



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Oct 2026

- CBSL Maintains the OPR unchanged at 8.75%. 3
- Inflation..... 4
- M2B & Sector Credit..... 8
- Reserves & Liquidity..... 9
- Currency Movement..... 10
- Government Securities..... 11
- Finance Sector Rate Movement..... 14
- External Sector..... 15
- Tourist Arrivals..... 19
- Commodity Prices..... 20
- Global Markets..... 21

CBSL MAINTAINS THE OPR UNCHANGED AT 8.75%

- ❑ At the CBSL Monetary Policy Board meeting held on 29 September 2026, the Board decided to maintain the Overnight Policy Rate (OPR) at 8.75%.
- ❑ The Board noted that economic activity remains robust, supported by strong domestic demand and improving business conditions.
- ❑ Earlier monetary policy tightening is expected to moderate credit growth, helping contain demand-side inflationary pressures.
- ❑ Inflation is projected to gradually return towards the 5% target as temporary supply-side pressures ease.
- ❑ The external sector remains resilient, supported by strong tourism earnings, remittances, and improved reserve buffers.
- ❑ Heightened geopolitical and weather-related uncertainties warranted maintaining a cautious monetary policy stance.

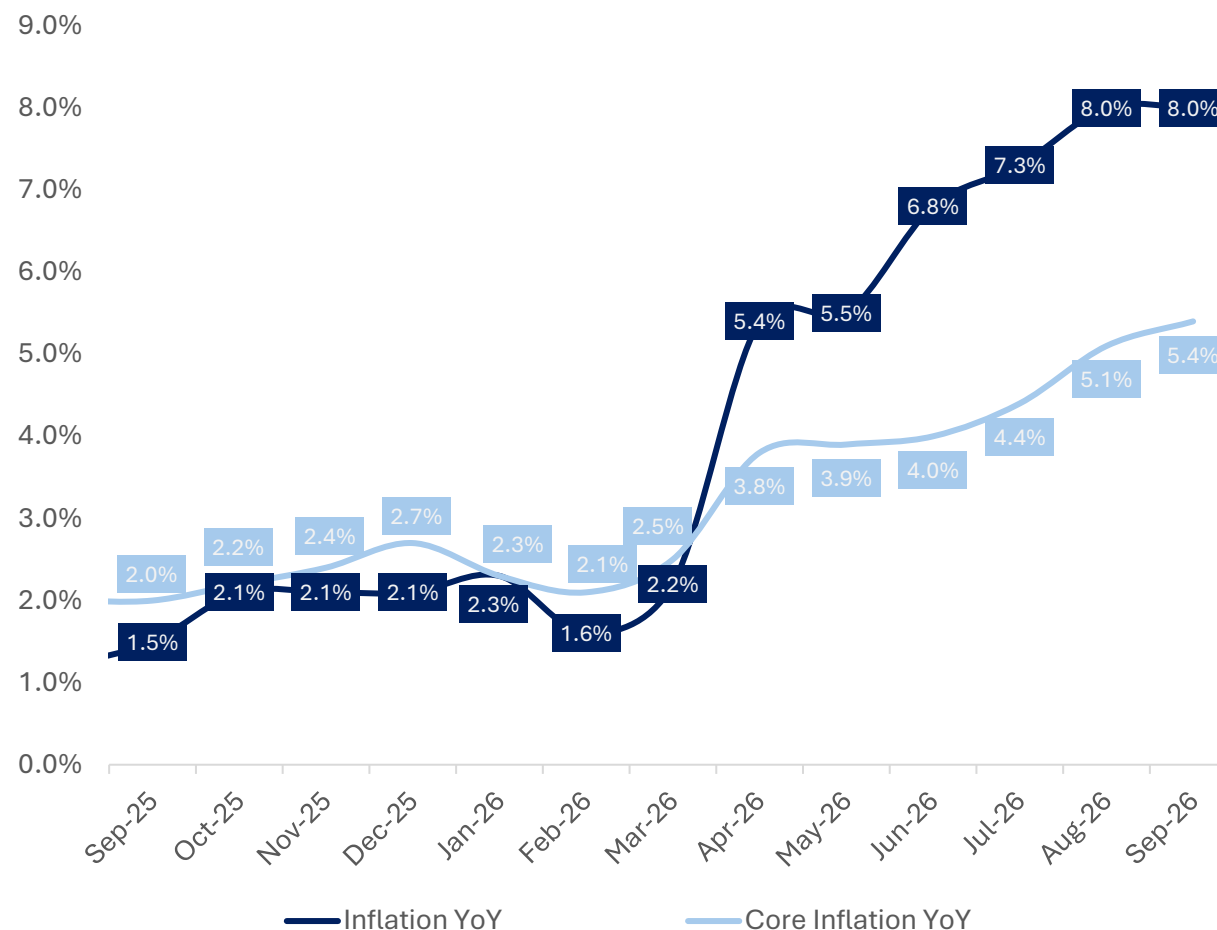
CCPI FOR SEP 2026:

MOM +0.1%

YOY +8.0%

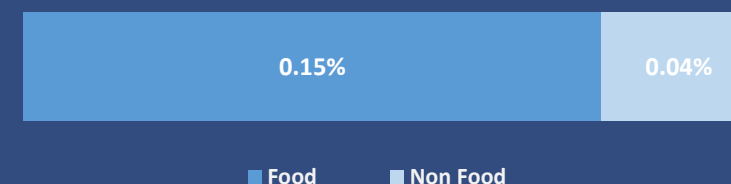
- The CCPI for Sep-26 stood at +0.2% on a MoM basis, compared to the +0.3% level seen in Aug-26. Food inflation moved +0.5% for the month relative to the +0.6% registered in the previous month. Non-food inflation was +0.1%, remaining at the same level recorded in Aug-26.
- The YoY inflation rate remained unchanged at +8.0% in Sep-26 compared with Aug-26. Food inflation increased to +8.7% from the +8.5% level recorded in Aug-26, while non-food inflation remained unchanged at +7.7% in Sep-26, the same level recorded in the previous month.

Inflation – CCPI

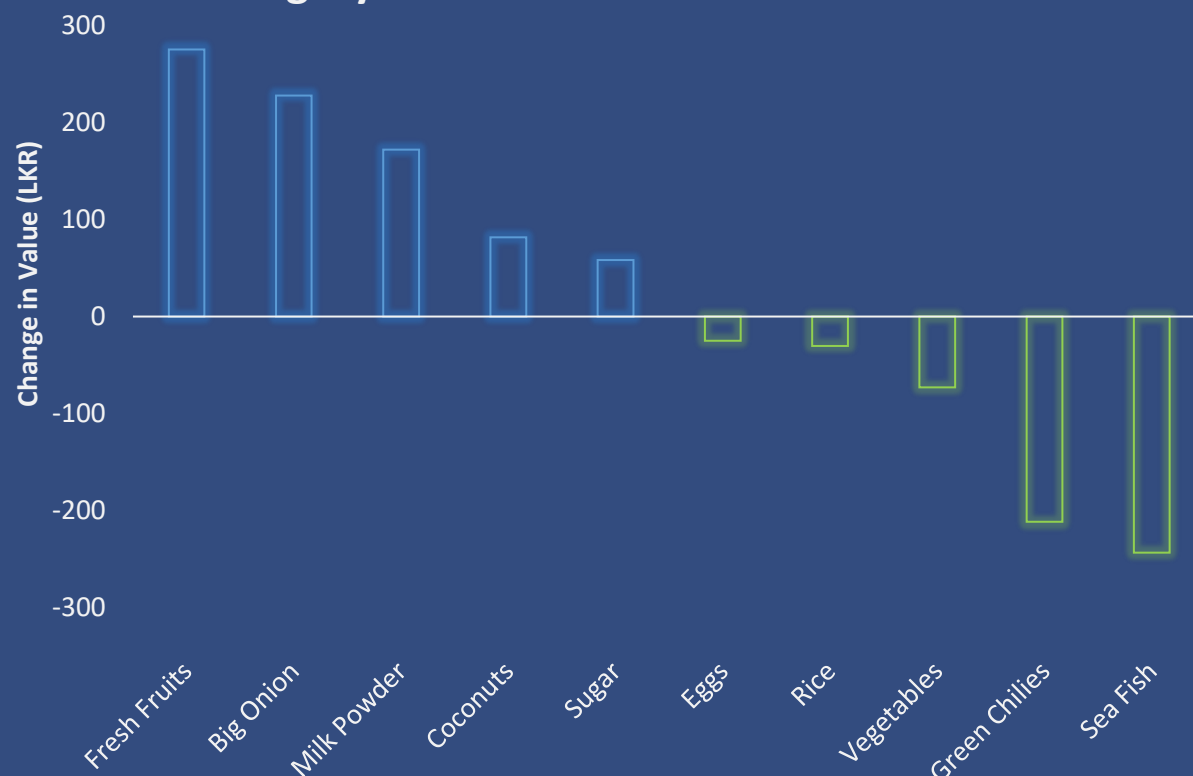


INFLATION ANALYSIS – CCPI-MOM

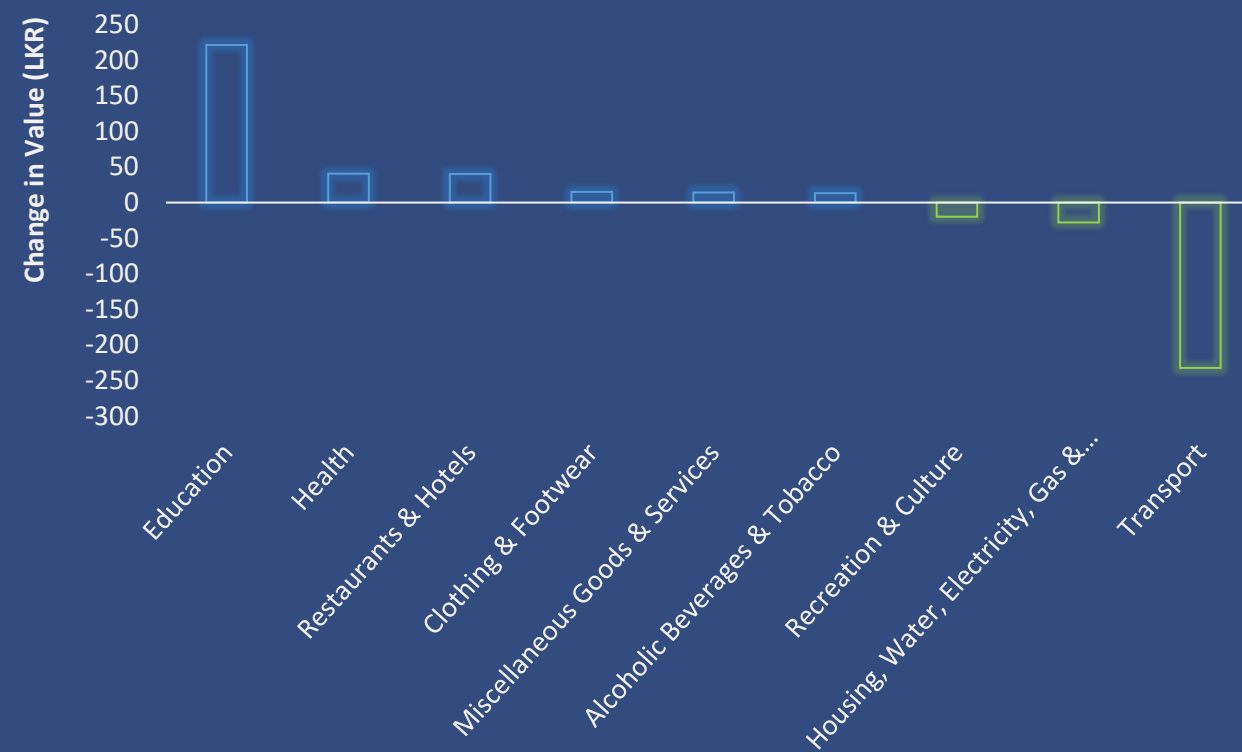
The CCPI Index for Sep-26 increased by +0.1% MoM. The Food category contributed +0.15%, with Fresh Fruits, Big Onion and Milk Powder exerting upward pressure on the group, while Sea Fish, Green Chilies and Vegetables registered declines. The Non-Food category contributed +0.04%. Within the Non-Food segment, increases were seen in Education, Health, Restaurants and Hotels, and Clothing and Footwear. Meanwhile, decreases were seen in Transport, Housing, Water, Electricity, Gas and Other Fuels, and Recreation and Culture.



