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# MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Jul 2025

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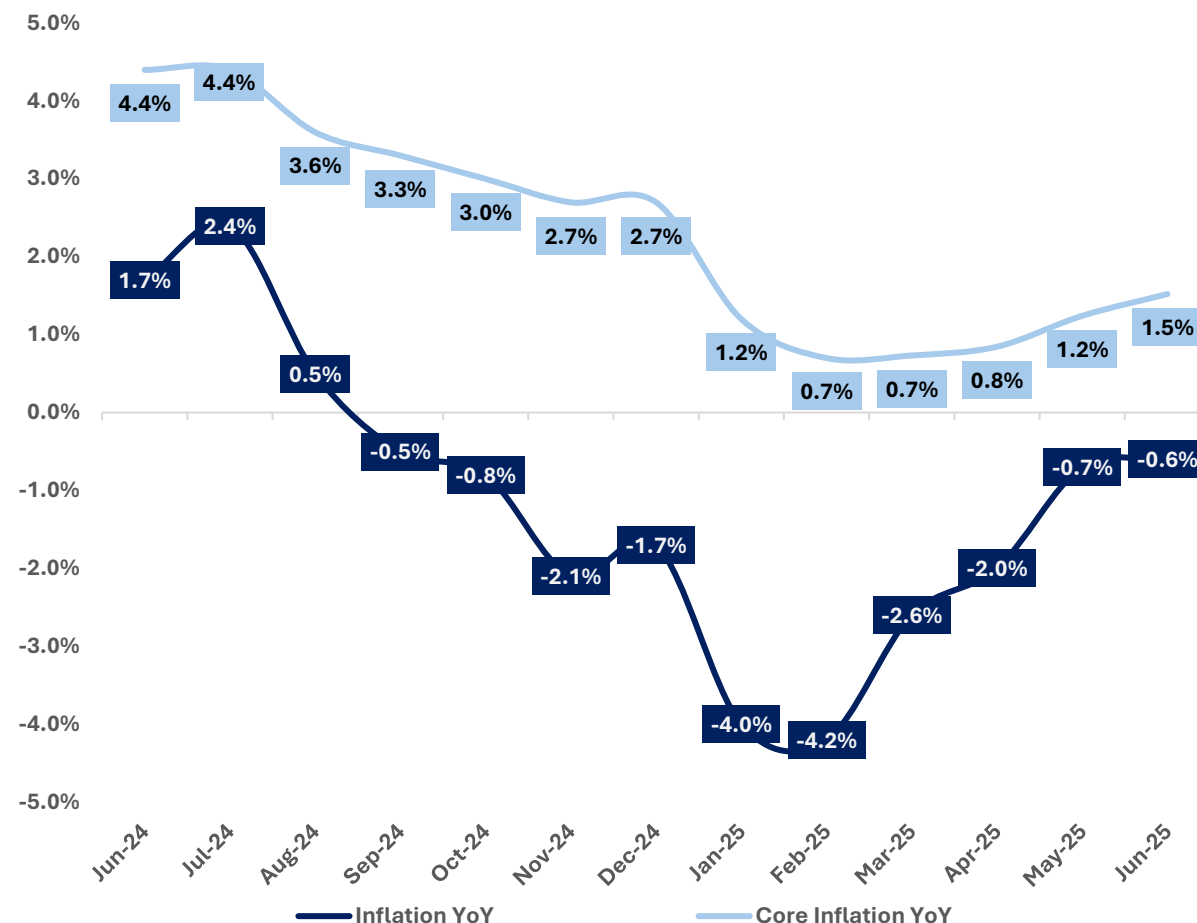
## IMF COMPLETES THE 4<sup>TH</sup> REVIEW UNDER THE EXTENDED FUND FACILITY

- The IMF Executive Board completed the Fourth Review under Sri Lanka's 48 month Extended Fund Facility, granting immediate access to SDR 254Mn (~USD 350Mn) to support economic reforms.
- This marks the fifth tranche disbursed, bringing total IMF support to SDR 1.27Bn (~USD 1.74 Bn) as of 3<sup>rd</sup> July 2025.
- Sri Lanka met most quantitative targets (except arrears) and structural benchmarks (some with delays). Economic indicators are improving—growth is strengthening, inflation is low, and reserves are growing.
- Key reforms, including cost-recovery pricing and automatic tariff adjustments, were fulfilled to contain fiscal risks and ensure energy sector sustainability.
- The IMF urges focus on revenue mobilization, social protection, public financial management, and exchange rate flexibility to build resilience and ensure long term recovery.

# CCPI FOR JUNE 2025: MOM +0.9% YOY -0.6%

- MoM inflation for June 2025 stood at +0.9%, up from the +0.8% level seen in the previous month. Food inflation reduced to +1.8% compared to +2.7% in May 2025, while Non-Food inflation rose to +0.4%, compared to in -0.1% May 2025.
- The YoY figure reached -0.6% in June 2025 compared to the -0.7% level seen in May 2025. Food inflation dipped to 4.3%. Non-Food inflation remained deflationary at -2.8%, up from -3.3% recorded previously.

## Inflation – CCPI

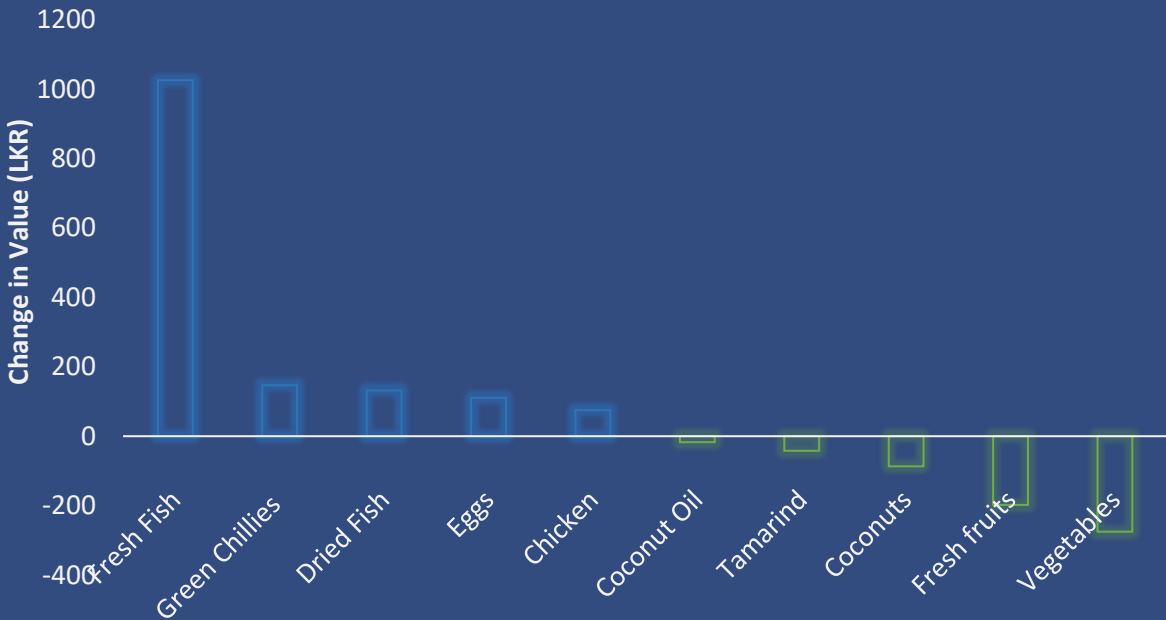


# INFLATION ANALYSIS – CCPI-MOM

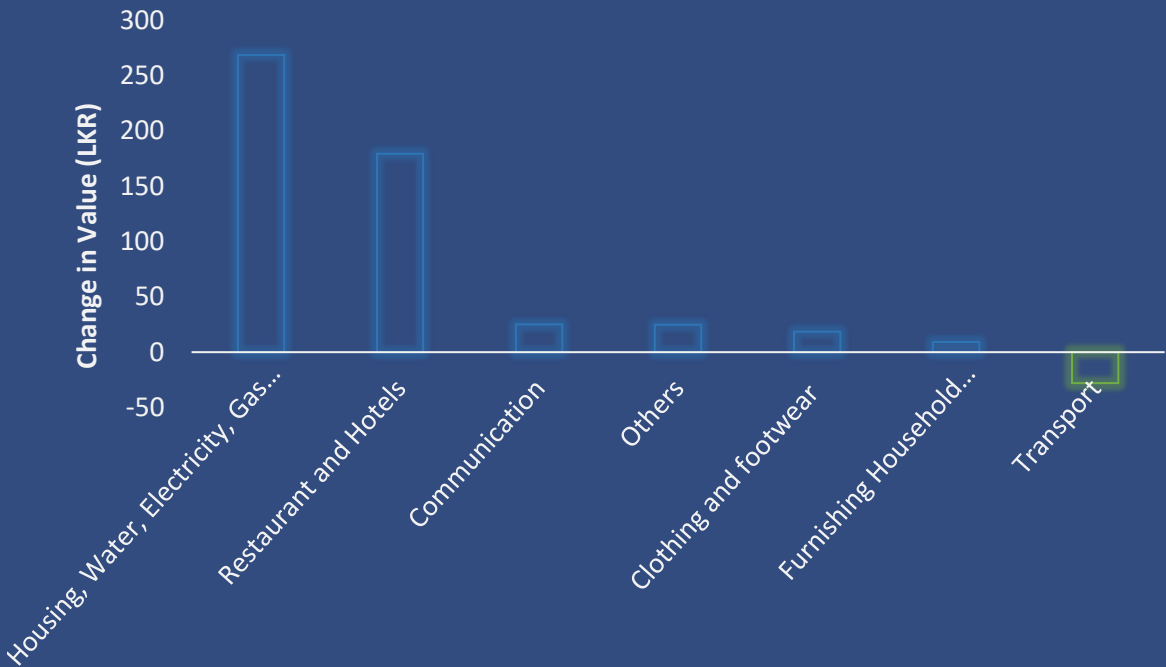
The CCPI Index for June 2025, increased by 0.9%MoM. The Non-Food category contributed by +0.28% with Housing, Water, Electricity, Gas and Other Fuels and Restaurant and Hotels being the major contributors of price increment which was minutely offset by a price reduction in the Transport segment. The Food category contributed at a higher 0.62% rate. Fresh fish, Green chillies, Dried fish, Eggs and Chicken were the top positive contributors within the Food category. However, on the flip side, Fresh fruits and Vegetables showcased noteworthy price reductions.



