



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Jun 2025

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CBSL FURTHER REDUCES THE OVERNIGHT POLICY RATE (OPR)

- The Monetary Policy Board of CBSL decided to reduce the OPR by 25bps to 7.75% at its meeting held on 21st May 2025, thereby easing monetary policy further.
- The Board arrived at this decision after carefully considering the developments both domestically and globally. The Board is of the view that this measured easing of monetary policy stance will support steering inflation towards the target of 5%, amidst global uncertainties and current subdued inflationary pressures.
- Recent leading economic indicators reflect sustained progress in domestic economic activity. However, global uncertainties, which could have implications on Sri Lanka, have escalated from the time of the previous monetary policy review.
- Meanwhile, most market interest rates have stabilized at lower levels. With the current policy easing, the Board expects further downward adjustments in lending rates. Credit flows to the private sector remain strong with key economic sectors benefitting from such expansion. This credit expansion is expected to continue throughout the year, with further support from the latest easing.

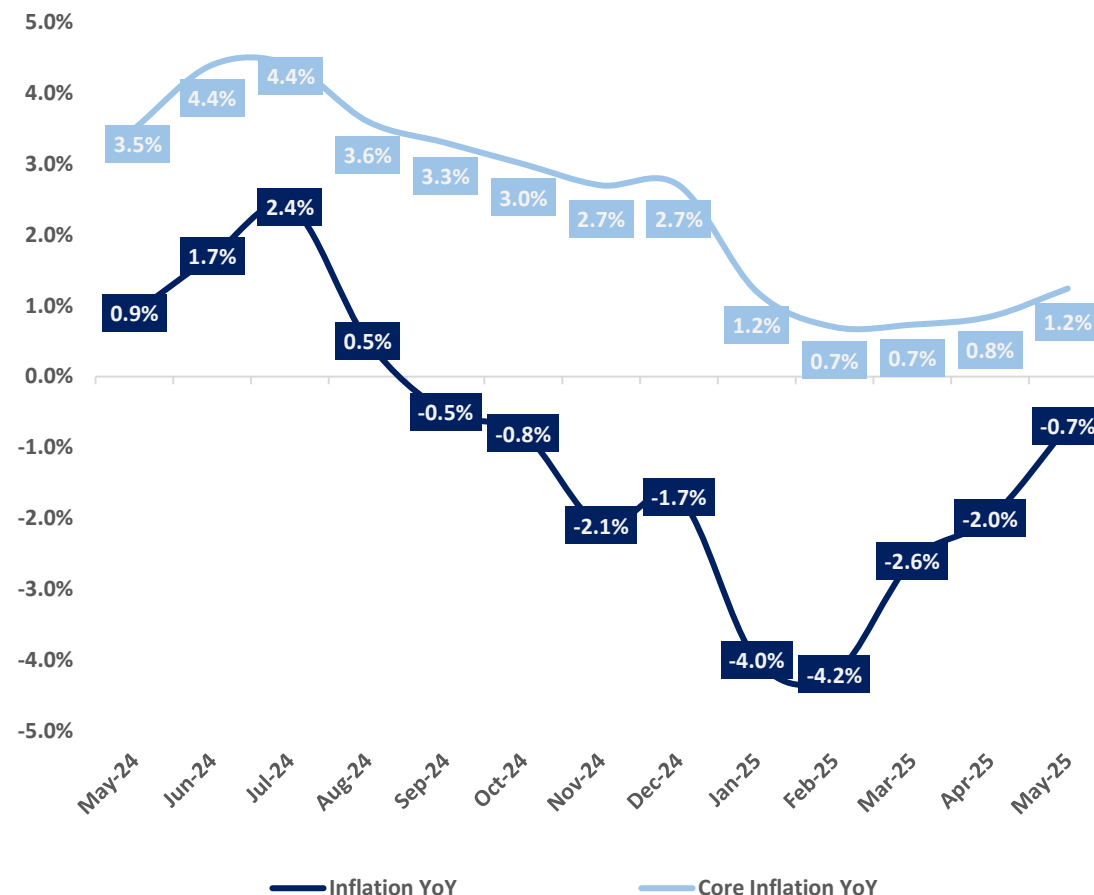
CCPI FOR MAY 2025:

MOM +0.8%

YOY -0.7%

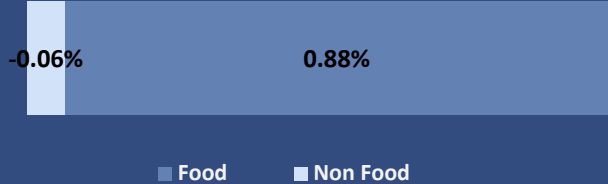
- MoM inflation for May 2025 stood at +0.8% up from the -0.2% level seen in the previous month. Food inflation rose to +2.7% while Non-Food inflation remained unchanged at -0.1%.
- The YoY figure reached -0.7% in May 2025 compared to the -2.0% level seen in Apr 2025. Food inflation rose to 5.2%. Non-Food inflation remained deflationary at -3.3%, up from -3.6% recorded previously.

Inflation – CCPI

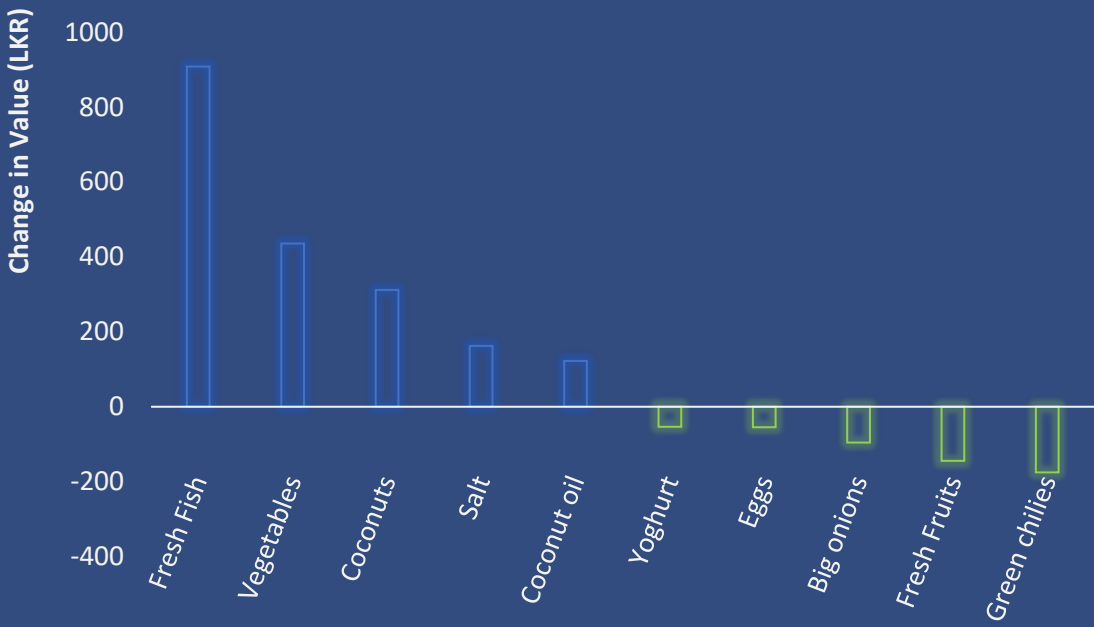


INFLATION ANALYSIS – CCPI-MOM

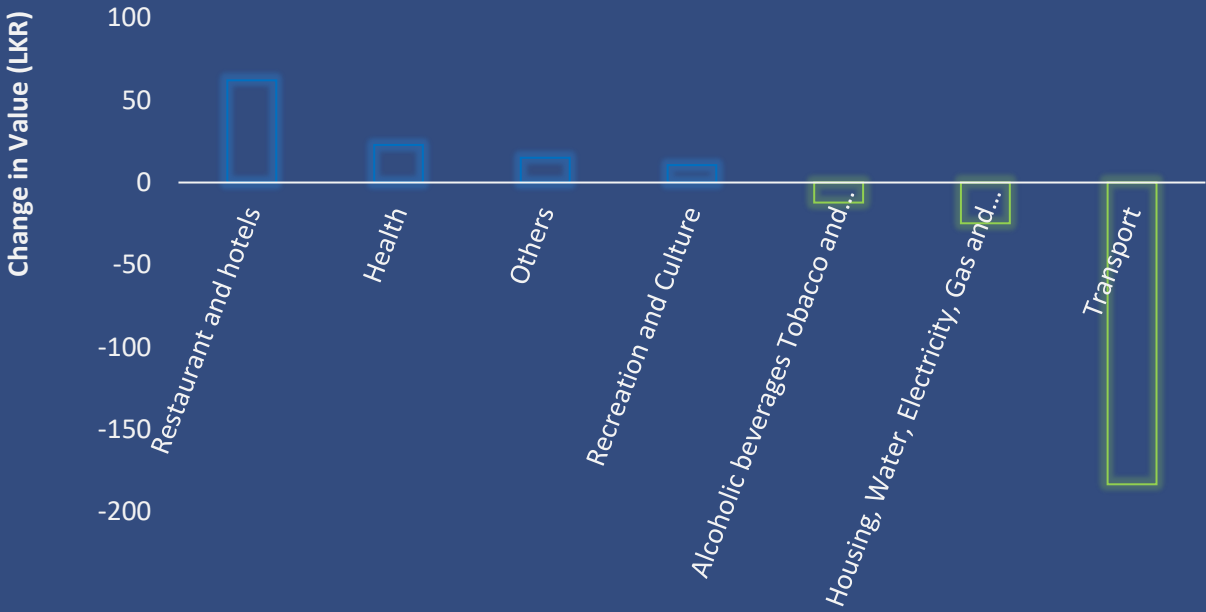
The CCPI Index for May 2025, increased by 0.8%MoM. The Non-Food category contributed by -0.06% with Transport, Alcoholic Beverages, Tobacco and Narcotic and Housing, Water, Electricity, Gas and Other Fuels dominating the negative downturn. The Food category contributed at a higher 0.88% rate. Fresh fish, Vegetables, Coconut, Salt and Coconut oil were the top positive contributors within the Food category. However, on the flip side, Green chilies and Fresh fruits showcased noteworthy inflationary trends.



