

Monthly Economic Update (MEU)

November 2025

Economic Intelligence Unit
The Ceylon Chamber of Commerce



EIU

Highlights

Global Economy

Insights from Greece's Recovery. Greece's recent upgrade to "BBB" by Fitch Ratings highlights the importance of disciplined fiscal management, debt reduction, and structural reforms in restoring economic stability and investor confidence after a prolonged crisis. By reducing public debt, achieving primary surpluses, building substantial cash reserves, and strengthening institutions and the banking sector, Greece stabilized growth and protected its economy against shocks. Sri Lanka, having faced a severe economic crisis, can draw important lessons from this experience: maintaining fiscal discipline, expanding reserves, enhancing institutional capacity, improving revenue collection, and implementing structural reforms. Following these principles will help Sri Lanka restore investor confidence, stabilize debt, and build long-term economic resilience to support sustainable growth.

Commodity prices are expected to decline by around 7 percent this year, reflecting subdued global economic activity, heightened trade tensions and policy uncertainty, and ample oil supply. In 2026, prices are projected to fall by an additional 7 percent—marking the fourth consecutive year of decline—as global growth remains sluggish and the oil market continues to face oversupply. These movements in energy prices are anticipated to further support global disinflation in 2026.

Prices of metals and minerals are expected to remain broadly stable next year, while agricultural prices are forecast to edge lower due to strong global supply conditions. In contrast, precious metals are projected to rise by a further 5 percent, following a historically large investment-driven surge of approximately 40 percent in 2025.

Sri Lankan Economy

The inflation rates remains positive. As the inflation rates reached positive levels in Q2, this trend continued through with the CCPI core inflation at 2.2%. This positive trend is expected to be followed through to 2026, and stabilize.

Building Fiscal Resilience: Sri Lanka's Medium-Term Debt Plan. Sri Lanka's 2026–2030 Medium-Term Debt Management Strategy aims to consolidate post-2022 fiscal gains, restore debt sustainability, and reduce refinancing pressures. Key priorities include lowering reliance on short-term domestic debt, lengthening maturities, and leveraging concessional external financing, while managing near-term Treasury bill redemptions and smoothing external FX repayments to 2045.

The U.S. removal of tariffs on Sri Lankan agricultural products including tea, cinnamon, coconut, and spices—boosts competitiveness and market access. This policy shift enhances value addition, diversification, and export potential. To fully capitalize, Sri Lanka must complement this external opportunity with domestic reforms in trade policy, logistics, and regulatory efficiency.

Financial Stability Outlook. Sri Lanka's 2026 National Budget emphasizes continuity, fiscal discipline, and policy predictability. It targets over 7% economic growth through private sector investment, export diversification, and SOE modernization. Key measures include revenue modernization, tax rationalization, and social protection, while financing a Rs. 1,757 billion deficit via domestic and foreign sources, reinforcing stability and long-term debt sustainability. Also, the Monetary Policy Board has decided to maintain the OPR at the current level of 7.75%.

Sri Lanka's macroeconomic recovery and fiscal consolidation are expected to strengthen financial sector stability. With higher domestic output, low inflation and interest rates, and ongoing fiscal measures, credit growth—especially to the private sector—is likely to continue. As household and business balance sheets improve, credit quality should also strengthen. However, risks remain. Elevated Stage 3 loans require close monitoring as the credit cycle expands. External vulnerabilities—such as global uncertainties, export pressures, and rising imports—pose downside risks. Capital market progress is supported by improving conditions, though foreign investor participation and secondary market activity remain limited.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

4.9% Q2-2025
4.1% (Q2-2024)

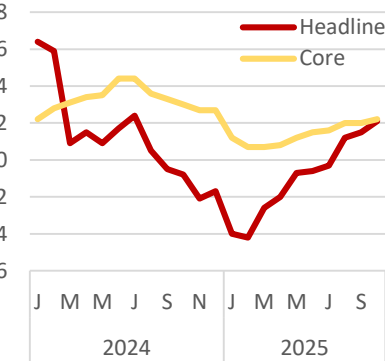
Movement of Purchasing Managers' Index- Oct 2025