Food Category Inflation



Non-Food Category Inflation



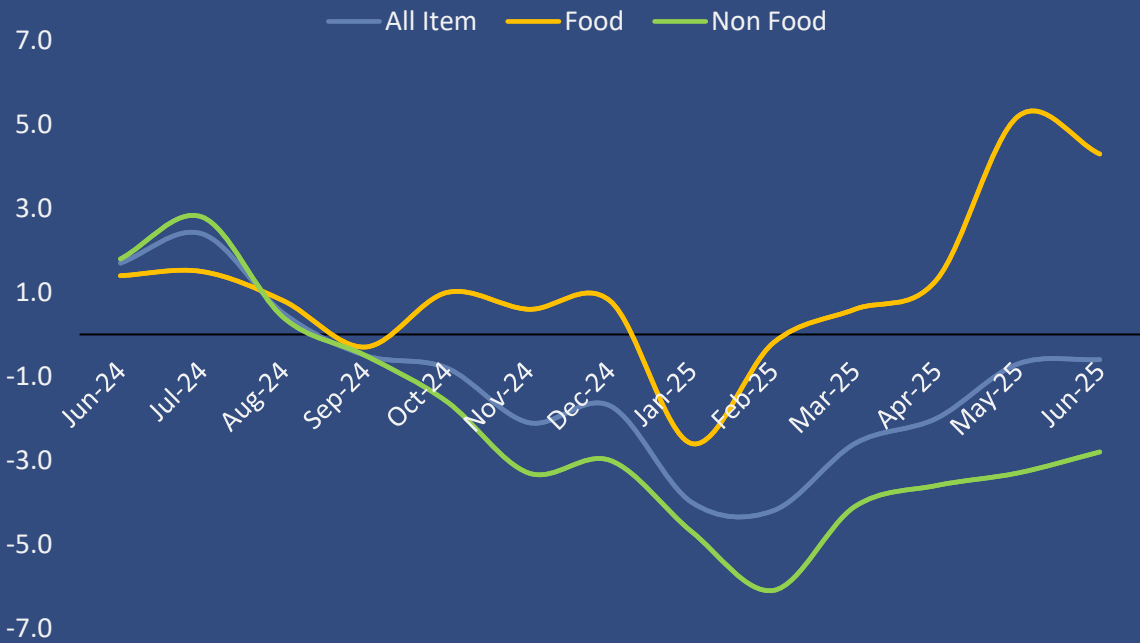


# INFLATION ANALYSIS – CCPI-YOY

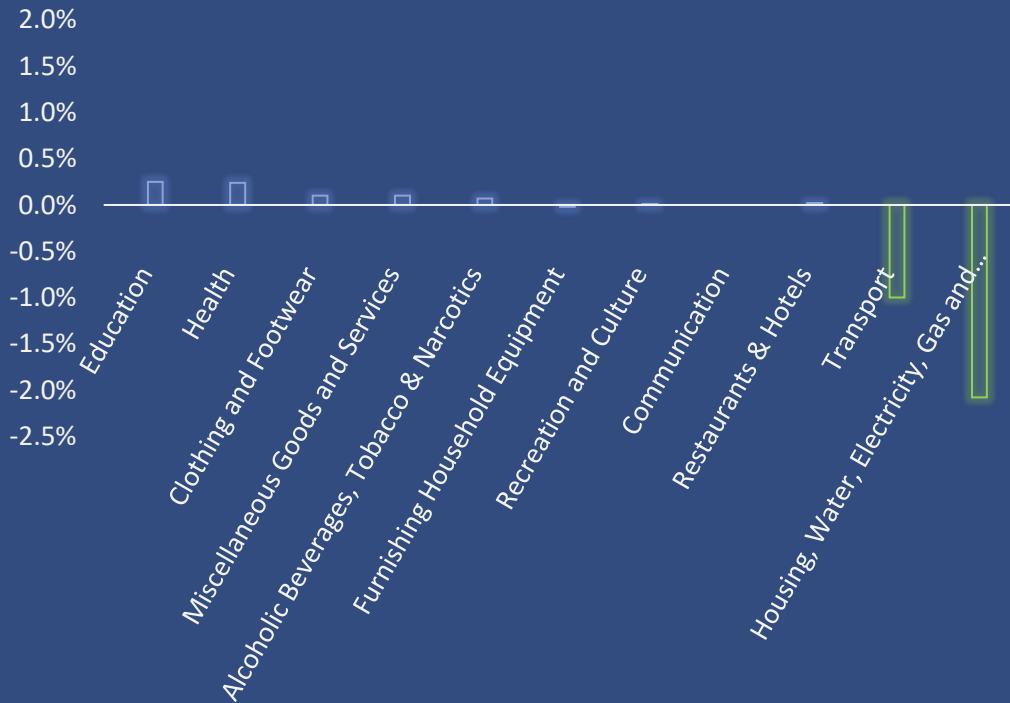
The YoY inflation of CCPI for June 2025 stood at -0.6%, registering an uptick from the -0.7% level seen in May 2025. While YoY inflation of the Food group reduced to 4.3% in June 2025 from 5.2% seen in the previous month, YoY inflation of the Non-Food category increased to -2.8% in June from -3.3% in May 2025.



Inflation Analysis (YoY)



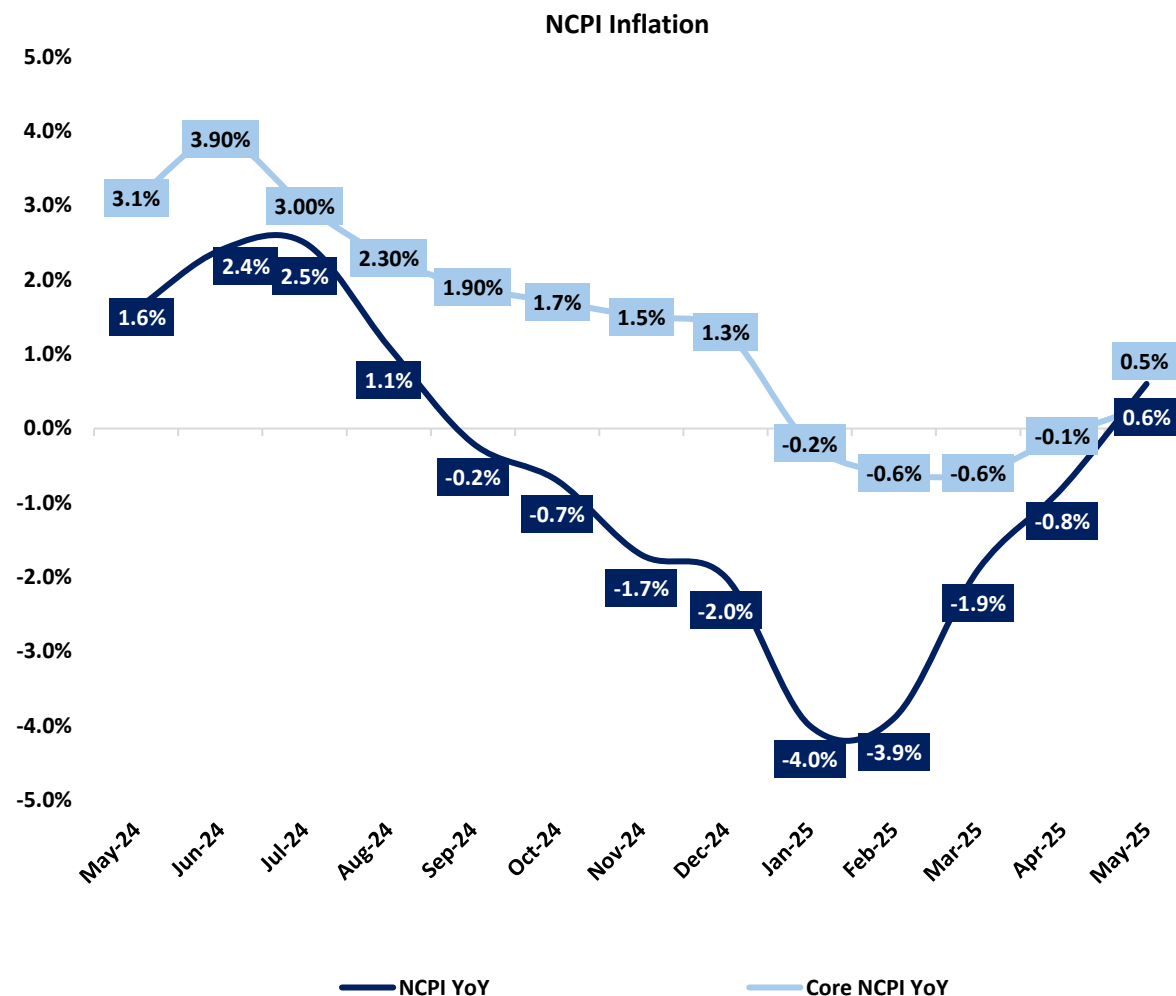
Non-Food Category Inflation



# NCPI FOR MAY 2025: INCREASED TO 0.6%YOY

- NCPI for May 2025, inflated to 0.6% from -0.8% seen in Apr 2025.
- This trend was driven by subsequent increments seen in both Food and Non-Food categories. In May 2025, Food inflation increased to 1.2% from 0.7% seen in the previous month. Non-Food inflation stayed stagnant at -0.1% in May 2025.