Food Category Inflation

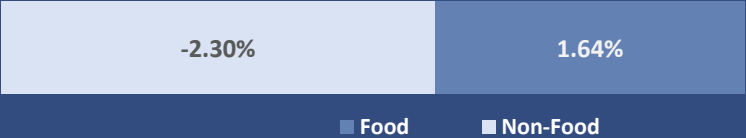


Non-Food Category Inflation

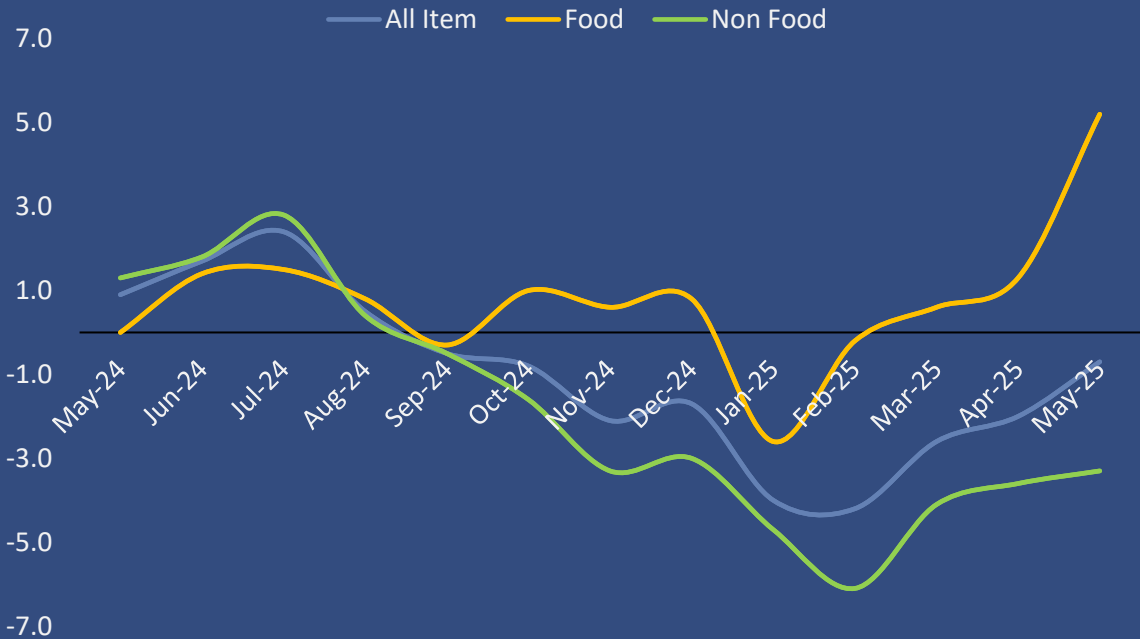


INFLATION ANALYSIS – CCPI-YOY

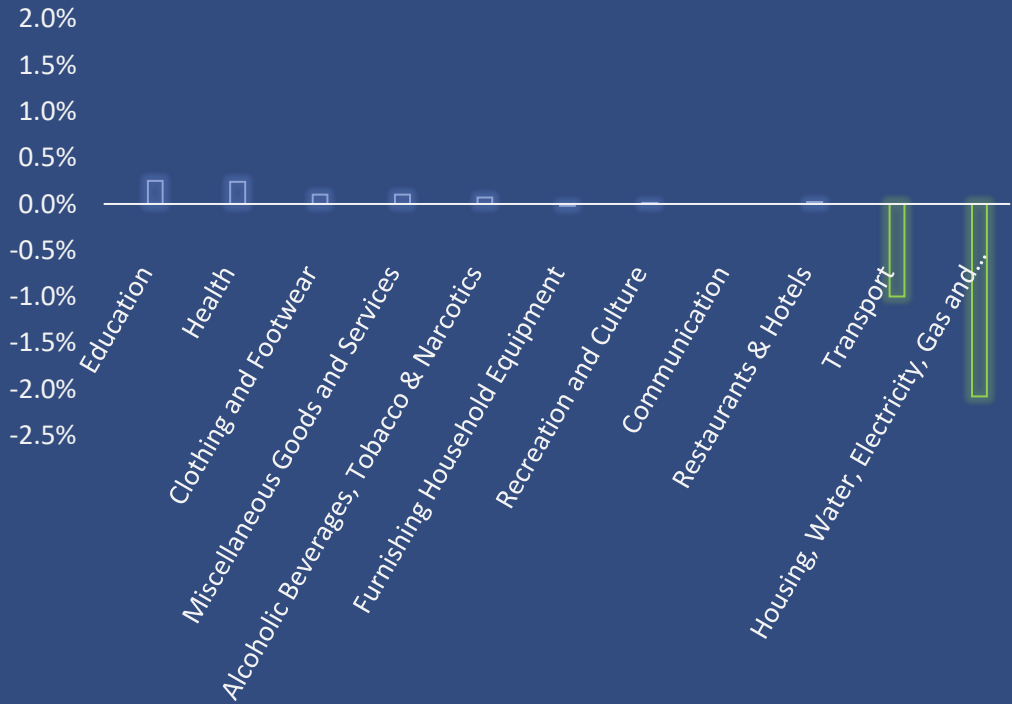
The YoY inflation of CCPI for May 2025 stood at -0.7%, registering an uptick from the -2.0% level seen in Apr 2025. While YoY inflation of the Food group rose to 5.2% in May 2025 from 1.3% seen in the previous month, YoY inflation of the Non-Food category increased to -3.3% in May from -3.6% in Apr 2025.



Inflation Analysis (YoY)



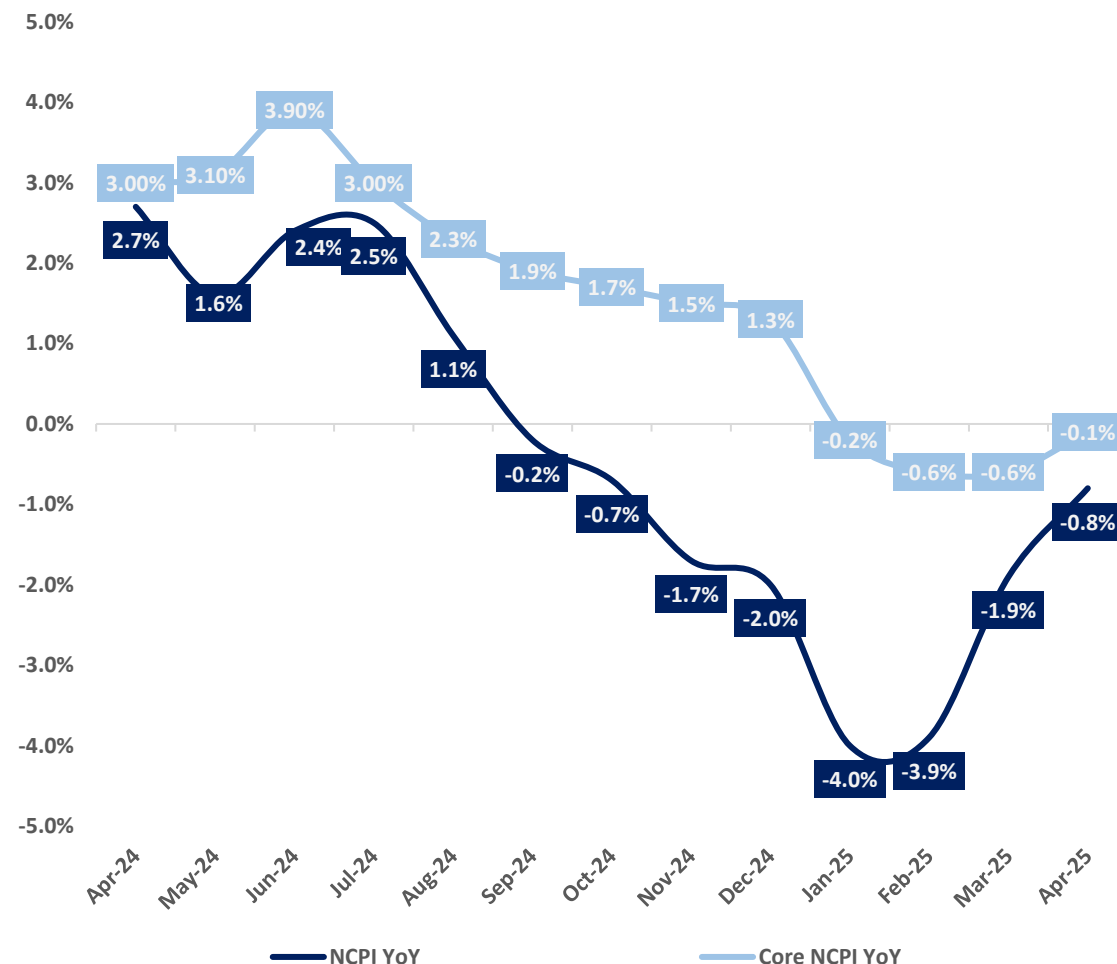
Non-Food Category Inflation



NCPI FOR APR 2025: INCREASED TO -0.8%YOY

- NCPI for Apr 2025, inflated to -0.8% from -1.9% seen in Mar 2025.
- This trend was driven by subsequent increments seen in both Food and Non-Food categories. In Apr 2025, Food inflation increased to 2.9% from 0.8% seen in the previous month. Non-Food inflation also increased to -3.7% in Apr 2025 from -4.1% registered in the previous month.

