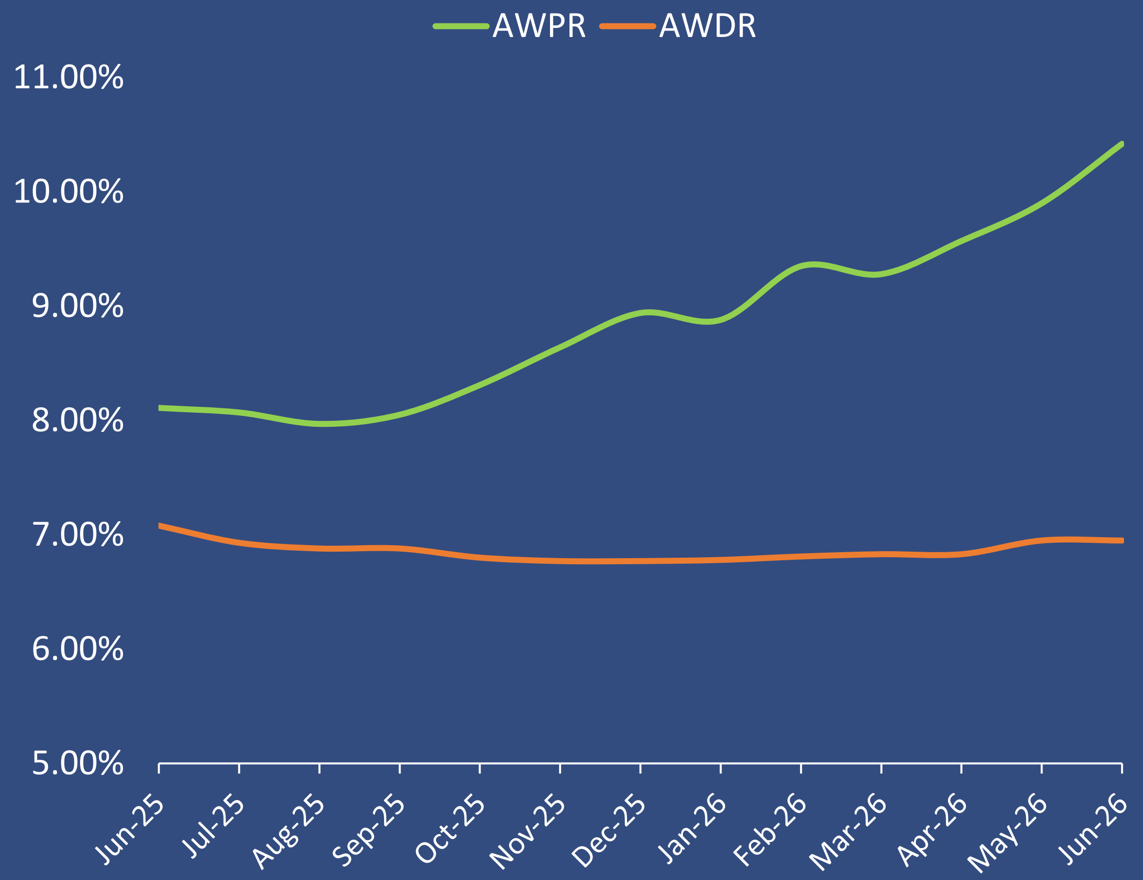


Interest Rate Change (bps)

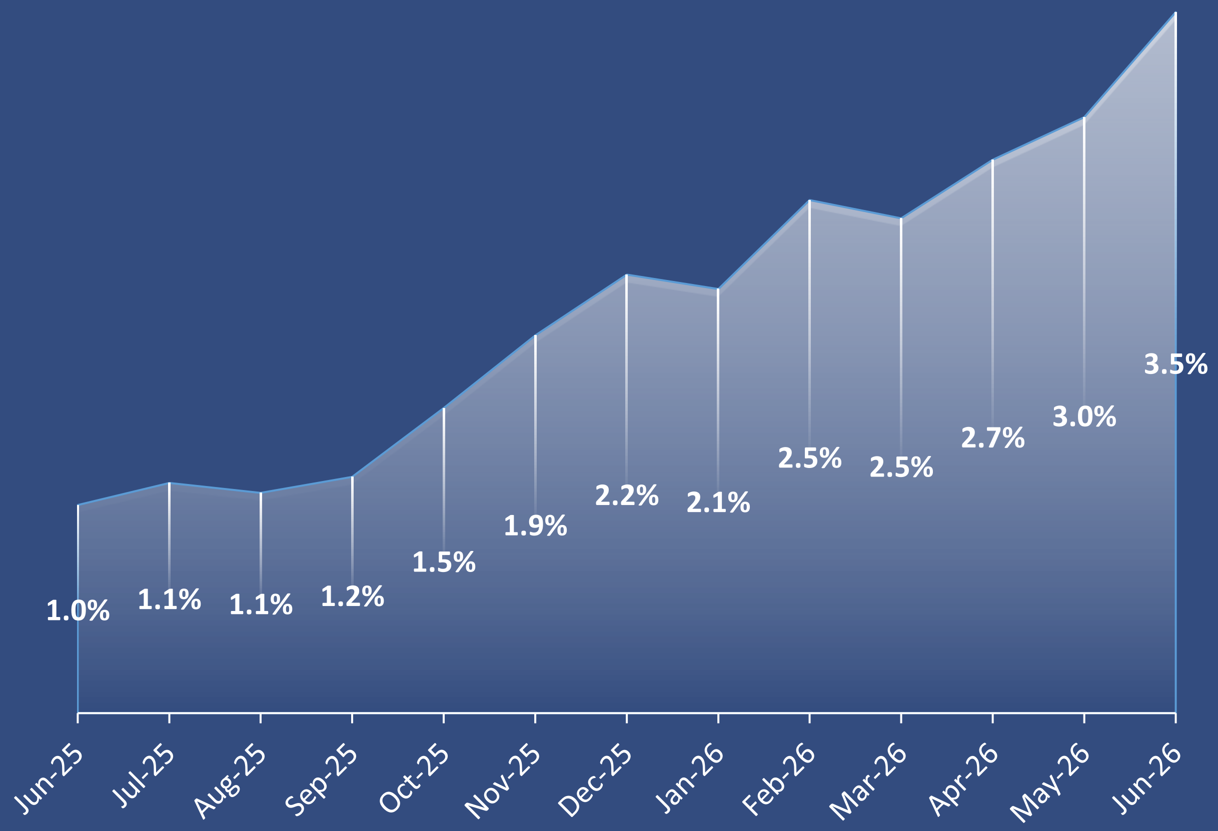
Tenure	Jun 2026	May 2026	Change (bps)	Mar 2026	Change (bps)
< 3M	10.05%	9.33%	+73	7.80%	+225
< 6M	10.08%	9.63%	+45	8.05%	+203
< 1Y	10.15%	9.88%	+28	8.25%	+190
< 2Y	10.70%	10.65%	+5	9.55%	+115
< 3Y	10.90%	11.25%	-35	9.85%	+105
< 4Y	11.30%	11.83%	-52	9.95%	+135
< 5Y	11.50%	11.95%	-45	10.10%	+140
< 6Y	11.60%	12.13%	-52	10.60%	+100
< 7Y	11.70%	12.38%	-68	10.90%	+80
< 8Y	11.75%	12.63%	-88	10.95%	+80
< 9Y	11.85%	12.83%	-98	11.00%	+85
< 10Y	11.95%	13.00%	-105	11.05%	+90
< 11Y	12.00%	13.08%	-108	11.05%	+95
< 13Y	12.13%	13.08%	-95	11.08%	+105
< 15Y	N/A	N/A	N/A	N/A	N/A

