



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Aug 2025

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# THE CBSL KEEPS THE OVERNIGHT POLICY RATE (OPR) UNCHANGED AT 7.75%

- ❑ The Monetary Policy Board decided to maintain the Overnight Policy Rate (OPR) at the current level of 7.75% at its meeting held on 22<sup>nd</sup> July 2025.
- ❑ The Board arrived at this decision after carefully considering both domestic and global developments. The Board is of the view that the current monetary policy stance will help steer inflation towards the target of 5% in the period ahead while supporting growth.
- ❑ The Board has carefully evaluated following key developments when arriving at this decision;
  - Inflation is expected to turn positive and gradually rise to the 5% target, with core inflation increasing as demand recovers.
  - The economy grew by 4.8% in Q1 2025, with strong private sector credit and easing monetary conditions supporting continued growth.
  - Despite a wider trade deficit, the external sector remains resilient, with strong tourism and remittance inflows and healthy reserves aided by IMF support.
  - Globally, policy uncertainty has intensified due to the evolving trade landscape and recurring geopolitical conflicts. The Board will carefully monitor any realization of the global uncertainties and assess incoming data on domestic developments.

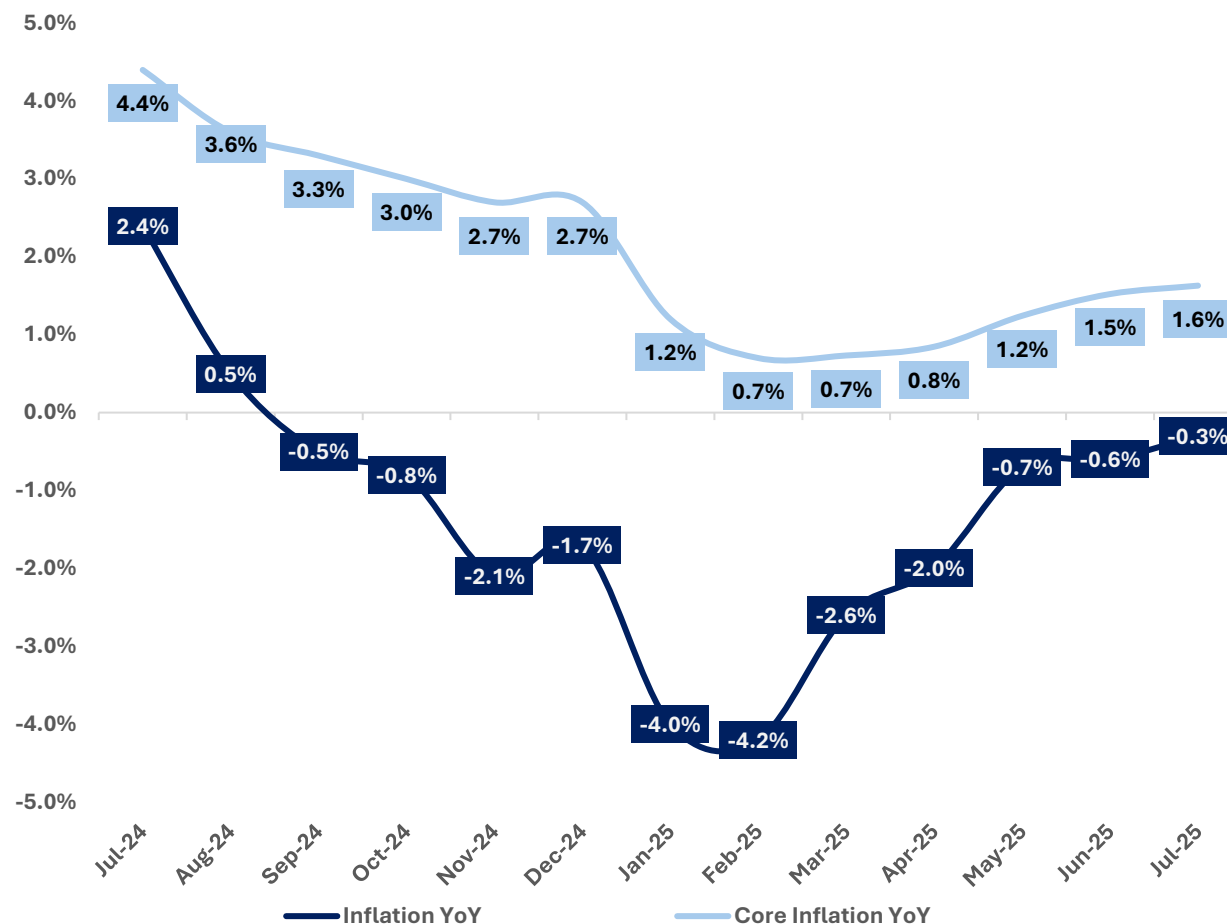
# CCPI FOR JULY 2025:

## MOM -0.2%

## YOY -0.3%

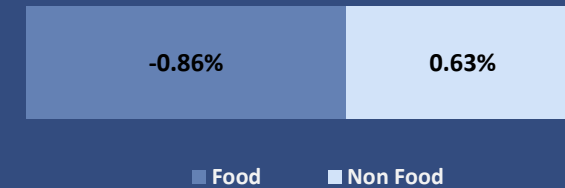
- MoM inflation for July 2025 stood at -0.2%, decrease from the +0.9% level seen in the previous month. Food inflation reduced to -2.5% compared to +1.8% in June 2025, while Non-Food inflation rose to +1.0%, compared to in +0.4% June 2025.
- The YoY figure reached -0.3% in July 2025 compared to the -0.6% level seen in June 2025. Food inflation dipped to 1.5% from 4.3% previously. Non-Food inflation remained deflationary at -1.2%, though up from -2.8% recorded previously.

## Inflation – CCPI

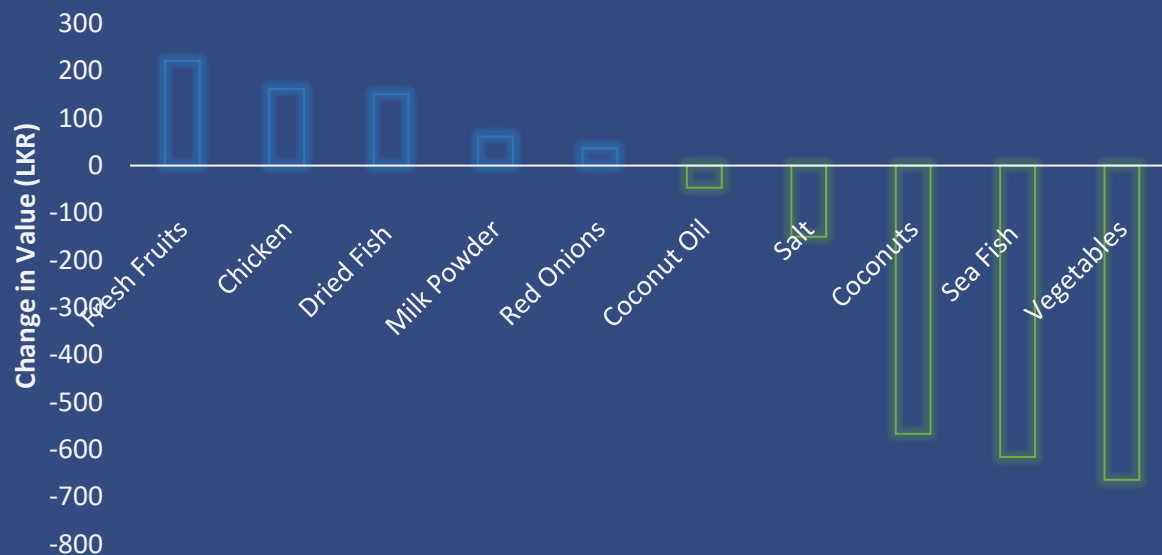


# INFLATION ANALYSIS – CCPI-MOM

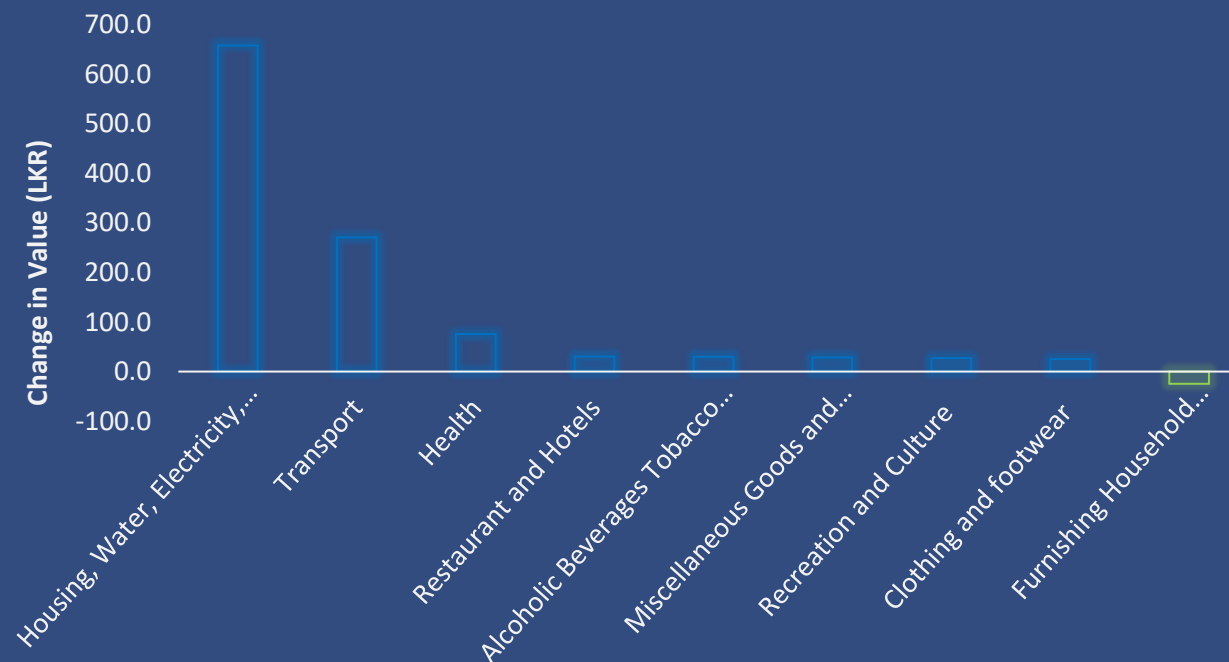
The CCPI Index for July 2025, decreased to -0.2%MoM. The Food category contributed at a -0.86% rate. Vegetables and Sea Fish showcased noteworthy price reductions. However, on the flip side, Fresh Fruits, Chicken, Dried fish, Milk Powder and Red Onions were the top positive contributors within the Food category. The Non-Food category contributed by +0.63% with Housing, Water, Electricity, Gas and Other Fuels, and Transport and Health being the major contributors of price increment which was minutely offset by a price reduction in the Furnishing Household Equipment and Routine Household Maintenance segment.