Inflation – NCPI

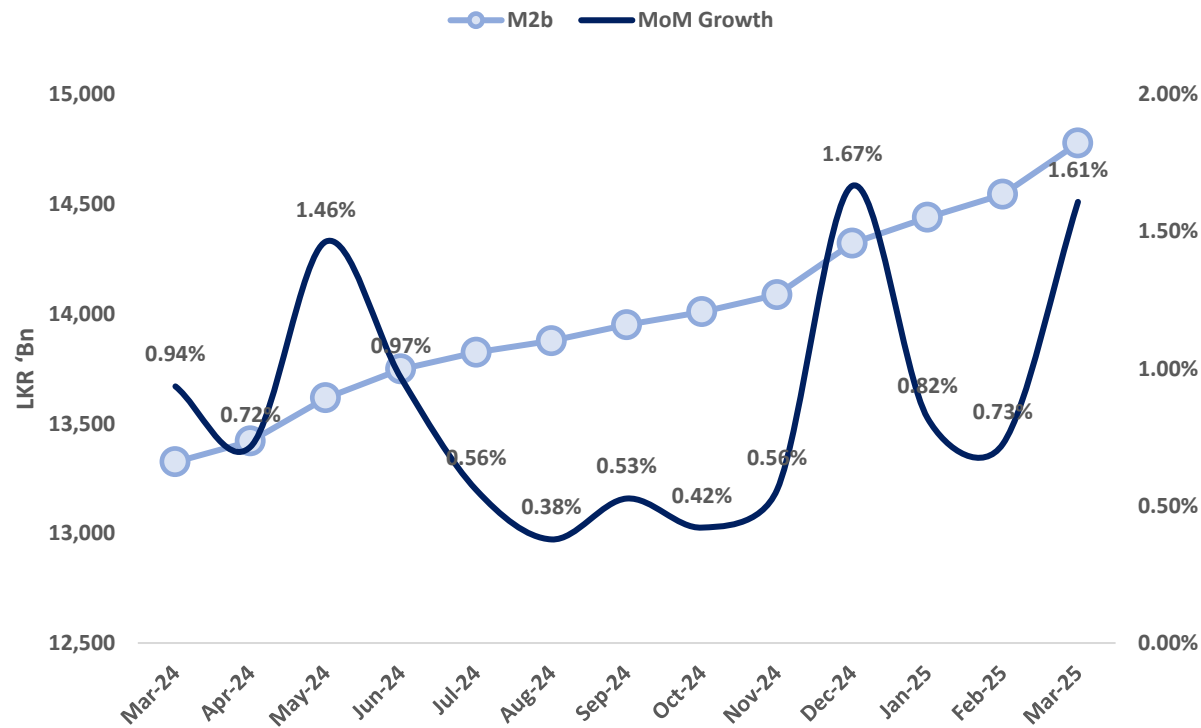


M2B AND CREDIT GROWTH

Private sector credit expanded by LKR 173.2Bn in Mar 2025. State credit also followed suit, having risen by LKR 97.7Bn in Mar 2025, unlike the contraction seen in the previous month.

