Monthly Economic Update (MEU)

April 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

5% For the year 2026

Despite external turbulence stemming from tariffs imposed by the United States, heightened geopolitical uncertainty, and the disruptive impact of Cyclone Ditwah, the economy recorded a strong growth rate.

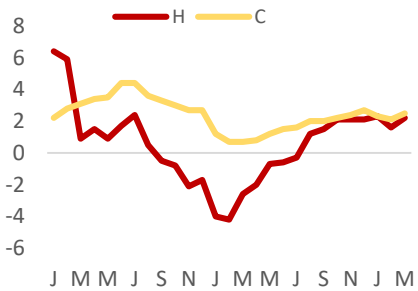
Movement of Purchasing Managers' Index- March 2026

Manufacturing PMI	66.7
Services PMI	59.4
Construction PMI (Feb)	70.3

All indices, except construction PMI, recorded improvements compared to February 2026.

Inflation

CCPI Inflation (%)-*Base 2021*



March 2026	Headline	Core
	2.2%	2.5%

NCPI Inflation (%)-*Base 2021*

March 2026	Headline	Core
	2.4%	2.7%

External Sector

Merchandise Trade
Feb 2026

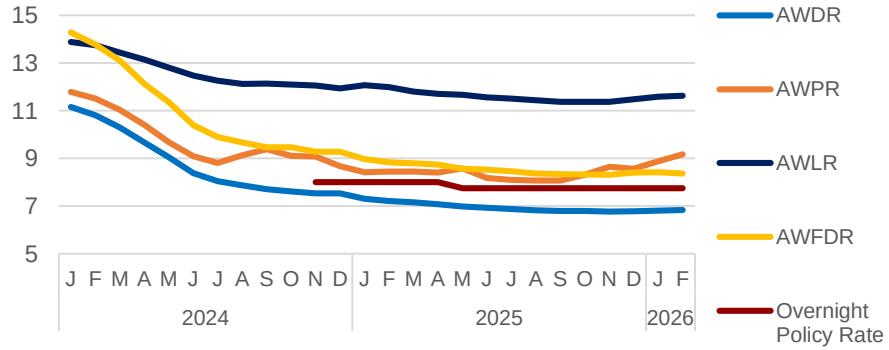
Trade Deficit	**USD 776 mn**
Exports	**USD 1, 058mn** 0.5% y-o-y growth
Imports	**USD 1,834mn** 25.2% y-o-y growth
Services Net Exports	**USD 340 mn** -16.7% y-o-y increase

