Monthly Economic Update (MEU)

January 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce

The Ceylon Chamber of Commerce

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Economic Intelligence Unit of The Ceylon Chamber of Commerce

OUTLOOK 2026 REPORT LAUNCH & SEMINAR

ECONOMIC GROWTH IN THE AI AND DIGITAL ERA

The Economic Intelligence Unit of The Ceylon Chamber of Commerce invites you to ***Seminar on Outlook 2026: Economic Growth in the AI and Digital Era,*** *featuring expert insights on Sri Lanka's economic outlook and policy direction.*

6TH FEBRUARY 2026

9.00 A.M. – 11.00 A.M.
Auditorium, Ground Floor
The Ceylon Chamber of Commerce

PANELISTS

Jayanthi Dharmasena
Managing Director
Hayleys Agricultural Holdings

Romali Tudawe
CEO
Tudawe Brothers (PVT) Ltd.

Selyna Peiris
Entrepreneur, Chief Growth Officer
Selyn Sri Lanka

Nalin Jayasundara
Managing Director
Aitken Spence Travels Ltd.

Shehani Senevirathne
Chairperson
SLASSCOM

KEYNOTE SPEAKER

Dr. P. Nandalal Weerasinghe
Governor
Central Bank of Sri Lanka

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For more Information
Contact: 011 558 8892/ 011 558 8833
Email: events.division@chamber.lk/ academy@chamber.lk

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Rs. 5,000 – Non-members

Highlights

Global Economy

The World Economy in 2026 - The global economy has shown greater resilience than previously expected, supported by accommodative financial conditions, inventory stockpiling, and strong investment linked to artificial intelligence. Global growth in 2025 exceeded forecasts, but this masks widening divergences between advanced economies and many emerging market and developing economies that remain below pre-pandemic income levels. Looking ahead, the World Bank projects global growth to slow to 2.6%, while the IMF expects steadier growth of around 3.3% in 2026, reflecting offsetting forces from trade policy headwinds and technology-driven investment. Inflation is easing globally, providing some policy space, though fiscal and debt constraints remain significant, especially for EMDEs. Both institutions warn that renewed protectionism, financial market corrections, or geopolitical shocks could derail growth, emphasising the need for fiscal rebuilding, policy certainty, and structural reforms.

Global Risks 2026 - The Global Risks Report 2026 highlights an increasingly fragmented global landscape marked by uncertainty, competition, and declining multilateral cooperation. Geoeconomic confrontation is identified as the most likely trigger of a major global crisis in the near term, reflecting intensifying trade tensions, fragile supply chains, and geopolitical rivalries. Economic risks such as downturns, asset bubbles, and debt distress have risen sharply in prominence, compounding vulnerabilities in both advanced and emerging economies. State-based armed conflict and societal polarisation further threaten global stability, while rapid technological change introduces risks related to misinformation, cyber insecurity, and disruptive impacts of artificial intelligence. Although environmental risks remain the most severe over the long term, they have been deprioritised in the short term amid immediate geopolitical and economic pressures. The report underscores that future outcomes will depend on collective policy choices and the ability to manage competition without systemic fragmentation.

Sri Lankan Economy

National Electricity Policy - Sri Lanka’s National Electricity Policy establishes a comprehensive reform framework aimed at improving financial sustainability, governance, and security of supply within the electricity sector. Introduced alongside the Sri Lanka Electricity Act, No. 36 of 2024, the policy mandates the unbundling of the Ceylon Electricity Board into separate entities responsible for generation, transmission, system operation, and distribution, while promoting competitive procurement for power purchase agreements. Central to the policy is the transition to cost-reflective tariffs, designed to enhance transparency and reduce long-term fiscal pressures, alongside targeted lifeline tariffs to protect vulnerable consumers. For renewable energy, the policy signals clear support for increased penetration through least-cost planning and competitive bidding. However, the move away from feed-in tariffs and the introduction of time-of-use pricing raise concerns around revenue certainty for small and distributed renewable projects, highlighting the need for bankable contracts and risk-mitigation mechanisms.

