MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Sep 2026

First Capital
A Janashakthi Group Company

CONTENT BRIEFING

GDP GROWTH RATE RECORD AT 4.2% IN 2Q2026

- The DCS has indicated that the Gross Domestic Product (GDP) growth rate for the second quarter of 2026 has been estimated as a positive growth of 4.2%.

- Accordingly, the GDP for Sri Lanka for the second quarter of the year 2026 at constant price (2015) has increased up to LKR 3.0Tn from LKR 2.9Tn which was recorded in the second quarter of 2025.

- In addition, the GDP for Sri Lanka for the second quarter of 2026 at current price has increased to LKR 8.2Tn from LKR 7.4Tn which was recorded in the same quarter in 2025 registering an 11.3% positive change in the current price GDP.

- The three major economic activities of the economy; Agriculture, Industry and Services stood at 8.4%, 25.9% and 52.7% respectively as their shares to the GDP at current price of the economy and Taxes less subsidies on products accounted for a share of 13.0% of the GDP in the second quarter of 2026.

- In the second quarter of 2026, overall Agricultural activities declined by 2.3%. Industrial activities and Services activities reported expansions of 7.3% and 2.7% respectively. In the meantime taxes less subsidies on products reported an increase of 11.9% in this quarter. of 2026.

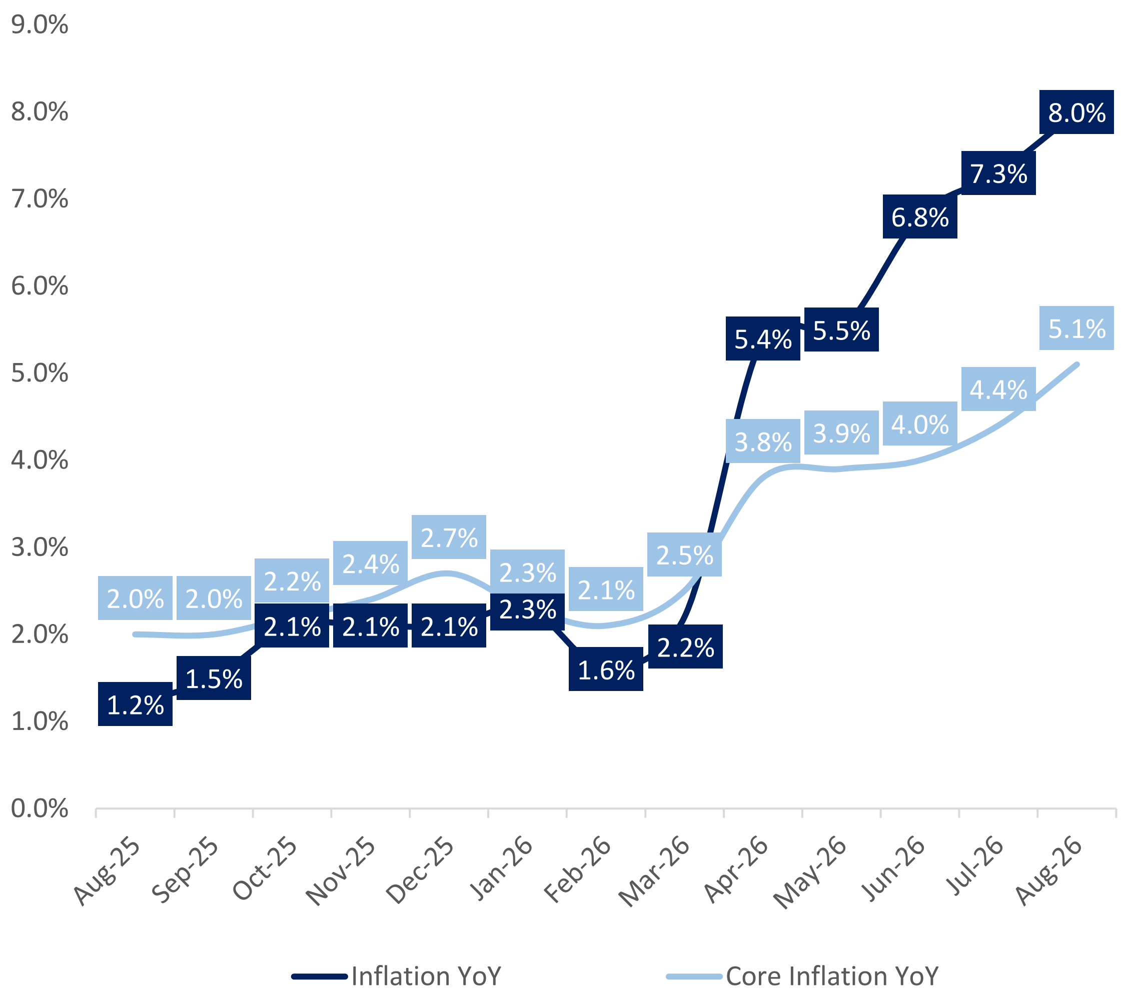
CCPI FOR AUG 2026:

MOM +0.3%

YOY +8.0%

- The CCPI for Aug-26 stood at +0.3% on a MoM basis, compared to the +0.2% level seen in Jul-26. Food inflation moved +0.6% for the month relative to the +0.0% registered in the previous month. Non-food inflation was +0.1%, lower than the +0.4% seen in Jul-26.
- The YoY increase accelerated to +8.0% in Aug-26 from the +7.3% level recorded in Jul-26. Food inflation increased to +8.5% from the +6.3% level seen in Jul-26, while non-food inflation stood at +7.7% in Aug-26, down from the +7.8% level seen in the previous month.

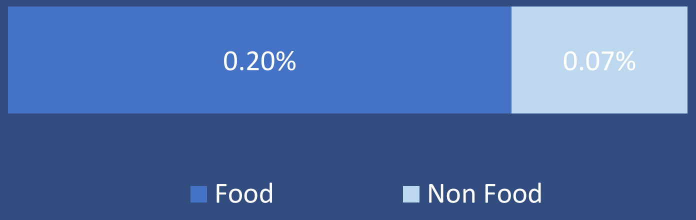
Inflation – CCPI



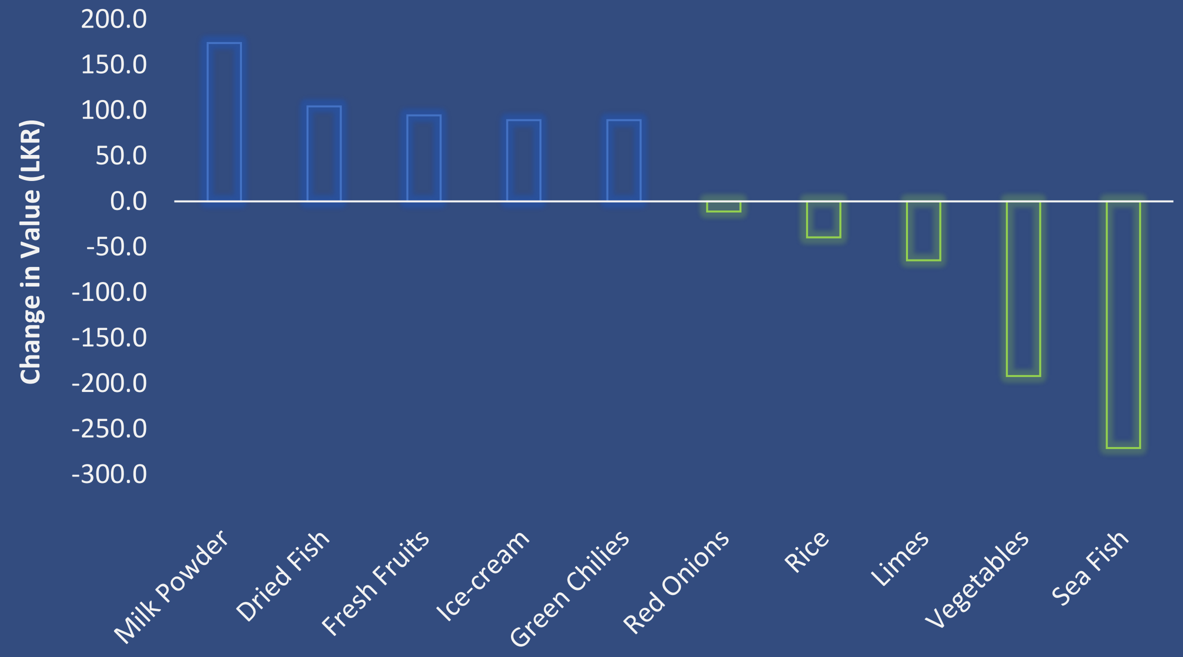
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

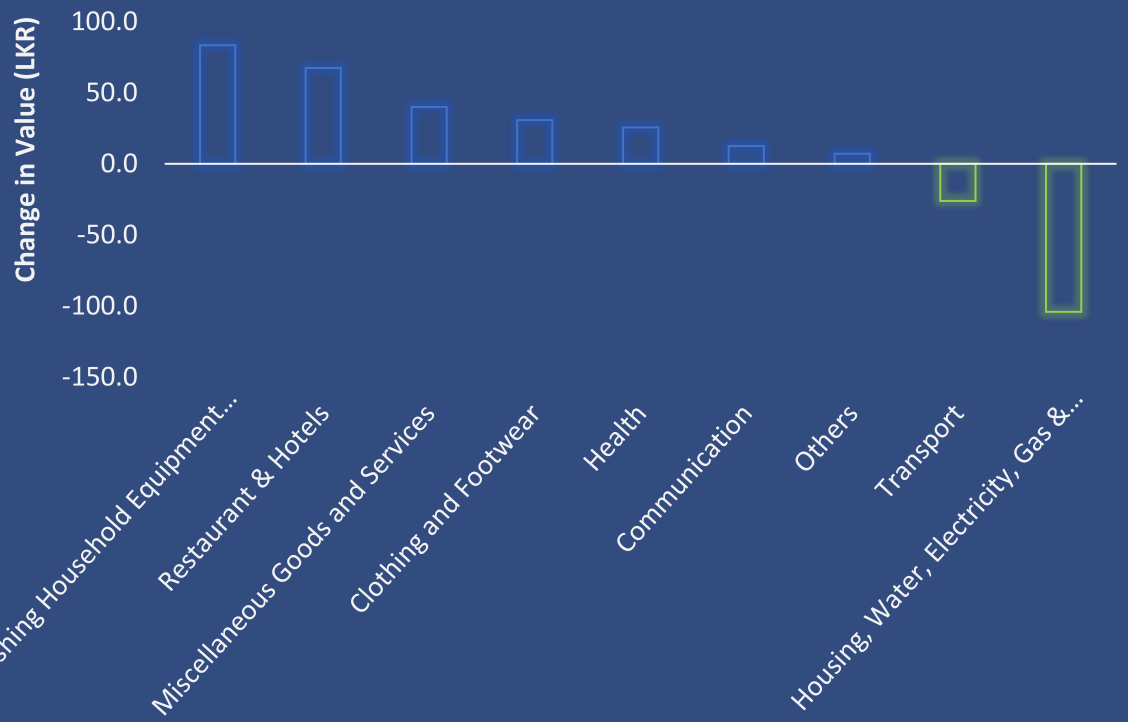
The CCPI Index for Aug-26 increased by +0.3%MoM. The Food category contributed by +0.20%, with Milk Powder, Dried Fish and Fresh Fruits exerting upward pressure on the group, while Sea Fish, Vegetables and Limes registered declines. The Non-Food category contributed +0.07%. Within the Non-Food segment, increases were seen in Furnishing Household Equipment and Routine Household Maintenance, Restaurants and Hotels and Miscellaneous Goods and Services. Meanwhile decreases were seen in Housing, Water, Electricity, Gas and Other Fuels and Transport.