Food Category Inflation



Non-Food Category Inflation

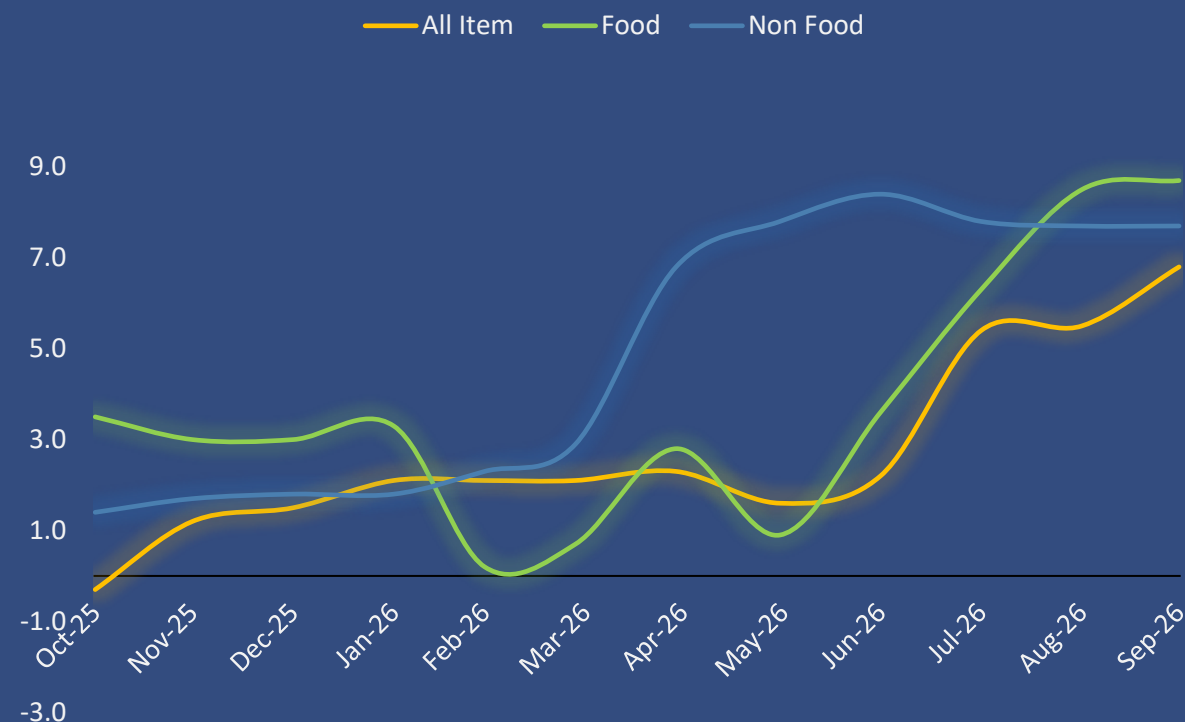


INFLATION ANALYSIS – CCPI-YOY

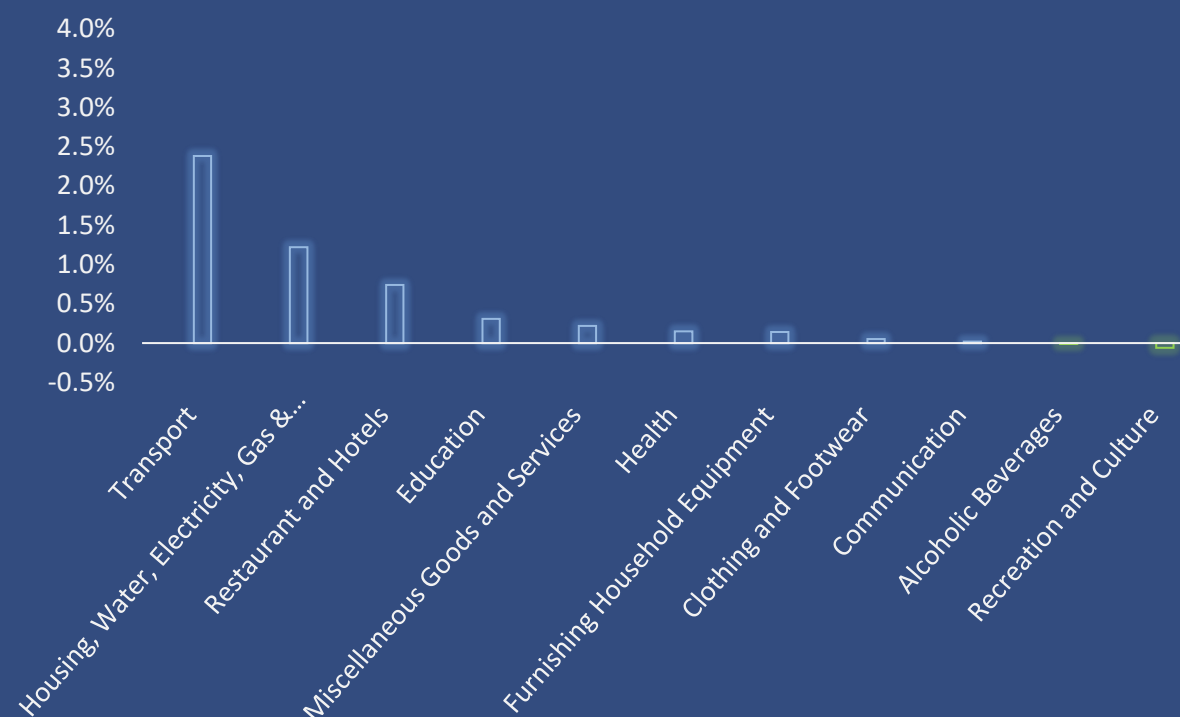
The YoY inflation of CCPI for Sep-26 stood at +8.0%, which remained unchanged from the +8.0% level that was seen in Aug-26. Contribution of Food inflation stood at +2.83%, while that of Non-Food was +5.16%. In the Food segment, Sea Fish, Dried Fish and Fresh Fruits registered the highest upward adjustment. Within the Non-Food segment, Transport, Housing Water Electricity Gas and Other Fuels and Restaurant and Hotels recorded the highest uptick.



Inflation Analysis (YoY)



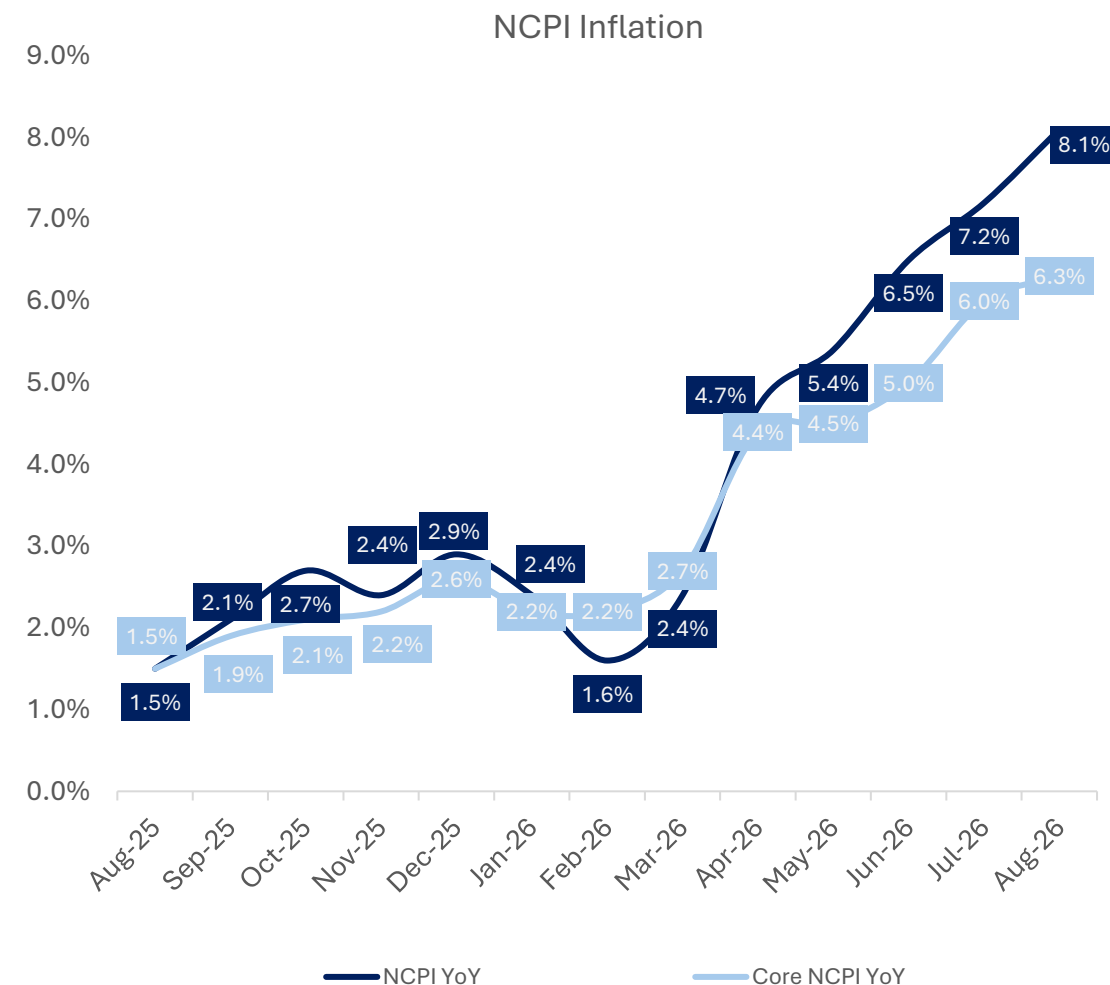
Non-Food Category Inflation



NCPI FOR AUG 2026: INCREASED TO +8.1%YOY

- NCPI for Aug-26, increased to +8.1%YoY from +7.2% YoY seen in Jul-26.
- This trend was driven mainly by Food inflation, which rose to +6.6% in Aug-26 from +4.9% in the previous month. Non-Food inflation also increased to +9.3% from +9.2% in Jul-26.