## Inflation – NCPI

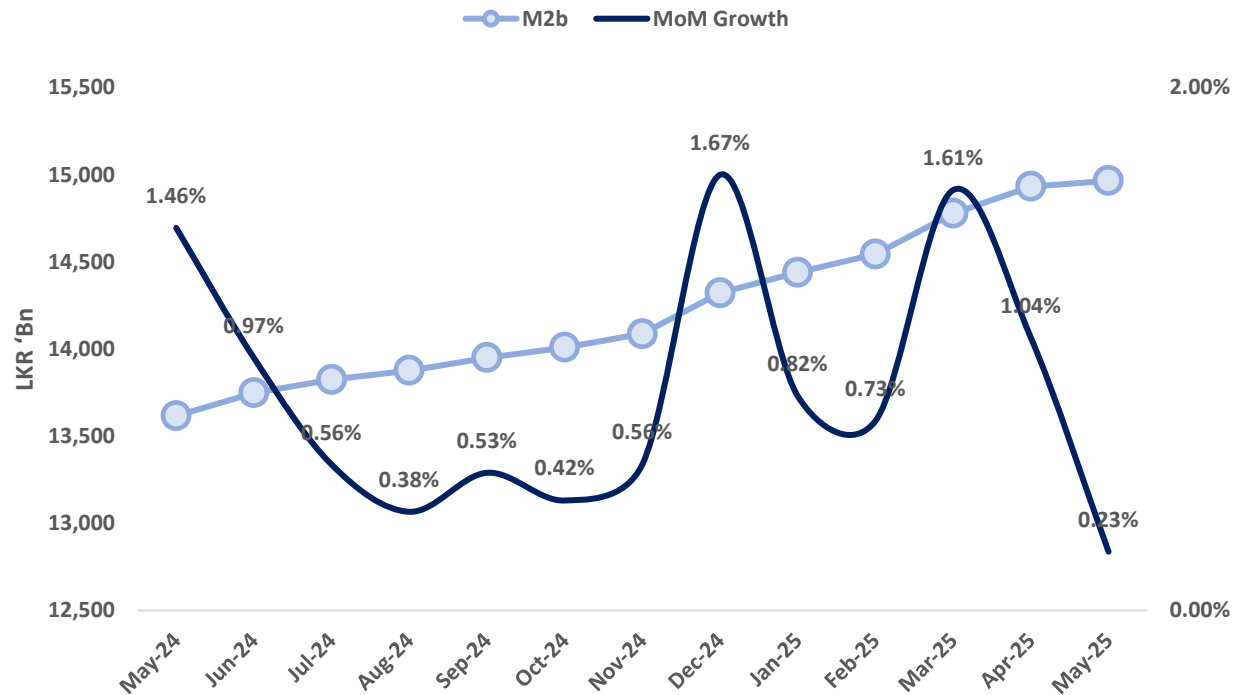


# M2B AND CREDIT GROWTH

Private sector credit expanded by LKR 116.2Bn in May 2025. State credit also followed suit, having risen by LKR 54.0Bn in May 2025, unlike the contraction seen in the previous month.

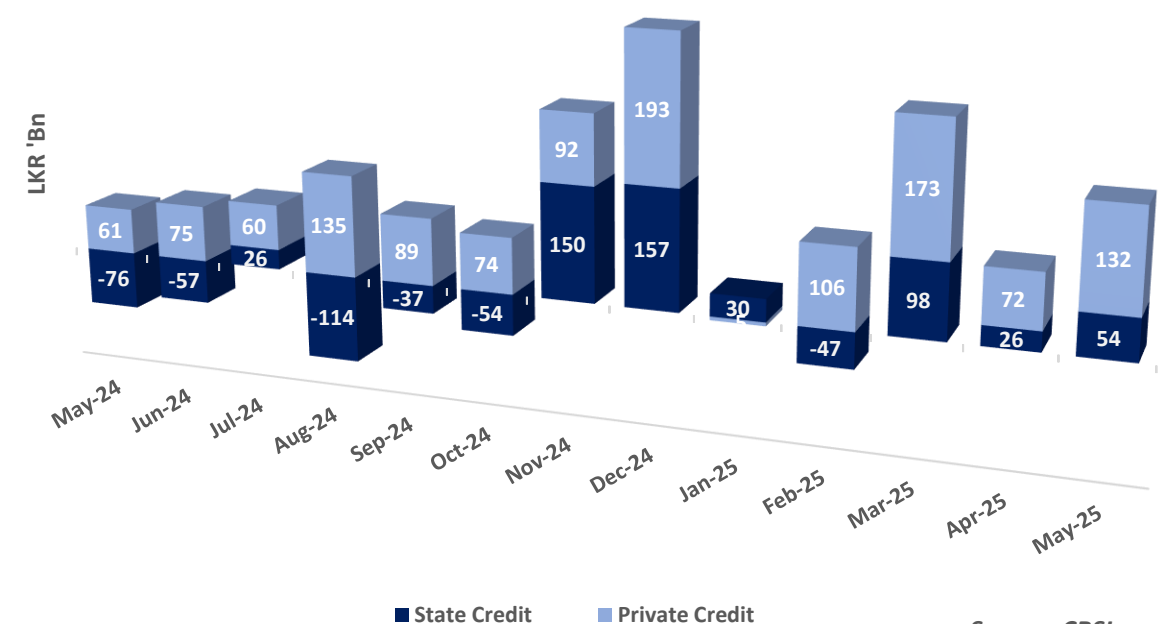
## M2b Growth – May 2025

MoM +0.2%, YoY +9.9%, YTD +4.5%



## State Credit & Private Credit – May 2025

Private Credit MoM +1.6%, YoY +16.1%, YTD -1.4%



Source: CBSL

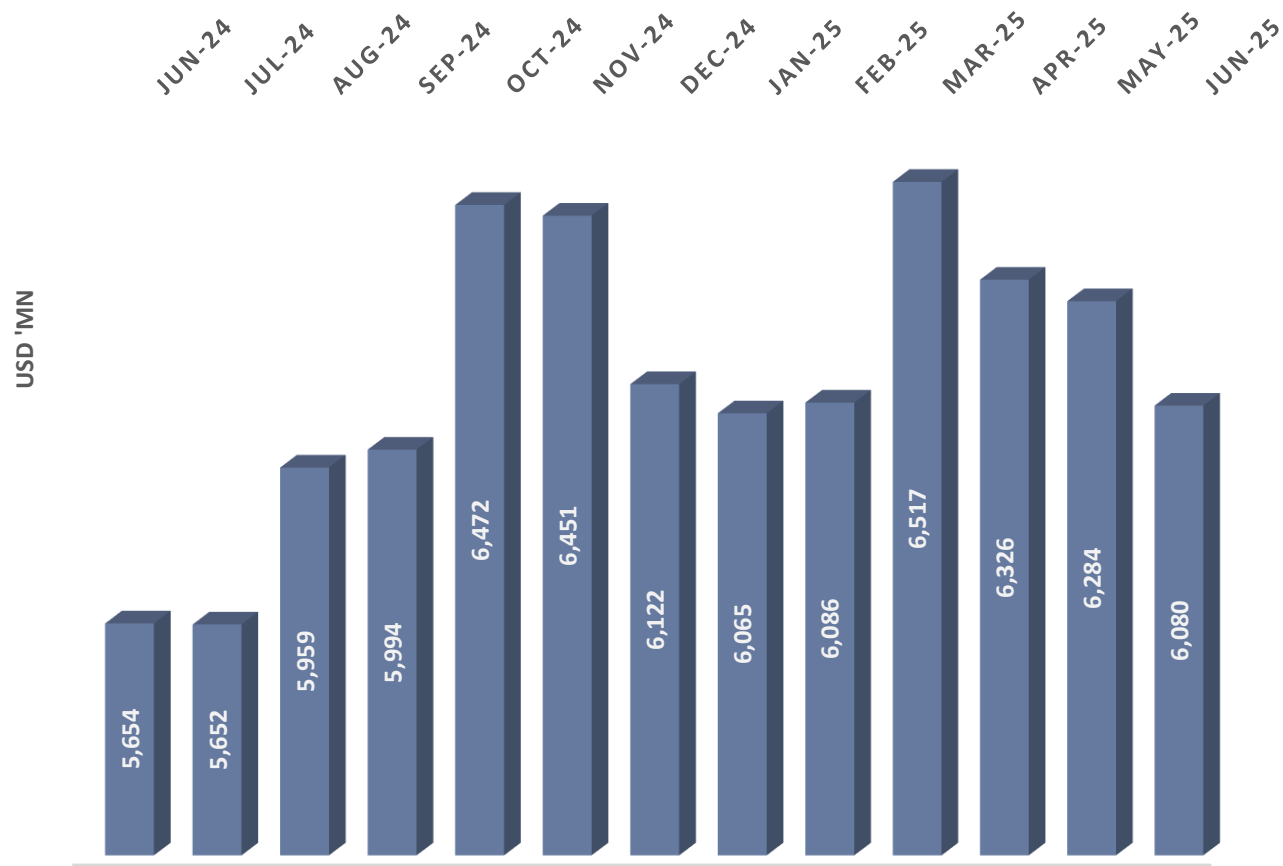




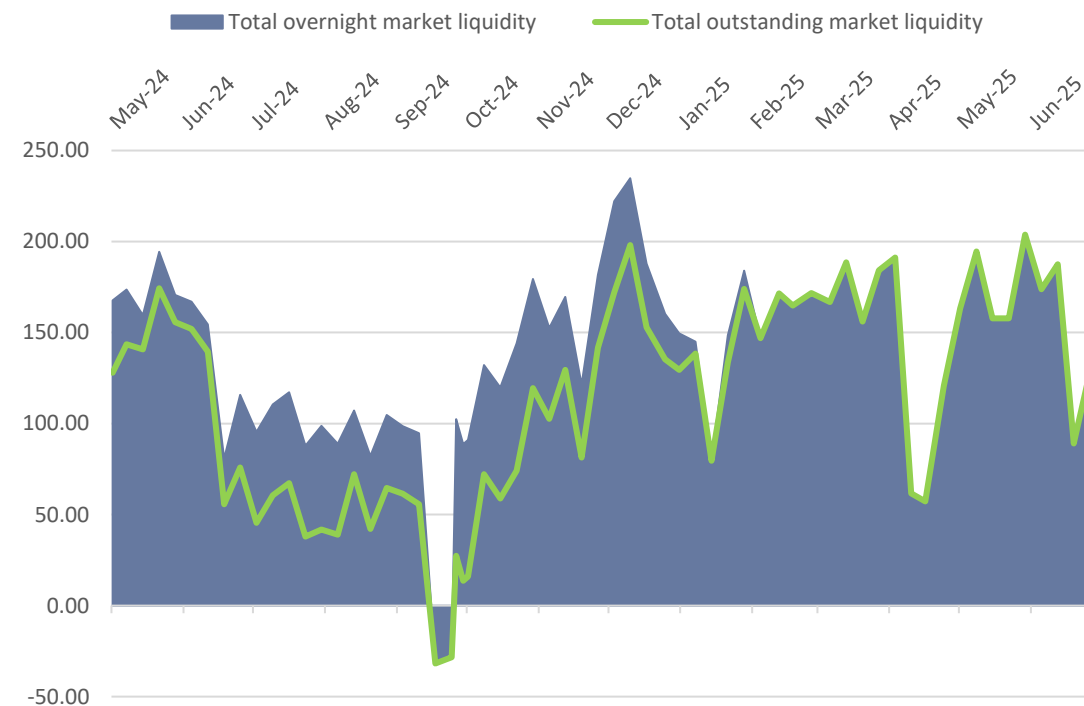
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# LIQUIDITY & RESERVES

- Foreign Reserves dropped by USD 204.0Mn to USD 6,080Mn in June 2025.