Tourist Arrivals **183,979**
Mar 2026 -19.8% y-o-y growth

Tourism Earnings
March 2026 **USD 223.7mn**
-15.9% y-o-y decline

Workers' Remittances
March 2026 **USD 814.8mn**
26.5% y-o-y growth

Interest Rates



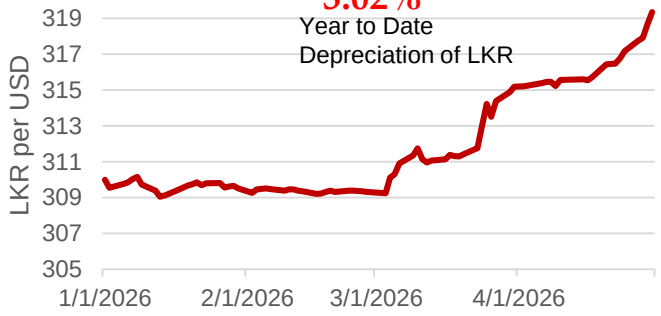
Growth in Credit to Private Sector

Feb 2026
26.4%

Overnight Policy Interest Rate (OPR): 7.75%

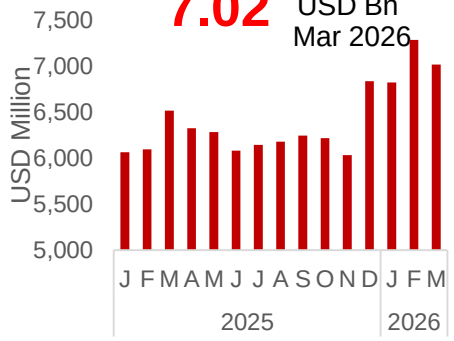
Exchange Rate

3.02%
Year to Date Depreciation of LKR



Official Reserves

7.02 USD Bn
Mar 2026



Highlights

Global Economy

Resilient but Vulnerable: Economic Trends in Asia and Sri Lanka

Growth in developing Asia is expected to slow to about 5.1% in 2026 amid global uncertainty and high energy prices, though domestic demand and tech sector growth provide some support. Sri Lanka's recovery continues at a modest pace (around 3.4%) but remains fragile due to structural constraints and external risks, particularly from rising energy costs and geopolitical tensions, with the overall outlook cautiously optimistic but downside risks persisting.

Geopolitics in the Soil: Fertilizer Disruptions and the Return of Food Inflation

The Middle East conflict in early 2026 has disrupted key fertilizer supply chains, particularly through the Strait of Hormuz, driving up prices due to supply constraints rather than demand. With higher energy costs and ongoing logistics risks, fertilizer markets have become volatile, raising concerns about reduced agricultural output and renewed food inflation, especially in import-dependent regions.

Beyond OPEC: UAE's Strategic Shift in a Changing Energy World

The United Arab Emirates decision to leave Organization of the Petroleum Exporting Countries in 2026 marks a significant shift in global energy dynamics, driven by its desire for greater production flexibility and long-term strategic autonomy. While the immediate market impact is limited, the move weakens OPEC's ability to manage oil supply, increases the potential for price volatility, and reflects broader geopolitical tensions and changing incentives in the global energy transition.

From Tariffs to Refunds: A Landmark Trade Policy Reversal in the U.S.

Following a U.S. Supreme Court ruling that struck down certain Trump-era tariffs as unlawful, the U.S. government has begun processing refunds for importers who paid those duties. The decision found that the tariffs exceeded presidential authority, triggering a legal obligation for reimbursement. The refund process is now being managed in phases through U.S. Customs and Border Protection, though full disbursement is expected to take time due to the scale and complexity of claims.

Sri Lankan Economy

When Rain Falls Short: The Economics Behind Rising Electricity Prices in Sri Lanka

Sri Lanka's electricity tariffs were revised upward from 1 April 2026 under a quarterly cost-reflective pricing mechanism approved by the PUCSL, mainly due to higher generation costs caused by reduced hydropower output, limited coal availability, and greater reliance on expensive thermal power. The revision averages about 13%, with varying impacts across consumer groups, and was also driven by a significant revenue shortfall in the electricity sector that threatened the financial stability of the Ceylon Electricity Board.

Between Reform and Rigidity: Sri Lanka's Journey Toward Fuel Price Transparency

Sri Lanka's fuel pricing formula, introduced after the 2022 economic crisis, was designed to ensure cost-reflective pricing, reduce fiscal burdens, and improve transparency by linking domestic fuel prices to import costs, taxes, and operational expenses. While it initially led to sharp price increases and contributed to inflation, especially in 2022–2023, prices have since stabilised in 2025–2026, reflecting improved macroeconomic conditions and reduced inflation pass-through, though structural limitations still affect full market responsiveness and flexibility.

Release of Key Economic Reports: Global Trends, Commodity Prices, and Sri Lanka's Growth Path

A number of recent reports have been released providing updated economic reviews and projections for both the global and domestic economy. These include assessments from international institutions such as the IMF, World Bank, and Asian Development Bank (ADB), as well as domestic analysis from the Central Bank of Sri Lanka (CBSL), offering key insights into current trends, risks, and growth outlooks.