Recovery After Cyclone Ditwah - Cyclone Ditwah, which struck Sri Lanka in late November 2025, caused unprecedented economic and social damage, with direct losses estimated at USD 4.1 billion, equivalent to 4% of GDP. Infrastructure damage alone accounted for 42% of total losses, severely disrupting transport, water, and essential services, while residential and agricultural sectors suffered extensive setbacks, threatening livelihoods and food security. Nearly two million people across all districts were affected, underscoring the nationwide scale of the disaster. In response, the government introduced a substantial recovery package through a supplementary budget allocating Rs. 500 billion for housing, infrastructure restoration, and livelihood support. Complementing public funding, the Rebuilding Sri Lanka Fund mobilised significant domestic and international contributions. Together with UNDP and World Bank assessments, these measures aim to move beyond immediate relief toward a more climate-resilient and inclusive recovery path

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

5.3 % Q3-2025

5.5% (Q2-2024)

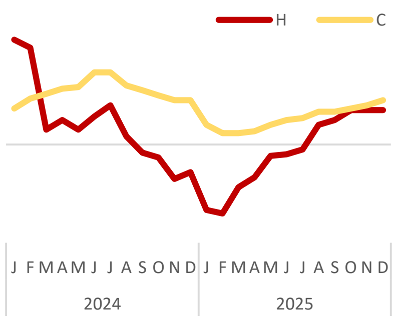
Movement of Purchasing Managers' Index- Dec 2025

Manufacturing PMI	60.9
Services PMI	67.9
Construction PMI (Nov)	66.2

All indices, except industrial PMI, manufacturing and services PMI recorded a slowdown indicating the impact of Cylone Ditwah

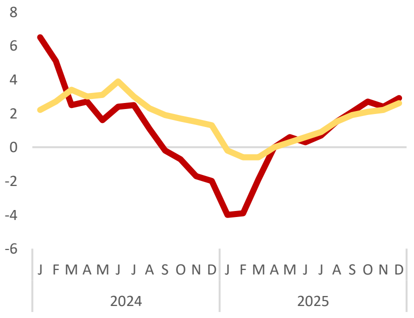
Inflation

CCPI Inflation (%)-*Base 2021*



Dec 2025	Headline	Core
	2.1%	2.7%

NCPI Inflation (%)-*Base 2021*



Dec 2025	Headline	Core
	2.9%	2.6%

External Sector

Merchandise Trade
Nov 2025

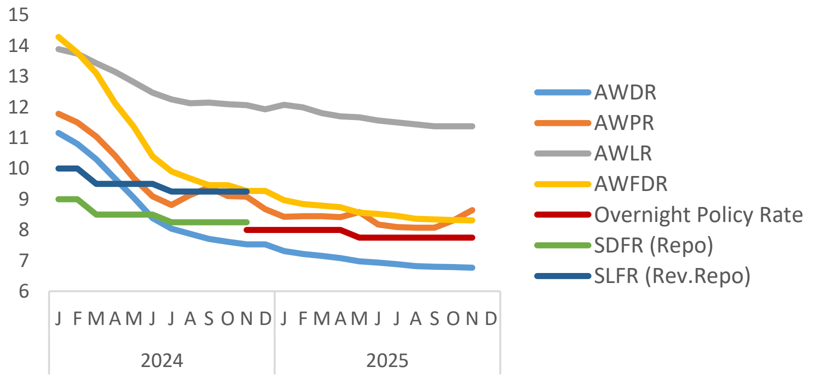
Trade Deficit	USD 731mn
Exports	USD 1048mn 5.4% y-o-y growth
Imports	USD 1779mn 18.9% y-o-y growth
Services Trade	USD 270mn 7.8% y-o-y decline

