



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Mar 2026

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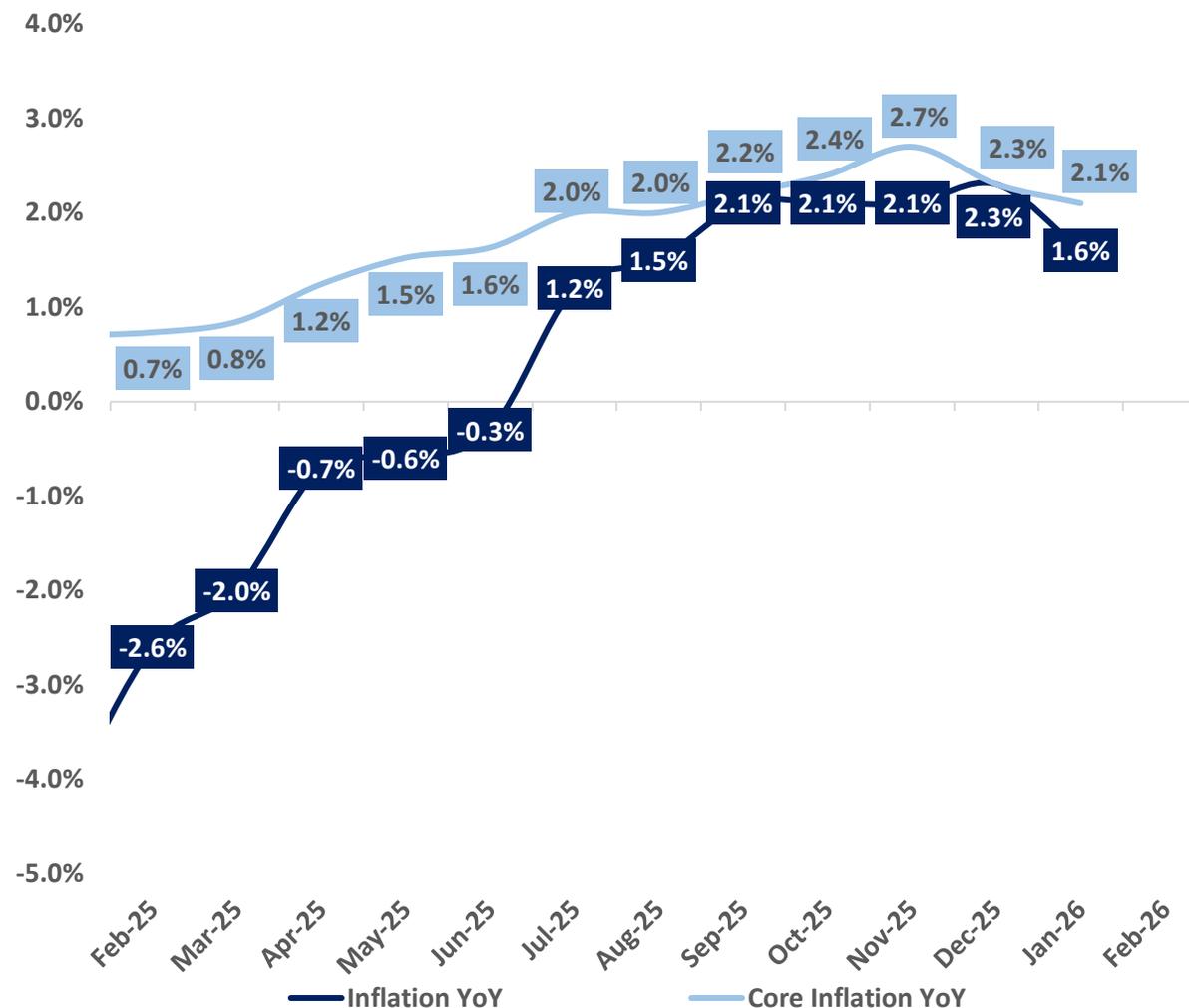
## ME TENSIONS FOLLOWED BY THE CBSL POLICY MEETING

- ❑ Following the January Monetary Board meeting, where the Overnight Policy Rate (OPR) was maintained at 7.75%, renewed tensions in the Middle East (ME) emerged as a key development in February.
- ❑ The escalation involving Iran and the US–Israel alliance, along with disruptions to oil shipments through the Strait of Hormuz, where about 20% of the world’s oil supply passes, has pushed crude oil prices to their highest level since 2022 (USD 119/bbl).
- ❑ These developments toward the end of February contributed to the rise in oil prices and increased volatility in the USD/LKR exchange rate, as well as in the bond and equity markets in early March.
- ❑ These global pressures can result in:
  - ❑ Higher inflation expectations, potentially restricting the CBSL’s ongoing efforts to maintain stable interest rates.
  - ❑ Depreciation pressure on the rupee or reduced foreign-currency inflows
- ❑ These factors are expected to influence the CBSL’s upcoming monetary policy review scheduled for 25 March 2026.

# CCPI FOR FEB 2026: MOM -0.9 % YOY +1.6%

- The CCPI for Feb-26 stood at -0.9% on a MoM basis, down from the +0.6% level seen in Jan-25. Food inflation stood at -2.6% for the month, down from the +0.6% level registered in the previous month. Non-food inflation remained unchanged, marking a decline from the +0.6% level recorded in Jan-26.
- The YoY increase declined to +1.6% in Feb-26 from the +2.3% level recorded in Jan-26. Food inflation declined to +0.2% in Feb-26 from the +3.3% level seen previously, while non-food inflation increased to +2.3% from +1.8% in Jan-26.