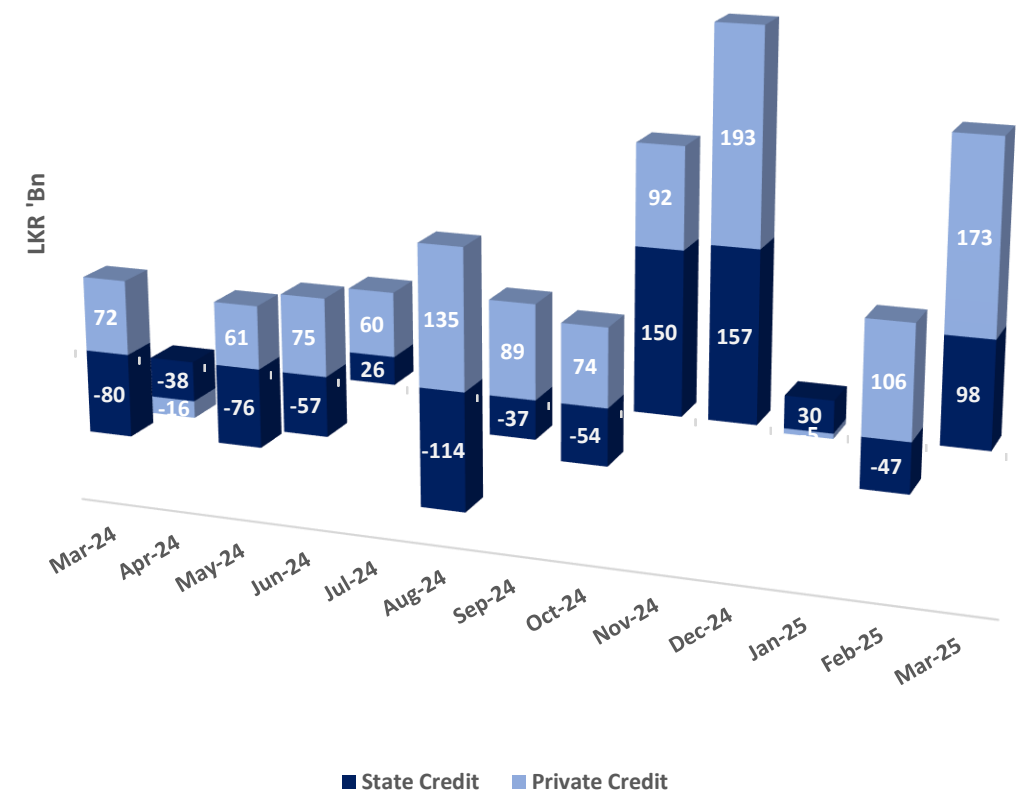
M2b Growth – Mar 2025

MoM +1.6%, YoY +10.9%, YTD +3.2%



State Credit & Private Credit – Mar 2025

Private Credit MoM +1.1%, YoY +13.0%, YTD +2.5%

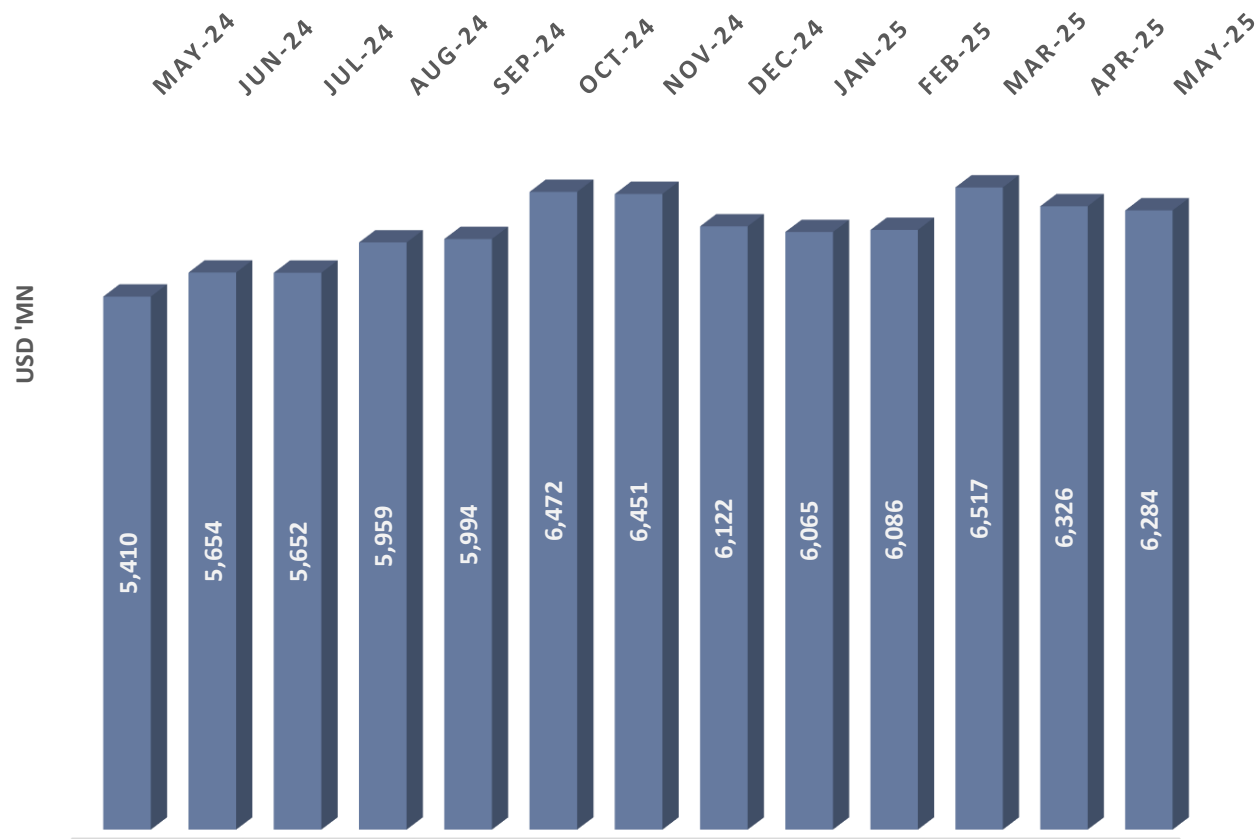




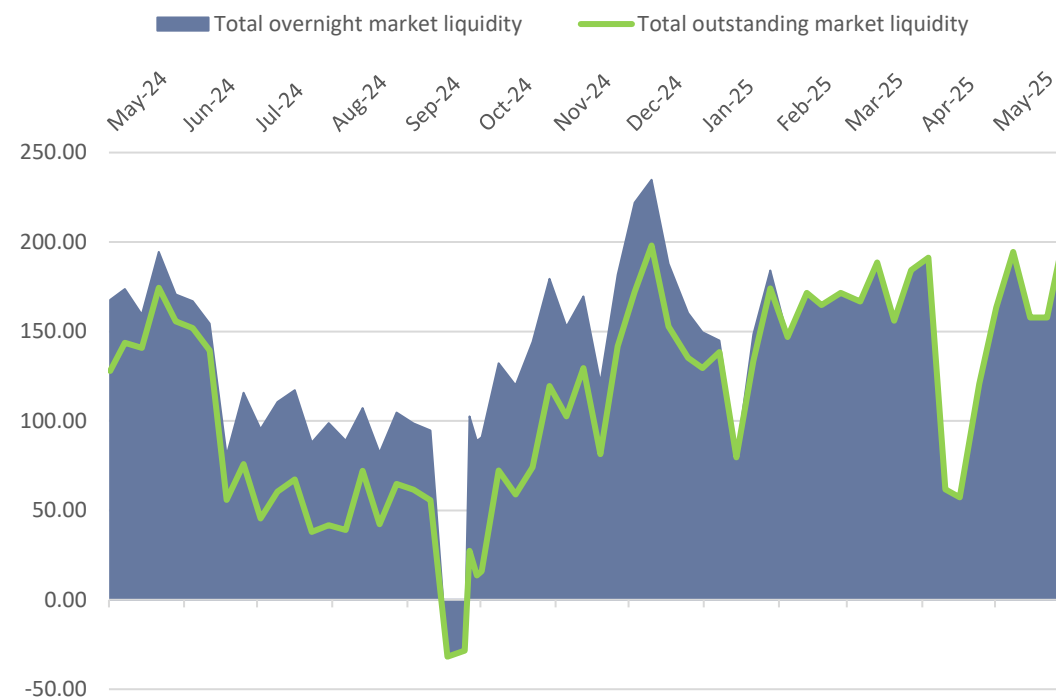
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LIQUIDITY & RESERVES

- Foreign Reserves dropped by USD 42.0Mn to USD 6,284Mn in May 2025.



- Both overnight market liquidity and outstanding market liquidity increased in May 2025 relative to the previous month. By end-May, both overnight and market liquidity stood at LKR 203.8Bn.



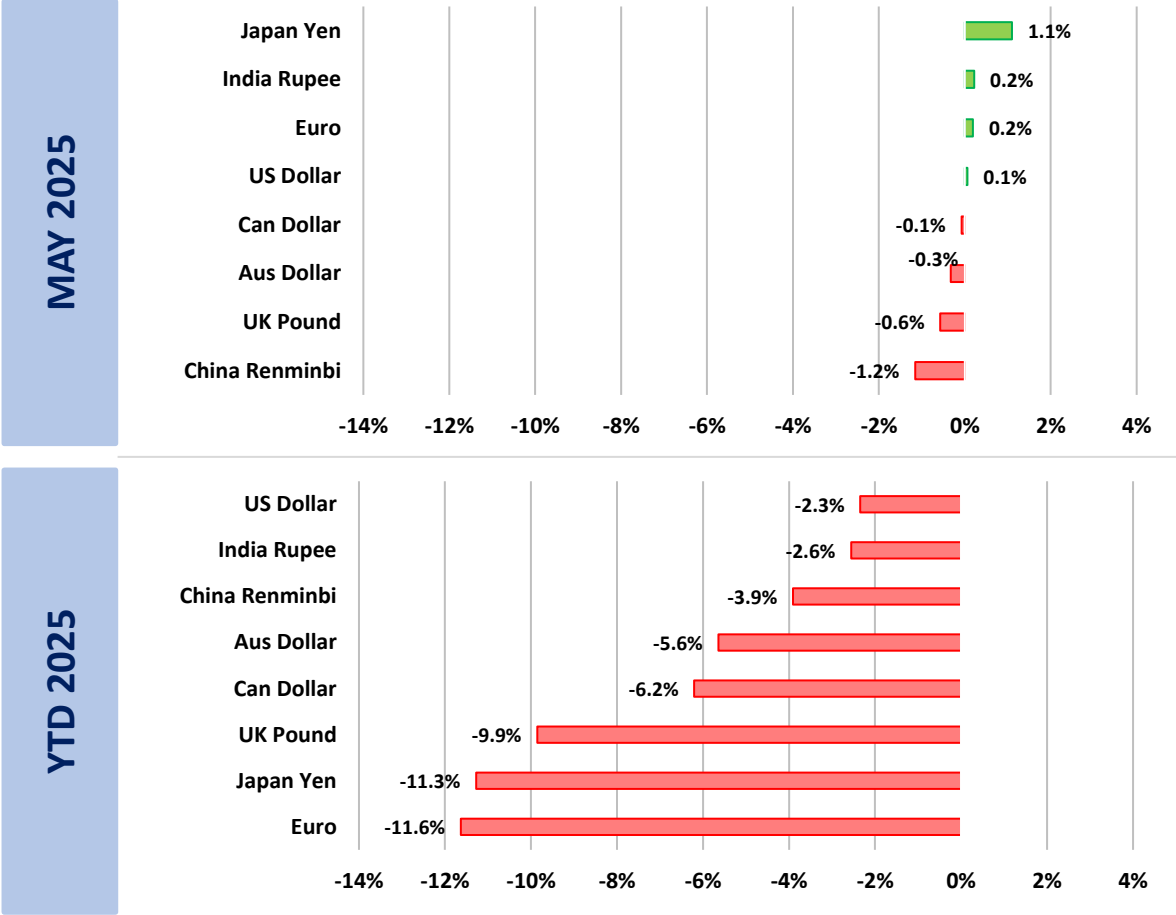
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

CURRENCY MOVEMENT

USD:LKR Movement



Sri Lankan Rupee vs Global Currencies



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for May 2025

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
2-May-25	145,012	166,500	311,512
9-May-25	123,971		123,971
16-May-25	190,300	88,000	278,300
23-May-25	173,250		173,250
30-May-25	178,750		
Total Issued			887,033

Net settlements for May 2025

Net Settlement	May 2025	YTD
Maturities	767,805	3,232,485
Coupon Payment	125,819	654,658
New Issues	887,366	3,784,835
Excess/ (Deficit)	(6,258)	(102,307)

CBSL Holdings of Gov. Securities		YTD
As at End May 2025	2,509,400	
As at End Apr 2025	2,511,900	
Increase/ (Decrease)	-2,500	-6.600

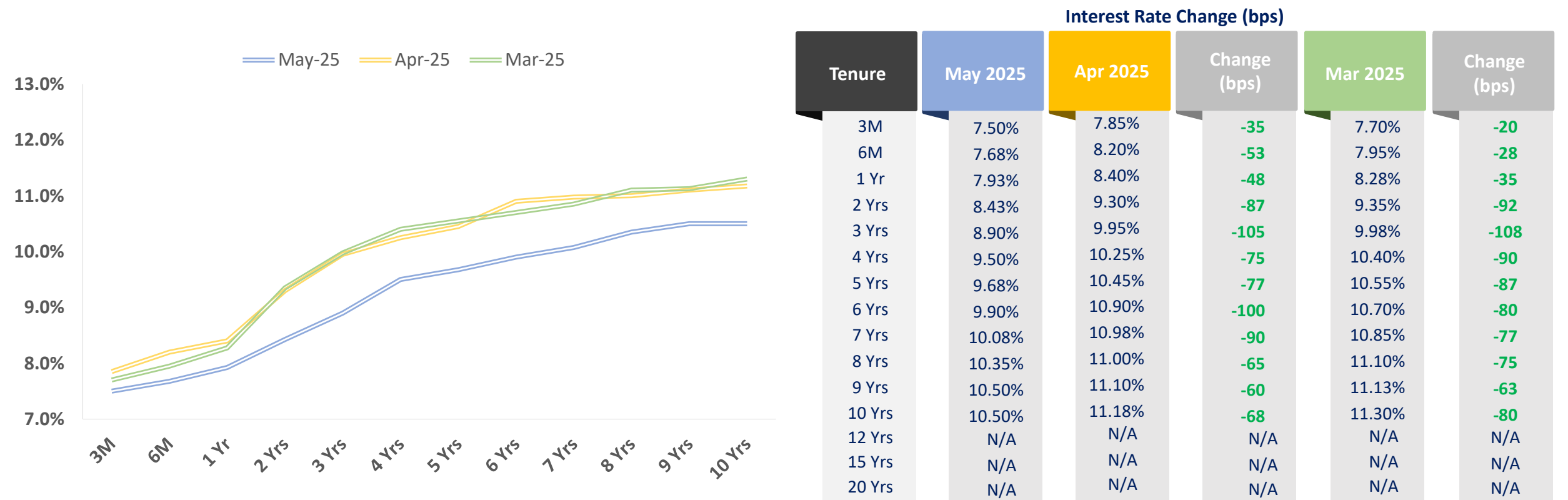
CBSL HOLDINGS OF GOV. SECURITIES...

