

# Monthly Economic Update (MEU)

February 2026

**Economic Intelligence Unit  
The Ceylon Chamber of Commerce**



**EIU**

# Dashboard

Y-o-Y changes, otherwise specified

## Economic Growth

**5.3 %** Q3-2025

5.3% (Q3-2024)

### Movement of Purchasing Managers' Index- Jan 2026

Manufacturing PMI **56.1**

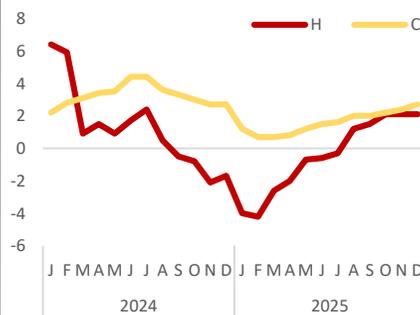
Services PMI **64.5**

Construction PMI (Dec 2025) **67.1**

All indices, except Construction PMI, recorded a slowdown from the peak in December 2025

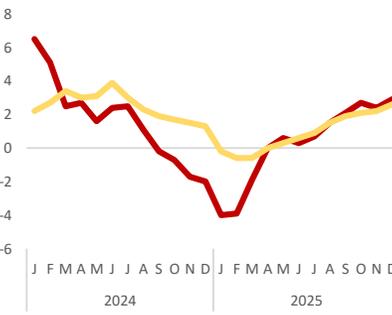
## Inflation

CCPI Inflation (%) - Base 2021



Jan 2026 **2.3%** Headline **2.3%** Core

NCPI Inflation (%) - Base 2021



Jan 2026 **2.4%** Headline **2.2%** Core

## External Sector

### Merchandise Trade

Dec 2025

Trade Deficit **USD 997mn**

Exports **USD 1,158mn**  
5.1% y-o-y growth

Imports **USD 2,155mn**  
12.0% y-o-y growth

Services Trade **USD 343.8mn**  
170.4% y-o-y increase

### Tourist Arrivals

**277,327**

Jan 2026 9.7% y-o-y growth

### Tourism Earnings

**USD 378.3mn**

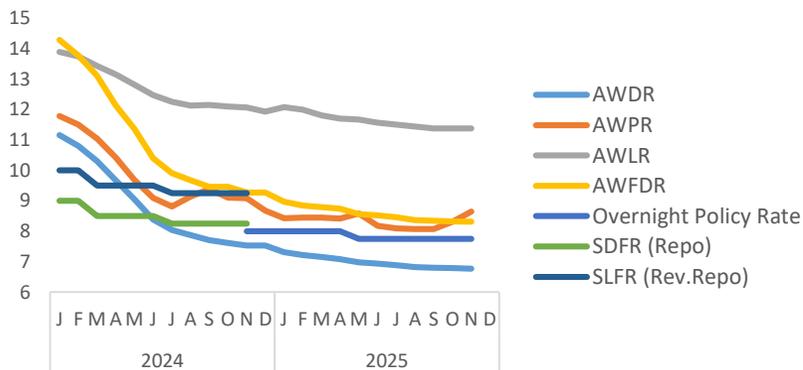
5.6% y-o-y decline

### Workers' Remittances

**USD 751.1mn**

31.1% y-o-y growth

## Interest Rates



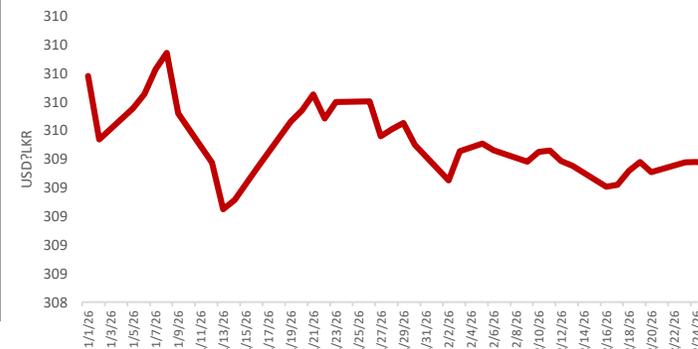
### Growth in Credit to Private Sector

Dec 2025

**26.4%**

Overnight Policy Interest Rate (OPR): **7.75%**

## Exchange Rate



## Official Reserves

**6.8** USD Bn  
Jan 2026



# Highlights

## Global Economy

**U.S. Oil Restrictions on Cuba** - Recent U.S. restrictions targeting countries supplying oil to Cuba have significantly intensified the island's energy crisis and disrupted established Caribbean fuel supply networks. Cuba's heavy reliance on imported oil, previously sourced largely from Venezuela and later Mexico, has left it vulnerable to geopolitical shocks. The abrupt halt in shipments has resulted in widespread blackouts, fuel rationing, and transport disruptions. The decline in Cuba's oil import volume index reflects pre-existing vulnerabilities, making the latest restrictions even more destabilising. Aviation and logistics operations have also been affected, with airlines rerouting flights or adopting tanker-fuel strategies due to jet fuel shortages.

**Japan's Debt Burden** - Japan's public debt stands at roughly USD 10 trillion, equivalent to around 260% of GDP, the highest among advanced economies. For decades, ultra-low interest rates sustained this debt model, but rising long-term bond yields have increased fiscal strain, with approximately 25% of the national budget now devoted to interest payments. The Bank of Japan faces a policy dilemma: maintaining low rates weakens the yen and fuels inflation, while raising rates risks sharply increasing debt-servicing costs.