Source: PDMO

AWPR vs AWDR



Interest Spread



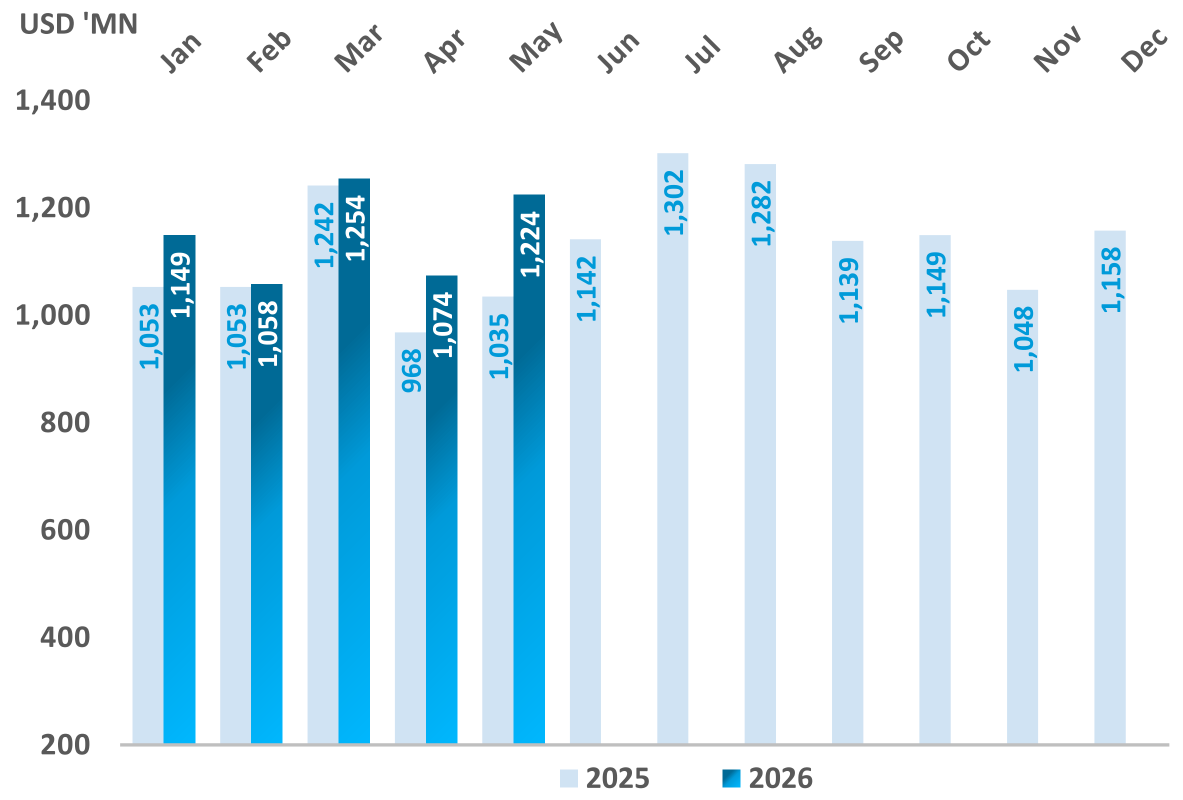
FINANCE SECTOR RATE MOVEMENTS

Source: CBSL

EXTERNAL SECTOR - MAY 2026 - EXPORTS

In May-26, exports stood at USD 1,224.3Mn, reflecting a 18.3%YoY increase. Growth was driven by a 23.8%YoY surge in industrial exports, alongside agricultural exports and mineral and other exports rising by 0.4%YoY and 29.7%YoY respectively. Within industrial exports, petroleum products (+118.8%YoY), textiles and garments (6.7%YoY) and food, beverage and tobacco (+10.4%YoY) registered significant increases. In the agricultural segment, coconut exports rose 26.9%YoY, whilst tea, spices and seafood recorded marginal declines.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- May	787.8	975.5	23.8
- YTD	4,160.7	4,527.5	8.8
Agricultural			
- May	243.6	244.7	0.4
- YTD	1,172.2	1,206.8	2.9
Mineral & Other Exports			
- May	3.2	4.1	29.7
- YTD	17.3	25.1	45.3
Total			
- **May**	1,034.7	1,224.3	18.3
- **YTD**	5,350.3	5,759.4	7.6



