



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Jan 2026

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CBSL PRESENTS THE POLICY AGENDA FOR 2026 AND BEYOND

- ❑ The Central Bank of Sri Lanka unfolded its Policy Agenda for 2026 and beyond, underlining the strategic direction towards price stability, financial system stability and sustainable economic growth.
- ❑ The CBSL expects the economy to grow by around 4%-5% in 2026, with possible growth in reconstruction activities resulting from the impact of cyclone.
- ❑ The external current account is projected to have registered a surplus for the third consecutive year, leading to more consistent market-determined exchange rates.
- ❑ In order to meet the country's reserve adequacy requirements, the CBSL will continue to build reserves through market purchases, while allowing exchange rate flexibility.
- ❑ To manage liquidity consistent with the monetary policy, the CBSL expects to ensure that short-term interest rates are aligned with the policy, supporting the inflation to stand around the CBSL's target of 5%.
- ❑ Measures to strengthen the financial system would include prioritizing on the Countercyclical Capital Buffer (CCyB) framework and reviewing the legal framework governing the NBFIs sector in 2026.
- ❑ Moreover, in accordance with the expanded scope of the Sustainable Finance Roadmap 2.0, the Sri Lanka Green Finance Taxonomy will be widened in 2026, to include the social dimensions of sustainable finance.

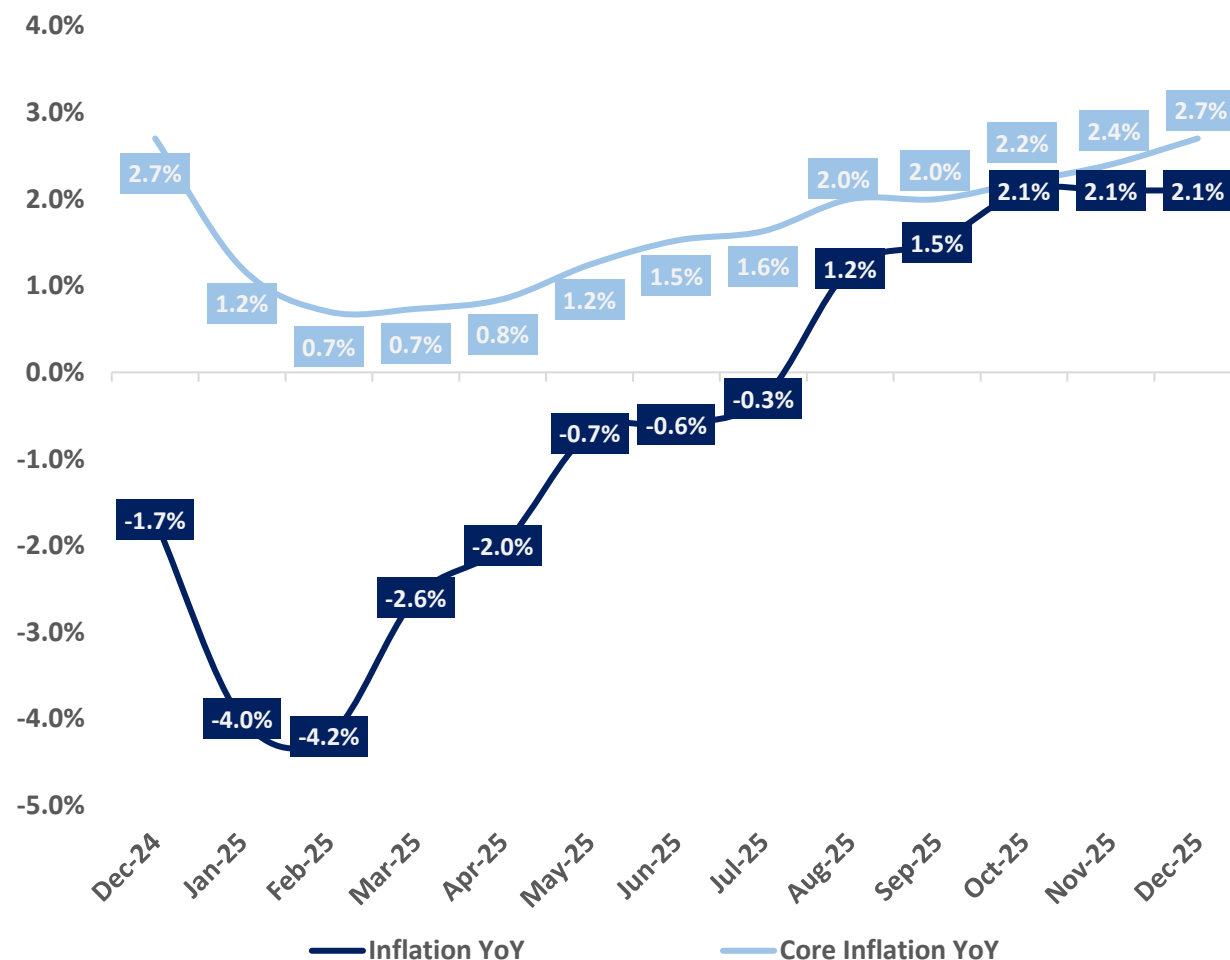
CCPI FOR DEC 2025:

MOM +1.2%

YOY +2.1%

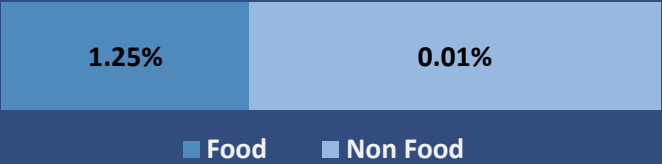
- MoM inflation for Dec 2025 stood at +1.2%, a bounce back to inflationary territory from the -0.2% level seen in the previous month. Food inflation increased to 3.9% compared to -0.6% in Nov 2025, while Non-Food inflation stayed at 0.0%, compared to -0.1% in Nov 2025.
- The YoY figure remained at +2.1% in Dec 2025, in line with the +2.1% level seen in Nov 2025. Food inflation remained flat at +3.0% compared to Nov 2025. Non-food inflation slightly increased to +1.8%, from 1.7% in the previous month.

Inflation – CCPI

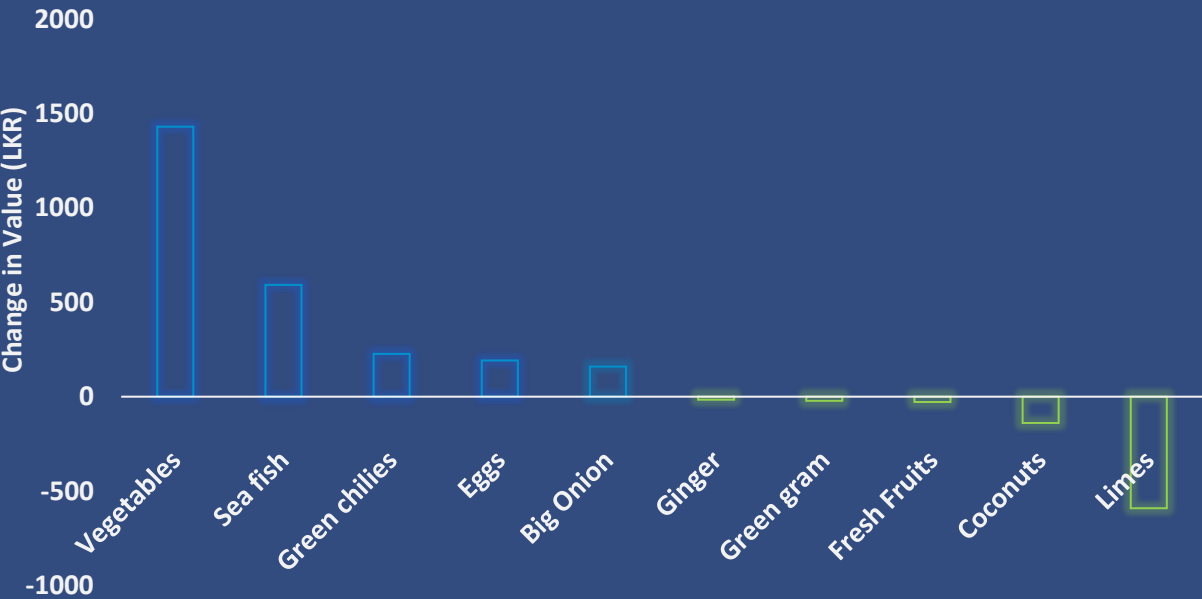


INFLATION ANALYSIS – CCPI-MOM

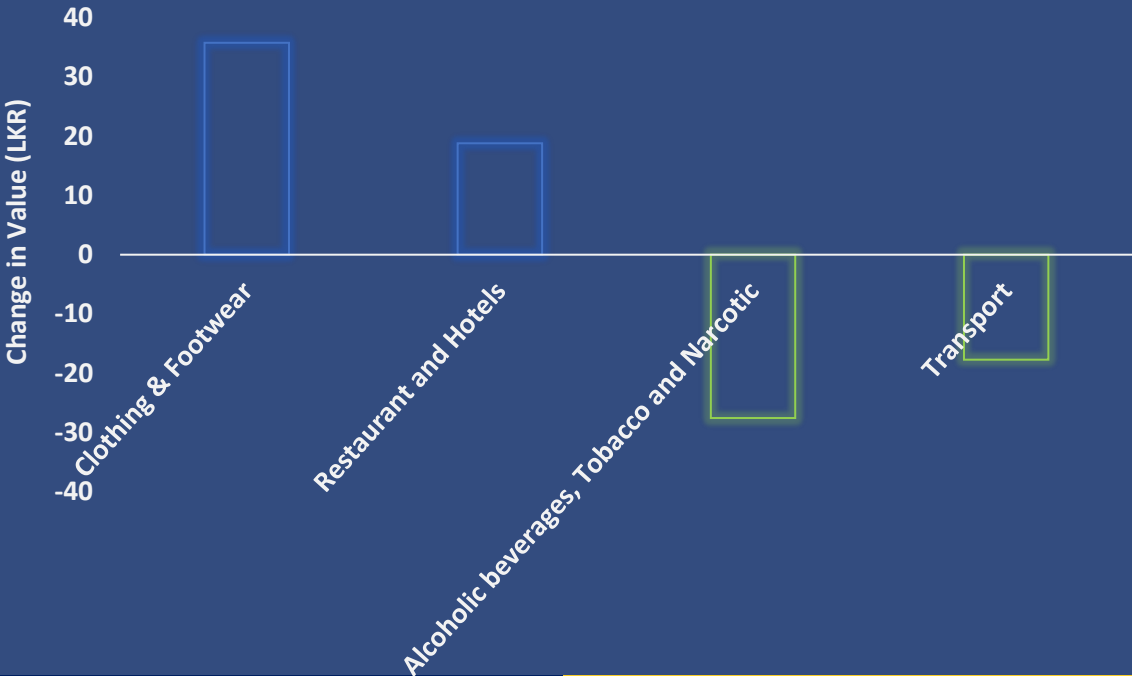
The CCPI Index for Dec 2025, increased by +1.3%MoM. The Food category contributed at a +1.25% rate. Vegetables, Sea Fish, Green chilies and Eggs showcased noteworthy price increases. However, on the flip side, Limes and Coconuts largely saw price decreases within the Food category. The Non-Food category contributed +0.01% due to the price increases in Clothing & Footwear and Restaurant and Hotels, owing to the festive season.