- Both overnight market liquidity and outstanding market liquidity reduced in June 2025 relative to the previous month. By end-June, both overnight and market liquidity stood at LKR 128.8Bn.



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

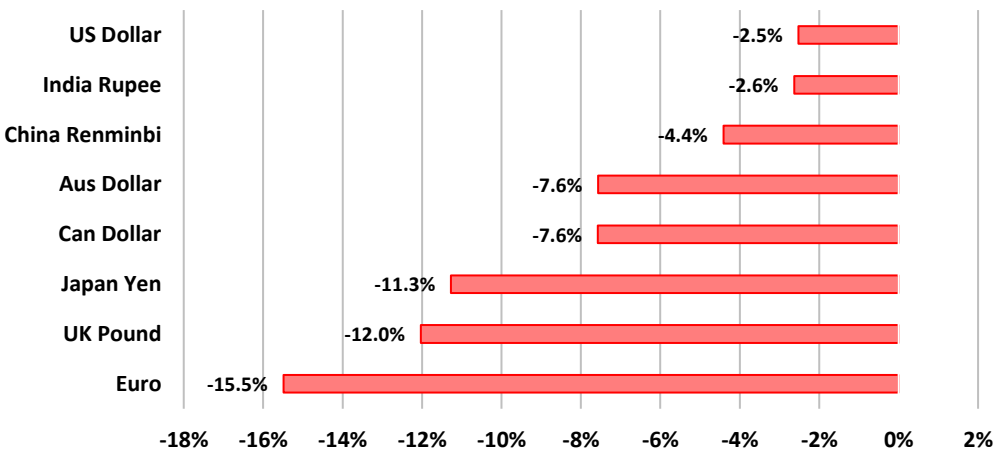
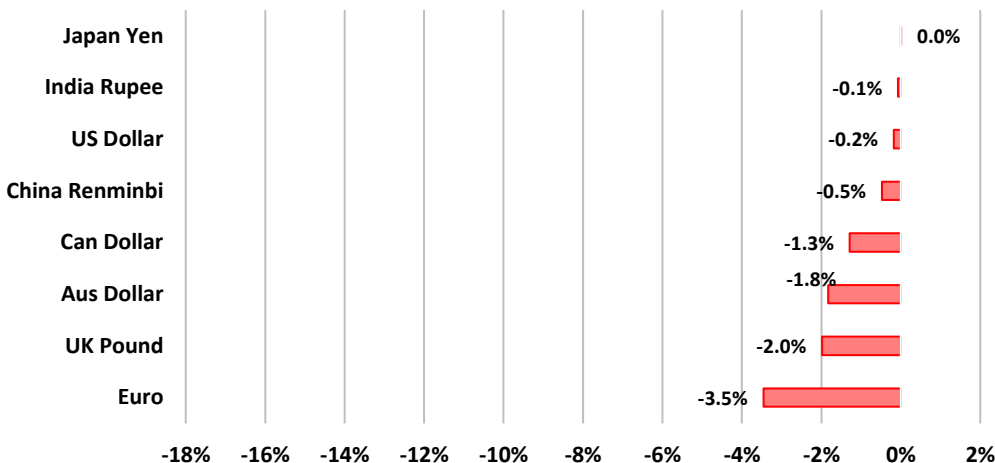
## USD:LKR Movement



JUNE 2025

YTD 2025

## Sri Lankan Rupee vs Global Currencies



# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for June 2025

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
6-Jun-25	184,250	220,000	404,250
13-Jun-25	192,500		192,500
20-Jun-25	114,877	122,100	236,977
27-Jun-25	61,553		61,553
Total Issued			895,280

## Net settlements for June 2025

Net Settlement	June 2025	YTD
Maturities	335,437	3,567,921
Coupon Payment	191,580	846,238
New Issues	895,280	4,680,115
Excess/ (Deficit)	368,264	265,956

CBSL Holdings of Gov. Securities		YTD
As at End June 2025	2,508,900	
As at End May 2025	2,509,400	
Increase/ (Decrease)	-500	-7,100

# CBSL HOLDINGS OF GOV. SECURITIES...

*...remained broadly stagnant in June 2025*



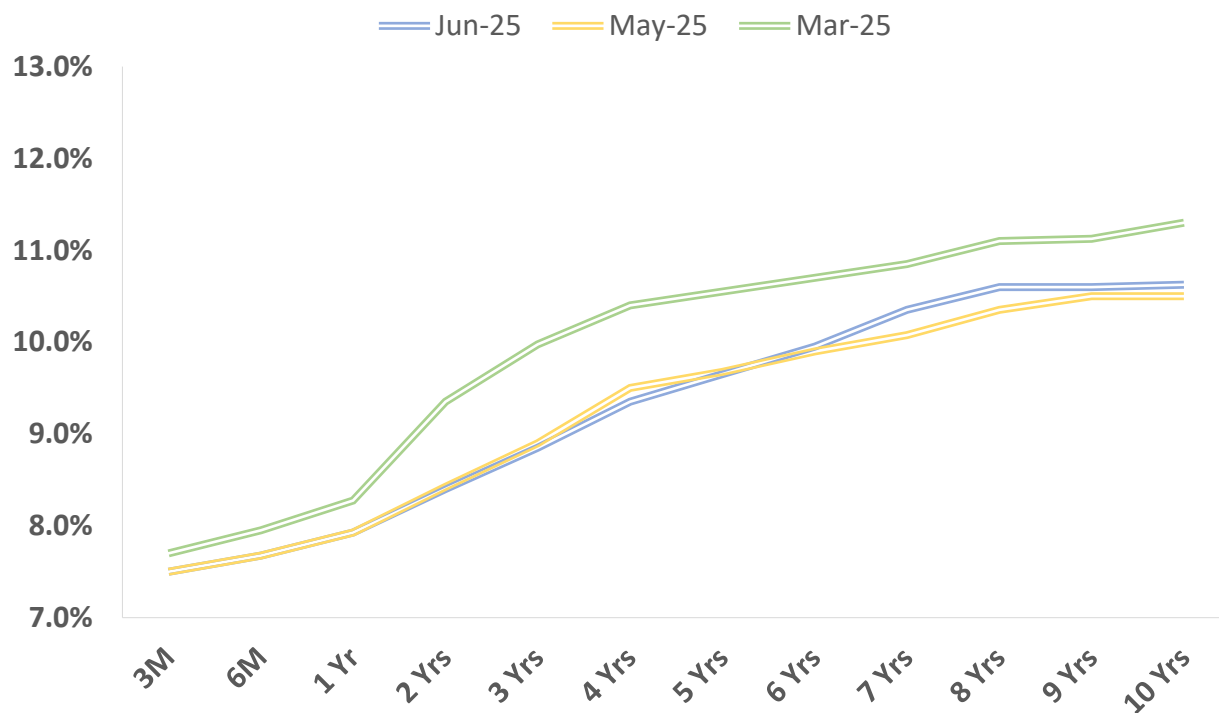


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# TREASURY BILLS AND BONDS – JUNE 2025

The government securities market remained largely stable throughout June 2025, shaped by domestic auction outcomes and evolving geopolitical conditions. The month commenced with subdued trading activity and a flat yield curve, as investor focus centered on short to mid tenor maturities. Early interest was evident in the lead up to the T-Bond auction held on 12th June 2025, where the CBSL successfully raised the full LKR 111.0Bn target. The funds were secured through the 2029 and 2032 maturities, at weighted average yields of 9.41% and 10.29%, respectively.

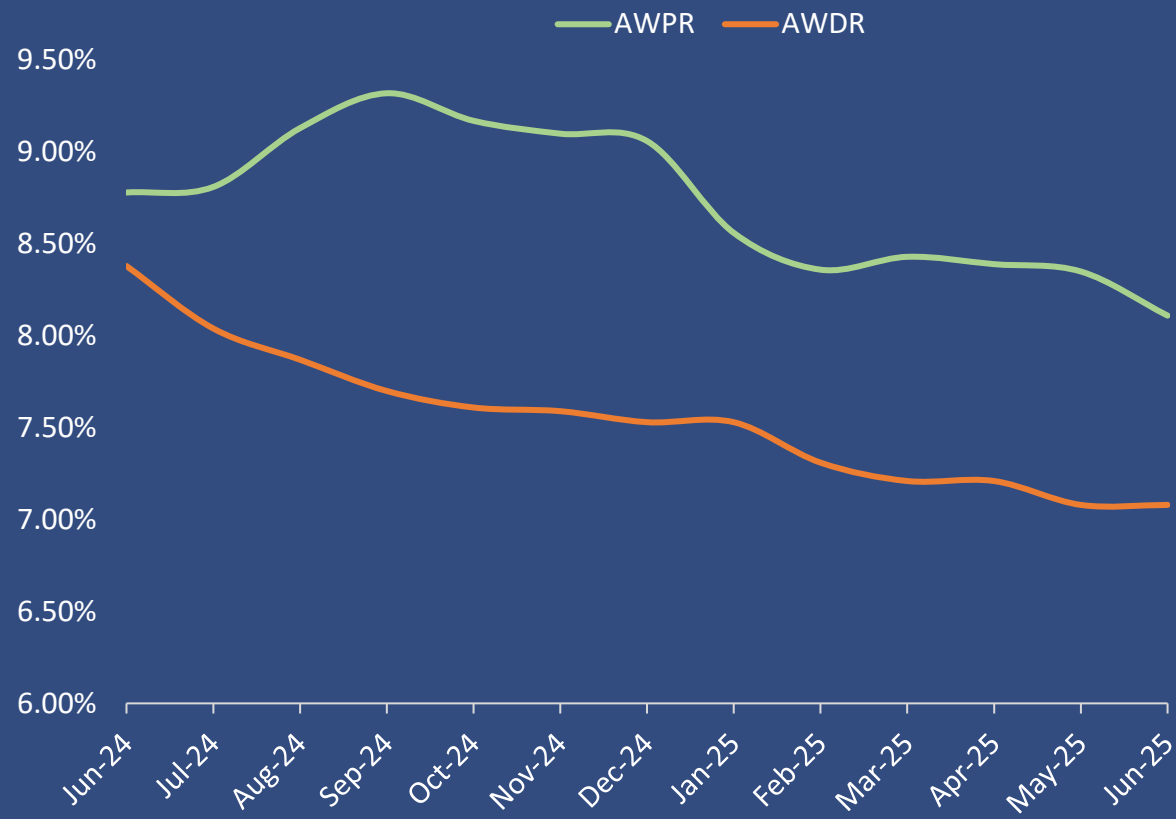
By mid month, cautious sentiment prevailed amid rising geopolitical tensions, resulting in limited secondary market activity and marginal upward pressure on yields. However, market tone improved in the final week following the announcement of a ceasefire in the Middle East, which spurred renewed buying interest and stronger trading volumes. CBSL conducted its largest YTD T-Bond auction on 27th June 2025, raising LKR 240.7Bn, 18.5% below the initially offered amount of LKR 295.0Bn. This amount was raised through the issuance of 2029, 2031, 2033 and 2037 maturities, which registered weighted average yields of 9.41%, 10.00%, 10.68% and 10.83% respectively. These developments supported improved sentiment and contributed to stable yields as the market closed the month on a constructive note.