## Food Category Inflation



## Non-Food Category Inflation



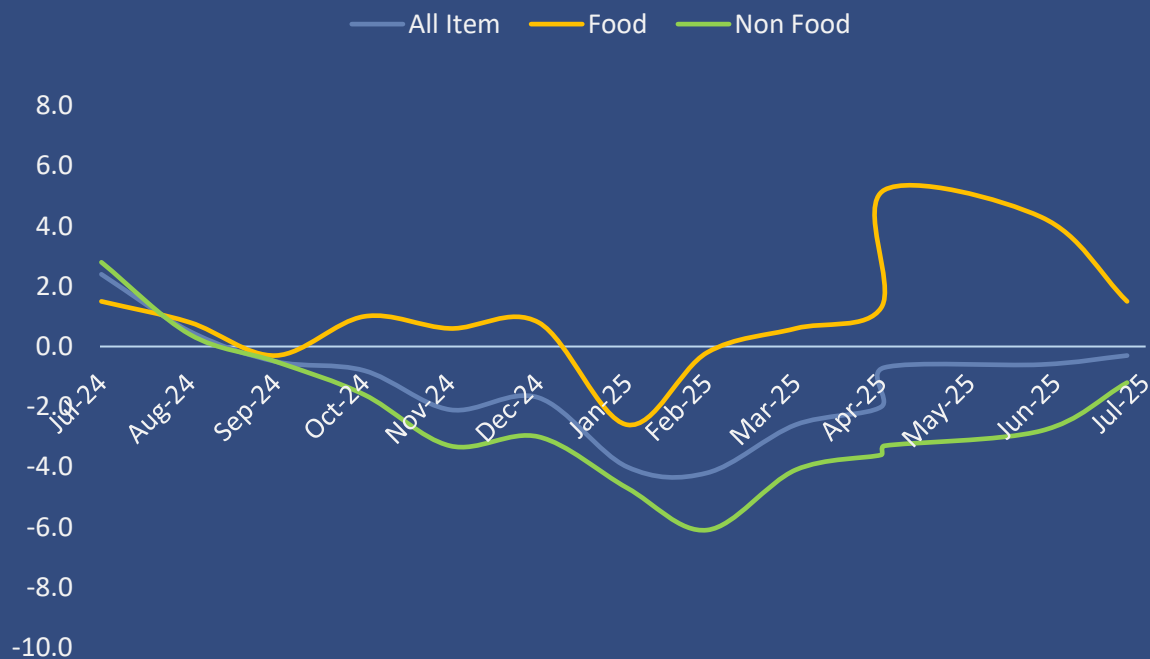


# INFLATION ANALYSIS – CCPI-YOY

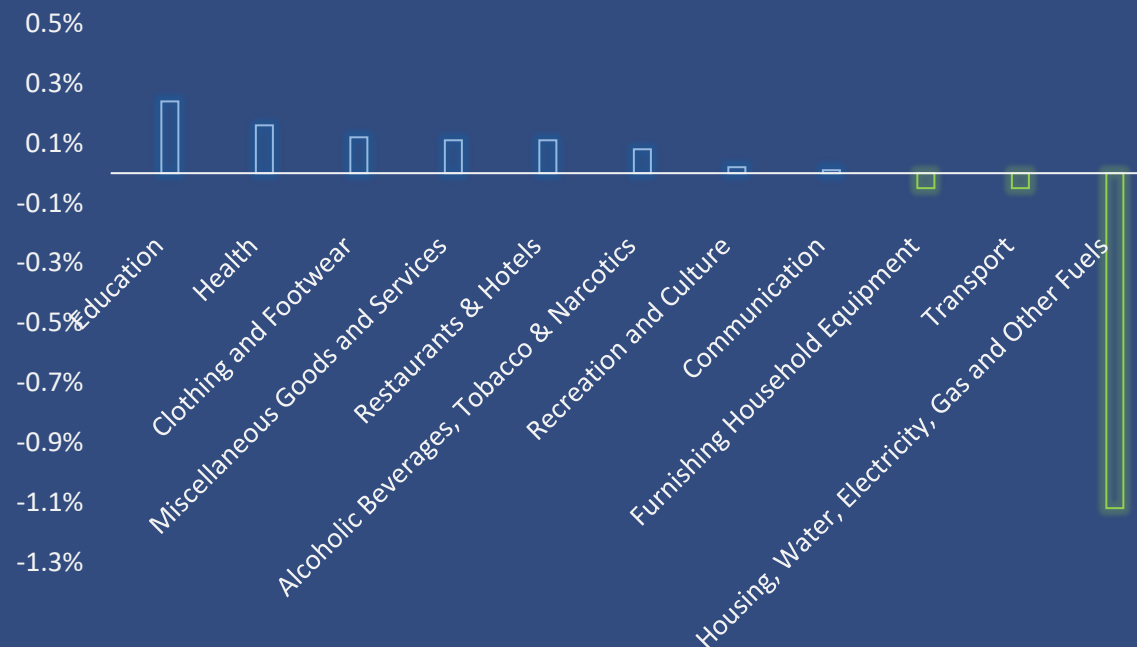
The YoY inflation of CCPI for July 2025 stood at -0.3%, registering an uptick from the -0.6% level seen in June 2025. While YoY inflation of the Food group reduced to 1.5% in July 2025 from 4.3% seen in the previous month, YoY inflation of the Non-Food category increased to -1.2% in July from -2.8% in June 2025. The reduction of food group inflation was mainly due to price reductions of Eggs, Big Onions, Sea Fish and Vegetables.



## Inflation Analysis (YoY)



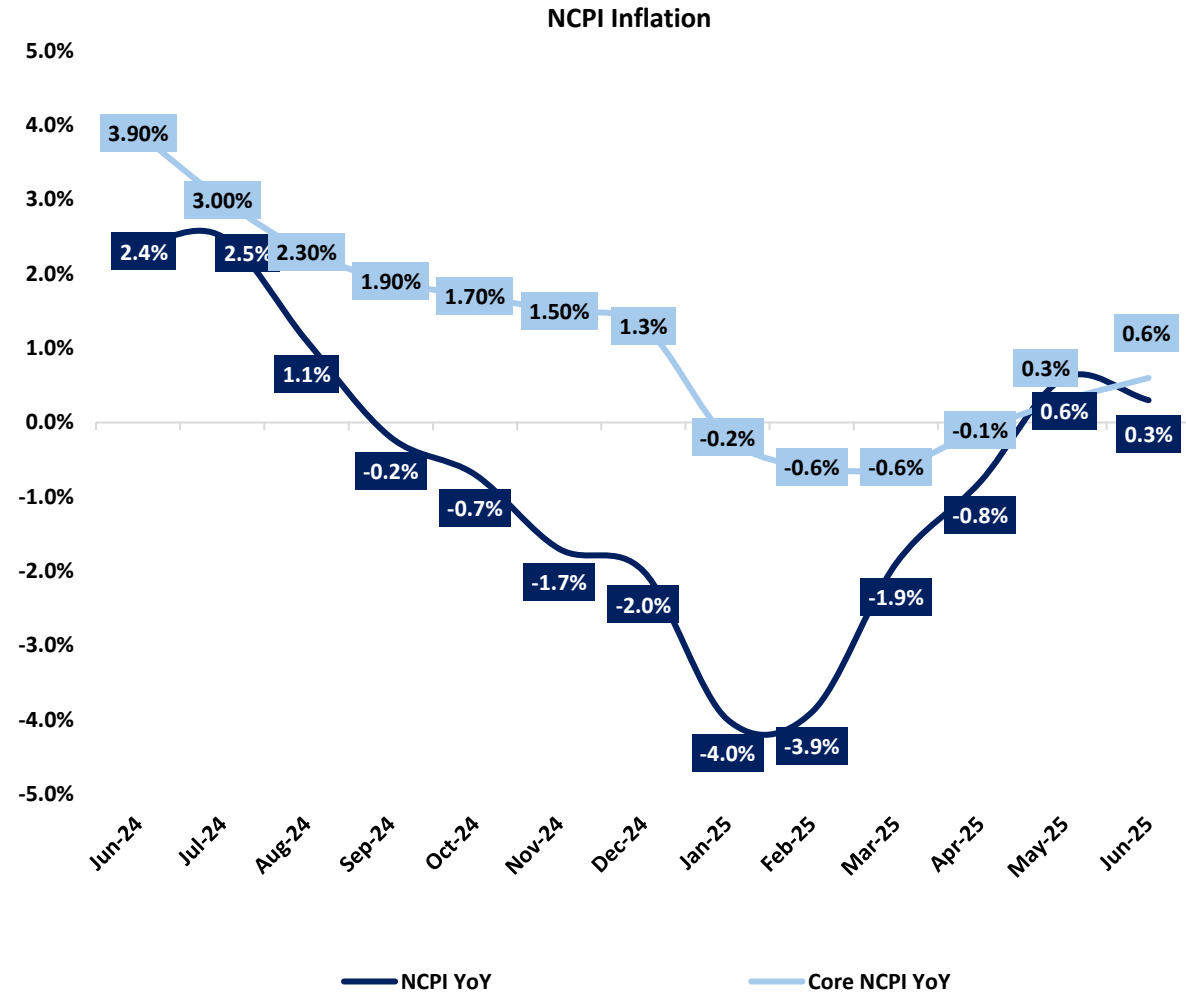
## Non-Food Category Inflation



# NCPI FOR JUNE 2025: INCREASED TO 0.3%YOY

- NCPI for June 2025, deflated to 0.3% from 0.6% seen in May 2025.
- This trend was driven by subsequent decrease seen in Food and increments Non-Food categories. In June 2025, Food inflation decreased to 4.2% from 5.9% seen in the previous month. Non-food inflation has increased from -3.4% to -2.8% during June 2025.