...reduced slightly in May 2025

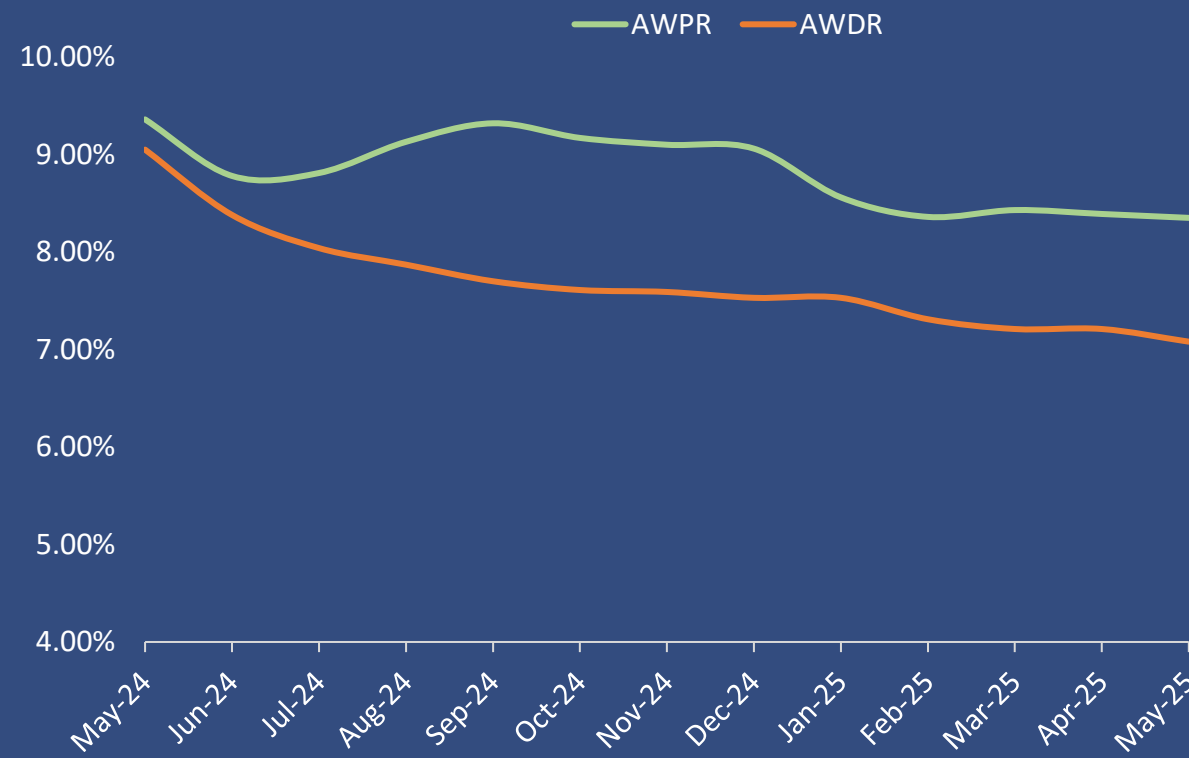


TREASURY BILLS AND BONDS – APR 2025

The government securities market displayed mixed activity throughout May 2025, influenced by global sentiment shifts and domestic auction developments. The month commenced with renewed buying interest, although trading volumes remained relatively subdued in the run-up to Sri Lanka’s Local Government Elections, before recovering in the post-election period. The second week began with muted trading and mixed sentiment, which improved following the successful Treasury bond auction for select maturities. Held on 9th May 2025, the auction raised the targeted amounts, securing LKR 35.0Bn through the 2029 maturity at a weighted average yield of 10.22%, and LKR 45.0Bn via the 2033 maturity at a weighted average yield of 10.97%. By mid-month, market caution prevailed ahead of the Central Bank of Sri Lanka’s (CBSL) monetary policy announcement, resulting in subdued secondary market activity and minimal yield movement. Toward month-end, investor sentiment turned more positive, driven by sustained buying interest in response to CBSL’s downward adjustment of the Official Policy Rate (OPR) and improved overnight liquidity in the banking system, which surpassed LKR 200.0Bn. These developments contributed to declining yields and robust trading volumes.



AWPR vs AWDR



Interest Spread

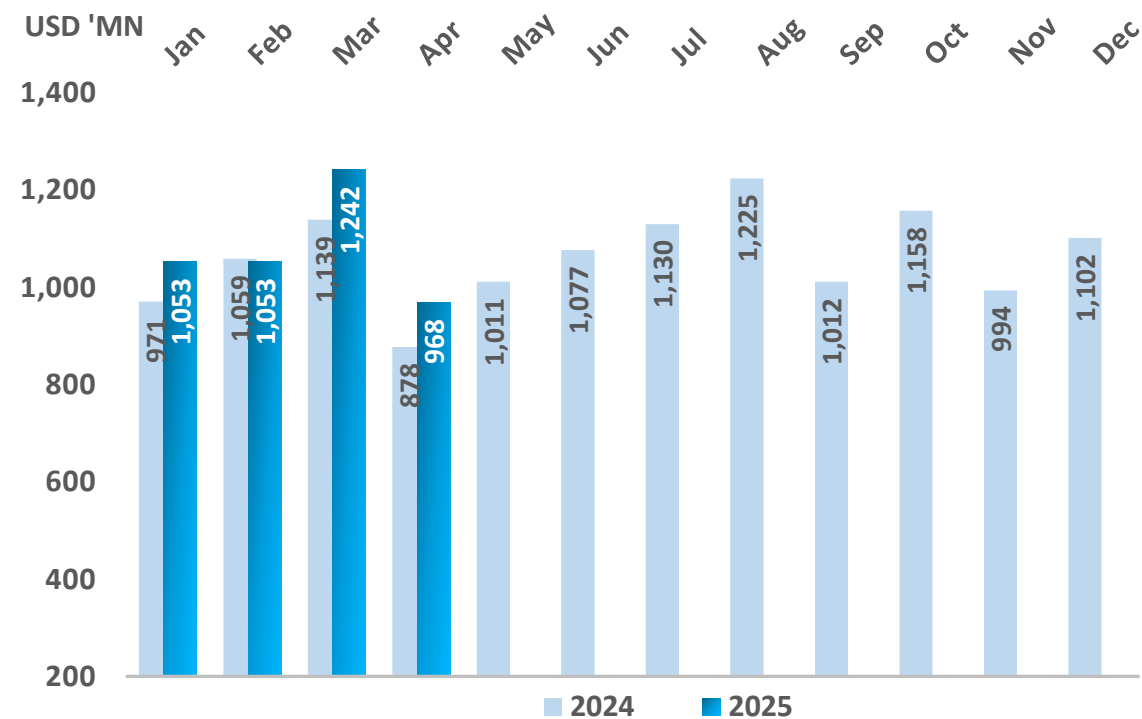


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – APR 2025 – EXPORTS

In Apr 2025, Exports registered a YoY uptick of 10.4%, driven by subsequent expansions in both Industrial and Agricultural exports while Mineral exports which make up a marginal fraction of the export basket recorded a dip of 6.6%. The 9.2%YoY increase that was seen in Industrial exports was driven predominantly by a 13.6% increase in the Textiles and Garments subcomponent. Moreover, the 14.9%YoY increase registered within Agricultural exports was prompted by improvements in Tea, Coconut and Spices.

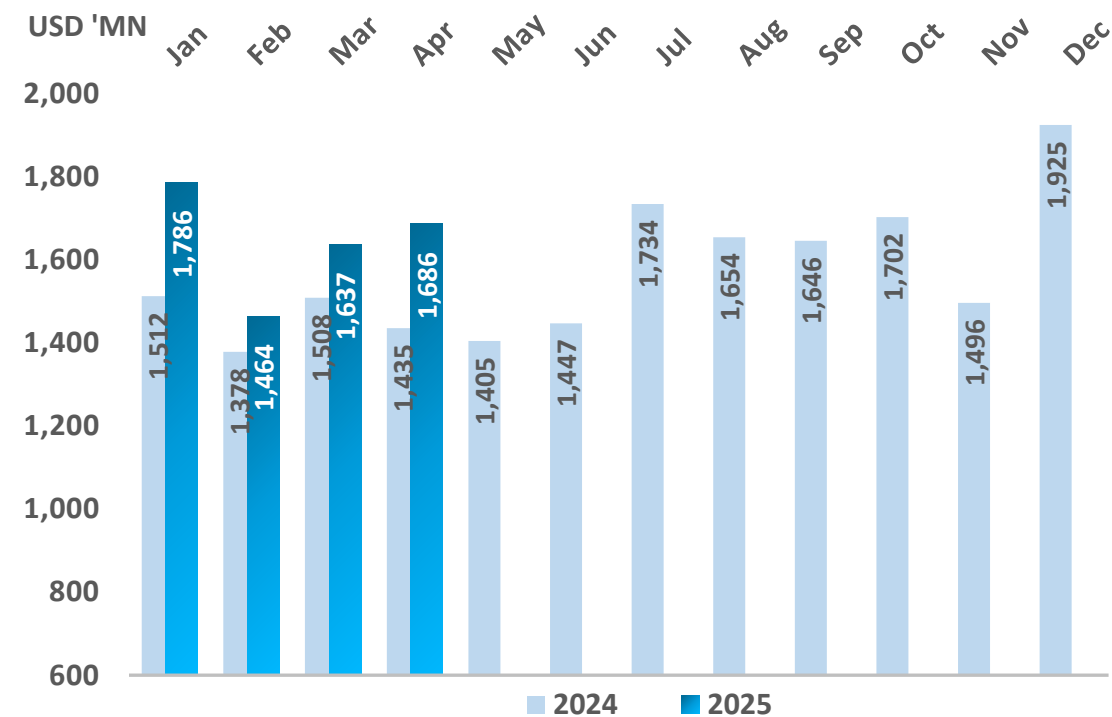
Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Industrial Exports			
- Apr	683.2	746.2	9.2
- YTD	3,210.1	3,373.1	5.1
Agricultural			
- Apr	189.1	217.3	14.9
- YTD	828.4	928.6	12.1
Mineral Exports			
- Apr	5.2	4.9	-6.6
- YTD	17.6	14.1	-19.5
Total			
- Apr	877.6	968.4	10.4
- YTD	4,056.1	4,315.8	6.4