**Trump's Tariff Escalation** - President Donald Trump's tariffs have reshaped global trade dynamics following a pivotal Supreme Court ruling, escalating from 10% to 15% on most imports and stoking fears of slowed worldwide growth. In a 6-3 decision on February 20, 2026, the Supreme Court struck down Trump's broad tariffs imposed under the International Emergency Economic Powers Act (IEEPA), ruling he exceeded presidential authority on taxing powers reserved for Congress. Trump swiftly responded with an executive order under Section 122 of the Trade Act of 1974, enacting a blanket 10% tariff on global goods effective immediately, which he hiked to the legal maximum of 15% by February 21. These measures, temporary for 150 days pending congressional approval, aim to boost U.S. manufacturing but face potential legal challenges.

## Sri Lankan Economy

**Private Sector Credit Expansion** - Sri Lanka's private sector credit expanded sharply in 2025, with Licensed Commercial Banks extending approximately Rs. 2.1 trillion in new credit, reflecting 25.2% year-on-year growth compared to 10.7% in 2024. The relaxation of vehicle import restrictions significantly supported leasing and consumer lending, while finance companies recorded nearly 50% growth in credit, highlighting strong asset-backed borrowing. Slower public sector borrowing created additional fiscal space for private lending.

**Volume-Value Imbalance in Tourism** - Sri Lanka's tourism sector has recorded a steady rise in arrivals in 2025, supported by renewed international recognition from global travel platforms. However, tourism earnings have not increased proportionately, raising concerns about the gap between visitor numbers and value addition. A growing share of budget travellers and backpackers has intensified debate on whether current tourism growth aligns with long-term economic and sustainability objectives.

**Inflation Forecast** – The February release of Central Bank of Sri Lanka's Monetary Policy report outlines the latest inflation and real GDP forecasts. Headline inflation is to gradually accelerate, reaching the 5% target by H2-2026 and stabilizing around it medium-term, driven by strengthening demand, positive energy/transport inflation, and volatile food pressures from Cyclone Ditwah. Core inflation will rise modestly, aligning with the headline path amid imported cost trends. Real GDP growth for 2025 is nowcast at ~4.5%, slowed by Q4 cyclone disruptions. For 2026, it's forecasted at 4-5%, sustaining prior momentum with monetary easing and fiscal support, though medium-term prospects remain modest amid global uncertainties and reform needs.