EXTERNAL SECTOR - MAY 2026 - IMPORTS

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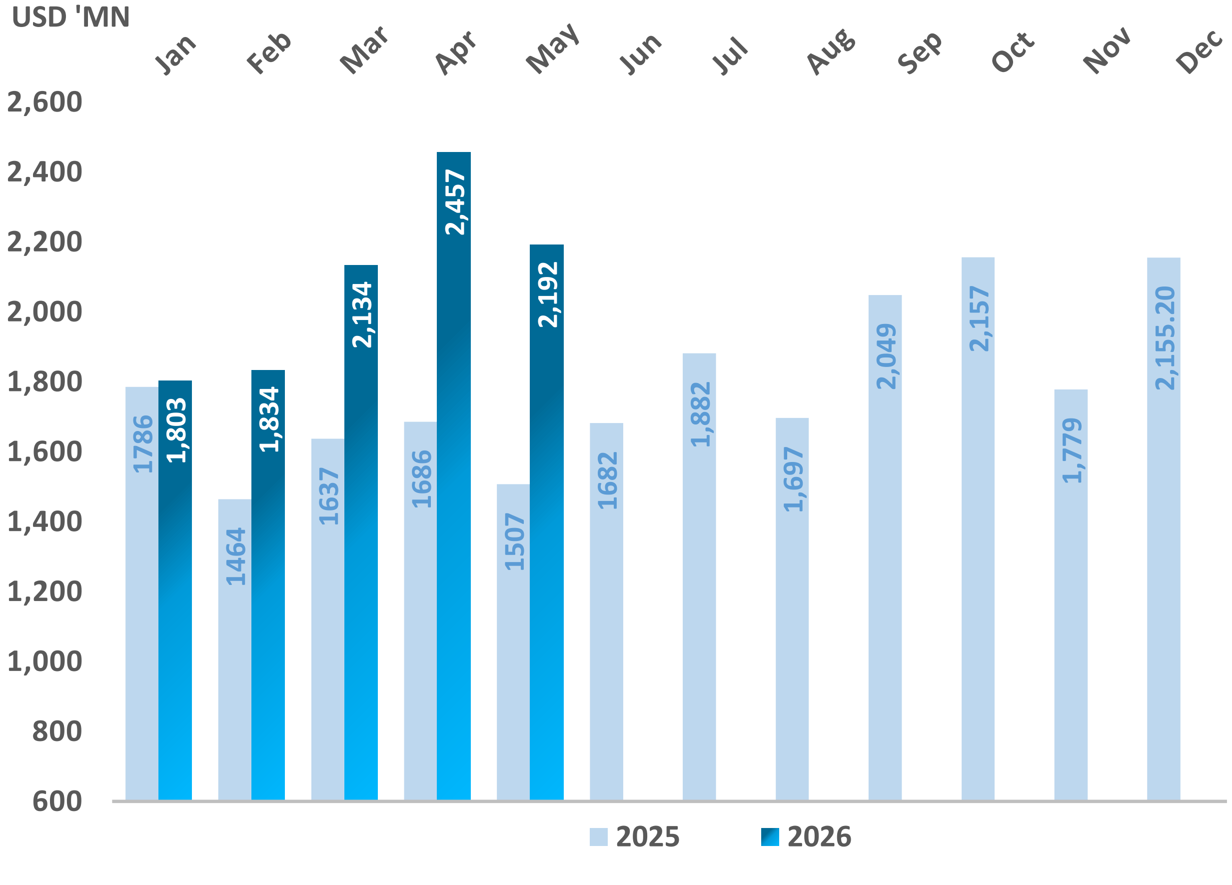
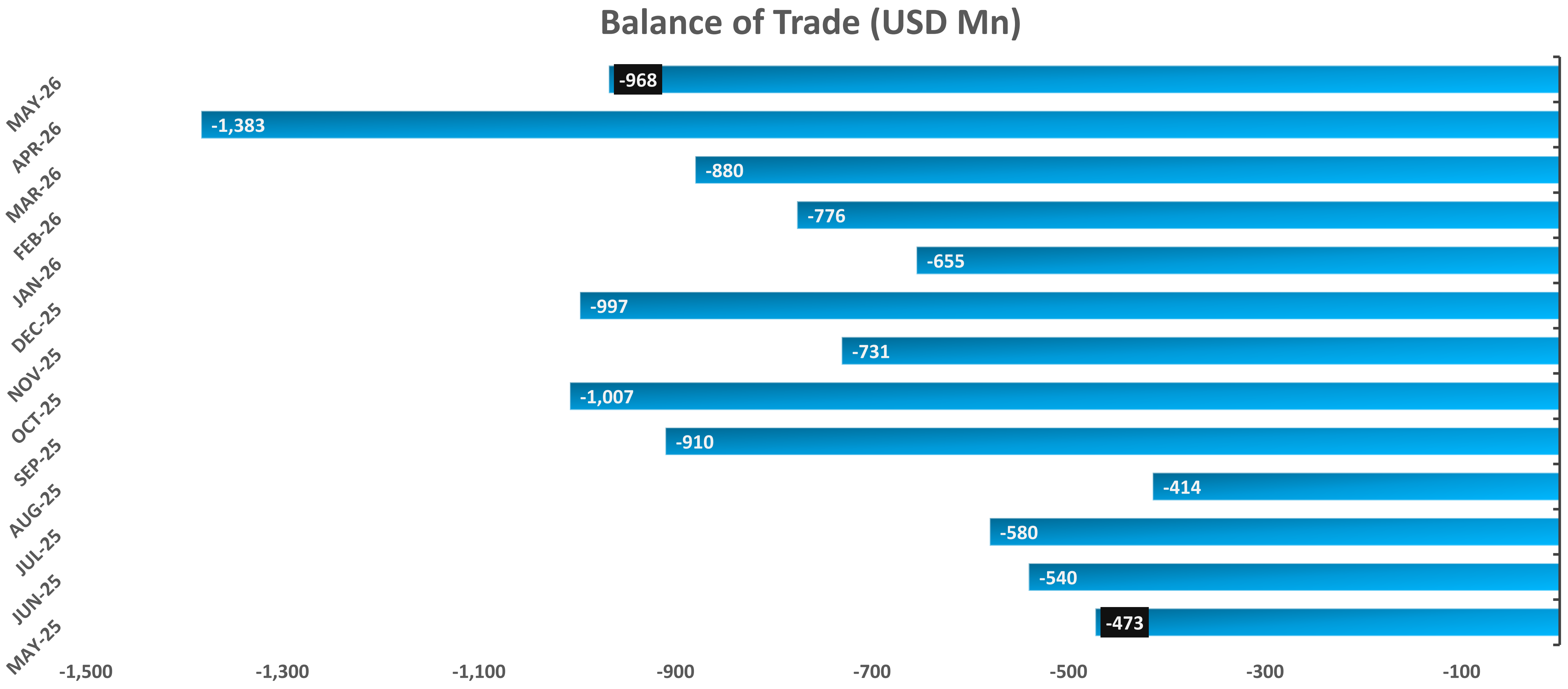
In May-26, imports climbed to USD 2,192.1Mn, registering a YoY increase of 45.4%. All other subcomponents also rose during the month, with the Intermediate goods segment recording the highest growth (+53.0%YoY), followed by consumer goods (+44.4%YoY) and investment goods and other (25.3%YoY). Within the broader consumer goods category, non-food consumer imports drove this increase, rising by 57.3%YoY, while food and beverage imports rose by 25.9%YoY. Meanwhile, fuel imports (+112.0%YoY) and fertilizer (+130.1%YoY) significantly contributed to the rise in intermediate goods segment during the period under review.