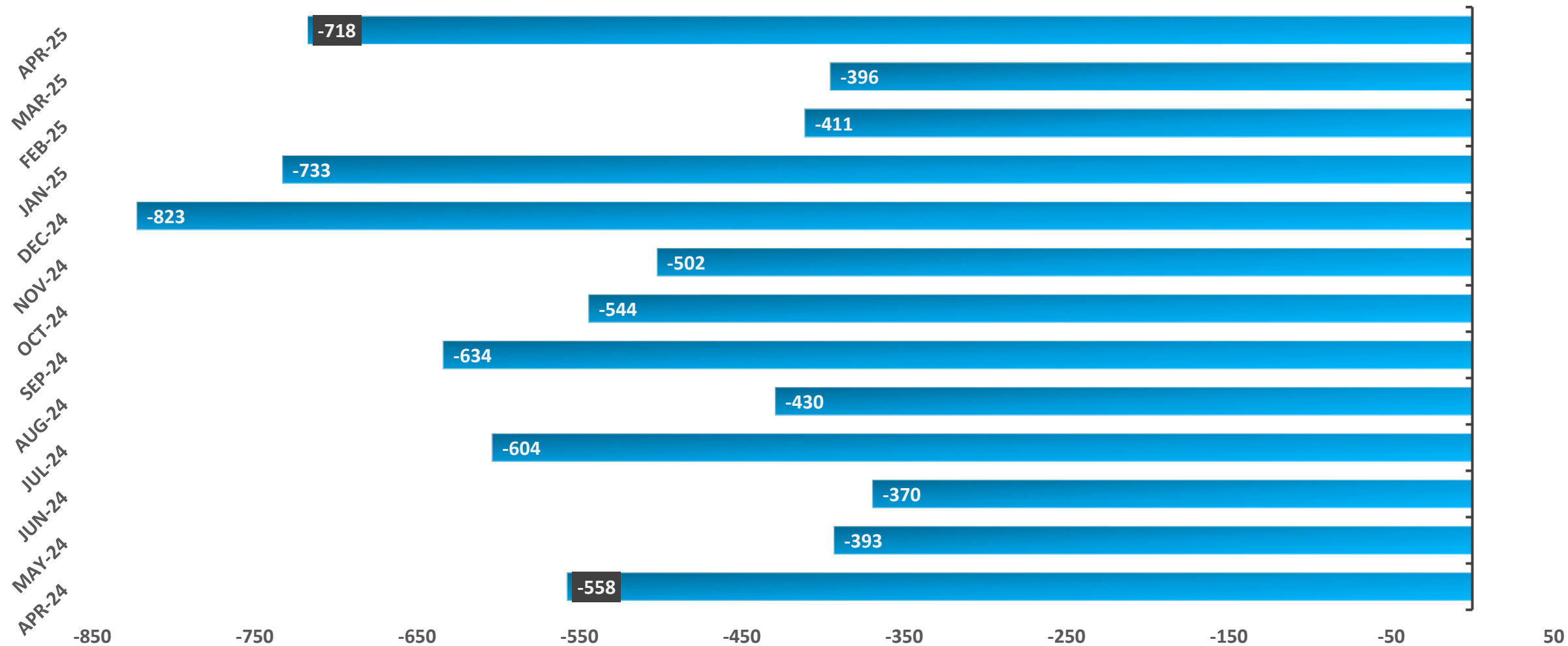
EXTERNAL SECTOR – APR 2025 – IMPORTS

In Apr 2025, Imports registered a YoY increment of 17.5%, despite a downtick that was seen in Intermediate imports, which stands out as the largest component within the import basket. However, Consumer goods market a YoY uptick of 60.2% driven predominantly by higher levels of Non-Food Consumer goods. Investment goods also registered a YoY increase of 49.2% prompted by greater imports made in Machinery and Equipment. Finally, the Intermediate goods segment contracted by 1.8%YoY in Apr 2025. It was a 78.8% drop in Wheat and maize imports that dominated this trend along with a dip in fuel imports despite increases registered in the importation of Textile and textile articles, and Fertilizer.

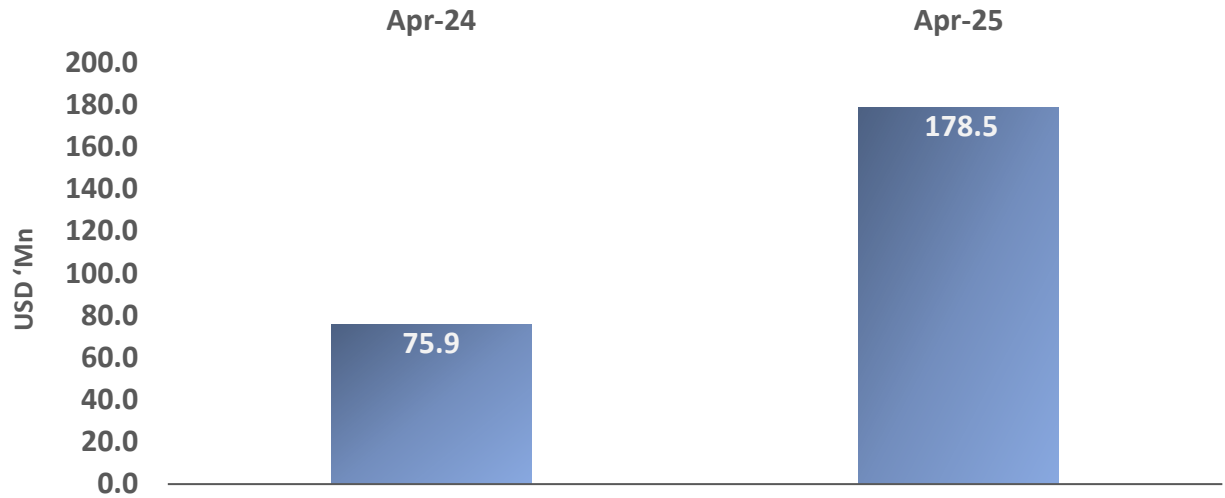
Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Consumer goods			
- Apr	256.5	410.9	60.2
- YTD	1,058.5	1,508.3	42.5
Intermediate			
- Apr	947.6	930.1	-1.8
- YTD	3,778.5	3,787.2	0.2
Investment goods			
- Apr	231.1	344.8	49.2
- YTD	996.2	1,277.4	28.2
Total			
- Apr	1,435.2	1,685.9	17.5
- YTD	5833.2	6,572.9	12.7



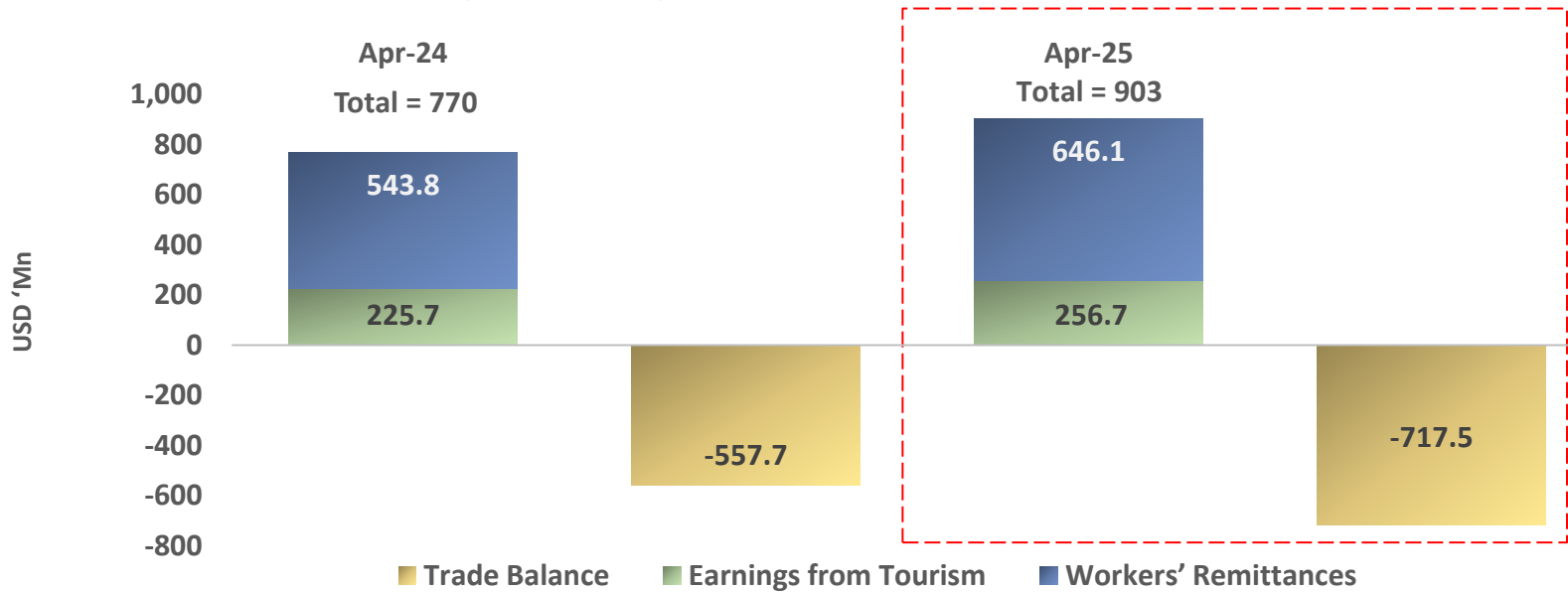
Balance of Trade



The Current Account Balance for Apr 2025 rose compared to that of Apr 2024, registering an uptick of 135.2%.



Workers' Remittances increased to USD 646.1Mn in Mar 2025 (+18.8%YoY) while Earnings from Tourism rose to USD 256.7Mn (+13.7%YoY).