Inflation – NCPI

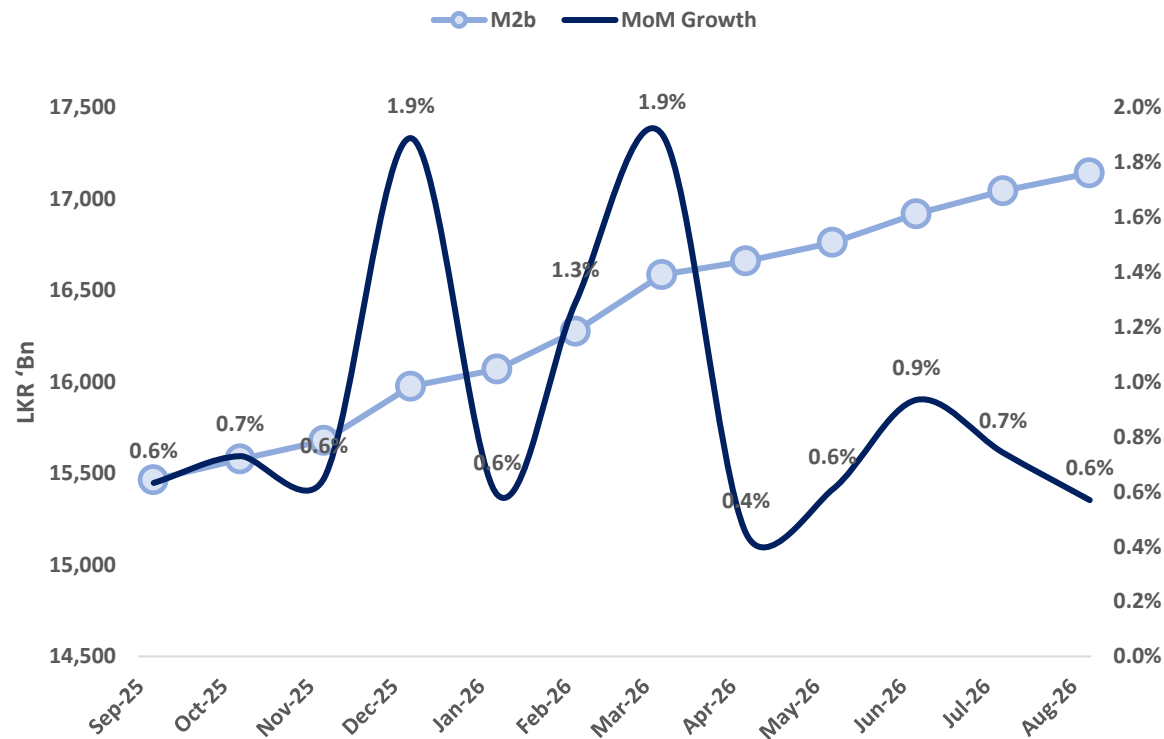


M2B AND CREDIT GROWTH

Private sector credit increased by LKR 105.7 Bn in Aug-26, while credit to the public sector decreased by LKR 89.5 Bn for the same period.

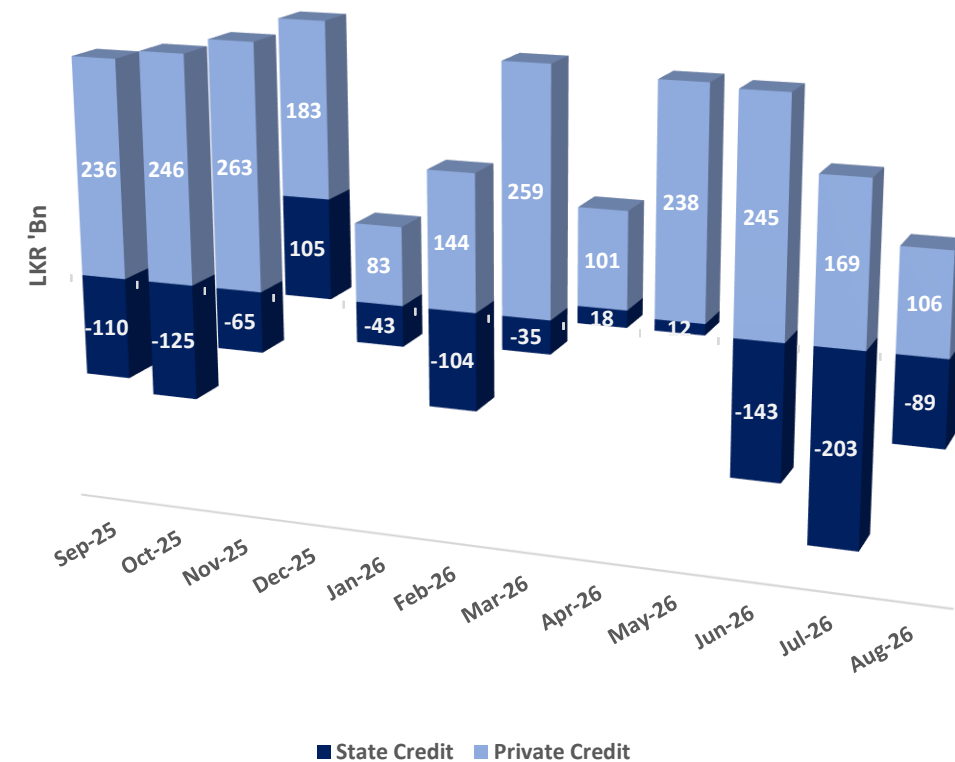
M2b Growth – Aug 2026

MoM +0.6%, YoY +11.5%, YTD +7.3%



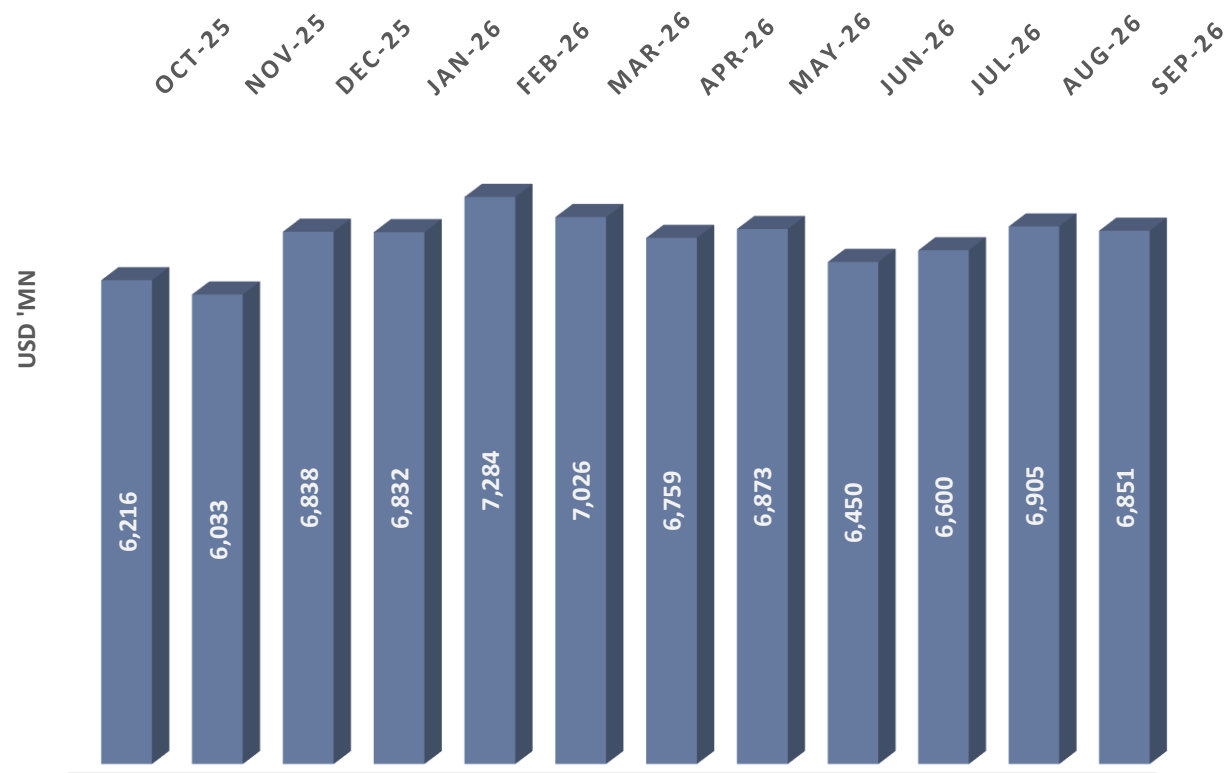
State Credit & Private Credit – Aug 2026

Private Credit MoM +0.9%, YoY +24.5%, YTD +13.2%

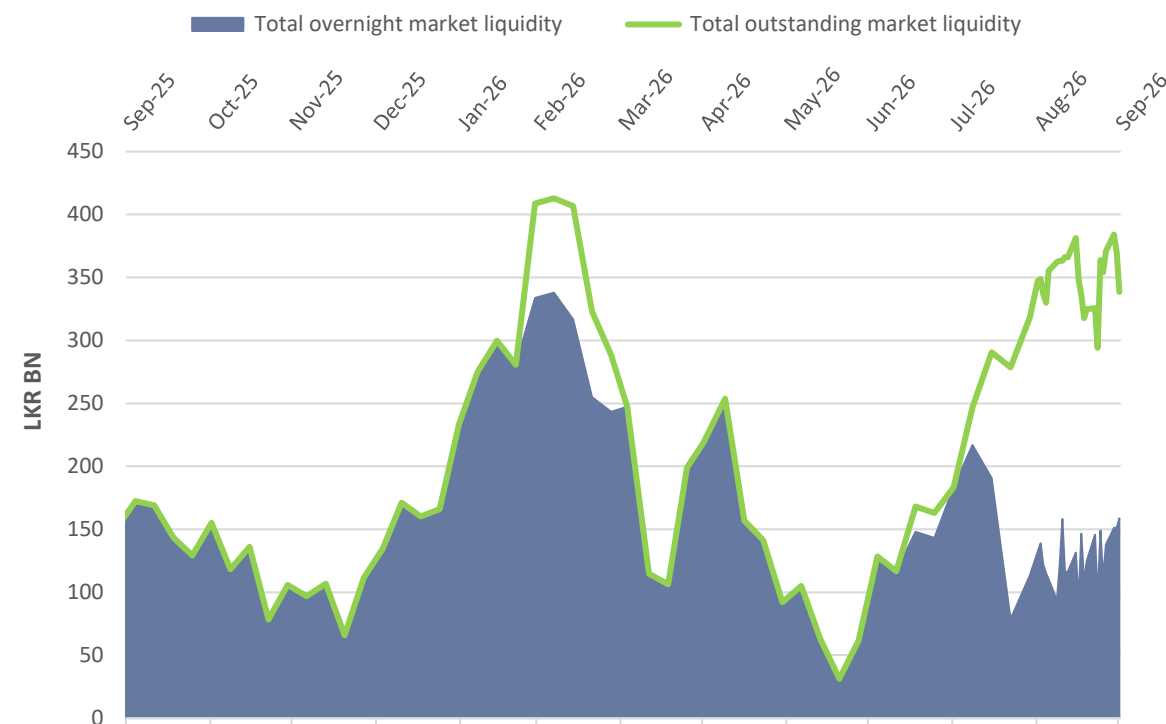


LIQUIDITY & RESERVES

- Foreign Reserves declined by USD 54 Mn to USD 6,851 Mn in Sep-26.