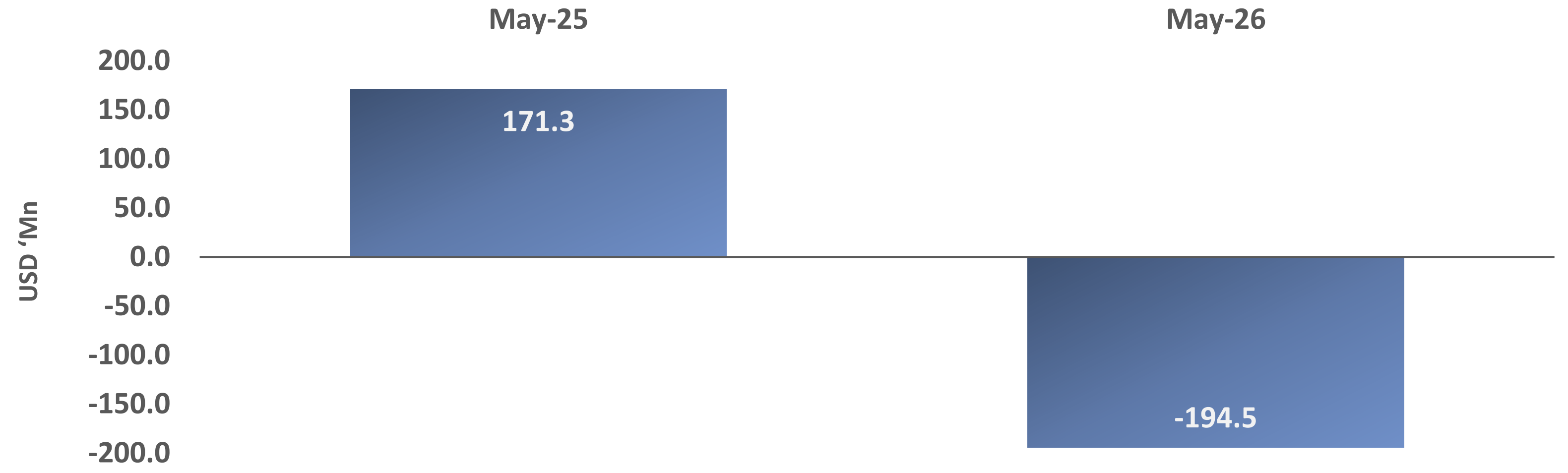
Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- May	388.2	560.4	44.4
- YTD	1,896.6	2,563.1	35.1
Intermediate			
- May	829.9	1,269.5	53.0
- YTD	4,617.1	5,969.3	29.3
Investment goods & other			
- May	289.0	362.1	25.3
- YTD	1,566.4	1,887.6	20.5
Total			
- May	1,507.2	2,192.1	45.4
- YTD	8,080.1	10,420.0	29.0