Overall, these reports point to a moderating global growth outlook amid heightened uncertainty, persistent geopolitical tensions, and volatile commodity prices, particularly in energy and fertilizers. For Sri Lanka, the outlook indicates a gradual recovery with stabilising macroeconomic conditions, but growth remains constrained by structural challenges, external vulnerabilities, and continued exposure to global price shocks.

KEY INSIGHTS
Sri Lankan Economy

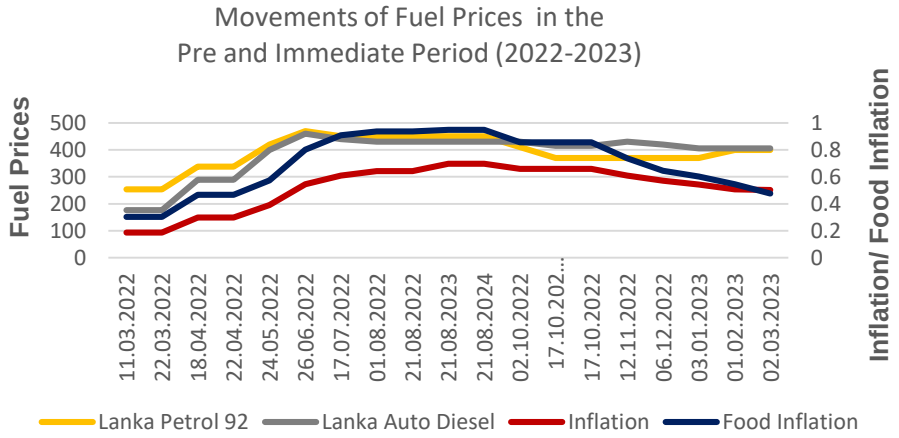
Sri Lanka's Fuel Pricing Formula: Performance and Challenges

Sri Lanka's fuel pricing formula, rigorously implemented after the Sri Lankan economic crisis of 2022. It was mainly designed to ensure cost reflective pricing, reduced fiscal burdens, and improve transparency. Domestic fuel prices are linked to import costs, taxes, and operational expenses through the system as it eliminates subsidies and stabilize supply while aligning with reforms under the International Monetary Fund, EFF program.

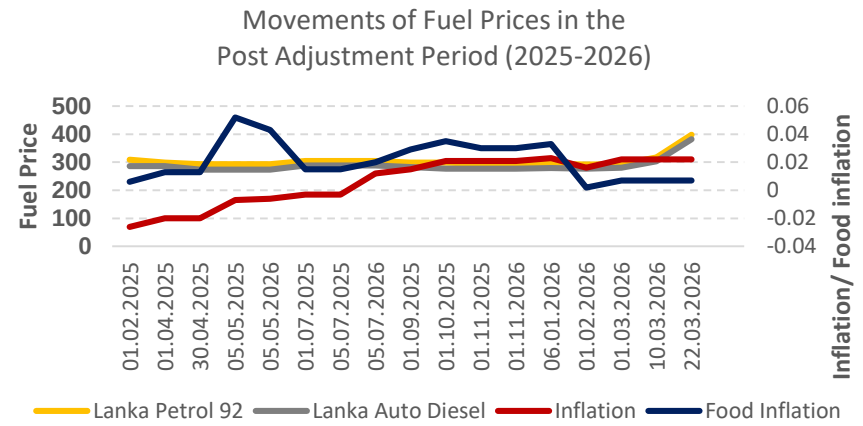
In the 2022 -2023 period, fuel prices increased rapidly, reflecting the transition to market based pricing. This led to a strong pass through effect to inflation, particularly food inflation, due to higher transportation and distribution costs. The graph highlights how fuel price adjustments significantly contributed to the increase in overall price levels during the economic crisis phase.

In contrast, the 2025 – 2026 period shows a relatively stable fuel prices with smoother adjustments. Inflation remained moderate, illustrating that the economy has gradually absorbed fuel price shocks. The weakened pass through effect suggests improved macro-economic stability. However, challenges still remain as the system heavily relies on backward looking cost recovery rather than forward looking cost reflectively. It creates delays responding to global price changes. Fixed margins and occasional government intervention also limit flexibility and transparency.

