MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Aug 2026

CONTENT BRIEFING

THE CENTRAL BANK OF SRI LANKA HELD THE OVERNIGHT POLICY RATE UNCHANGED IN JUL-26

- The Central Bank of Sri Lanka, at its meeting held in Jul-26, decided to maintain the Overnight Policy Rate (OPR) at the current level of 8.75%. The Board arrived at this decision after carefully considering the evolving conditions and outlook on the domestic and global fronts.

- Renewed tensions in the Middle East and elevated global commodity prices, particularly petroleum prices, have added to the inflation outlook while posing downside risks to global economic growth and the domestic economy.

- Despite the predominantly supply-driven nature of recent inflation, CBSL observed that domestic demand conditions have strengthened, warranting continued vigilance over emerging demand-side pressures.

- The impact of the May monetary policy tightening is expected to gradually transmit to the real economy, helping moderate private sector credit growth and contain the buildup of demand pressures, alongside other measures by the Government and CBSL.

- With medium-term inflation expectations remaining well anchored, CBSL expects inflation to gradually return to the 5% target and will continue to monitor developments, remaining prepared to take further action if necessary.

Source: FC Research

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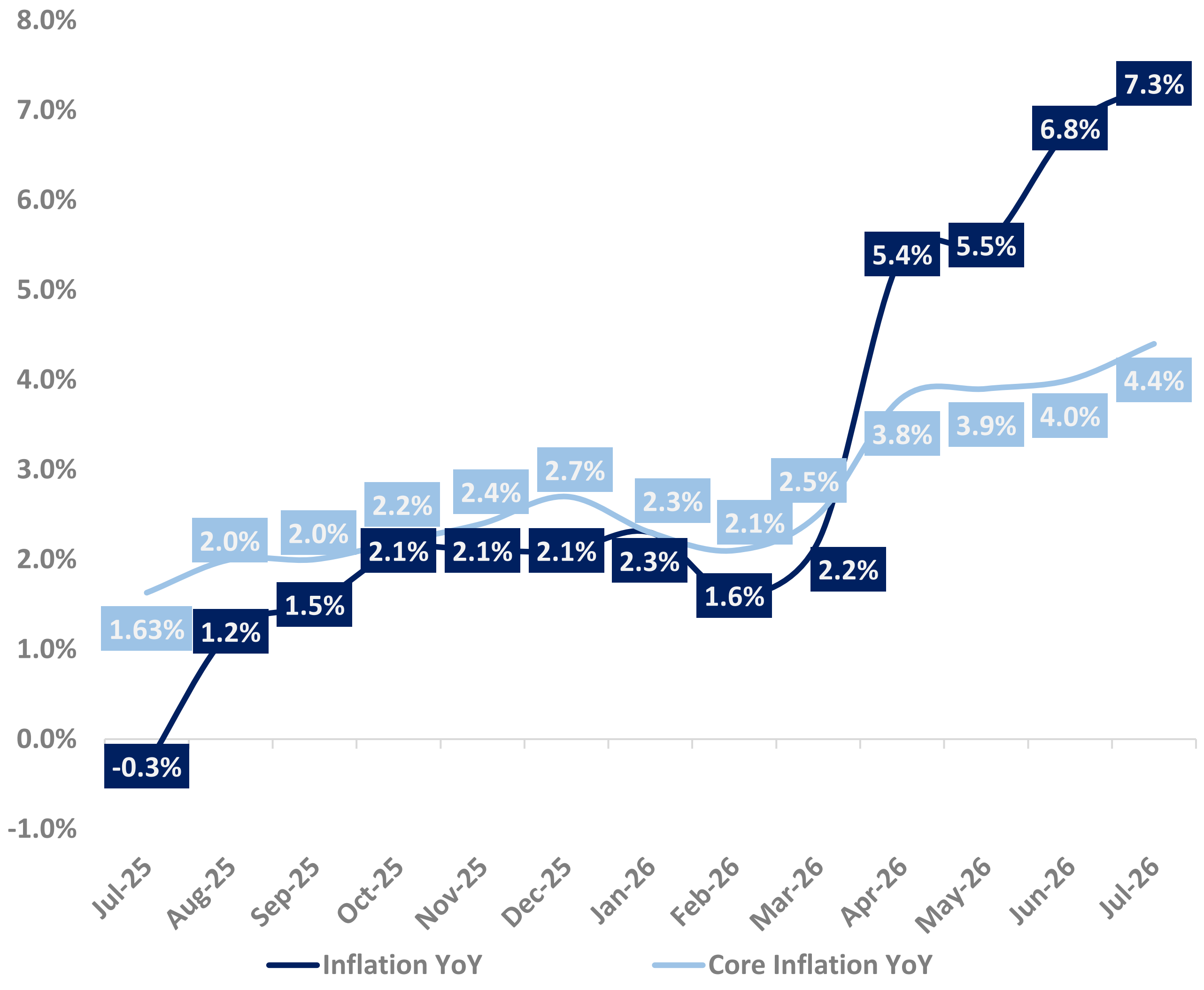
CCPI FOR JUL 2026:

MOM +0.2%

YOY +7.3%

- The CCPI for Jul-26 stood at +0.2% on a MoM basis, compared to the +2.1% level seen in Jun-26. Food inflation remained 0.0% for the month relative to the +4.5% registered in the previous month. Non-food inflation was +0.4%, lower than the +1.0% seen in Jun-26.
- The YoY increase accelerated to +7.3% in Jul-26 from the +6.8% level recorded in Jun-26. Food inflation increased to +6.3% from the +3.6% level seen in Jun-26, while non-food inflation stood at +7.8% in Jul-26 from the +8.4% level seen in the previous month.

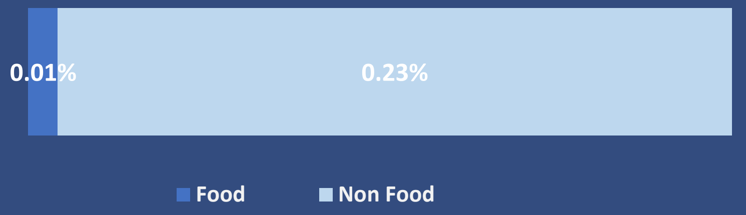
Inflation – CCPI



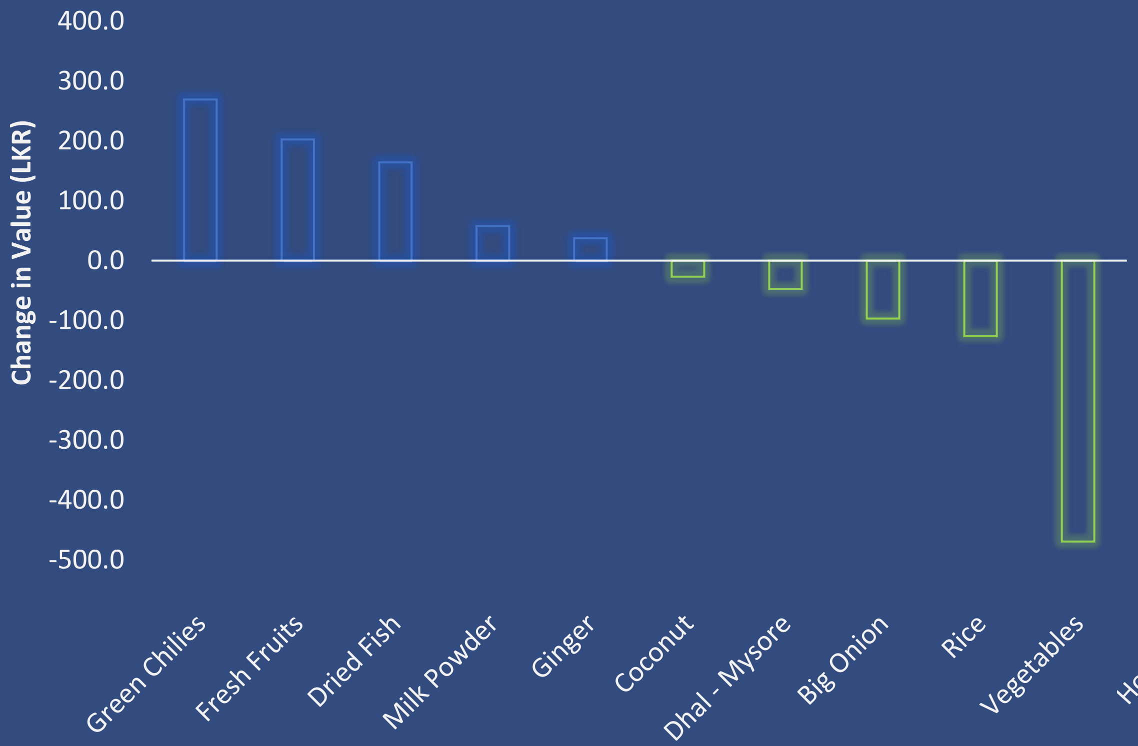
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

The CCPI Index for Jul-26 increased by +0.2%MoM. The Food category contributed by a modest +0.01%, with Green Chilies, Fresh Fruit and Dried Fish exerting noteworthy upward pressure on the group, while Vegetables, Rice and Big Onion registered major declines. Notably, the Non-Food category contributed +0.23%. Within the Non-Food segment, Housing, Water, Electricity, Gas & Other Fuels registered a noteworthy uptick with all other sub-components except Alcoholic beverages Tobacco and Narcotic and Transport rose modestly in Jul-26.