Tourist Arrivals 258,928
Dec 2025 15.1% y-o-y growth

Tourism Earnings
Dec 2025 USD 308.6mn
1.6% y-o-y growth

Workers' Remittances
Dec 2025 USD 879.1mn
22.8% y-o-y growth

Interest Rates

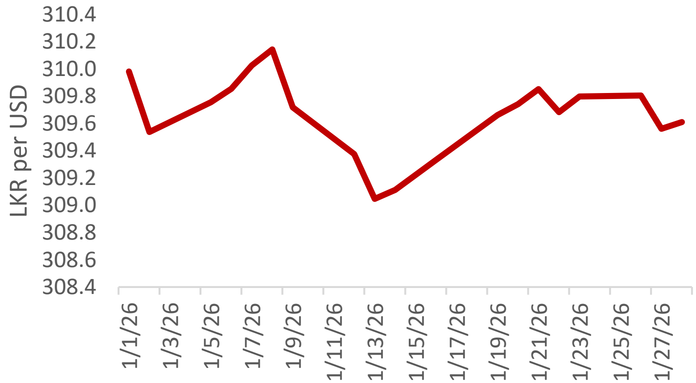


Growth in Credit to Private Sector

Dec 2025
25.2%

Overnight Policy Interest Rate (OPR): 7.75%

Exchange Rate



Official Reserves

6.8 USD Bn
Dec 2025

KEY INSIGHTS
Sri Lankan Economy

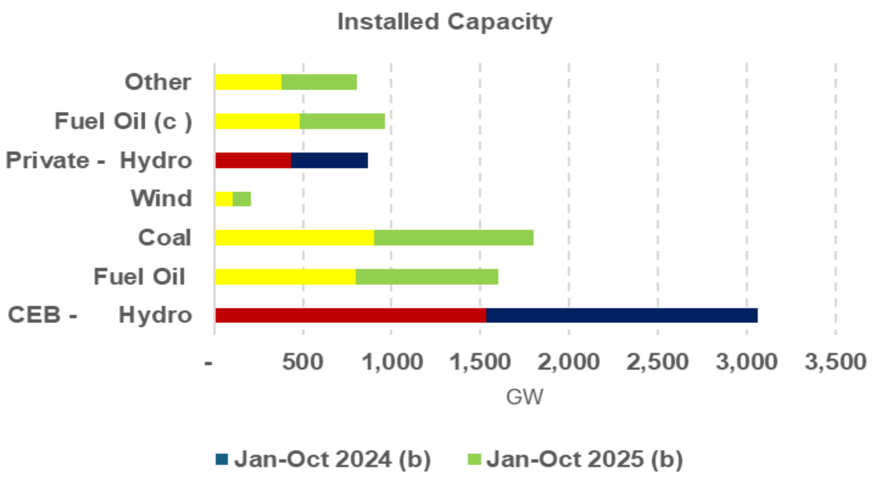
National Electricity Policy

The National Electricity Policy of Sri Lanka sets a comprehensive framework to reform the electricity sector by institutionalising cost-reflective pricing, enhancing security of supply, improving governance, and ensuring financial sustainability. The policy emerges in the context of 100 per cent electrification, a history of high renewable energy shares, and the need to balance affordability with efficient cost recovery under a new legal structure established by the Sri Lanka Electricity Act, No. 36 of 2024 (as amended). It mandates unbundling of the Ceylon Electricity Board into independent entities responsible for generation, transmission, system operation, and distribution; introduces competitive procurement for power purchase agreements; and emphasises the role of digitalisation, environmental protection, and targeted lifeline tariffs. Central to the policy is the transition to cost-reflective tariffs that articulate the true costs of grid use, generation, and ancillary services, while promoting transparency and benchmarking against regional peers.

For the renewable energy sector, the policy represents both opportunity and challenge. On the positive side, explicit support for enhancing the share of renewables, competitive procurement mechanisms, and incentives for distributed energy resources signal a shift toward market integration of clean energy. By requiring least-cost generation planning and transparent bidding, the policy can reduce long-term costs and open space for storage, flexibility services, and modern grid integration all critical for higher renewable penetration.

However, the policy's moves away from traditional feed-in tariffs, strict cost reflectivity, and mandatory time-of-use pricing could reduce revenue stability for renewable projects, particularly small and distributed installations, unless complemented by clear risk mitigation measures and bankable contractual frameworks. This has drawn concern from industry stakeholders.