- Both overnight market liquidity and outstanding market liquidity increased in Sep-26 compared to the previous month. While overnight market liquidity increased to LKR 158.7Bn, outstanding market liquidity moved to LKR 338.7Bn by end Sep-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.

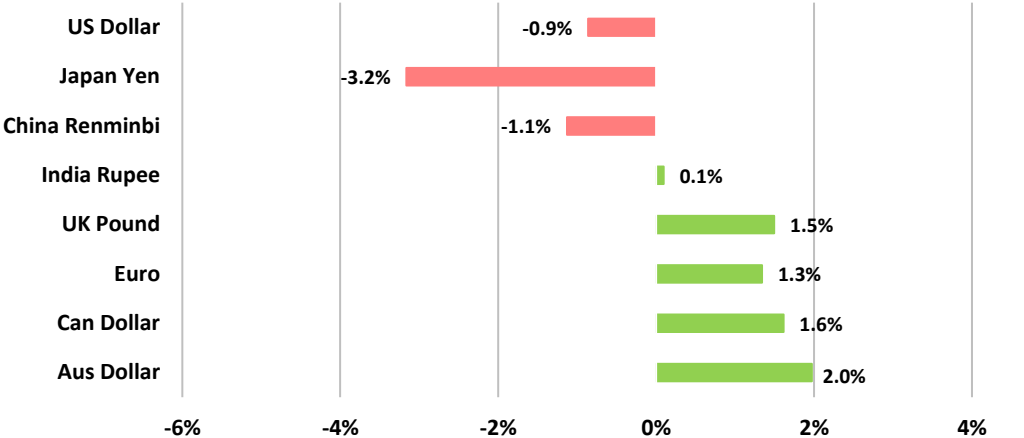
CURRENCY MOVEMENT

USD:LKR Movement

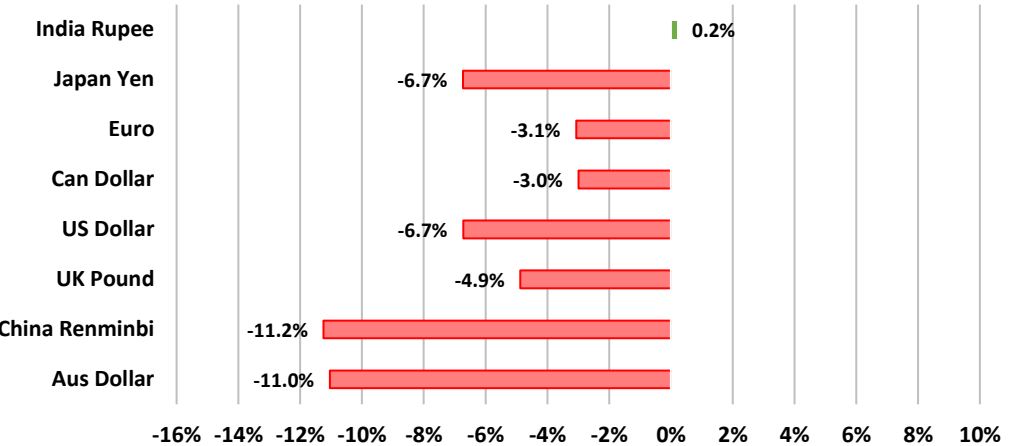


Sri Lankan Rupee vs Global Currencies

SEP 2026



YTD 2026



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Sep 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
04-Sep-26	88,000	55,000	143,000
11-Sep-26	88,000		88,000
18-Sep-26	70,010	158,000	228,010
25-Sep-26	66,000		66,000
Total Issued			525,010

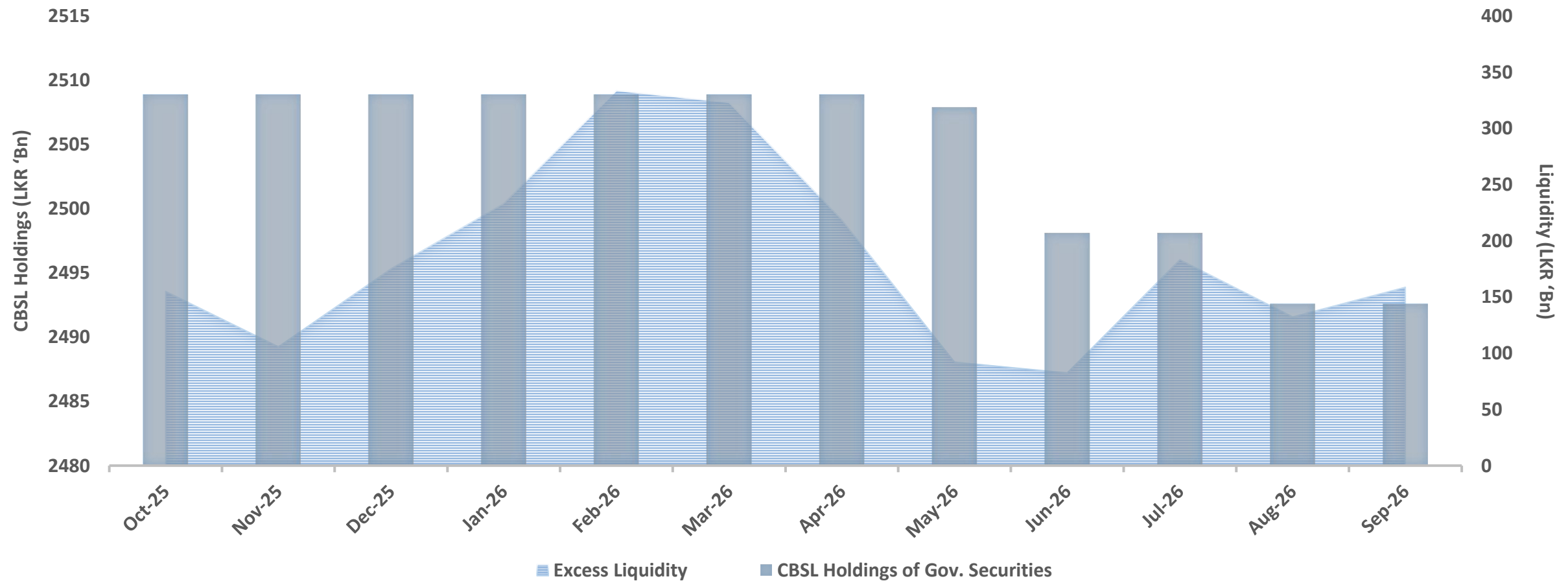
Net settlements for Sep 2026

Net Settlement	Sep 2026	YTD
Maturities	308,564	5,502,462
Coupon Payment	180,364	1,323,681
New Issues	525,010	5,392,943
Excess/ (Deficit)	36,082	(1,433,200)

CBSL Holdings of Gov. Securities		YTD
As at End Sep 2026	2,492,619	
As at End Aug 2026	2,492,619	
Increase/ (Decrease)	0	-16,320

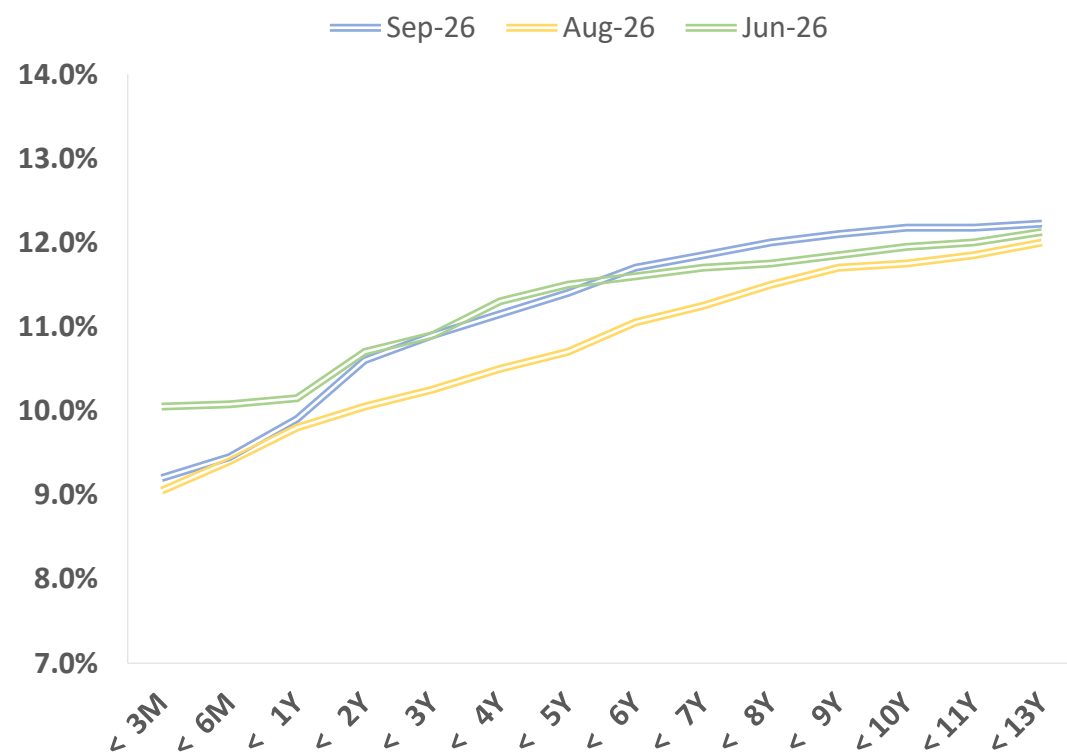
CBSL HOLDINGS OF GOV. SECURITIES...