Manufacturing PMI **61.0**
Services PMI **66.0**
Construction PMI (July) **67.6**

All indices, except services PMI recorded an expansion indicating the overall outlook of three sectors remain positive in the next 3 months

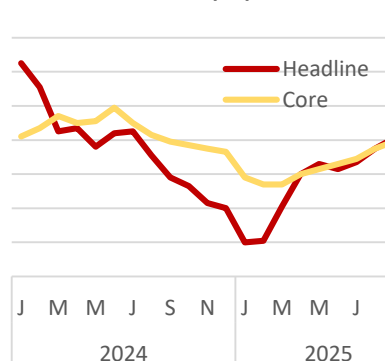
Inflation

CCPI Inflation (%) - Base 2021



Oct 2025 Headline **2.1%** Core **2.2%**

NCPI Inflation (%) - Base 2021



Oct 2025 Headline **2.7%** Core **2.1%**

External Sector

Merchandise Trade

Sep 2025

Trade Deficit **USD 910mn**

Exports **USD 1138mn**
12.5% y-o-y growth

Imports **USD 2048mn**
24.5% y-o-y growth

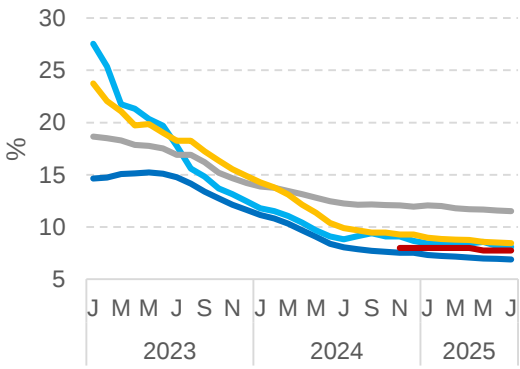
Services Trade **USD 192.9mn**
6.3% y-o-y decline

Tourist Arrivals **135,907**
Oct 2025 16.7% y-o-y growth

Tourism Earnings **USD 185.6mn**
4.9% y-o-y growth

Workers' Remittances **USD 587.7mn**
20.1% y-o-y growth

Interest Rates



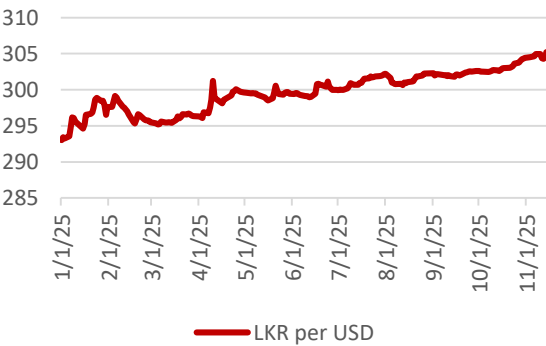
AWDR
AWPR
AWLR
AWFDR
Overnight Policy Rate