For detailed industry feedback on the draft policy, see the **joint submission by the Ceylon Chamber of Commerce and partners:**
https://www.chamber.lk/wp-content/uploads/2026/01/joint-submission-on-national-electricity-policy.pdf



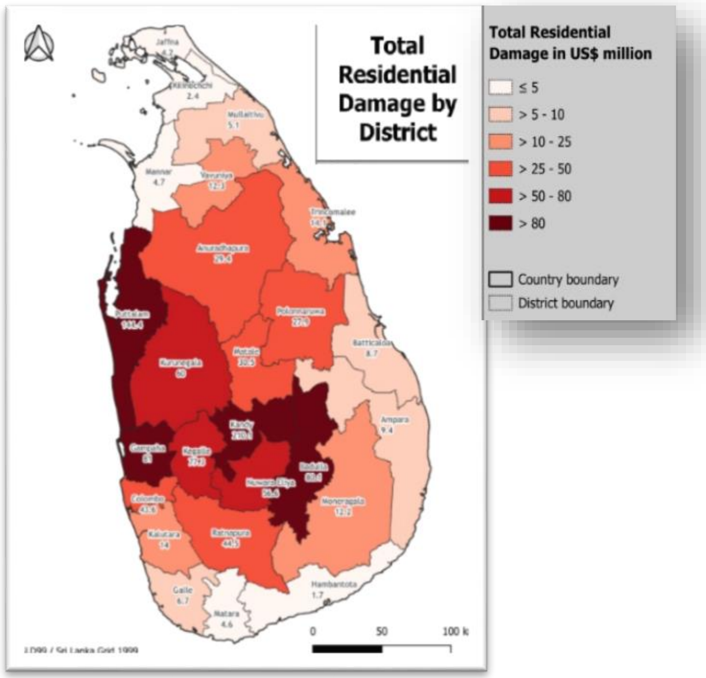
Electricity Generation – Jan-Oct

Electricity Generation January-October	GWh	
	2024	2025
CEB - hydro	4,237	5,088
Fuel Oil	1,399	1,170
Coal	4,795	4,329
Wind	347	331
Private sector	3,256	3,977
Non-Conventional Renewable Energy	2,559	3,343

Data Source: Central Bank of Sri Lanka

From Response to Resilience: Steps Forward After the Cyclone

Cyclone Ditwah struck Sri Lanka in late November 2025, leaving a level of destruction not seen in recent decades. The World Bank's Global Rapid Post Disaster Damage Estimation (GRADE) report estimates direct physical damage at US$4.1 billion, which is 4% of Sri Lanka's GDP. Almost 2 million people and 500,000 families in all 25 districts were affected. Infrastructure damage alone totals US$1.735 billion (42%), heavily impacting roads, bridges, railways, and water systems that are essential for economic activity and services. Residential losses reach US$985 million, while agricultural damage is at US$814 million, threatening food security and rural livelihoods.



The UNDP's January 2026 assessment supports these concerns. It reports that 95% of surveyed communities experienced damage to homes, transport networks, industrial facilities, or community infrastructure. Nearly 2.3 million people faced severe flooding, with almost 20% of the country's land area underwater. Additionally, 93% of respondents noted disruptions to their livelihoods, including crop losses and business closures, highlighting the serious vulnerability of informal workers.

The UNDP stressed the need for inclusive recovery funding and welcomed the government's commitment of LKR 95 billion to support MSMEs, including concessional loan programs. These findings strengthen both national and international calls for urgent liquidity support and specific rehabilitation programs.

In response to this unprecedented destruction, the government has taken two significant steps to support the recovery of the island. The supplementary budget makes available Rs. 50 billion for 2025 and Rs. 500 billion for 2026, covered in part by Rs. 25, 000 allocations for cleaning houses, Rs. 50, 000 for damaged living areas, and housing grants topping up to Rs. 5 million, in addition to the assistance for crops, livestock and fisheries that will help the restoration of the affected communities livelihoods.