Food Category Inflation

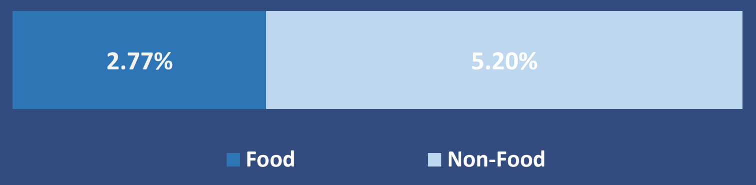


Non-Food Category Inflation

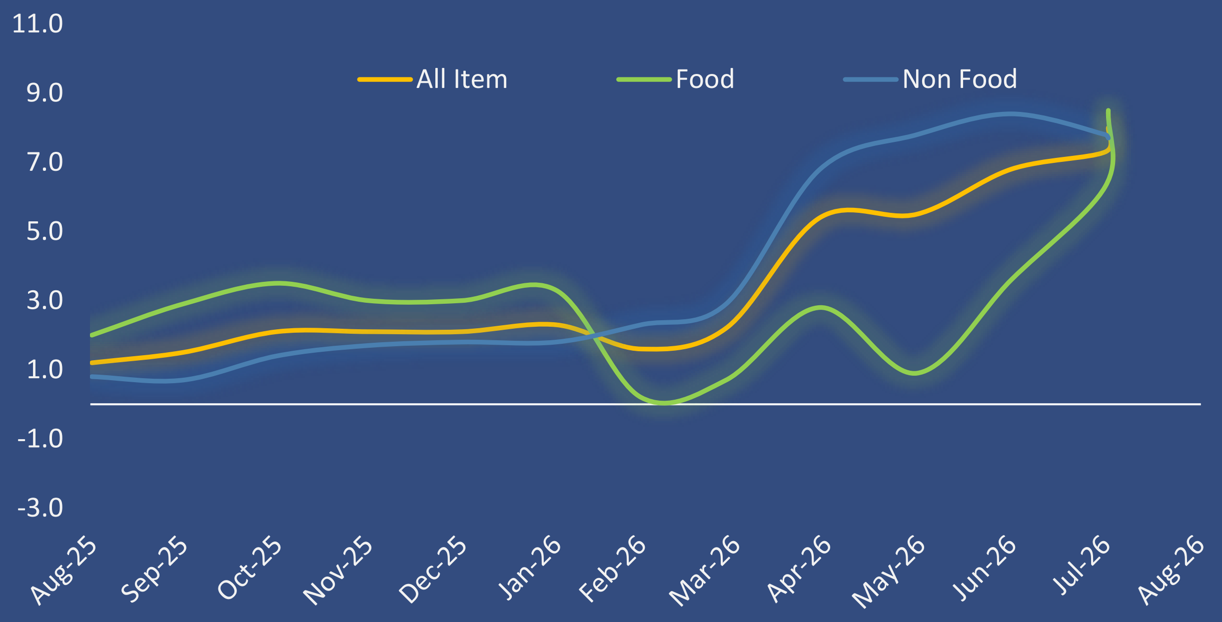


INFLATION ANALYSIS – CCPI-YOY

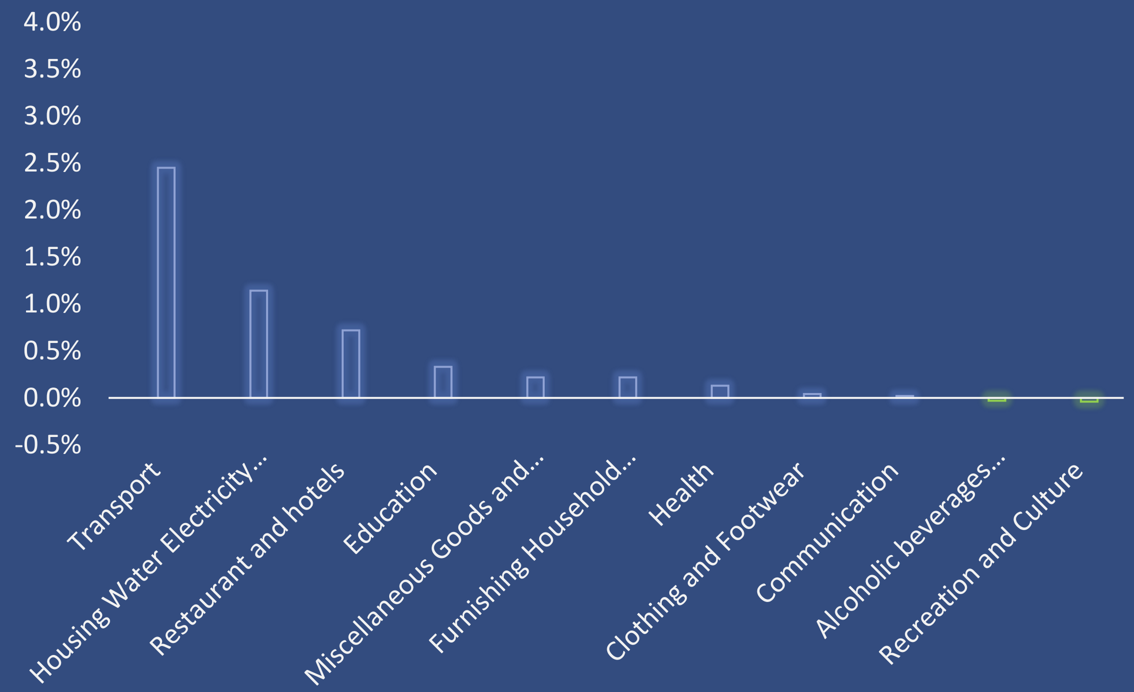
The YoY inflation of CCPI for Aug-26 stood at +8.0%, which marked an increase from the +7.3% level that was seen in Jul-26. Contribution of Food inflation stood at +2.77%, while that of Non-Food was +5.20%. In the Food segment, Sea Fish, Dried Fish and Green Chilies registered the highest upward adjustment. Within the Non-Food segment, Transport, Housing Water Electricity Gas and Other Fuels and Restaurant and Hotels recorded the highest uptick.



Inflation Analysis (YoY)



Non-Food Category Inflation



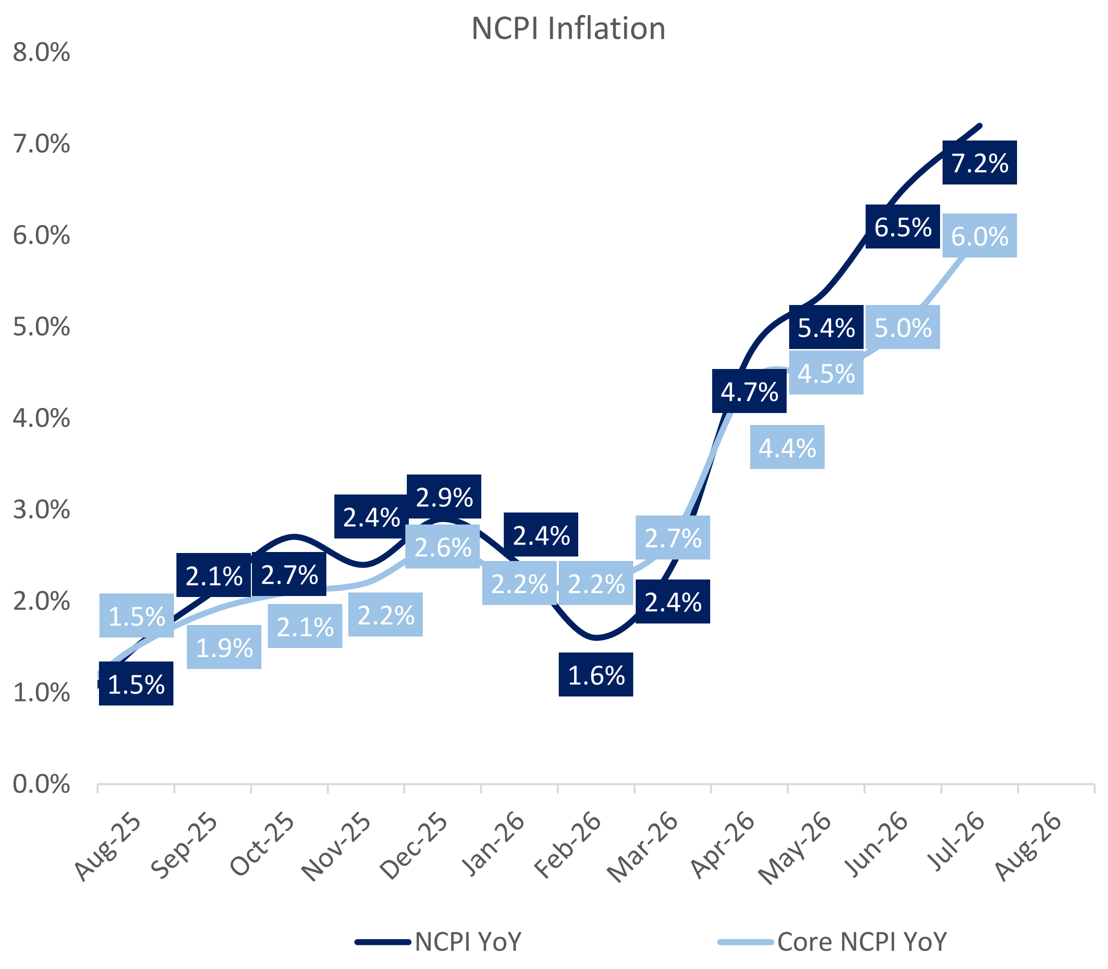
Source: Dept. Census and Statistics

NCPI FOR JUL 2026: INCREASED TO +7.2%YOY

- NCPI for Jul-26, increased to +7.2%YoY from +6.5%YoY seen in Jun-26.

- This trend was driven by an increase in Food inflation, which rose to +4.9% in Jul-26 from +3.3% in the previous month. Non-Food inflation however, decreased to +9.2% from +9.3% in Jun-26.

Inflation – NCPI



M2B AND CREDIT GROWTH

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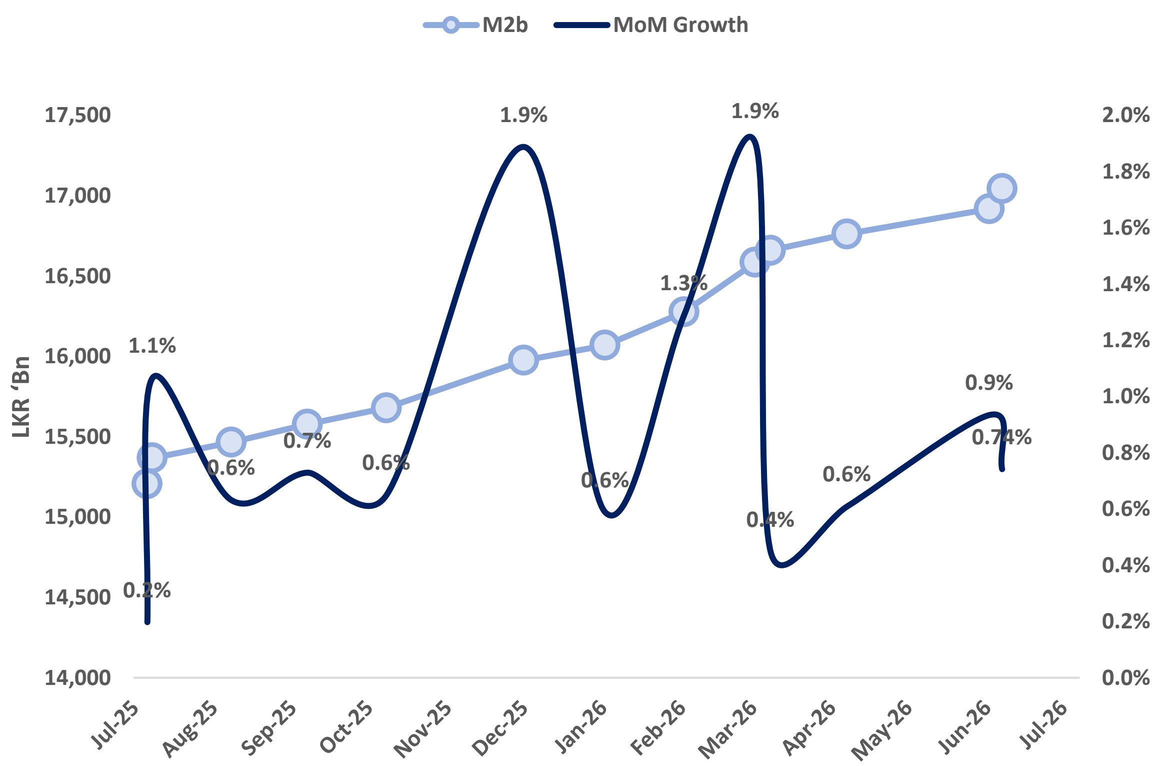
Private sector credit increased by LKR 169.0Bn in Jul-26, while credit to the public sector decreased by LKR 189.6Bn for the same period.