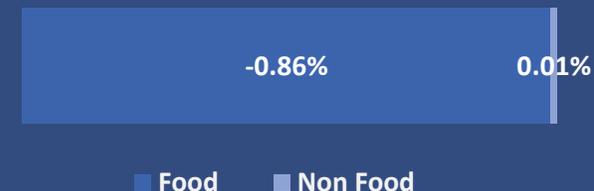
## Inflation – CCPI



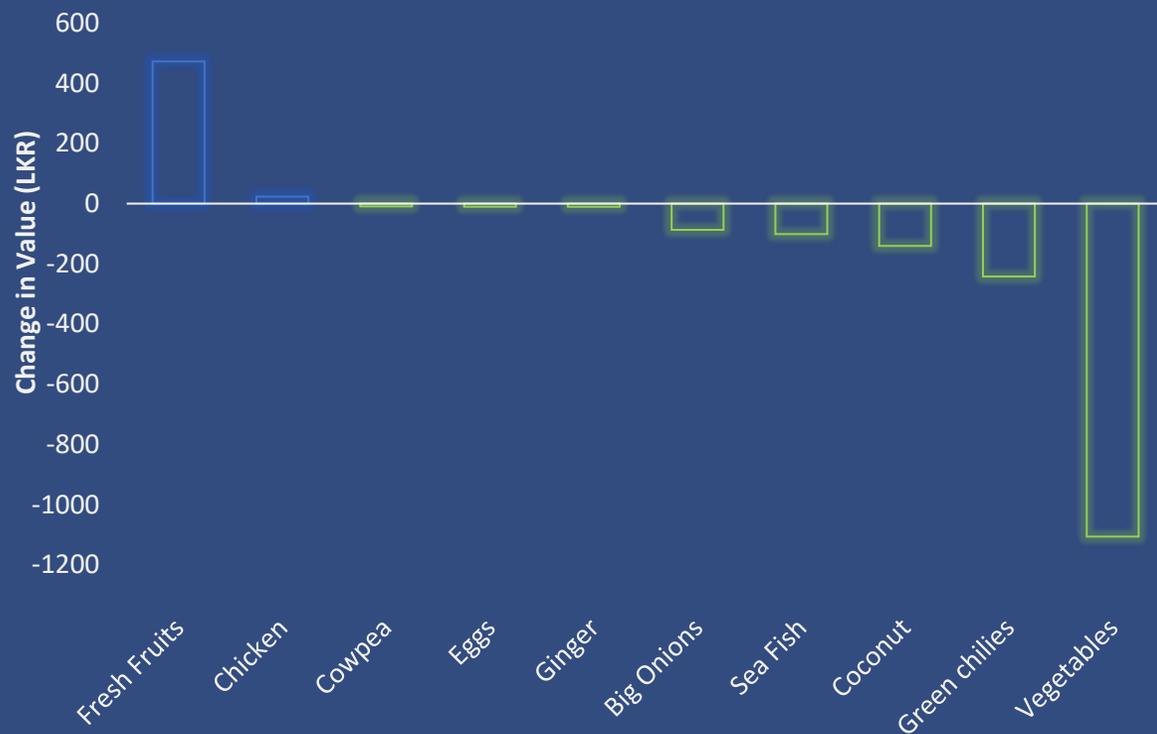


# INFLATION ANALYSIS – CCPI-MOM

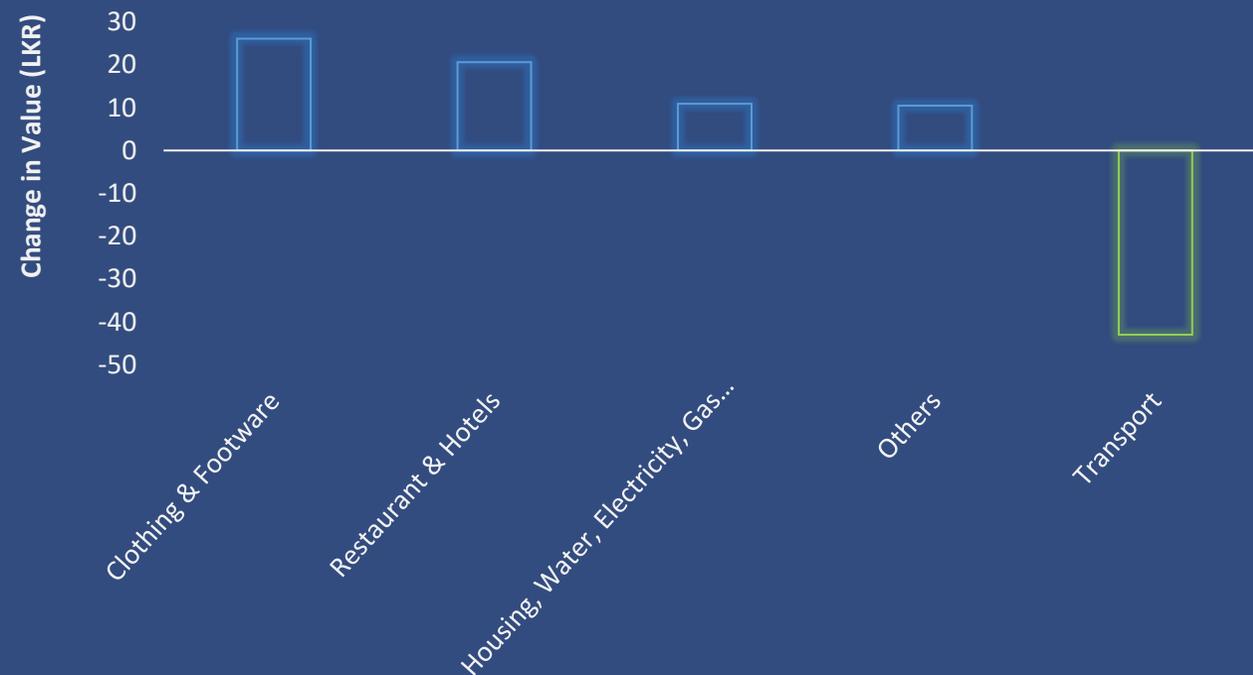
The CCPI Index for February declined by 0.85% MoM. The Food category contributed -0.86%, with vegetables, green chilies, and coconuts exerting significant downward pressure on the group, while fresh fruits recorded notable price increases. The Non-Food category contributed +0.01%. All sub-components within the Non-Food segment, except transport, recorded increases in Feb-26.



## Food Category Inflation

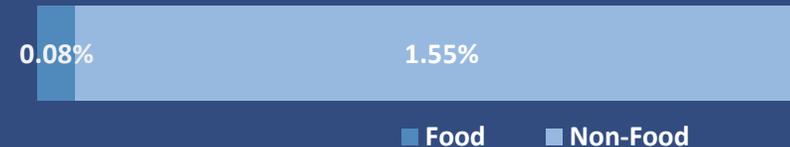


## Non-Food Category Inflation



# INFLATION ANALYSIS – CCPI-YOY

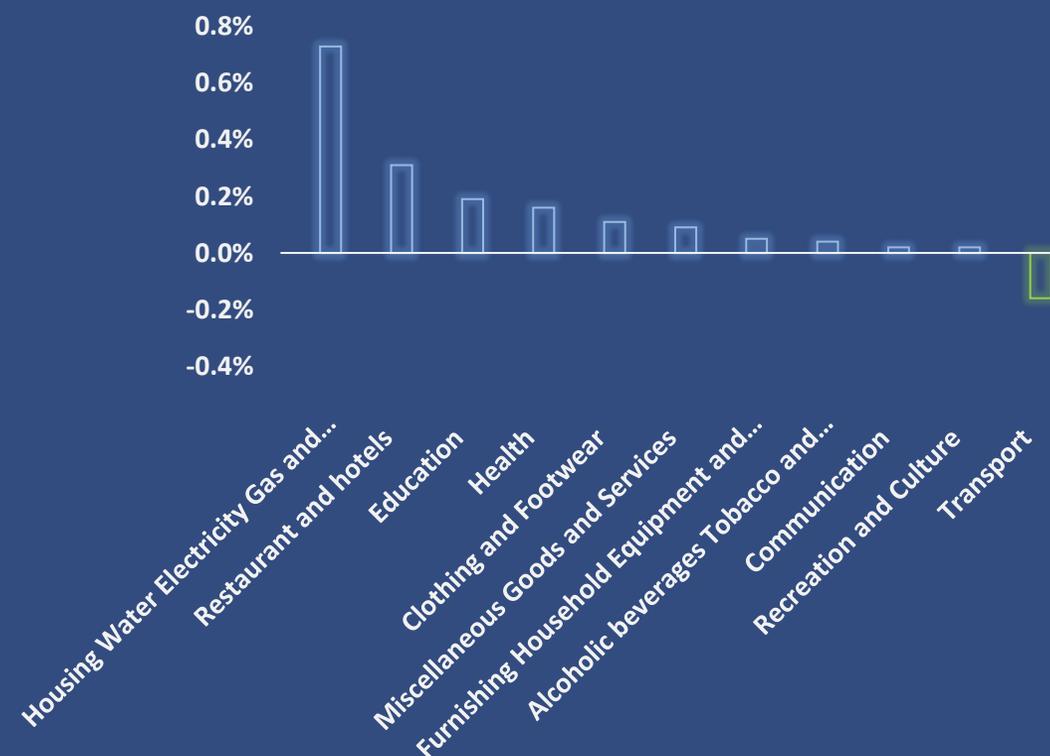
The YoY inflation of CCPI for Feb-26 stood at +1.6%, which marked a decline from the +2.3% level that was seen in Jan-26. Contribution of Food inflation stood at +0.08% while that of Non-food was +1.55%. Within the Non-food segment Housing, Water, Electricity, Gas and Other Fuels, Restaurants and Hotels and Education registered the highest upticks while Transport emerged as the only component that exerted deflationary pressure.



## Inflation Analysis (YoY)



## Non-Food Category Inflation



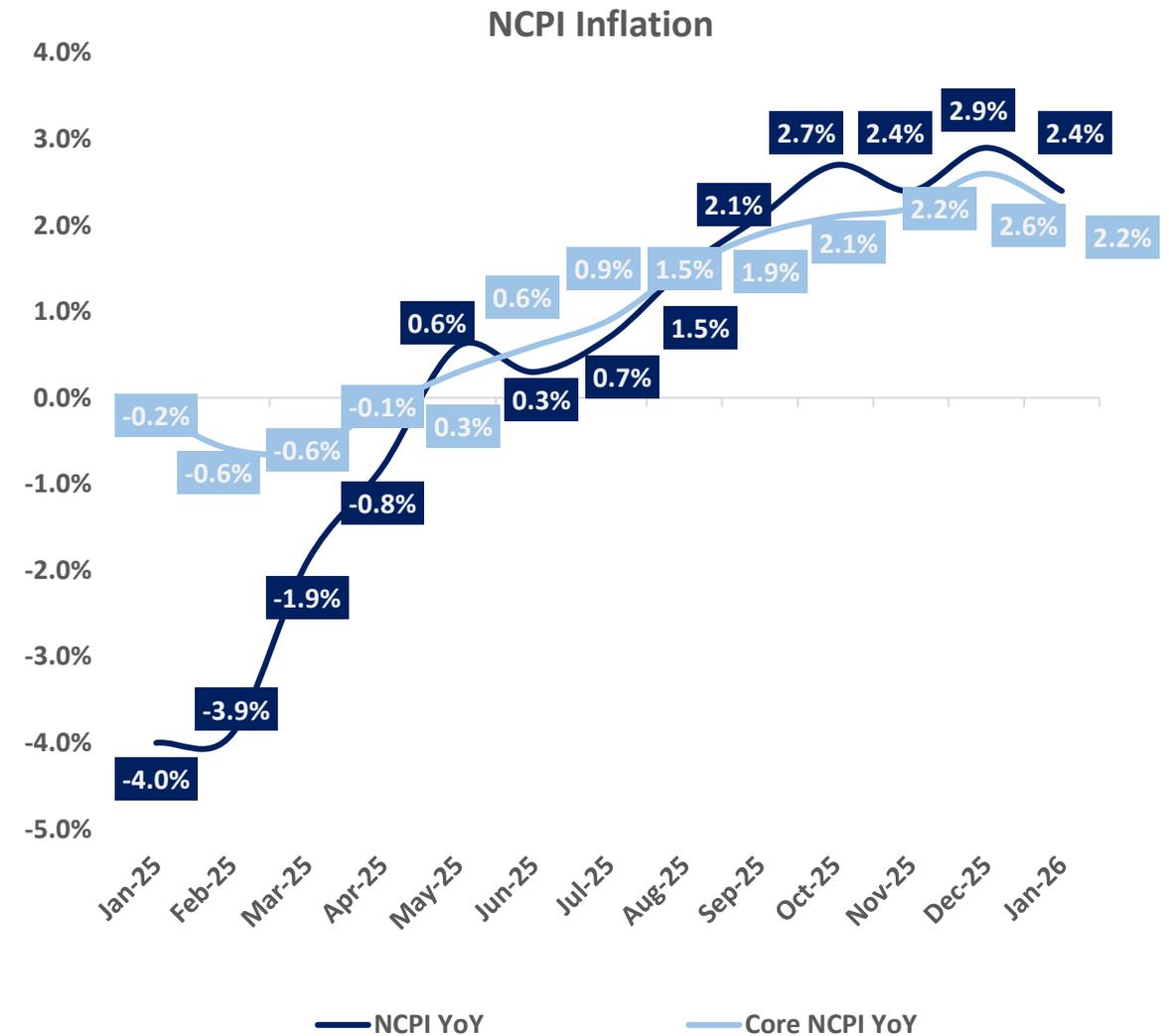


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# NCPI FOR JAN 2026: DECREASED TO +2.4% YOY

- NCPI for Jan-26, decreased to +2.4% YoY from +2.9% YoY seen in Dec-25.
- This trend was driven by a drop in Food inflation, which decreased to +3.4% in Jan-26, from +4.4% in the previous month. Non-food inflation remained flat at +1.6%, unchanged from Dec-25.