Overnight Policy Interest Rate (OPR): 7.75%

Growth in Credit to Private Sector

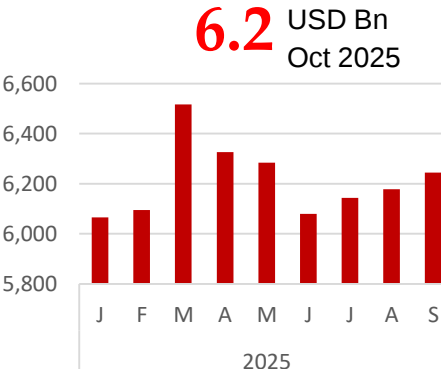
Sep 2025
22.1%

Exchange Rate



Depreciation of LKR thus far 2025
2.3%

Official Reserves



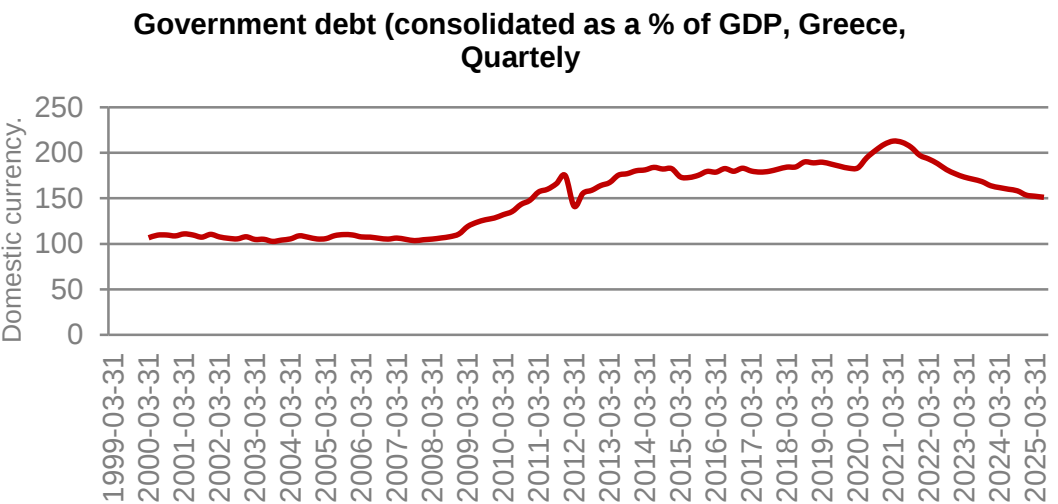
KEY INSIGHTS

Global Economy

Greece's Fitch Upgrade: Lessons for Sri Lanka's Economic Recovery

Greece's recent upgrade to "BBB" by Fitch Ratings shows the importance of careful financial management, debt reduction, and reforms. Fitch noted that Greece's public debt fell from 209% of GDP in 2020 to around 145% in 2025, while the country achieved a primary surplus of 4.8% of GDP in 2024. Large cash reserves of about 18% of GDP also helped protect the economy against unexpected shocks. Greece's improved rating comes after a decade-long crisis. Before 2010, Greece faced extremely high debt levels, weak fiscal management, and large deficits, combined with a global financial crisis. Investor confidence collapsed, government bond yields spiked, and credit rating agencies, including Fitch, downgraded Greece to junk status. Severe austerity measures, multiple bailouts, and painful structural reforms followed, leading to deep recessions, high unemployment, and social hardship. Experts say Greece's recovery happened because the government carefully managed its budget, strengthened institutions, and stabilized the banking system. Better tax collection, controlled spending, and rules keeping the budget balanced helped reduce debt, maintain growth of 2.3% in 2024, and restore investor confidence. Growth was also supported by domestic consumption, rising investment, and reforms that improved competitiveness. Sri Lanka, which faced a severe economic crisis recently, can learn several lessons.

The Central Bank of Sri Lanka (CBSL) reports a positive primary balance for the second year in a row, while central government debt fell to 96.1% of GDP in 2024, and gross official reserves reached US\$6.1 billion, enough for four months of imports. The IMF notes that Sri Lanka's reforms under the Extended Fund Facility are strengthening stability, with revenue collection improving and a projected primary surplus of 2.3% of GDP. Both countries faced severe debt crises, economic contractions, and loss of investor confidence. Sri Lanka can learn from Greece's approach: maintain fiscal discipline, build cash reserves, strengthen institutions, clean up the banking system, and implement structural reforms to support growth. By following these lessons, Sri Lanka can restore confidence, stabilize debt, and build long-term economic resilience.



Sri Lanka: Selected Economic Indicators 2024-2027

	2024	2025	2026	2027
	Est	Projections		
GDP and inflation (in percent)				
Real GDP	5	3.5	3.1	3.1
Inflation (average) 1/	1.2	3.3	5.2	5
Inflation (end-of-period) 1/	-1.5	8.9	5.2	5
GDP Deflator growth	3.8	3.6	5.3	5.1
Nominal GDP growth	9	7.1	8.5	8.4