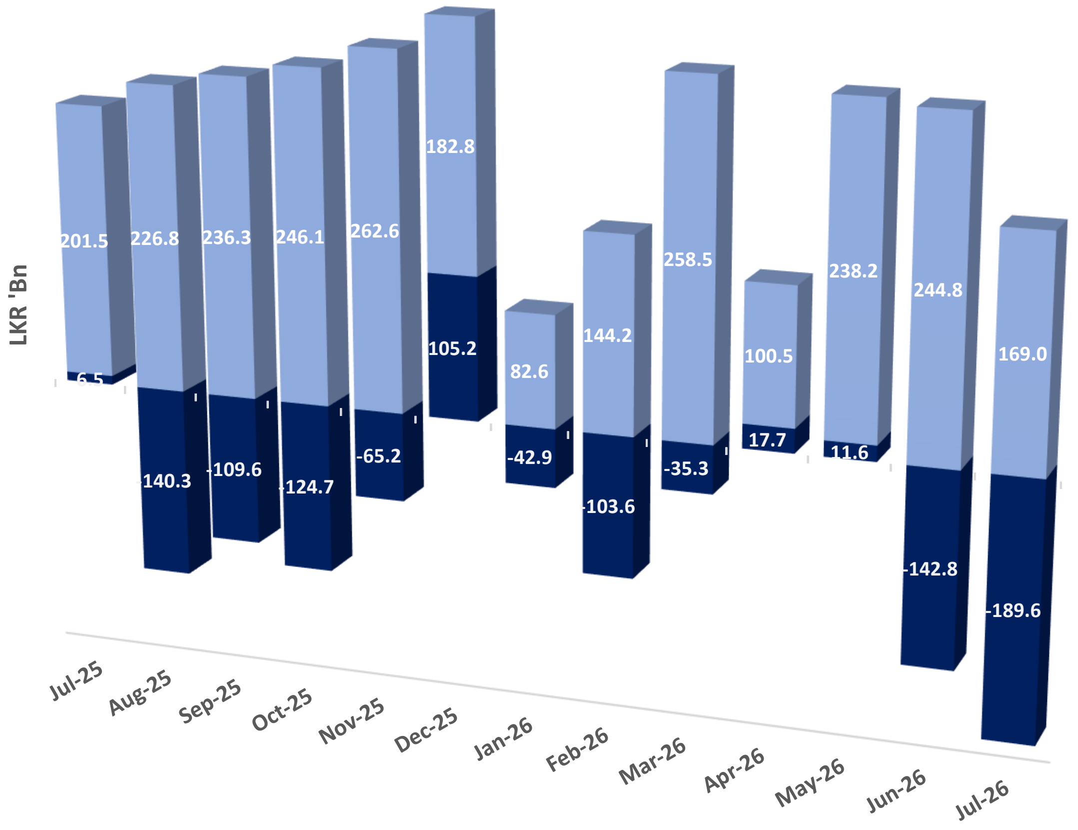
M2b Growth – Jul 2026

MoM +0.7%, YoY +12.1%, YTD +6.7%



State Credit & Private Credit – Jul 2026

Private Credit MoM +1.5%, YoY +26.4%, YTD +12.1%



LIQUIDITY & RESERVES

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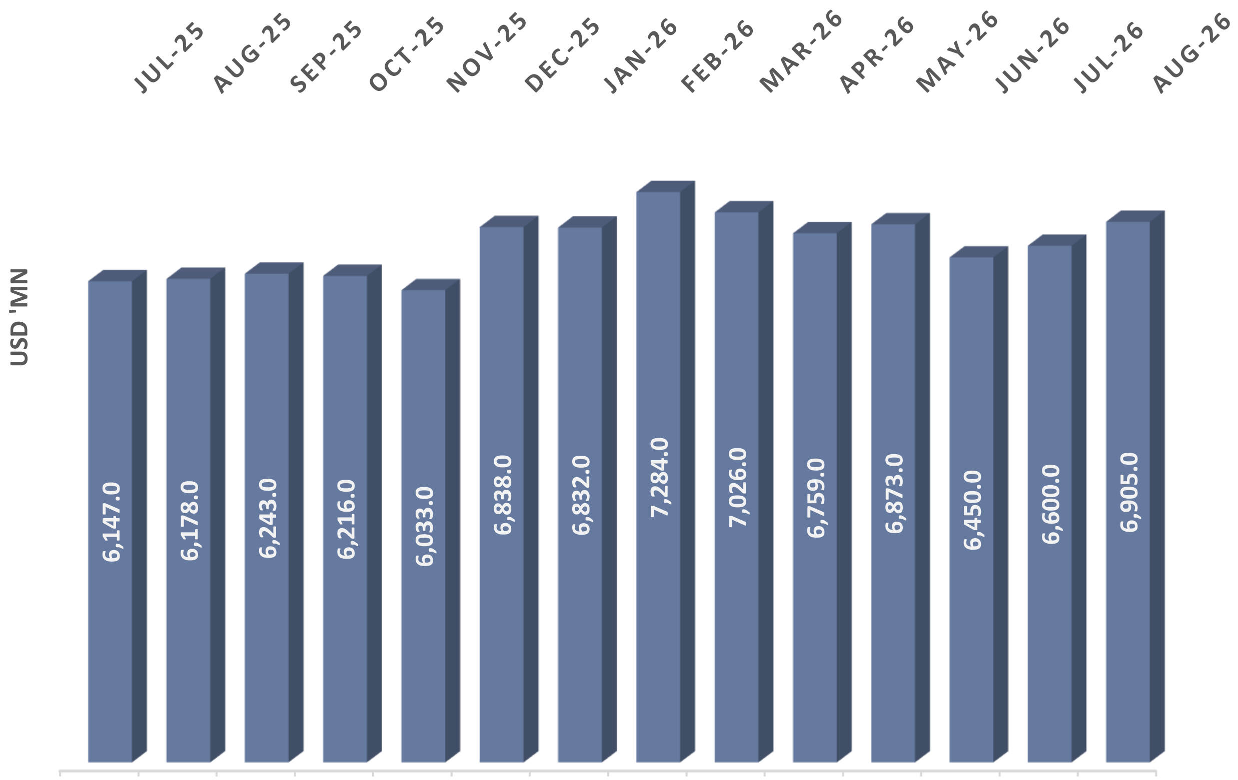
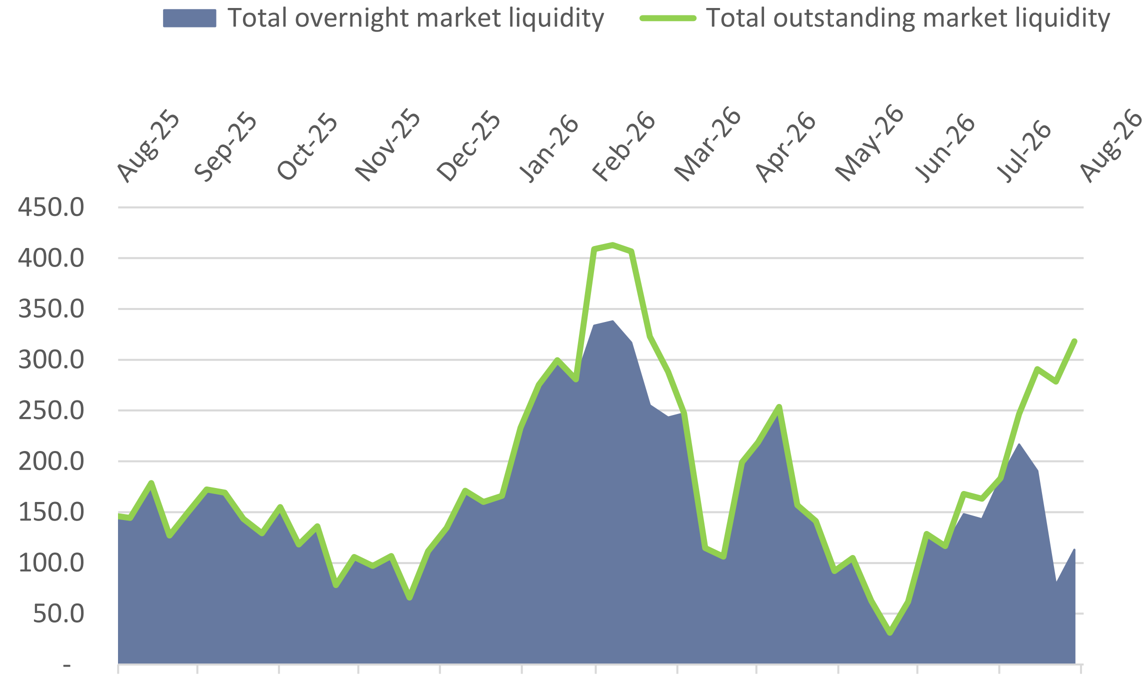
- Foreign Reserves increased by USD 305.0Mn to USD 6,905Mn in Aug-26.



- Both overnight market liquidity and outstanding market liquidity increased in Aug-26 compared to the previous month. While overnight market liquidity increased to LKR 113.1Mn, outstanding market liquidity moved to LKR 318.1Bn by end Aug-26.