Overall, Sri Lanka's fuel pricing formula has improved transparency and reduced arbitrary pricing decisions. However, structural rigidities, reliance on backward-looking cost recovery, and limited pricing flexibility constrain its ability to fully achieve economic efficiency and market responsiveness. As a result, it is a vital to have a shift toward cost-reflective and dynamically adjusted pricing would be essential for the formula to function optimally.



Pre and Immediate Period (2022-2023)



Post Adjustment Period (2025-2026)

Data Sources: Department of Census and Statistics , CPC Website

KEY INSIGHTS
Sri Lankan Economy

Electricity Tariff Hike Q2 2026

The electricity tariff revision implemented on 1 April 2026, following approval by the PUCSL based on a proposal from the Ceylon Electricity Board, reflects Sri Lanka's continued move toward cost-reflective electricity pricing. The revision is part of a quarterly adjustment mechanism designed to align electricity tariffs with the actual cost of generation and supply, while ensuring the financial sustainability of the power sector. The revision was mainly driven by rising electricity generation costs due to several domestic factors. Reduced rainfall significantly limited hydropower generation, which is typically one of the lowest-cost energy sources in Sri Lanka. At the same time, limited availability of low-cost coal power further constrained the generation mix, resulting in a greater reliance on thermal power generation, which depends on imported fuel and is considerably more expensive. Increasing electricity demand has also added pressure on the system.

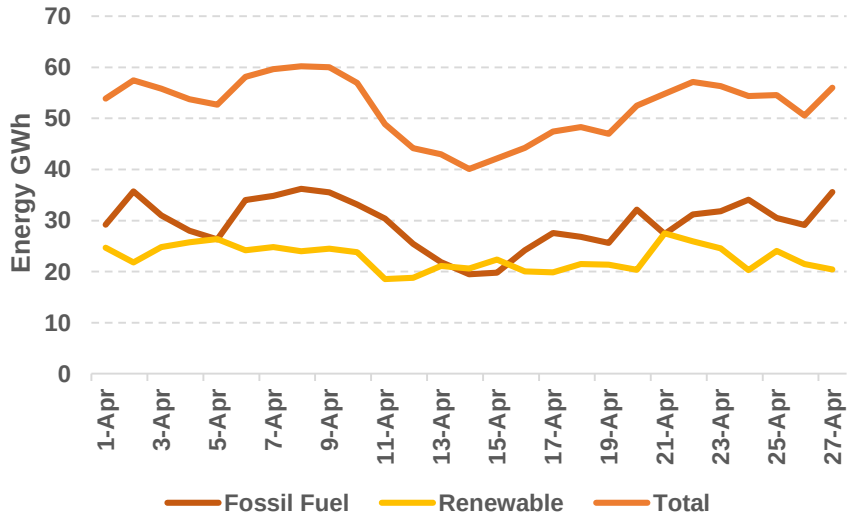
External factors, such as global fuel price increases influenced by geopolitical tensions in the Middle East, have contributed indirectly by increasing the cost of thermal generation, although domestic supply constraints remain the primary drivers. The tariff revision introduced updated rates across all consumer categories, with the overall increase estimated at around 13% on average. General household consumers experienced an increase of approximately 8%, while industrial users saw an increase of about 8.7%, and government institutions faced a higher increase of around 14.4%. These variations reflect differences in consumption patterns and tariff structures across user categories. For domestic users, the existing block tariff system remains in place, where lower levels of consumption are charged at lower rates and higher usage attracts progressively higher per-unit charges. This structure is intended to protect low-income households while encouraging more efficient electricity use. Fixed monthly charges continue to apply in addition to usage-based tariffs. For industrial and commercial users, time-of-use pricing continues to be applied, with higher tariffs during peak evening hours, moderate rates during the daytime, and lower rates during off-peak periods. This system encourages users to shift electricity consumption away from peak demand times, thereby improving grid efficiency and reducing system strain. A key rationale for the tariff revision was the projected financial position of the electricity sector.