## Inflation – NCPI



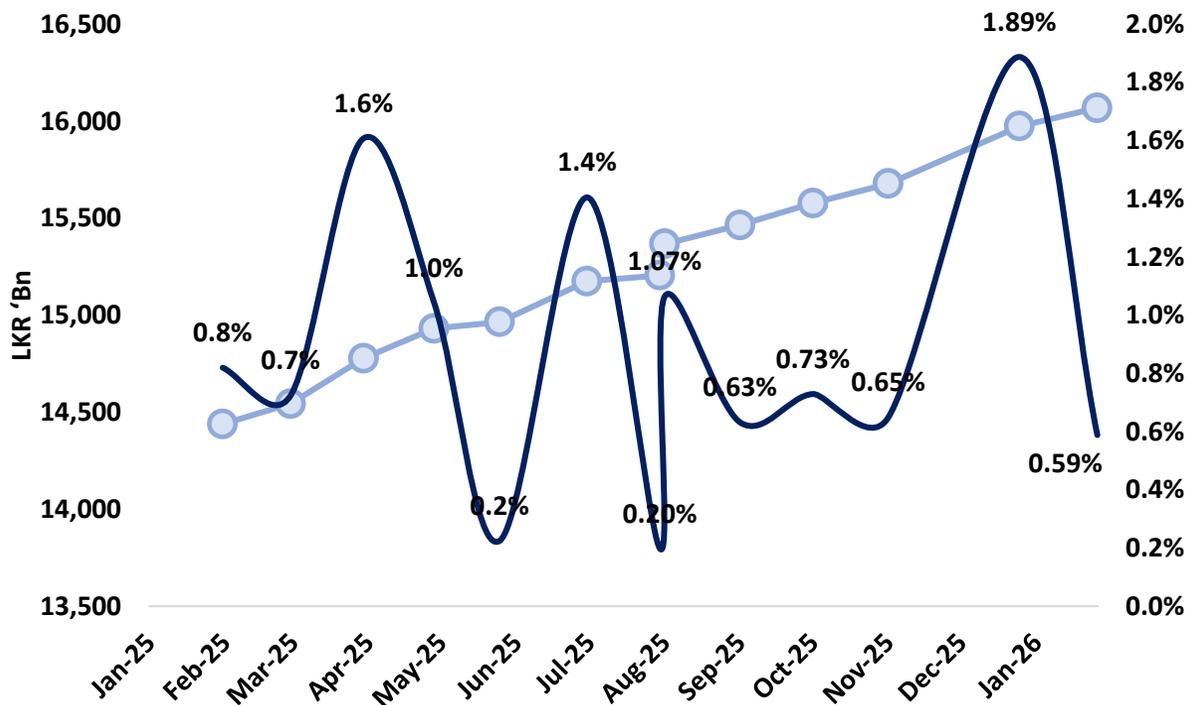
# M2B AND CREDIT GROWTH

Private sector credit increased by LKR 82.6 Bn in Jan-26, while credit to the public sector declined by LKR 42.9 Bn in Jan-26.

## M2b Growth – Jan 2026

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

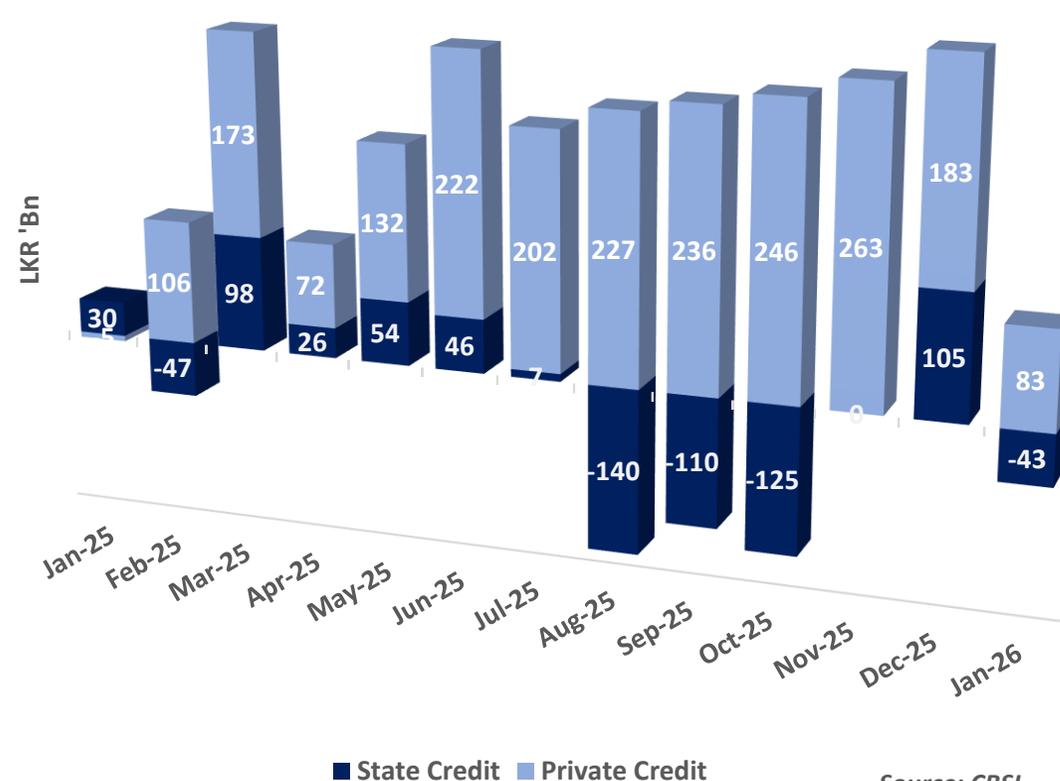
—○— M2b — MoM Growth



Source: CBSL

## State Credit & Private Credit – Jan 2026

Private Credit MoM +0.8%, YoY +26.3%, YTD +0.8%



■ State Credit ■ Private Credit

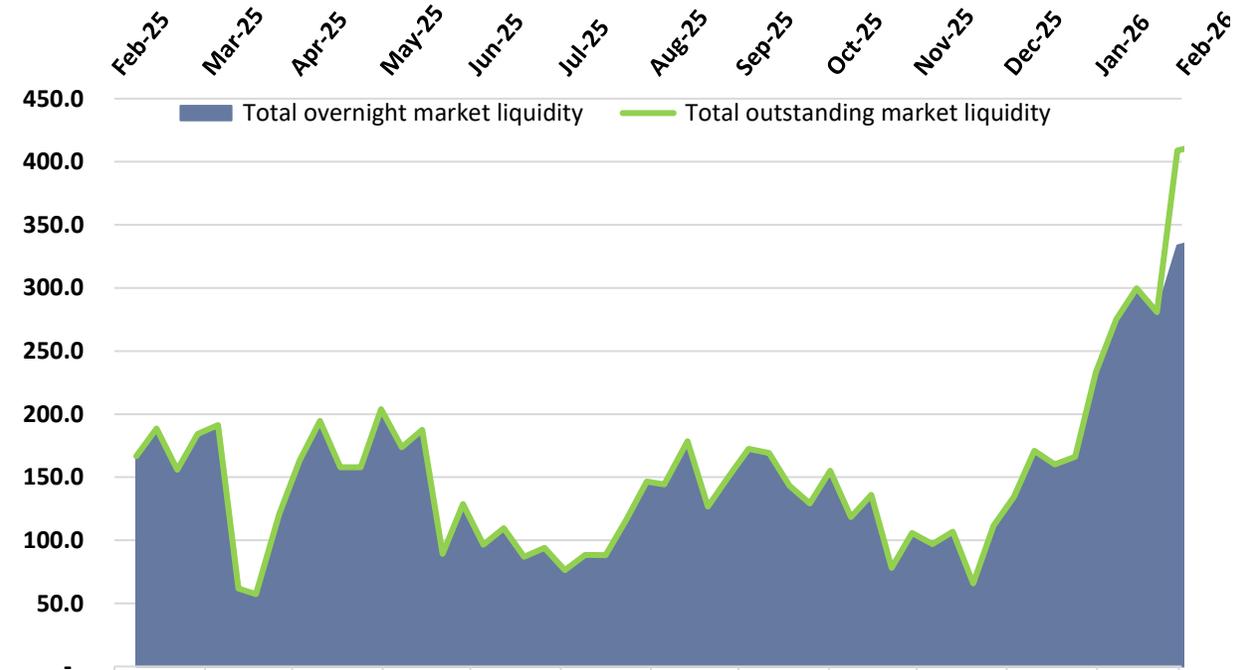
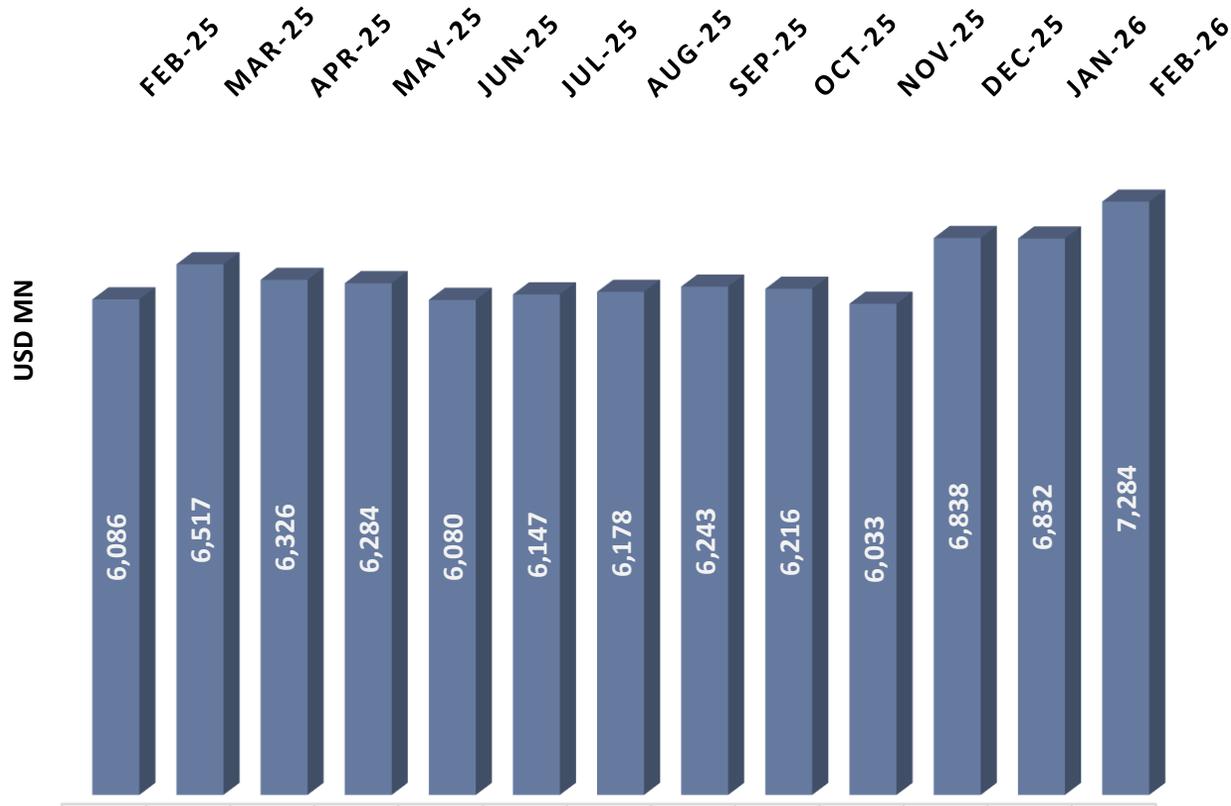
Source: CBSL