CURRENT ACCOUNT BALANCE YOY IMPROVED IN APR 2025			
Mar USD 'Mn	2024	2025	Change (%)
Trade Balance	-557.7	-717.5	
Earnings from Tourism	225.7	256.7	+13.7
Workers' Remittances	543.8	646.1	+18.8

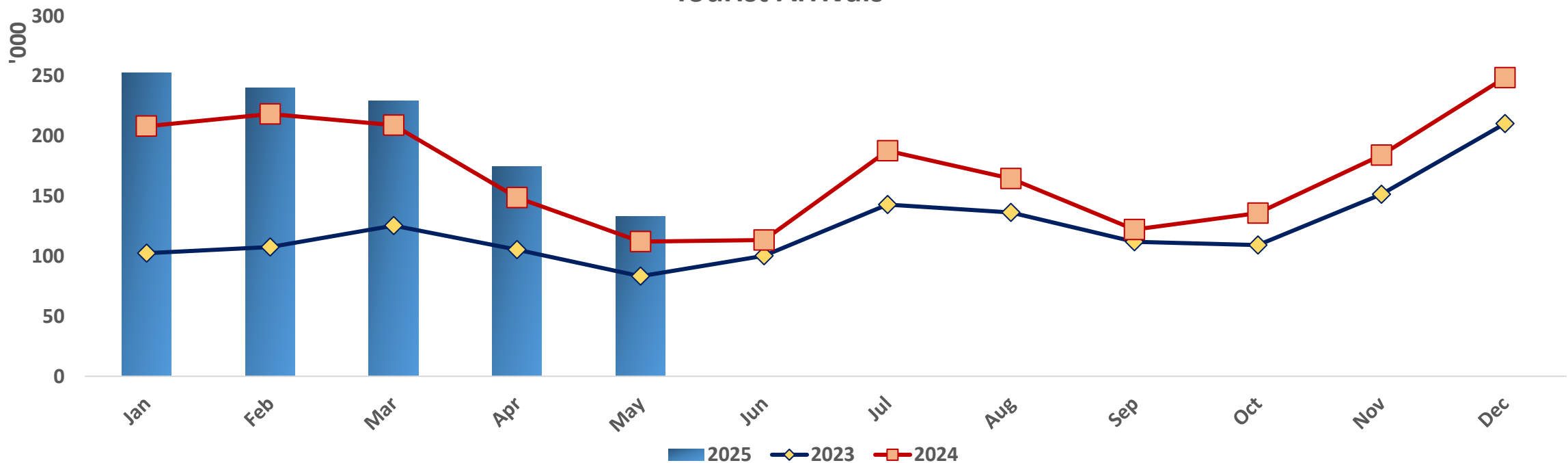
YTD USD 'Mn	2024	2025	Change (%)
Trade Balance	-1,777.1	-2,257.1	
Earnings from Tourism	1,251.6	1,379.0	+10.2
Workers' Remittances	2,079.9	2,460.5	+18.3

TOURIST ARRIVALS – MAY 2025

[May 132,919 – UP +18.5%YoY] [MoM – DOWN -23.9%]

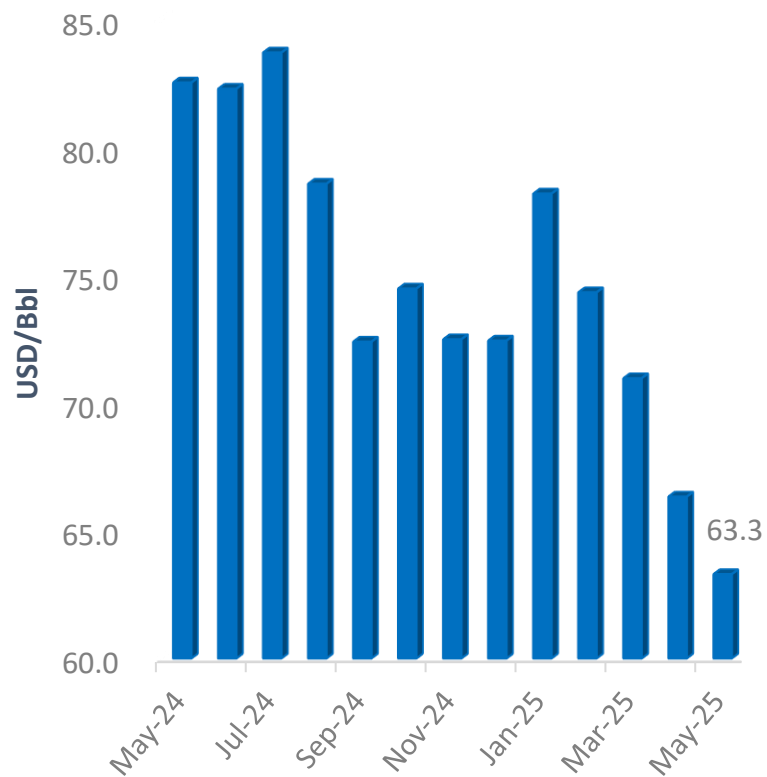
The total number of arrivals for the month reached 132,919 registering a YoY uptick of 18.5% despite a MoM dip of 23.9%. India which accounted for 35.4% of tourist arrivals remained the top source market in May 2025. This was followed by The United Kingdom which accounted for 6.9% of total arrivals and China which accounted for 6.6% of arrivals.