The CEB estimated a revenue shortfall of approximately Rs. 15.8 Bn for the second quarter of 2026 (April to June), with total costs projected at around Rs. 136.5 billion compared to expected revenues of about Rs. 116.9 Bn. This gap highlighted the need for a tariff adjustment to ensure cost recovery and maintain operational and financial stability. It is also notable that the CEB had previously proposed a tariff increase of 11.6% for the first quarter of 2026 (January to March), which was not approved, resulting in no tariff revision during that period and adding to the financial pressure carried into the second quarter.

Key Details on 2026 Q2 Tariff Hike (Effective April 1)

Domestic Consumption	
0-30 Units	4.3% increase
31-60 Units	6.9% increase
61-90 Units	6.9% increase
91-180 Units	7.2% increase
Above 180 Units	Up to 25% increase, based on reported approvals

Electricity Generation by Source (GWh)



Data Sources: PUCSL, Ceylon Electricity Board

KEY INSIGHTS
Global Economy

Growth in South Asia Moderates, amidst Rising Geopolitical Risks

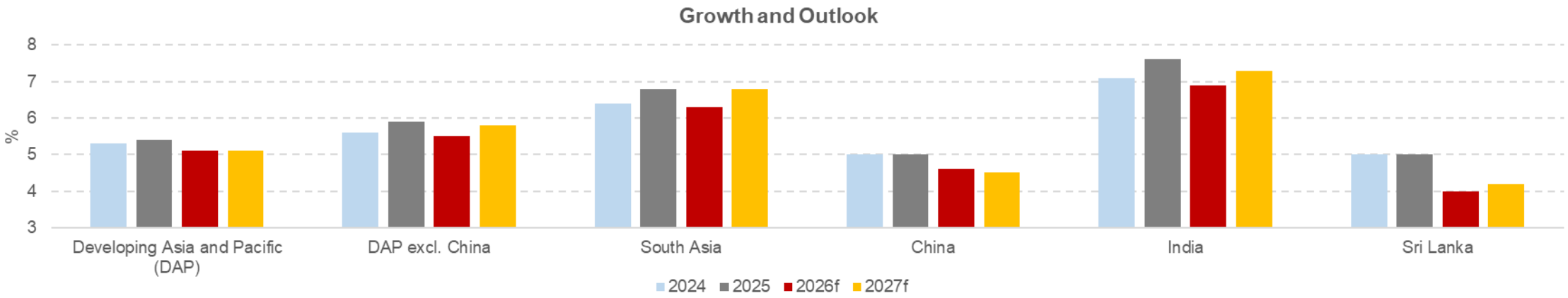
Economic growth across developing Asia and the Pacific is expected to moderate in 2026, reflecting a transition from post-pandemic recovery to a more uncertain and risk-prone environment. The Asian Development Bank (ADB) projects regional growth to ease to around 5.1%, as external pressures, particularly elevated energy prices and global uncertainty, begin to weigh on economic activity.

Despite this moderation, underlying resilience remains evident. Strong domestic demand, particularly in large economies such as India, and continued expansion in technology-related sectors are expected to support growth. However, this resilience is uneven, with smaller and energy-import-dependent economies facing tighter external balances and inflationary pressures.

Sri Lanka's recovery, while continuing, remains fragile. The ADB expects the economy to grow at around 3.4% in 2026, following a rebound in 2024- 2025, indicating a shift toward more moderate and stabilizing growth. This reflects ongoing macroeconomic adjustments, debt restructuring efforts, and reliance on external inflows such as tourism and remittances. However, structural constraints, fiscal consolidation, and exposure to external shocks are expected to limit the pace of expansion.

