Monthly Economic Update (MEU)

March 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

5% For the year 2025

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.

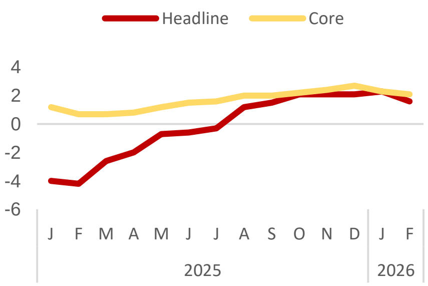
Movement of Purchasing Managers' Index- Feb 2025

Manufacturing PMI	56.8
Services PMI	54.4
Construction PMI (Jan)	75.0

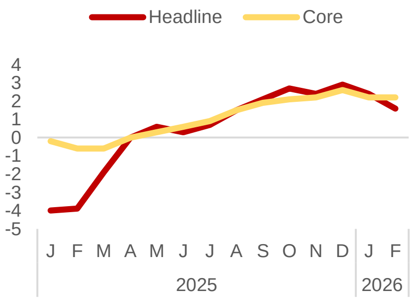
All indices, except services PMI, recorded an improvement compared to January 2026. Construction PMI recorded it's second highest after the peak in July 2020.

Inflation

CCPI Inflation (%)-*Base 2021*



NCPI Inflation (%)-*Base 2021*



	Headline	Core
CCPI Feb 2026	1.6%	2.1%
NCPI Feb 2026	1.6%	2.2%

External Sector

Merchandise Trade
Jan 2025

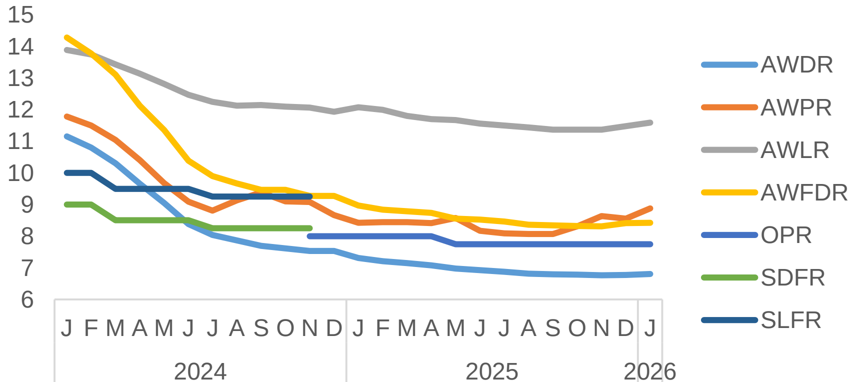
Trade Deficit	USD 654.5mn
Exports	USD 1, 883mn 7.1% y-o-y growth
Imports	USD 1,803mn 12.0% y-o-y growth
Services Exports	USD 734 mn 4.1% y-o-y increase

Tourist Arrivals 279.328
Feb 2026 12.9% y-o-y growth

Tourism Earnings
USD 352.0mn
4.9% y-o-y decline

Workers' Remittances
Jan 2025
USD 729.0mn
32% y-o-y growth

Interest Rates



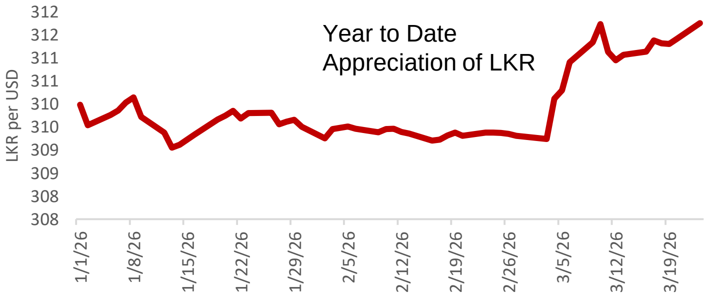
Growth in Credit to Private Sector

Jan 2025
26.3%

Overnight Policy Interest Rate (OPR): 7.75%

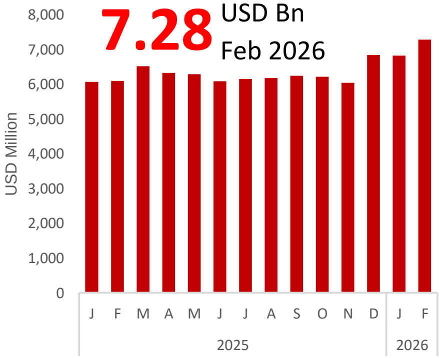
Exchange Rate

0.55%
Year to Date Appreciation of LKR



Official Reserves

7.28 USD Bn
Feb 2026



Highlights

Global Economy

Risks to Migrant Labor Amid Middle East Tensions

The Middle East hosts one of the world's largest migrant worker populations, forming the backbone of GCC economies. Rising geopolitical tensions threaten migrant workers through job losses, wage pressures, and higher living costs, particularly affecting South and Southeast Asians, including Sri Lankans. For Sri Lanka, weakened migrant employment risks reducing remittance inflows an essential source of foreign exchange while intensifying inflationary pressures via higher global energy prices. Despite these risks, workers' remittances remained resilient in January 2026, rising 31.1% year-on-year to USD 751 million, reinforcing external sector stability.