Distribution of allocation among disaster relief activities

Description	Allocation (Rs. Billion)
Restoration and Reconstruction of Damaged Houses	100
Restoration of damaged infrastructure including roads, bridges, railway lines, irrigation facilities, hospitals, schools etc.	250
Provision of Livelihood Support	250
Total	**500**

Meanwhile, the Rebuilding Sri Lanka Fund has now surpassed Rs. 8.5 billion in total contributions, including USD 9.49 million in foreign currency, supported by donors from 47 countries, major Sri Lankan companies contributing over Rs. 100 million each, and strong, ongoing support from the diaspora and international partners as of 26th January of 2026. Altogether, these measures are positioning Sri Lanka for a durable, climate, resilient recovery.

Data Source: World bank, MOF

KEY INSIGHTS
Global Economy

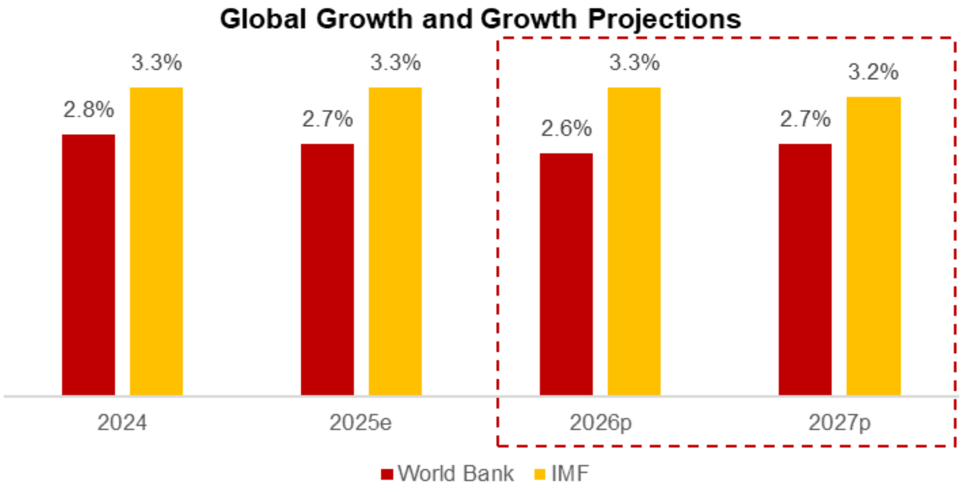
The World Economy in 2026: Stronger than Feared, but Not out of the Woods

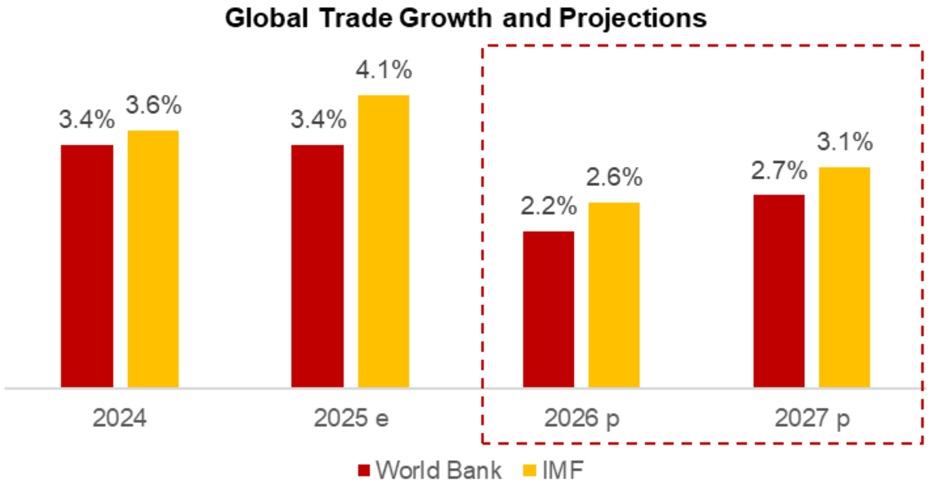
The global economy has demonstrated notable resilience amid heightened trade tensions, policy uncertainty, and geopolitical risks. Supported by inventory stockpiling, accommodative financial conditions, and a surge in investment related to artificial intelligence (AI), global growth in 2025 exceeded earlier expectations. However, this resilience masks growing divergences across regions. While advanced economies have largely surpassed pre-pandemic income levels, a significant share of emerging market and developing economies (EMDEs), particularly low-income and fragile states, continue to lag behind, underscoring uneven recovery dynamics.