KEY INSIGHTS

Global Economy

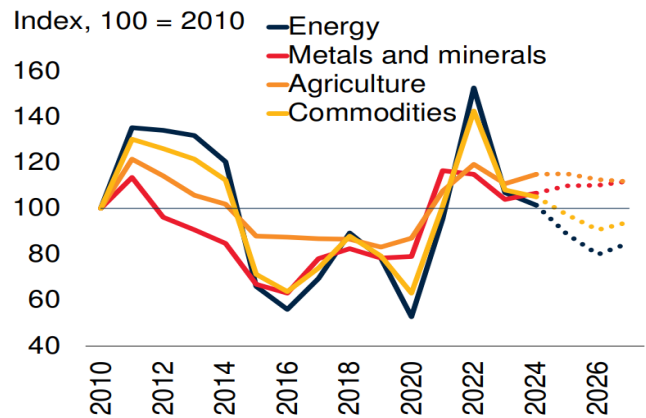
The Mixed Signals of Global Commodity Markets.

Commodity prices are expected to decline by about 7 percent overall this year, reflecting subdued global economic activity, elevated trade tensions and policy uncertainty, and ample global supply of oil. In 2026, commodity prices are forecast to fall by a further 7 percent, marking the fourth consecutive year of decline, as global growth remains sluggish and the oil market continues to be oversupplied. Energy price movements are expected to continue contributing to global disinflation in 2026, easing overall cost pressures in the global economy.

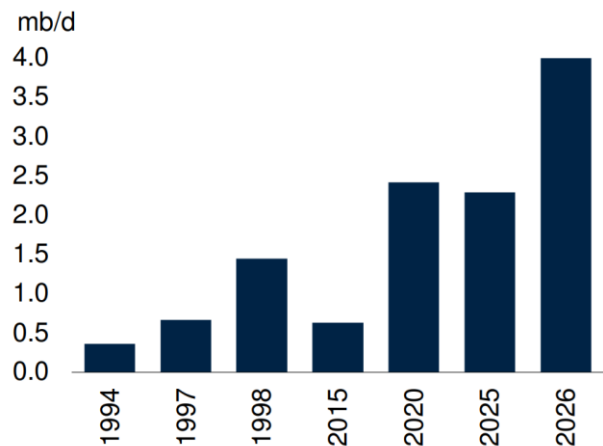
Metals and minerals prices are projected to remain stable in 2026, reflecting balanced supply and demand conditions. Agricultural prices are forecast to edge down, primarily due to strong supply conditions across key producing regions. In contrast, precious metals prices are projected to rise another 5 percent, following a historically large, investment-driven rally of about 40 percent in 2025, highlighting continued investor demand for safe-haven assets. Risks to the commodity price projections are tilted to the downside. Key downside risks include weaker-than-expected global growth, a longer-than-assumed period of economic policy uncertainty, and additional oversupply of oil. Upside risks, on the other hand, include intensifying geopolitical tensions, the market impact of additional oil sanctions, supply reductions stemming from trade restrictions, unfavorable weather conditions, and the faster-than-expected rollout of new data centers.

Commodity price volatility in recent years has revived interest in supply management through international commodity agreements. Historical experience, however, shows that the most effective policy is to promote diversification, innovation, transparency, and market-based pricing—measures that build lasting resilience to commodity price volatility. These approaches aim to enhance market stability, mitigate risk, and support long-term economic sustainability.