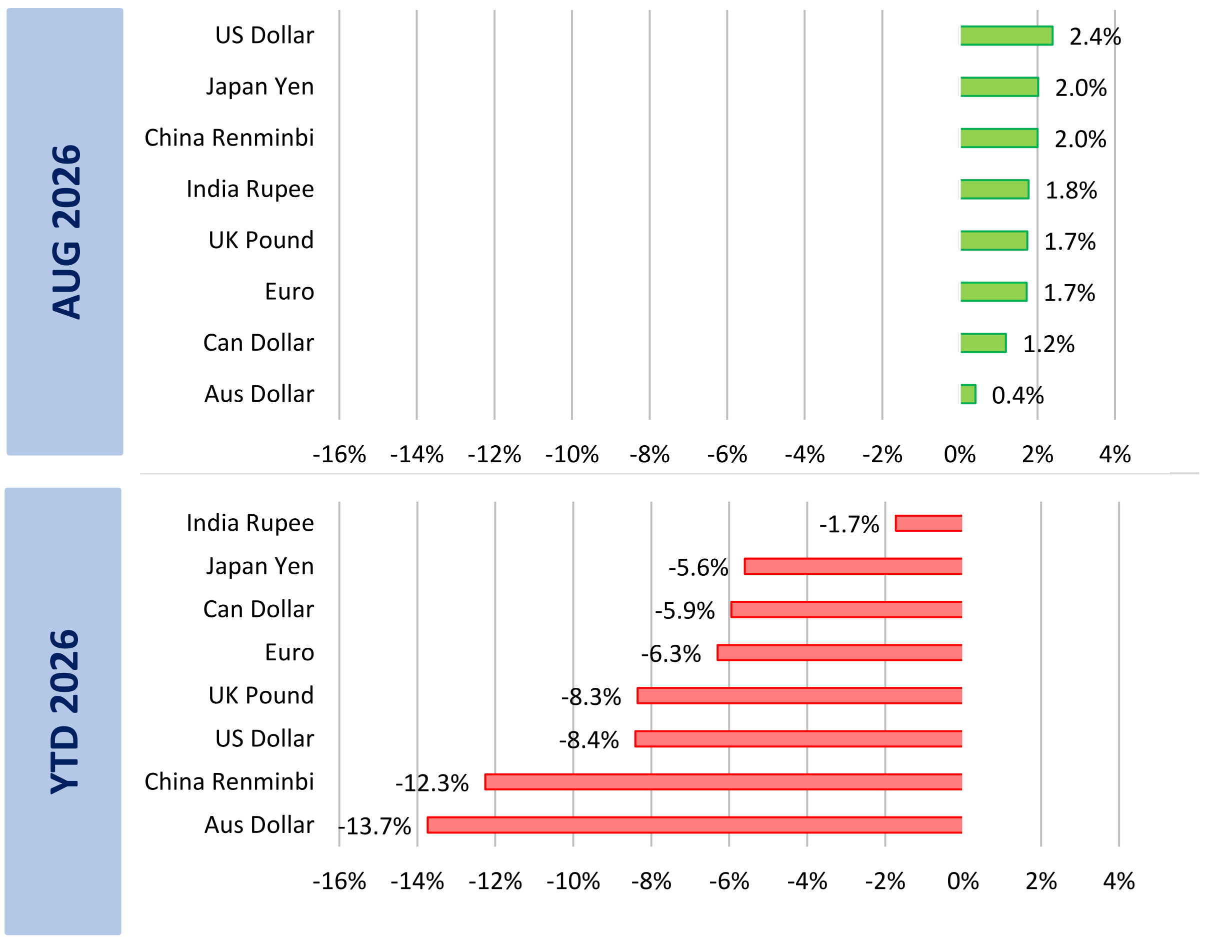
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

Sri Lankan Rupee vs Global Currencies



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Aug 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
07-Aug-26	154,000	275,000	429,000
14-Aug-26	154,000		154,000
21-Aug-26	154,000		154,000
28-Aug-26	132,000		132,000
Total Issued			**869,000**

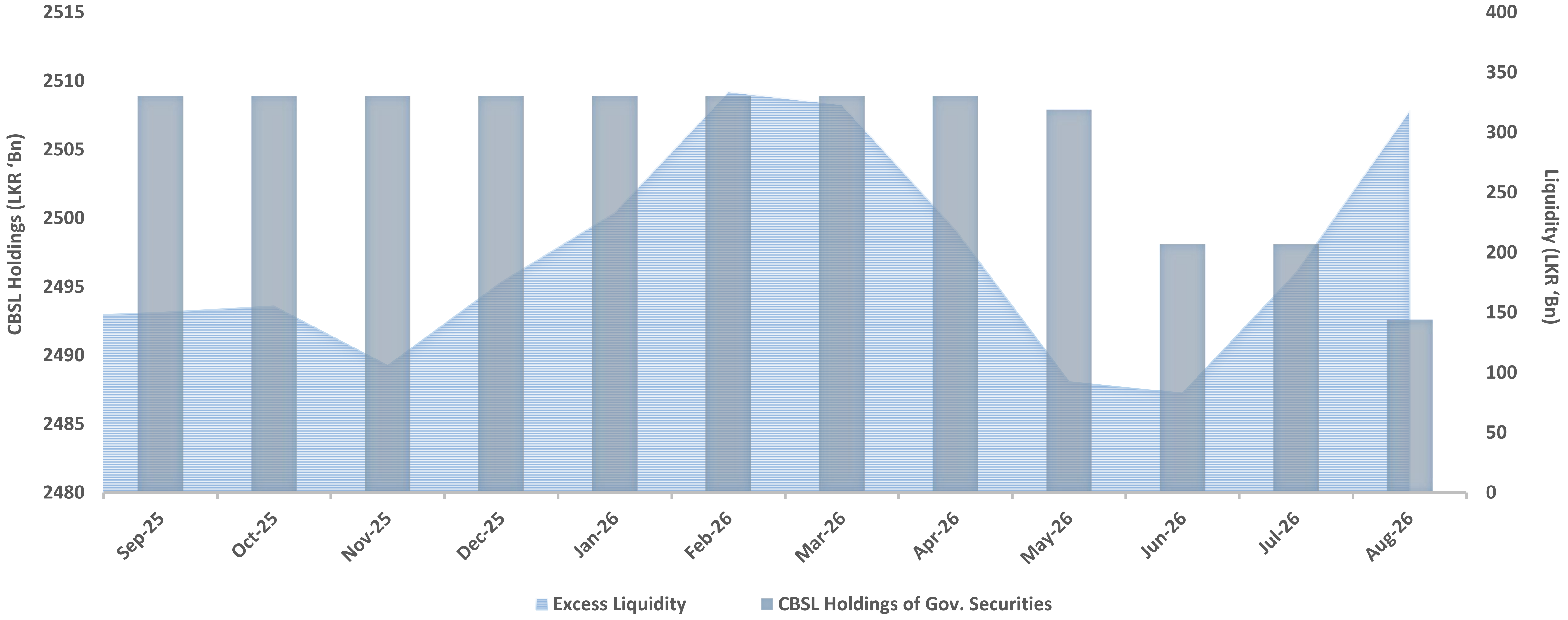
Net settlements for Aug 2026

Net Settlement	Aug 2026	YTD
Maturities	820,821	5,193,898
Coupon Payment	92,148	1,143,317
New Issues	869,000	4,867,933
Excess/ (Deficit)	(43,969)	(1,469,282)

CBSL Holdings of Gov. Securities		YTD
As at End Aug 2026	2,492,600	
As at End Jul 2026	2,498,100	
Increase/ (Decrease)	**-5,500**	**-16,320**

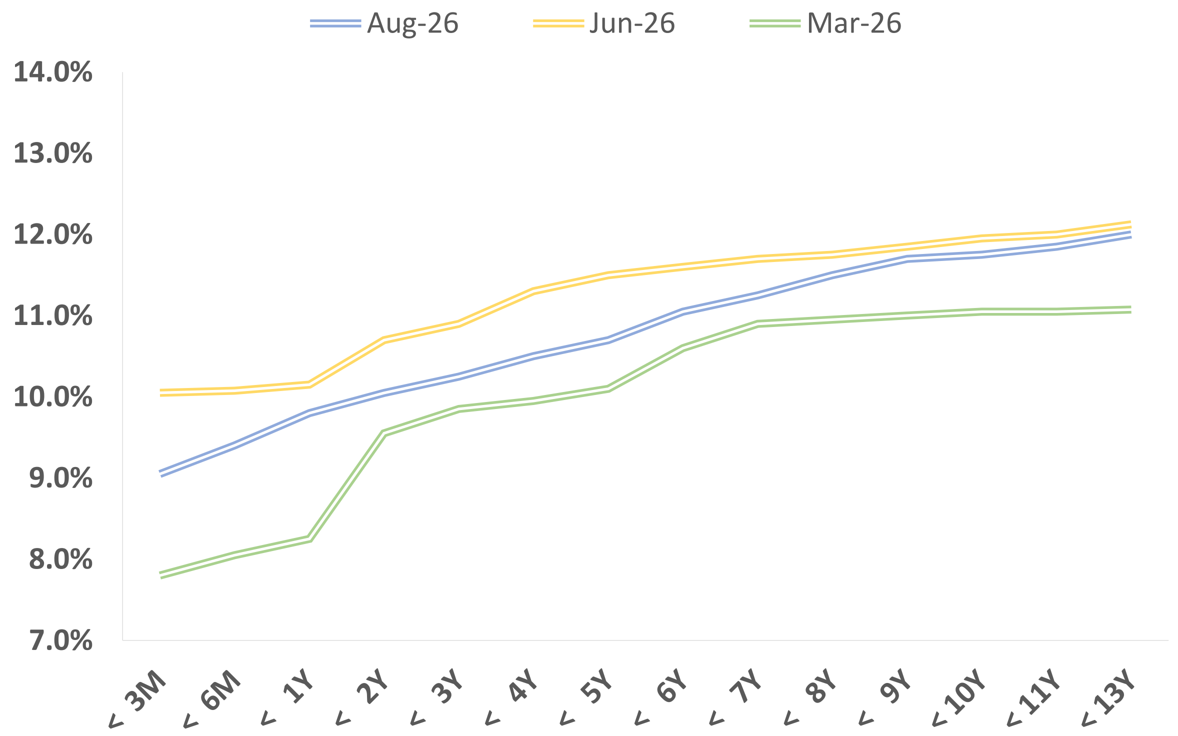
CBSL HOLDINGS OF GOV. SECURITIES…

…decreased in Aug 2026



TREASURY BILLS AND BONDS –AUG 2026

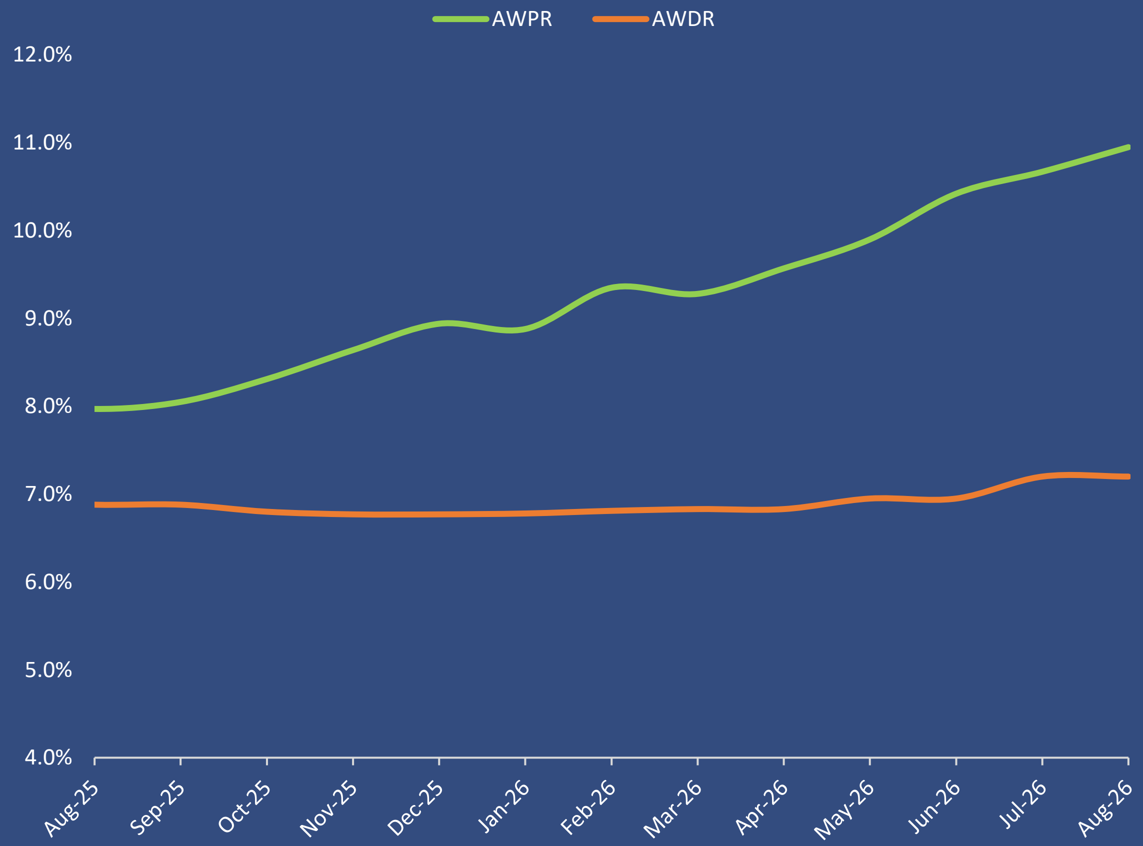
The secondary market commenced August on a relatively stable footing, with modest buying interest supporting a marginal decline in yields, although intermittent selling kept the overall yield curve broadly anchored. Investor sentiment remained mixed during the month, with moderate trading activity and volumes observed across the curve. Buying interest strengthened during the second week, resulting in a downward movement in yields, while the third week saw modest buying at the long end, driving yields lower by around 10–15bps, with the rest of the curve remaining broadly unchanged. The shortened final week maintained a broadly stable market tone, with mild buying interest emerging across select maturities. At the T-Bill auctions held throughout the month, the PDMO successfully raised the full offered amounts, reflecting continued investor participation. Meanwhile, at the T-Bond auction held on 25th August, the PDMO raised the full offered amount of LKR 50.0Bn, in line with the initial offer. Of the total accepted, LKR 30.0Bn was raised through the 2030 maturity and LKR 20.0Bn through the 2035 maturity at weighted average yields of 10.54% and 11.70% respectively. Overall, the month was characterised by moderate market activity and mixed investor sentiment, with selective buying interest, particularly at the long end, supporting a modest downward bias in yields while the broader curve remained relatively anchored.