# KEY INSIGHTS

## Sri Lankan Economy

### Private Sector Credit Surge Reflects Recovery Momentum and Investment Opportunity

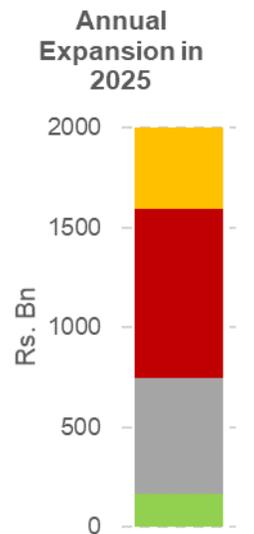
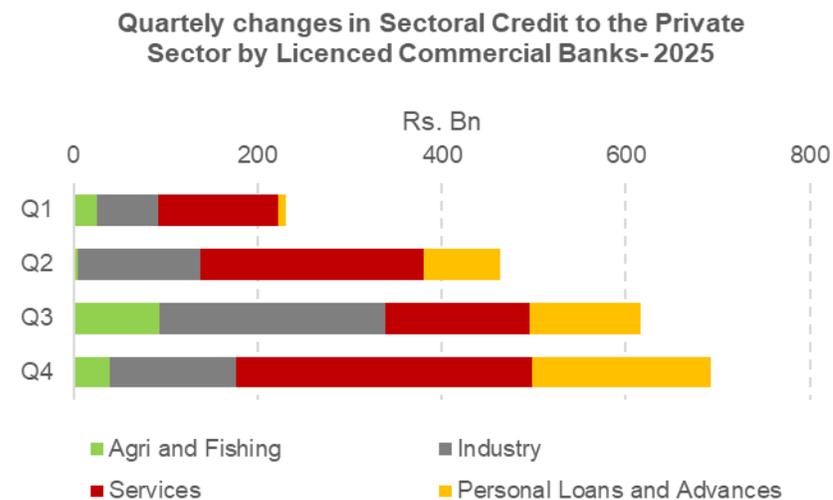
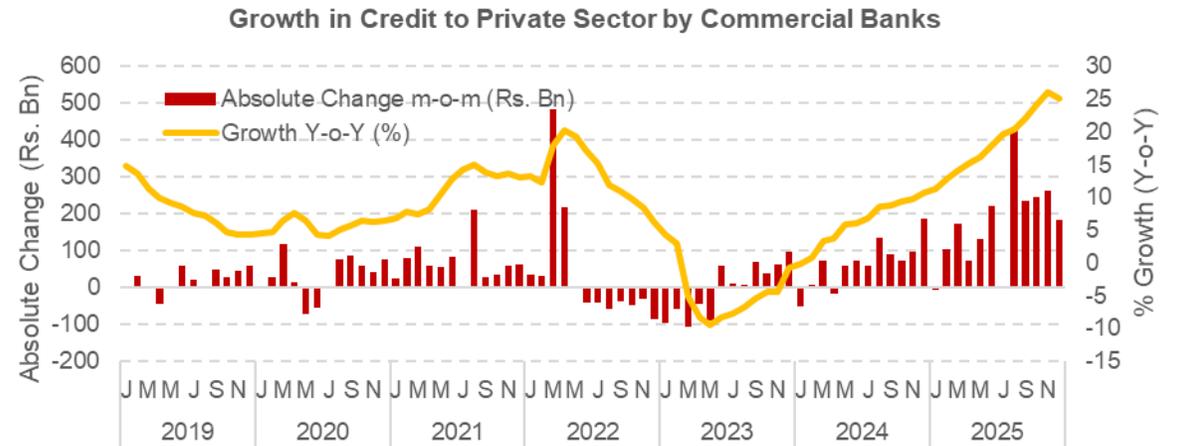
The sharp expansion in private sector credit during 2025 is a strong indicator of Sri Lanka's improving economic momentum and rising business confidence. Credit extended by Licensed Commercial Banks increased by approximately Rs. 2.1 trillion, recording a notable 25.2% year-on-year growth compared to 10.7% in 2024. The acceleration since mid-2025, where monthly credit growth exceeded Rs. 200 billion for several consecutive months, signals a meaningful pickup in investment activity, working capital demand, and consumption financing across the economy.

A key driver of this growth has been the rebound in economic activity alongside increased financing demand following the relaxation of vehicle import restrictions in early 2025. Vehicle-related financing, leasing, and consumer loans contributed significantly to credit expansion, supported by both banks and finance companies. Credit provided by finance companies alone grew by nearly 50% year-on-year, reflecting strong demand for asset-backed lending. At the same time, slower public sector borrowing created additional space within the financial system, enabling greater credit flow to businesses.