Food Category Inflation

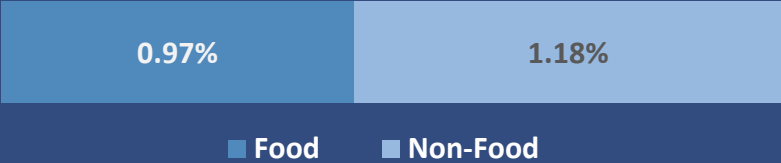


Non-Food Category Inflation

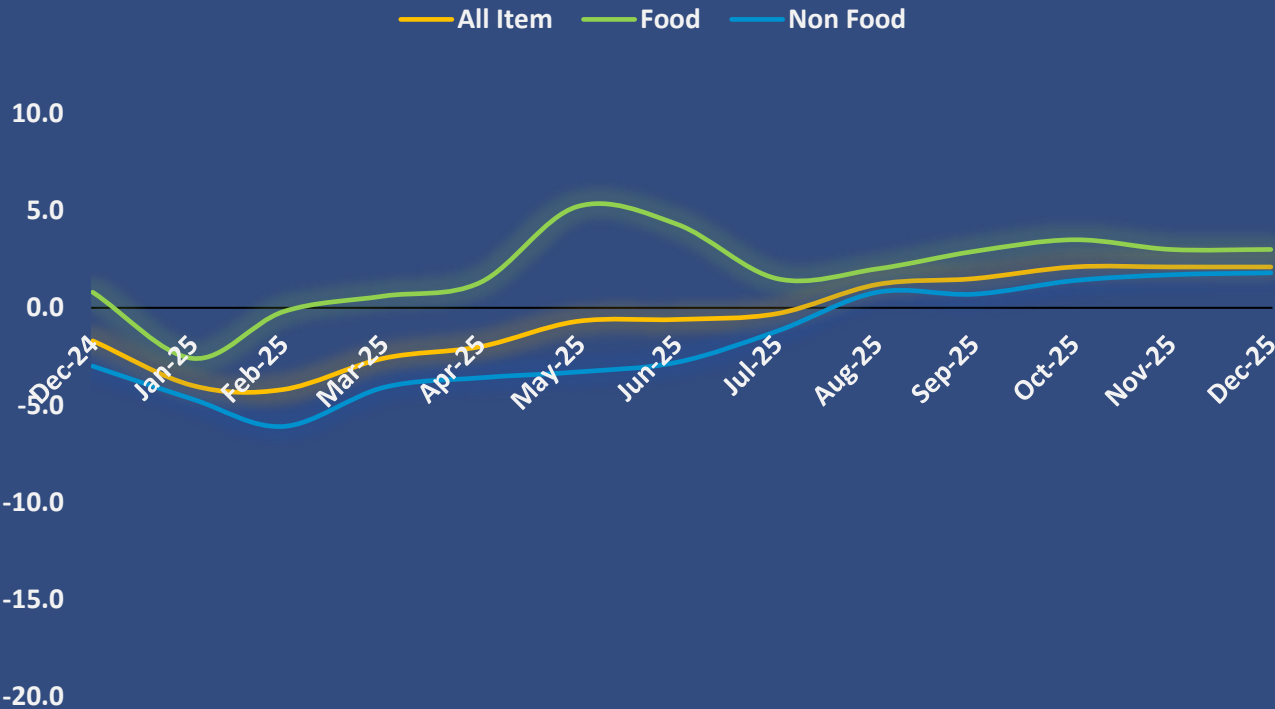


INFLATION ANALYSIS – CCPI-YOY

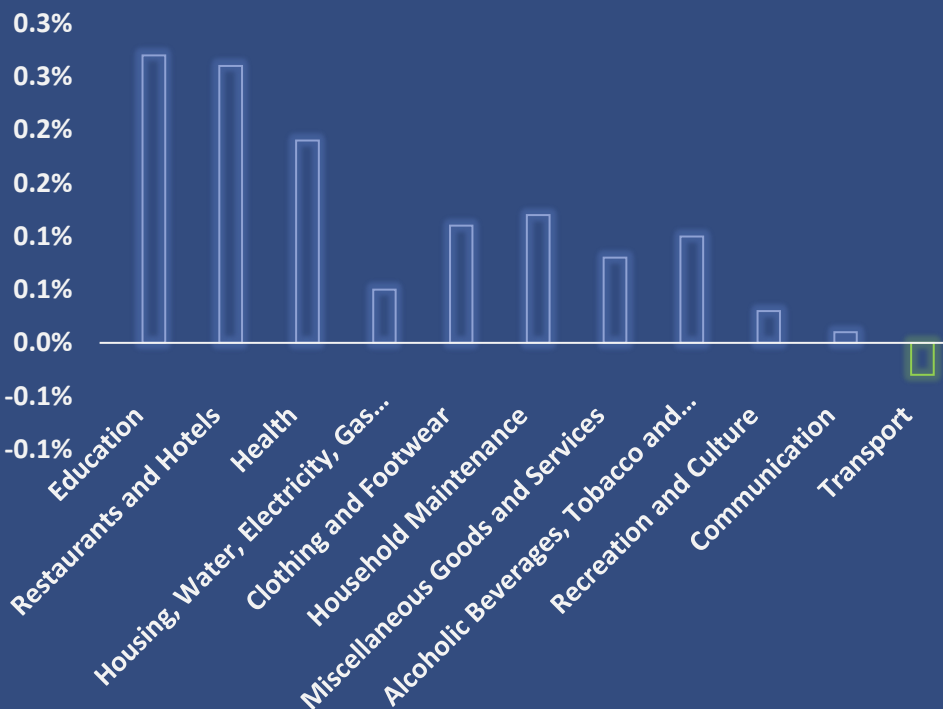
The YoY inflation of CCPI for Dec 2025 stood at +2.1%, which remained stagnant and in line with the Nov 2025 level. While YoY inflation of the Food group stood unchanged at +3.0% in Dec 2025 from the previous month, YoY inflation of the Non-Food category slightly increased to +1.8% in Dec from +1.7% in Nov 2025. The increase in Non-food group inflation was mainly due to price rises in Education, Restaurant and Hotels, Health, Household Maintenance and Clothing & Footwear.



Inflation Analysis (YoY)



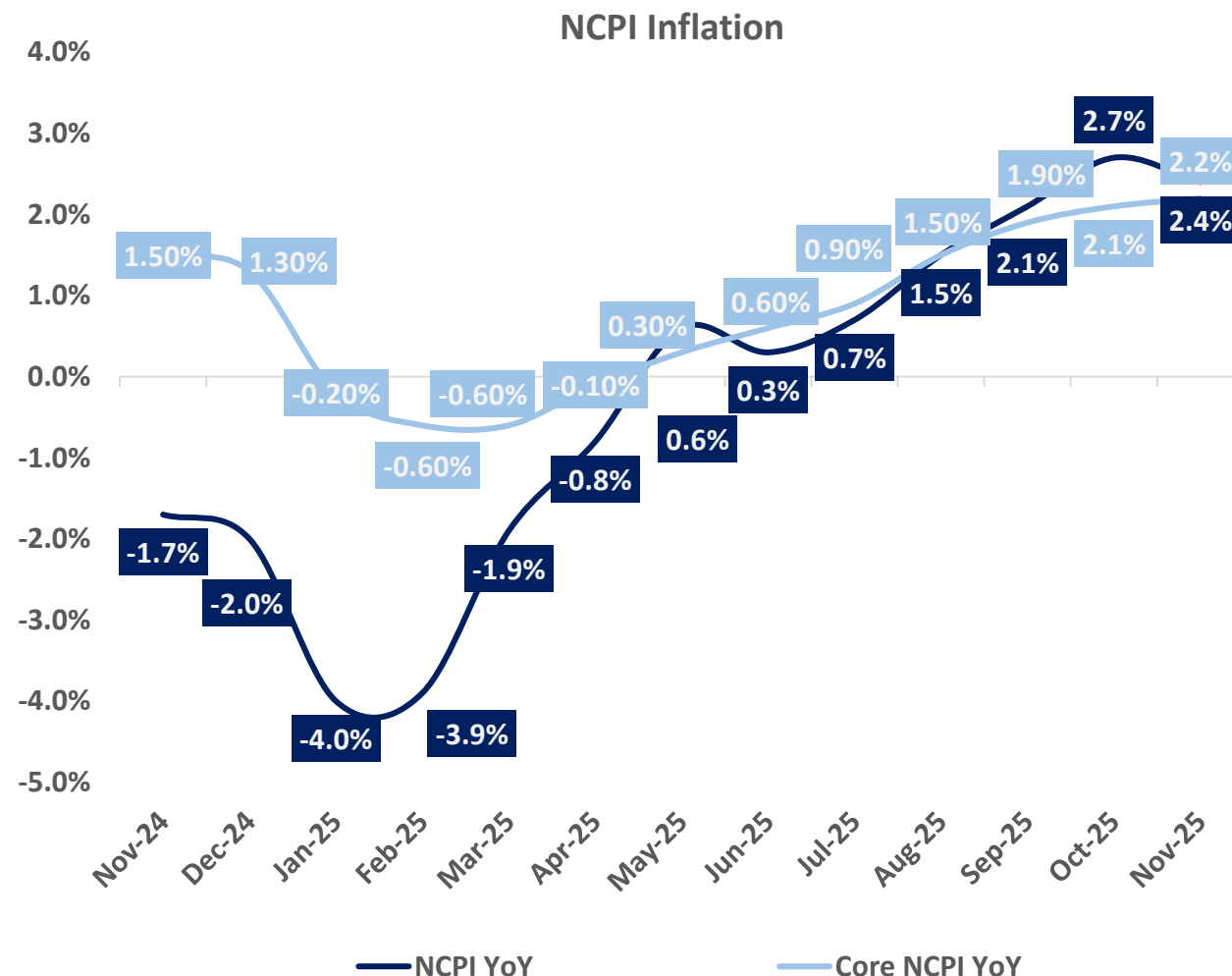
Non-Food Category Inflation



NCPI FOR NOV 2025: DECREASED TO +2.4% YOY

- NCPI for Nov 2025, decreased to +2.4% from +2.7% seen in Oct 2025.
- This trend was driven by a notable deflation in Food category. In Nov 2025, Food inflation decreased to +3.6% from +4.1% seen in the previous month. Meanwhile, the Non-food inflation stood unchanged at +1.5% from Oct 2025.