# LIQUIDITY & RESERVES

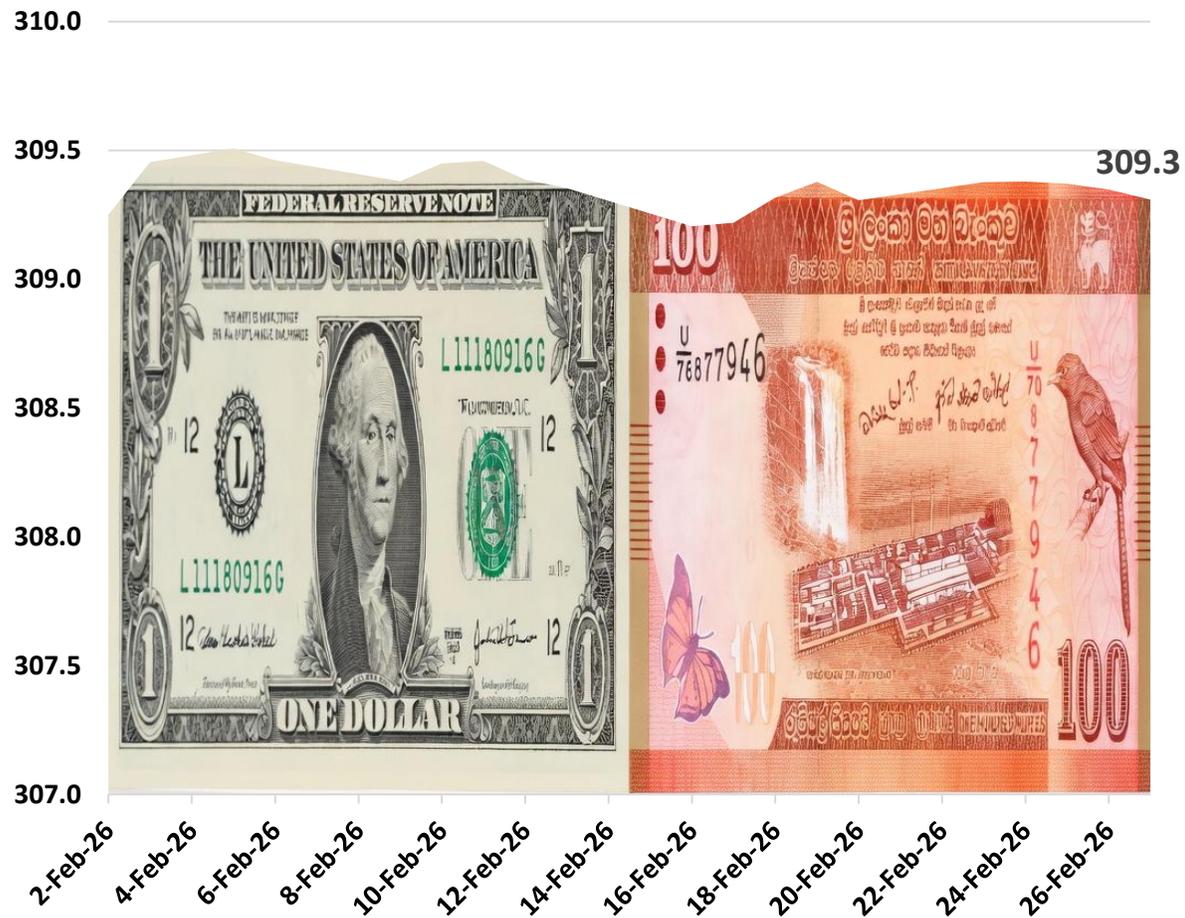
- Foreign Reserves increased by USD 452.0Mn to USD 7,284.0Mn in Feb-26.

- Both overnight market liquidity and outstanding market liquidity increased in Feb-26 compared to the previous month. By end-Feb, overnight liquidity stood at LKR 333.8Bn, while outstanding liquidity stood at LKR 408.8Bn, including LKR 75.0Bn in term repo.



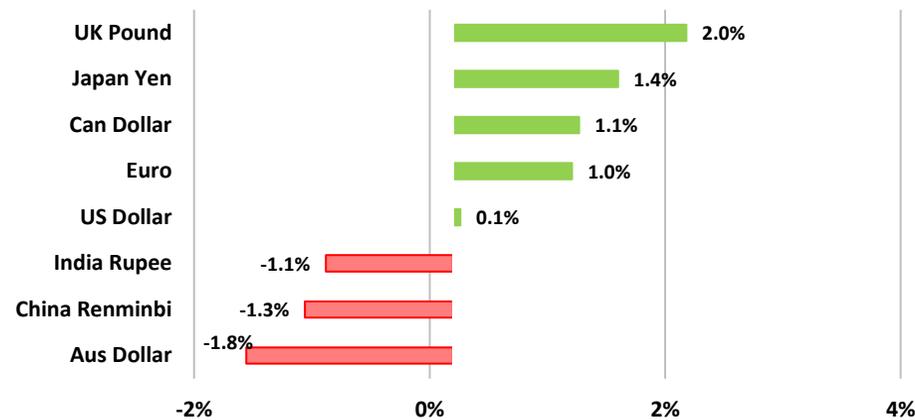
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

## USD:LKR Movement

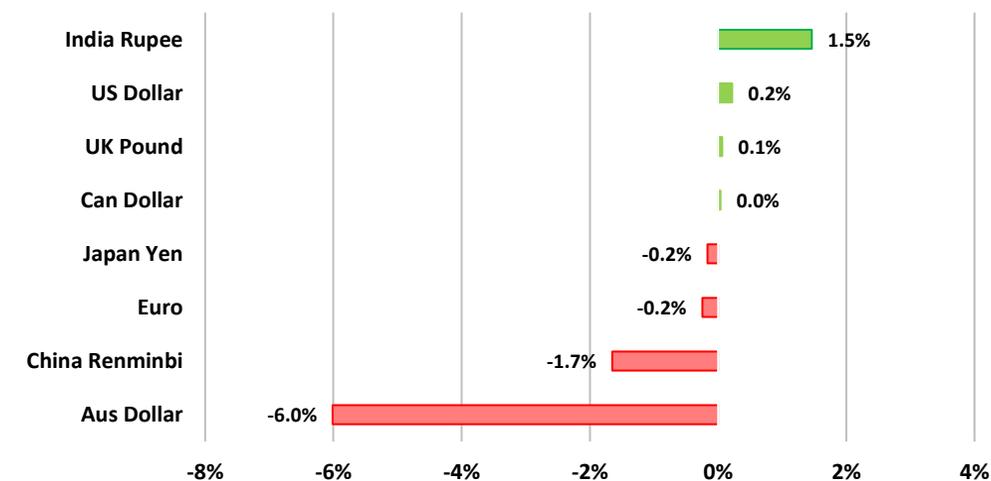


## Sri Lankan Rupee vs Global Currencies

FEB 2026



YTD 2026



## Bill and Bond auctions for Feb 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
6-Feb-26	132,000		132,000
13-Feb-26	99,000	56,100	155,100
20-Feb-26	66,000		66,000
27-Feb-26	99,000	154,000	253,000
			<b>606,100</b>

## Net settlements for Feb 2026

Net Settlement	Feb 2026	YTD
Maturities	626,941	1,341,744
Coupon Payment	79,724	236,457
New Issues	606,100	1,353,283
<b>Excess/ (Deficit)</b>	<b>(100,566)</b>	<b>(224,918)</b>

CBSL Holdings of Gov. Securities	YTD	
As at End Feb 2026	2,508,900	
As at End Jan 2026	2,508,900	
<b>Increase/ (Decrease)</b>	<b>-</b>	<b>0</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