Sector-wise, services continue to dominate credit demand, followed by industry, while personal loans remain notable. This broad-based distribution suggests that the recovery is spreading across multiple sectors including trade, logistics, manufacturing, and consumer-oriented industries rather than being concentrated in a few segments.

Despite this strong growth, the private sector credit-to-GDP ratio remains at 29.8%, still below pre-crisis levels, indicating room for further expansion without immediate systemic pressure. From a corporate perspective, this presents a favorable window to secure financing for expansion, modernization, and productivity improvements while liquidity conditions remain supportive.

Overall, the trend, monitored closely by the Central Bank of Sri Lanka, points toward economic normalization. However, sustained rapid credit growth could eventually contribute to inflationary pressures, requiring businesses to plan for potential shifts in interest rate conditions over the medium term.



# KEY INSIGHTS

## Sri Lankan Economy

### Recovery of the Tourism Sector: Volume Vs Value

The tourism sector, one of Sri Lanka's primary economic contributors, has welcomed the steady rise in tourist arrivals and the country's growing recognition as a preferred travel destination in 2025. International platforms such as Lonely Planet, TripAdvisor, and Condé Nast Traveler have highlighted Sri Lanka among notable destinations, reflecting renewed global interest. However, the key question remains: is it time to celebrate, or is it too early to claim a full recovery? While arrivals have increased, tourism earnings have recovered at a much slower pace. This brings into focus the critical balance between quantity and quality the issue is not merely increasing the number of visitors but ensuring that the visitors we attract are aligned with the country's economic and sustainability objectives.

Recent social media posts showing backpackers seeking financial assistance on the streets have sparked debate. Although backpacking is a well-established and growing segment among younger travelers, it is important to consider whether this segment aligns with Sri Lanka's broader economic objectives. If tourism is expected to drive sustainable economic growth, the focus must shift from simply increasing headcounts to attracting visitors who generate higher value addition for the economy.

In examining the gap between arrivals and earnings, the issue of leakages within the tourism sector must also be addressed. A considerable number of unregistered establishments offering accommodation, inbound tour services, wellness treatments, and Ayurvedic services operate informally. Income generated through these channels is often not captured in official statistics. Given that many budget travelers and backpackers rely on such informal providers, this may partly explain the discrepancy between rising arrival numbers and comparatively modest earnings. While ongoing studies and public discussions are exploring ways to reduce leakages and strengthen regulation, equal attention must be given to Sri Lanka's tourism promotion strategy. The way the country positions itself internationally will ultimately determine the type of tourists it attracts.

However, branding alone is not sufficient. A premium positioning must be supported by the development and formalisation of establishments capable of delivering high-end, world-class experiences that meet the expectations of discerning travelers. This includes quality accommodation, curated experiences, professional service standards, and strong regulatory oversight.



Lonely Planet has named Sri Lanka's Northeast among the "Best Places to Travel in August 2025," and we couldn't agree more!

Why the Northeast this August? While the rest of the island sees rain, our Northeast coast is basking in perfect sunshine, warm waters, and calm shores! Dive into world-class surf at Arugam Bay, find tranquility on pristine beaches like Nilaveli and Passekudah, or immerse yourself in the vibrant Esala Perahera in Kandy. It's truly an unforgettable tropical escape with fewer crowds and better value!

This rising star region is waiting to welcome you. Don't miss out!



#### Sri Lanka Ranks 7th in Condé Nast Traveler's 2025 Readers' Choice Awards: A Culinary Triumph

Sri Lanka has been officially recognized as one of the world's premier food destinations, securing 7th place in the 2025 Condé Nast Traveler Readers' Choice Awards with an impressive score of 95.56%. This accolade places Sri Lanka among esteemed culinary nations such as France, Italy, and Thailand, highlighting its rich and diverse gastronomic heritage.



#### Experience the Magic of Sri Lanka's Most Scenic Train Ride - Featured in National Geographic!

Sri Lanka's Kandy to Ella train journey has once again been recognized as one of the world's most breathtaking train rides, and National Geographic has beautifully captured the essence of this unforgettable experience!