Recent Movements in Global Oil Prices

Global crude oil prices remained elevated and volatile in March 2026 amid persistent geopolitical risks and supply concerns. Brent crude traded above USD 100 per barrel, peaking near USD 118/bbl, while WTI prices fluctuated in the USD 90–99/bbl range. Price volatility was driven by Middle East geopolitical tensions, supply uncertainties, and market reactions to global demand conditions. Elevated oil prices continue to pose inflationary risks for energy-importing economies and add pressure to global production and transportation costs.

Sri Lankan Economy

Sri Lanka's Economic Outlook Amid Middle East Escalation

Sri Lanka's economy continued its recovery in 2025, recording 5% real GDP growth despite disruptions from Cyclone Ditwah, supported by improving macroeconomic stability and easing inflation. However, real output remains slightly below 2018 levels, indicating an incomplete recovery partly driven by base effects.

Growth was broad-based, with industry leading expansion, supported by gains in agriculture and a strengthening services sector. Tourism-related activities, IT/BPM, manufacturing, construction, and financial services were key contributors. Sustaining growth and surpassing pre-crisis output will require continued structural reforms focused on exports, productivity, investment climate improvements, and SOE and customs modernization. This fragile momentum faces added risks from escalating Middle East tensions, which threaten Sri Lanka through higher energy prices, disrupted trade, and potential remittance pressures. Prolonged global instability could slow the recovery further, underscoring the importance of energy security, export diversification, and sustained structural reforms to strengthen resilience.

Sri Lanka's Public Debt Declines in Q4 2025

Sri Lanka's public debt position improved in 2025, with the debt-to-GDP ratio declining to 98% from 103% in 2024, reflecting progress toward IMF targets. Total public debt fell to USD 103.9 billion, driven by lower central government debt and reduced domestic borrowings. While external debt rose marginally due to multilateral disbursements, the ADB and World Bank remained the largest creditors. Debt restructuring advanced strongly, with near-full external creditor participation and the successful completion of SriLankan Airlines' ISB restructuring in March 2026.

Sri Lanka's External Sector Records Steady Growth in Jan 2026

Sri Lanka's export sector recorded a strong performance in January 2026, with total exports reaching USD 1.88 billion, reflecting 7.1% year-on-year growth. Import growth was higher at 12.0%, resulting in a trade deficit of USD 654.5 million for the month. Meanwhile, services exports rose to USD 734 million, posting a 4.1% annual increase, highlighting the growing contribution of services to external earnings.

KEY INSIGHTS
Sri Lankan Economy

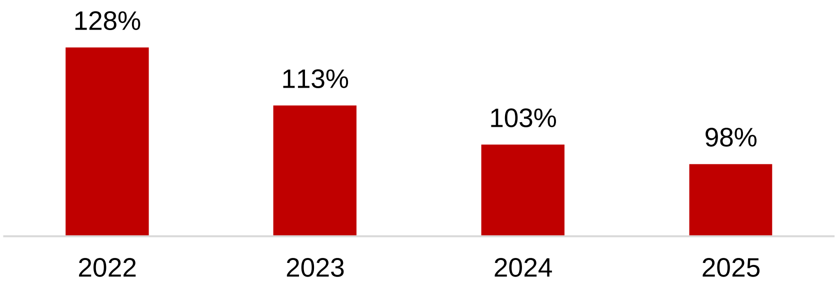
Sri Lanka's Public Debt Declines in Q4 2025 Amid Continued Restructuring Progress

Sri Lanka's public debt to GDP recorded a notable improvement during 2025. Debt to GDP declined to 98% in 2025 from the 103% recorded in 2024. This shows country's commitment towards meeting the IMF's debt-to-GDP target of 95% by 2032. Total public debt stood at USD 103.9 Bn as at 31 December 2025, down from USD 106.6 Bn in the previous quarter. A key driver of this contraction was the decline in Central Government debt, which fell from USD 102.2 Bn in September to USD 100.7 Bn by end-December. Domestic debt decreased to USD 62.7 Bn, while external debt increased marginally to USD 37.6 Bn, reflecting new disbursements from multilateral partners under ongoing program support.