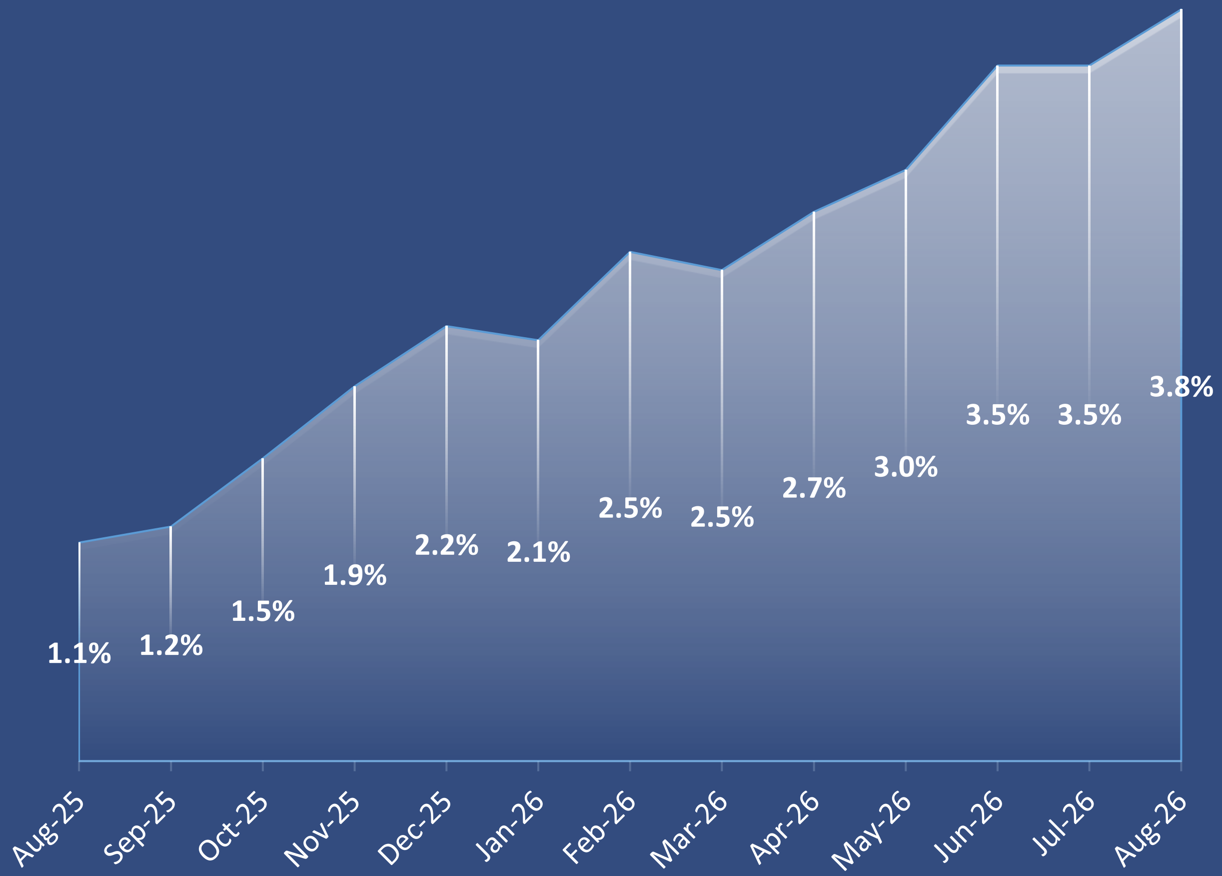
Interest Rate Change (bps)

Tenure	Aug 2026	Jun 2026	Change (bps)	Mar 2026	Change (bps)
< 3M	9.05%	10.05%	-100	7.80%	+125
< 6M	9.40%	10.08%	-68	8.05%	+135
< 1Y	9.80%	10.15%	-35	8.25%	+155
< 2Y	10.05%	10.70%	-65	9.55%	+50
< 3Y	10.25%	10.90%	-65	9.85%	+40
< 4Y	10.50%	11.30%	-80	9.95%	+55
< 5Y	10.70%	11.50%	-80	10.10%	+60
< 6Y	11.05%	11.60%	-55	10.60%	+45
< 7Y	11.25%	11.70%	-45	10.90%	+35
< 8Y	11.50%	11.75%	-25	10.95%	+55
< 9Y	11.70%	11.85%	-15	11.00%	+70
< 10Y	11.75%	11.95%	-20	11.05%	+70
< 11Y	11.85%	12.00%	-15	11.05%	+80
< 13Y	12.00%	12.13%	-13	11.08%	+92
< 15Y	N/A	N/A	N/A	N/A	N/A

AWPR vs AWDR



Interest Spread

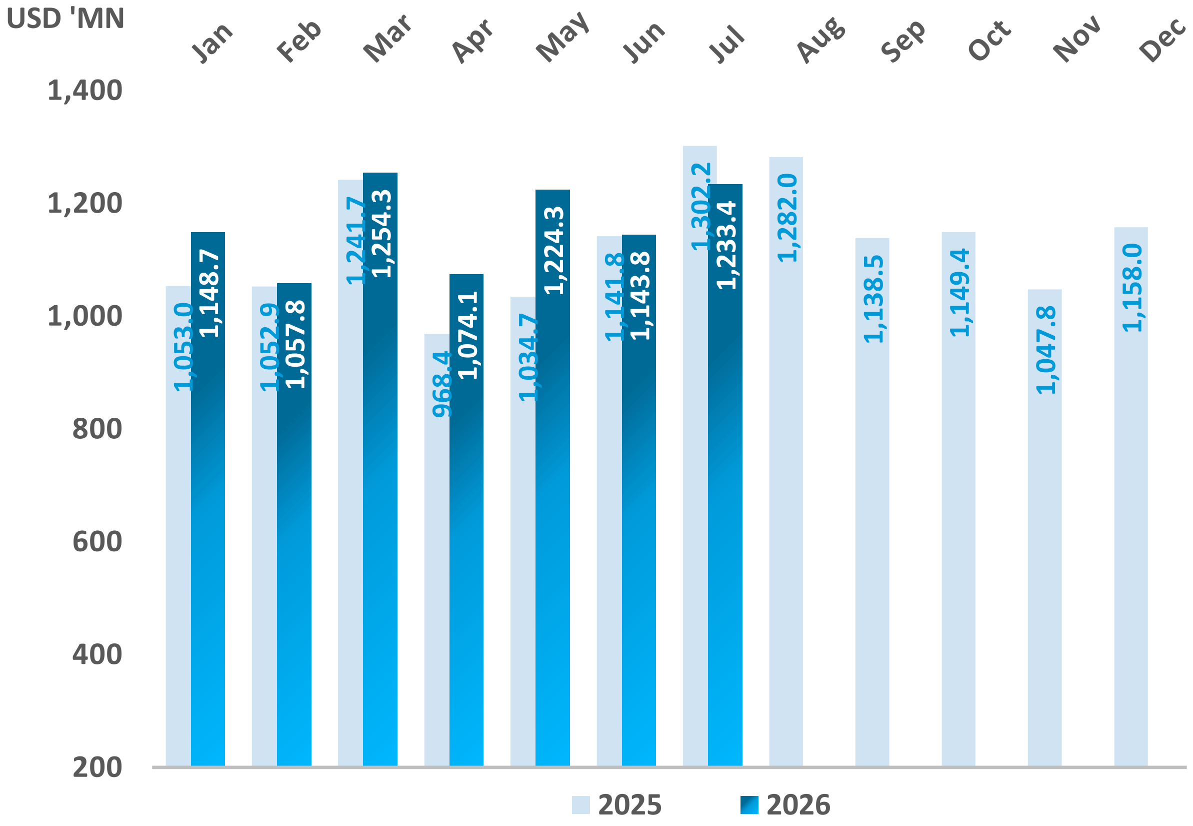


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR - JUL 2026 - EXPORTS

In Jul-26, exports stood at USD 1,233.4Mn, reflecting a decline of 5.3%YoY. Industrial exports which make up the largest component in the export basket decreased by 2.7%YoY in July, amid lower inflows from the textile and garments segment. Agricultural exports contracted by 12.1%YoY during July, driven by dips in both tea and seafood exports. Mineral and other exports decreased by 65.2%YoY during the month. Nevertheless, cumulative exports for the first seven months of 2026 stood at USD 8,137Mn denoting a 4.4%YoY increase.