Sri Lanka: Selected Economic Indicators 2024-2027



Average Annual Excess Oil Market Supply in Selected Years



KEY INSIGHTS

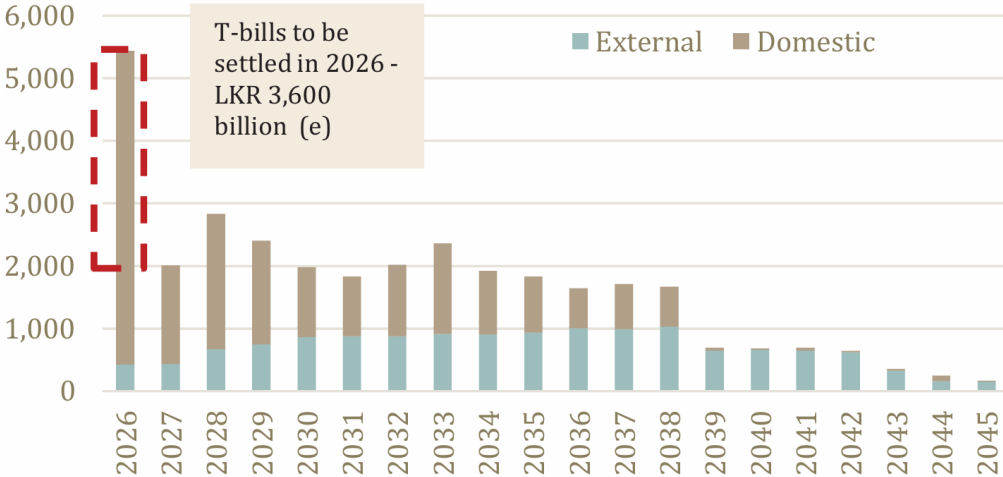
Sri Lankan Economy

Reinforcing Stability through a Prudent Public Debt Strategy

Sri Lanka’s Medium-Term Debt Management Strategy (MTDS) for 2026-2030 is positioned as a central pillar in consolidating the fiscal gains achieved after the 2022 crisis and restoring long-term debt sustainability. Following the sovereign restructuring, the debt-to-GDP ratio has begun to ease, declining from 114.2 percent in 2022 to 99.1 percent in 2024, reflecting both the one-off impact of restructuring and the early outcomes of revenue-based fiscal consolidation. This downward trajectory provides a critical foundation for the MTDS, which seeks to reduce refinancing pressures, strengthen the maturity structure of government debt, and gradually lower the currently elevated interest burden.

The redemption profile of Sri Lanka’s existing government debt reveals a pronounced near-term refinancing burden driven largely by the Treasury bill stock. By end-2025, outstanding T-bills amounting to LKR 3,600 billion are scheduled for full redemption in 2026, underscoring significant short-term refinancing risk. This pattern is consistent with recent years, with T-bill balances of LKR 4,092 billion at the start of 2024 and LKR 4,070 billion at the start of 2025, both of which were rolled over, reflecting the Government’s reliance on short-maturity domestic funding. While this concentration heightens rollover exposure, it can be partially alleviated through strengthened revenue performance and tighter cash-flow management. On the external side, the debt restructuring undertaken has markedly smoothed repayment obligations, reducing the previous clustering of near-term FX redemptions. As a result, external FX repayments are projected to rise gradually and reach a peak in 2038, coinciding with the commencement of capital repayments on restructured obligations, before steadily declining through 2045.

The strategy’s emphasis on managing cost and risk is anchored in three core priorities: reducing reliance on short-term domestic instruments, lengthening maturities, and leveraging concessional external financing. Short-term pressures remain evident, with nearly 17 percent of GDP maturing within one year by end-2025, underscoring the need to progressively rebalance away from Treasury bills. The planned issuance of longer-tenor domestic bonds combined with the cautious reintroduction of FX-denominated domestic bonds, aims to rebuild the yield curve while softening rollover risk. At the same time, access to low-cost multilateral and bilateral sources is expected to complement domestic market financing, especially in the run-up to the ISB redemptions commencing in 2028.



Cost and Risk indicators	Existing Level (End 2025)	Target Level (End 2030)
Average time to maturity		
• Domestic Debt Portfolio	4.6 Yrs	6 Yrs
• Total Debt Portfolio	6.8 Yrs	8 Yrs
T-bills % of Total Debt	10.7%	5%
Debt refixing in 1 year	26.8%	22%
Debt Maturing in 1 year	17%	10%
Interest payments to revenue	52.2%	35%

KEY INSIGHTS

Sri Lankan Economy

Tariff Reductions on Sri Lankan Agri-Exports: A Timely Boost for Competitiveness

The recent decision by the United States to remove tariffs on a wide range of agricultural products marks a significant turning point for Sri Lankan exporters. Among the products benefiting from this policy shift are Ceylon cinnamon, tea, coconut products, and spices items that have long been central to Sri Lanka's agricultural export portfolio.