Food Category Inflation

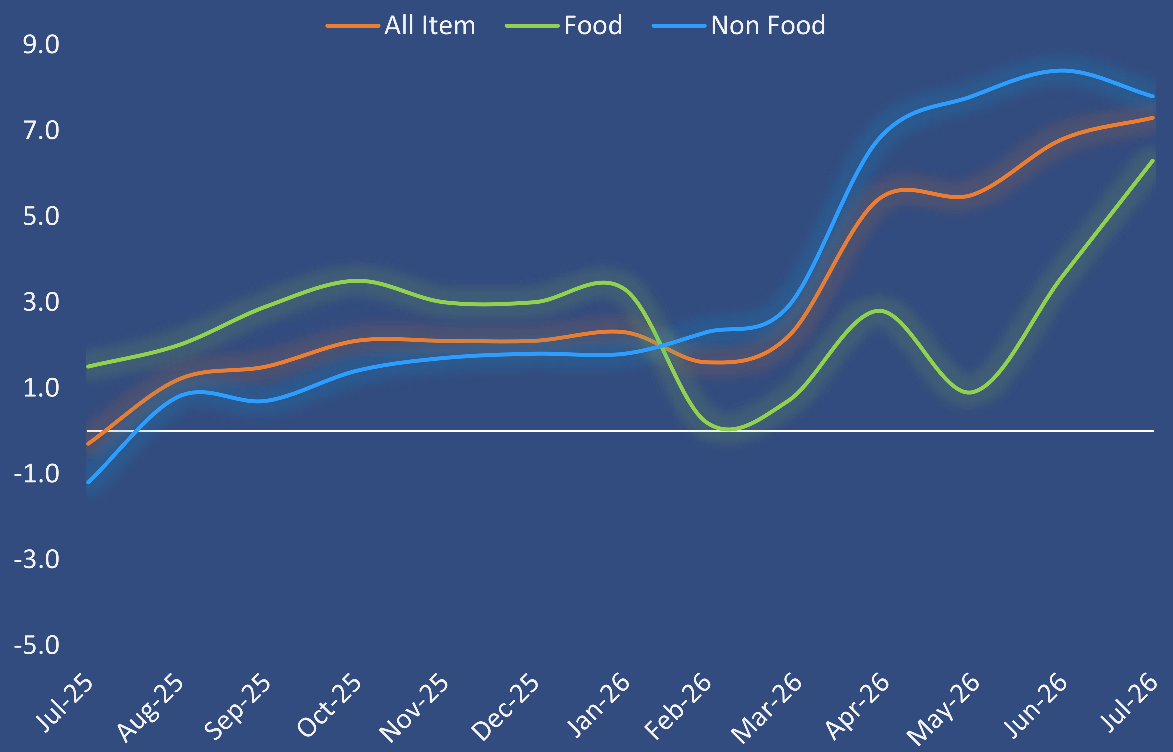


Non-Food Category Inflation

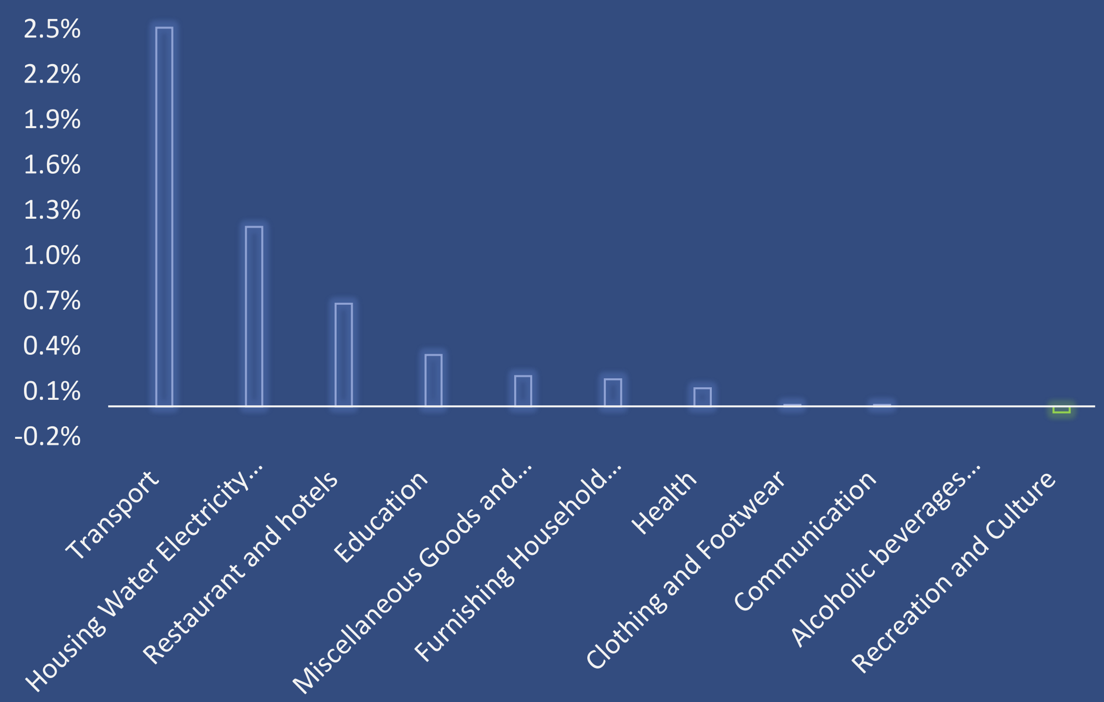
INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jul-26 stood at +7.3%, which marked an increase from the +6.8% level that was seen in Jun-26. Contribution of Food inflation stood at +2.06%, while that of Non-Food was +5.21%. In the Food segment, Sea Fish, Dried Fish and Milk Powder registered the highest upward adjustment. Within the Non-Food segment all sub-components recorded price increases except Alcoholic beverages Tobacco and Narcotic and Recreation and Culture, with highest upticks seen in Transportation and Housing Water Electricity Gas and Other Fuels.

Inflation Analysis (YoY)



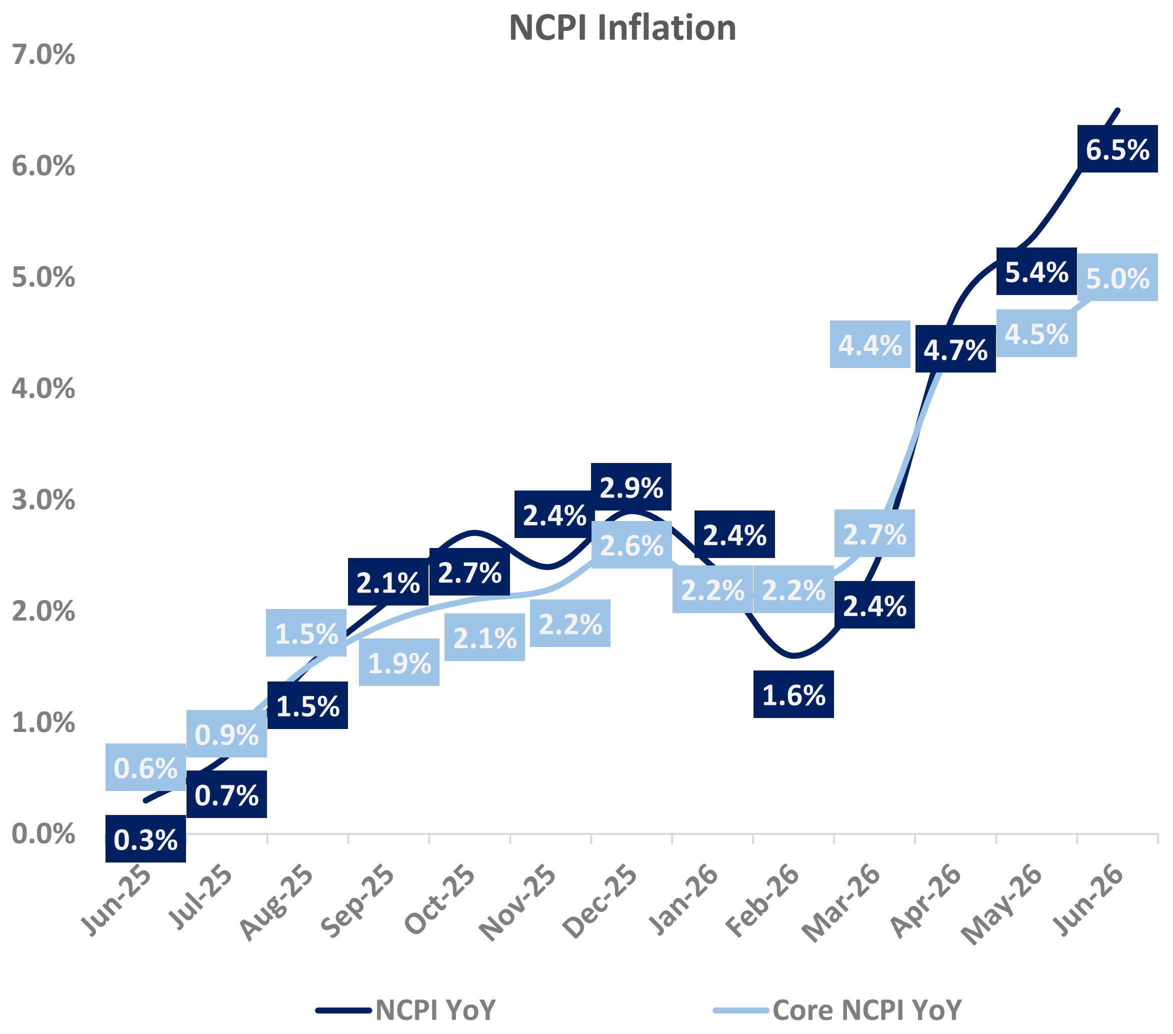
Non-Food Category Inflation



Inflation – NCPI

NCPI FOR MAY 2026: INCREASED TO +6.5%YOY

- NCPI for Jun-26, increased to +6.5%YoY from +5.4%YoY seen in May-26.
- This trend was driven by an increase in Non-Food inflation, which rose to +9.3% in Jun-26 from +8.6% in the previous month. Food inflation also increased to +3.3% from +1.5% in May-26.



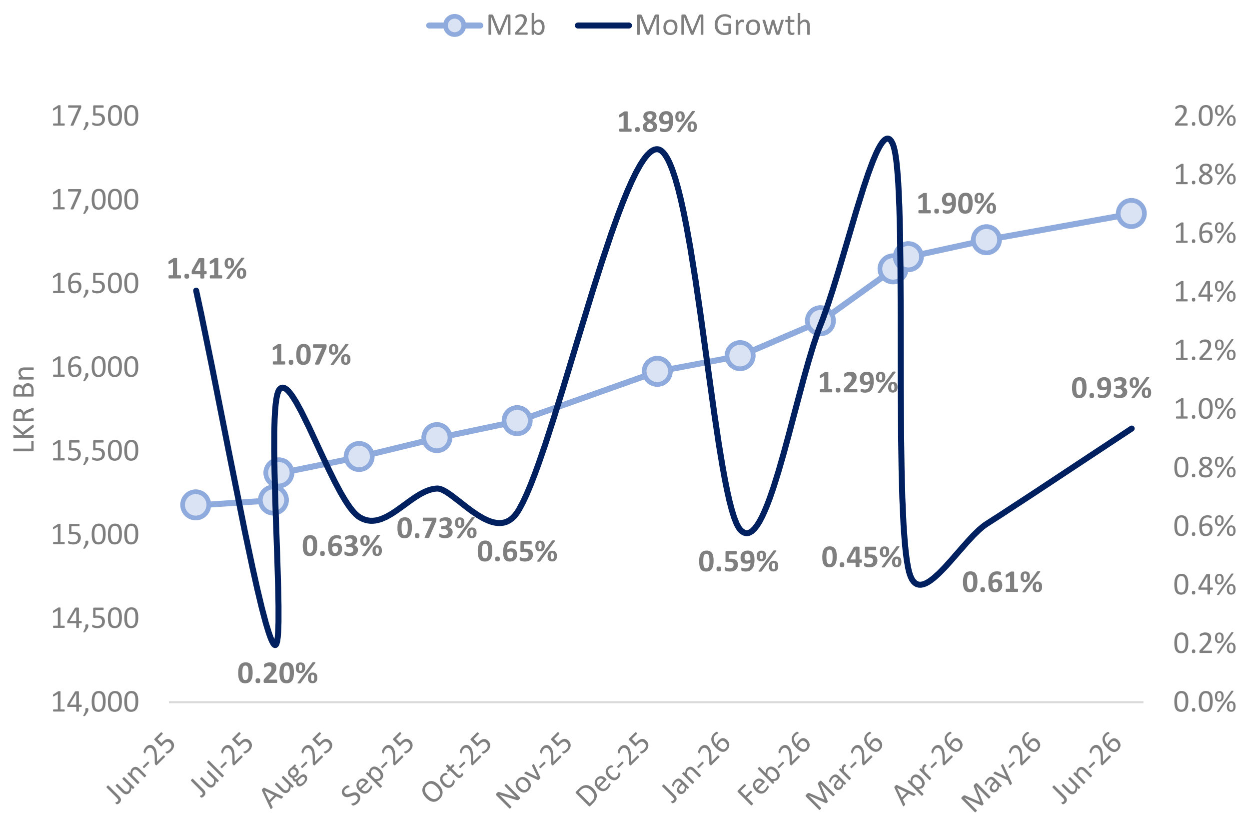
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 244.8Bn in Jun-26, while credit to the public sector decreased by LKR 142.8Bn for the same period.