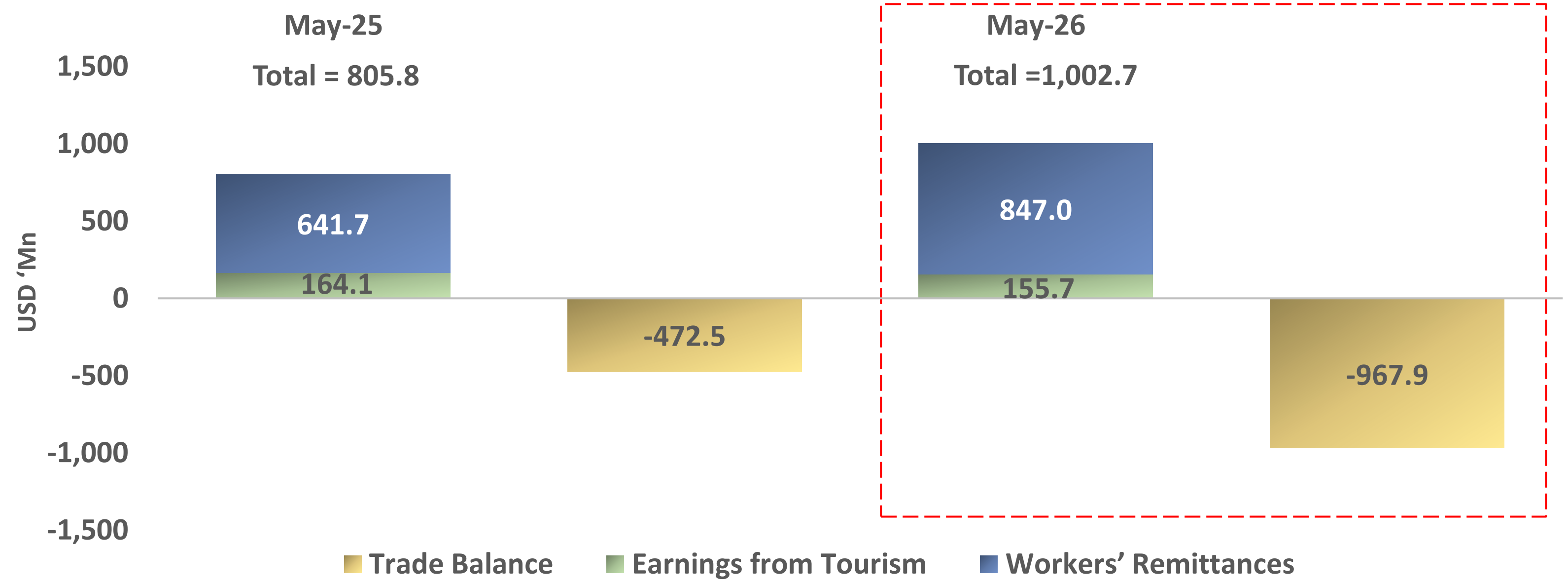
EXTERNAL SECTOR – MAY 2026



The Current Account Balance for May-26 recorded a deficit of USD 194.5Mn compared to a surplus of USD 171.3Mn seen in May-25.



Workers' Remittances increased to USD 847.0Mn in May-26 (+32.0%YoY) while Earnings from Tourism declined to USD 155.7Mn (-5.1%YoY).



CURRENT ACCOUNT BALANCE CONTRACTED YOY IN MAY-26

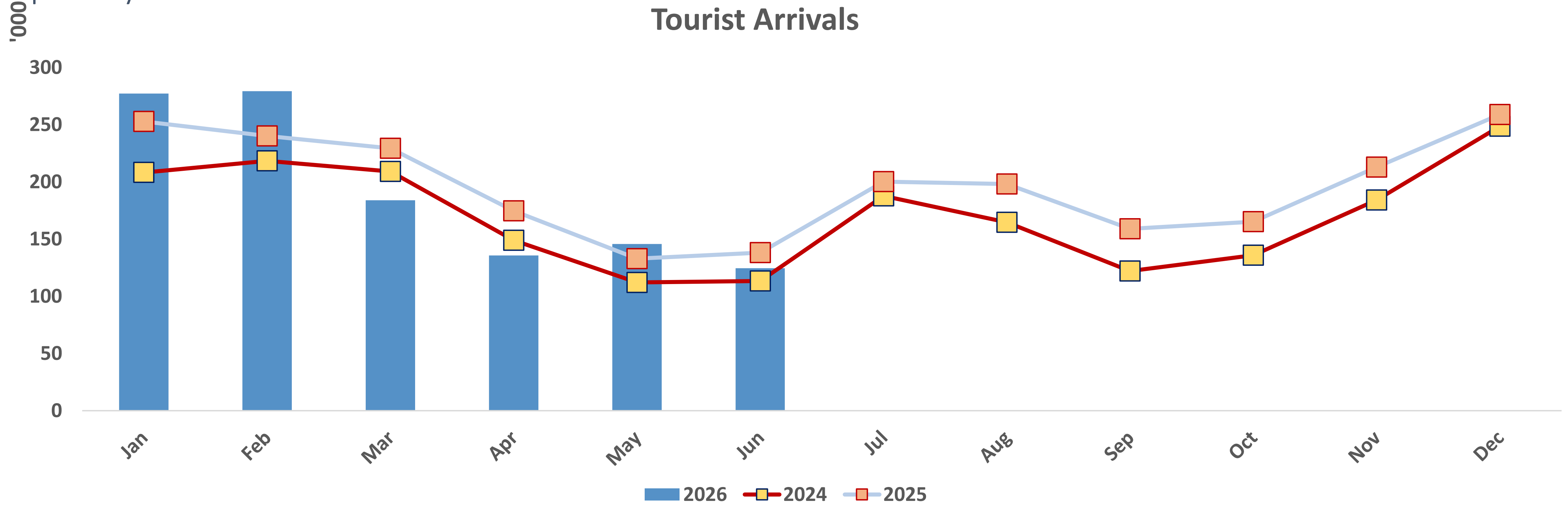
APR USD 'Mn	2025	2026	Change (%)
Trade Balance	-472.5	-967.9	-104.8
Earnings from Tourism	164.1	155.7	-5.1
Workers' Remittances	641.7	847.0	+32.0

YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-2,729.8	-4,660.6	-70.7
Earnings from Tourism	1,543.1	1,360.0	-11.7
Workers' Remittances	3,102.2	3,909.7	+26.0