Multilateral lenders, primarily the Asian Development Bank and the World Bank, continued to dominate Sri Lanka's external debt profile, jointly accounting for more than 80% of multilateral exposure. Commercial borrowings, mainly consisting of International Sovereign Bonds, stood at USD 12.7 Bn, with 81% represented by restructured ISB instruments issued in December 2025. Gross borrowings during the quarter amounted to USD 4.1 Bn, supported mainly by Treasury bill issuance. Sub-national government debt remained low at USD 21 Mn, with 98 Local Government Authorities reporting outstanding liabilities. Guaranteed debt of State-Owned Enterprises declined to USD 3.5 Bn, reflecting improved reporting and repayments under restructured facilities.

Progress was also noted on the debt restructuring front. As of February 2026, Sri Lanka has reached agreement on terms with just under 99% of its external creditors and fully implemented over 92% of its public external debt restructuring. Sri Lanka has finalised 11 bilateral agreements with the Official Creditor Committee for a total amount of USD 4.3 Bn, having signed 9 agreement. Out of the OCC bilateral agreements Austria, Canada, Netherlands, Russia, Sweden and USD still remain in ongoing discussions. On 19th March, it was reported that the Government have effectively concluded the restructuring of the Sri Lankan Airline's USD 175 million ISB with 98% investor participation and an agreed 16% haircut.

Public Debt as a Percentage of GDP



Public Debt	Q3 2025 (USD Mn)	Q4 2025 (USD Mn)
Domestic Debt	**64,966**	**62,693**
LKR Denominated	62,810	60,489
FX denominated	2,156	2,204
External Debt	**37,238**	**37,663**
Bilateral	10,811	10,678
Multilateral	13,740	14,314
Market Borrowings	12,687	12,671
PC and LC Debt	**21**	**21**
SOE Debt	**4,386**	**3,484**
LKR Denominated	1,826	1,407
FX Denominated	2,560	2,077
Total Public Debt	**106,611**	**103,861**

Data Source: MoF, DCS

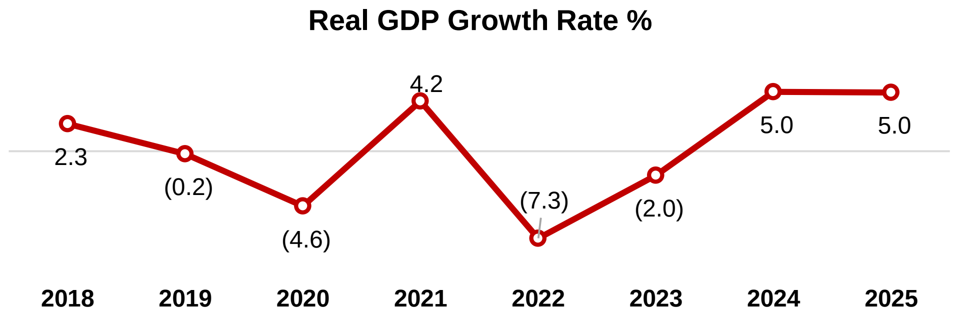
KEY INSIGHTS
Sri Lankan Economy

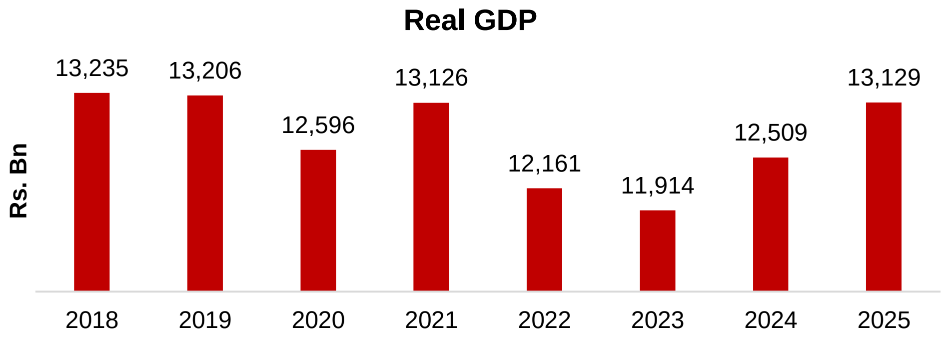
Sri Lanka's Growth in 2025: Recovery in Motion, But Not Yet Complete