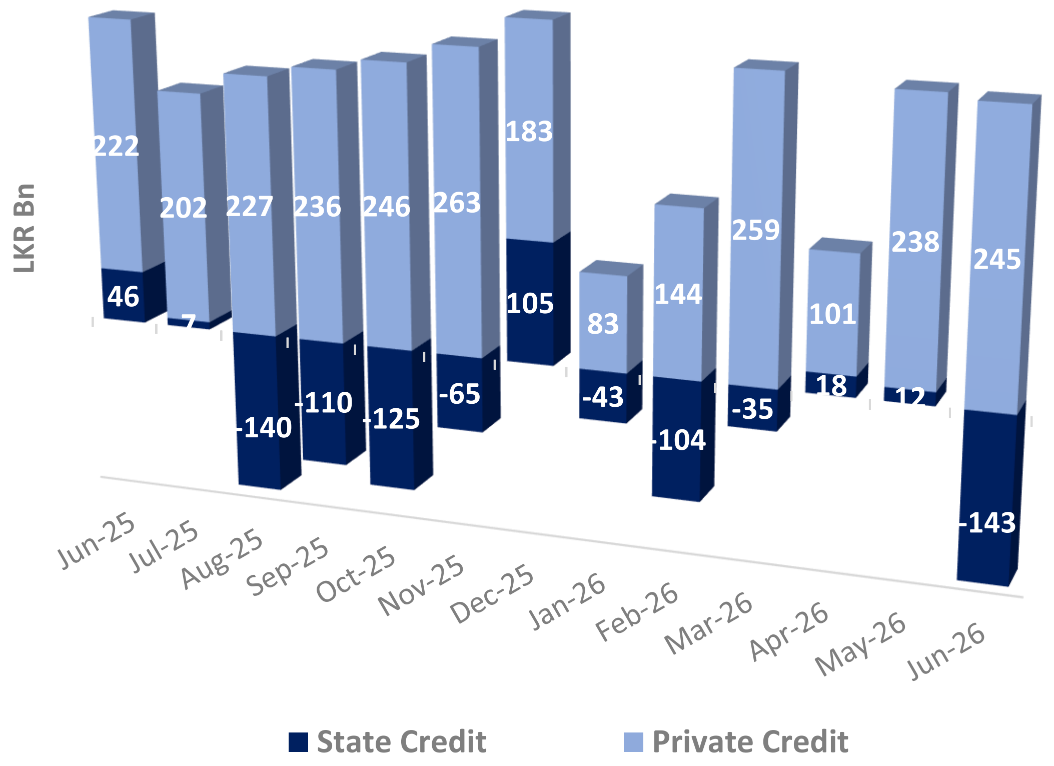
M2b Growth – Jun 2026

MoM +0.9%, YoY +11.5%, YTD +5.9%

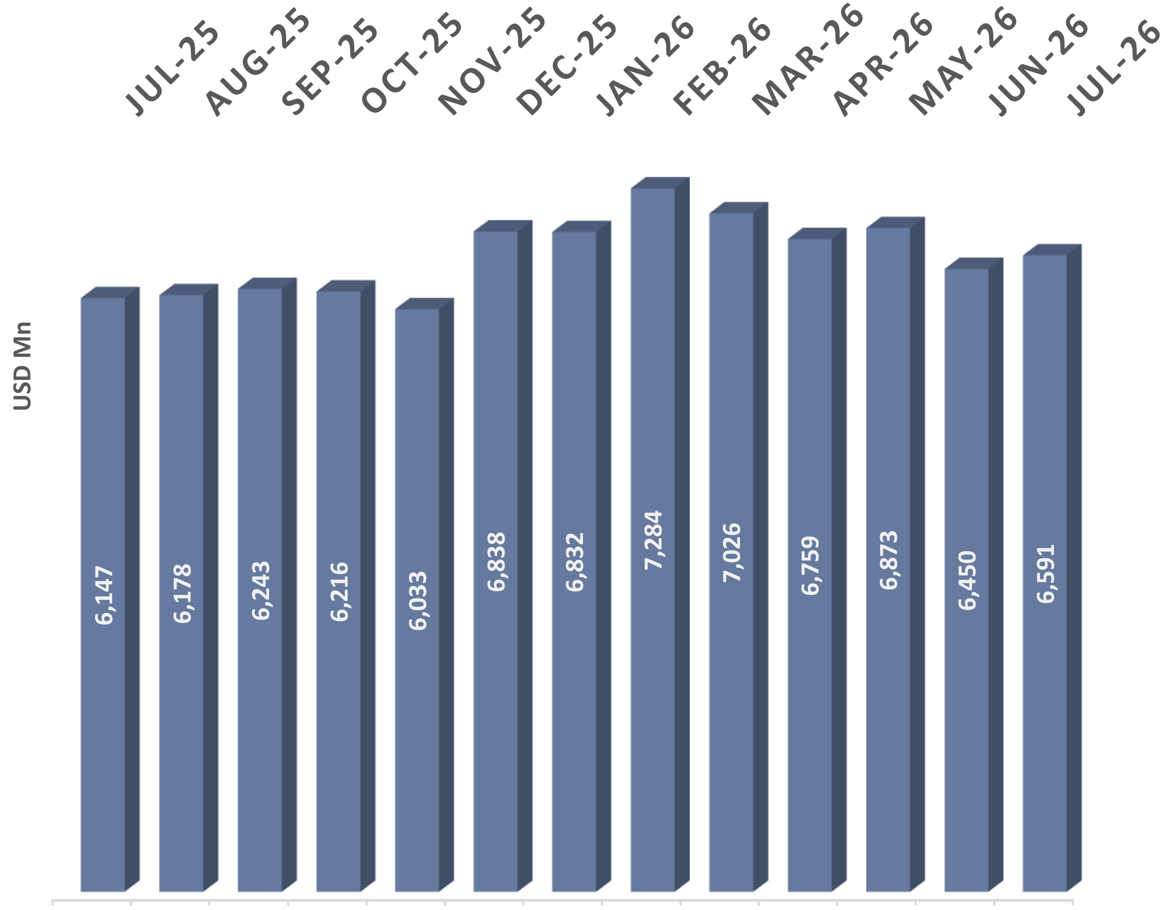


State Credit & Private Credit – Jun 2026

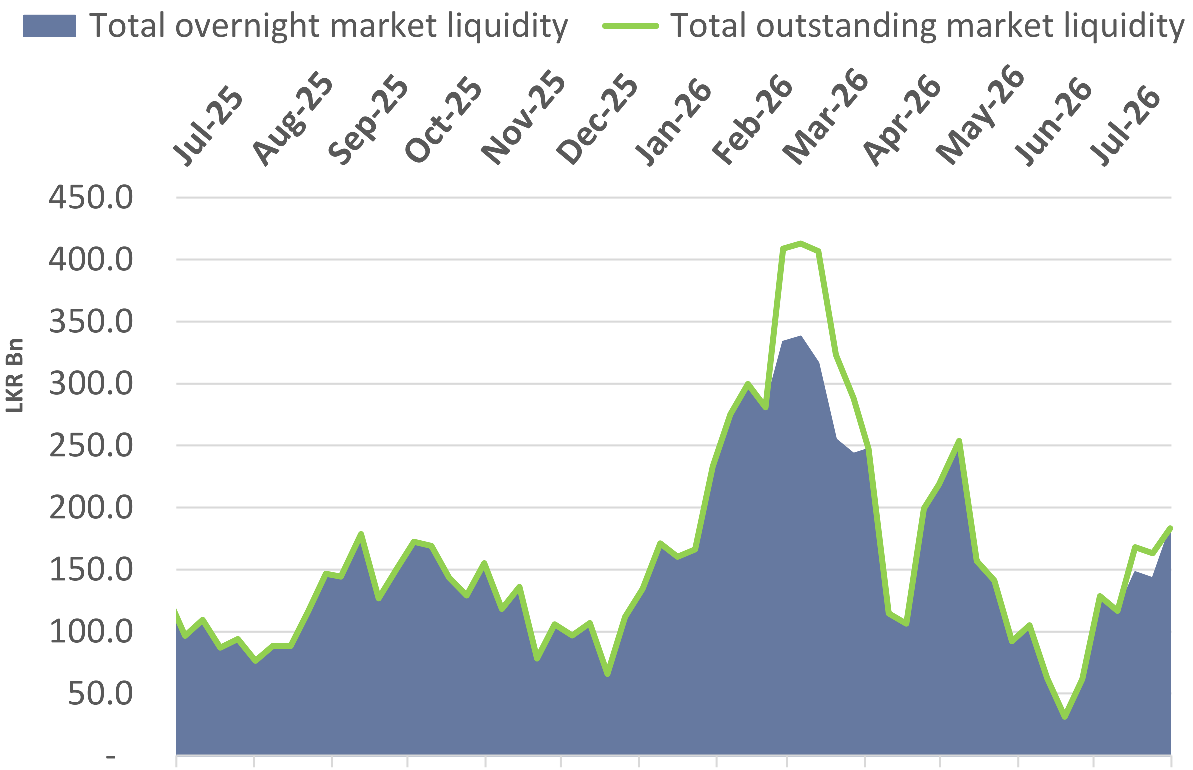
Private Credit MoM +2.2%, YoY +27.4%, YTD +10.5%



- Foreign Reserves increased by USD 141.0Mn to USD 6,591Mn in Jul-26.