*...remained unchanged in Feb 2026*

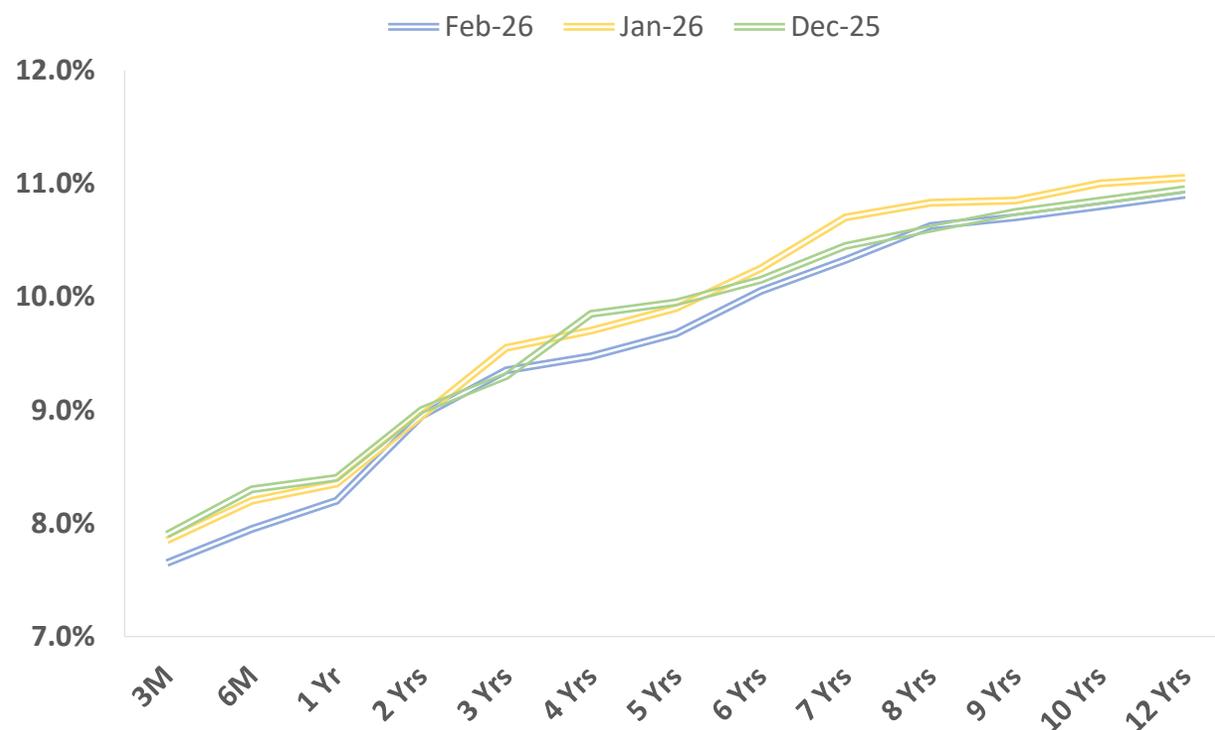


# TREASURY BILLS AND BONDS – FEB 2026



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In February 2026, yields across both T-bills and shorter-tenor bonds trended lower compared with January. Bill yields eased amid moderate buying interest, while stable liquidity supported the front end of the curve. Mid-tenor yields also softened, with 2- to 5-year maturities moving into the 8.90%–9.95% range, while longer tenors remained between 10.0% and 10.95%. Although market sentiment remained cautious due to renewed Middle East tensions, the bills and bond markets had not been fully exposed to these developments by end-February. Stable FX levels and continuously improving excess liquidity conditions in the banking system helped support market confidence and anchor yields lower through the end of the month.

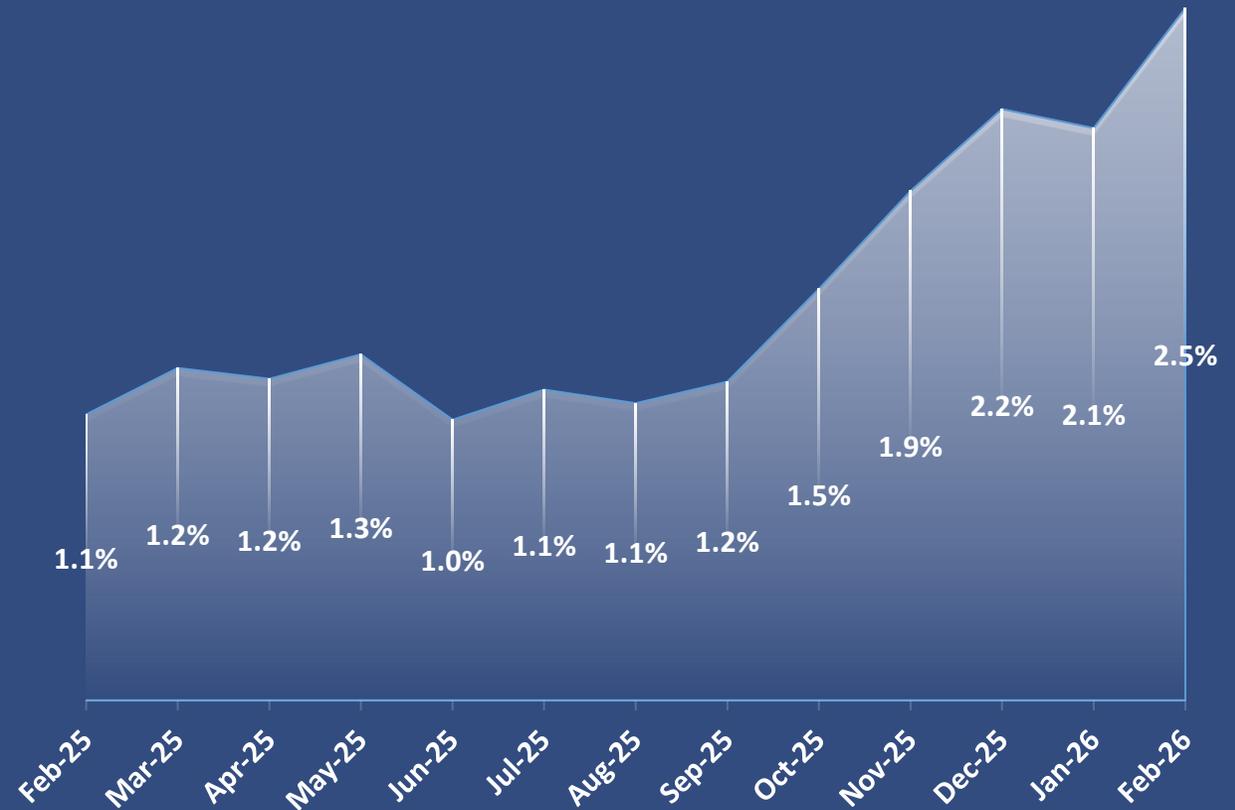


Tenure	Interest Rate Change (bps)				
	Feb 2026	Jan 2026	Change (bps)	Dec 2025	Change (bps)
3M	7.65%	7.85%	-20	7.90%	-25
6M	7.95%	8.20%	-25	8.30%	-35
1 Yr	8.20%	8.35%	-15	8.40%	-20
2 Yrs	8.95%	8.95%	0	9.00%	-5
3 Yrs	9.35%	9.55%	-20	9.30%	+5
4 Yrs	9.48%	9.70%	-23	9.85%	-38
5 Yrs	9.68%	9.90%	-23	9.95%	-28
6 Yrs	10.05%	10.25%	-20	10.15%	-10
7 Yrs	10.33%	10.70%	-38	10.45%	-13
8 Yrs	10.63%	10.83%	-21	10.60%	+3
9 Yrs	10.70%	10.85%	-15	10.75%	-5
10 Yrs	10.80%	11.00%	-20	10.85%	-5
12 Yrs	10.90%	11.05%	-15	10.95%	-5
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

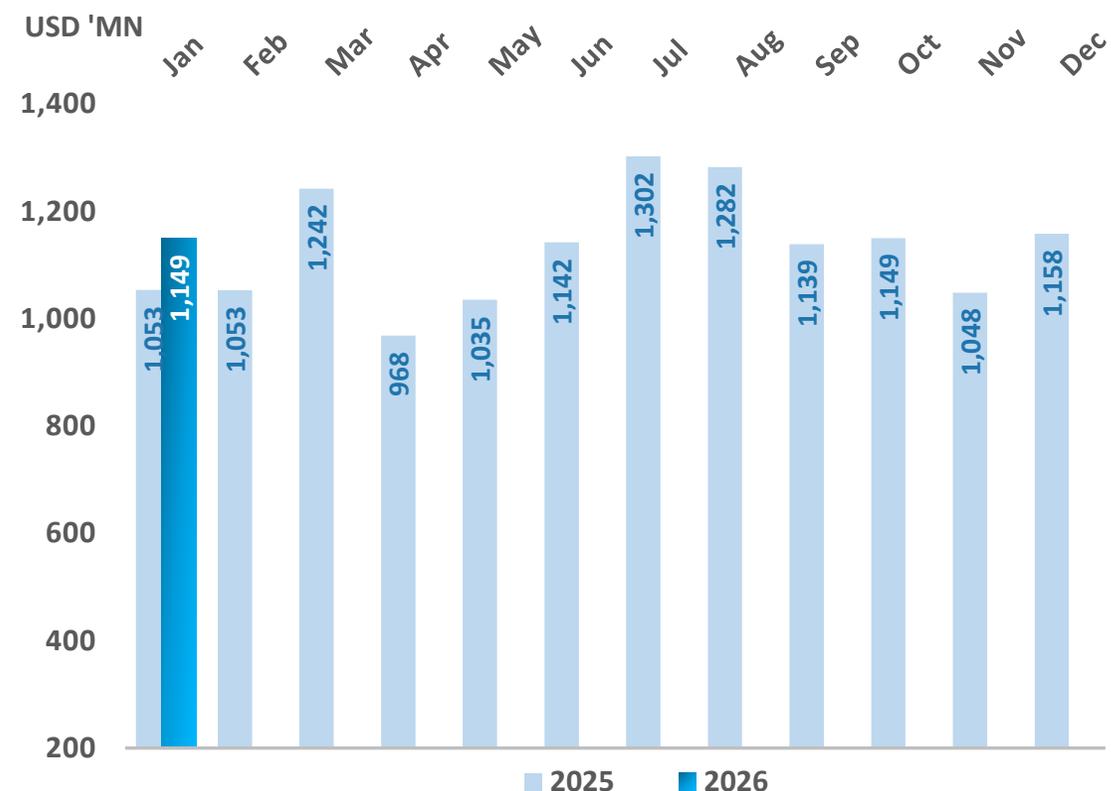


## FINANCE SECTOR RATE MOVEMENTS

# EXTERNAL SECTOR - JAN 2026 - EXPORTS

In Jan-26, exports stood at USD 1,148.7Mn, reflecting a 9.1%YoY increase. Growth was primarily driven by a 191.6% (YoY) surge in mineral and other exports, alongside an 18.8% (YoY) rise in agricultural exports and a 5.9%YoY expansion in industrial exports. Within industrial exports, all segments recorded positive YoY growth except textiles and garments and leather, travel goods and footwear which contracted by 2.8%, and 15.1% (YoY) respectively. Machinery and mechanical appliances and food, beverages & tobacco grew by 51.5% and 27.2% (YoY), while rubber products expanded by 5.4% (YoY). Agricultural exports reached USD 263.5Mn (+18.8% YoY), rebounding from the 4.3% (YoY) contraction recorded in Dec-25 following Cyclone Ditwah.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Industrial Exports			
- Jan	828.3	877.2	5.9
- YTD	828.3	877.2	5.9
Agricultural			
- Jan	221.7	263.5	18.8
- YTD	221.7	263.5	18.8
Mineral & Other Exports			
- Jan	2.8	8.0	191.6
- YTD	2.8	8.0	191.6
<b>Total</b>			
- Jan	1,052.8	1,148.7	9.1
- YTD	1,052.8	1,148.7	9.1