## Interest Rate Change (bps)

Tenure	Jun 2025	May 2025	Change (bps)	Mar 2025	Change (bps)
3M	7.50%	7.50%	0	7.70%	-20
6M	7.68%	7.68%	0	7.95%	-28
1 Yr	7.93%	7.93%	0	8.28%	-35
2 Yrs	8.40%	8.43%	-3	9.35%	-95
3 Yrs	8.85%	8.90%	-5	9.98%	-113
4 Yrs	9.35%	9.50%	-15	10.40%	-105
5 Yrs	9.65%	9.68%	-3	10.55%	-90
6 Yrs	9.95%	9.90%	+5	10.70%	-75
7 Yrs	10.35%	10.08%	+27	10.85%	-50
8 Yrs	10.60%	10.35%	+25	11.10%	-50
9 Yrs	10.60%	10.50%	+10	11.13%	-53
10 Yrs	10.63%	10.50%	+13	11.30%	-68
12 Yrs	10.70%	N/A	N/A	N/A	N/A
15 Yrs	N/A	N/A	N/A	N/A	N/A
20 Yrs	N/A	N/A	N/A	N/A	N/A

# AWPR vs AWDR



# Interest Spread



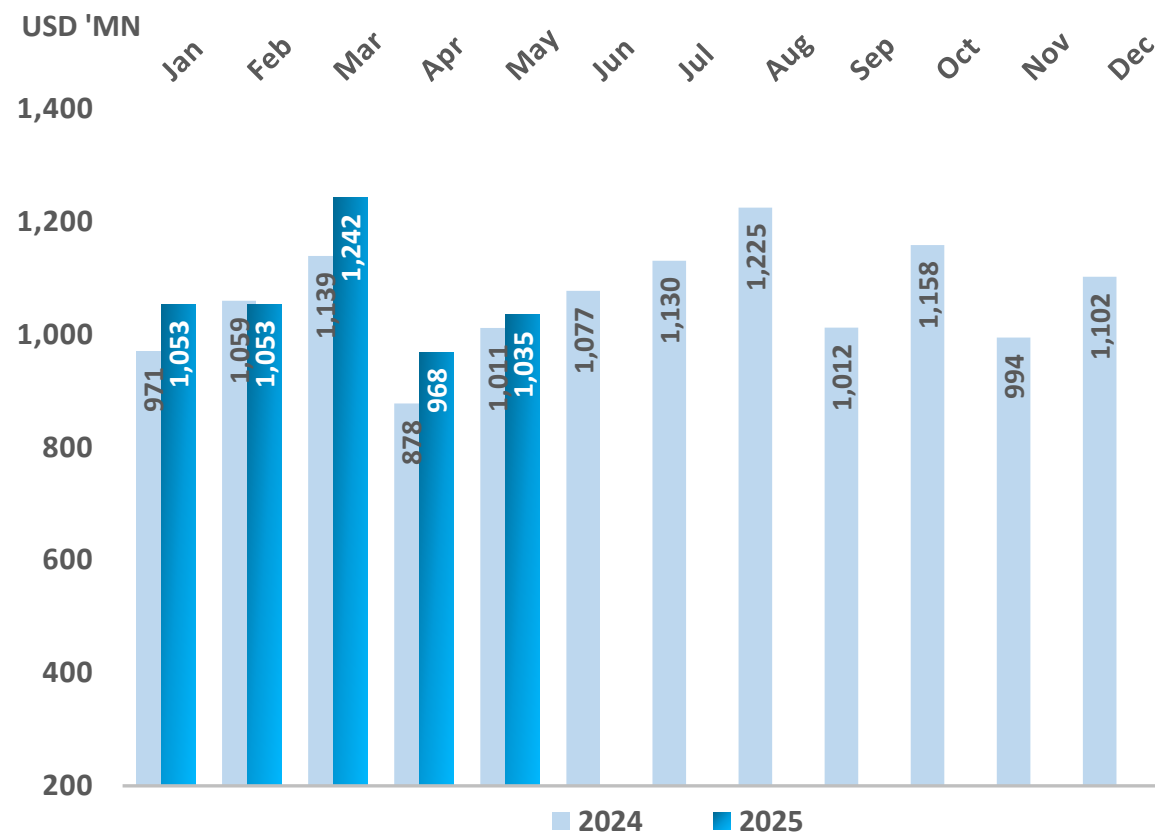
## FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – MAY 2025 – EXPORTS

In May 2025, Exports registered a YoY uptick of 2.3%, driven primarily by subsequent expansions in Agricultural exports followed by Mineral exports, which make up a marginal amount of the basket, while Industrial exports saw a dip of 1.1%. The 15.7%YoY increase that was seen in Agricultural exports was driven predominantly increases in Coconut, Spices and Tea subcomponents. Moreover, the 1.1%YoY drop registered within Industrial exports was prompted mainly by a 23.1% dip in Petroleum products and a 14.7% dip in Gems, Diamonds and Jewellery.

Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Industrial Exports			
- May	796.7	787.8	-1.1
- YTD	4,006.8	4,160.7	3.8
Agricultural			
- May	210.6	243.6	15.7
- YTD	1,039.0	1,172.2	12.8
Mineral and other Exports			
- May	3.9	3.2	-19.9
- YTD	21.5	17.3	-19.5
Total			
- May	1,011.3	1,034.7	2.3
- YTD	5,067.4	5,350.3	5.6