## Inflation – NCPI



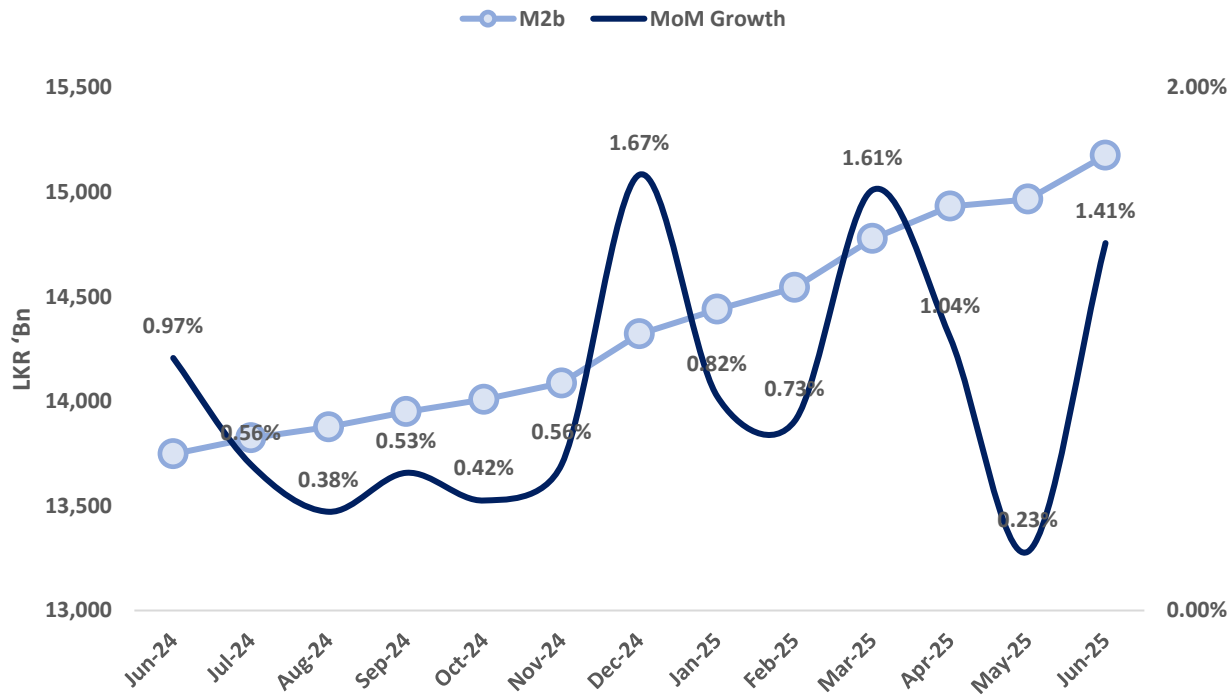


# M2B AND CREDIT GROWTH

Private sector credit expanded by LKR 222.1Bn in June 2025. State credit also followed suit, having risen by LKR 45.8Bn in June 2025, like the expansion seen in the previous month.