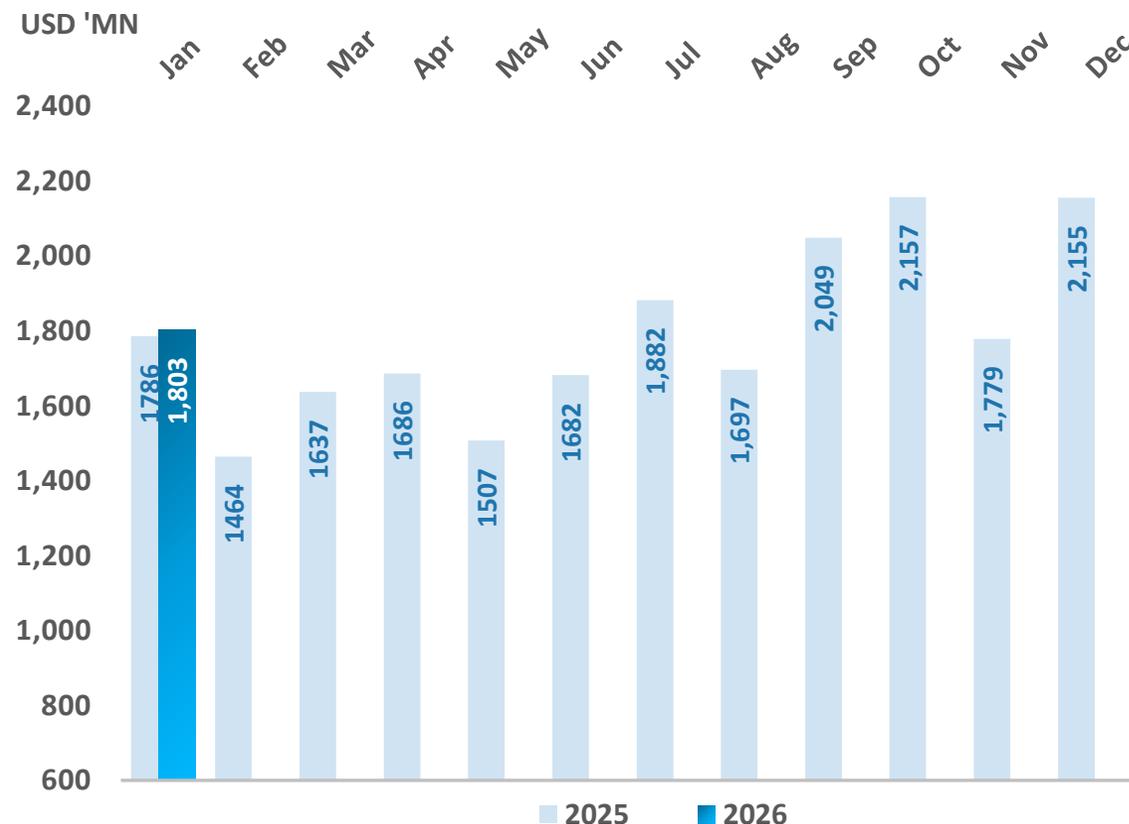




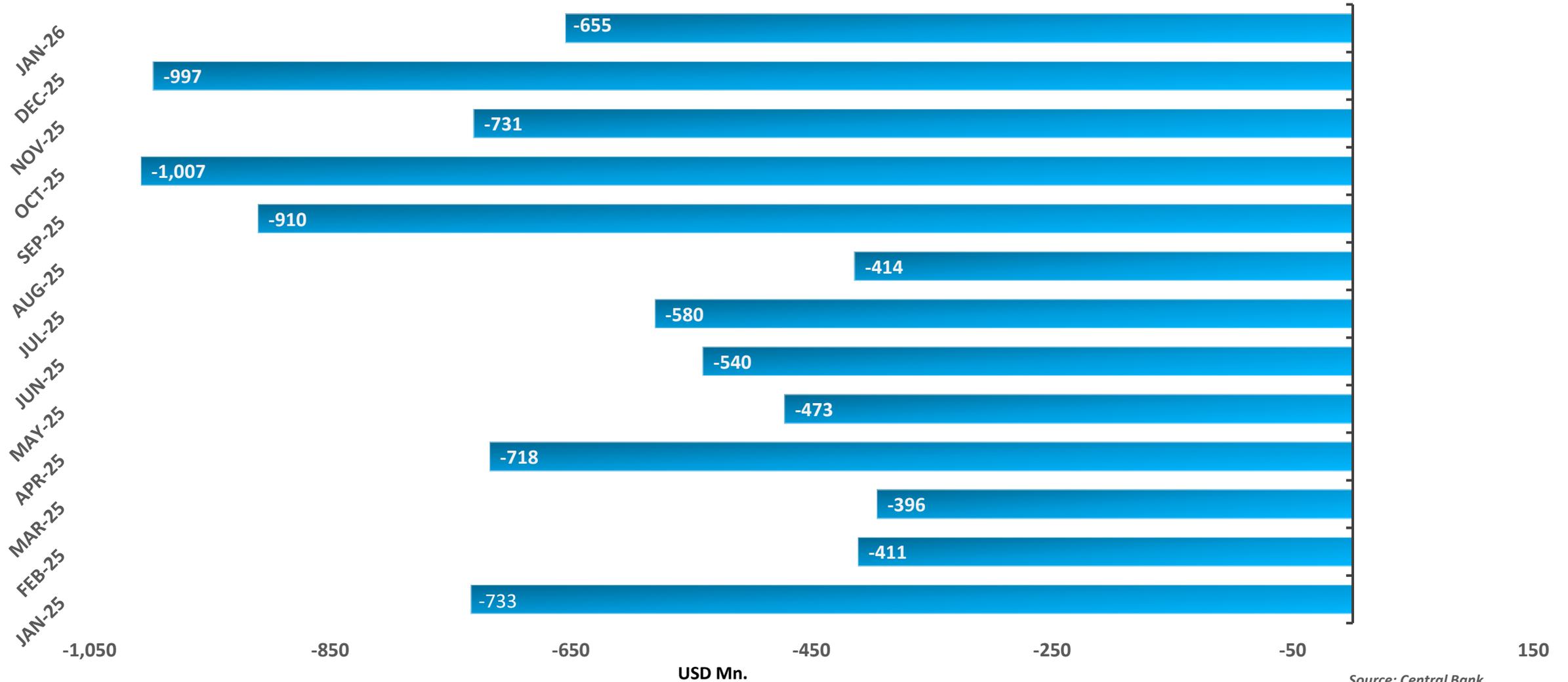
# EXTERNAL SECTOR - JAN 2026 - IMPORTS

In Jan-26 imports climbed to USD 1,803.3Mn, registering an YoY uptick of 1.0%. Despite intermediate goods imports fell by 11.9%YoY, all other subcomponents rose during the month, with the consumer goods segment denoting the highest expansion (24.9%YoY) while investment goods and other rose by 14.4%YoY . Within the broader consumer goods category, it was non-food imports that drove this uptick, having risen by 126.3%YoY, while food and beverages imports declined by 33.4%YoY during the period under review.