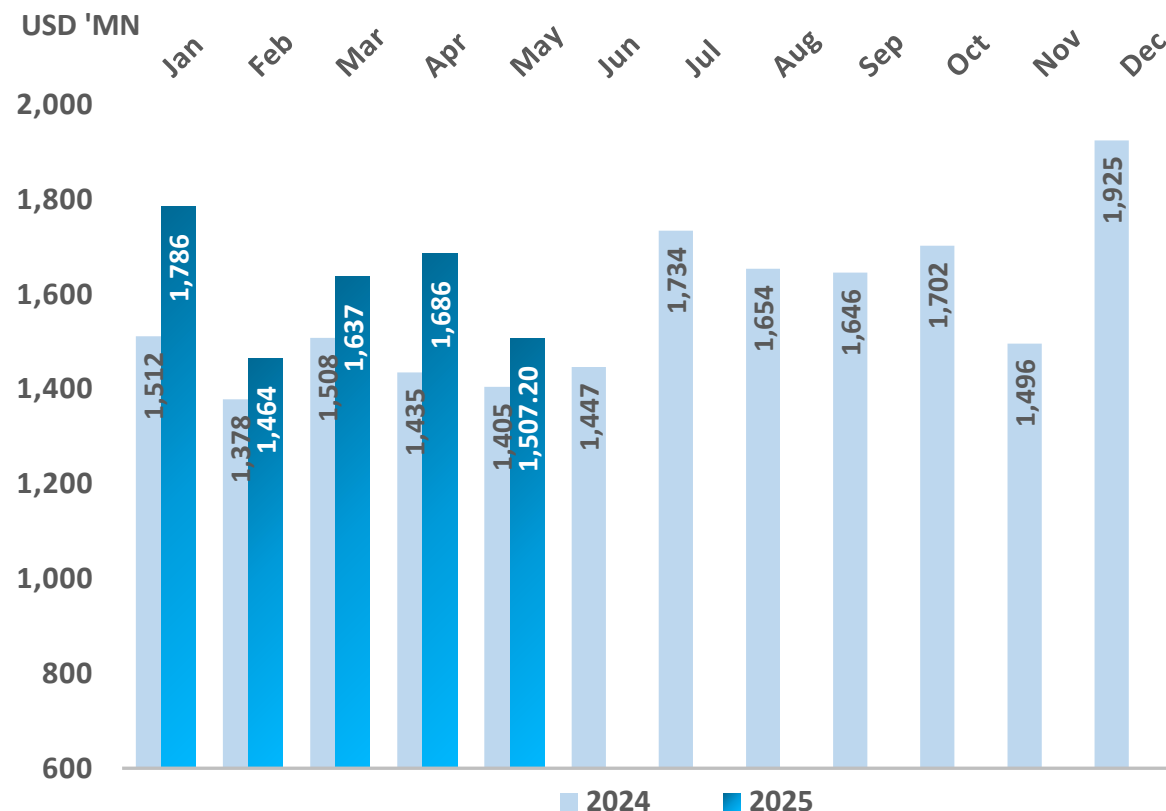




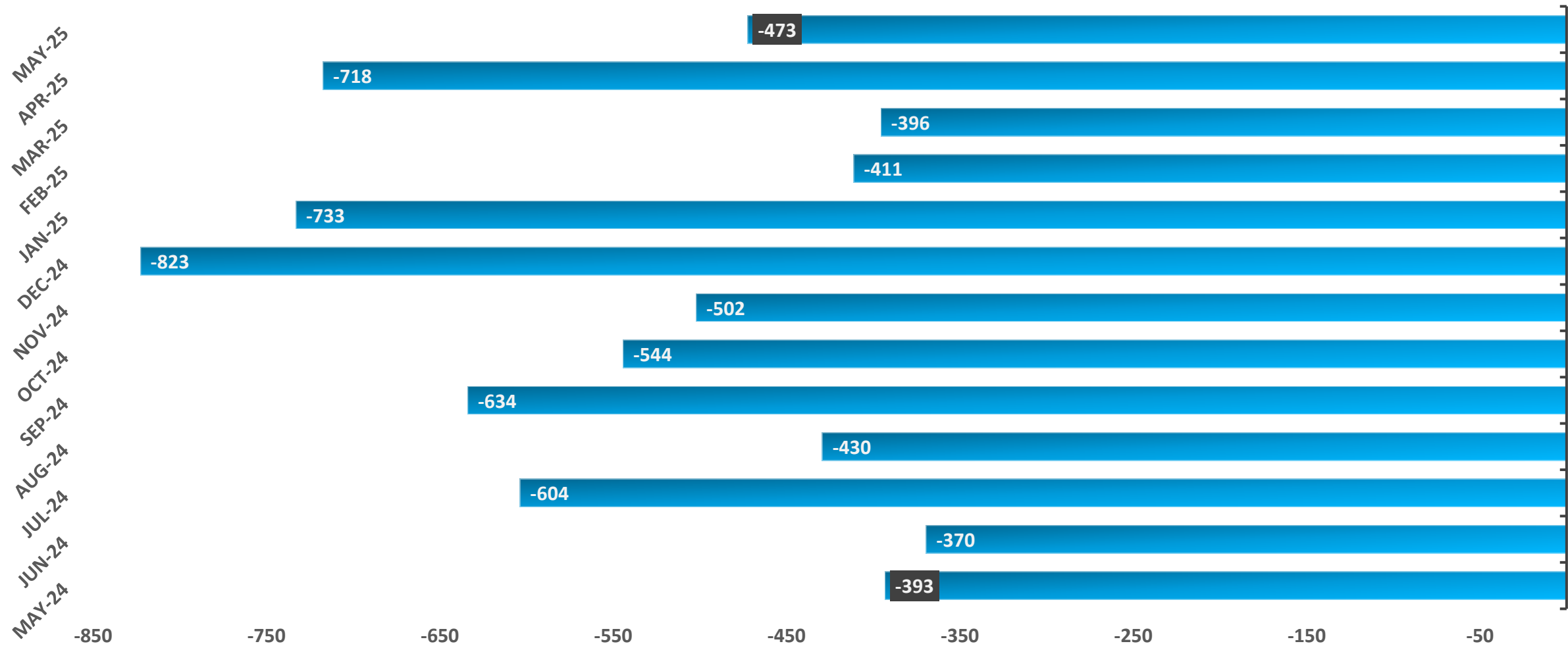
# EXTERNAL SECTOR – MAY 2025 – IMPORTS

In May 2025, Imports registered a YoY increment of 7.3%, 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 69.6% driven predominantly by higher levels of Non-Food Consumer goods. Investment goods also registered a YoY increase of 16.8% prompted by greater imports made in Transport equipment. Finally, the Intermediate goods segment contracted by 10.6%YoY in May 2025. It was a 77.8% drop in Wheat and maize imports that dominated this trend along with decreases in fuel, Textile and textile articles, and Fertilizer imports.

Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Consumer goods			
- May	228.9	388.2	69.6
- YTD	1,287.4	1,896.6	47.3
Intermediate			
- May	928.3	829.9	-10.6
- YTD	4,706.9	4,617.1	-1.9
Investment goods and other			
- May	247.4	289.0	16.8
- YTD	1,243.5	1,566.4	26.0
<b>Total</b>			
- May	1,404.6	1,507.2	7.3
- YTD	7,237.7	8,080.1	11.6

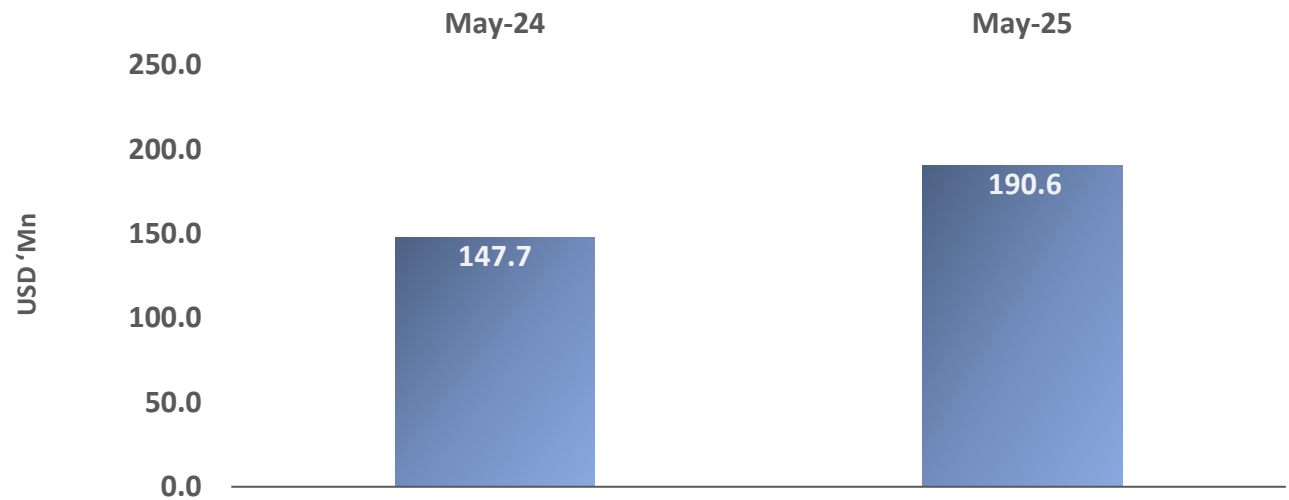


Balance of Trade

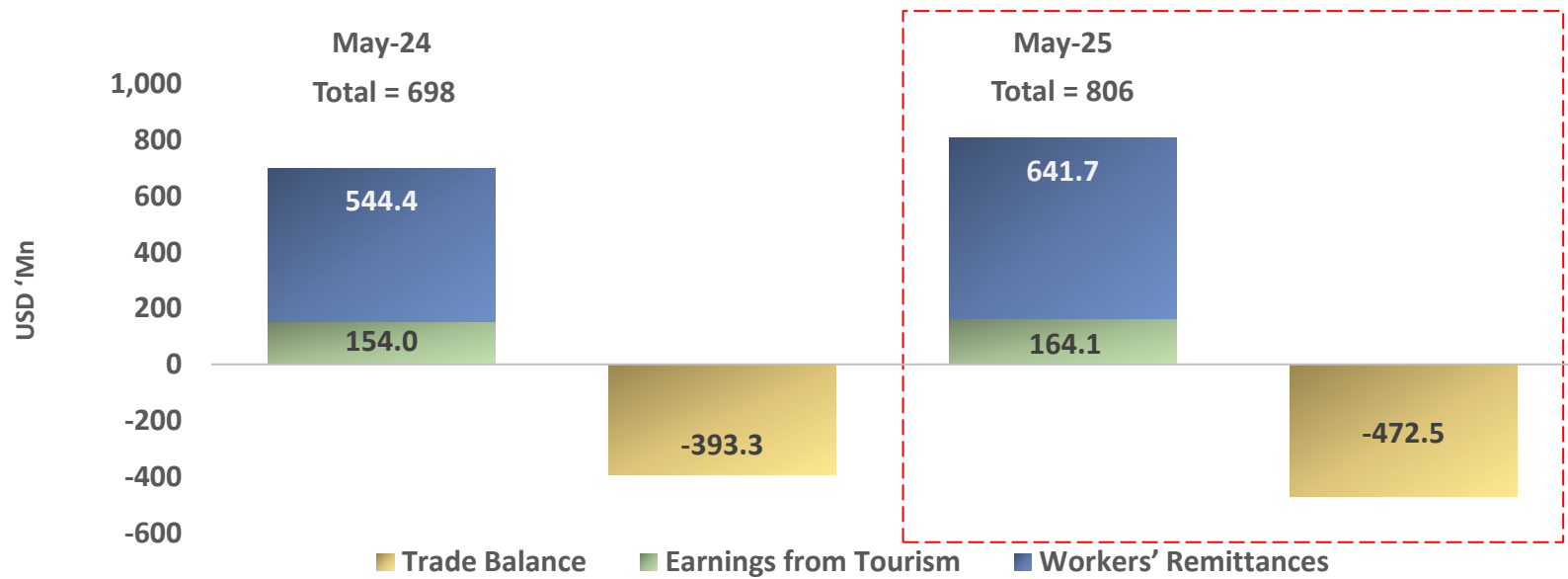


Source: Central Bank

The Current Account Balance for May 2025 rose compared to that of May 2024, registering an uptick of 29.0%.



Workers' Remittances increased to USD 641.7Mn in May 2025 (+17.9%YoY) while Earnings from Tourism rose to USD 164.1Mn (+6.6%YoY).