- Both overnight market liquidity and outstanding market liquidity increased in Jul-26 compared to the previous month and stood at LKR 183.3Bn by end Jul-26.

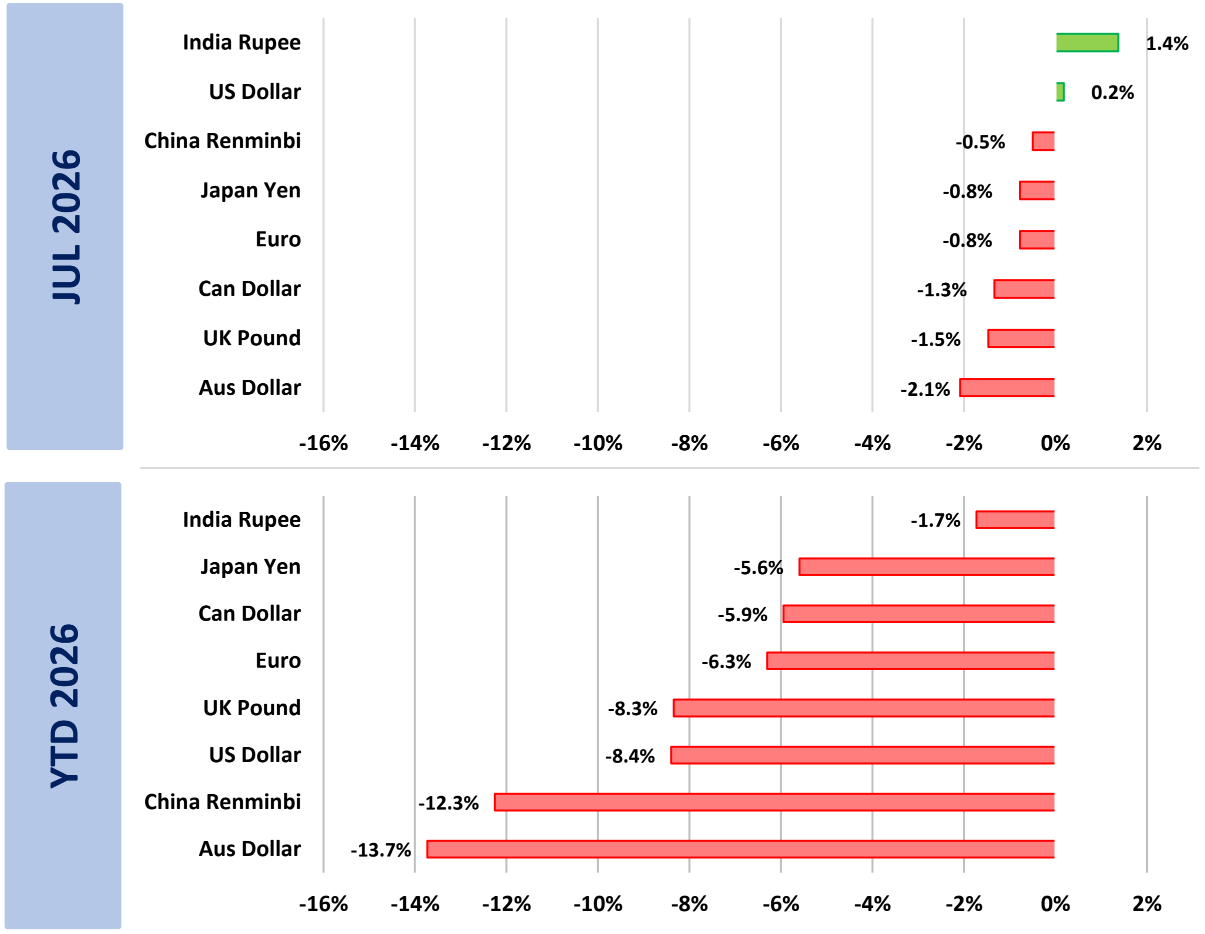


Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

CURRENCY MOVEMENT

USD:LKR Movement

Sri Lankan Rupee vs Global Currencies



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jul 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
3-Jul-26	107,731		107,731
10-Jul-26	110,000		110,000
17-Jul-26	132,000	165,000	297,000
24-Jul-26	154,000		154,000
31-Jul-26	154,000		154,000
Total Issued			**822,731**

Net settlements for Jul 2026

Net Settlement	Jul 2026	YTD
Maturities	711,078	4,373,077
Coupon Payment	186,285	1,425,313
New Issues	822,731	3,998,933
Excess/ (Deficit)	(74,632)	(1,4250,313)

CBSL Holdings of Gov. Securities		YTD
As at End Jul 2026	2,498,100	
As at End Jun 2026	2,498,100	
Increase/ (Decrease)	**0**	**-10,820**

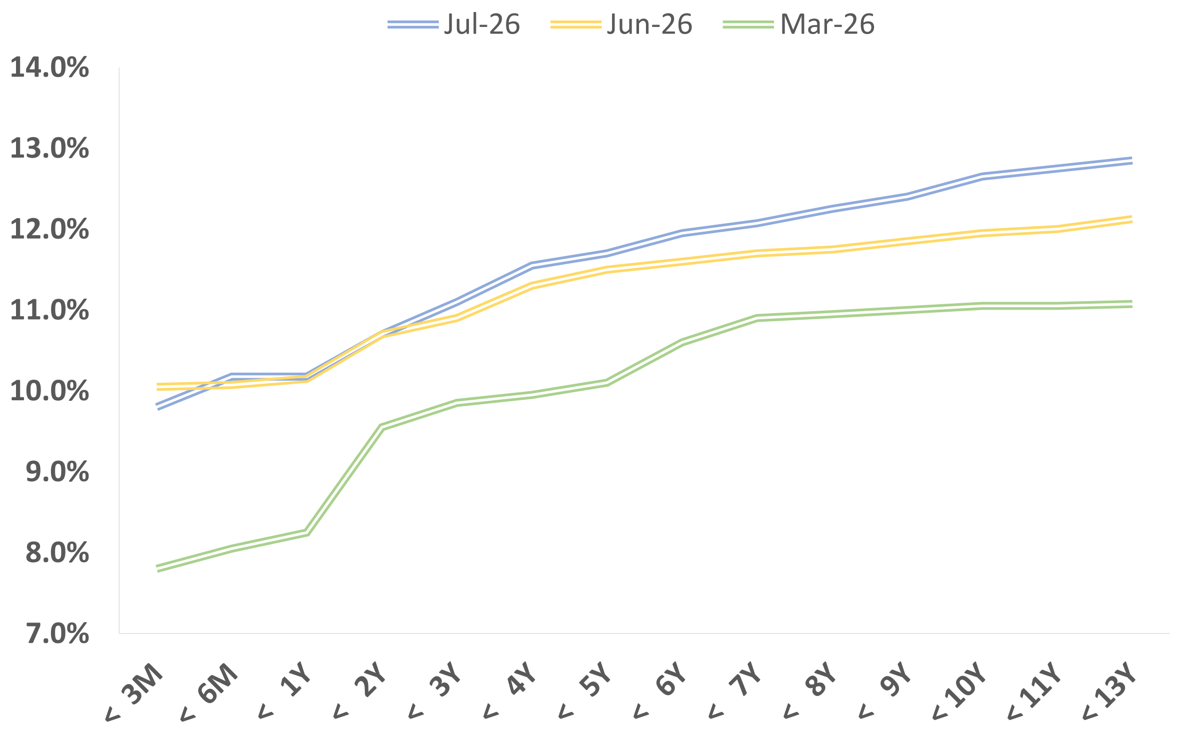
CBSL HOLDINGS OF GOV. SECURITIES…

…remained unchanged in Jul 2026

Source: CBSL

TREASURY BILLS AND BONDS –JUL 2026

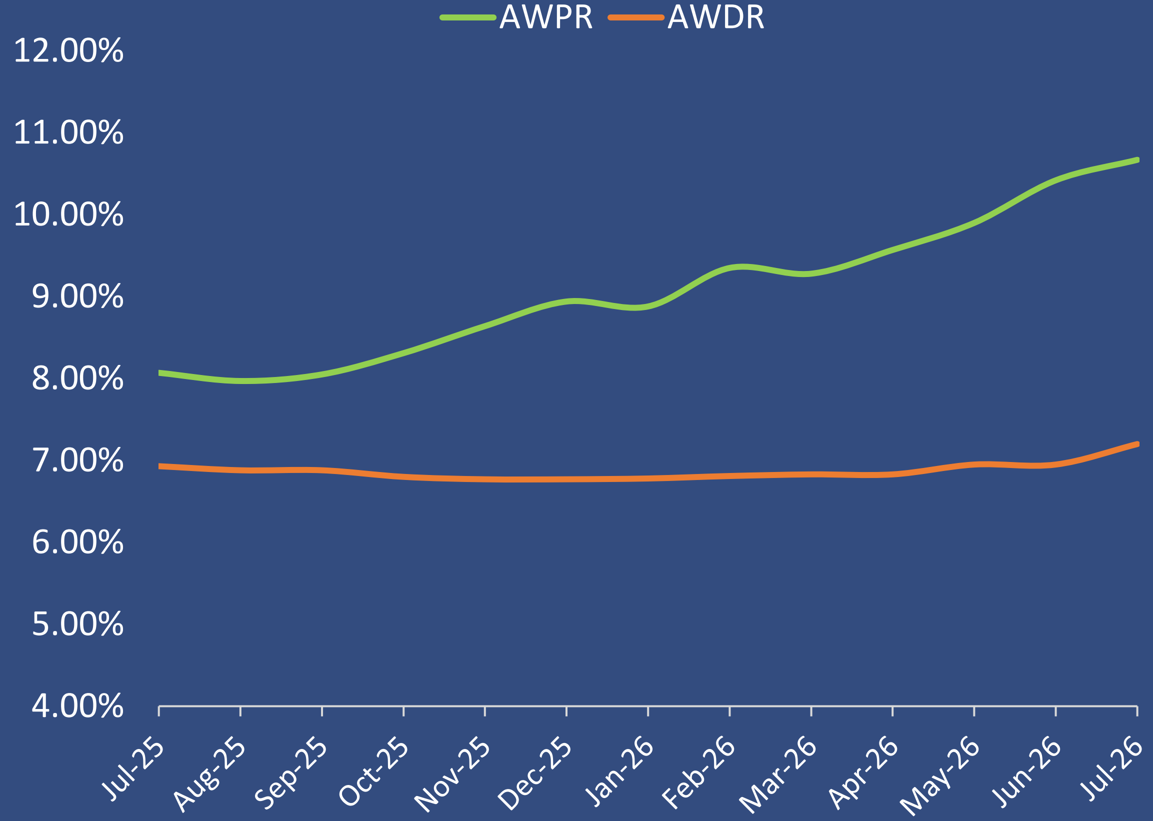
The secondary market commenced July 2026 with mixed investor sentiment, as moderate activity and selective buying interest were observed across the curve. Foreign demand for select tenors provided a notable boost to trading volumes towards the end of the first week, although the yield curve remained broadly anchored. Investor sentiment turned more positive at the start of the second week, supported by strong local and foreign participation, but this momentum gradually faded as trading activity eased towards mid- and end-week. The remainder of the month was characterised by subdued market activity, with investors largely adopting a wait-and-see approach around the T-Bond auctions. At the T-Bill auctions held throughout the month, the PDMO successfully raised the full offered amounts, despite some variation in investor appetite across maturities. The first T-Bill auction of the month (1st Jul-26), weighted average yields rose modestly across all three maturities. Thereafter, yields generally eased, driven by improved market liquidity, and the direction set by the PDMO. By the end of the month the weighted average yields of the 3M, 6M and 12M T-Bills stood at 9.86%, 10.21% and 10.20% respectively. Meanwhile, at the T-Bond auction held on 13th of July, the PDMO raised the full offered amount of LKR 150.0Bn through the 2030, 2034 and 2037 maturities at weighted average yields of 11.57%, 12.04% and 12.58%, respectively. Overall, despite intermittent foreign buying and easing short-term yields, cautious investor participation kept secondary market yields broadly anchored through July.