Category	2025 (USD 'Mn)	2026 (USD 'Mn)	Change (%)
Consumer goods			
- Jan	380.2	475.0	24.9
- YTD	380.2	475.0	24.9
Intermediate			
- Jan	1,061.4	934.9	-11.9
- YTD	1,061.4	934.9	-11.9
Investment goods & other			
- Jan	343.9	393.4	14.4
- YTD	343.9	393.4	14.4
<b>Total</b>			
- Jan	1,785.5	1,803.3	1.0
- YTD	1,785.5	1,803.3	1.0



## Balance of Trade

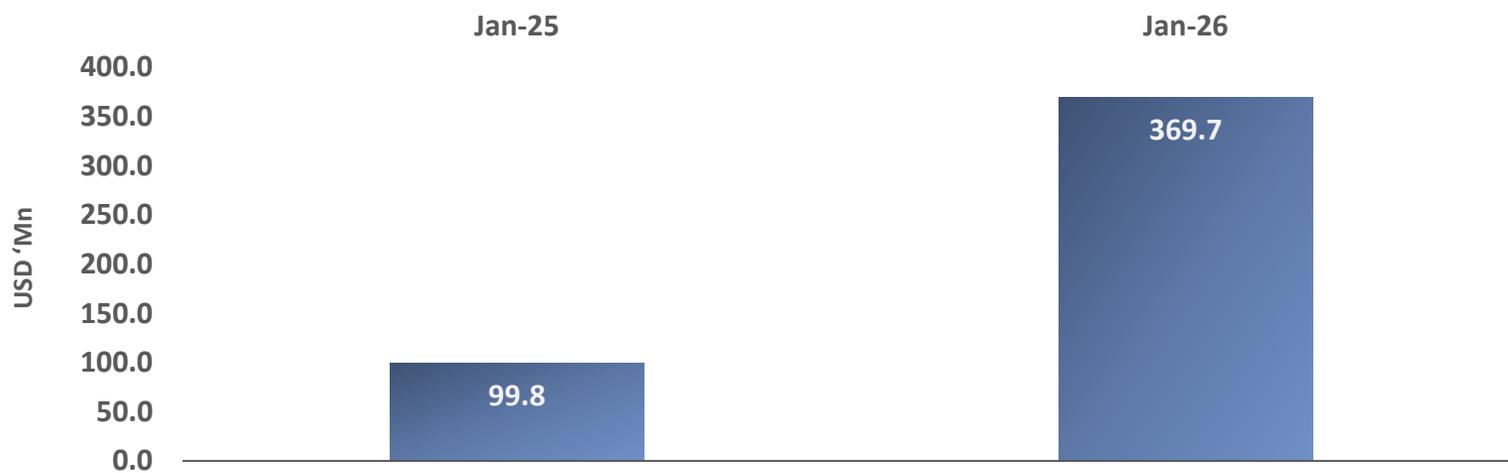


Source: Central Bank

The Current Account Balance for JAN-26 recorded a surplus of USD 369.7Mn compared to a surplus of USD 99.8Mn seen in JAN-25.



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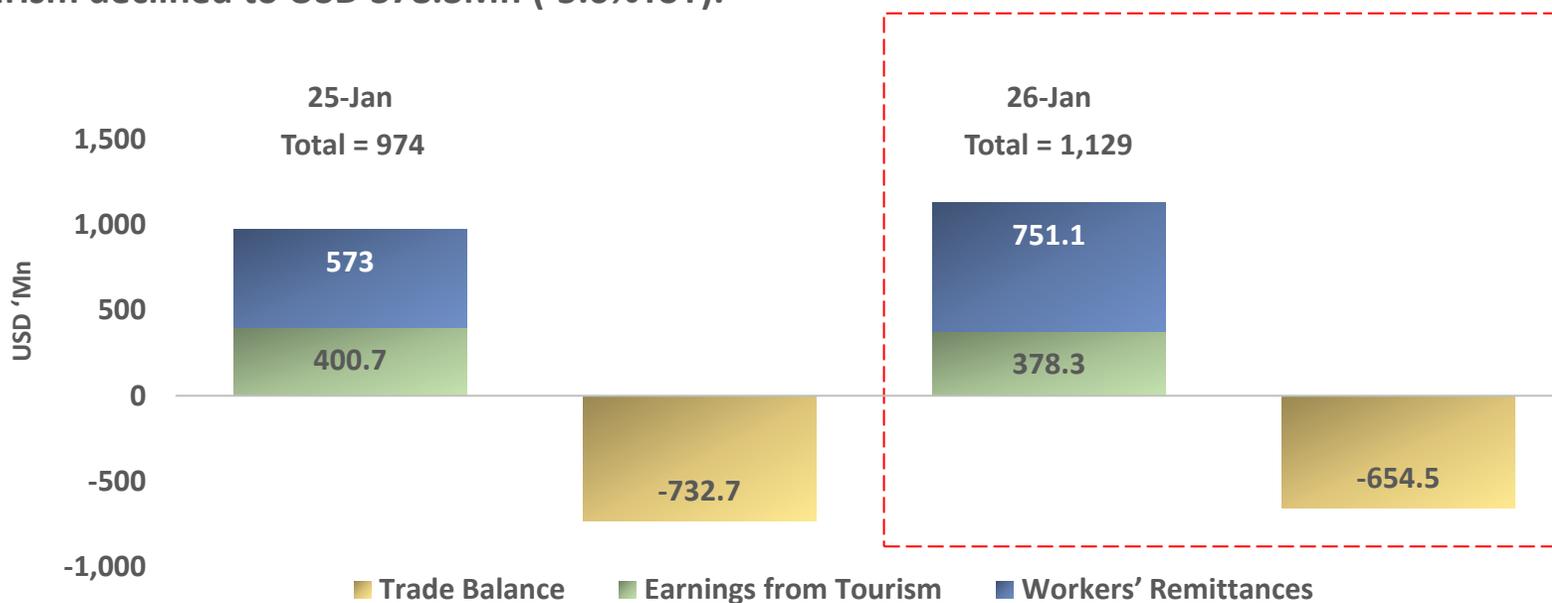
### CURRENT ACCOUNT BALANCE IMPROVED YOY IN JAN-26

JAN USD 'Mn	2025	2026	Change (%)
Trade Balance	-732.7	-654.5	+10.7
Earnings from Tourism	400.7	378.3	-5.6
Workers' Remittances	573.0	751.1	+31.1

YTD USD 'Mn	2025	2026	Change (%)
Trade Balance	-732.7	-654.5	+10.7
Earnings from Tourism	400.7	378.3	-5.6
Workers' Remittances	573.0	751.1	+31.1

Workers' Remittances increased to USD 751.1Mn in JAN-26 (+31.1%YoY) while Earnings from Tourism declined to USD 378.3Mn (-5.6%YoY).



# TOURIST ARRIVALS - FEB 2026

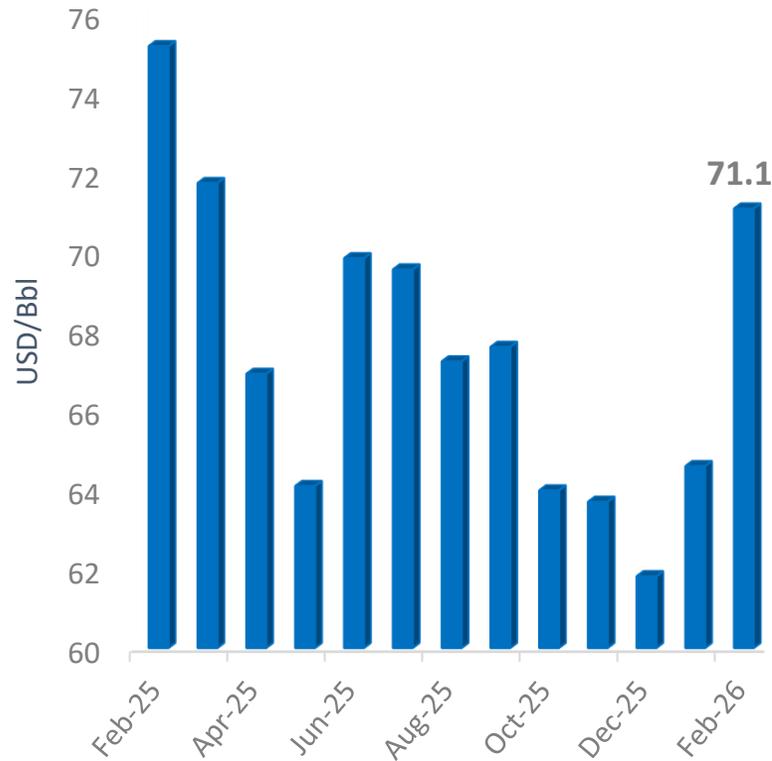
**[FEB 279,328: UP +16.2%YoY] [MoM: UP +0.7%]**

Total tourist arrivals for Feb-26 reached 279,328, denoting a YoY uptick of 16.2% and a MoM uptick of 0.7%. India emerged as the top source marked accounting for 17.0% of total arrivals during the month. This was followed by the United Kingdom, the Russian Federation, Germany and China, which made up 11.0%, 8.0%, 8.0% and 7.0% of total arrivals respectively.