Chugging through misty mountains, rolling tea plantations, and colorful hillside villages, this journey offers a rare glimpse into Sri Lanka's stunning highlands. From the colonial-era charm of Nuwara Eliya to the dramatic waterfalls of Elgin Falls, every moment is a picture-perfect escape.

### Tourist Arrivals & Earnings (2000–2025)



(a) Provisional

# KEY INSIGHTS

## Global Economy

### U.S. Pressure on Cuba's Oil Transport: Effect of Global Supply Linkages

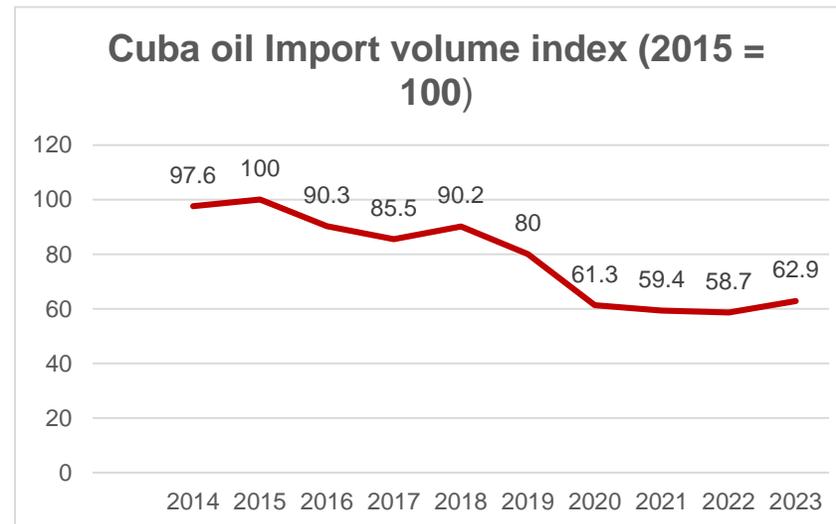
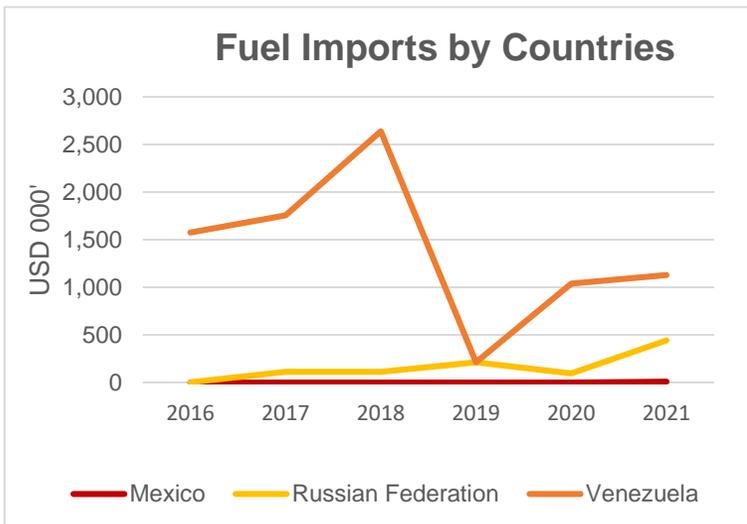
Recent U.S. policy actions targeting Cuba's oil transport networks have worsened the island's energy crisis and raised concerns about regional supply connections. In late January, the United States announced new restrictions and tariffs on any country providing oil to Cuba. This move is part of a broader strategy aimed at limiting Havana's access to crucial fuel imports. The announcement has disrupted long-standing supply chains and changed the geopolitical dynamics of Caribbean oil flows.