...unchanged in Sep 2026



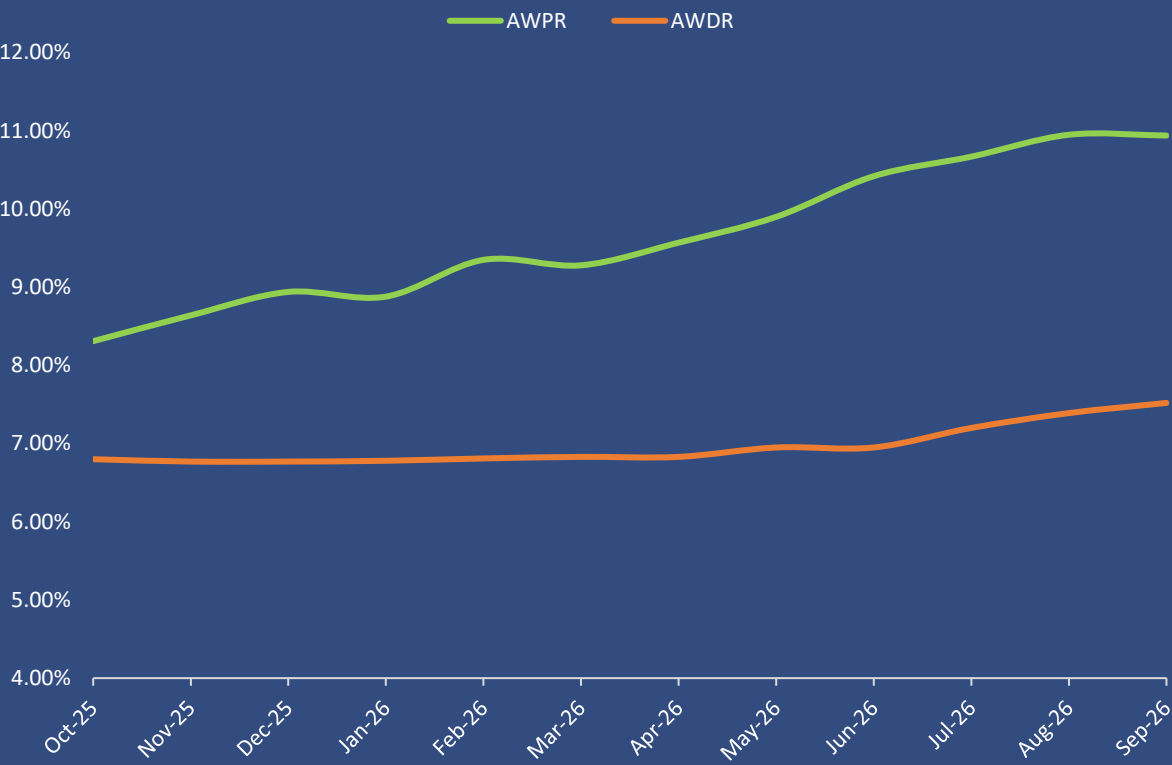
TREASURY BILLS AND BONDS –SEP 2026

Secondary market yields were higher across the curve in September relative to end-August, with the sharpest increases concentrated in the belly of the curve. Yields on maturities of up to 1 year rose by 5-15bps, while the 2-7 year segment increased by 55-70bps and the 8-13 year segment by 23-50bps. Compared to June, the short end remains lower, with the 3M, 6M and 1Y maturities down by 85bps, 63bps and 25bps, respectively. In contrast, yields on maturities of 6 years and above remain 10-25bps higher, leaving the curve steeper than in June. At the Treasury bill auction held on 2 September, yields eased marginally before moving higher at the auctions thereafter, with yields rising across all maturities at the 23 September auction, marking the second consecutive weekly increase. Meanwhile, the Treasury bond auction held on 25 August had little direct impact on yields, as strong demand enabled the full offered amount to be raised at levels broadly in line with the prevailing secondary market. Secondary market sentiment improved around 22-23 September, with sustained buying interest helping to moderate yields. Overall, September was characterised by upward pressure on yields, particularly in the 2-7 year segment, as the broader curve adjusted higher.

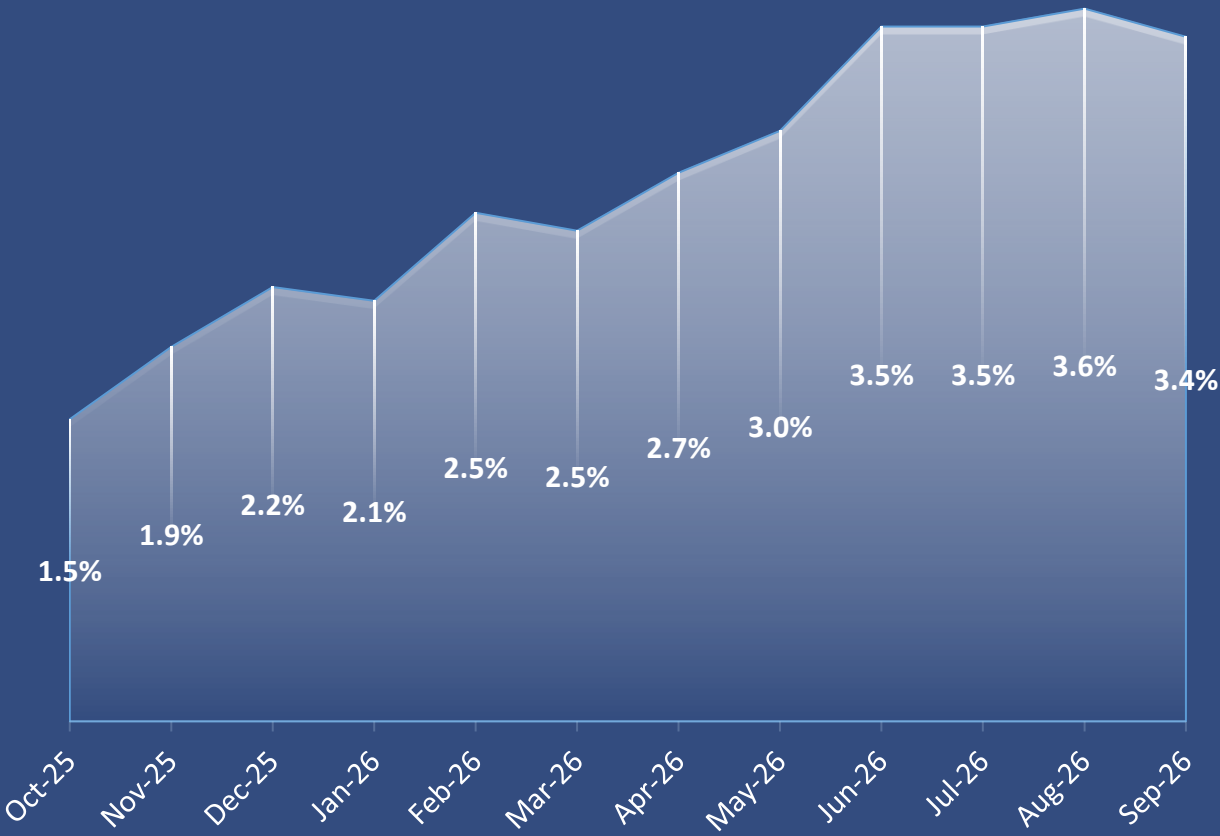


Tenure	Interest Rate Change (bps)				
	Sep 2026	Aug 2026	Change (bps)	June 2026	Change (bps)
< 3M	9.20%	9.05%	+15	10.05%	-85
< 6M	9.45%	9.40%	+5	10.08%	-63
< 1Y	9.90%	9.80%	+10	10.15%	-25
< 2Y	10.60%	10.05%	+55	10.70%	-10
< 3Y	10.90%	10.25%	+65	10.90%	0
< 4Y	11.15%	10.50%	+65	11.30%	-15
< 5Y	11.40%	10.70%	+70	11.50%	-10
< 6Y	11.70%	11.05%	+65	11.60%	10
< 7Y	11.85%	11.25%	+60	11.70%	15
< 8Y	12.00%	11.50%	+50	11.75%	25
< 9Y	12.10%	11.70%	+40	11.85%	25
< 10Y	12.18%	11.75%	+43	11.95%	23
< 11Y	12.18%	11.85%	+33	12.00%	18
< 13Y	12.23%	12.00%	+23	12.13%	10
< 15Y	N/A	N/A	N/A	N/A	N/A

AWPR vs AWDR



Interest Spread

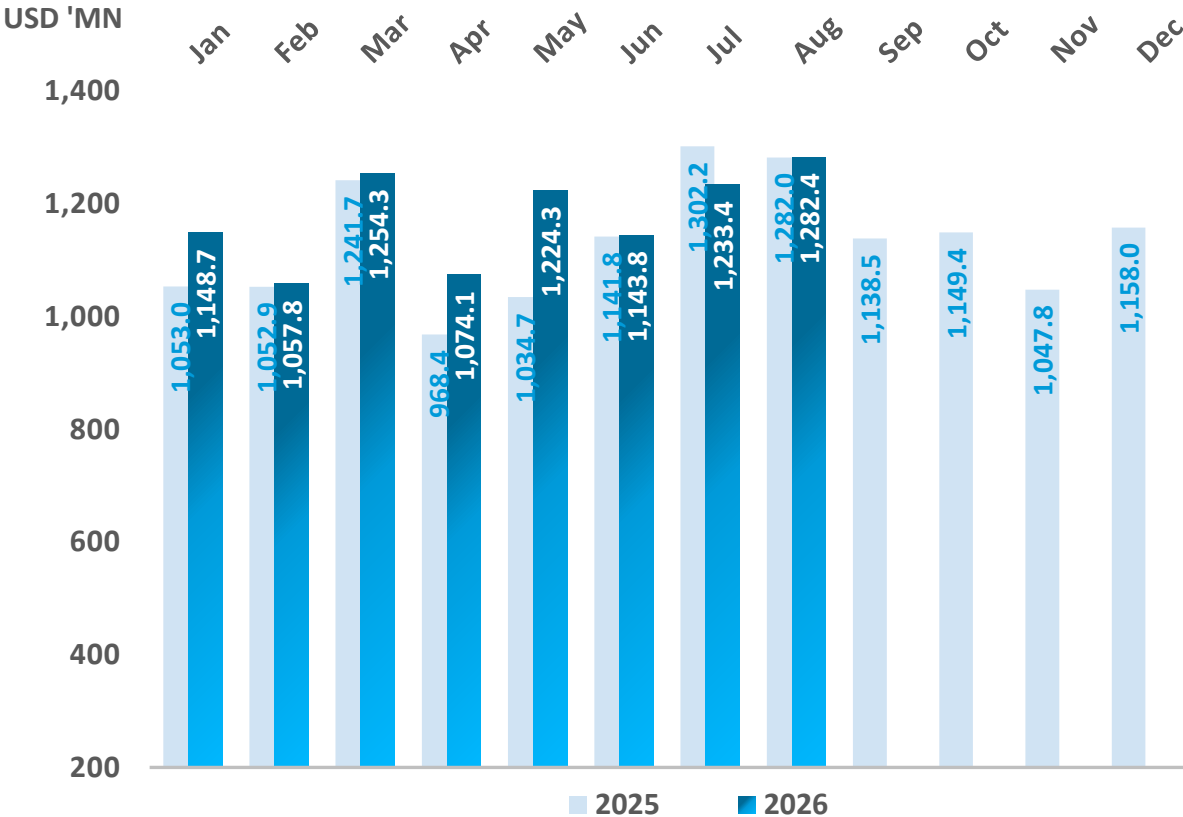


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – AUG 2026 - EXPORTS

In Aug-26, exports stood at USD 1,240.3Mn, reflecting a 3.3%YoY decline. Industrial exports, which account for the largest share of the export basket, decreased by 4.2%YoY during the month, amid weaker performance in key industrial export categories. Agricultural exports remained broadly unchanged, declining marginally by 0.1%YoY, while Mineral & Other exports increased by 2.0%YoY. Nevertheless, cumulative exports during the first eight months of 2026 reached USD 9,376.9Mn, recording a 3.3%YoY increase. Industrial exports continued to underpin overall export growth, rising 4.4%YoY on a year-to-date basis, while Mineral & Other exports expanded by 10.9 %YoY. In contrast, Agricultural exports declined by 0.7%YoY during the period.