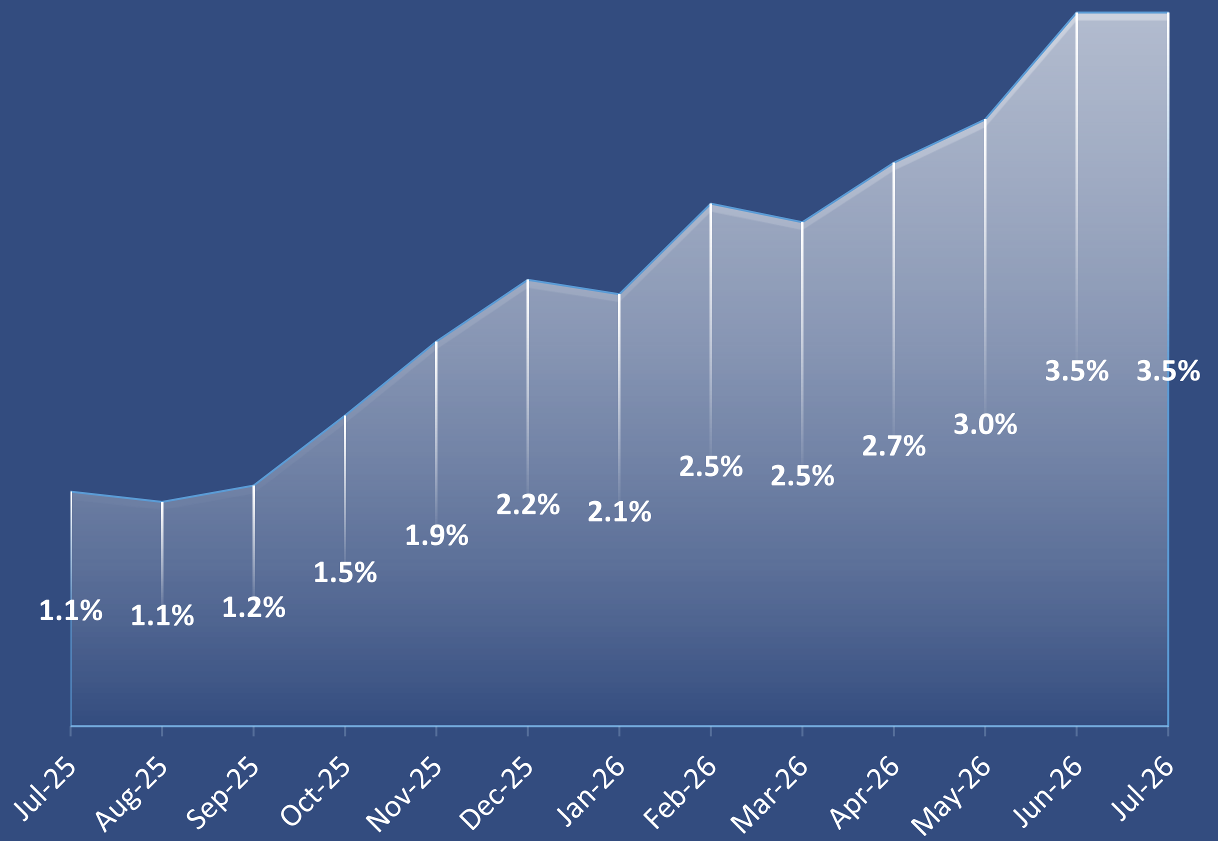
Interest Rate Change (bps)

Tenure	Jul 2026	Jun 2026	Change (bps)	Mar 2026	Change (bps)
< 3M	9.80%	10.05%	-25	7.80%	+200
< 6M	10.18%	10.08%	+10	8.05%	+213
< 1Y	10.18%	10.15%	+3	8.25%	+193
< 2Y	10.70%	10.70%	+0	9.55%	+115
< 3Y	11.10%	10.90%	+20	9.85%	+125
< 4Y	11.55%	11.30%	+25	9.95%	+160
< 5Y	11.70%	11.50%	+20	10.10%	+160
< 6Y	11.95%	11.60%	+35	10.60%	+135
< 7Y	12.08%	11.70%	+38	10.90%	+118
< 8Y	12.25%	11.75%	+50	10.95%	+130
< 9Y	12.40%	11.85%	+55	11.00%	+140
< 10Y	12.65%	11.95%	+70	11.05%	+160
< 11Y	12.75%	12.00%	+75	11.05%	+170
< 13Y	12.85%	12.13%	+73	11.08%	+178
< 15Y	N/A	N/A	N/A	N/A	N/A

AWPR vs AWDR



Interest Spread

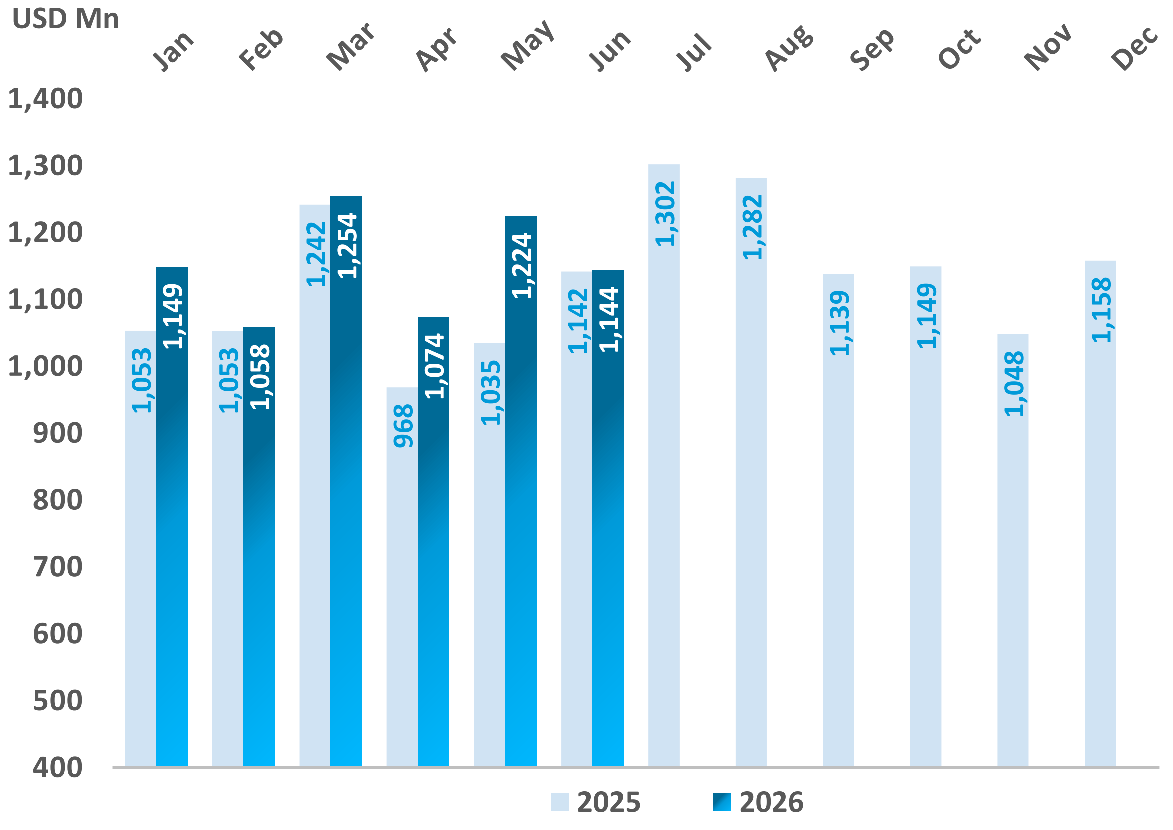


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR - JUN 2026 - EXPORTS

In Jun-26, exports stood at USD 1,143.8Mn, reflecting a modest 0.2%YoY increase. Industrial exports which make up the largest component in the export basket grew by 1.5%YoY in June, supported by higher inflows from petroleum products despite a 11.6%YoY contraction in the textile and garments segment. Agricultural exports contracted by 4.6%YoY during June, driven by dips in both tea and coconut exports. Mineral and other exports rose by 12.4%YoY during the month. Cumulative exports for the first half of 2026 stood at USD 6,903.2Mn denoting a 6.3%YoY increase.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- Jun	883.8	897.1	1.5
- YTD	5,044.5	5,424.6	7.5
Agricultural			
- Jun	255.3	243.6	-4.6
- YTD	1,427.5	1,450.4	1.6
Mineral & Other Exports			
- Jun	2.8	3.1	12.4
- YTD	20.1	28.2	40.8
Total			
- **Jun**	1,141.8	1,143.8	0.2
- **YTD**	6,492.1	6,903.2	6.3