Inflation – NCPI

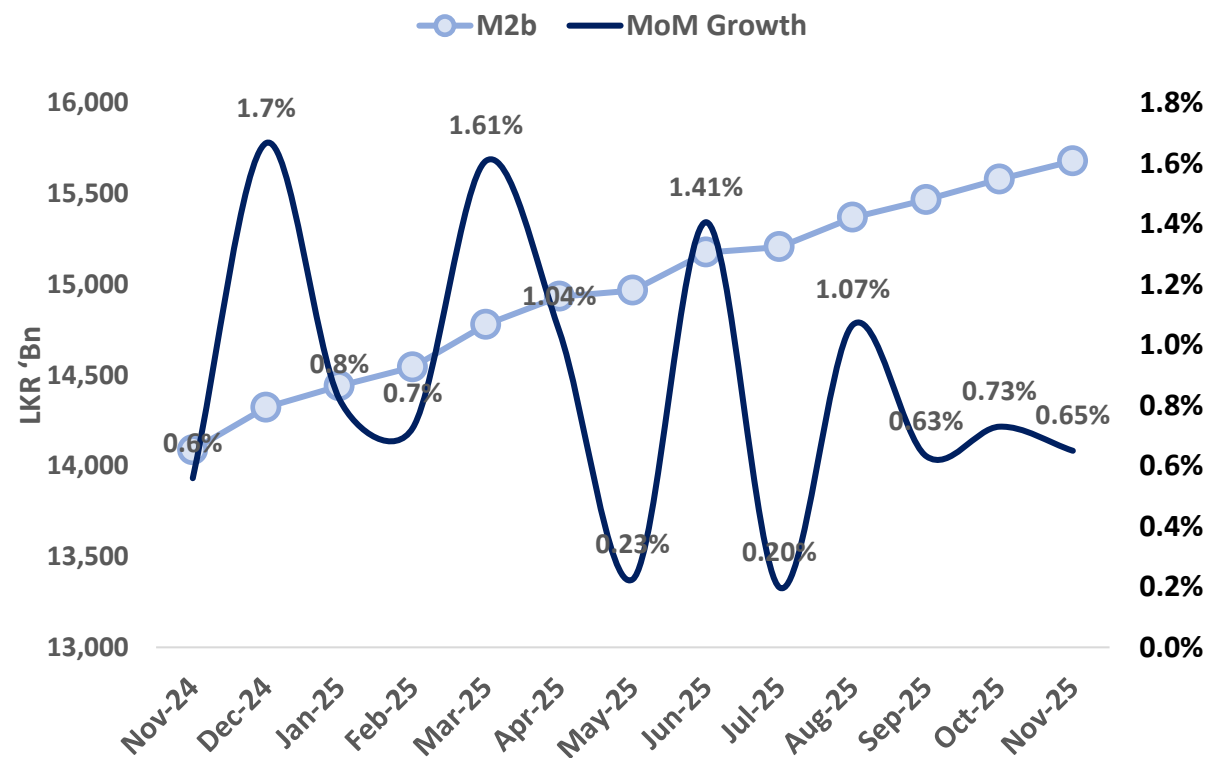


M2B AND CREDIT GROWTH

Private sector credit increased by LKR 262.6Bn in Nov 2025. In contrast, credit to the public sector declined by LKR 65.2Bn during the same month, similar to the trend observed in October.

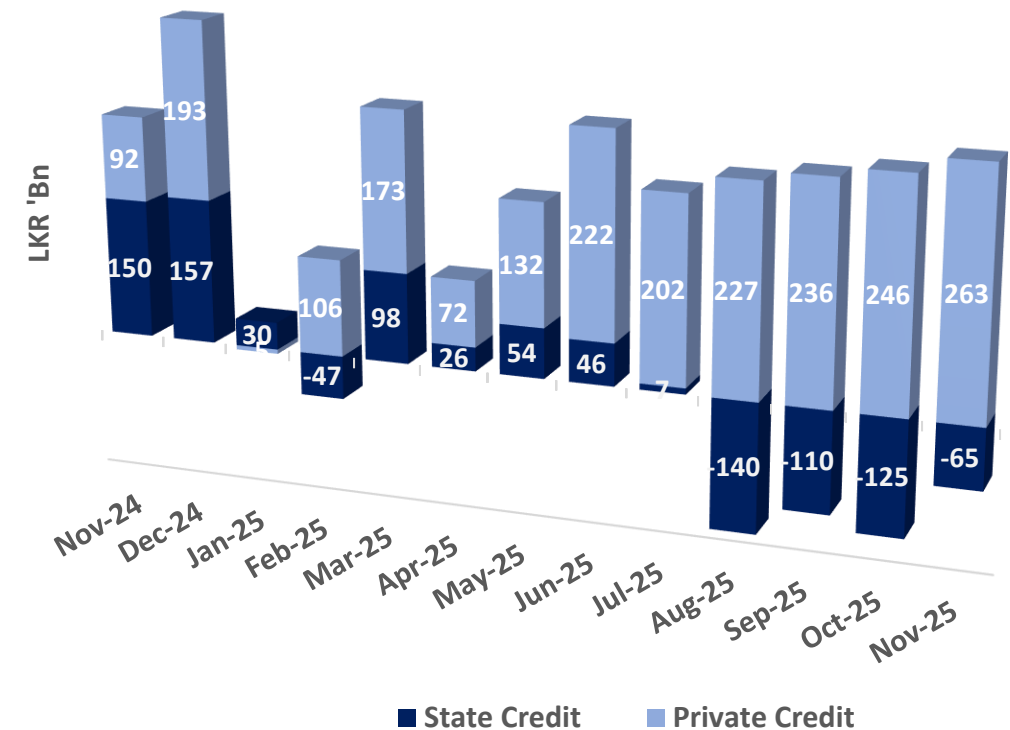
M2b Growth – Nov 2025

MoM +0.6%, YoY +11.3%, YTD +9.5%



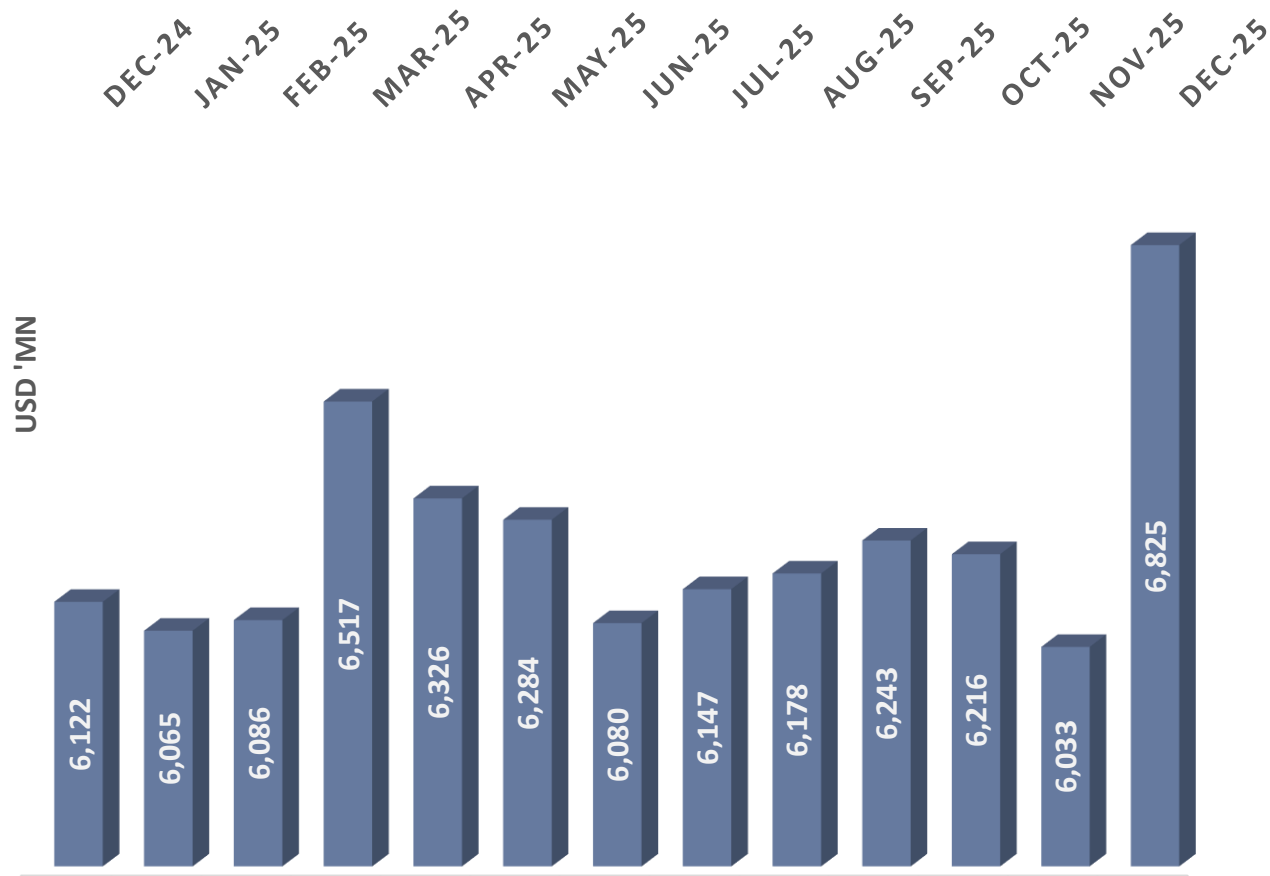
State Credit & Private Credit – Nov 2025

Private Credit MoM +2.7%, YoY +25.9%, YTD +22.9%

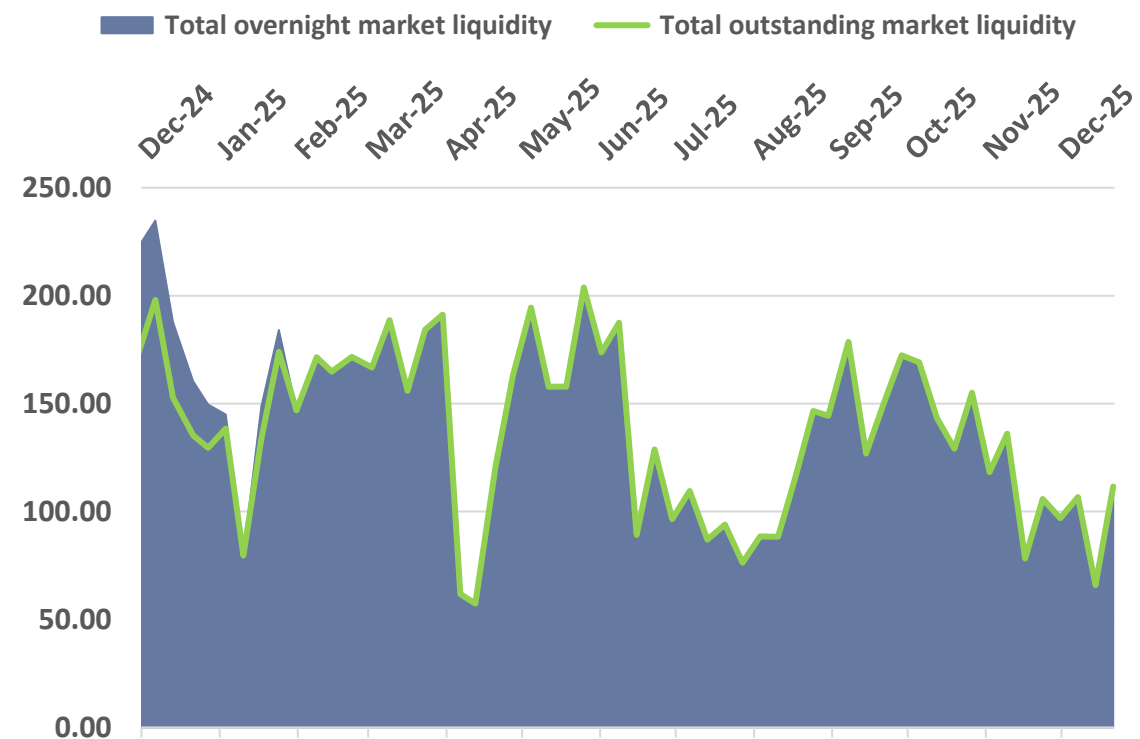


LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 792.0Mn to USD 6,825.0Mn in Dec 2025.