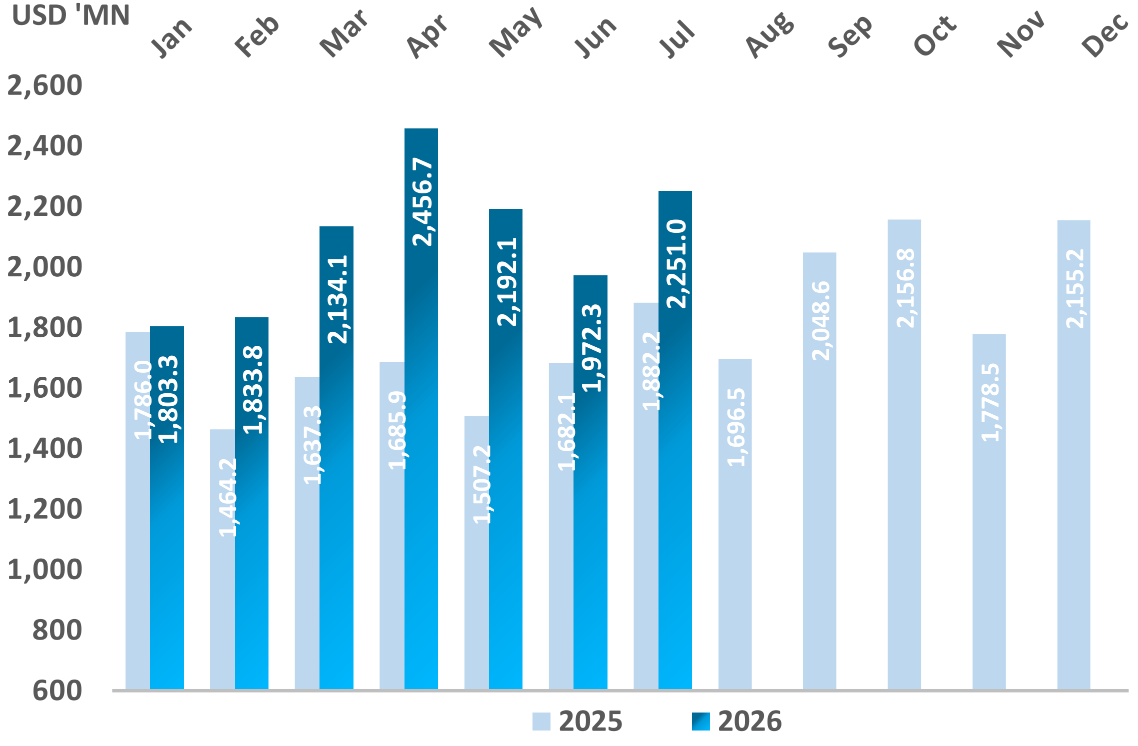
Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- Jul	984.6	958.2	-2.7
- YTD	6,029.1	6,382.7	5.9
Agricultural			
- Jul	310.1	272.7	-12.1
- YTD	1,737.7	1,723.0	-0.8
Mineral & Other Exports			
- Jul	7.5	2.5	-65.2
- YTD	27.5	30.8	12.0
Total			
- **Jul**	1,302.2	1,233.4	-5.3
- **YTD**	7,794.3	8,136.6	4.4



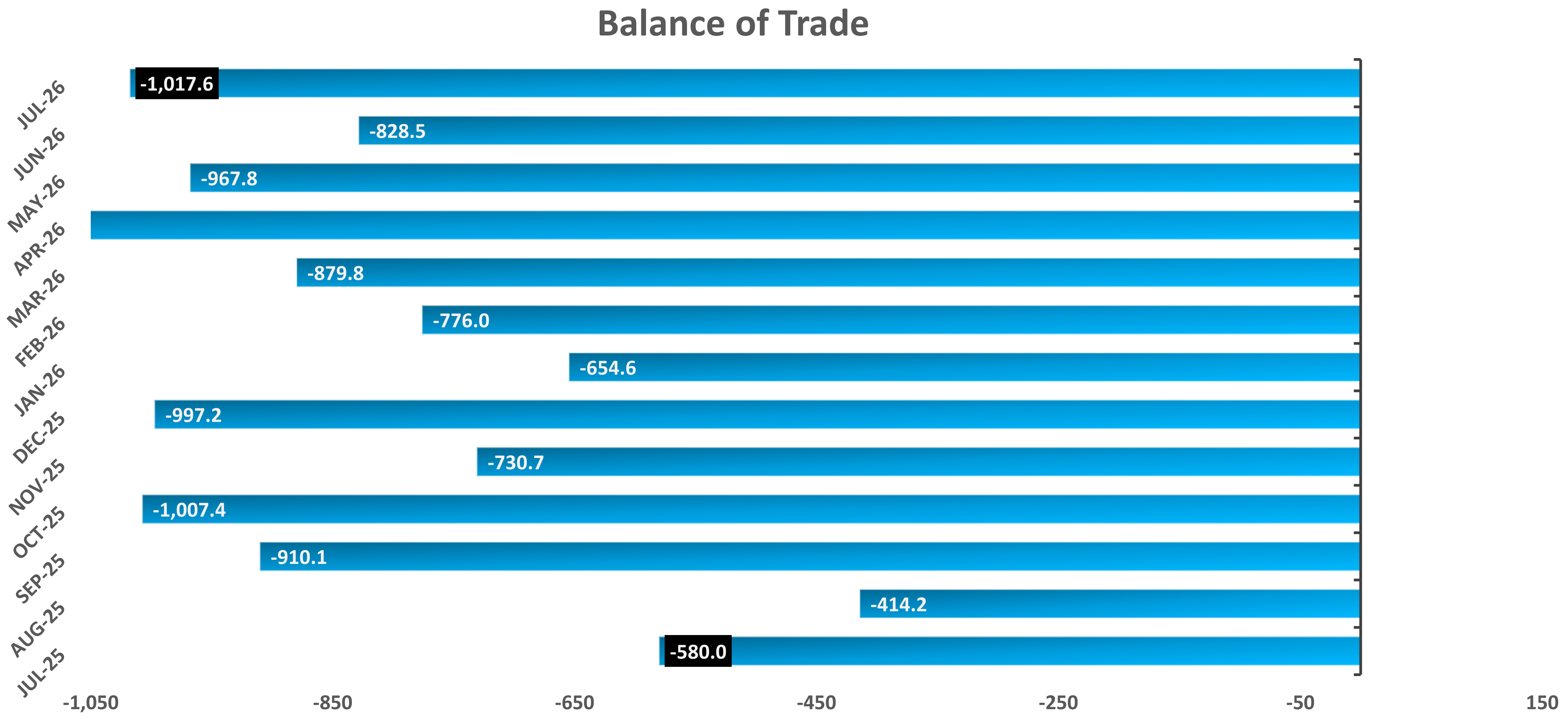
EXTERNAL SECTOR - JUL 2026 - IMPORTS

In Jul-26, imports rose to USD 2,251.0Mn registering an uptick of 19.6%YoY. All components within the import basket rose in July, with intermediate imports which is the largest segment rising by 20.2%YoY. This was primarily driven by a 68.0%YoY increase in fuel imports as global energy prices continue to remain above the pre-crisis average. Consumer goods rose by 14.0%YoY owing to expansions in both food and non-food imports. Investment goods and other imports segment rose by 24.8%YoY as a result of higher machinery and equipment imports. Cumulative imports for the first seven months of 2026 stood at USD 14,643.2Mn which denotes an uptick of 25.8%YoY.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- Jul	480.1	547.3	14.0
- YTD	2,795.6	3,583.8	28.2
Intermediate			
- Jul	992.8	1,193.1	20.2
- YTD	6,568.4	8,251.8	25.6
Investment goods & other			
- Jul	409.3	510.6	24.8
- YTD	2,280.4	2,807.7	23.1
Total			
- Jul	1,882.2	2,251.0	19.6
- **YTD**	11,644.4	14,643.2	25.8

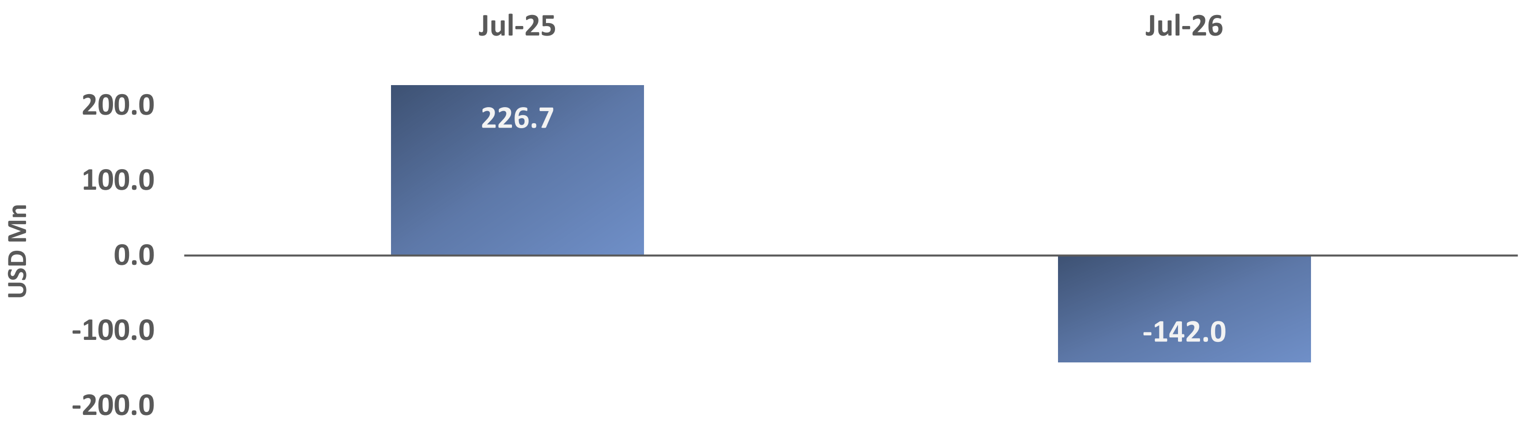


EXTERNAL SECTOR – JUL 2026

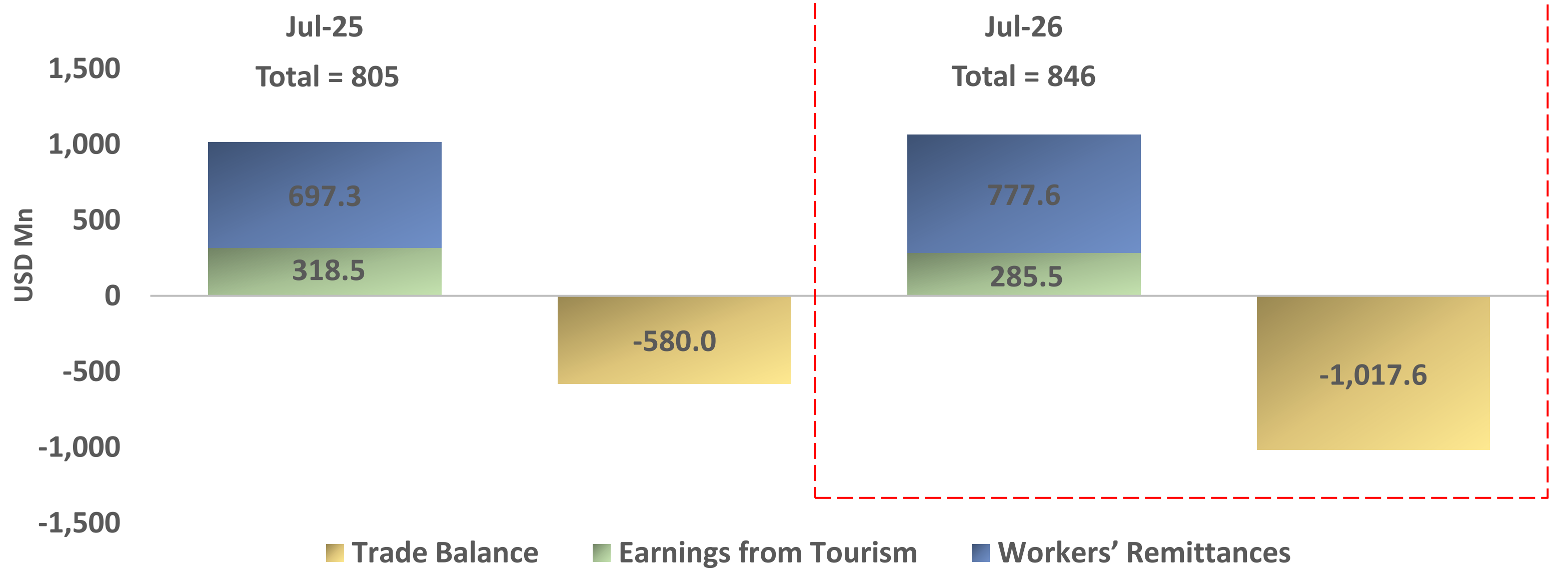


Source: Central Bank

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



Workers' Remittances increased to USD 777.6Mn (+11.5%YoY) in Jul-26 while Earnings from Tourism declined to USD 285.5Mn (-10.3%YoY).