The ADB highlights the Middle East conflict as a key downside risk for both the region and Sri Lanka. Rising energy prices, disruptions to trade and logistics, and potential impacts on remittance flows from the region could significantly affect external balances and inflation. Given Sri Lanka's high dependence on imported fuel, such shocks could disproportionately strain the economy and slow recovery momentum.

Looking ahead, the regional outlook remains cautiously optimistic, with growth expected to improve in 2027, contingent on easing geopolitical tensions and stable global conditions. However, risks remain firmly tilted to the downside, including sustained energy price volatility, weaker global demand, financial tightening, and geopolitical escalation, underscoring the need for continued policy discipline and reform momentum.



Data Source: ADB

KEY INSIGHTS
Global Economy

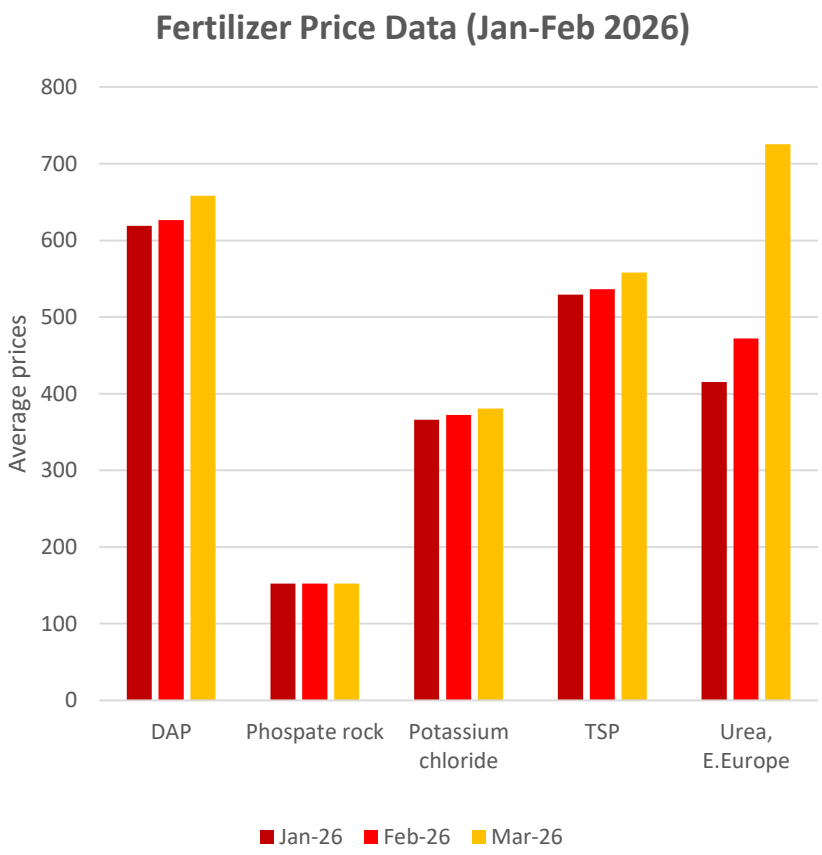
How the Middle East War Is Reshaping Global Fertilizer Markets

By April 2026, the conflict in the Middle East has begun to show up clearly in global input markets, and fertilizers have become one of the most visible links between geopolitics and food prices. According to the IMF's April Regional Economic Outlook Update, the fertilizer sector is especially vulnerable because so much production is concentrated in the region, depends heavily on energy, and relies on trade routes that are now under strain.

The near-closure of the Strait of Hormuz after fighting escalated in late February had an immediate impact. Shipments of key fertilizer inputs, ammonia, urea, sulfur, and phosphate-based materials were suddenly restricted. This matters because Gulf producers supply about one-fifth of the world's nitrogen fertilizer exports and more than 40% of global sulfur. Even short disruptions in this corridor are enough to tighten markets worldwide. While a ceasefire was announced on April 7, conditions have not returned to normal. Shipping volumes remain below pre-conflict levels, insurance costs are higher, and logistics risk is still elevated, keeping supply tight and price volatility high through April.