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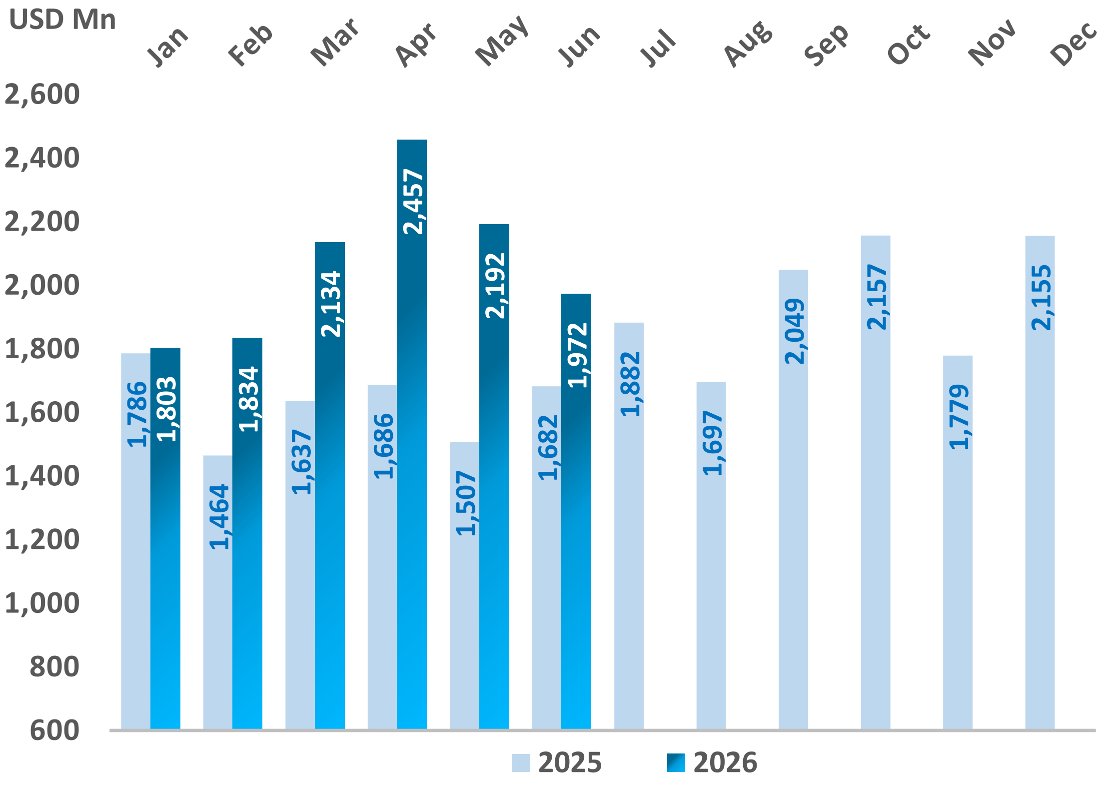
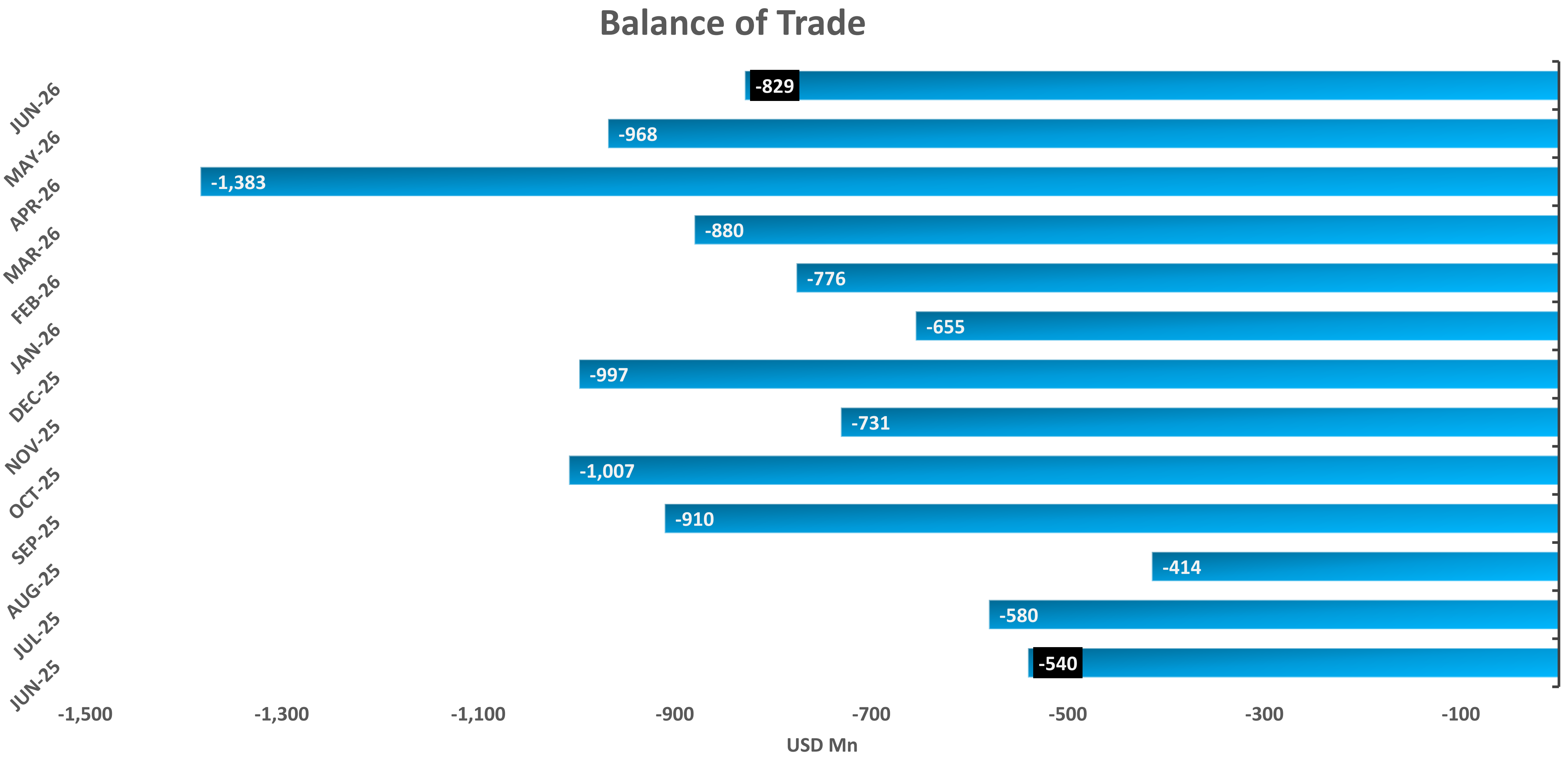
In Jun-26, imports rose to USD 1,972.3Mn registering an uptick of 17.3%YoY. All components within the import basket rose in June, with intermediate imports which is the largest segment rising by 13.7%YoY. This was primarily driven by a 40.2%YoY increase in fuel imports as global energy prices continue to remain above the pre-crisis average. Consumer goods rose by 13.0%YoY owing to expansions in both food and non-food imports. Investment goods and other imports segment rose by 34.4%YoY as a result of higher machinery and equipment imports. Cumulative imports for the first half of 2026 stood at USD 12,392.3Mn which denotes an uptick of 26.9%YoY.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- Jun	418.9	473.4	13.0
- YTD	2,315.5	3,036.5	31.1
Intermediate			
- Jun	958.5	1,089.4	13.7
- YTD	5,575.6	7,058.7	26.6
Investment goods & other			
- Jun	304.6	409.5	34.4
- YTD	1,871.1	2,297.1	22.8
Total			
- Jun	1,682.1	1,972.3	17.3
- YTD	9,762.2	12,392.3	26.9

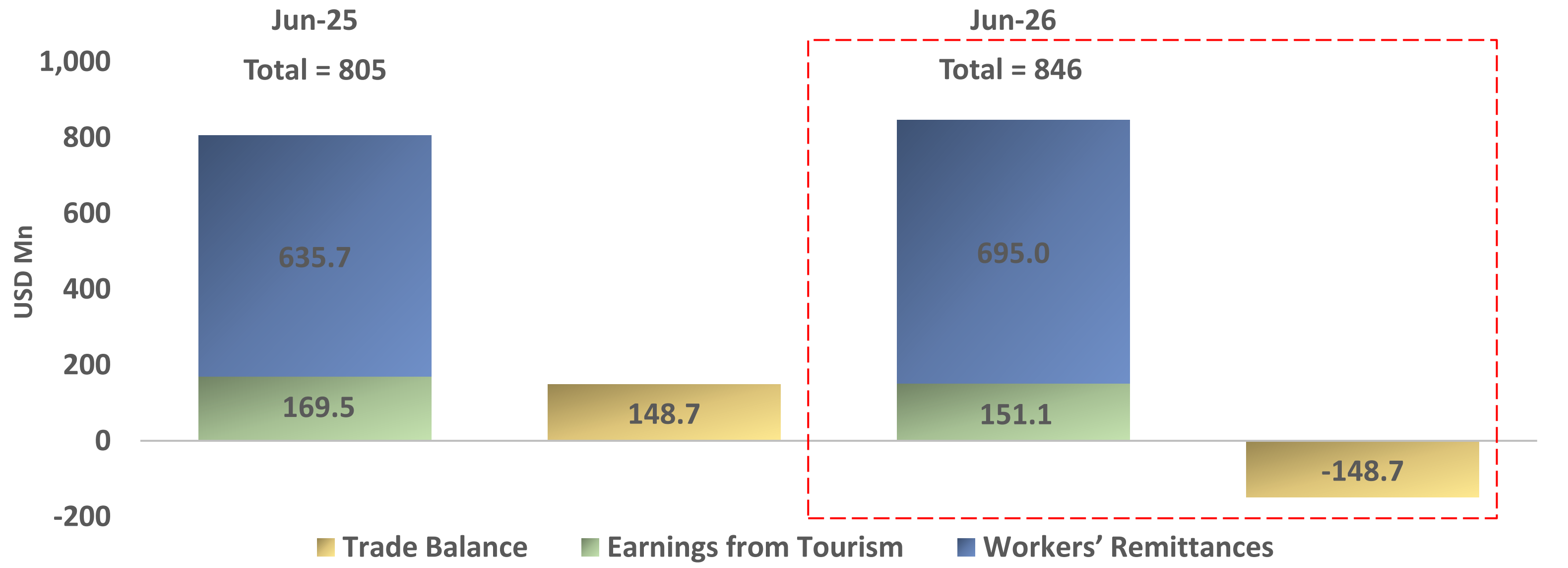


Source: CBSL


Balance of Trade
JUN-26
MAY-26
APR-26
MAR-26
FEB-26
JAN-26
DEC-25
NOV-25
OCT-25
SEP-25
AUG-25
JUL-25
JUN-25
-829
-968
-1,383
-880
-776
-655
-997
-731
-1,007
-910
-414
-580
-540
-1,500
-1,300
-1,100
-900
-700
-500
-300
-100
USD Mn

The Current Account Balance for Jun-26 recorded a deficit of USD 148.7Mn compared to a surplus of USD 148.7Mn seen in Jun-25.