TOURIST ARRIVALS - JUNE 2026

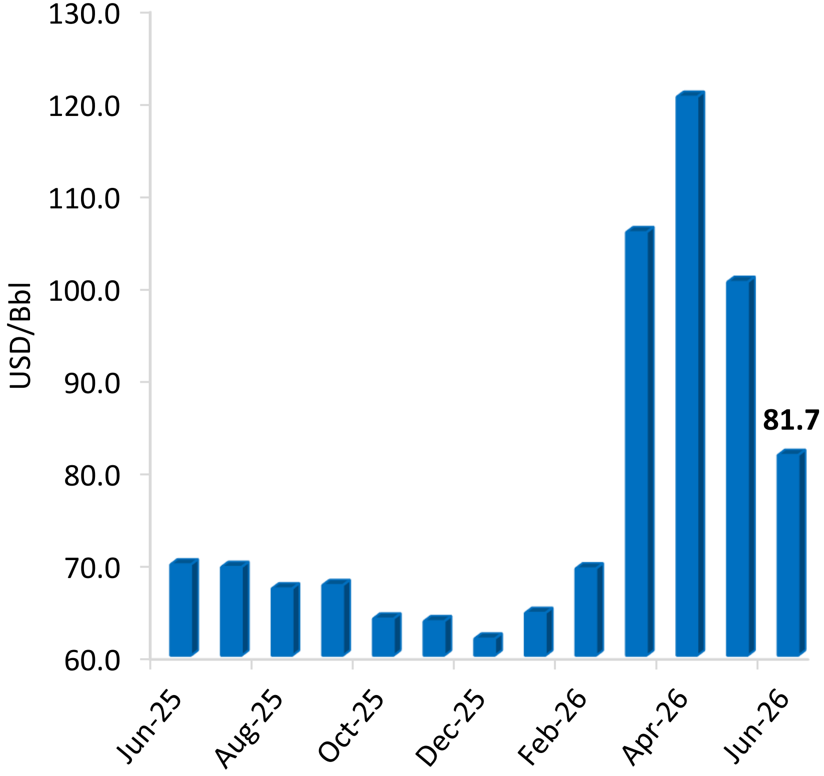
[JUNE 124,551: DOWN -9.9%YoY] [MoM: DOWN -14.5%]

Total tourist arrivals for Jun-26 reached 124,551, denoting a YoY decrease of 9.9% and a MoM downturn of 14.5%. India emerged as the top source market, accounting for 34.9% of total arrivals during the month. This was followed by the United Kingdom and Australia which both accounted for 8.4% and 7.0%, while China and United States accounted for 3.1% and 3.1% of total arrivals, respectively.