Prices have responded quickly. The World Bank's Fertilizer Price Index jumped sharply in March and April, wiping out much of the price relief seen during 2025. Futures markets have also adjusted, building in a higher geopolitical risk premium as buyers try to secure supply and sellers factor in production constraints and longer, costlier shipping routes. Energy markets are further amplifying these pressures. The IMF notes that Brent crude briefly surged above USD 100 per barrel in early April, peaking near USD 118 before easing after the ceasefire. For fertilizer producers, the impact of higher energy prices goes far beyond transport costs. Nitrogen fertilizers, in particular, rely heavily on natural gas, meaning energy price spikes feed directly into production costs and, ultimately, fertilizer prices.

Importantly, this surge is not being driven by stronger demand. Instead, it reflects supply disruption. The IMF highlights that food-import-dependent regions including parts of the Middle East and North Africa, South Asia, and Sub-Saharan Africa are especially exposed. Higher fertilizer prices could lead farmers to reduce application rates, lowering yields and reviving food inflation later in 2026. In this current context, fertilizer markets have become a real-time indicator of conflict-driven supply risk. They illustrate how closely energy security, trade routes, and food prices are now connected and how shocks in one region can ripple quickly through the global food system.



Source: World Bank Commodities Price Data (The Pink Sheet)

Data Source: IMF, World bank

Evolving Landscape

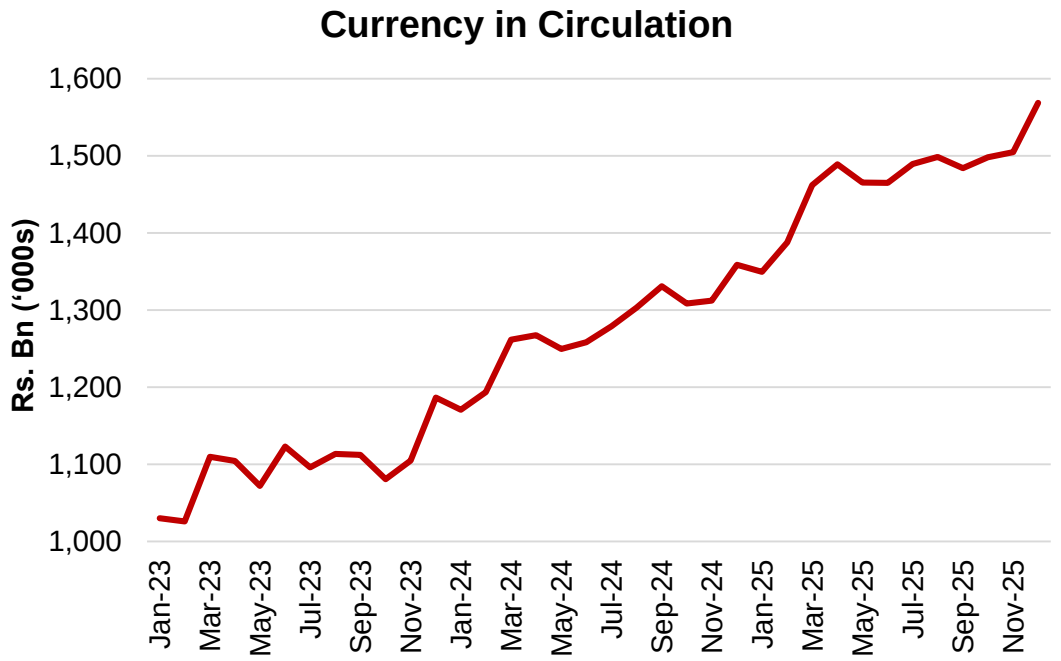
Sri Lanka Launches National QR Payment Promotion Programme

The launch of Sri Lanka's "National QR Payment Promotion Programme" in April 2026 marks a decisive policy push to accelerate the country's transition towards a digitally enabled, cash-lite economy. Building on the existing LankaQR infrastructure, the initiative represents a structural intervention aimed at reshaping payment behaviour, reducing transaction costs, and deepening financial inclusion.