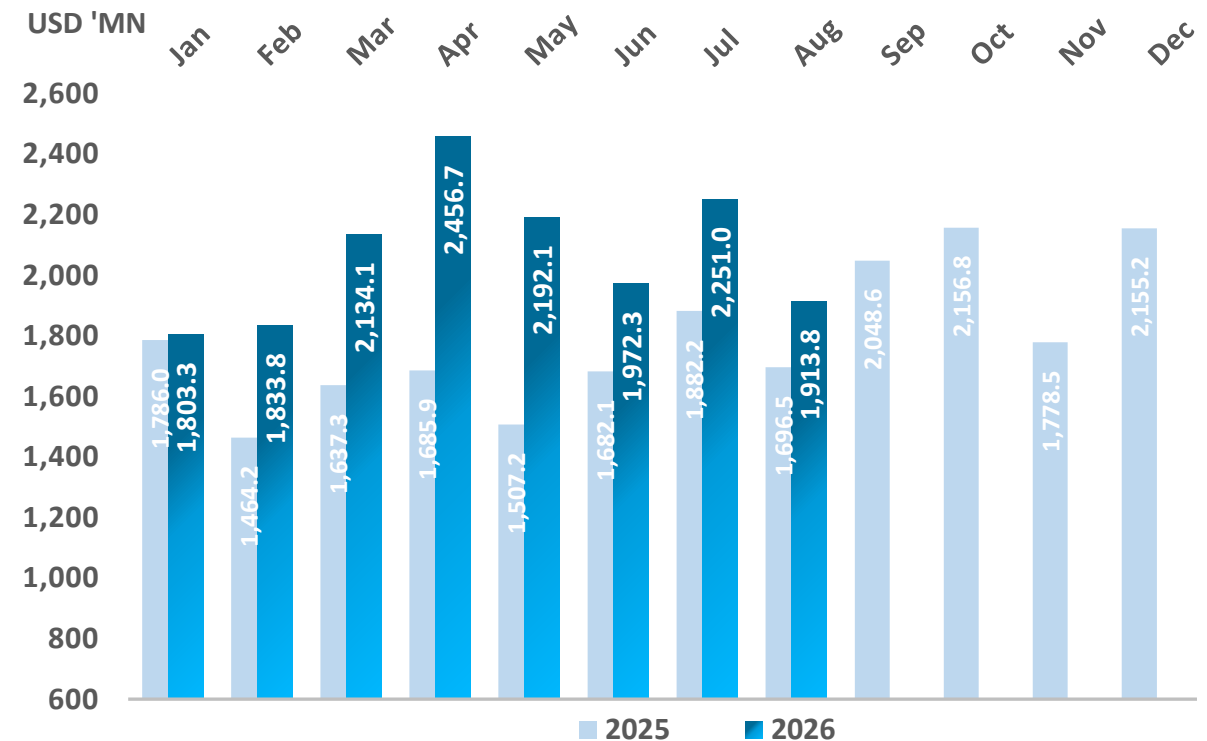
Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- Aug	986.3	944.4	-4.2
- YTD	7015.4	7327.1	4.4
Agricultural			
- Aug	292.6	292.4	-0.1
- YTD	2,030.2	2,015.40	-0.7
Mineral & Other Exports			
- Aug	3.5	3.6	2.9
- YTD	31.1	34.4	11.0
Total			
- Aug	1282.3	1240.3	-3.3
- YTD	9,076.6	9,376.9	3.3



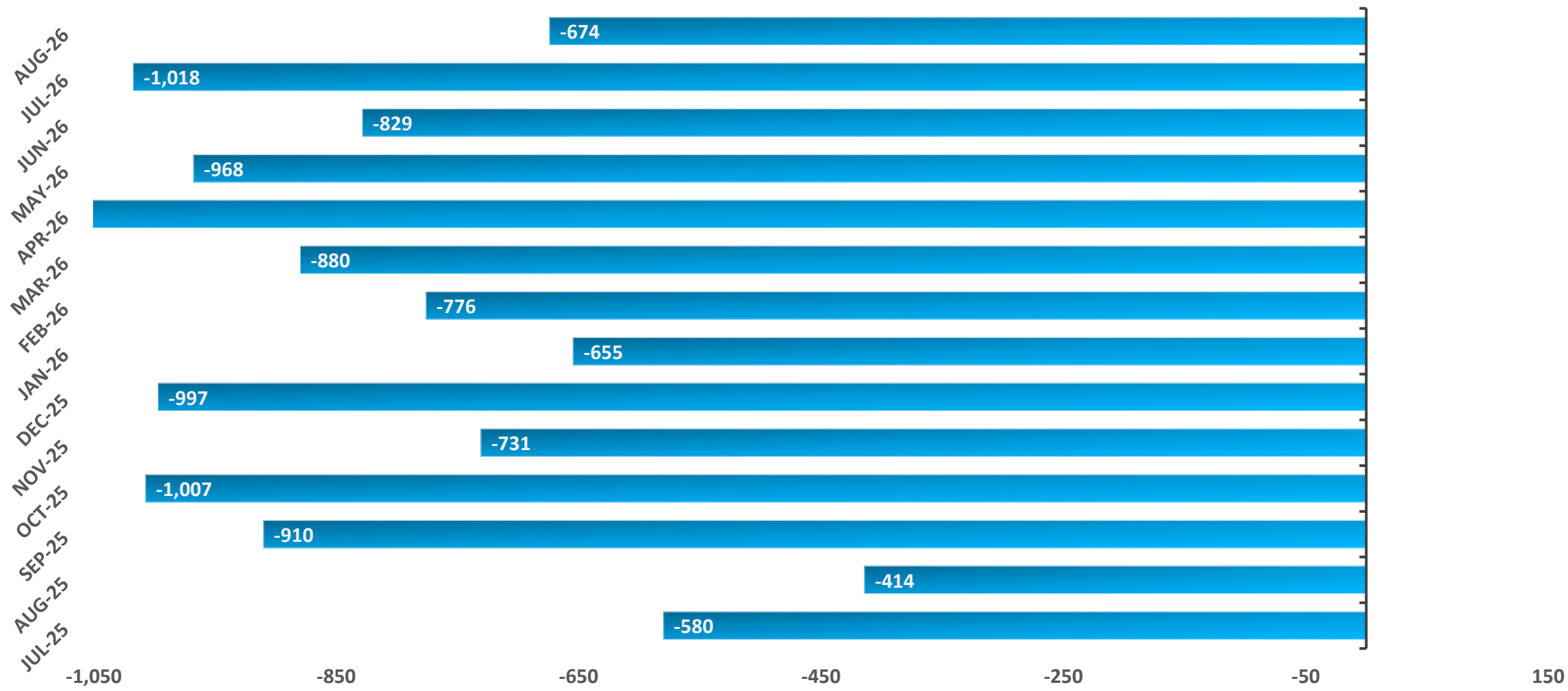
EXTERNAL SECTOR - AUG 2026 - IMPORTS

In Aug-26, imports increased to USD 1,913.8Mn, recording a 12.8%YoY growth. Intermediate goods imports, the largest component of the import basket, rose by 24.6%YoY, while investment goods and other imports increased by 25.0%YoY during the month. Meanwhile, consumer goods imports declined by 15.7%YoY. Cumulative imports for the first eight months of 2026 stood at USD 16,557.1Mn, denoting a 24.1%YoY increase, driven by growth in intermediate goods (+25.5%YoY) and investment goods & other imports (+23.4%YoY), while consumer goods imports increased by 21.5%YoY on a YTD basis.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- Aug	499.1	420.7	-15.7
- YTD	3,294.7	4,004.5	21.5
Intermediate			
- Aug	869.0	1,082.4	24.6
- YTD	7,437.4	9,334.2	25.5
Investment goods & other			
- Aug	328.5	410.7	25.0
- YTD	2,608.9	3,218.4	23.4
Total			
- Aug	1,696.5	1,913.8	12.8
- YTD	13,340.9	16,557.0	24.1

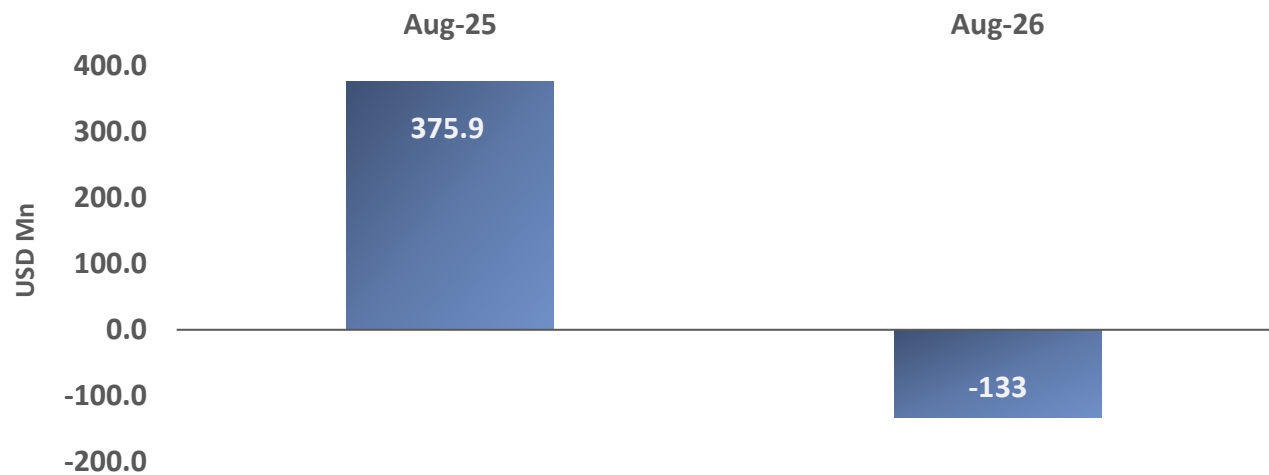


Balance of Trade (USD Mn)