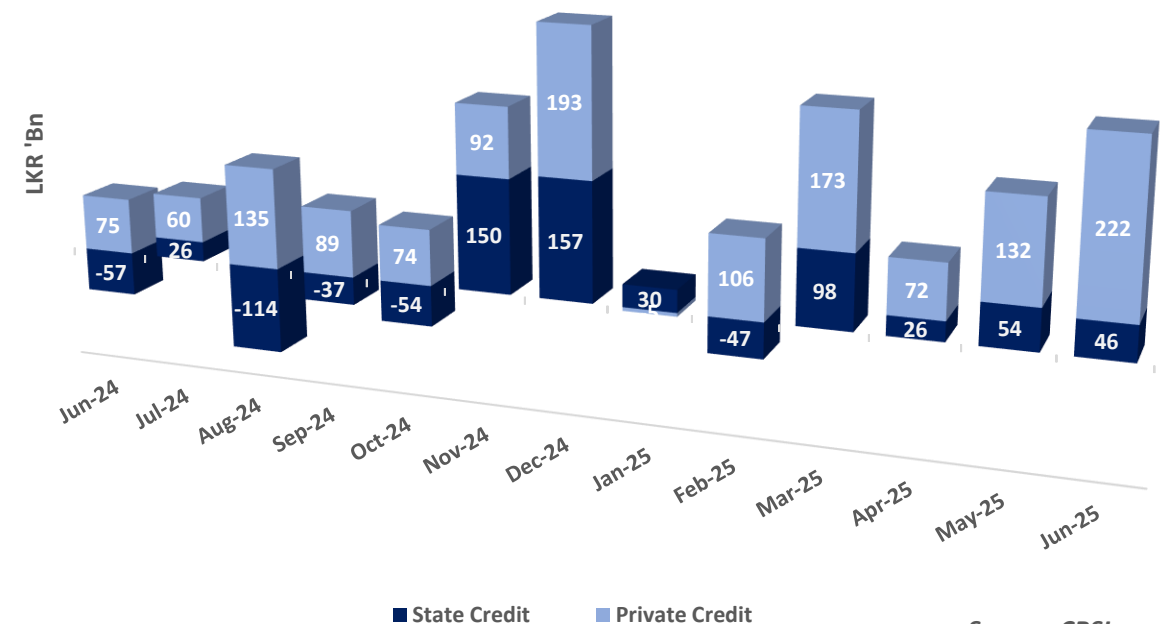
## M2b Growth – June 2025

MoM +1.4%, YoY +10.4%, YTD +6.0%



## State Credit & Private Credit – June 2025

Private Credit MoM +2.6%, YoY +17.9%, YTD +8.6%

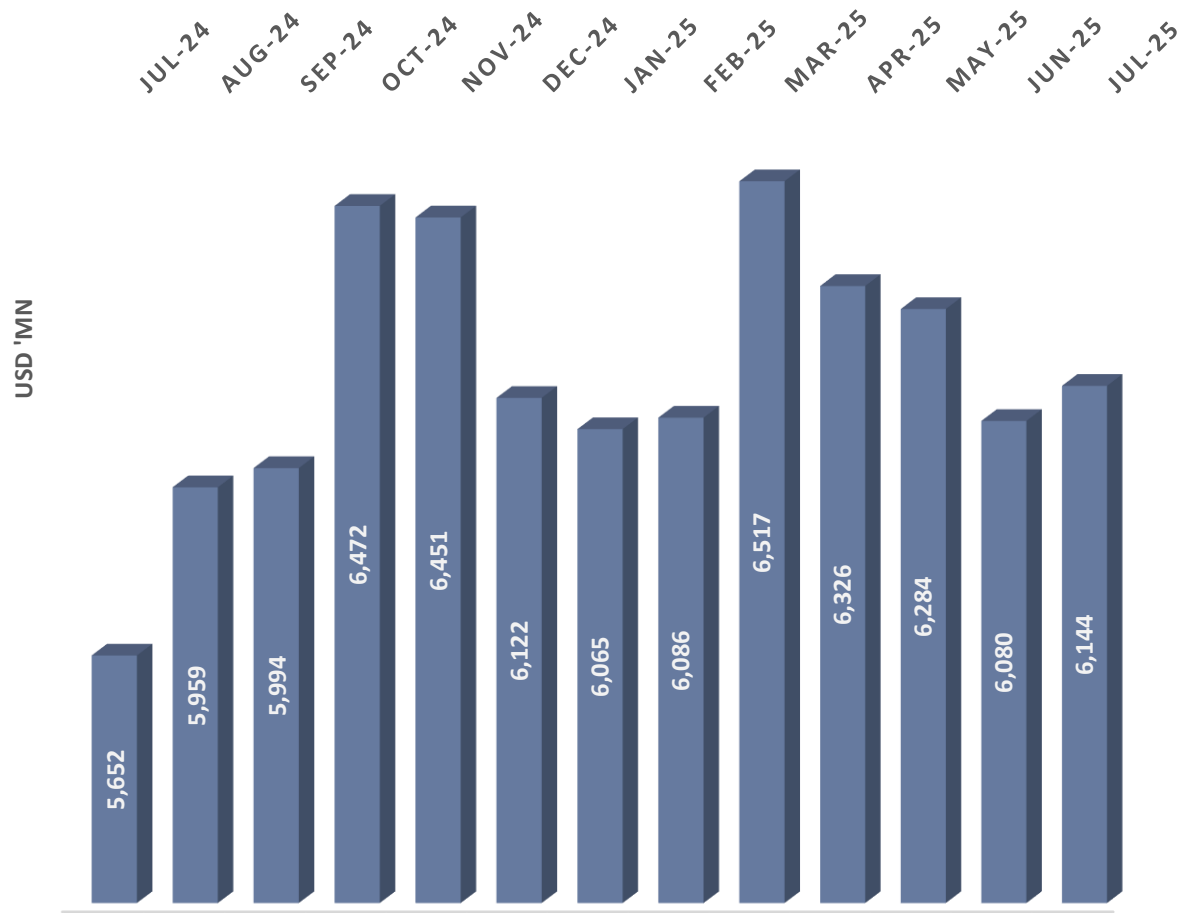


Source: CBSL

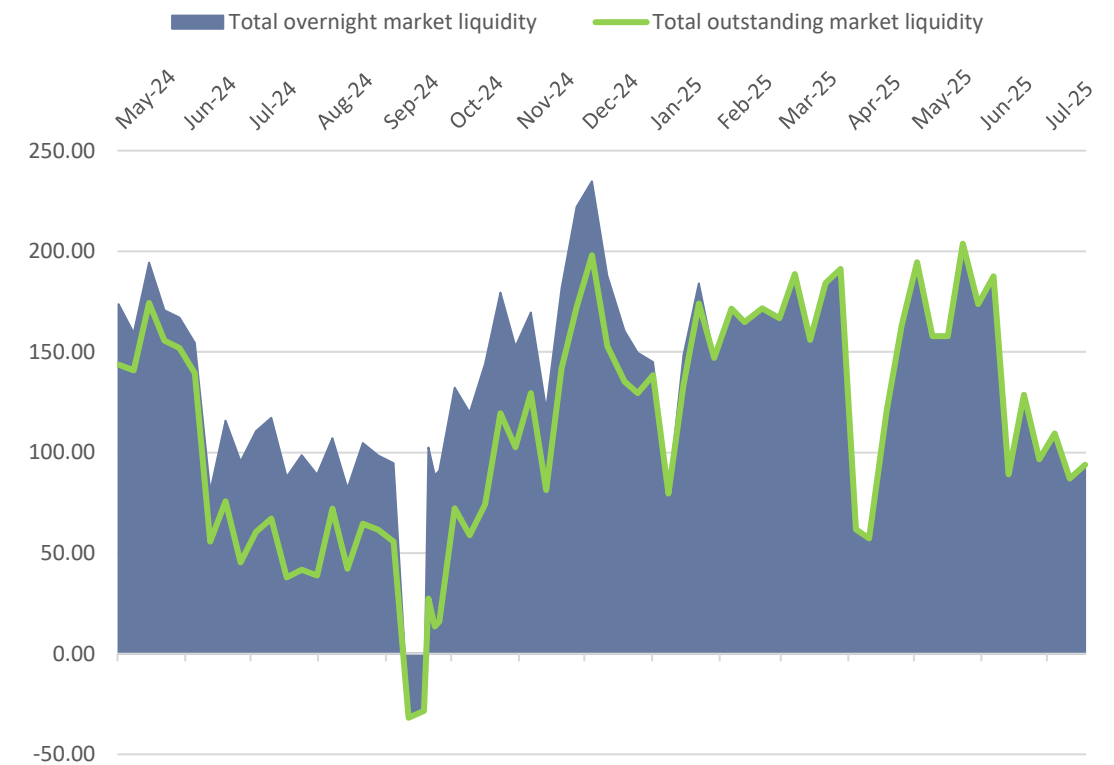


# LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 64.0Mn to USD 6,144Mn in July 2025.



- Both overnight market liquidity and outstanding market liquidity reduced in July 2025 relative to the previous month. By end-June, both overnight and market liquidity stood at LKR 114.1Bn.



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



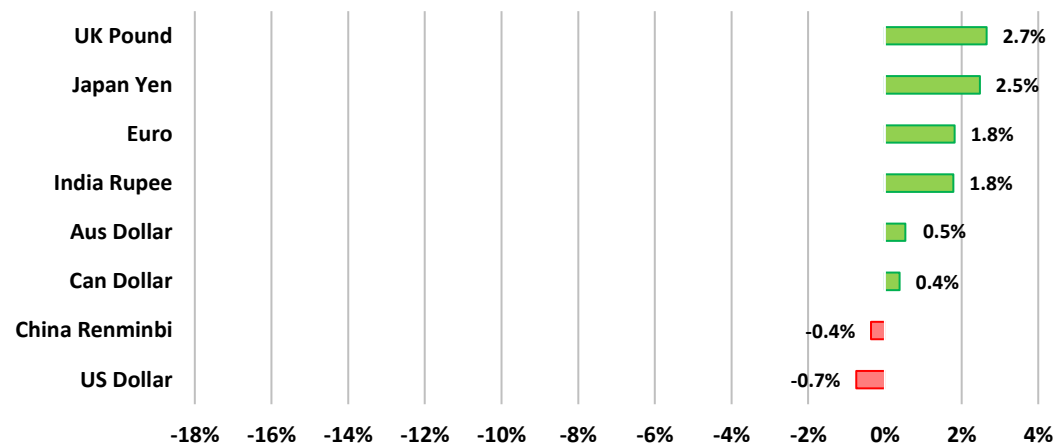
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## USD:LKR Movement

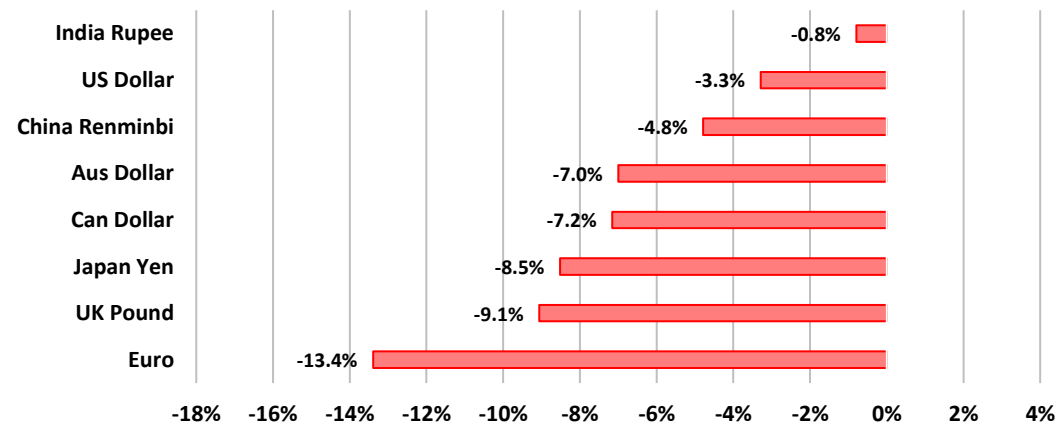


## Sri Lankan Rupee vs Global Currencies

JULY 2025



YTD 2025



## Bill and Bond auctions for July 2025

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
4-Jul-25	120,971	258,738	379,709
11-Jul-25	66,812	142,238	209,050
18-Jul-25	90,999		90,999
25-Jul-25	76,808		76,808
<b>Total Issued</b>			<b>756,566</b>

## Net settlements for July 2025

Net Settlement	July 2025	YTD
Maturities	766,584	4,334,505
Coupon Payment	164,717	5,318,410
New Issues	756,566	1,010,954
<b>Excess/ (Deficit)</b>	<b>-174,734</b>	<b>91,222</b>

CBSL Holdings of Gov. Securities	YTD	
As at End July 2025	2,508,900	
As at End June 2025	2,508,900	
<b>Increase/ (Decrease)</b>	<b>-</b>	<b>-7,100</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