Previously, these goods faced reciprocal tariffs as high as 44%, later negotiated down to 20%. The complete removal of these duties under the latest U.S. trade order creates a more level playing field for Sri Lankan producers in one of their most lucrative markets. This move is part of a broader strategy by the U.S. to ease trade tensions and strengthen supply chains by exempting over 200 agricultural items, including tropical fruits, juices, and fertilizers.

For Sri Lanka, the implications are profound. Tea, spices, and coconut-based products account for a substantial share of the country's agricultural exports to the U.S. Lowering tariff barriers will not only improve price competitiveness but also encourage value addition and product diversification. Exporters who previously struggled with high landed costs can now explore niche markets, such as organic and specialty products, with greater confidence.

However, the benefits may not be immediate for consumers. Industry analysts note that existing inventories imported under the old tariff regime will take time to clear, meaning price reductions at retail level could lag by several months. Still, for producers and exporters, this policy change signals a strong opportunity to regain lost ground and expand market share.

Beyond short-term gains, this development underscores the need for Sri Lanka to address its own trade policy challenges. Domestic tariffs, cumbersome customs procedures, and non-tariff barriers have historically hindered competitiveness. While external tariff relief is welcome, internal reforms such as simplifying regulations and improving logistics are essential to fully capitalize on global opportunities.

The U.S. decision also comes at a time when Sri Lanka is seeking to diversify its export markets and attract foreign investment into agribusiness. By leveraging this tariff advantage, local firms can strengthen supply chain linkages, invest in quality improvements, and position themselves as reliable partners in global trade.

The removal of U.S. tariffs on Sri Lankan agricultural products is more than a trade concession, it is a strategic opening. To make the most of it, Sri Lanka must pair this external advantage with internal reforms, ensuring that its agricultural sector remains competitive, resilient, and ready to thrive in an increasingly interconnected global economy.

Key Milestones in Tariff Policy

• Introduction of Reciprocal Tariffs

• In April 2025, the U.S. imposed reciprocal tariffs targeting trade imbalances, affecting imports including those from Sri Lanka.

• Tariff Rate Reduction

• By September 2025, diplomatic efforts led to lowering the tariff rate for Sri Lankan exports from 44% to 20%, aiding exporters.

• Exemption of Agricultural Products

• In November 2025, exemptions were granted for 237 agricultural classifications, enabling duty refunds and trade facilitation.