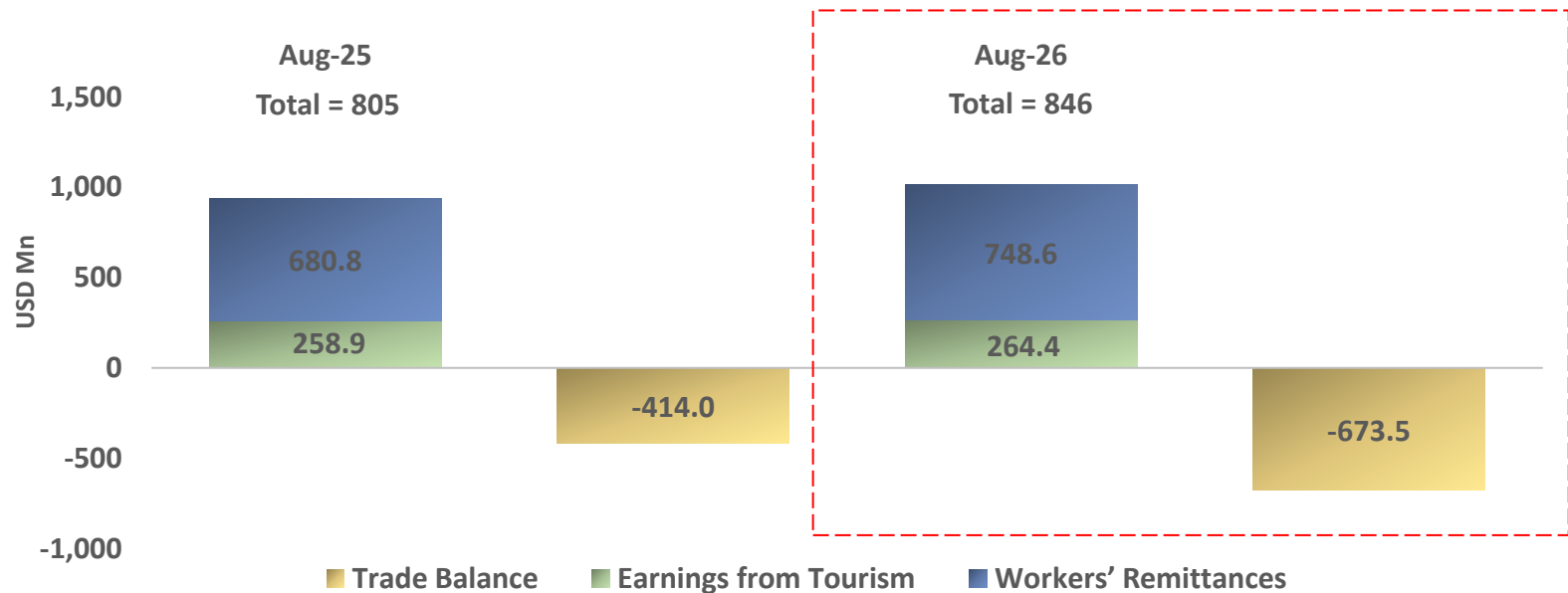


Source: Central Bank

The Current Account Balance for Aug-26 recorded a surplus of USD 133 Mn compared to a surplus of USD 368 Mn seen in Aug-25.



Workers' Remittances increased to USD 748.6Mn (+10.0%YoY) in Aug-26 while Earnings from Tourism increased to USD 264.4 Mn (+2.1%YoY).



CURRENT ACCOUNT BALANCE CONTRACTED YOY IN AUG-26

AUG USD Mn	2025	2026	Change (%)
Trade Balance	-414.0	-673.5	-62.7%
Earnings from Tourism	258.9	264.4	2.1%
Workers' Remittances	680.8	748.6	+10.6

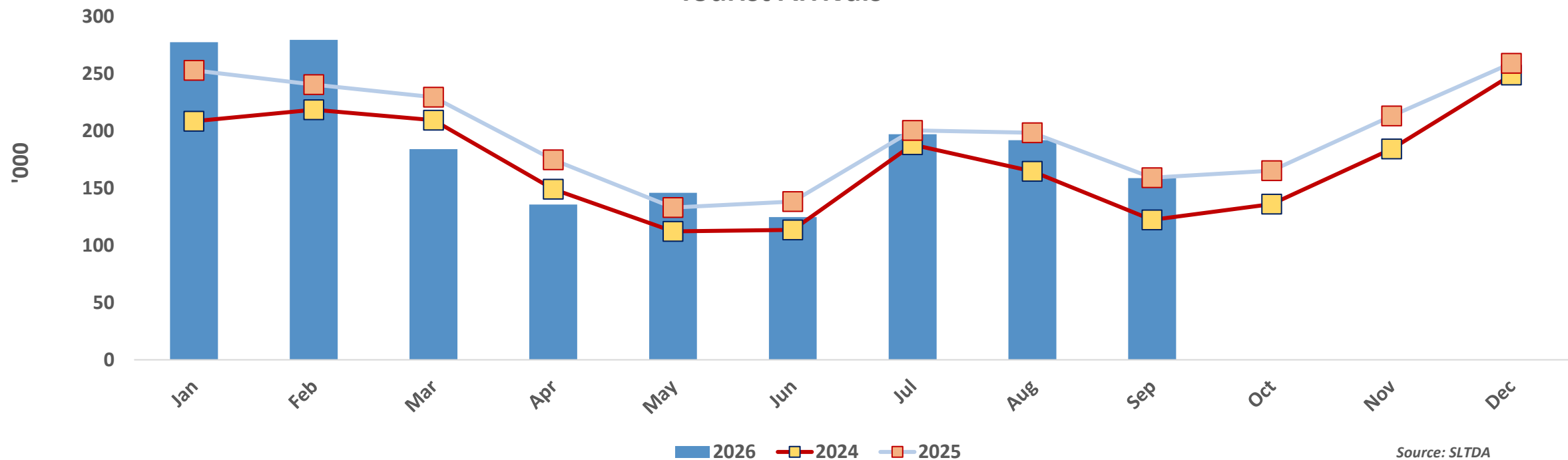
YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-4,264.2	-7,180.2	68.4%
Earnings from Tourism	2,290.0	2,061.1	-10.0%
Workers' Remittances	5,116.0	6,131.0	+19.8%

TOURIST ARRIVALS – SEP 2026

[SEP 158,557: DOWN -0.26%YoY] [MoM: DOWN -17.29%]

Total tourist arrivals for Sep-26 reached 158,557, reflecting a marginal YoY decline of 0.3% and a MoM decrease of 17.3%. India remained the largest source market, accounting for 32.0% of total arrivals during the month. This was followed by China (7.0%), Australia (7.0%), the United Kingdom (7.0%), and Germany (5.0%).