Looking ahead, the World Bank projects global growth to moderate to 2.6%, as temporary supports fade. In contrast, the IMF expects growth to remain relatively steady at around 3.3% in 2026 and 3.2% in 2027, reflecting offsetting forces: headwinds from shifting trade policies balanced by tailwinds from technology-driven investment, especially in North America and Asia. Both institutions agree that AI will play a pivotal role in shaping medium-term growth, though its impact remains uncertain.
Global inflation is on a clear downward trajectory. The IMF projects headline inflation to decline from 4.1% in 2025 to 3.4% by 2027, with inflation returning to targets more gradually in the United States than in other major economies. Easing price pressures provide some policy space, but persistent fiscal and debt challenges constrain room for manoeuvre, particularly in EMDEs.

Trade growth is expected to soften as firms unwind earlier inventory front-loading and as higher tariffs increasingly weigh on activity. Although supply chains have adapted better than anticipated, renewed trade tensions remain a key downside risk. Both reports highlight that an escalation of protectionism, financial market corrections, especially linked to AI-driven valuations, or geopolitical shocks could significantly weaken global growth.

Policy priorities are broadly aligned across the two institutions. Restoring fiscal buffers, safeguarding price and financial stability, reducing policy uncertainty, and accelerating structural reforms are critical. For EMDEs, diversifying trade, strengthening macroeconomic frameworks, and addressing long-standing structural bottlenecks are essential to boost investment, job creation, and long-term growth in an increasingly fragmented global economy.





Data Source: World Bank, IMF

KEY INSIGHTS
Global Economy

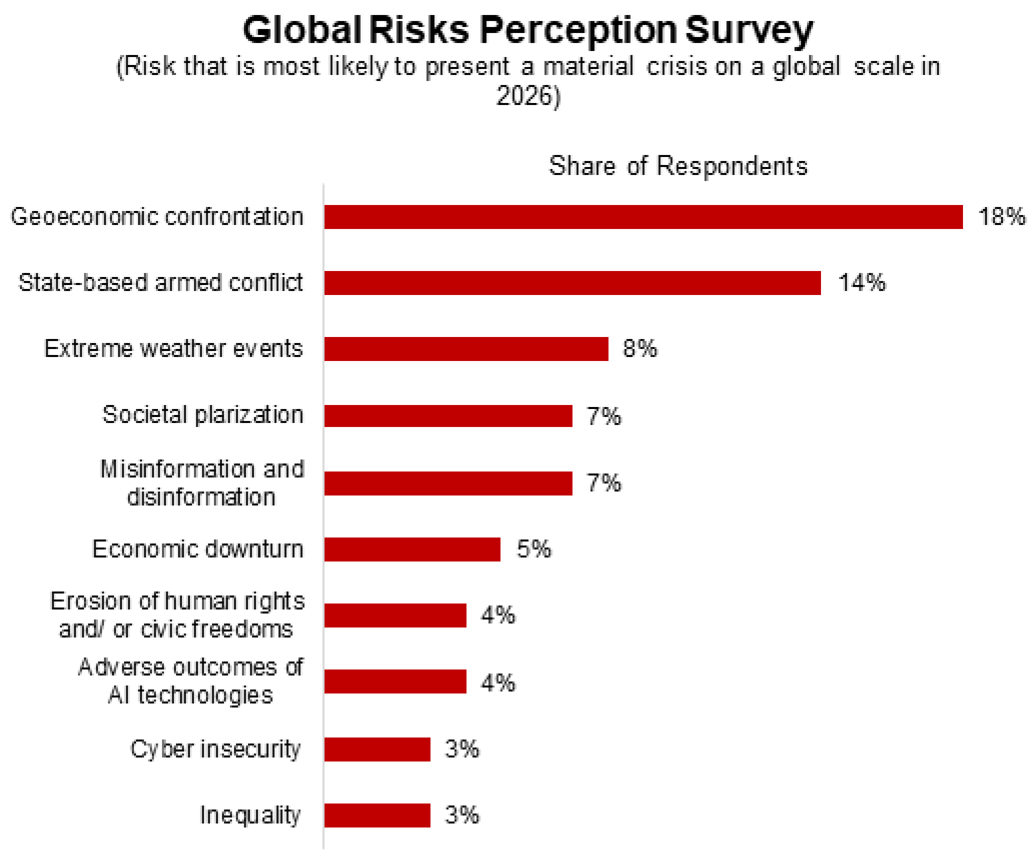
Global Risks 2026: Uncertainty, Competition, and the Fracturing World Order