- Both overnight market liquidity and outstanding market liquidity increased in Dec 2025 relative to the previous month. By end-Dec, both overnight and market liquidity stood at LKR 111.7Bn.



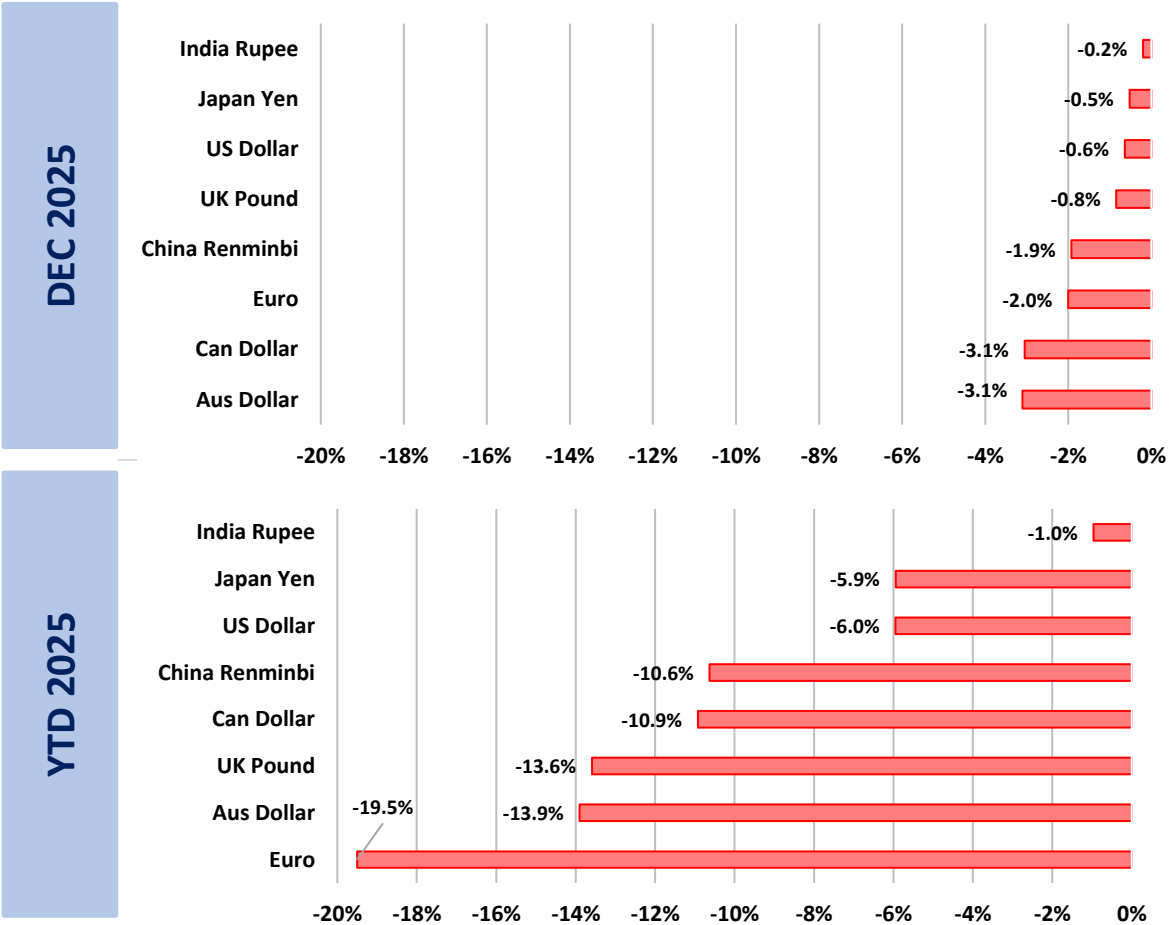
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

CURRENCY MOVEMENT

USD:LKR Movement



Sri Lankan Rupee vs Global Currencies



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Dec 2025

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
5-Dec-25	45,843	41,601	87,444
12-Dec-25	48,078	130,875	178,953
19-Dec-25	50,629		50,629
26-Dec-25	83,460		83,460
Total Issued			400,486

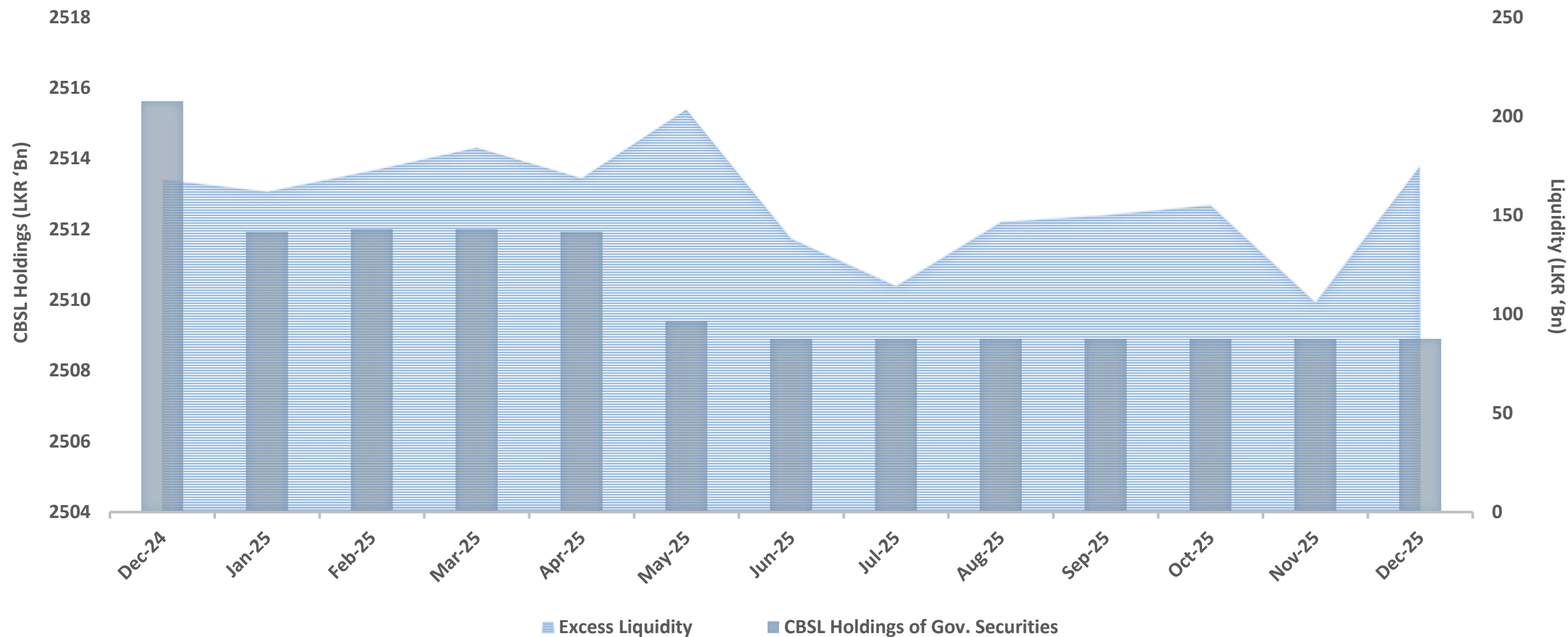
Net settlements for Dec 2025

Net Settlement	Dec 2025	YTD
Maturities	454,650	6,359,612
Coupon Payment	191,580	1,692,924
New Issues	400,486	7,349,642
Excess/ (Deficit)	(245,744)	(702,894)

CBSL Holdings of Gov. Securities		YTD
As at End Dec 2025	2,508,900	
As at End Nov 2025	2,508,900	
Increase/ (Decrease)	-	-7,100

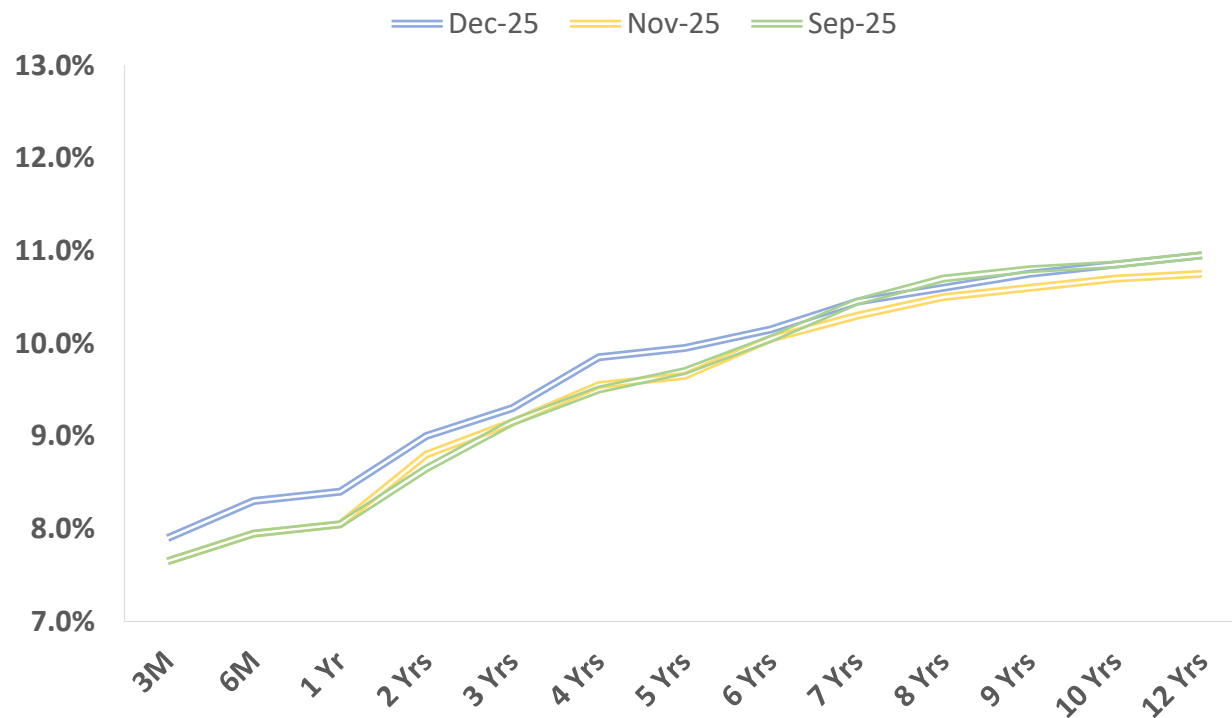
CBSL HOLDINGS OF GOV. SECURITIES...