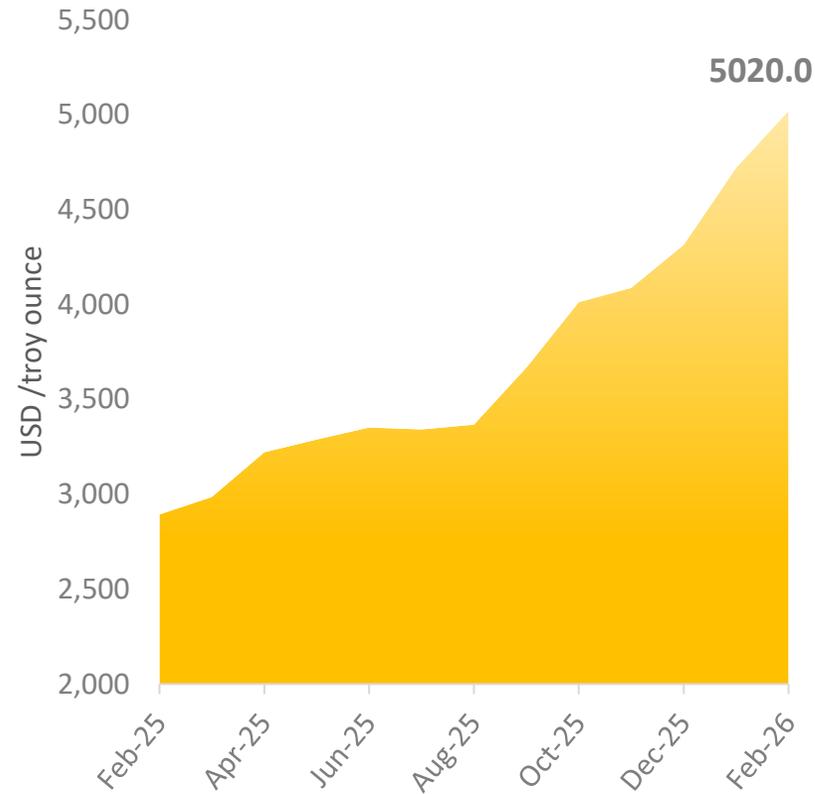


# COMMODITY PRICES - FEB 2026

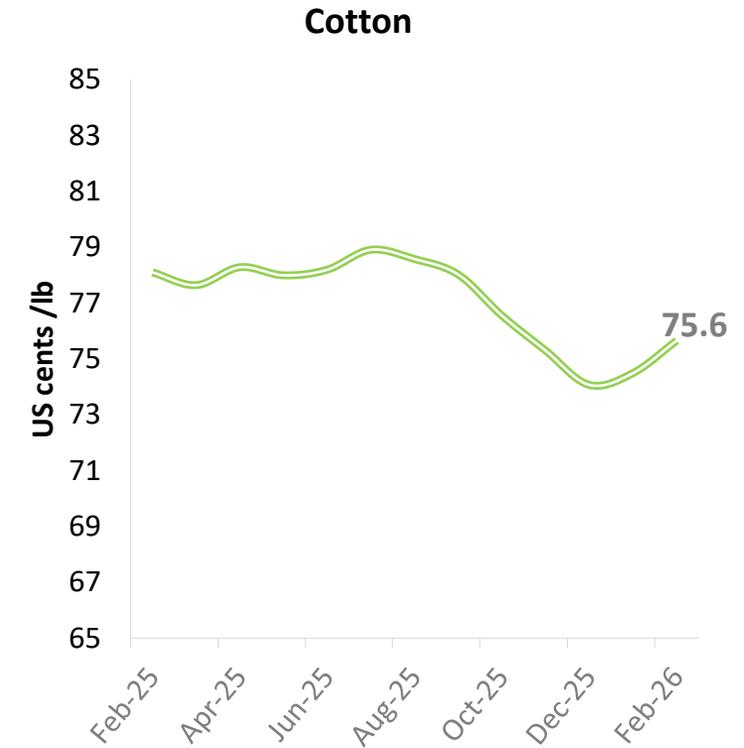
## Crude oil



## Gold



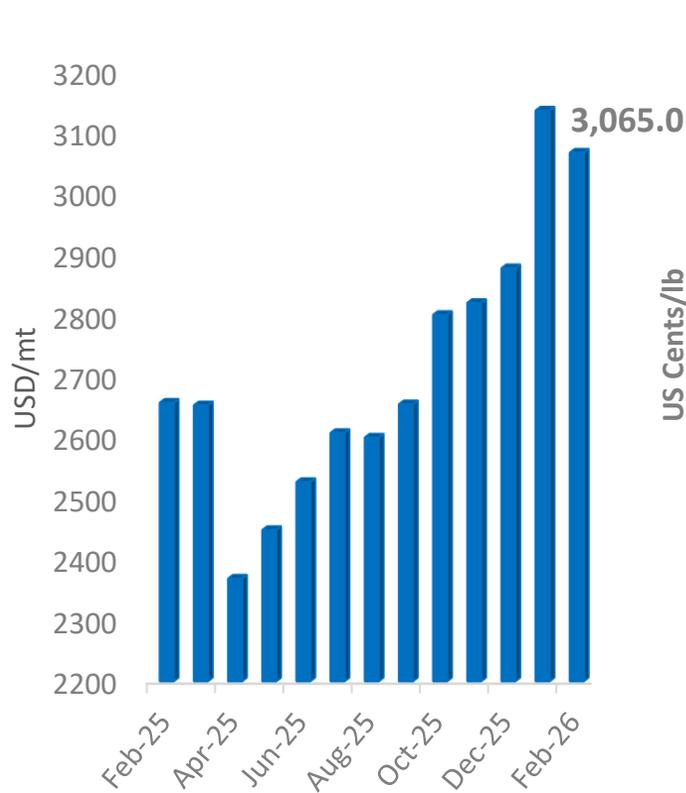
## Cotton



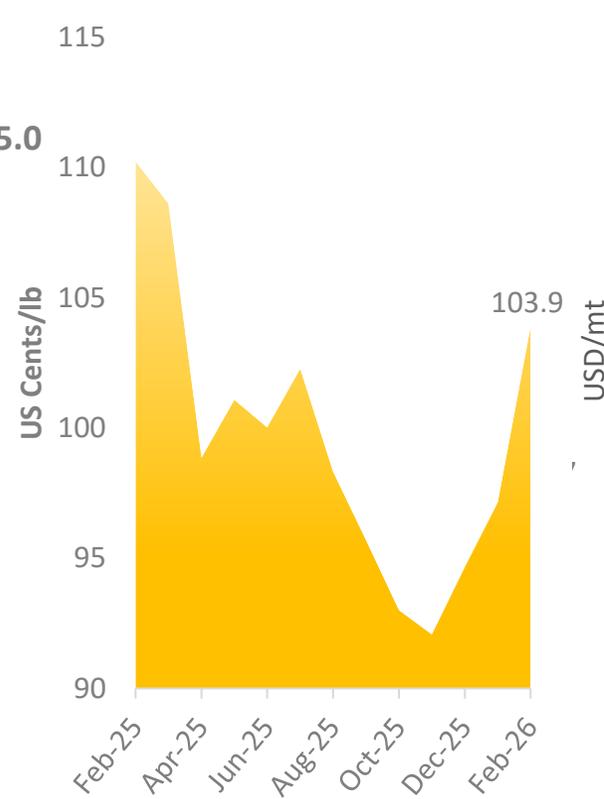
**Note:** crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

# COMMODITY PRICES - FEB 2026 CONT'D

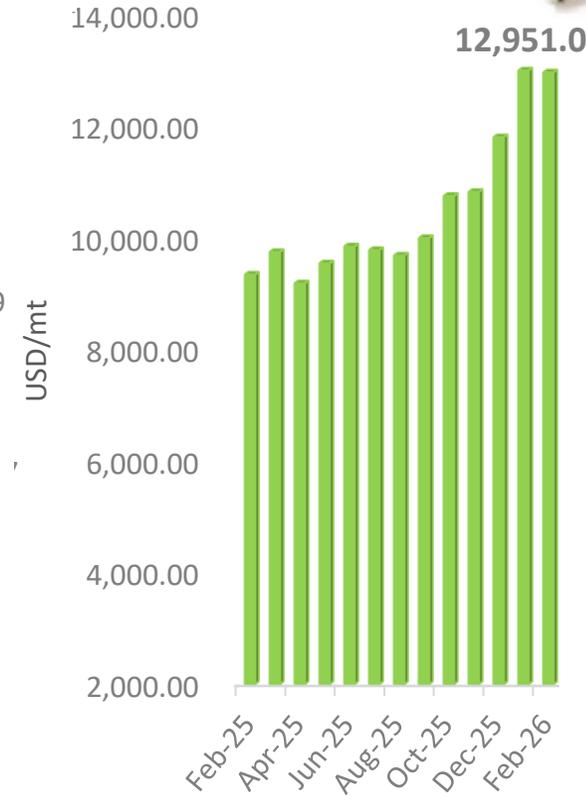
## Aluminum



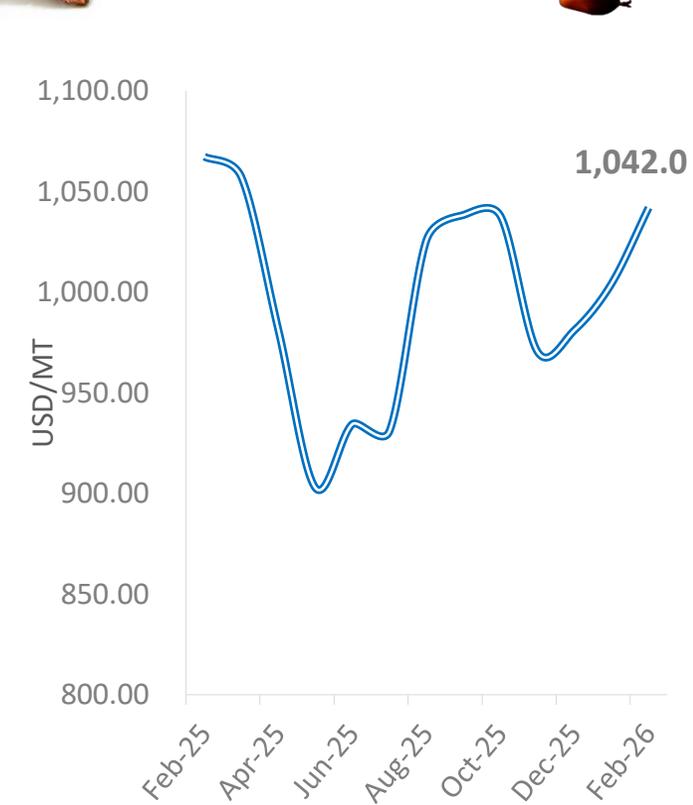
## Rubber



## 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



### China Is Pumping Cash to Fill a \$456 Billion Liquidity Shortfall

China's central bank, the People's Bank of China, is injecting large amounts of cash into the banking system to prevent a liquidity shortage ahead of the Lunar New Year, when demand for cash typically rises. It has already added 600 billion yuan through short-term lending operations and may inject up to 3.5 trillion yuan to address an estimated 3.2 trillion yuan liquidity gap caused by holiday spending, bond issuance, and corporate demand for yuan. The move aims to keep financial markets stable and support economic momentum as China faces broader economic headwinds.



### Hot U.S. Inflation Print Sparks Global Risk-Off Sentiment

Late February data showed the U.S. Producer Price Index (PPI) rising 0.8%, far above expectations (0.3%). The hotter-than-expected inflation report triggered a global equity sell-off, with the Dow Jones dropping over 500 points and S&P 500 ending February in the red. Rising inflation worries revived concerns about delayed Fed rate cuts and renewed pressure on rate-sensitive assets.



### Countries issuing Middle East travel advisories as Iran tensions rise

Several countries have begun withdrawing dependents of diplomatic personnel and non-essential staff from some locations in the Middle East, or advising citizens to avoid travel to Iran, amid rising tensions between Washington and Tehran.





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