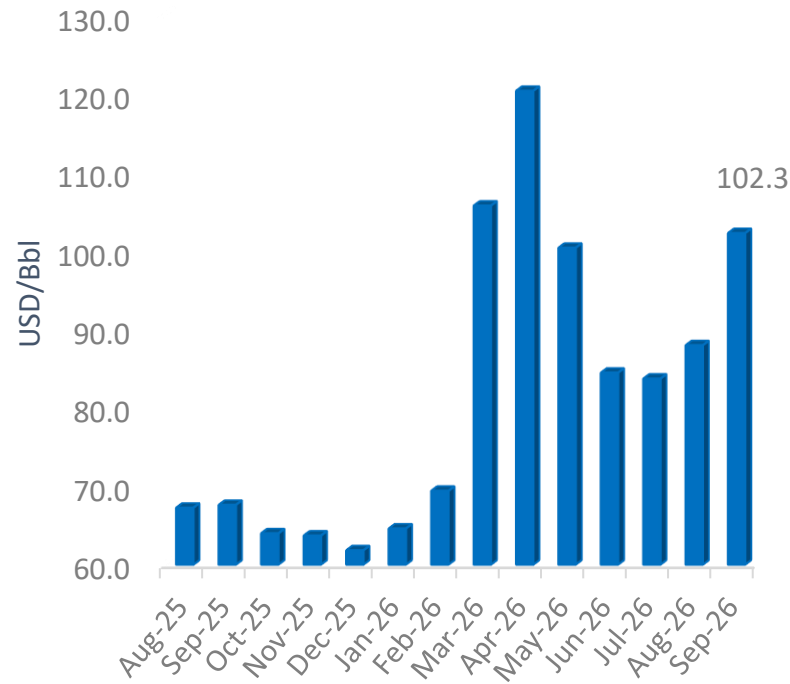
Tourist Arrivals



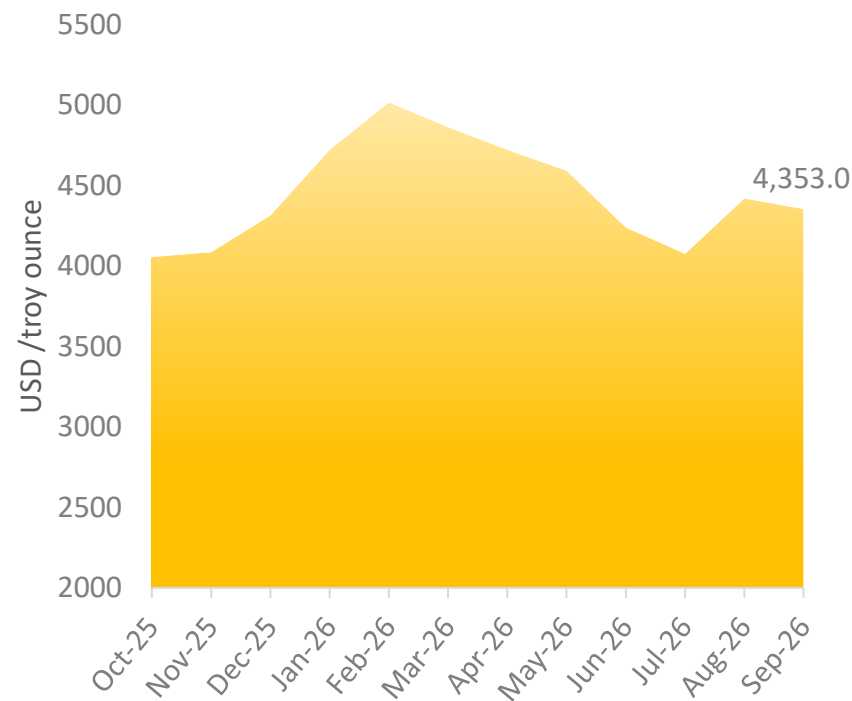
Source: SLTDA

COMMODITY PRICES - SEP 2026

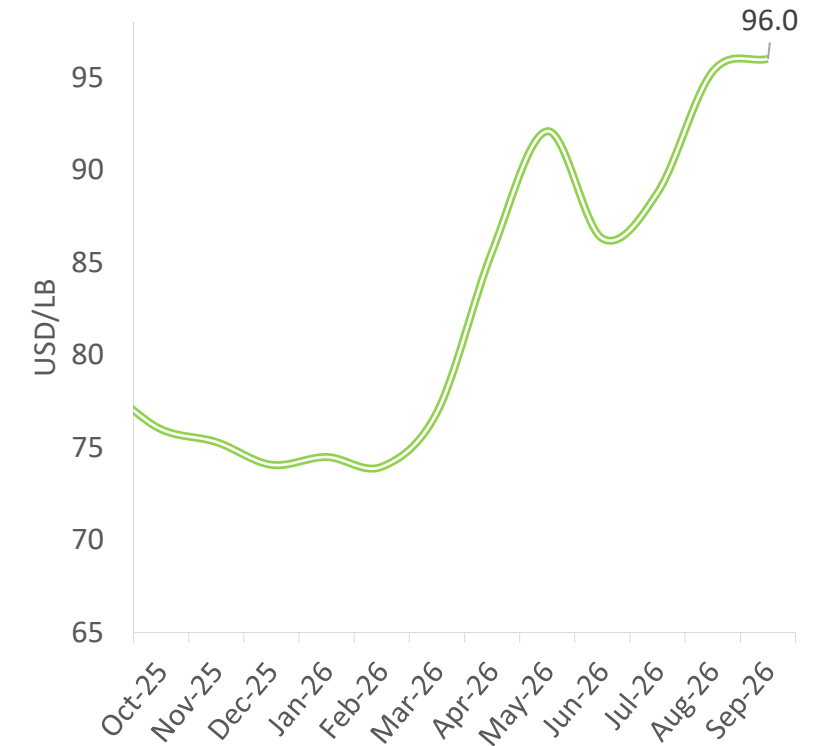
Crude oil



Gold



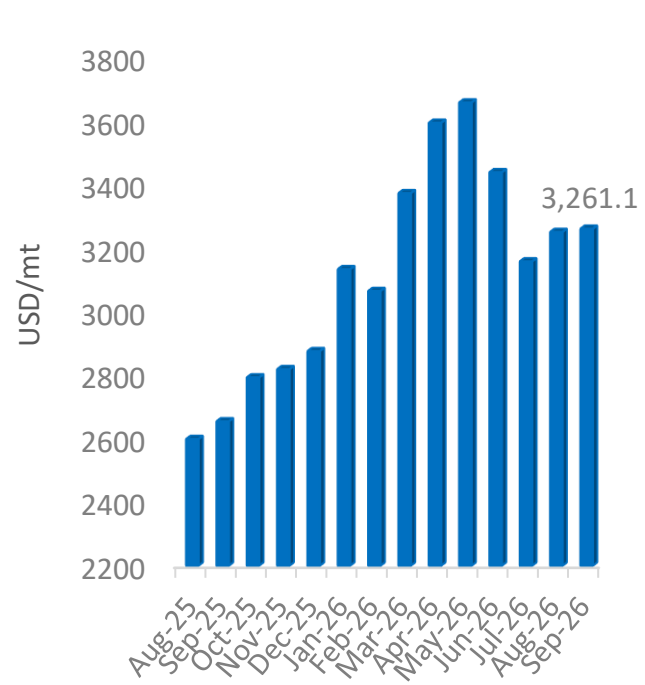
Cotton



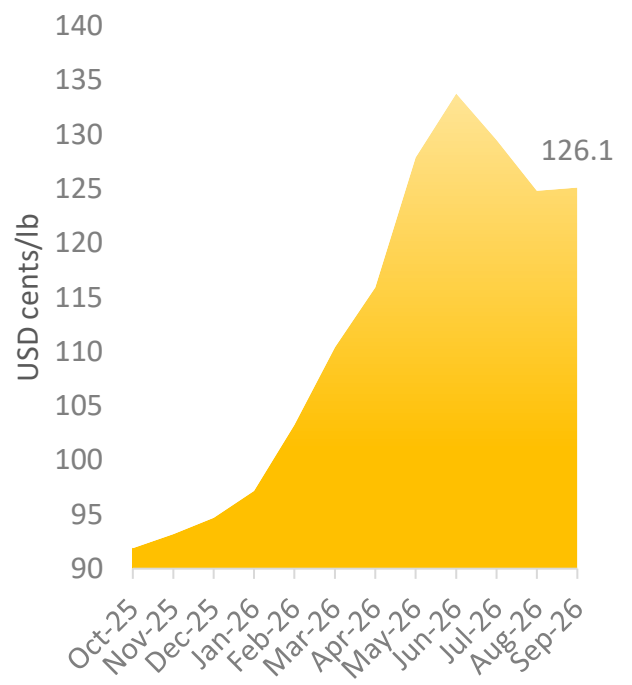
Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

COMMODITY PRICES - SEP 2026 CONT'D

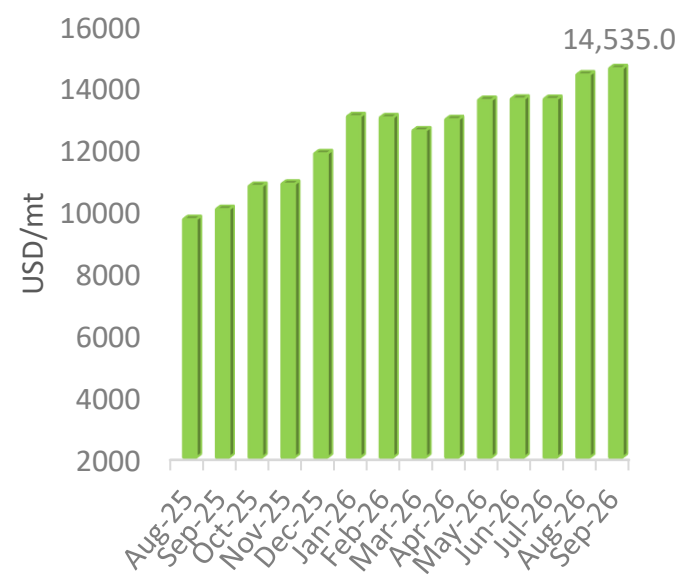
Aluminum



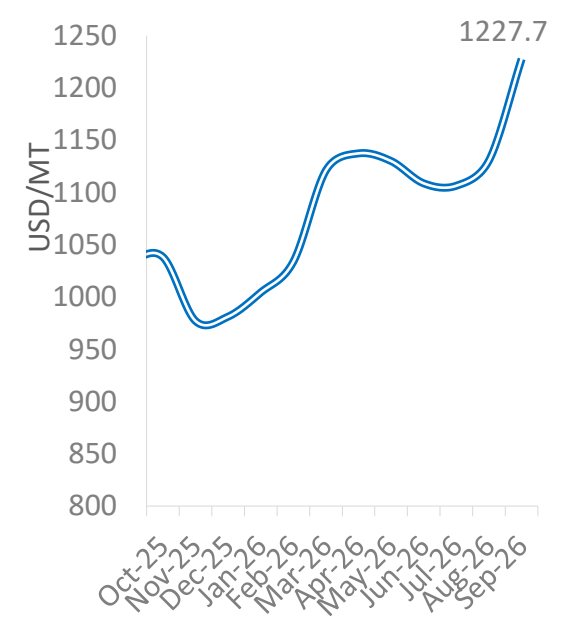
Rubber



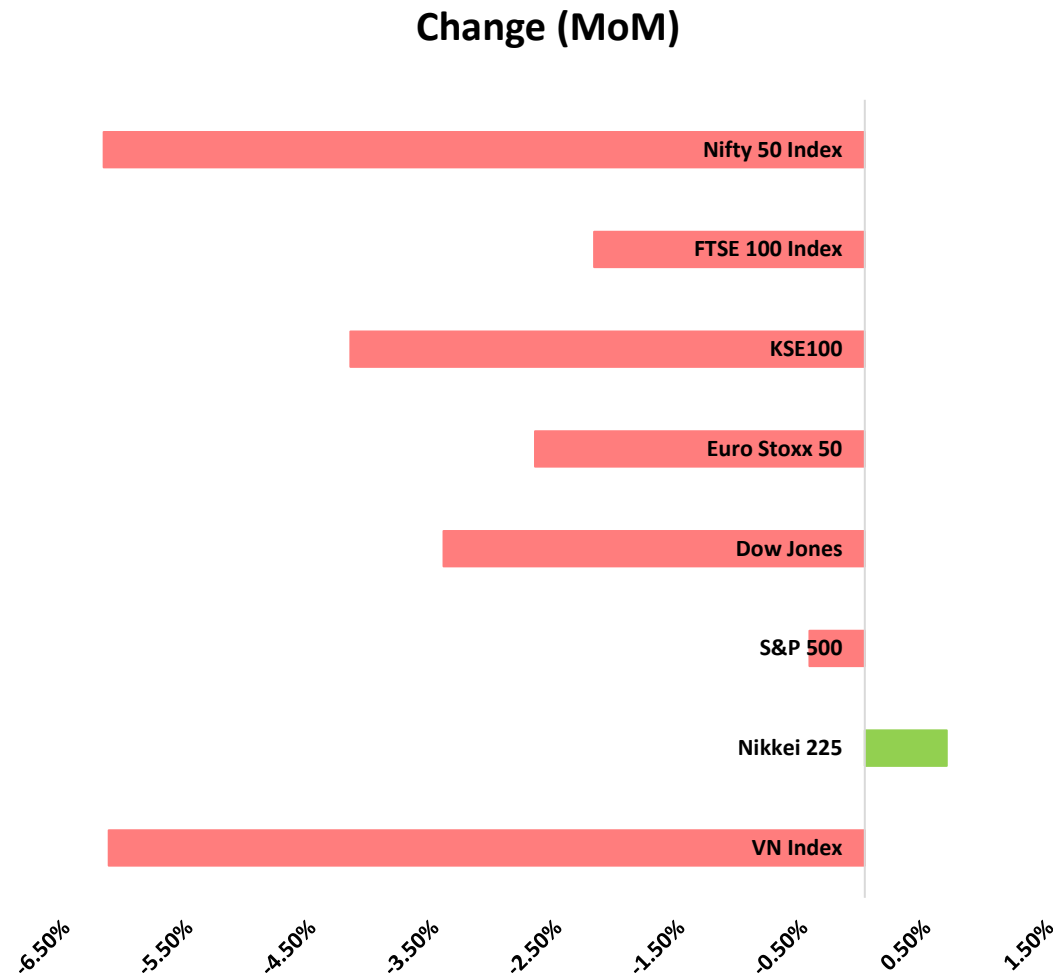
Copper



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



Fed Raises Rates in Unanimous Vote (16 Sep)

The Federal Reserve raised interest rates by 25bps in September, its first hike since July 2023, citing persistent inflation pressures partly linked to higher energy prices. Policymakers also signalled the possibility of an additional rate hike later this year, reinforcing a higher-for-longer interest rate outlook.



Iran offers to reopen Strait of Hormuz within 7 days and restart nuclear talks (25 Sep)

Iran offered to reopen the Strait of Hormuz within seven days and expressed willingness to resume nuclear negotiations, easing immediate concerns over global oil supply disruptions. The development helped improve market sentiment, although geopolitical risks in the Middle East remain elevated.

China's industrial profit growth slows further as economic imbalances deepen (28 Sep)

China's industrial profit growth slowed further in August, underscoring persistent economic imbalances and weak domestic demand. The slowdown has reinforced concerns about China's growth trajectory, with implications for global trade, commodity demand and broader market sentiment.



DISCLAIMER

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS"*

Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



Dimantha Mathew

Chief Research & Strategy Officer

T: +94 11 2639 853

E: dimantha@firstcapital.lk

Charith Gamage

Vice President – Research

T: +94 11 2639 863

E: charith@firstcapital.lk

Ranjan Ranatunga

Vice President – Research

T: +94 11 2639 863

E: ranjan@firstcapital.lk

Shahana Kanagaratnam

Senior Assistant Manager – Research

T: +94 11 2639 866

E: shahana@firstcapital.lk

Akna Tennakoon

Assistant Manager – Research

T: +94 11 2639 866

E: akna@firstcapital.lk

Dilhari Dias

Research Analyst

T: +94 11 2639 866

E: dilhari@firstcapital.lk

Salaama Sanoon

Research Associate

T: +94 11 2639 866

E: salaama@firstcapital.lk



First Capital

A Janashakthi Group Company