KEY INSIGHTS

Sri Lankan Economy

Insights on the National Budget 2026

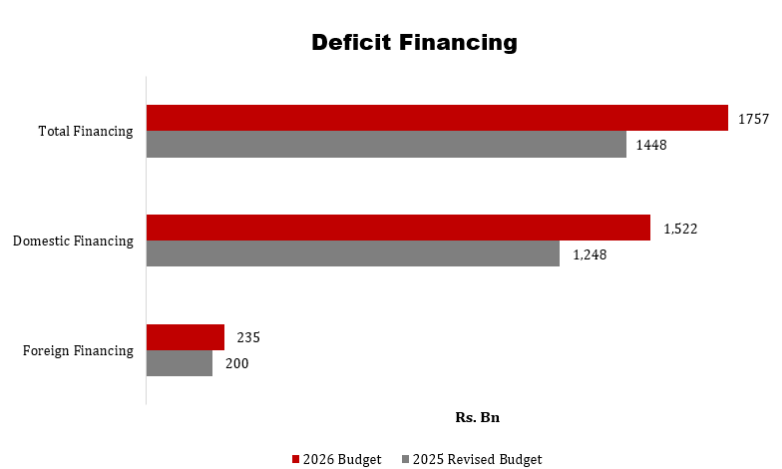
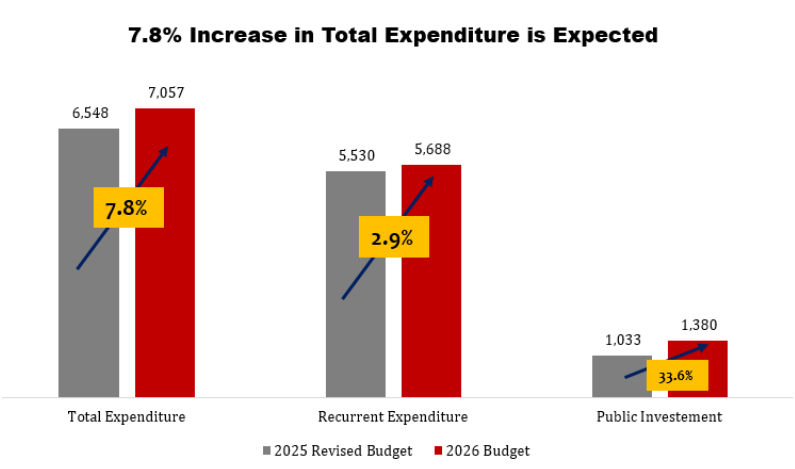
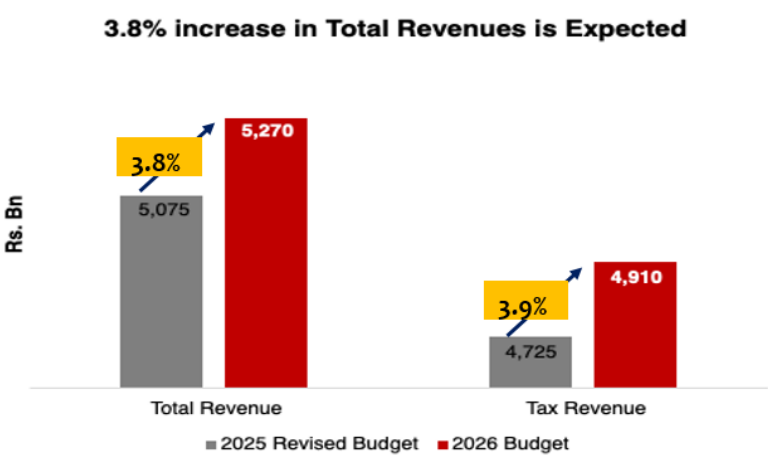
The National Budget 2026 positions itself as a continuity budget that reinforces policy consistency, predictability, and the government’s ongoing reform agenda. The Budget 2026 reflects a commitment to fiscal discipline and transparent governance, building on the stabilization achieved in 2025. The overarching theme is clear: restoring stability, accelerating growth, and ensuring equitable development, anchored in good governance and a rules-based economic framework.

The budget’s strategic objectives emphasize sustainable and inclusive economic growth, export diversification, and long-term debt sustainability. The government expects an economic growth above 7%, supported by private sector-led investment, deeper global value-chain integration, and modernization of State-Owned Enterprises

Strengthening fiscal predictability is reflected in continued reforms in public financial management, an improved transparency framework, and revenue modernization efforts. Considering Budget Estimates, total revenue and grants are projected at Rs. 5,270 billion (3.8% increase from 2025), while total expenditure will reach Rs. 7,057 billion (7.8% increase from 2025), resulting in a budget deficit of Rs. 1,757 billion. The deficit will be financed through Rs. 235 billion in foreign financing and Rs. 1,522 billion in domestic financing

Revenue proposals show a clear effort to broaden the tax base, rationalize para-tariffs, and strengthen compliance. Major measures include revising VAT and Social Security Contribution Levy thresholds, integrating imported coconut and palm oil into the general tax structure, imposing VAT on imported fabric, implementing the national tariff policy with revised customs duty bands, and introducing a modernized risk-based tax audit framework

Overall, the Budget 2026 reinforces credibility through predictable, rule-based fiscal management, while directing resources toward investment-driven growth, social protection, digital transformation, and long-term debt sustainability.