...remained unchanged in Dec 2025



TREASURY BILLS AND BONDS – DEC 2025

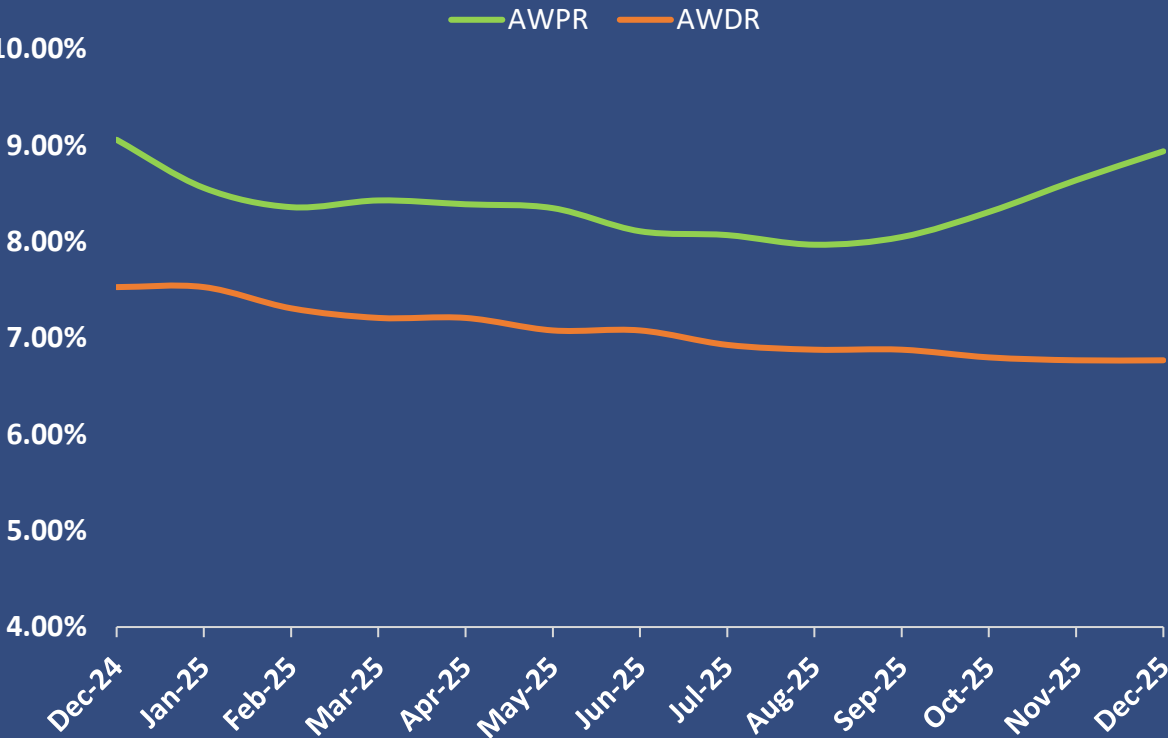
The government securities market remained mixed and cautious throughout Dec-2025, with intermittent buying interest and moderate selling pressure. The month began on a subdued note, with investors adapting a wait-and-see approach due to adverse weather conditions prevailed during early weeks. At the T-Bill auction on 02-Dec-2025, PDMO cautiously raised LKR 15.8Bn against an offer of LKR 48.0Bn, with 3-M maturity yield inching down by 1bps to 7.51%. Cautious sentiment continued in the second week, amidst brief upticks in buying interest, followed by foreign participation. However, activity became muted ahead of the scheduled bond auction. At the T-Bill auction on 10-Dec-2025, acceptances totaled LKR 48.0Bn, in line with the initial offer, with yields holding steady. Mid-month, market activity alternated between dull phases and intermittent buying, registering a mixed tone. At the T-Bond auction on 11-Dec-2025, PDMO raised LKR 120.0Bn, against an offer of LKR143.0Bn, through the 2030, 2032 and 2035 maturities. At the T-Bill auction on 17-Dec-2025, PDMO raised LKR 40.6Bn against an offer of LKR 48.0Bn, with yields remaining unchanged. As the month progressed, mixed sentiment evolved, with the yield curve slightly edging up, followed by mild selling pressure in the belly end. At the T-Bill auction on 23-Dec-2025, PDMO raised LKR 82.5Bn against an offer of LKR 150.0Bn, increasing yields across all the maturities, with a notable 16bps rise in 12-M T-bill. The final week largely saw selling pressure in the market. At the T-Bond auction on 30-Dec-2025, PDMO raised LKR 43.2Bn, below the offer of LKR55.0Bn, through the 2030 and 2037 maturities. At the T-Bill auction on 31-Dec-2025, a total of LKR 57.4Bn was raised against an offer of LKR 120.0Bn, rising yields across all maturities. Overall, the yields moved up towards the latter part of December, caused by the widening of budget deficit by 1.4% due to higher expenses on Ditwah, volatility in liquidity and inching up of rates at the government securities auction.



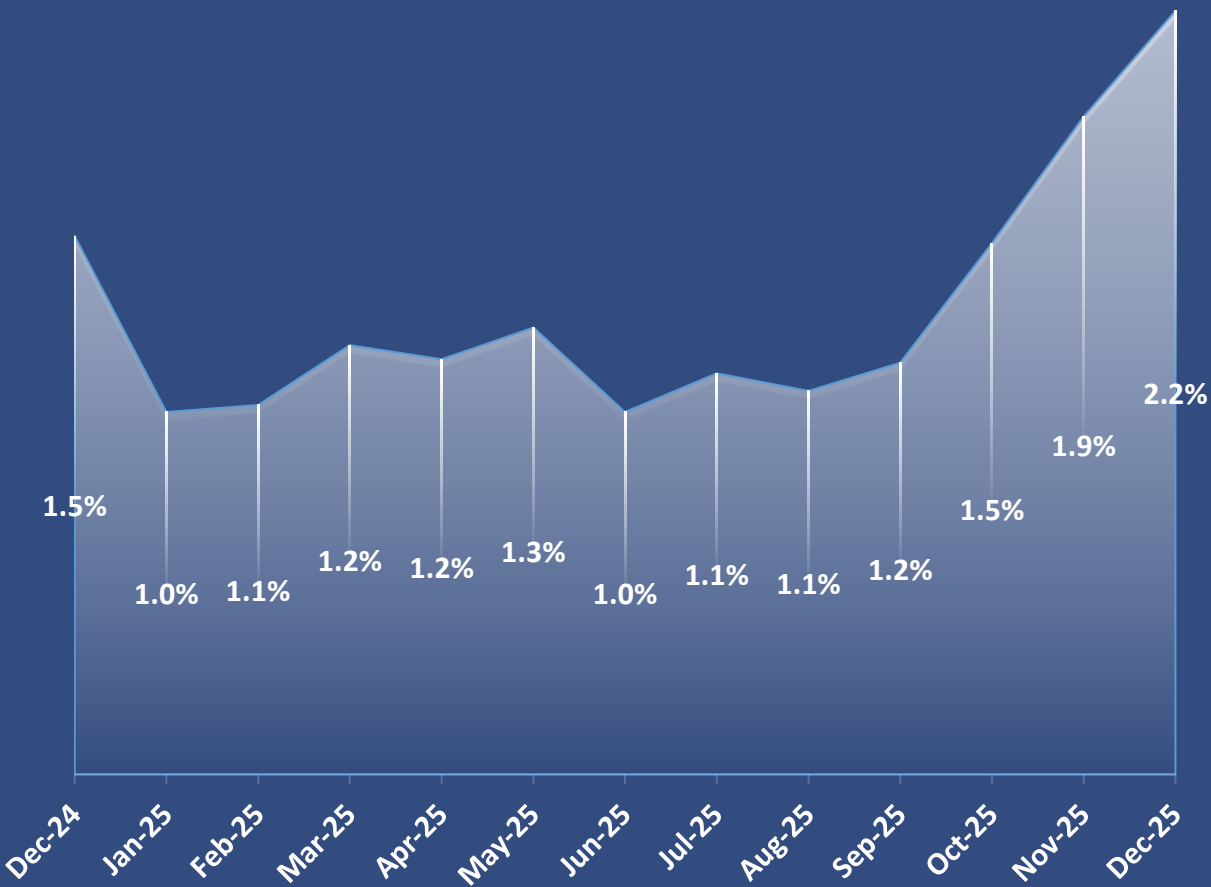
Interest Rate Change (bps)

Tenure	Dec 2025	Nov 2025	Change (bps)	Sep 2025	Change (bps)
3M	7.90%	7.65%	+25	7.65%	+25
6M	8.30%	7.95%	+35	7.95%	+35
1 Yr	8.40%	8.05%	+35	8.05%	+35
2 Yrs	9.00%	8.80%	+20	8.65%	+35
3 Yrs	9.30%	9.15%	+15	9.15%	+15
4 Yrs	9.85%	9.55%	+30	9.50%	+35
5 Yrs	9.95%	9.65%	+30	9.70%	+25
6 Yrs	10.15%	10.05%	+10	10.05%	+10
7 Yrs	10.45%	10.30%	+15	10.45%	0
8 Yrs	10.60%	10.50%	+10	10.70%	-10
9 Yrs	10.75%	10.60%	+15	10.80%	-5
10 Yrs	10.85%	10.70%	+15	10.85%	0
12 Yrs	10.95%	10.75%	+20	10.95%	0
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