Cuba's reliance on energy imports makes these developments particularly significant. The country depends heavily on imported oil to run its transport systems, hospitals, electricity grid, and industrial operations. For years, Venezuela supplied most of this fuel. However, shipments stopped abruptly after the U.S. military operation that removed Nicolás Maduro from power. The trend line on fuel imports from Venezuela highlights how dependent Cuba had become on a single supplier, intensifying the shock when those supplies suddenly ceased. Mexico, another important supplier, also halted oil deliveries after Washington threatened tariffs on nations supporting Cuba's fuel needs. These simultaneous supply shocks have led to widespread blackouts, fuel rationing, and serious transport disruptions across the island. Otherwise, the long-term decline shown in the Cuba Oil Import Volume Index illustrates how weak the country's fuel supply already was, making the latest shocks even more damaging.

The U.S. announcement has also affected international aviation and logistics. With jet fuel unavailable in Cuba, major airlines, especially Air Canada, have suspended or rerouted flights, requiring technical refueling stops in third countries like the Dominican Republic. American Airlines and several others have turned to tanker fuel strategies to complete routes, showing the operational strain caused by the U.S. pressure on Cuban oil access. The aviation sector's response highlights the overall fragility of supply connections related to Caribbean fuel distribution.

Beyond the immediate disruptions, the policy shift has worsened Cuba's humanitarian challenges. The energy shortfall has forced authorities to ration medical services, limit surgical procedures, and cut back on transport and educational functions. The United Nations has warned that most Cubans are now facing rolling blackouts and that the situation may worsen unless fuel imports return to normal.

The U.S. announcement marks a significant tightening of regional energy diplomacy, with broader implications for geopolitical stability, humanitarian conditions, and supply security in the Caribbean. As Cuba continues to experience severe shortages, pressure is increasing on neighboring economies and international stakeholders to reconsider the strength of oil transport connections in an increasingly unstable strategic environment.



# KEY INSIGHTS

## Global Economy

### Japanese Debt: A Sovereign Crisis in the Making

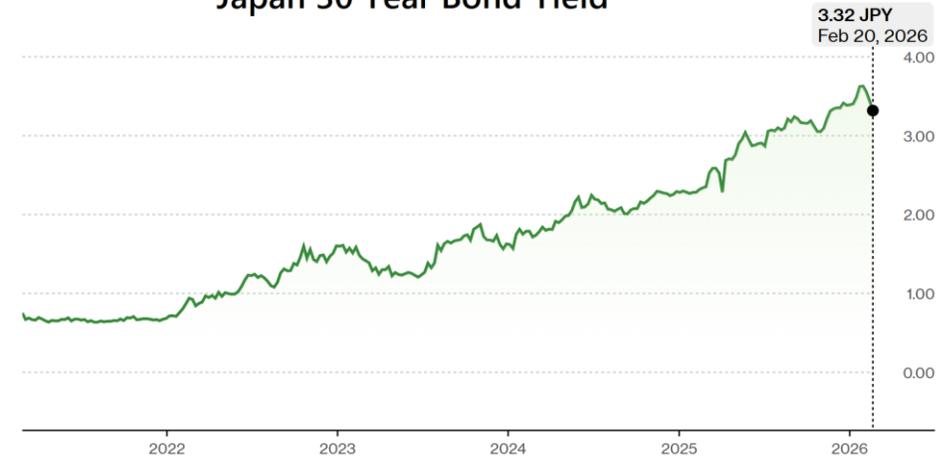
Japan is currently grappling with a USD 10 trillion debt burden, resulting in a 260% debt-to-GDP ratio, which is the highest among developed nations. For decades, this massive leverage seemed sustainable because interest rates remained near zero, allowing the government to borrow almost for free. However, this era is ending as 30-year bond yields hit all-time highs. Japan already spends 25% of its annual budget merely servicing interest, leaving fewer resources for vital sectors like healthcare, education, and infrastructure.

The Bank of Japan (BoJ) is caught in a precarious situation. While the U.S. Federal Reserve raised rates to combat inflation, the BoJ kept them low, causing the yen to fall to a multi-decade low of approximately 155 to 1 against the dollar. This weak currency has fueled a seismic shift from decades of deflation to 3% inflation, making imported food and energy increasingly expensive for Japanese citizens. If the BoJ raises rates to stabilize the yen, they risk making their debt unaffordable; if they keep rates low, the yen continues its freefall. Furthermore, the BoJ, which owns over 50% of all Japanese government bonds, has shifted from being the primary buyer to a seller, causing bond prices to fall and yields to spike further.