*...remained broadly stagnant in July 2025*

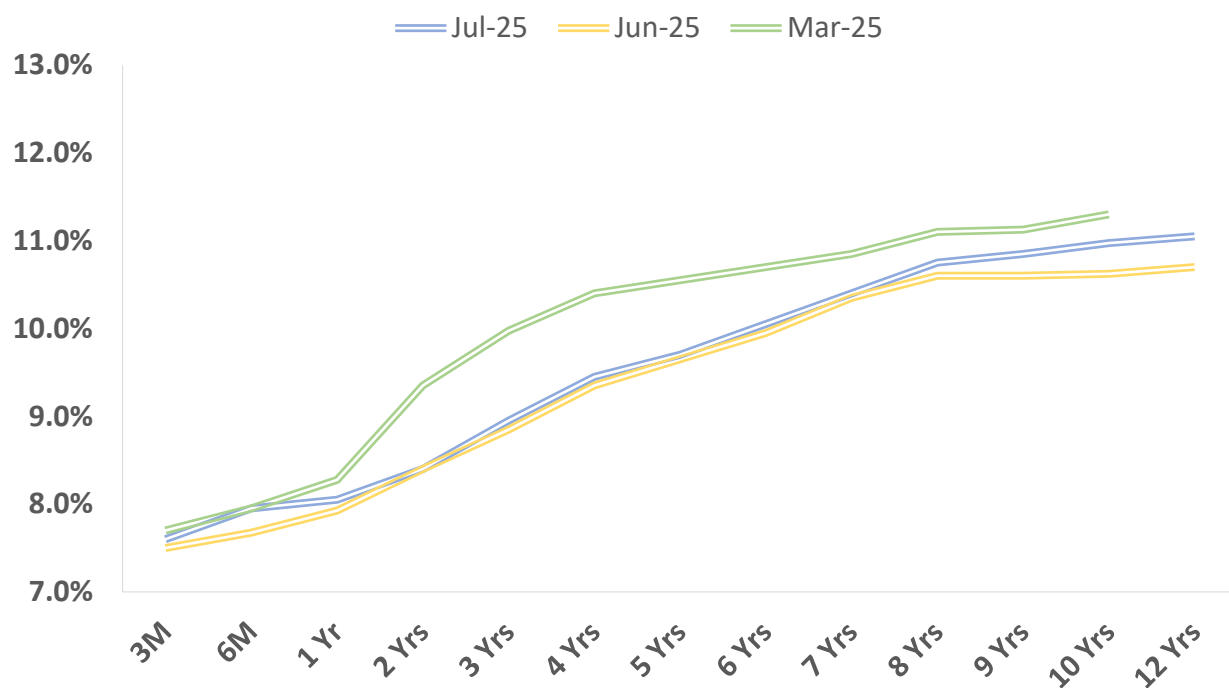


# TREASURY BILLS AND BONDS – JULY 2025



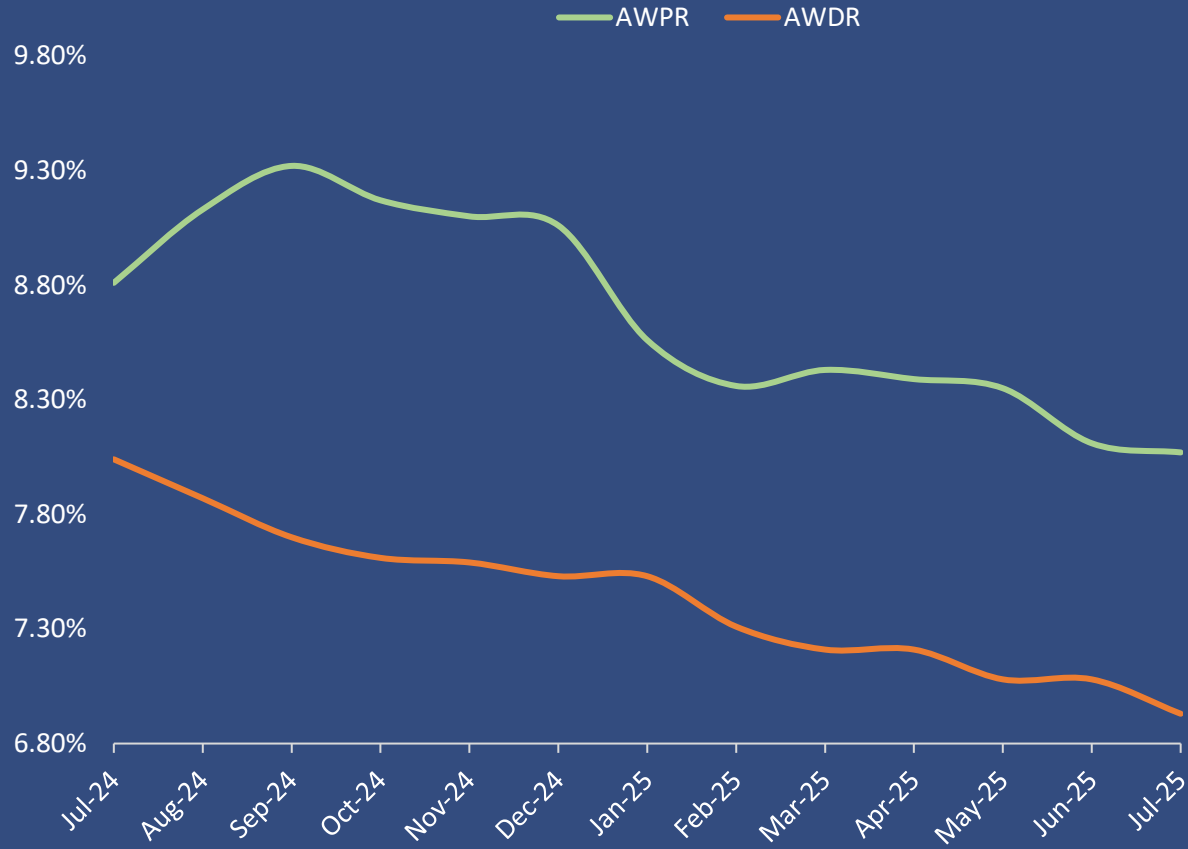
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The government securities market remained largely subdued throughout July 2025, shaped by cautious investor sentiment and key policy announcements. The month began with renewed buying interest amid easing geopolitical tensions, particularly in 2028 and 2029 maturities. However, momentum waned as participants adopted a wait-and-see stance ahead of the 11th July T-Bond auction which was highest amount for the month of July. Despite moderate foreign interest in the second week, trading volumes remained low and the yield curve firm. The third week saw heightened activity around the T-Bond auction, though acceptances fell short of the target. A successful T-Bill auction followed, but trading softened as the week progressed, with thin volumes and mild selling nudging yields slightly higher. Attention then turned to the Central Bank's policy decision, where the OPR was held at 7.75%, reaffirming its inflation target. This provided some clarity, prompting a modest uptick in activity late in the week. The final week remained quiet, with sentiment cautious and trading focused on shorter maturities. Risk appetite stayed limited, and yields were broadly unchanged. Overall, the market ended July on a stable note, supported by policy clarity.



Tenure	Interest Rate Change (bps)				
	Jul 2025	Jun 2025	Change (bps)	Mar 2025	Change (bps)
3M	7.60%	7.50%	+10	7.70%	-10
6M	7.95%	7.68%	+28	7.95%	0
1 Yr	8.05%	7.93%	+13	8.28%	-23
2 Yrs	8.40%	8.40%	0	9.35%	-95
3 Yrs	8.95%	8.85%	+10	9.98%	-103
4 Yrs	9.45%	9.35%	+10	10.40%	-95
5 Yrs	9.70%	9.65%	+5	10.55%	-85
6 Yrs	10.05%	9.95%	+10	10.70%	-65
7 Yrs	10.40%	10.35%	+5	10.85%	-45
8 Yrs	10.75%	10.60%	+15	11.10%	-35
9 Yrs	10.85%	10.60%	+25	11.13%	-28
10 Yrs	10.98%	10.63%	+35	11.30%	-33
12 Yrs	11.05%	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



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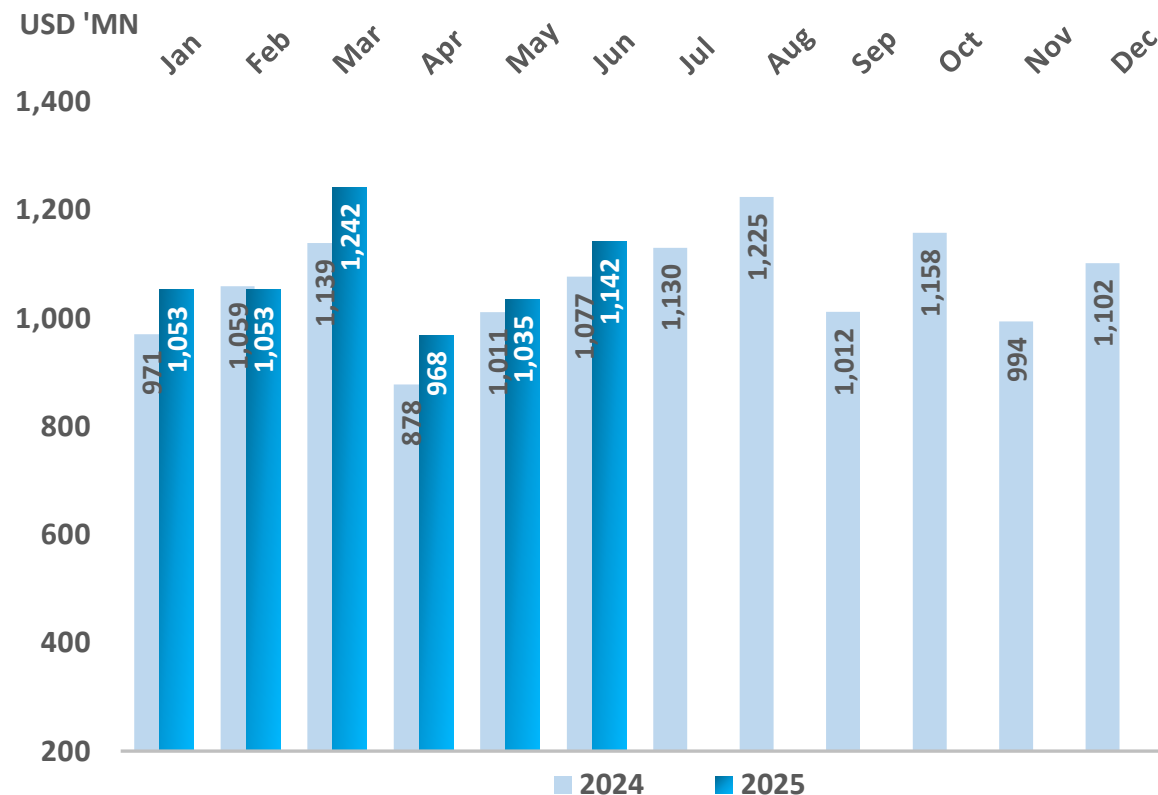
## FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – JUNE 2025 – EXPORTS

In June 2025, Exports registered a YoY uptick of 6.0%, driven primarily by subsequent expansions in Agricultural exports followed by Industrial exports, which make up a substantial amount of the basket, while Industrial exports saw an increase of 6.4%YoY. The main reason behind the Industrial exports were export [increments in Food, Beverage and Tobacco and Textile and Garments. The 5.5%YoY increase that was seen in Agricultural exports was driven predominantly increases in Tea, Coconut, Spices and Tea subcomponents. Additionally, mineral and other exports recorded a sharp 40.9%YoY decline.

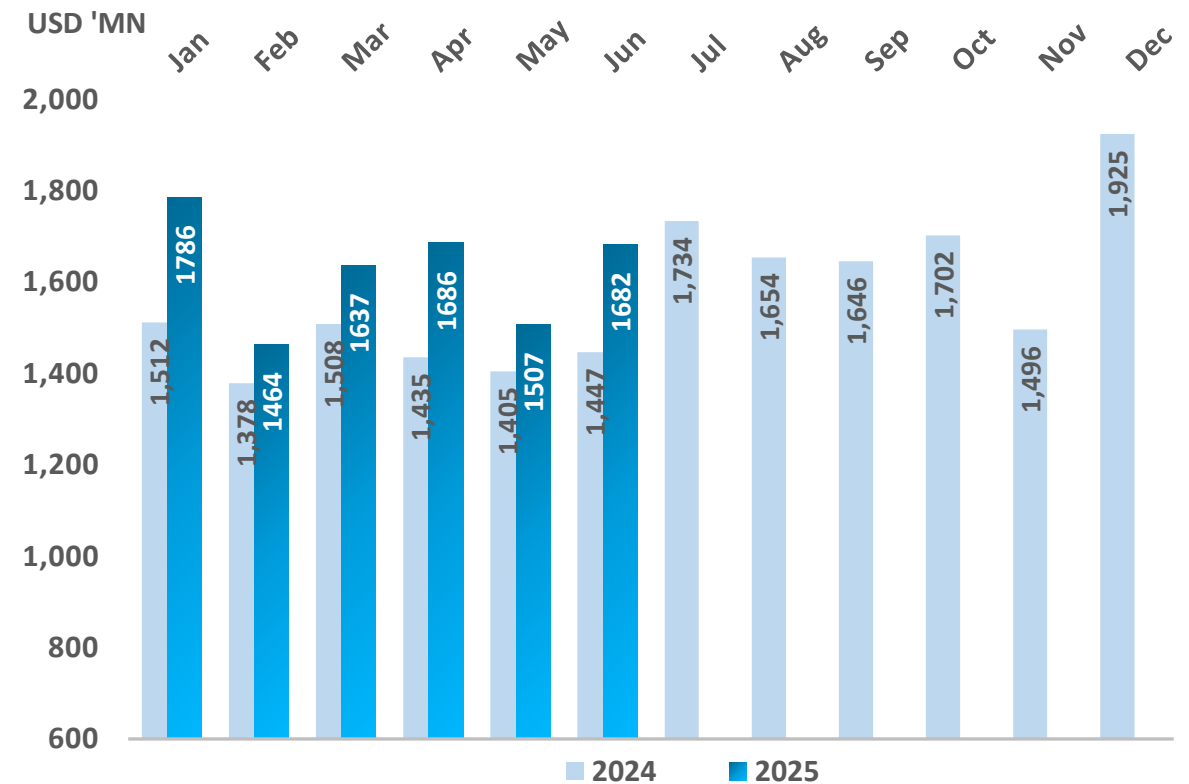
Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Industrial Exports			
- June	830.3	883.8	6.4
- YTD	4,837.2	5,044.5	4.3
Agricultural			
- June	242.0	255.3	5.5
- YTD	1,281.0	1,427.5	11.4
Mineral and other Exports			
- June	4.7	2.8	-40.9
- YTD	26.2	20.1	-23.4
<b>Total</b>			
- June	1,077.0	1,141.8	6.0
- YTD	6,144.4	6,492.1	5.7