Workers' Remittances increased to USD 695.0Mn (+9.3%YoY) in Jun-26 while Earnings from Tourism declined to USD 151.1Mn (-10.9%YoY).



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CURRENT ACCOUNT BALANCE CONTRACTED YOY IN JUN-26

JUN USD Mn	2025	2026	Change (%)
Trade Balance	-540.3	-828.5	-53.3
Earnings from Tourism	169.5	151.1	-10.9
Workers' Remittances	635.7	695.0	+9.3

YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-3,270.1	-5,489.1	-67.9
Earnings from Tourism	1,712.6	1,511.1	-11.8
Workers' Remittances	3,738.0	4,604.8	+23.2

TOURIST ARRIVALS - JUNE 2026

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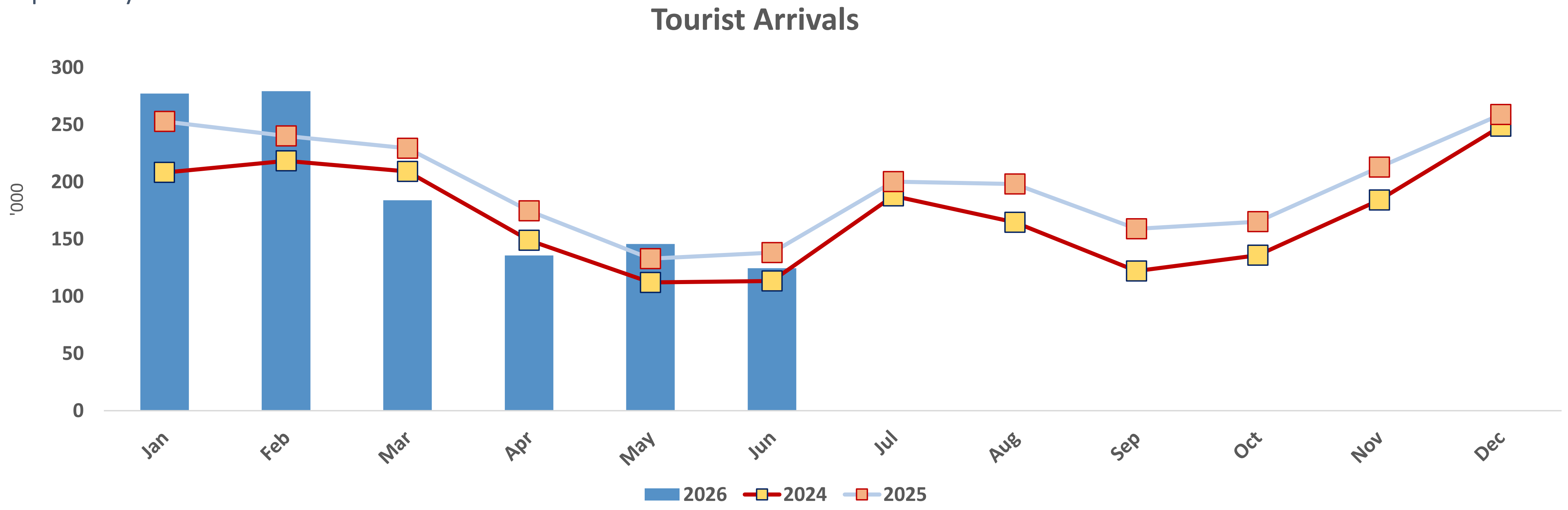
[JUNE 124,551: DOWN -9.9%YoY] [MoM: DOWN -14.5%]

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% each of total arrivals, respectively.