CURRENT ACCOUNT BALANCE YOY IMPROVED IN MAY 2025			
May USD 'Mn	2024	2025	Change (%)
Trade Balance	-393.3	-472.5	
Earnings from Tourism	154.0	164.1	+6.6
Workers' Remittances	544.4	641.7	+17.9

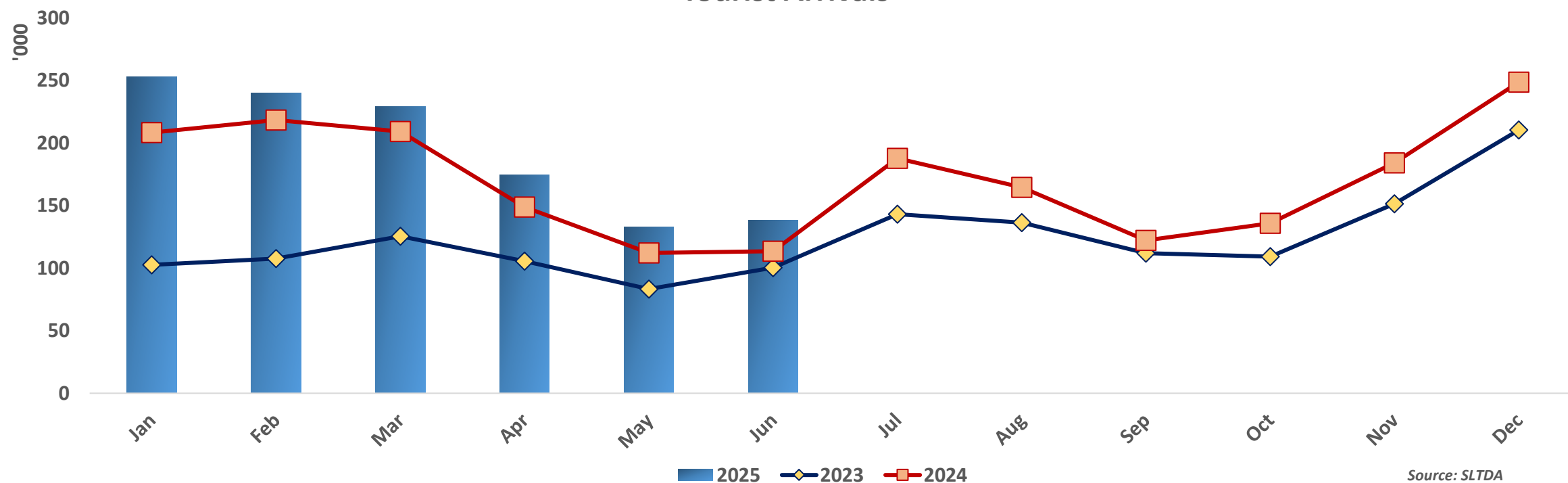
YTD USD 'Mn	2024	2025	Change (%)
Trade Balance	2,170.4	-2,729.6	
Earnings from Tourism	1,405.6	1,543.1	+9.8
Workers' Remittances	2,624.4	3,102.2	+18.2

# TOURIST ARRIVALS – JUNE 2025

**[ June 138,241 – UP +21.8%YoY] [ MoM – UP +4.0%]**

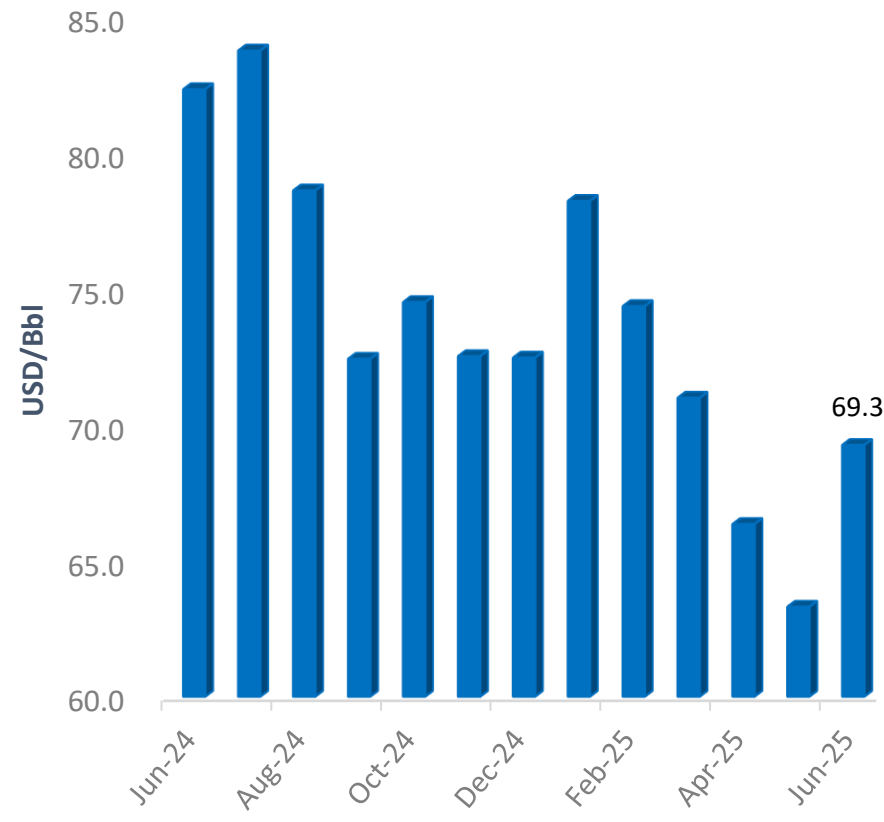
The total number of arrivals for the month reached 132,919 registering a YoY uptick of 21.8% alongside a MoM surge of 4.0%. India which accounted for 27.4% of tourist arrivals remained the top source market in June 2025. This was followed by The United Kingdom which accounted for 8.4% of total arrivals and China which accounted for 6.4% of arrivals.