Uncertainty dominates the global risks outlook for 2026, as risks grow in scale, interconnectedness and speed, ushering in an era marked by heightened competition rather than cooperation. As governments retreat from multilateral frameworks, trust is eroding, placing global stability under strain. A contested multipolar order is taking shape, with confrontation increasingly replacing cooperation and weakening the multilateral system that has long supported international trade, investment and conflict management.

Geoeconomic confrontation has emerged as the most prominent global risk, identified by respondents as the most likely trigger of a major global crisis in 2026 and the leading risk over the next two years. This reflects a world already weakened by geopolitical rivalries, fragile supply chains and prolonged conflicts with the potential for regional spillovers. Such confrontation threatens the core of the interconnected global economy and heightens state fragility. State-based armed conflict remains another significant risk. Economic risks are rising rapidly in prominence. Economic downturn, inflation and asset bubble bursts have all climbed sharply in rankings, reflecting growing concerns over debt sustainability and financial instability. These pressures, combined with geoeconomic tensions, could usher in a new phase of volatility with destabilising effects on societies and businesses.

Technological change presents both opportunity and risk. While innovation promises advances across sectors, it also raises concerns related to misinformation, cyber insecurity and adverse outcomes of artificial intelligence, which is expected to become increasingly disruptive over the longer term. Societal and political polarization is intensifying, undermining democratic institutions and public trust, with inequality identified as the most interconnected global risk for a second consecutive year.

Environmental risks have been deprioritized in relative importance over the short term, although they remain the most severe threats over the next decade. Against this backdrop of geoeconomic transformation, protectionism and strategic industrial policy are reshaping alliances and testing global institutions. While uncertainty prevails, the report underscores that future trajectories remain open, shaped by collective choices and the willingness to pursue strategic cooperation amid competition.



Data Source: Global Risks Report 2026, World Economic Forum.

Evolving Landscape

Gold Crosses USD 5,000 as Geopolitics and Policy Uncertainty Reshape Global Markets

In a remarkable development marking one of the most extraordinary rallies in recent financial history, gold prices have surged above USD 5,000 per ounce in late January 2026. This milestone reflects a dramatic shift in investor behaviour and global risk perceptions, with an interplay of geopolitical tensions, macroeconomic trends and policy uncertainty elevating gold well beyond previous records. Historically seen as a hedge and safe-haven asset, gold’s price trajectory this month underscores the deepening concerns in capital markets about the stability of traditional financial instruments and the broader geopolitical landscape.

A central driver of this surge has been heightened geopolitical risk, much of it attributable to the policies and actions associated with United States President Donald Trump. Following controversial tariff threats on trading partners, aggressive trade rhetoric, and increasing tensions with allied nations over issues such as Greenland and global alliances, investors have reassessed risk across asset classes. These developments have weakened confidence in equities and sovereign debt, prompting a flight into gold, which is traditionally viewed as reliable capital preservation during periods of uncertainty.

The ongoing diplomatic and military interventions by the United States in regions such as Latin America and the Middle East have further compounded this risk premium. Trump’s intervention in Venezuela and escalated tensions with Iran have contributed to market unease, reinforcing the narrative that geopolitical instability can spook risk assets and elevate demand for tangible stores of value. These events have revived fears of broader conflicts and disrupted supply chains and trade flows, consequently supporting safe-haven demand.