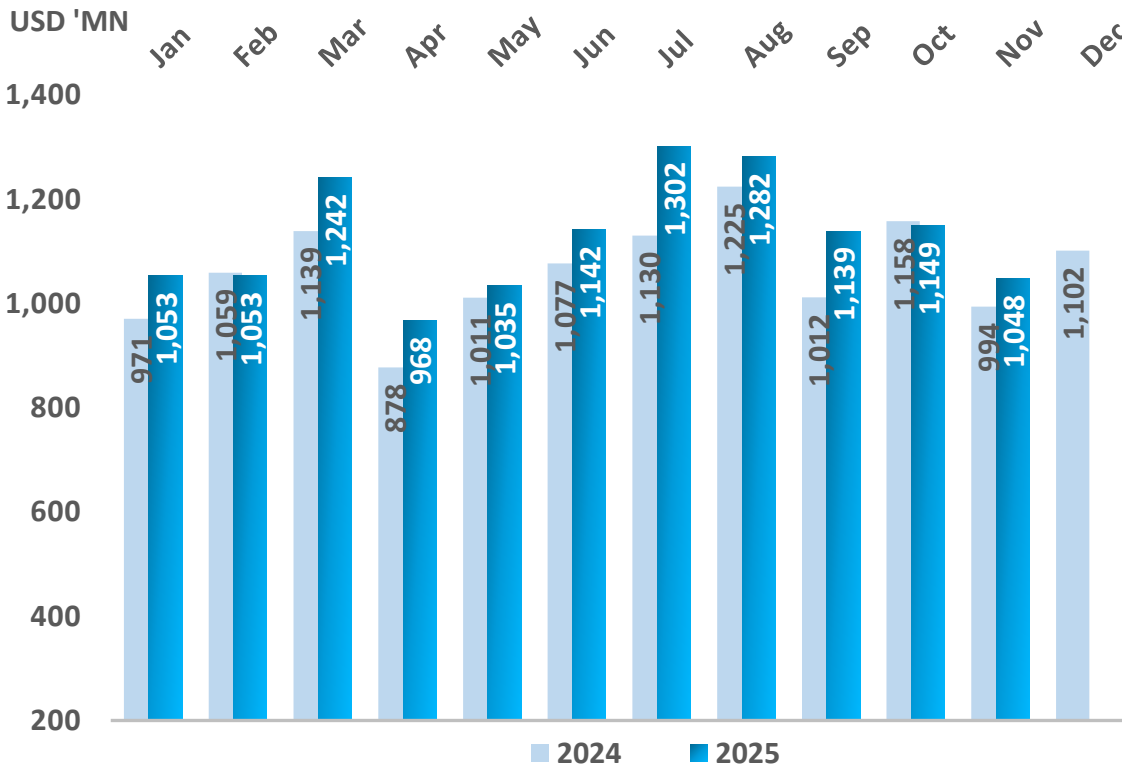


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR - NOV 2025 - EXPORTS

In Nov 2025, Exports registered a YoY rise of 5.4%, driven primarily by increases in Industrial Exports and Agricultural exports followed by a minor reduction in Mineral & other exports. The 5.7%YoY increase that was seen in Industrial Exports was driven by an improvement in Machinery and mechanical appliances, Food, Beverage & Tobacco and Petroleum products. However, this was partially offset by a decrease in Gems, diamonds and jewellery. In the Agricultural exports category, Coconut and Seafood exports recorded a YoY increase. Furthermore, Mineral & other exports also recorded a 12.1% drop, despite the boost in overall exports.

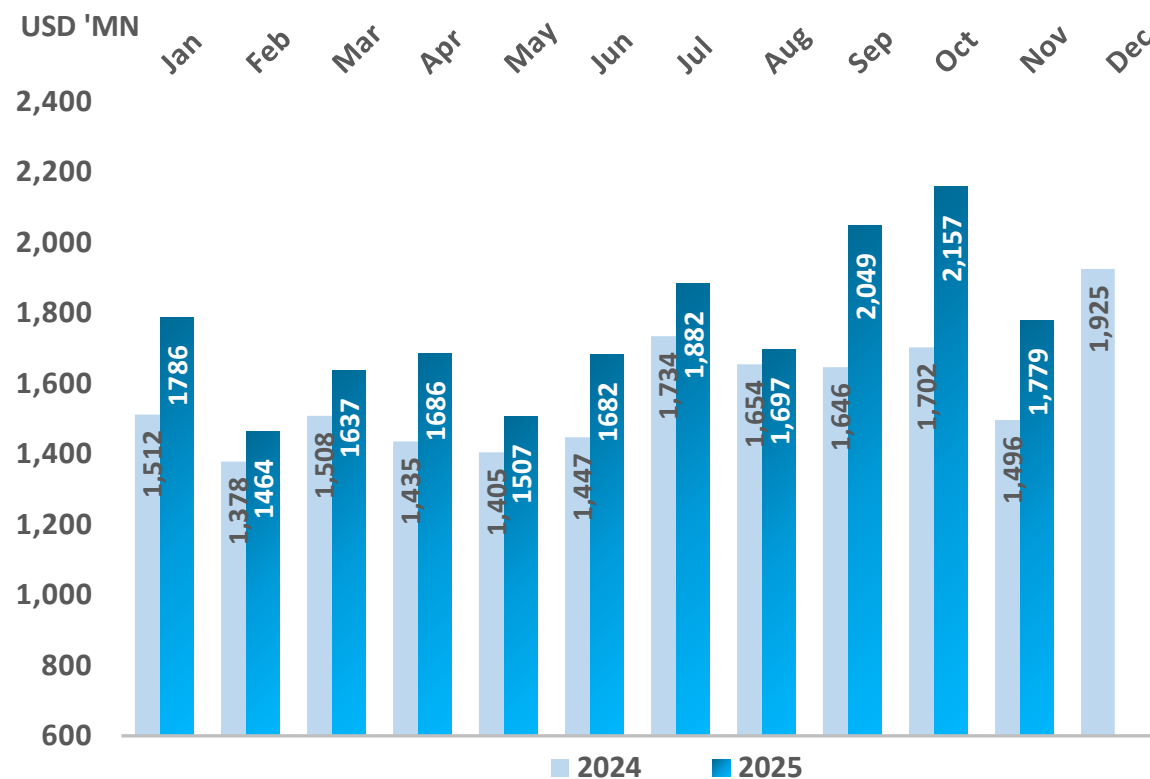
Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Industrial Exports			
- Nov	762.9	806.5	5.7
- YTD	9,105.3	9,542.2	4.8
Agricultural			
- Nov	228.0	238.5	4.6
- YTD	2,517.9	2,826.5	12.3
Mineral and other Exports			
- Nov	3.3	2.9	-12.1
- YTD	46.9	44.0	-6.2
Total			
- Nov	994.1	1,047.8	5.4
- YTD	11,670.2	12,412.8	6.4



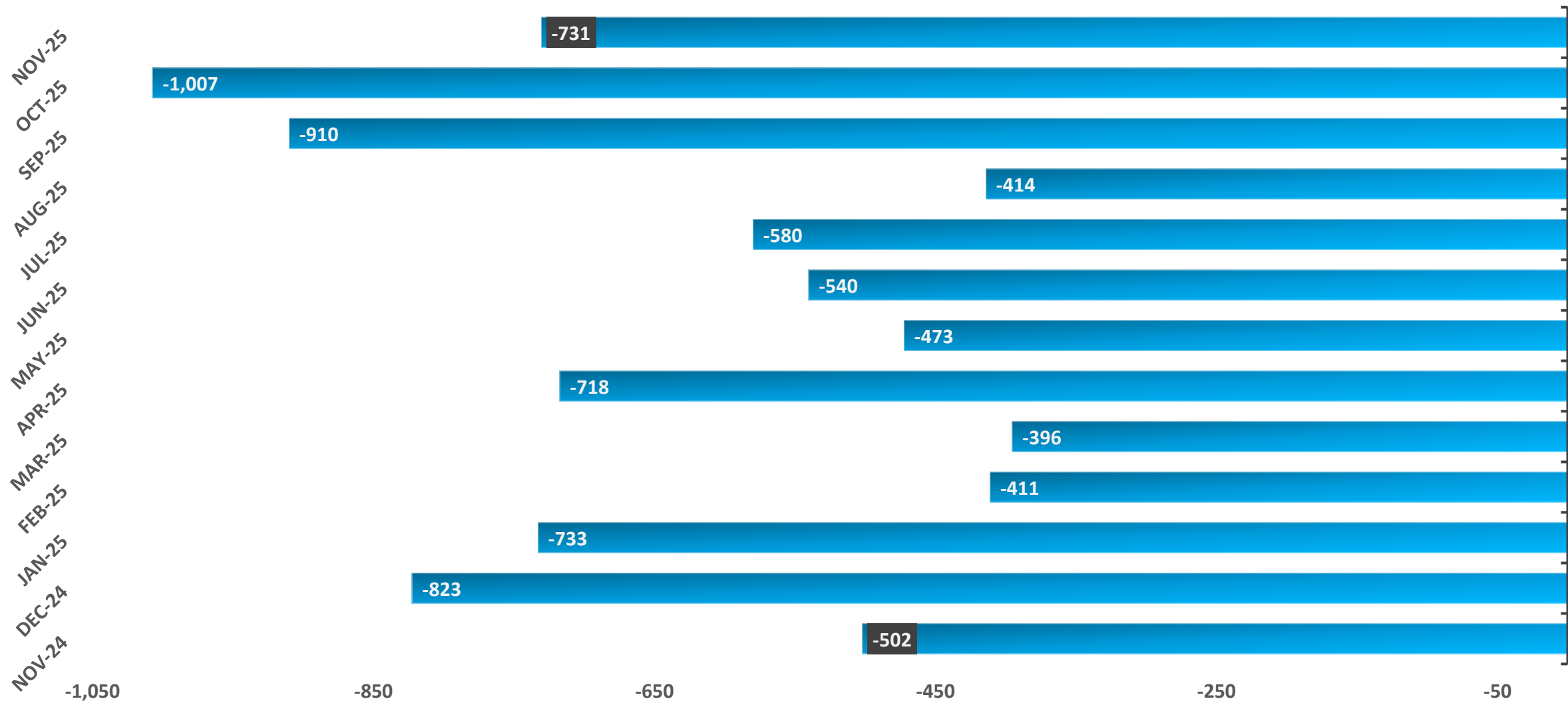
EXTERNAL SECTOR - NOV 2025 - IMPORTS

In Nov 2025, Imports registered a YoY increment of 18.9%, with all sub-categories experiencing an increment. Consumer goods marked a YoY uptick of 63.2% driven predominantly by higher levels of Non-Food Consumer goods and Rice. Investment goods also registered a YoY increase of 18.6%, despite a marginal decline of 0.1% in Machinery and equipment. Finally, the Intermediate goods segment increased by 3.5%YoY in Nov 2025. Fertiliser segment dominated this trend, followed by Fuel.