# EXTERNAL SECTOR – JUNE 2025 – IMPORTS

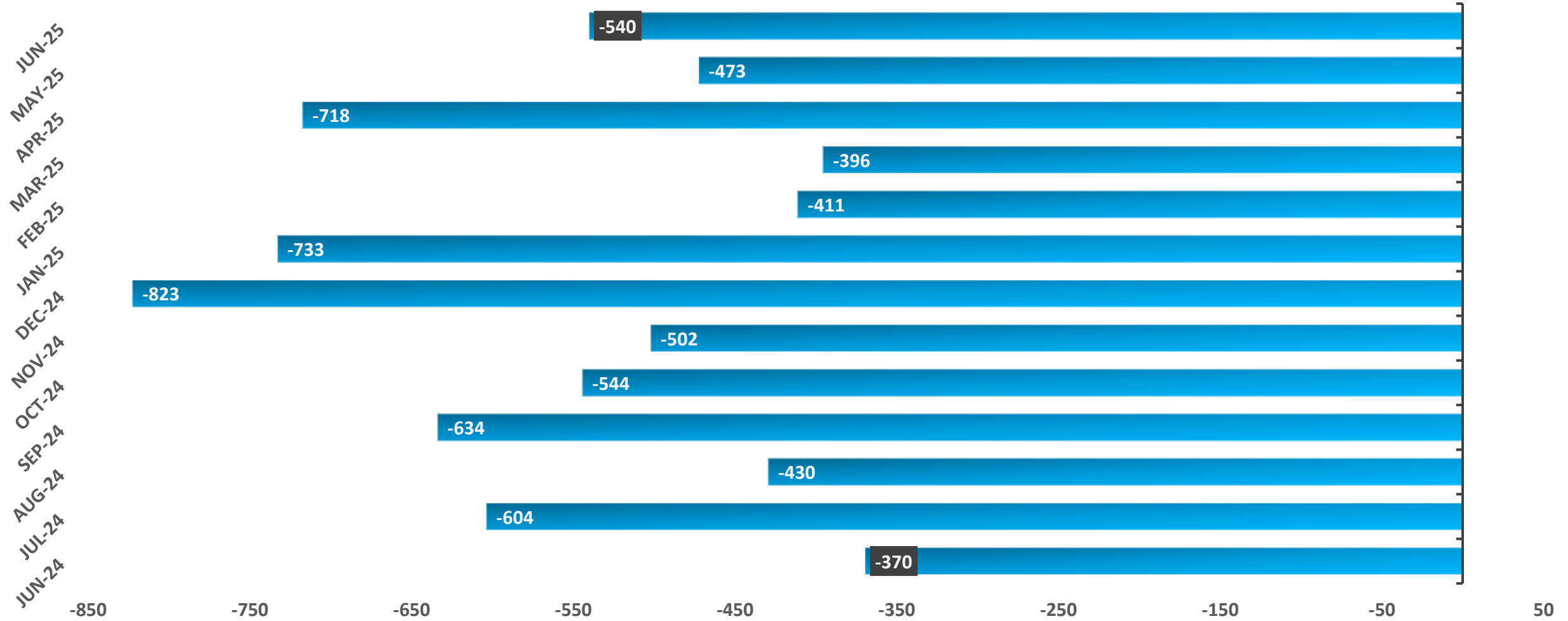
In June 2025, Imports registered a YoY increment of 16.3%, with all sub-categories experiencing an increment. Consumer goods marked a YoY uptick of 69.7% driven predominantly by higher levels of Non-Food Consumer goods. Investment goods also registered a YoY increase of 11.8% prompted by greater imports made in Transport equipment. Finally, the Intermediate goods segment increased by 3.4% YoY in June 2025. It was a 57.5% up in Wheat and maize imports that dominated this trend whilst decreases in fuel, Textile and textile articles,.

Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Consumer goods			
- June	246.8	418.9	<b>69.7</b>
- YTD	1,534.2	2,315.5	<b>50.9</b>
Intermediate			
- June	927.4	958.5	<b>3.4</b>
- YTD	5,634.2	5,575.6	<b>1.0</b>
Investment goods and other			
- June	272.4	304.6	<b>11.8</b>
- YTD	1,515.9	1,871.1	<b>23.4</b>
<b>Total</b>			
- June	1,446.6	1,682.1	<b>16.3</b>
- YTD	8,684.4	9,762.2	<b>12.4</b>





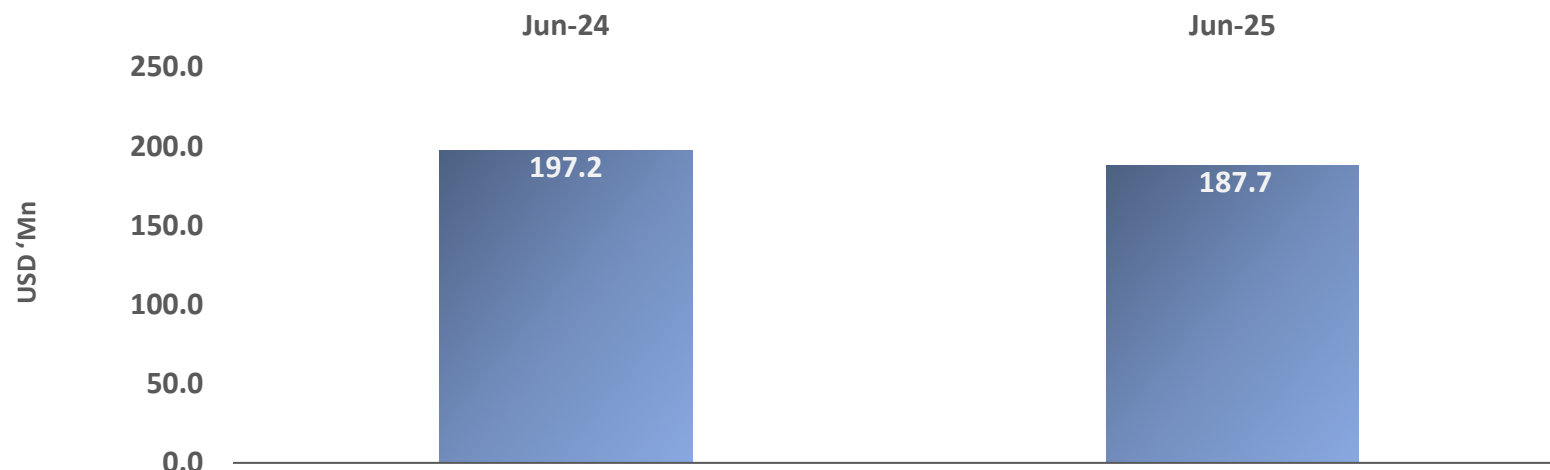
## Balance of Trade



The Current Account Balance for June 2025 dipped compared to that of June 2024, registering a downtick of 4.8%.



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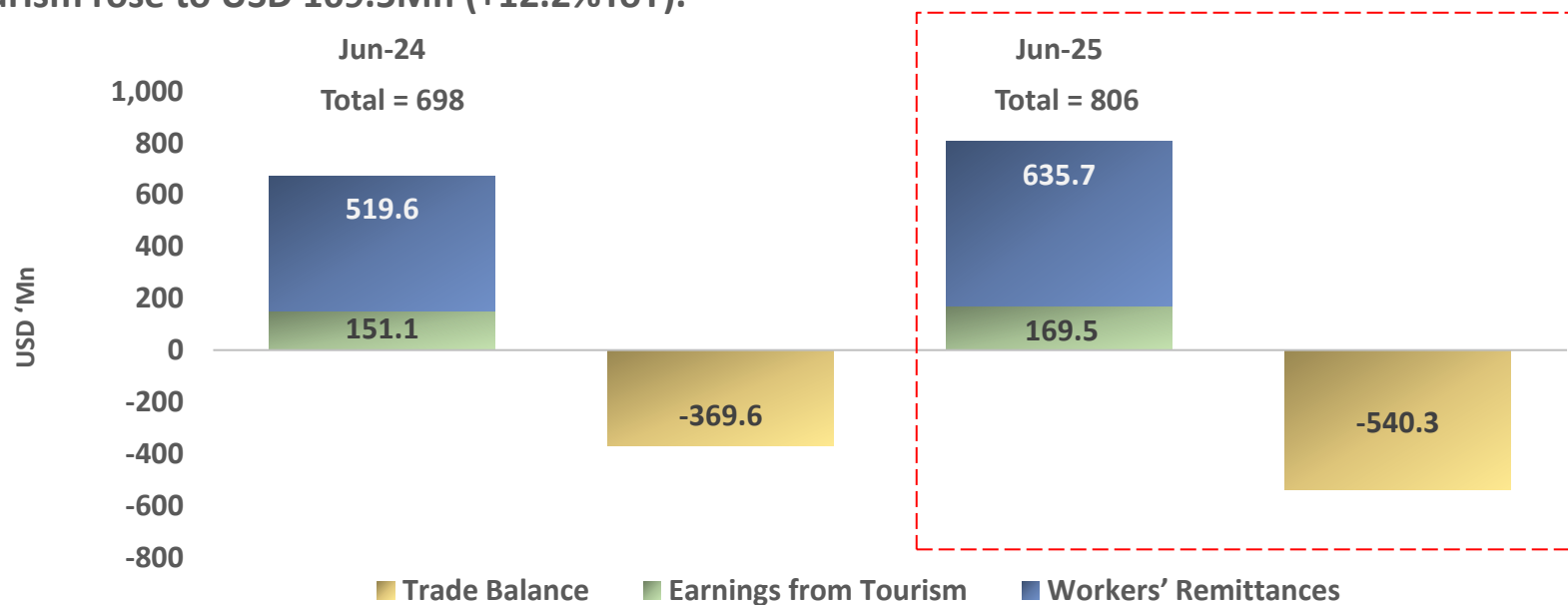
### CURRENT ACCOUNT BALANCE YOY IMPROVED IN JUNE 2025