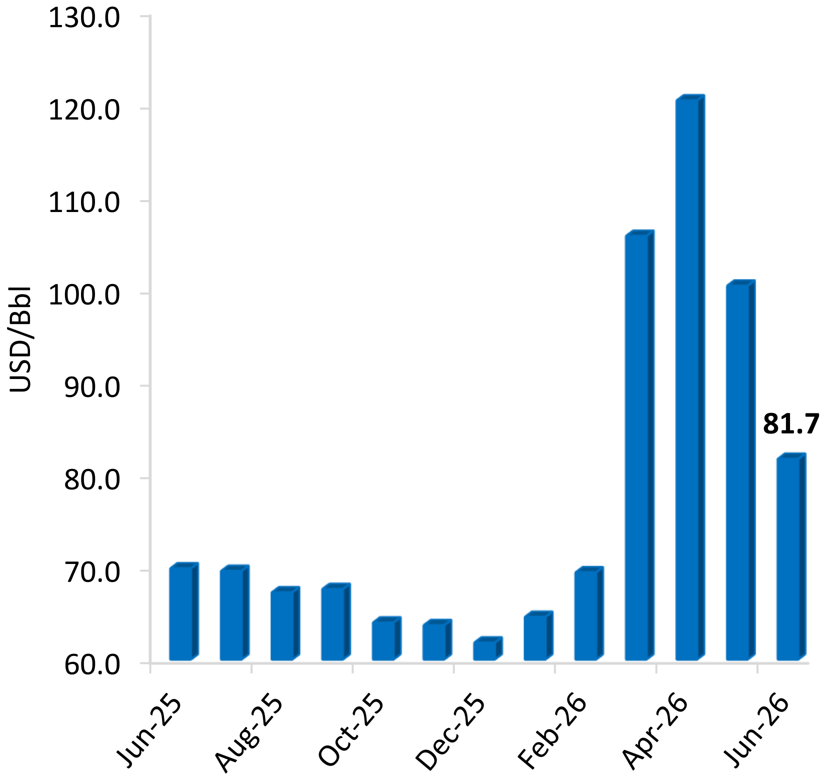


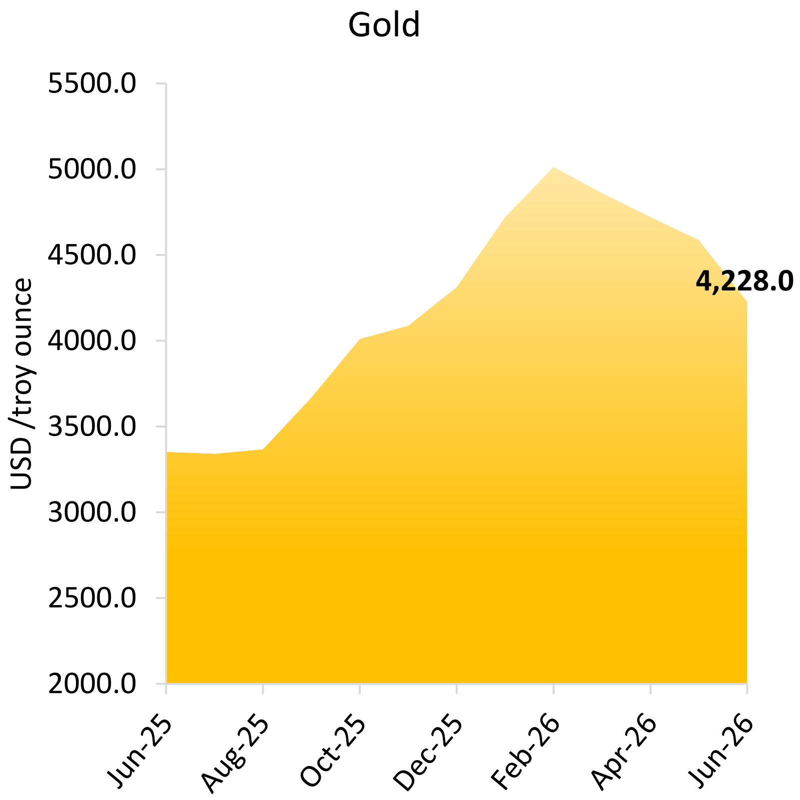
COMMODITY PRICES - JUN 2026

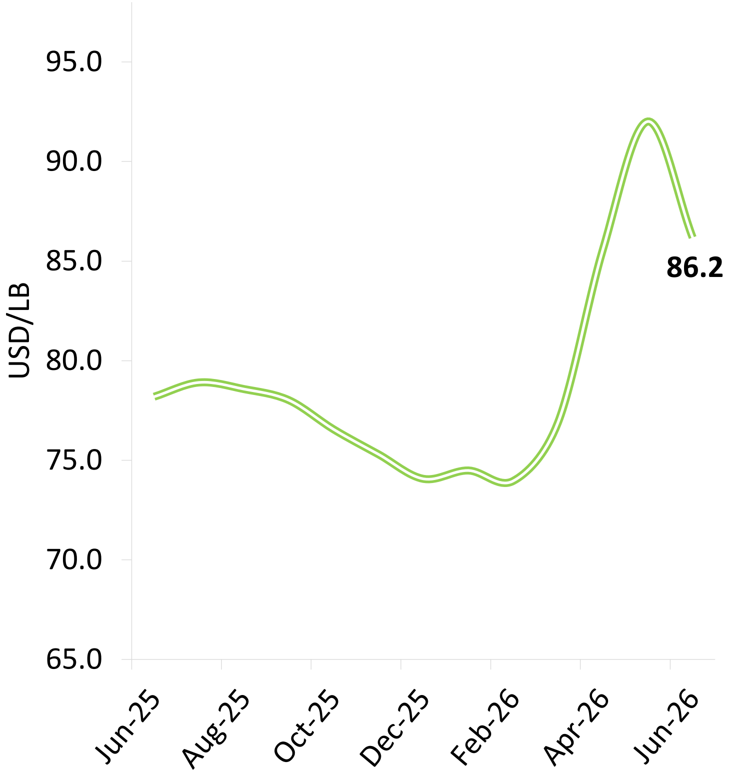
Crude oil

Gold

Cotton





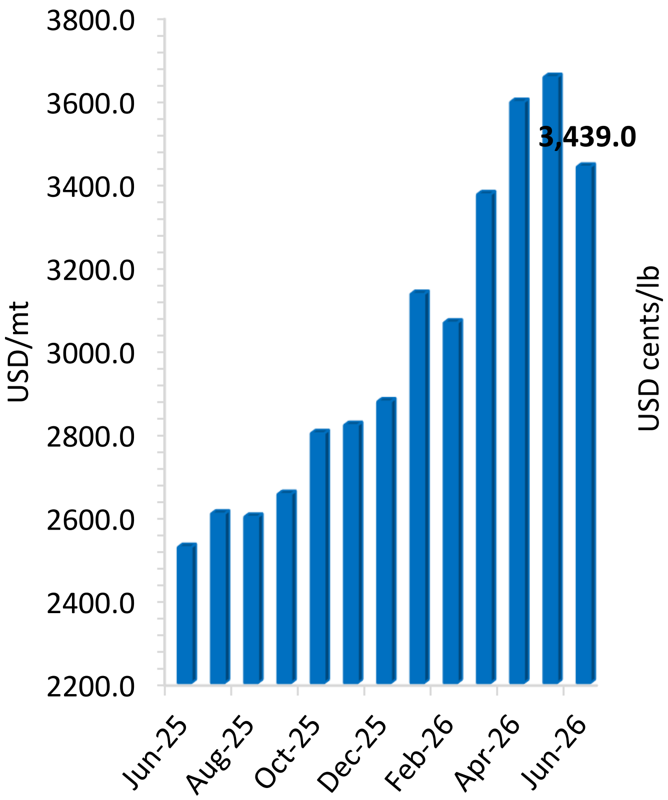


Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

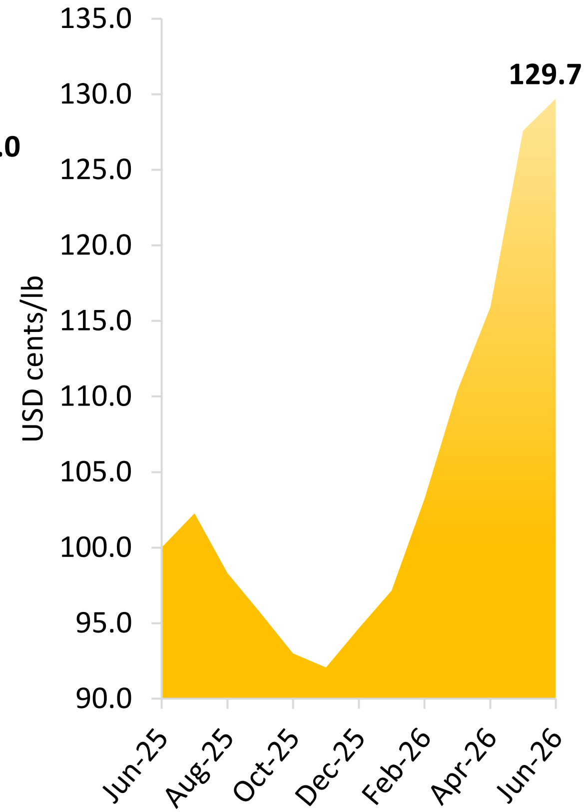
Source: IMF, World Bank

COMMODITY PRICES - JUN 2026 CONT'D

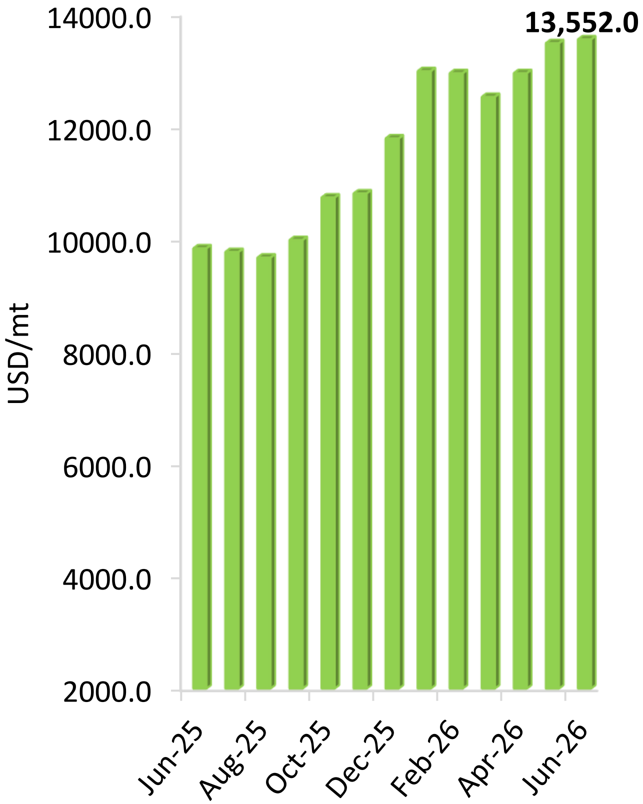
Aluminum



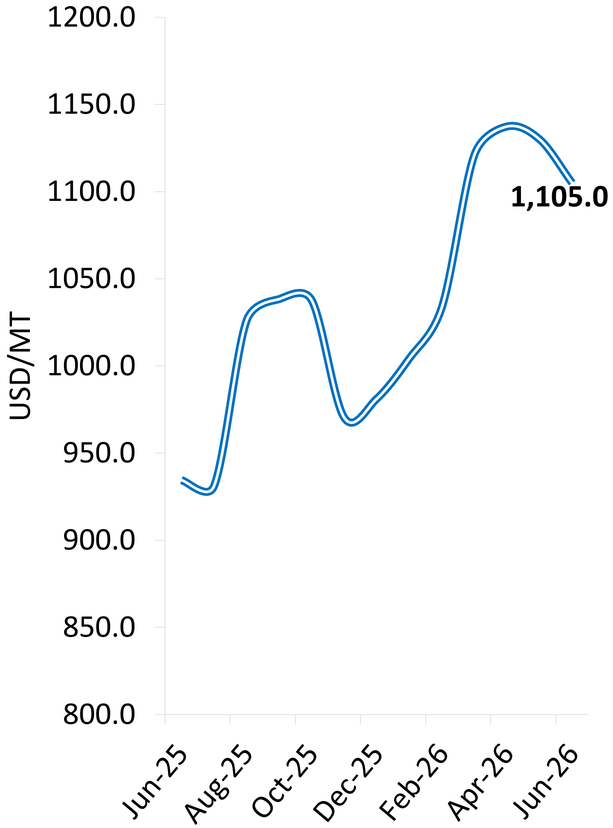
Rubber



Copper



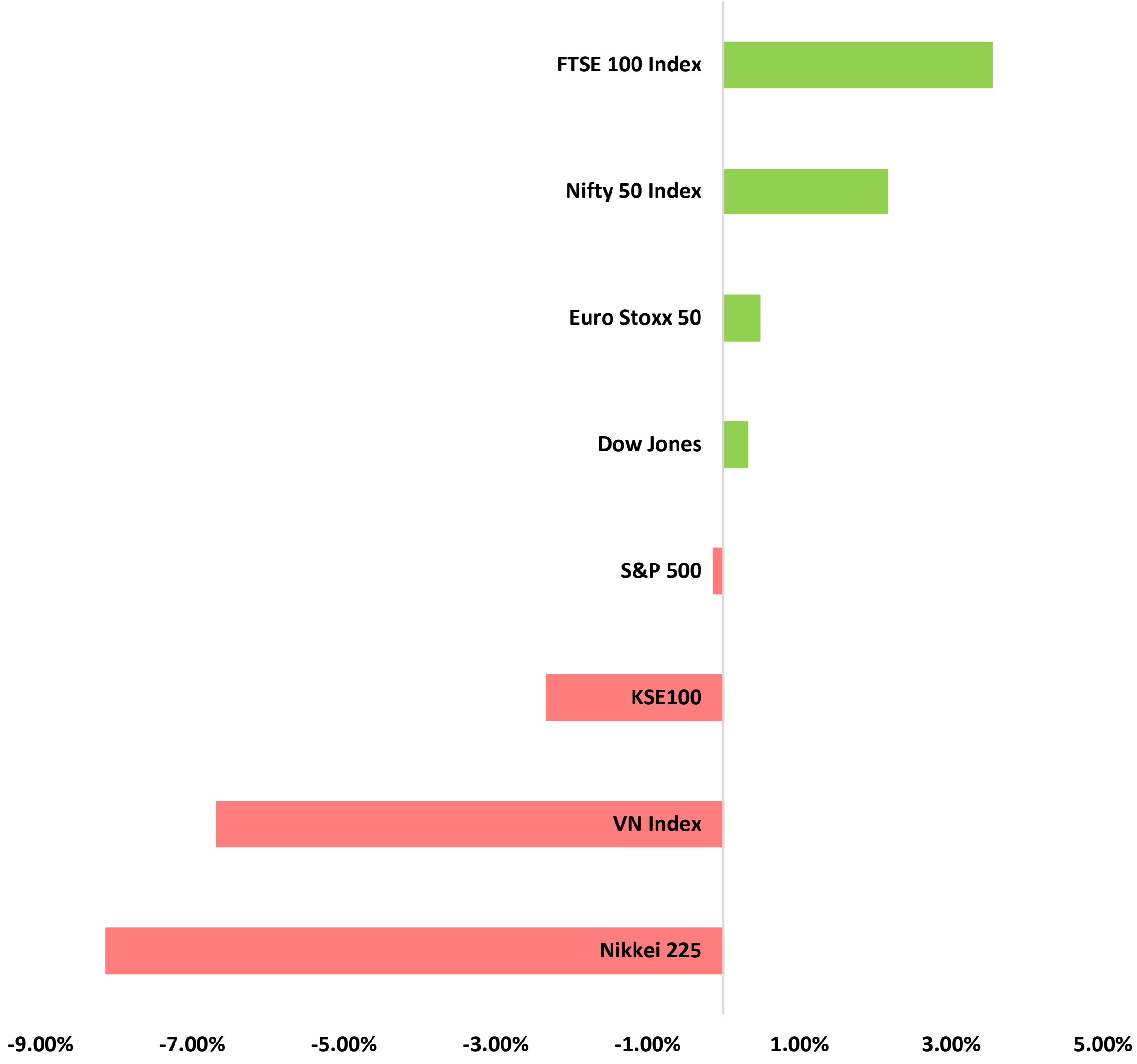
Palm oil



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

Source: IMF, World Bank

GLOBAL MARKET – JUL 2026



US GDP Growth Softens Despite Strong Consumer, Investment

The US economy grew at a weaker-than-expected pace in the second quarter, though a pickup in consumer spending and solid business investment signaled underlying strength. Inflation-adjusted gross domestic product increased an annualized 1.5% in the three months through June-26. Consumer spending, which comprises about two-thirds of economic activity, rose at a stronger-than-expected 3.2% rate. Business investment continued to boom amid a rush to invest in artificial intelligence.

Economic outlook is worsening and Trump is getting blamed, CNBC survey finds

Registered voters remain deeply concerned about their financial future despite a surging stock market and lower gas prices, according to the latest CNBC All-America Economic Survey. Amid the angst over rising prices for food and other goods, President Donald Trump's approval rating is just 40%, with high negatives on his handling of the economy and the war with Iran.

Persistently high inflation to nag global economy, say economists: Reuters poll

The prospect of persistently high inflation in the global economy is rising, according to a Reuters poll of nearly 500 economists who mostly raised inflation forecasts and cut growth views as the war in the Middle East entered its fifth month with no end in sight. Polling took place at a time when hostilities were briefly paused before the U.S. again resumed a bombing campaign and Iran hit targets in the region, which suggests an already deteriorating situation may look even worse in coming months.

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