CURRENT ACCOUNT BALANCE CONTRACTED YOY IN JUL-26

JUL USD Mn	2025	2026	Change (%)
Trade Balance	-580.0	-1,017.6	-75.4
Earnings from Tourism	318.5	285.5	-10.3
Workers' Remittances	697.3	777.6	+11.5

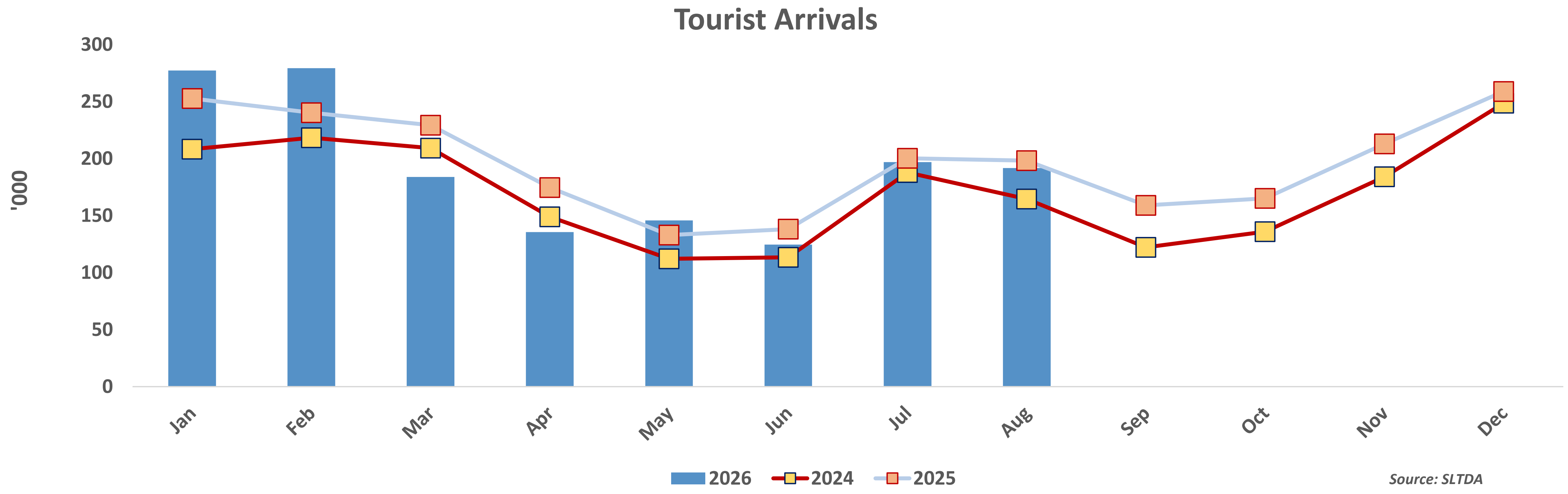
YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-3,850.1	-6,506.7	-69.0
Earnings from Tourism	2,031.1	1,796.7	-11.5
Workers' Remittances	4,435.2	5,382.4	+21.4

Source: CBSL

TOURIST ARRIVALS - AUG 2026

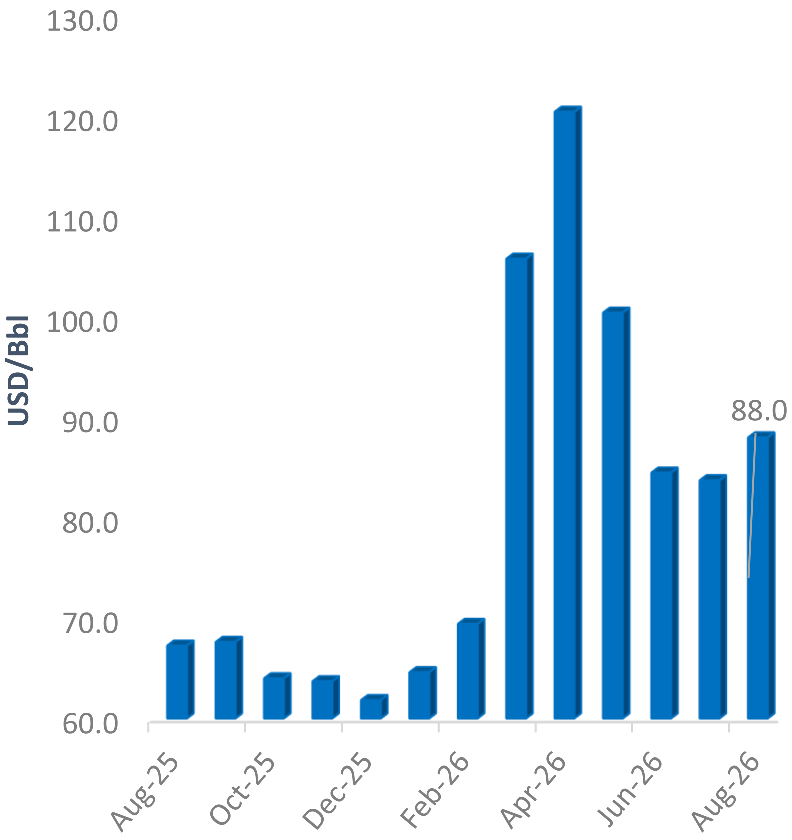
[AUG 191,704: DOWN -3.3%YoY] [MoM: DOWN -2.6%]

Total tourist arrivals for Aug-26 reached 191,704, denoting a YoY decrease of 3.3% and a MoM downturn of 2.6%. India emerged as the top source market, accounting for 25.0% of total arrivals during the month. This was followed by the United Kingdom which accounted for 10.0%, while China, Germany and France accounted for 6.0% each of total arrivals, respectively.