June USD 'Mn	2024	2025	Change (%)
Trade Balance	-369.6	-540.3	
Earnings from Tourism	151.1	169.5	+12.2
Workers' Remittances	519.6	635.7	+22.3

YTD USD 'Mn	2024	2025	Change (%)
Trade Balance	-2,540.0	-3,270.1	
Earnings from Tourism	1,556.6	1,712.6	+10.0
Workers' Remittances	3,144.0	3,738.0	+18.9

Workers' Remittances increased to USD 635.7Mn in June 2025 (+22.3%YoY) while Earnings from Tourism rose to USD 169.5Mn (+12.2%YoY).



# TOURIST ARRIVALS – JULY 2025

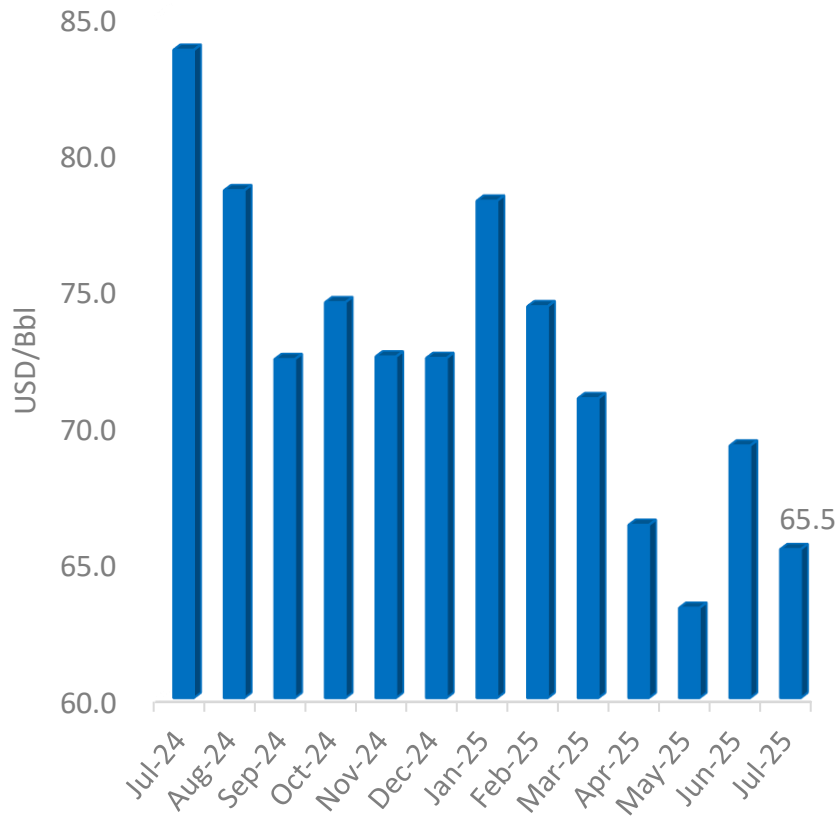
[ July 200,244 – UP +6.6%YoY ] [ MoM – UP +44.9% ]

The total number of arrivals for the month reached 200,244 registering a YoY uptick of +6.6% alongside a MoM surge of +44.9%. India which accounted for 18.5% of tourist arrivals remained the top source market in July 2025. This was followed by The United Kingdom which accounted for 11.7% of total arrivals and Netherlands which accounted for 7.8% of arrivals.