At its core, the government introduced a nationwide incentive-driven expansion of the LankaQR ecosystem. The most significant policy measure accompanying the launch was the complete removal of the Merchant Discount Rate (MDR) on QR transactions up to LKR 5,000. This effectively allows merchants, particularly small and micro enterprises, to accept digital payments at zero cost. The programme is supported by a broad institutional framework including the Central Bank, the Ministry of Digital Economy, LankaPay, and over 20 financial institutions, signalling a coordinated national effort.

The primary objective of the programme is to reduce reliance on physical cash and promote a cash-lite economy. Despite relatively strong financial inclusion, where 89% of adults have access to banking, cash continues to dominate transactions, with currency in circulation estimated at LKR 1.57 trillion as at end 2025. The government's strategy therefore targets a behavioural shift: making digital payments not only available but economically preferable. By eliminating transaction costs and expanding awareness, the programme seeks to integrate informal sector participants into the formal financial system, improve transparency, and enhance tax compliance over time.

Economically, the programme has several expected impacts. First, it reduces transaction frictions, particularly for low-value, high-frequency payments that dominate retail activity. Second, it lowers the cost of doing business for small merchants, thereby improving margins and potentially encouraging formalisation. Third, by digitising transactions, it generates data trails that can improve credit access, tax administration, and macroeconomic monitoring. Finally, the shift away from cash reduces costs associated with printing, transporting, and managing currency, which are often overlooked but significant in aggregate.



A key point of comparison is how QR payments differ from traditional card-based systems, including contactless "tap-to-pay". Card payments typically involve higher infrastructure costs such as point-of-sale (POS) machines, card networks (such as Visa or Mastercard), and associated interchange fees. These costs are passed on to merchants through MDR charges, often ranging between 1-4%. In contrast, QR payments operate through a simpler, account-to-account transfer model. A merchant only needs a printed QR code, while the customer uses a mobile banking or wallet app to scan and pay. This dramatically reduces entry barriers, especially for small vendors such as street traders.

Data Sources: CBSL, PMD, NCPI

Evolving Landscape

For merchants, the advantages are immediate: zero MDR (for low-value transactions), no need for expensive hardware, and instant settlement into bank accounts. For consumers, QR payments offer convenience, interoperability across banks, and often enhanced security, as transactions are authenticated within banking apps rather than through physical cards. Unlike card payments, which may rely on credit lines, QR systems are typically debit-based, reducing the risk of over-indebtedness while ensuring real-time fund transfers.

The underlying infrastructure of the system is anchored in Sri Lanka's national payment network. LankaQR, introduced by the Central Bank, serves as the standardised QR code framework, enabling interoperability across banks and payment providers. Transactions are routed through the national clearing system operated by LankaPay, often leveraging the Common Electronic Fund Transfer Switch (CEFTS). This means that QR payments are not a parallel system but an extension of an existing, robust digital payments backbone.

Sri Lanka's initiative closely parallels the experience of India, where QR-based payments, particularly through the Unified Payments Interface (UPI), have transformed the payments landscape. India's rapid adoption was driven by similar principles: low-cost infrastructure, interoperability, and strong policy backing. UPI transactions have grown exponentially, crossing billions of transactions monthly, and have significantly reduced reliance on cash while formalising segments of the informal economy. The economic effects have included improved tax compliance, expansion of digital financial services, and increased efficiency in retail payments.

The key challenge lies in scaling usage. The final quarter of last year, showed only around 400,000 people used QR-based payments and actual transaction volumes remain relatively low, indicating a gap between availability and adoption. If successfully implemented, the National QR Payment Promotion Programme could replicate aspects of India's digital payments success.