Tourist Arrivals

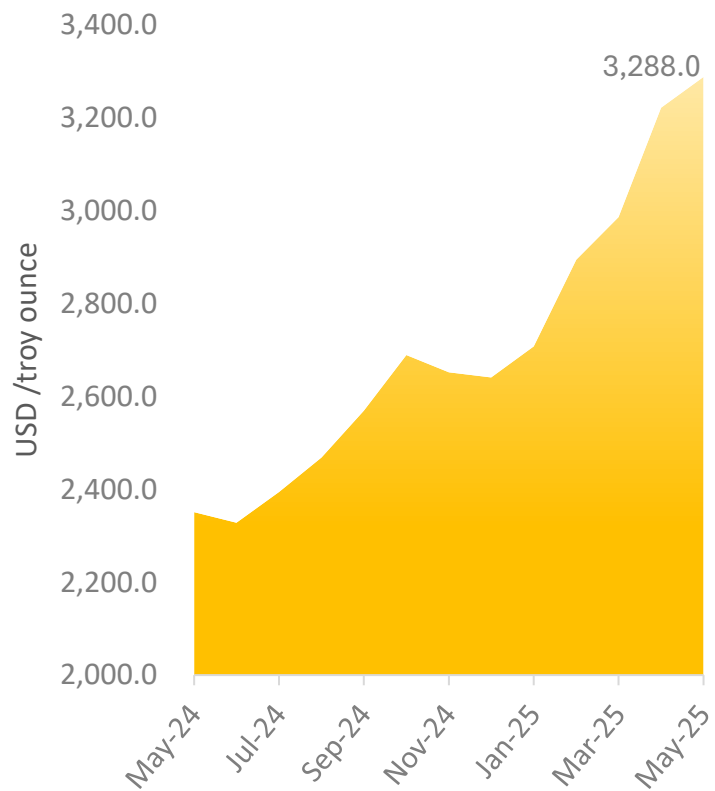


COMMODITY PRICES – MAY 2025

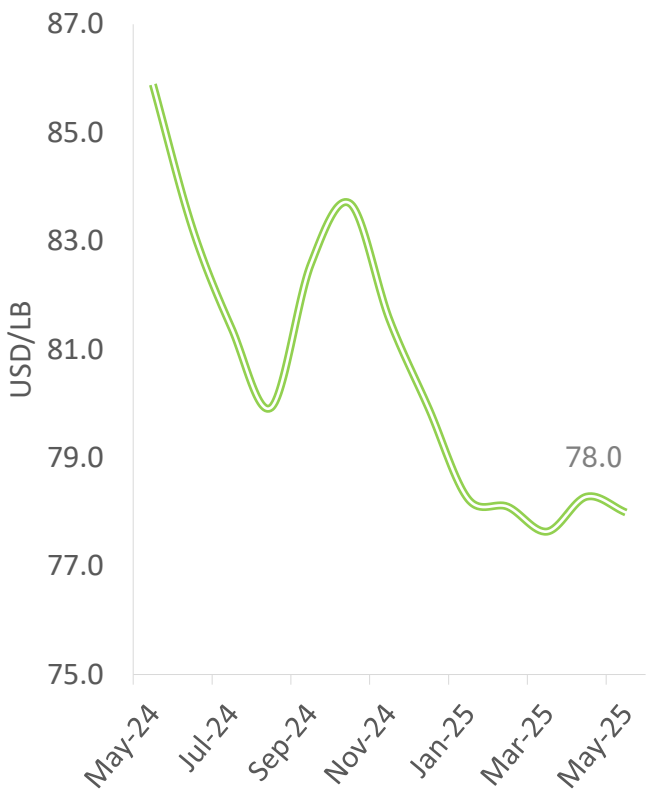
Crude oil



Gold



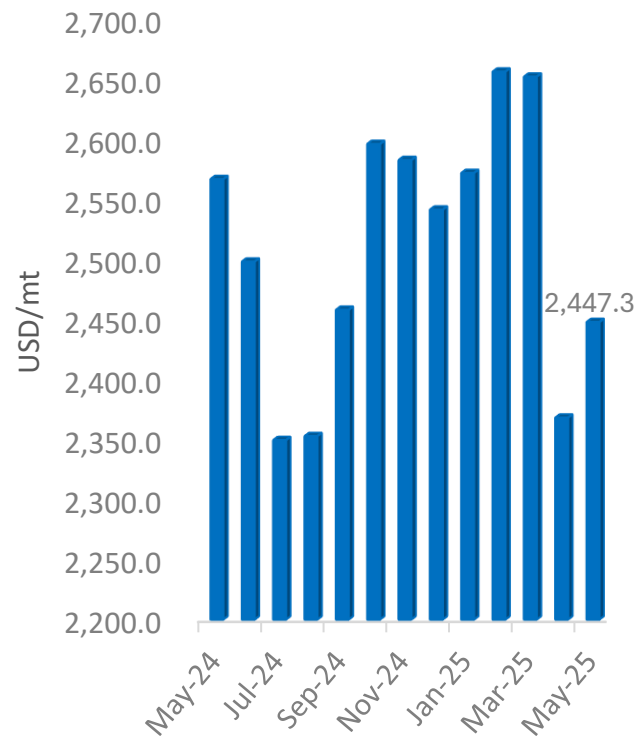
Cotton



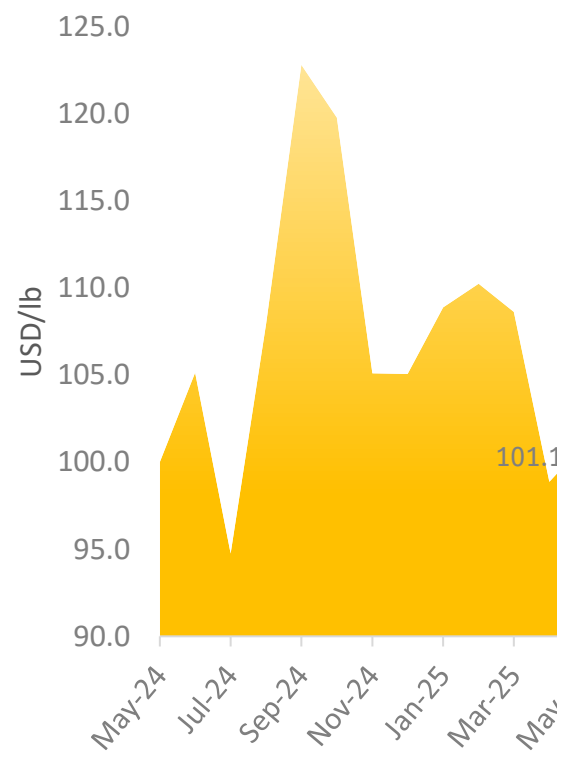
Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

COMMODITY PRICES – MAY 2025 CONT'D

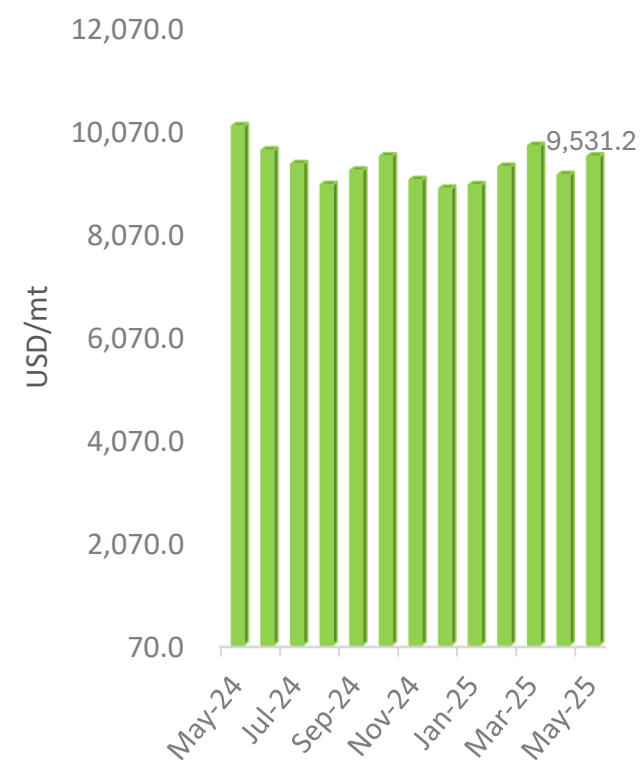
Aluminum



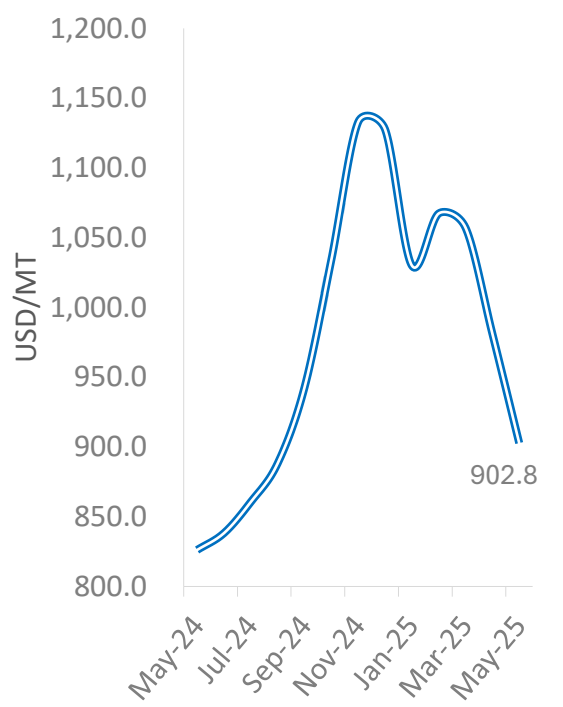
Rubber



Copper

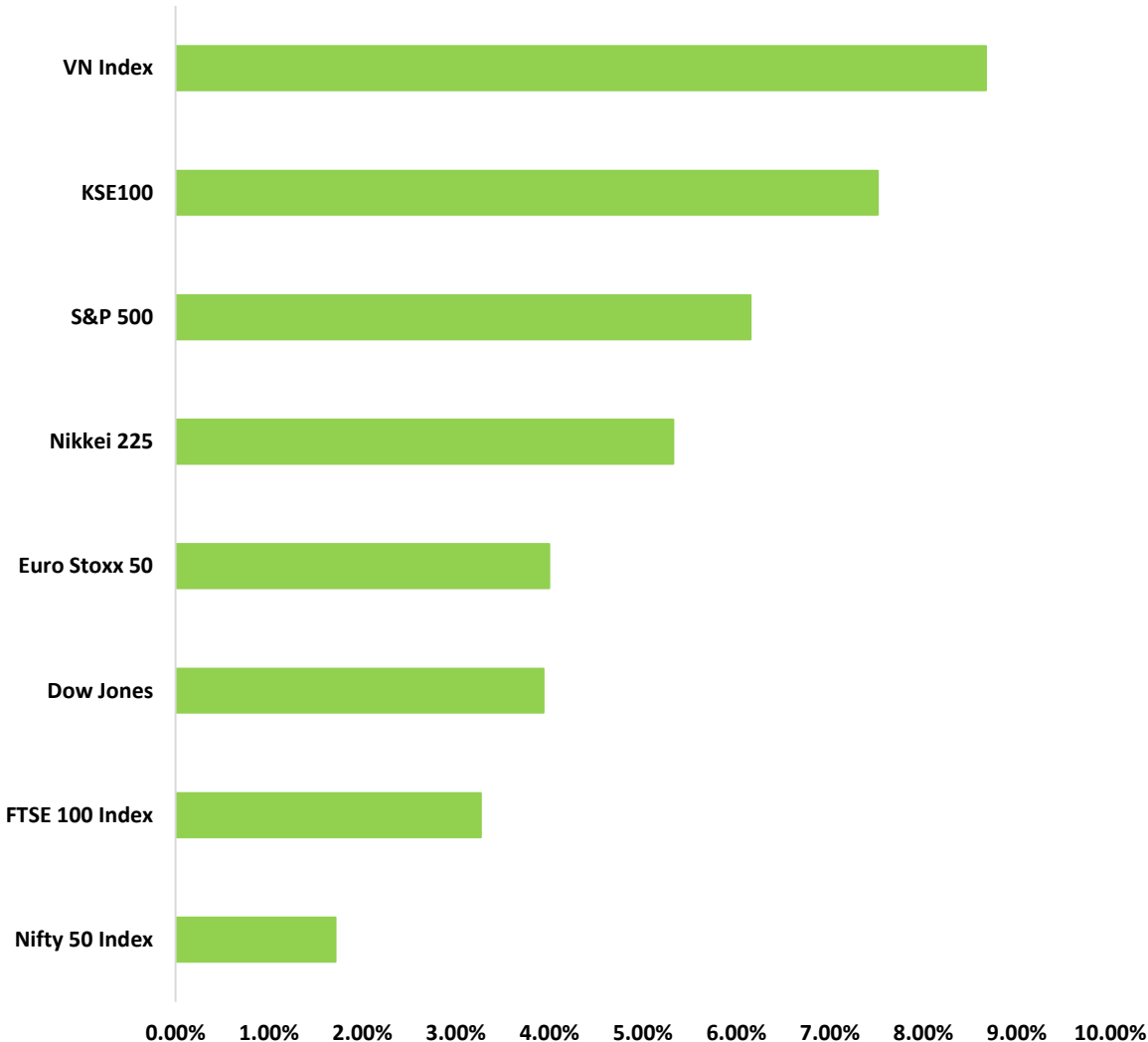


Palm oil



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 – MAY 2025



US tariff revenue hits fresh record, helping shrink May deficit

US customs duties climbed to a record high in May, helping shrink the budget deficit for the month, while doubts remain about the persistence of the inflows as the Trump administration negotiates with trading partners and faces a judicial challenge over its levies. The Treasury Department recorded \$23 billion in customs-duties revenue for May, according to the agency's monthly budget statement. This represents a \$17 billion, or 270%, increase from the same month a year earlier. May's figure is more than triple the monthly average of 2024.



U.S. tariffs on China won't change again

President Donald Trump has stated that the U.S. duties on China will total 55%. As per White House officials, this comprises the existing 30% blanket U.S. tariffs on China, plus the 25% tariffs on specific products that also were already in place. President Trump has stated that the deal is "done," but added that it is still "subject to final approval" between himself and Chinese President Xi Jinping.

Oil prices ease as market assesses Middle East tension

Oil prices eased on Thursday, 12 June 2025, reversing gains made earlier in the Asian trading session, as market participants assessed a U.S. decision to move personnel from the Middle East ahead of talks with Iran over the latter's nuclear-related activity. U.S. President Donald Trump has stated that the U.S. was moving personnel because the Middle East "could be a dangerous place". Increased tension with Iran has raised the prospect of disruption to oil supplies.



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