Compounding these financial issues is a dire demographic crisis. Japan's population is in an accelerating decline, dropping from a 2010 peak of 128 million to roughly 125 million today, with projections suggesting it could fall below 100 million by 2050. With a median age of 49, the shrinking workforce creates a smaller tax base, making it nearly impossible to grow the economy or pay down debt.

This looming crisis matters to the global economy because Japan is the largest foreign holder of American debt, owning over USD 1.2 trillion in US Treasury bonds. If Japan is forced to sell these Treasuries to manage its own domestic crisis, it could trigger a spike in U.S. interest rates. Additionally, a weak yen creates immense competitive pressure for manufacturers as Japanese exports become cheaper. Ultimately, Japan serves as a stark warning for other aging societies like China and Europe, proving that no economy is invincible when a debt-fueled model meets a shrinking population.

Japan 30 Year Bond Yield



USD - JPY Spot Exchange Rate



# Evolving Landscape

## Introduction of New Tariff Reforms in Imports

### Proposed 4-Band CID Tariff Structure

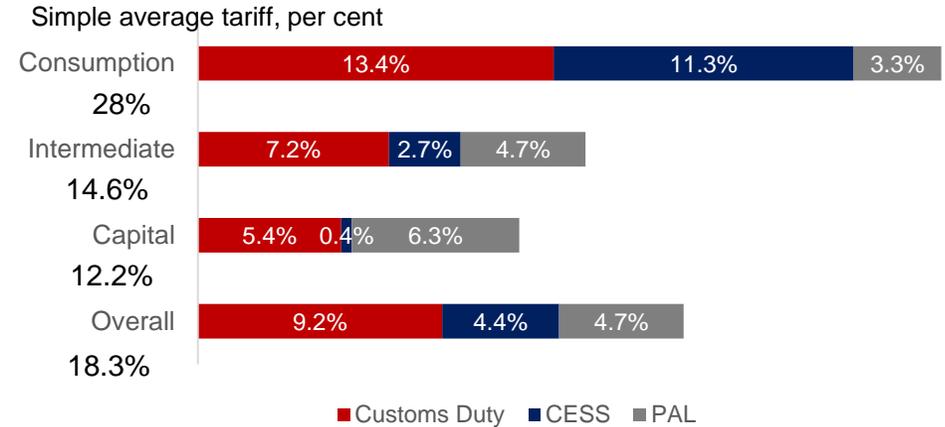
The current government has set an ambitious target of achieving USD 36 billion in exports by 2030, which requires sustaining approximately 10.7% annual export growth over the medium term. Achieving this trajectory will require deeper structural reforms to strengthen competitiveness and reduce the longstanding cost and policy barriers faced by exporters. According to recent World Bank assessments, Sri Lanka's export and investment performance has weakened, with export growth slowing and foreign direct investment remaining at around 0.5% of GDP, far below the levels required to support the 2030 export ambition.

A consistent message from the World Bank is that tariffs and para-tariffs have become a major binding constraint on Sri Lanka's export competitiveness. Over time, para-tariffs in particular have become a significant and costly feature of the country's trade regime, raising input costs, discouraging participation in global value chains, and reinforcing inward-oriented policy tendencies. The World Bank emphasises that reducing tariffs and para-tariffs, improving access to competitively priced inputs, accelerating trade facilitation, and attracting more export-oriented FDI are essential to unlocking medium-term export growth.

Within this broader reform context, a new tariff structure for imports has been proposed by the government and it introduces a more predictable, rule-based framework aligned with international classification systems, while simplifying tariff bands to 0%, 10%, 20%, and 30%. Under the draft design, many intermediate and technical inputs would shift into lower tariff bands to support production competitiveness, while selected consumption and luxury goods may move into higher bands. Complementing this would be a phased rationalisation of para-tariffs through 2029.

Overall, the proposed system represents a shift toward a clearer, more structured tariff framework designed to support competitiveness, reduce uncertainty, and improve the overall trade environment.

Para tariffs cut across almost the entire import basket, applying to goods in all major product categories



### Preliminary modelling estimates on the impact of para-tariff reform