**Tourist Arrivals**

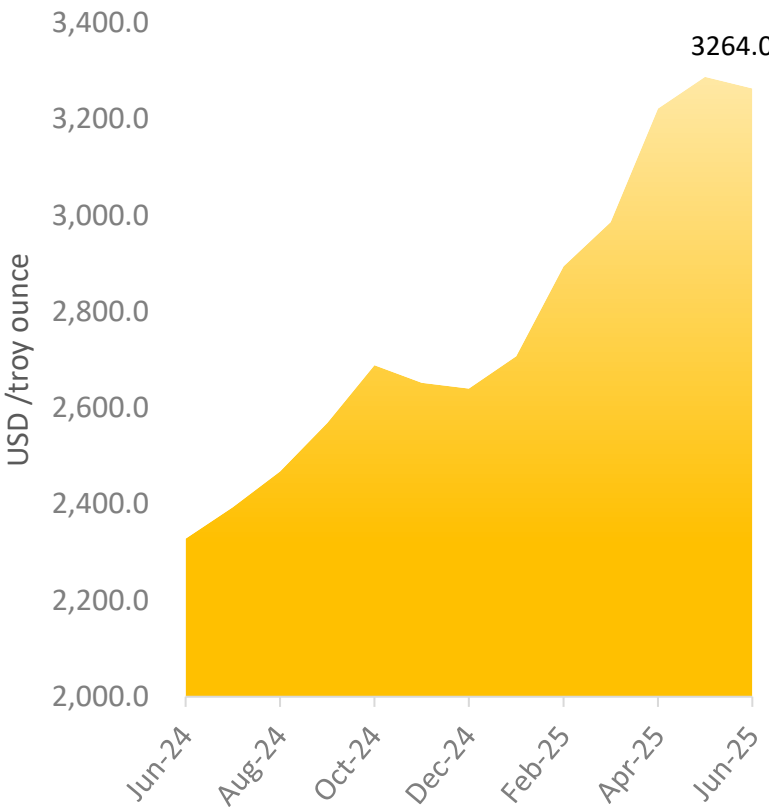


# COMMODITY PRICES – JUNE 2025

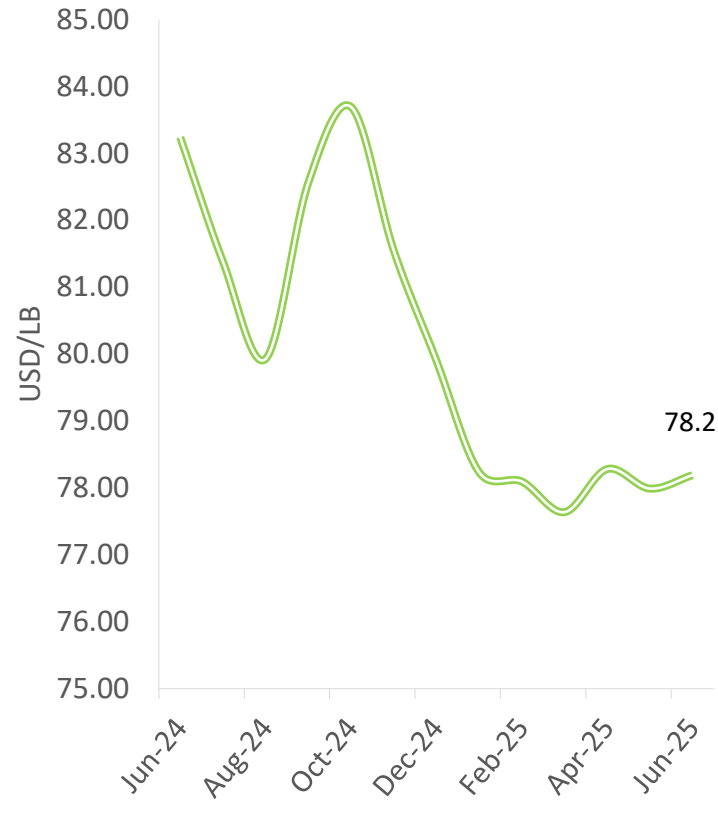
Crude oil



Gold



Cotton

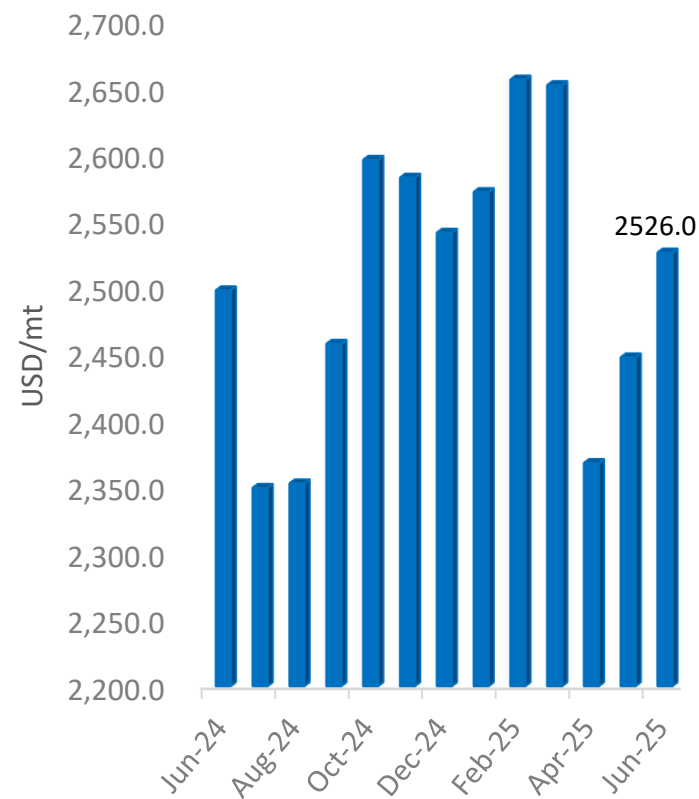


**Note:** crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

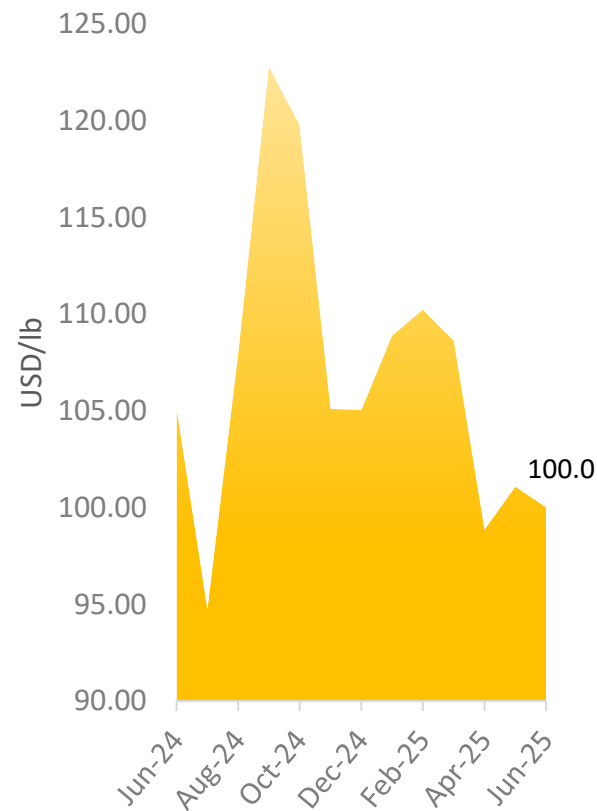


# COMMODITY PRICES – JUNE 2025 CONT'D

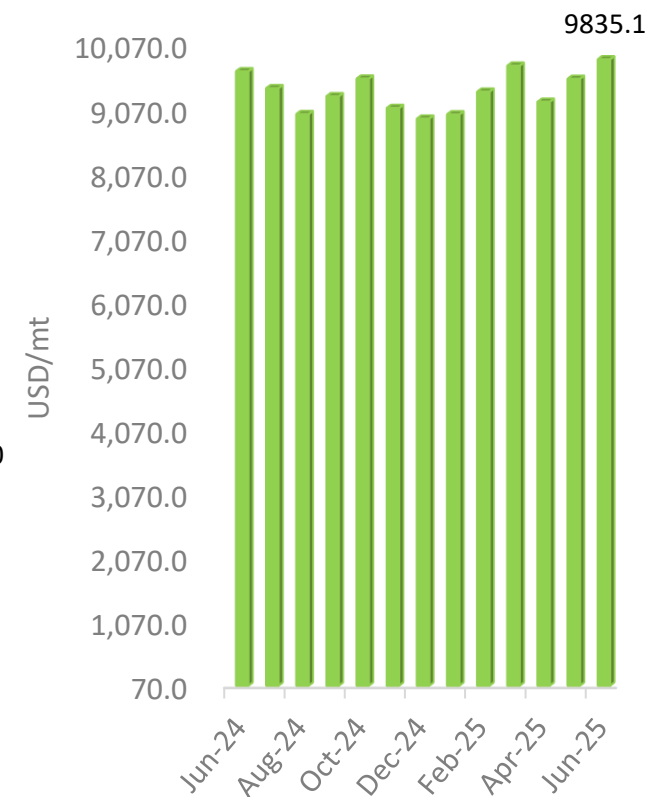
Aluminum



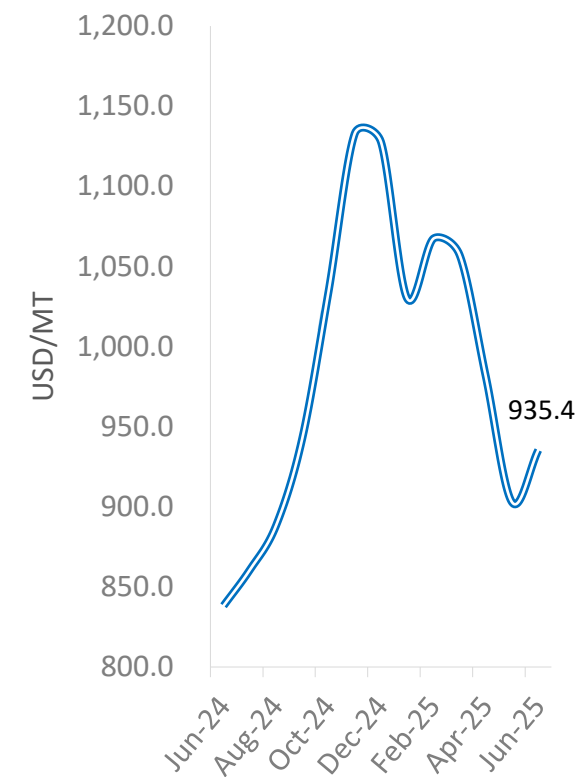
Rubber



Copper

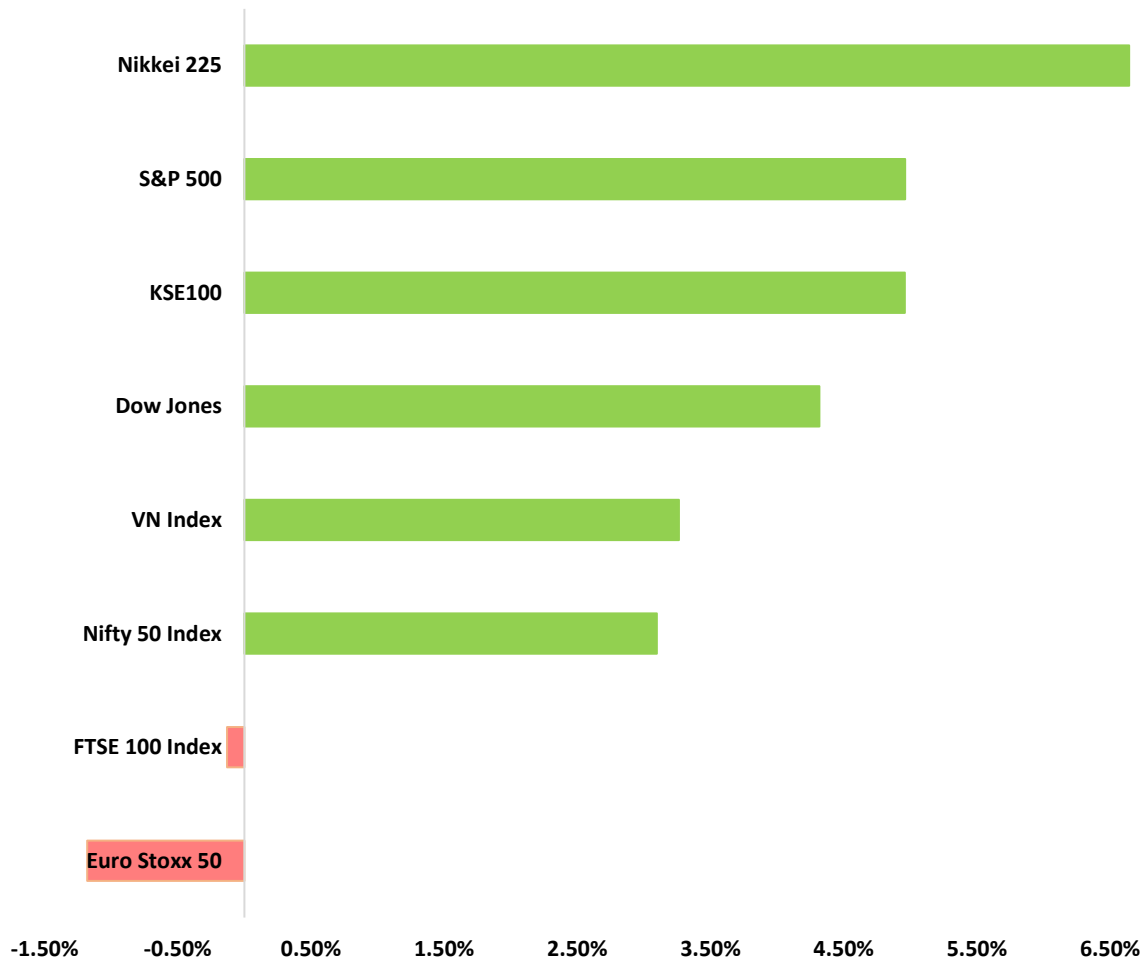


Palm oil



**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 – JUNE 2025



## Trump Tariffs Are Hurting US and Global Economy, OECD Warns

In June 2025, the OECD warned that former President Donald Trump's reimposed tariffs are negatively impacting both the U.S. and global economies. The report highlights that these trade tensions are contributing to a slowdown in global growth, which is now forecast to decline to 2.9% for the year. The tariffs have led to reduced investment, strained supply chains, and heightened uncertainty across international markets, prompting calls for more predictable and cooperative global trade policies.



## Asia-Pacific markets trade mixed as investors await details of U.S.-China trade talks

U.S. and Chinese officials, held trade talks amid growing uncertainty over trade policy. Christian Floro, market strategist at Principal Asset Management, warned that market conditions will likely remain volatile and advised investors to consider value-oriented and international equities. He highlighted domestic sectors like utilities, real estate, and financials as more resilient to trade shocks, while also pointing to opportunities in software and internet companies.

## Fed expected to keep rates steady as tariff risks outweigh inflation data

In mid-June, ahead of its next meeting, the Federal Reserve decided to hold interest rates steady at 4.25%–4.50%, taking a cautious "wait-and-see" approach as persistent trade uncertainty, especially tariff risks, continued to overshadow softer inflation data. While recent easing in inflation and employment metrics suggests the potential for two rate cuts later in 2025, policymakers emphasized that unresolved trade tensions and their risk to inflation and growth warrant further caution, likely postponing any moves until more clarity emerges.



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