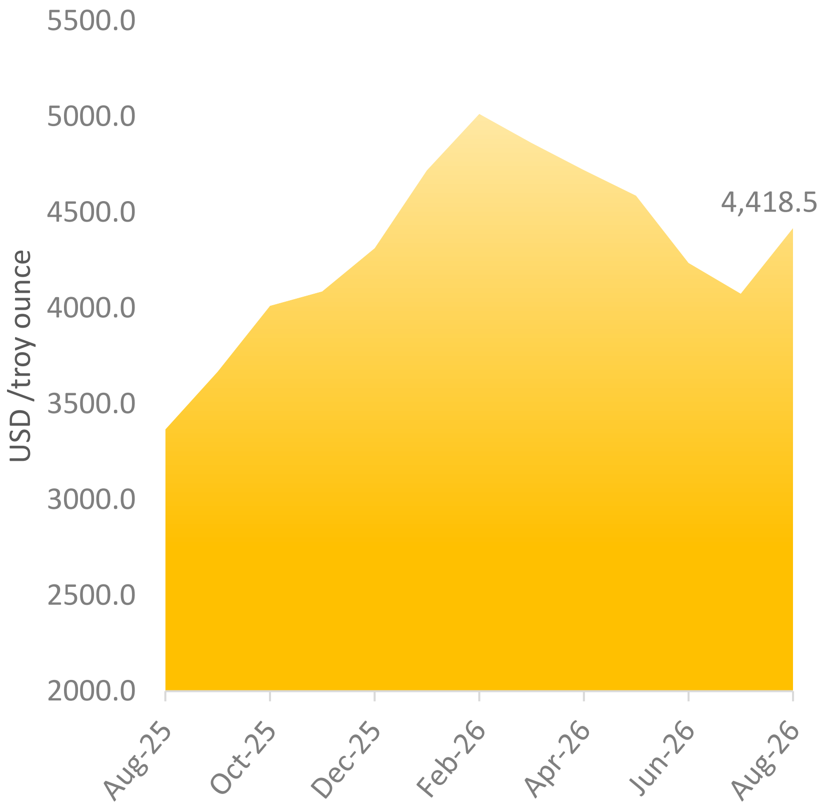


COMMODITY PRICES - AUG 2026

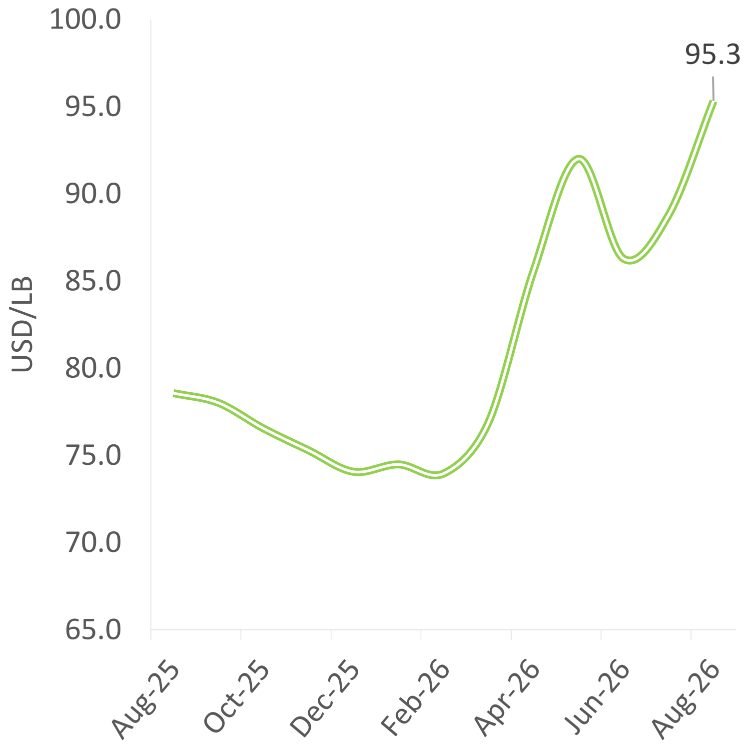
Crude oil



Gold



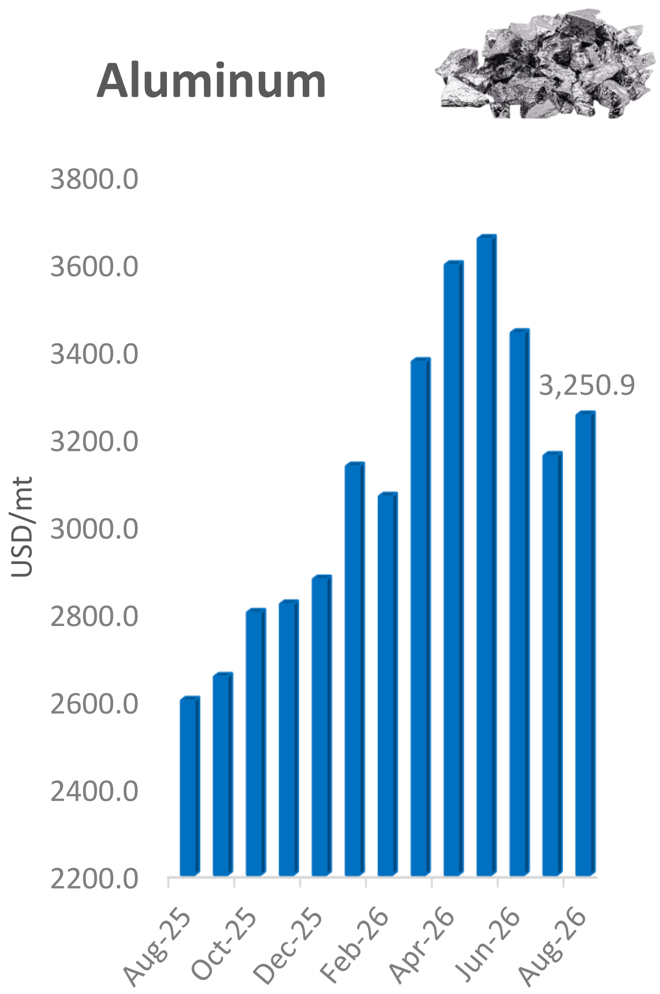
Cotton

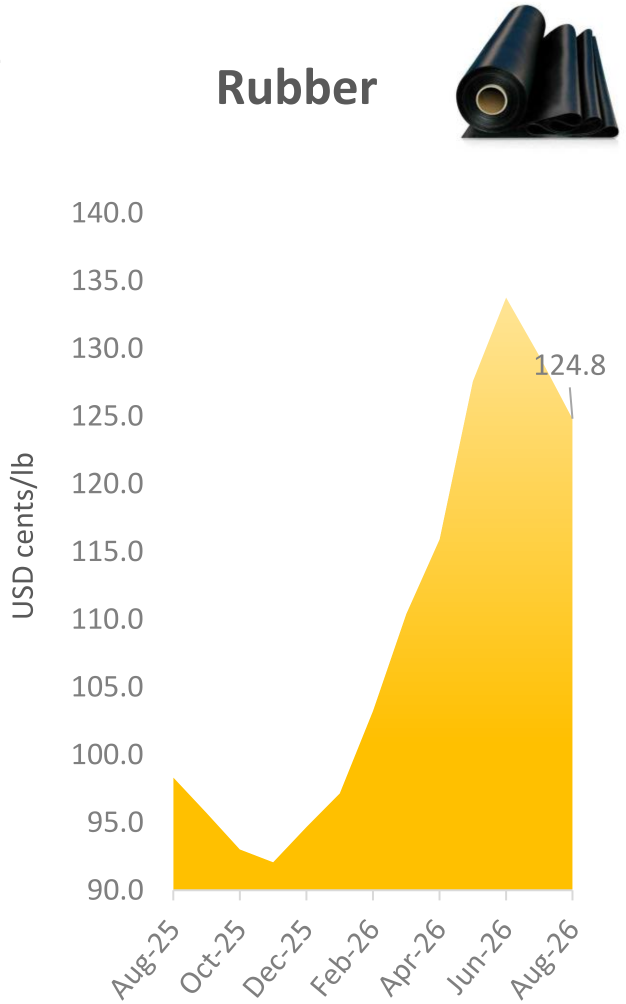


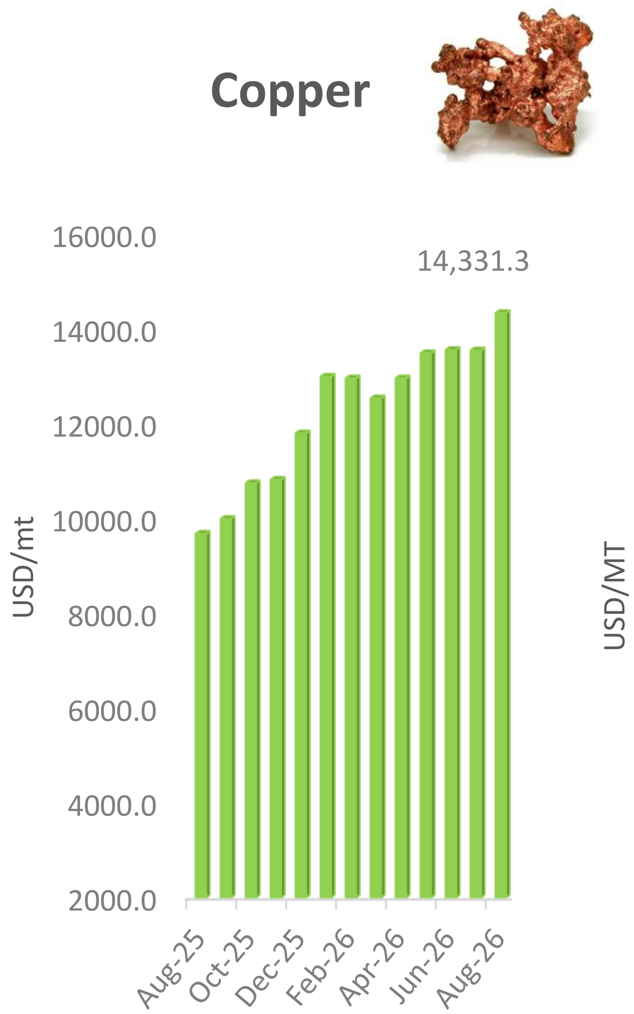
Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

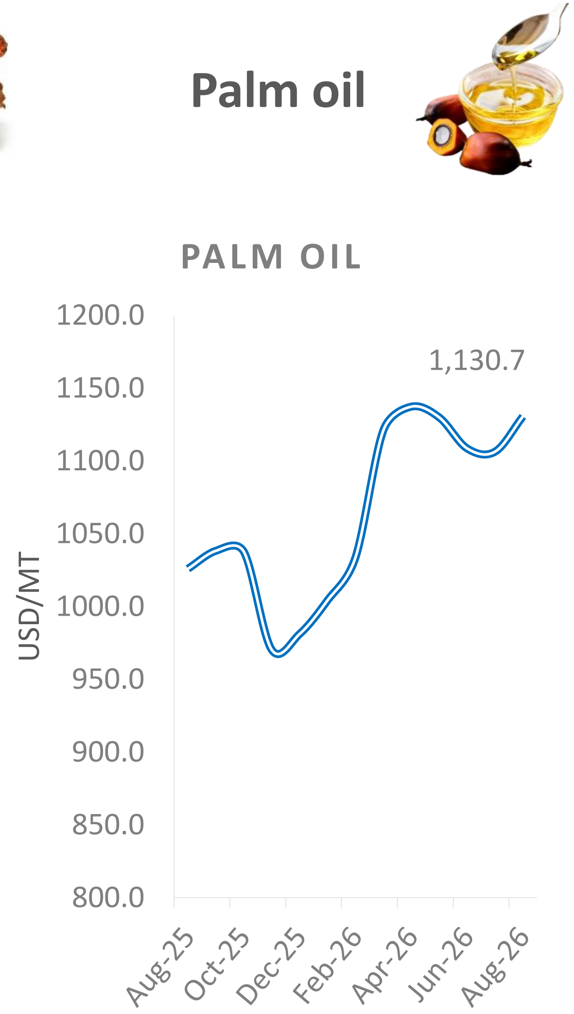
Source: IMF, World Bank

COMMODITY PRICES - AUG 2026 CONT'D



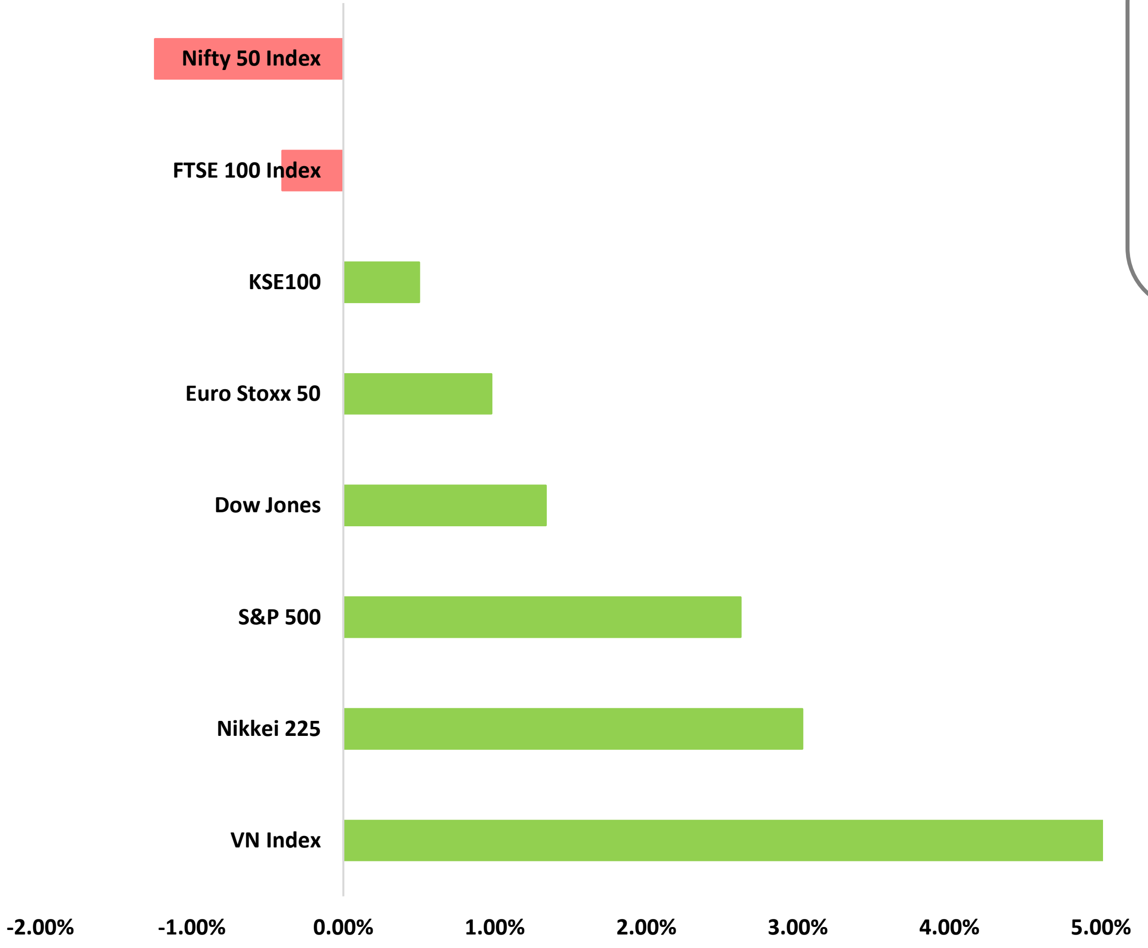






Note: price of no. 3 rubber smoked sheets have been taken as the rubber prices whilst for palm oil, prices of Malaysia palm oil futures have been considered

GLOBAL MARKET – AUG 2026



Warsh faces intensifying pressure to raise rates after hot CPI

Federal Reserve (Fed) chairman Kevin Warsh faces intense pressure to raise interest rates at next week's policy meeting after a highly anticipated inflation report showed US consumer prices marched higher last month. Underlying inflation rose more than expected in August, as the core consumer price index, which excludes food and energy costs, increased 0.3% from a month earlier, according to Bureau of Labor Statistics data out on Friday. The report bolsters the argument already embraced by several policymakers that the Fed must act to curb price pressures after more than five years of elevated inflation.

Inflation is outpacing wage growth again, squeezing Americans' paychecks

Americans face a renewed squeeze on their paychecks as inflation once again rises faster than wage growth, putting further pressure on consumer wallets. "A substantial number of Americans are worse off, their incomes are not keeping up with the price increases right now," Heather Long, chief economist at Navy Federal Credit Union, told CNBC. Consumer prices rose 3.4% in August from a year earlier, according to data released Friday by the U.S. Bureau of Labor Statistics.

New report of attack on Strait of Hormuz shipping fans fears of threats to oil supplies

Maritime trackers received new reports of an attack on a ship in the Strait of Hormuz on Sunday, adding to concerns about Iran-related threats to global energy supplies after Saudi Arabia shut down a vital oil pipeline. UKMTO's report came the day after Saudi Arabia said it had temporarily closed its East-West pipeline as a precaution after a drone attack that both Baghdad and Riyadh said had originated in Iraq, where Iranian-backed militias operate. Ongoing attacks in the widening Middle East war could send energy prices even higher after a week that saw the cost of Brent crude surge back above $100 a barrel.

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