Evolving Landscape

A Stable Economy with Shaky Wallets: The Paradox of Consumer Confidence

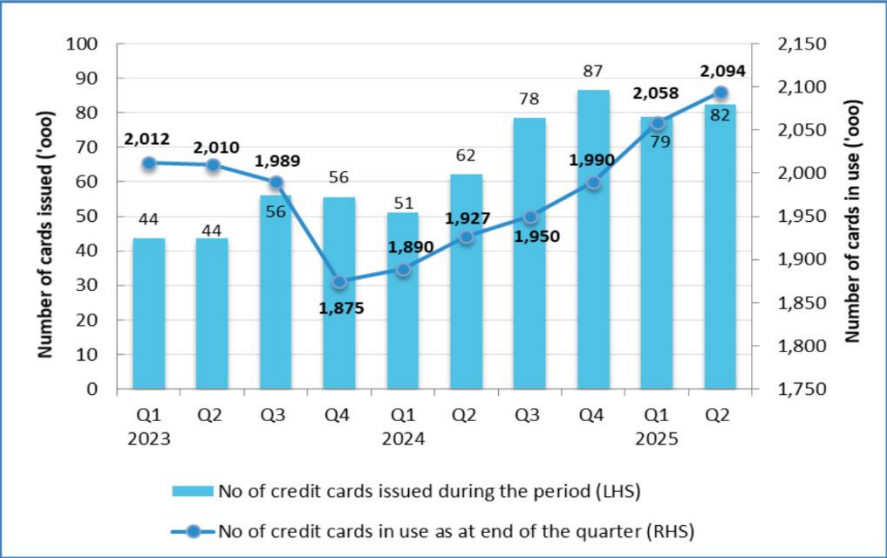
Now that the economy is broadly considered stable with steady GDP growth, a positive trend in the fiscal balance, and foreign reserves maintained at around USD 6 billion the national conversation has shifted toward growth and investment. But is the picture equally positive for consumers? How confident are households in their ability to spend?

According to the CBSL's Business Outlook Survey, demand conditions for 2025 indicate a generally positive trajectory. With these improvements, consumer spending is likely to strengthen during the holiday season, and confidence may remain stable as we move into the new year.

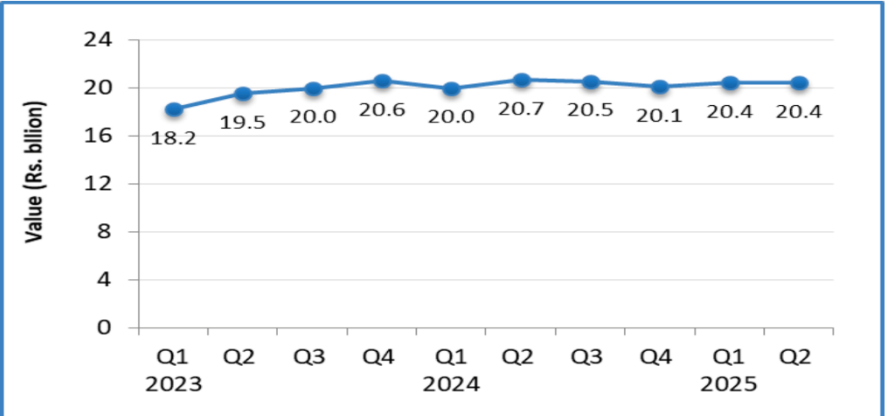
However, the recent withdrawal of two international banks from Sri Lanka's retail market raises important questions about the underlying consumer environment. A key concern remains the cost of living and the discourse around a shrinking middle-income segment. While the economy has achieved macroeconomic stability, the benefits have yet to filter down meaningfully to households. While there is an increase in the number of credit cards issued, there is also an increase in the amount of defaults in credit cards. Furthermore, Numbeo estimates the monthly cost of living for an individual at Rs. 153,899, placing Sri Lanka as the country with the second-highest living cost in South Asia. The visible increase in new vehicles and seasonal shopping does not necessarily signal comfortable spending; rather, it may reflect consumers' compelled adaptation to elevated living expenses.

For retail and FMCG sectors, the normalization of costs combined with the positive demand outlook suggests a favorable environment, as consumers tend not to reduce essential day-to-day expenditures. However, the same cannot be said for sectors such as real estate, construction, and hospitality, where spending falls lower on consumer priority lists. Nevertheless, pent-up demand in these areas could eventually materialize. While this boom in demand may not happen tomorrow, if this stability continues and move towards more favorable economic conditions, it may be in the horizon.

Number of New Credit Cards Issued and Total Number of Credit Cards in Use



Value of Credit Cards under Defaulted Payment Category (As at end period)



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