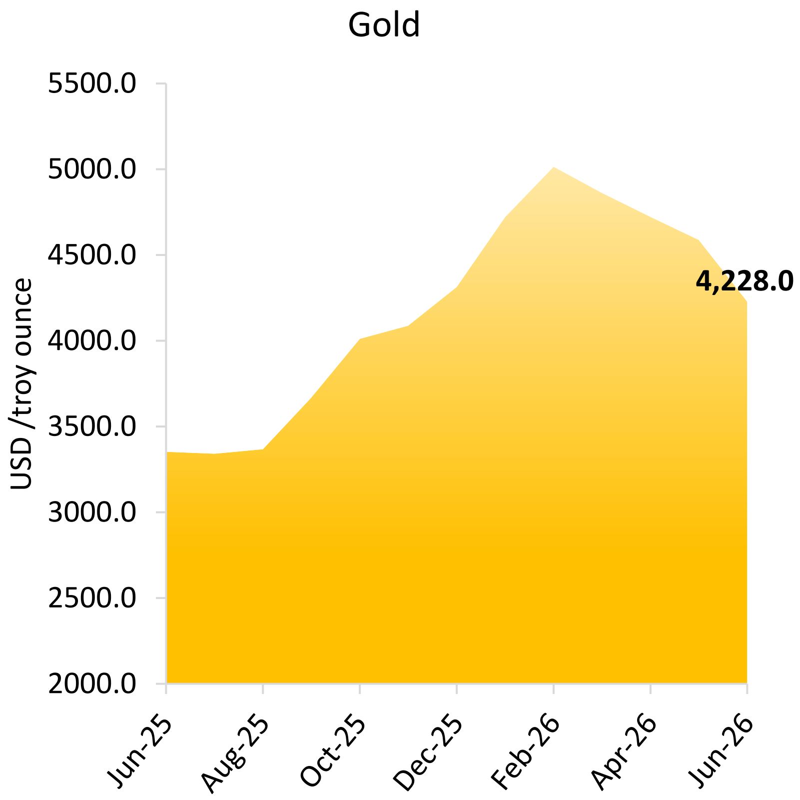


COMMODITY PRICES - MAY 2026

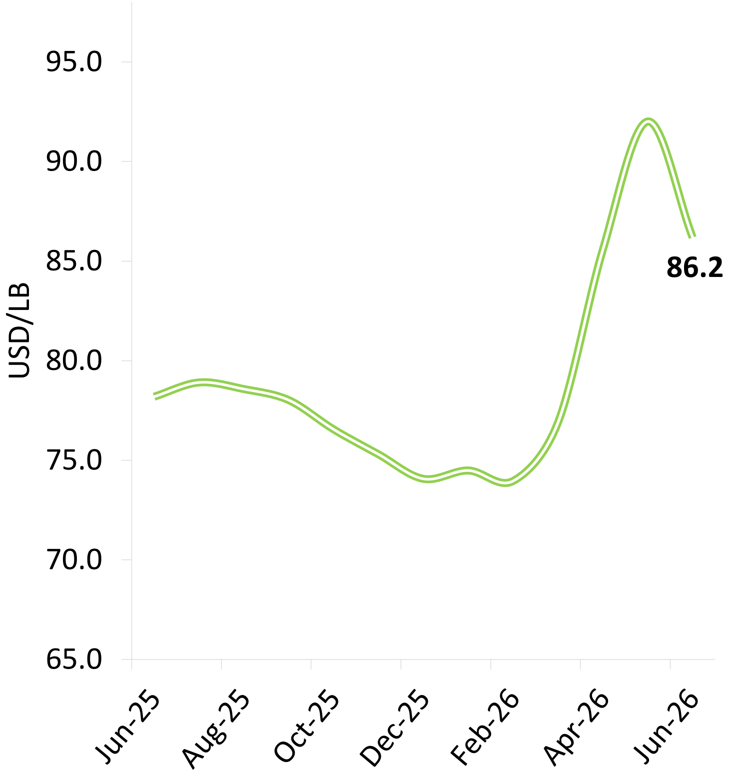
Crude oil



Gold



Cotton

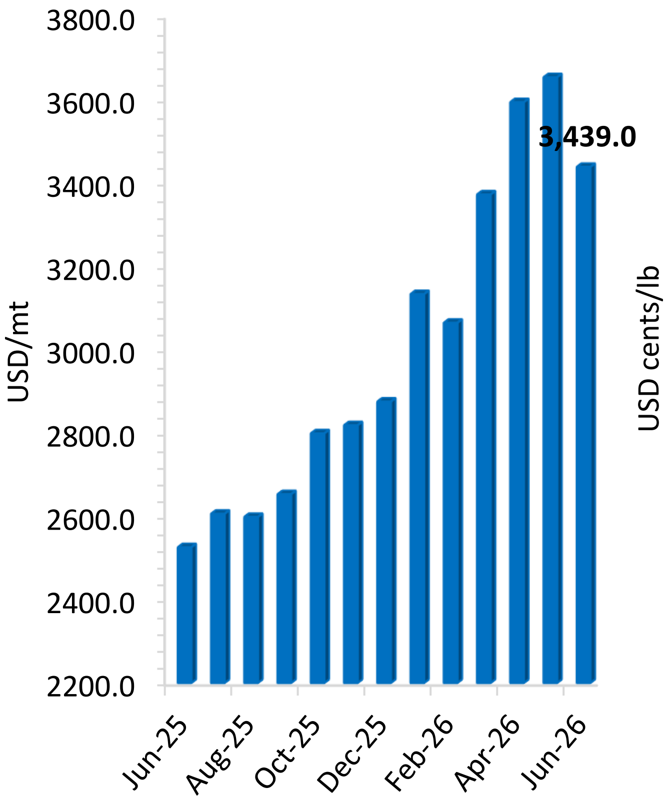


Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

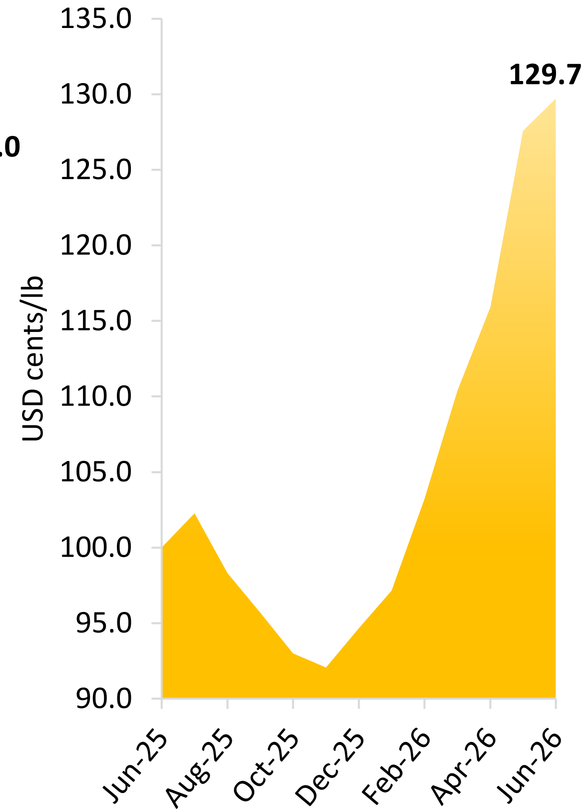
Source: IMF, World Bank

COMMODITY PRICES - MAY 2026 CONT'D

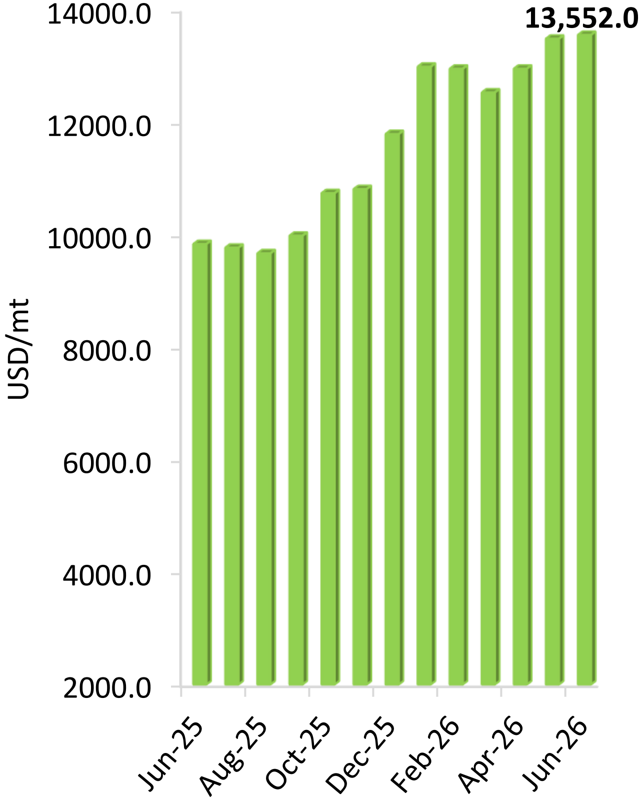
Aluminum



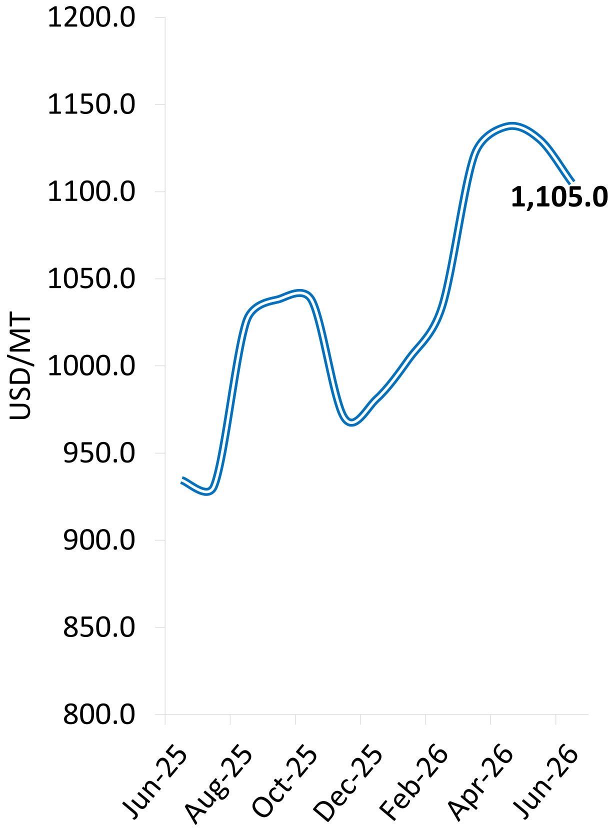
Rubber



Copper

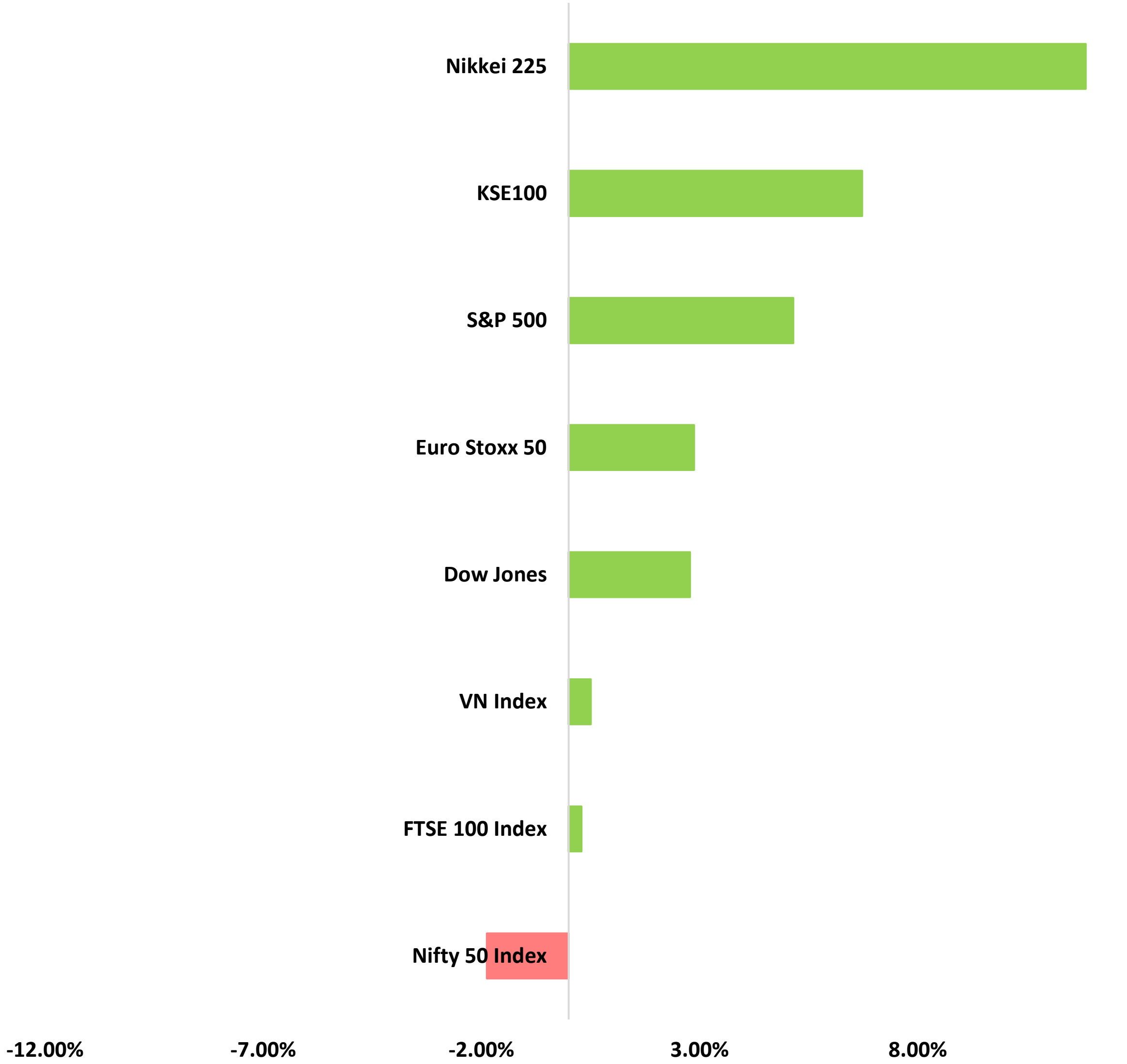


Palm oil



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

GLOBAL MARKET – JUN 2026



Homes Are in Short Supply in the US. How a New Law Could Change the Market

A new law adopted on July 11 marks the most significant effort in decades to boost the US housing supply. The 21st Century Road to Housing Act, which passed both chambers of Congress by a huge margin, is designed to bring relief to Americans struggling with lofty prices and mortgage rates. Its impact might not be felt for years, however, given the often long timelines on construction projects and state and local statutes that limit development.

EU regulators hit US wall in quest for private credit data

European financial supervisors seeking a clearer picture of banks' exposure to private credit markets are running into resistance from the U.S. Treasury, highlighting a widening transatlantic divide over financial regulation, officials say. European authorities are increasingly concerned about the global private-credit industry estimated at around $2 trillion, with much of it concentrated in the United States, and its limited disclosure, opaque valuations and complex funding structures.

Job seekers giving up: Labor force participation rate falls to lowest in 50 years, outside of Covid era

On the surface, a June drop in the unemployment rate helped provide some upside to what was an otherwise downbeat jobs report; but it was for all the wrong reasons. That’s because the decline in the jobless level to 4.2%, the lowest in a year, came largely from an exodus of workers from the labor force, according to the Bureau of Labor Statistics data. In fact, the measure of the working-age population either employed or looking for a job slid to 61.5%, the lowest since March 2021.

Source: Invseting.com, Bloomberg, CNBC & Reuters World

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