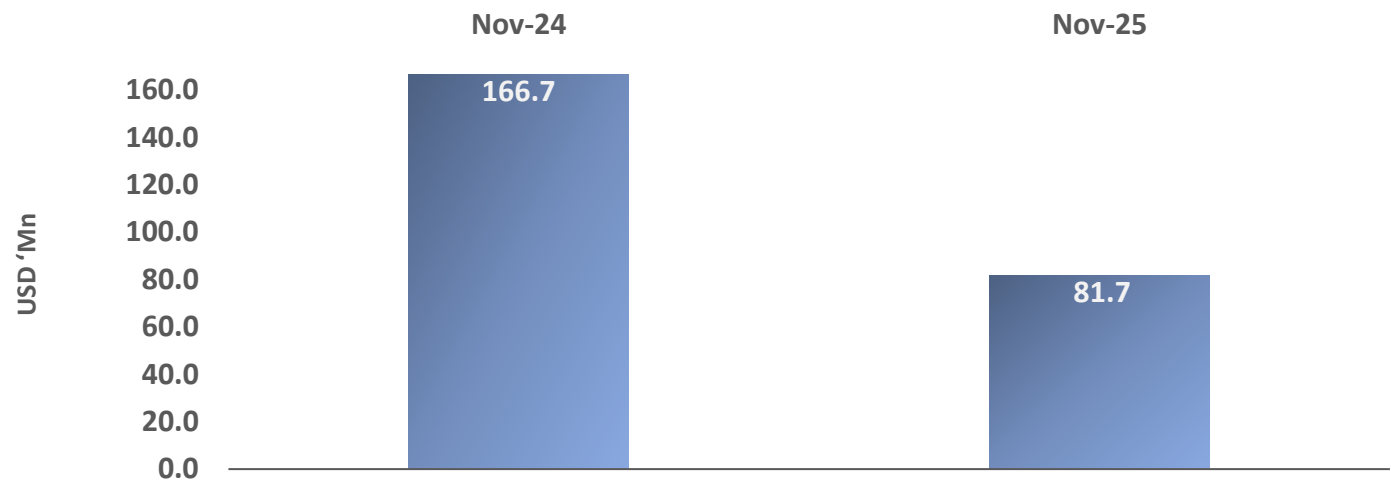
Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Consumer goods			
- Nov	319.6	521.7	63.2
- YTD	3,068.1	4,908.0	60.0
Intermediate			
- Nov	920.1	952.3	3.5
- YTD	10,789.7	10,730.9	-0.5
Investment goods and other			
- Nov	256.6	304.4	18.6
- YTD	3,059.2	3,685.8	20.5
Total			
- Nov	1,496.3	1,778.5	18.9
- YTD	16,916.9	19,324.7	14.2



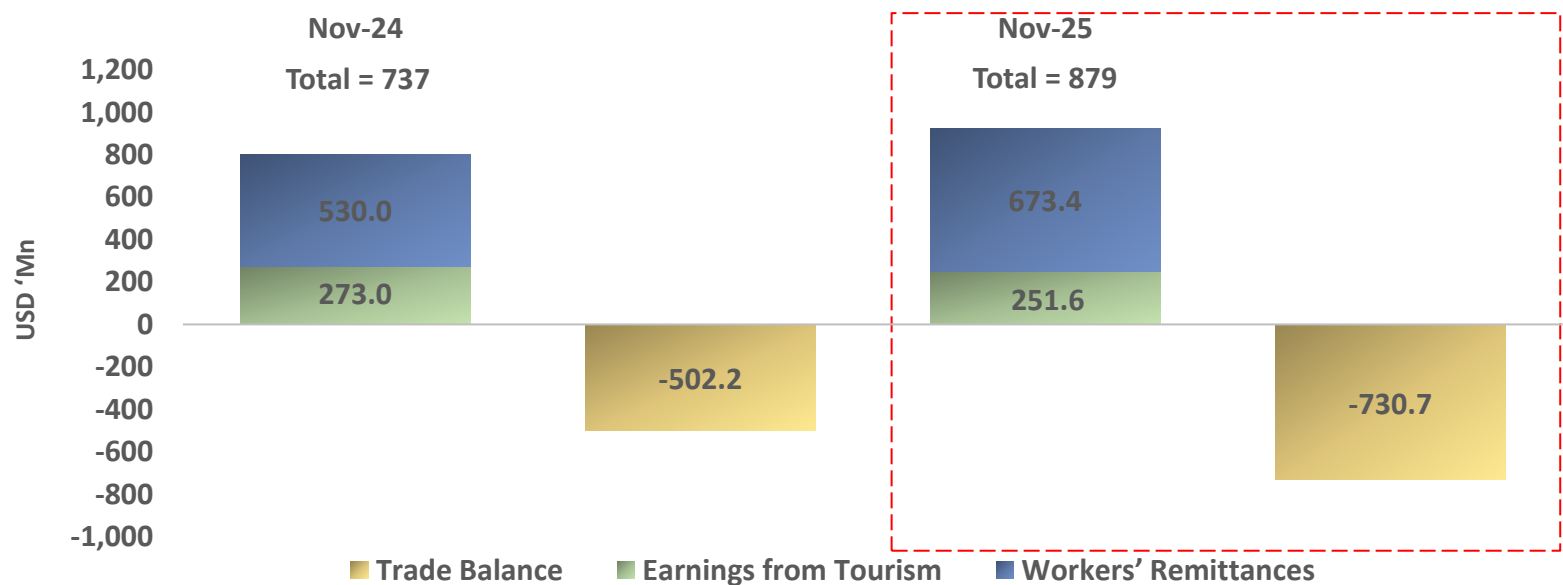
Balance of Trade



The Current Account Balance for Nov 2025 recorded a reduction in surplus compared to Nov 2024, registering a downtick of 51.0%.



Workers' Remittances increased to USD 673.4Mn in Nov 2025 (+27.0%YoY) while Earnings from Tourism declined to USD 251.6Mn (-7.7%YoY).



CURRENT ACCOUNT BALANCE SHRANK YOY IN NOV 2025

Nov USD 'Mn	2024	2025	Change (%)
Trade Balance	-502.2	-730.7	
Earnings from Tourism	273.0	251.6	-7.7
Workers' Remittances	530.0	673.4	+27.0

YTD USD 'Mn	2024	2025	Change (%)
Trade Balance	-5,246.7	-6,912.0	
Earnings from Tourism	2,807.0	2,911.0	+3.7
Workers' Remittances	5,962.0	7,197.0	+20.7

TOURIST ARRIVALS - DEC 2025

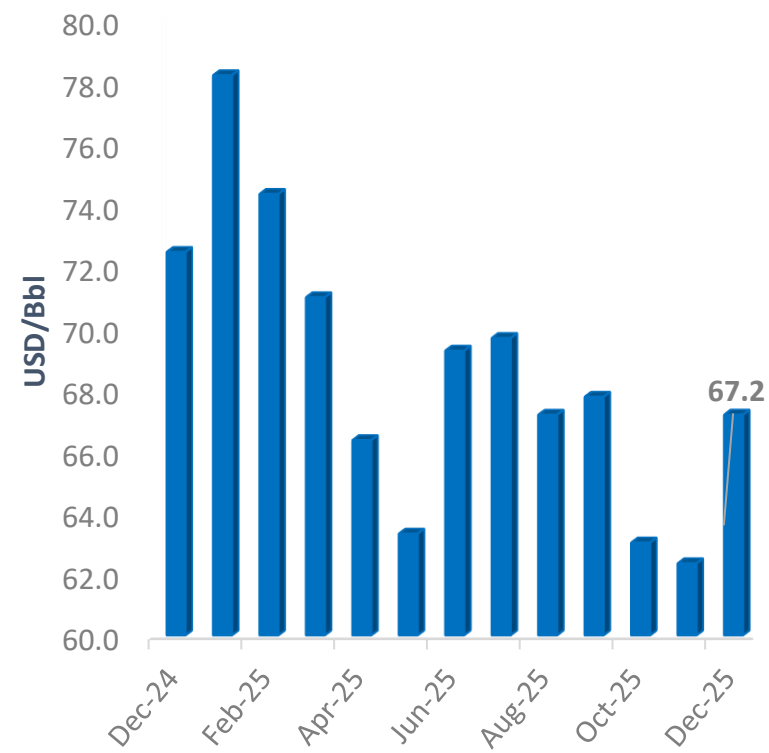
[Dec 258,928 - UP +4.2%YoY] [MoM - UP +21.6%]

The total number of arrivals for the month reached 258,928 registering a YoY uptick of 4.2% alongside a MoM increment of +21.6%. India which accounted for 22.0% of tourist arrivals remained the top source market in Dec 2025. This was followed by The Russian Federation which accounted for 11.0% of total arrivals and the United Kingdom which accounted for 8.0% of arrivals. Moreover, 2025 marked the highest number of tourist arrivals with a total of 2,362,521, surpassing the previous highest number of 2,333,796 in 2018.