Another structural factor bolstering gold’s rally is the weakness of the US dollar and expectations of monetary policy easing. With the dollar depreciating against major currencies and bond yields retreating, gold has become more attractive to international investors. A weaker dollar reduces the opportunity cost of holding a non-yielding asset such as gold, and lower real yields diminish the relative returns offered by fixed-income securities. Consequently, global investors and central banks have moved to increase allocations to gold as part of diversified reserve strategies.

Data Source: Reuters, CNBC

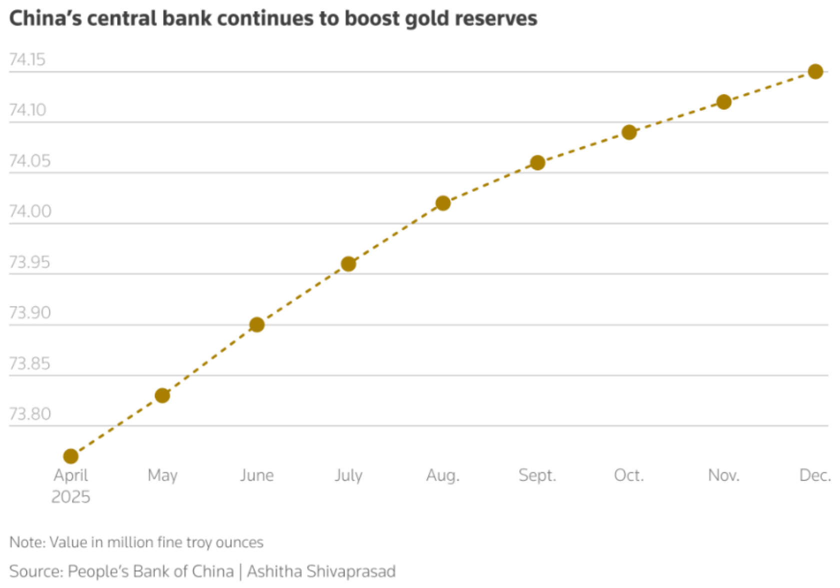
Evolving Landscape

Central banks themselves have played a pivotal role in this uptrend. Many monetary authorities, particularly in emerging markets such as China and Poland, have been accumulating gold reserves aggressively, partly as a hedge against currency volatility and as a strategic diversification away from US dollar-denominated assets. This structural demand has underpinned upward momentum and reinforced gold's status as a core reserve asset, especially in an environment where confidence in traditional reserve currencies is being questioned.

Additionally, strong inflows into gold exchange-traded funds (ETFs) and other financial vehicles have broadened investor participation beyond traditional safe-haven behaviour, reflecting a "fear of missing out" as institutional and retail investors seek exposure to what many now see as a value-preserving asset class amid uncertainty in equity and credit markets. Some analysts also point to retail demand and momentum trading, where rapid price increases themselves attract further capital, reinforcing upward price pressure and creating technical market dynamics that push prices even higher.

The implications of gold crossing USD 5,000 per ounce extend beyond commodity markets. Financial markets are experiencing heightened volatility, with equity indices and bond markets reacting sensitively to risk perceptions. A sustained preference for gold suggests that investors are increasingly wary of macroeconomic and geopolitical shocks, leading to greater capital allocation toward assets that preserve value, even at the expense of yield. This shift can dampen capital flows into productive investments, potentially slowing economic growth if risk aversion persists.

For the global economy, the psychological and strategic implications are significant. Gold surpassing USD 5,000 per ounce is not simply a commodity price event; it is emblematic of elevated global uncertainty and a broad repricing of risk. Markets historically enter gold during periods of crisis or structural stress, and sustained high prices can alter investor behaviour, central bank strategies and international economic relations. The possibility that gold could climb even higher through 2026, potentially approaching USD 6,000 or beyond, reflects ongoing unease and suggests that market participants remain cautious about near-term stability.



Data Source: Reuters, CNBC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