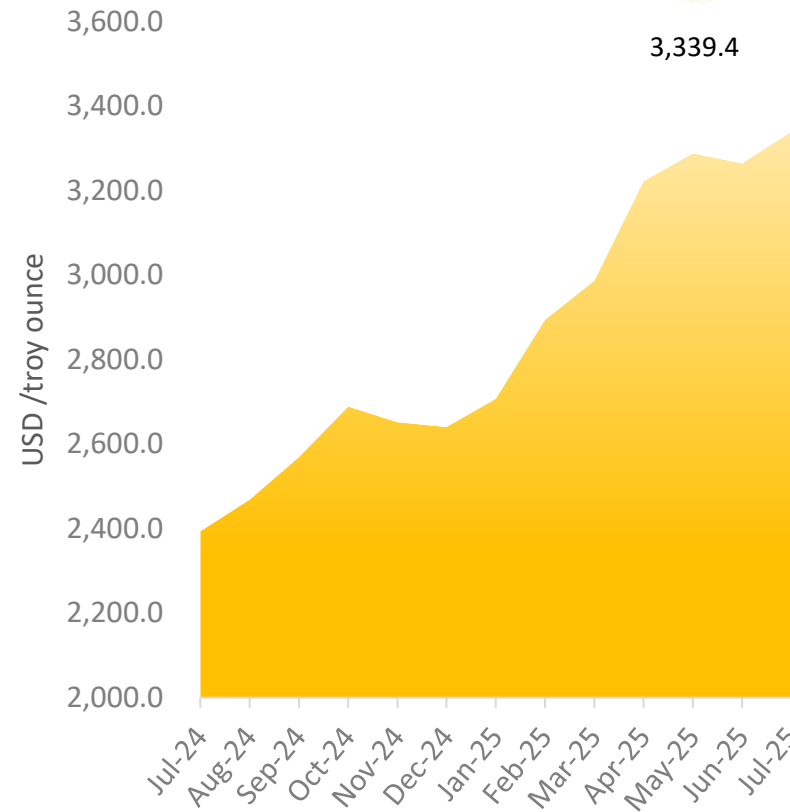


# COMMODITY PRICES –JULY 2025

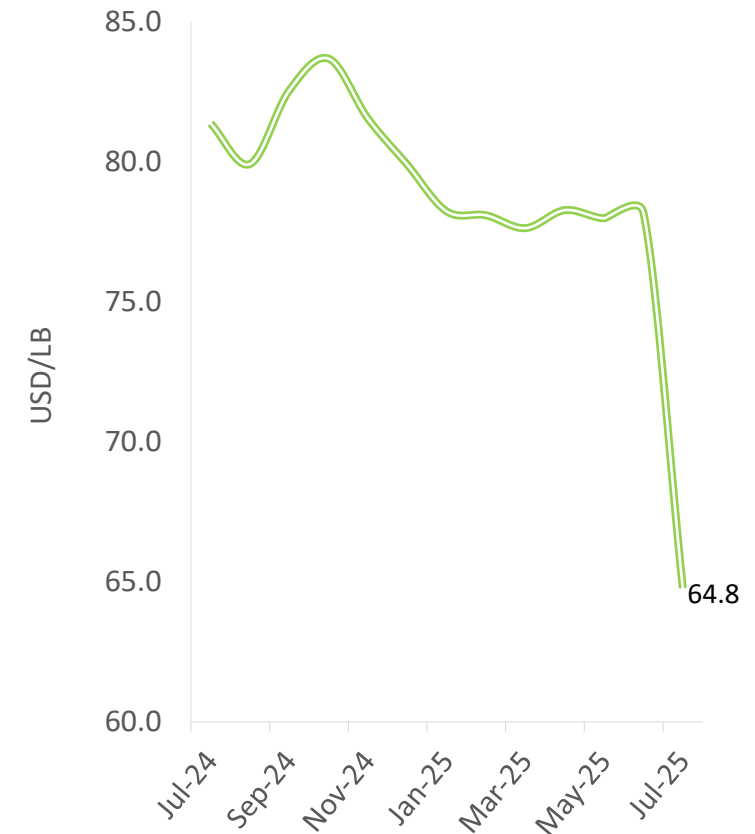
## Crude oil



## Gold



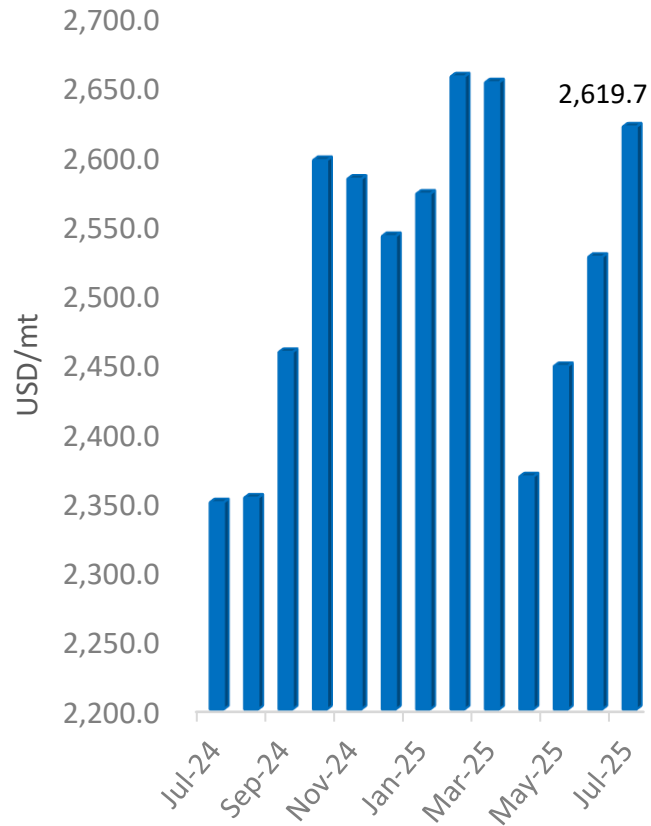
## Cotton



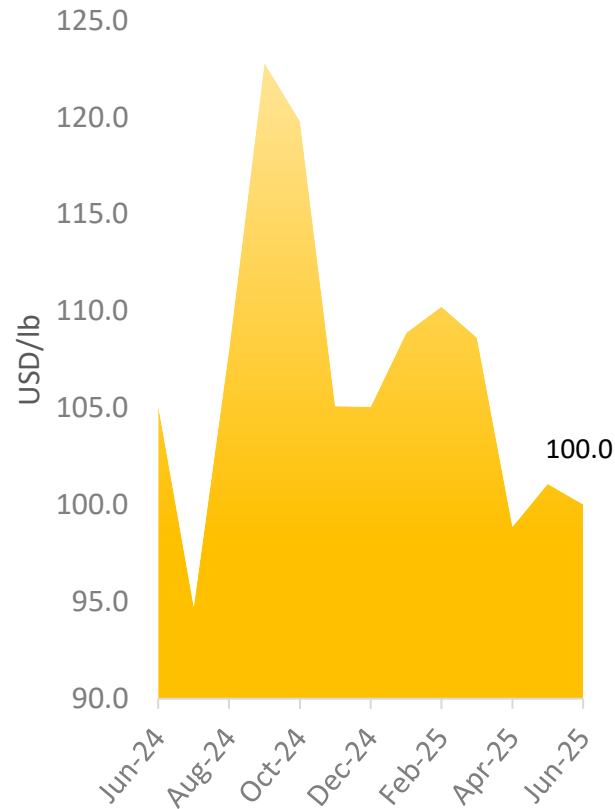
**Note:** crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

# COMMODITY PRICES –JULY 2025 CONT'D

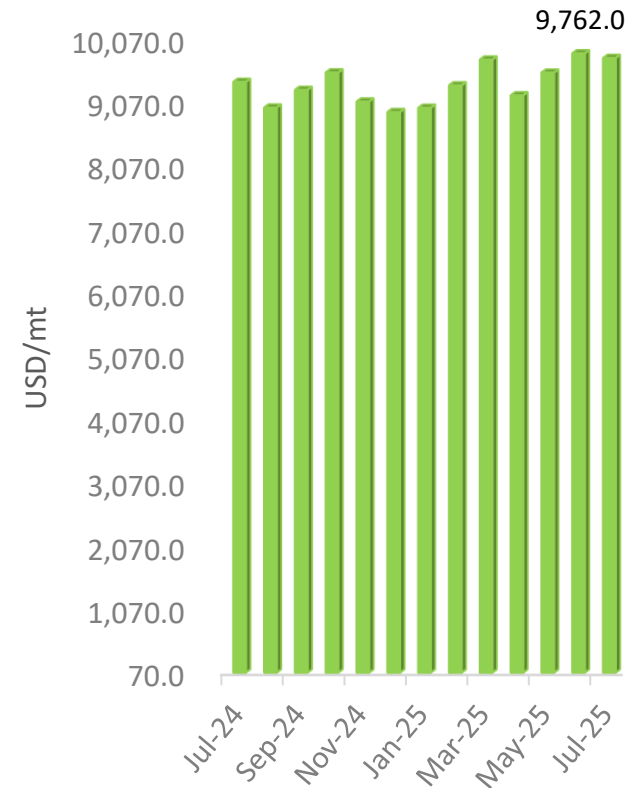
## Aluminum



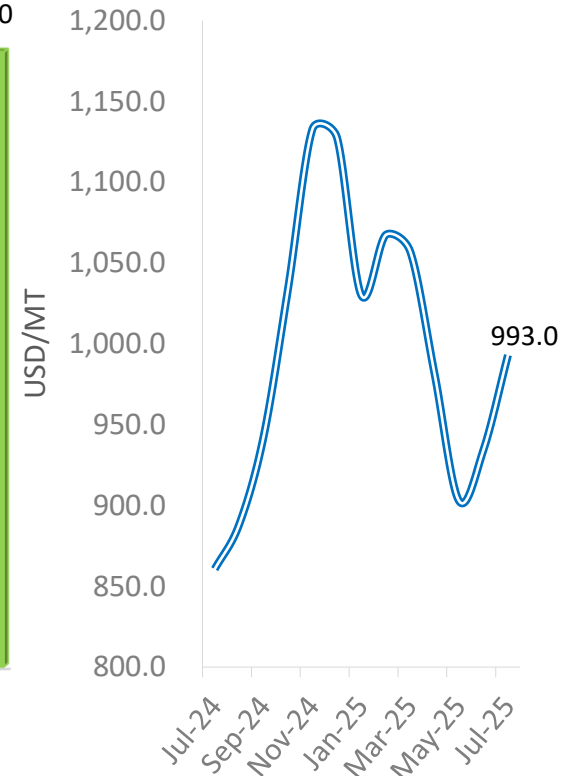
## Rubber



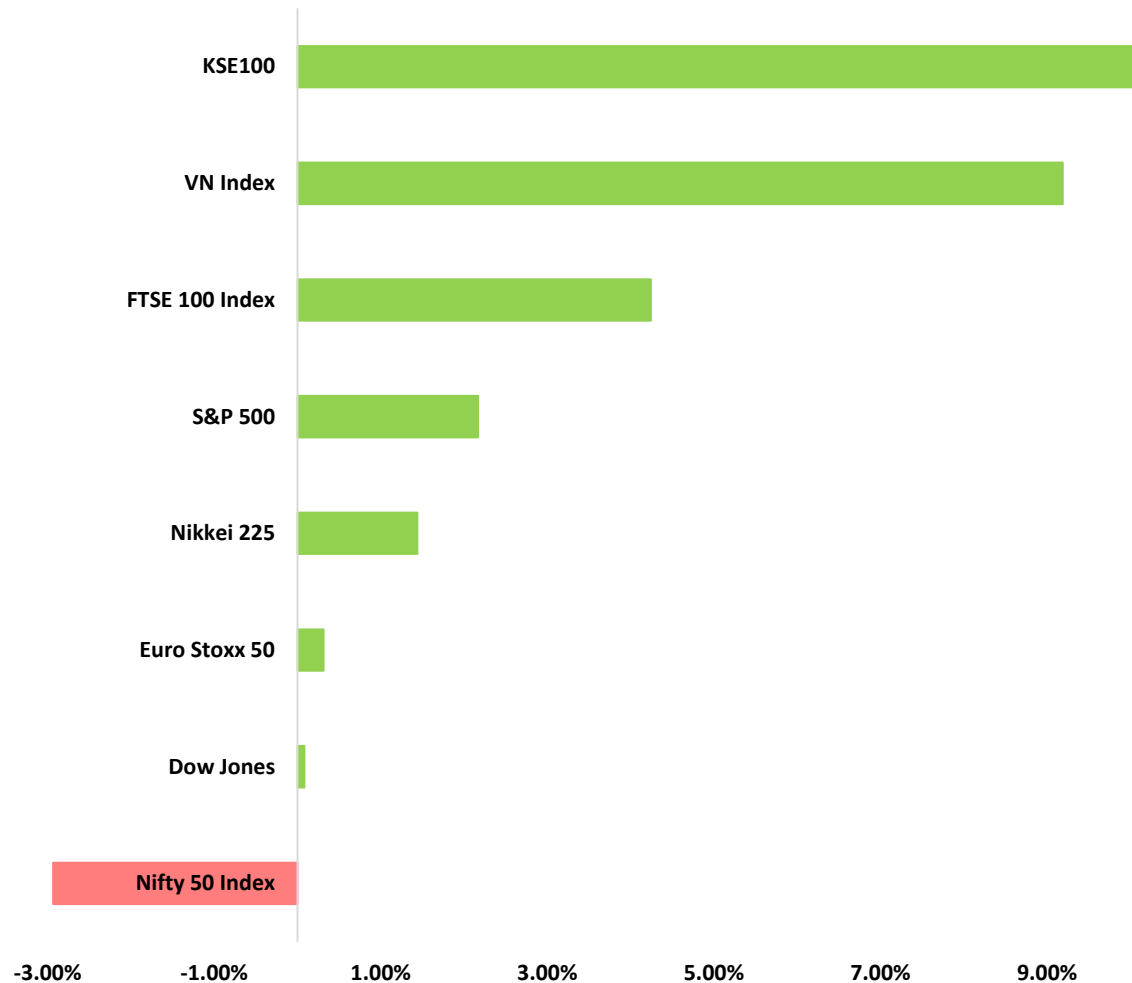
## Copper



## 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



### US inflation rises as tariffs drive up prices

US inflation jumped last month as President Donald Trump's tariffs took hold, pushing up prices for items from clothing to coffee. Consumer prices rose 2.7% in the year to June, up from 2.4% the previous month, with prices rising at the fastest pace since February, the Labor Department said. Higher energy and housing costs, such as rents, were the major drivers of the increase.



### China's July manufacturing activity contracts more than expected: declines for fourth-straight month

The Manufacturing Purchasing Managers' Index for July was 49.3, missing expectations for 49.7 according to a Reuters poll. China's official manufacturing PMI has been below the 50 mark, reflecting contraction rather than expansion, since April. Overall export figures are expected to remain stable for the next quarter, Johnson said, noting that some production will be shifted to other countries to take advantage of lower tariffs until China sets its duty rates with the U.S.

### UK employers report weaker hiring and pay growth in July

Hiring intentions by British businesses fell to their weakest since the COVID-19 pandemic and recruiters said starting pay was rising at the slowest pace in over four years, according to surveys on Monday which add to signs of a weakening jobs market. With the Bank of England watching the jobs market closely, the Chartered Institute of Personnel and Development said only 57% of private sector employers planned to recruit staff over the next three months, the lowest since the start of 2021 though only slightly down from 58% in the last quarterly survey.





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