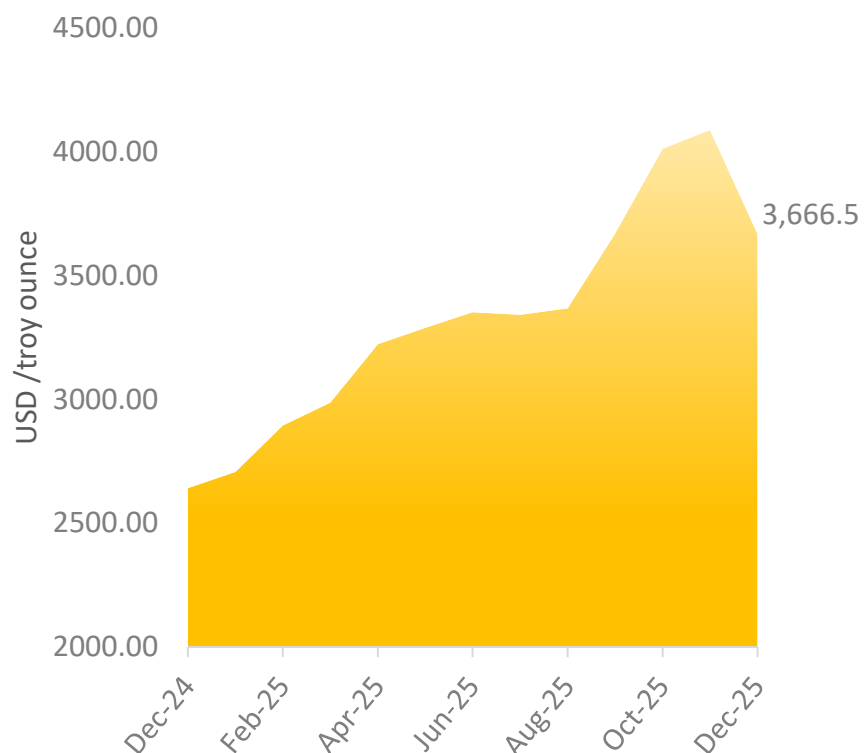


COMMODITY PRICES - DEC 2025

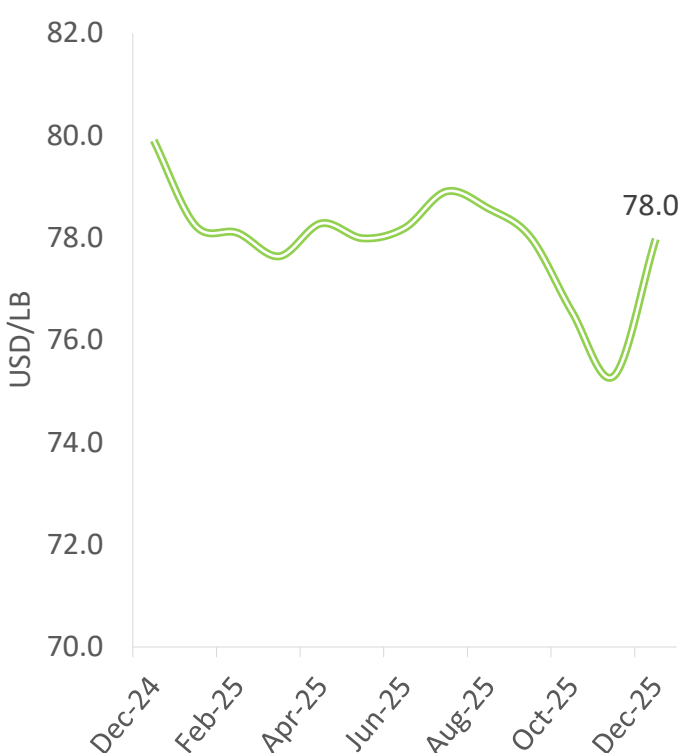
Crude oil



Gold



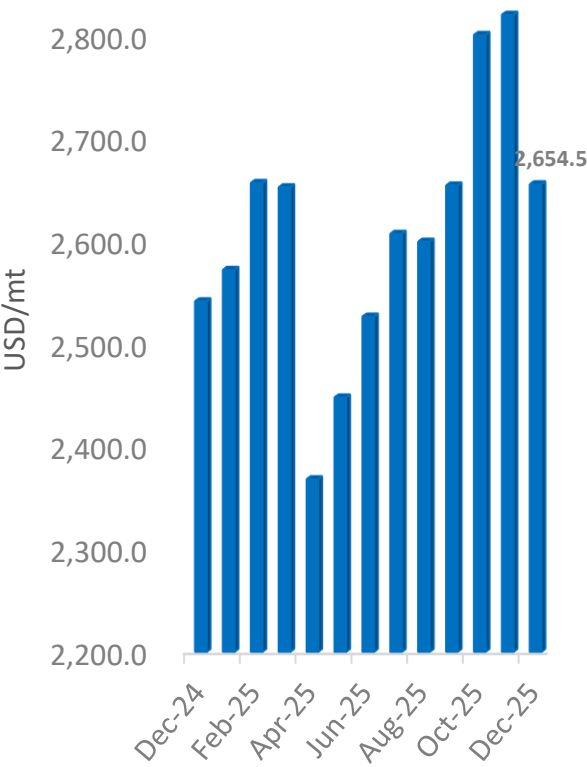
Cotton



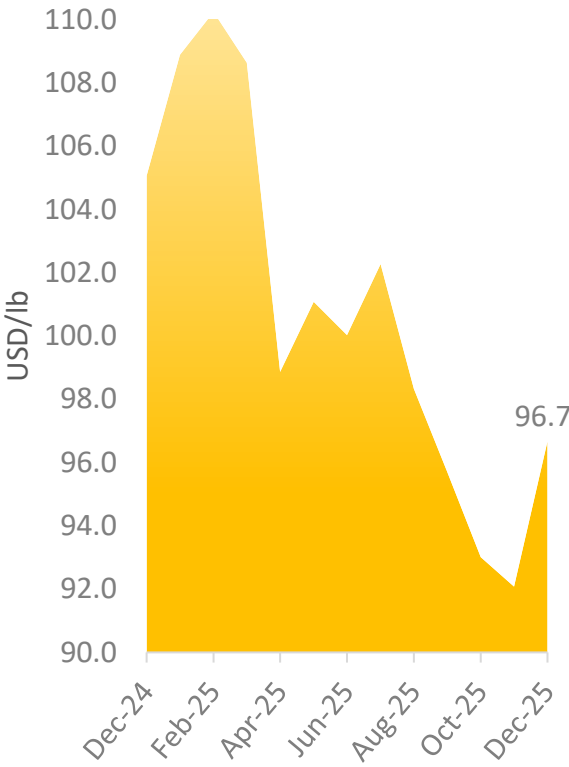
Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

COMMODITY PRICES - DEC 2025 CONT'D

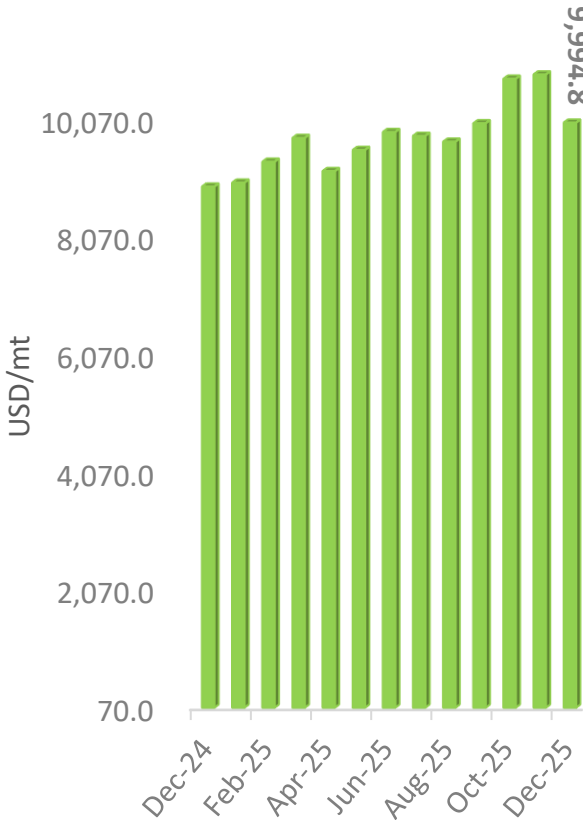
Aluminum



Rubber



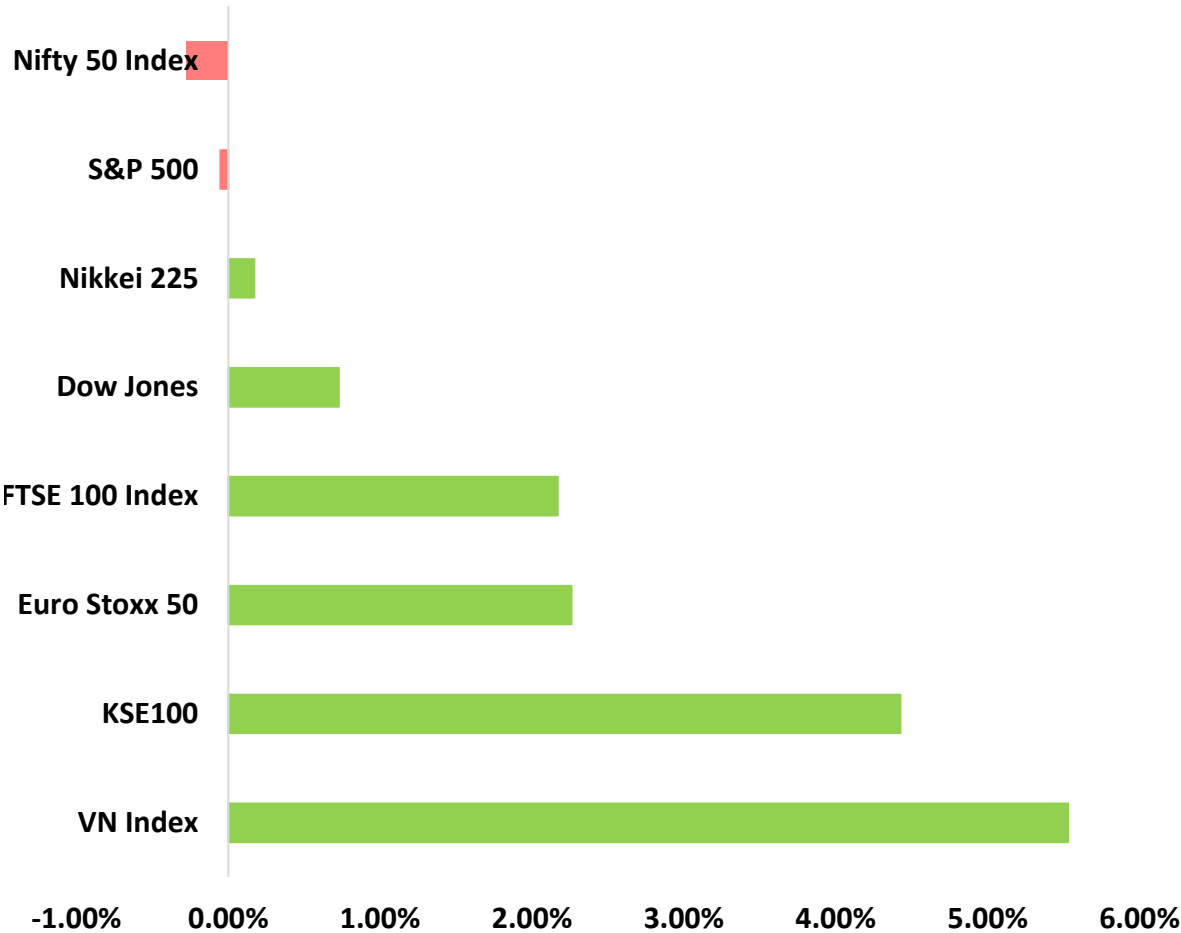
Copper



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 to Pick Up after Muddy November CPI

US consumers experienced only a modest pickup in inflation as 2025 drew to a close, consistent with price pressures that are gradually abating. The core consumer price index is seen rising 2.7% in December from the past year. It is a slight advance compared to 2.6% seen in November, which was the smallest since early 2021.



10-year Treasury Yield Inches Down after Mixed December Employment Data

The 10-year treasury yield dipped after the latest jobs report showed a mixed picture of the US labor market. The 10-year treasury yield was more than 1bps lower at 4.165%, while the 30-year bond yield moved down more than 4bps to 4.815%. The December nonfarm payrolls report showed a stable, albeit softening labor market, that may lead the Federal Reserve to cut interest rates. The US economy added 50,000 new jobs in December, lower than expected. However, the unemployment rate dipped to 4.4%.



World Food Prices Dip in December but still Up in 2025

World food prices declined for a fourth consecutive month in December, mostly pressured by dairy, meat and vegetable oil prices, marking the lowest average since January 2025. The United Nations's Food and Agriculture Organization (FAO) Food Price index averaged 124.3 points in December, down from 125.1 in November and 2.3% lower YoY. For the full 2025 year, the index averaged 127.2 points, up 4.3% from 2024, as higher world prices for vegetable oils and dairy products outweighed declines in cereal and sugar quotations.



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