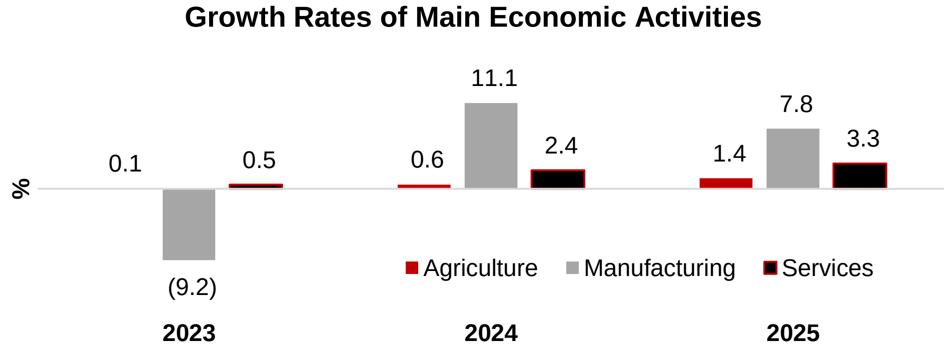
Sri Lanka's economic recovery gained further traction in 2025, with real GDP expanding by 5% year-on-year, demonstrating notable resilience despite the adverse impact of Cyclone Ditwah towards the latter part of the year. The ability to sustain this level of growth amid such disruptions reflects improving macroeconomic stability, easing inflationary pressures, and a gradual restoration of business and consumer confidence. In value terms, GDP at constant (2015) prices reached approximately Rs. 13,129 billion in 2025, up from Rs. 12,509 billion in 2024 . However, despite this recovery, the economy remains below the 2018 benchmark level of Rs. 13,235 billion, indicating that the restoration of real economic output is still incomplete. Therefore, this growth must be viewed in the context of lingering base effects indicating that the economy is still in a catch-up phase rather than a full expansion cycle.

Sectoral performance indicates a broad-based, though uneven, expansion across the economy. The agriculture sector recorded a modest growth of 1.4%, reflecting gradual normalisation following earlier weather-related and input disruptions. Within the sector, the top-performing sub-sectors were plant propagation (28.1%), animal production (10.5%), coconut (8.2%), and paddy (5.3%). The industrial sector expanded by 7.8%, emerging as a key driver of overall growth. This performance was underpinned by strong activity in mining and quarrying (16.9%), alongside robust growth in construction (9.2%) and electricity (9.2%). Manufacturing also recorded steady growth of 6.2%. Meanwhile, the services sector, the largest contributor to GDP, grew by 3.3%, supported by continued recovery in tourism and financial activity. Leading sub-sectors included insurance (14.6%), IT/BPM services (12.8%), and accommodation, food and beverage services (12.4%), with financial services also expanding by 10.6%.

Looking ahead, sustaining growth at or above 5% and moving decisively beyond the 2018 GDP level will depend on the implementation of structural reforms rather than cyclical recovery alone. This includes strengthening export diversification and competitiveness, improving the investment climate through policy consistency and regulatory clarity, enhancing labour productivity, advancing state-owned enterprise and customs reforms.





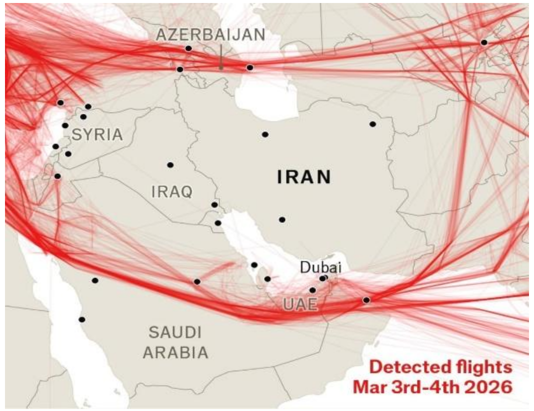


Data Source: Department of Census and Statistics

KEY INSIGHTS
Global Economy

Navigating Uncertainty: Sri Lanka’s Economic Outlook Amid Middle East Escalation

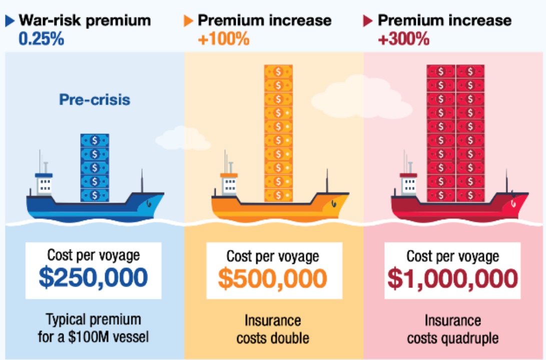
Redirection of Flights



Data Source: The Economist

A sharp de-escalation within 2–3 weeks remains possible given ongoing discussions and perspectives from East Asian and EU leaders, likely causing temporary oil price increases, short-term travel fluctuations, and brief operational uncertainty for Sri Lankan industries, but overall manageable impact. If Iran remains unwilling to compromise, a short-term conflict over 3–5 weeks could lead to higher fuel prices, market volatility, slower remittance inflows, and reduced tourism demand. A prolonged conflict beyond six weeks, though less likely, could escalate regional instability, disrupt oil supply, push energy prices higher, and exacerbate macroeconomic vulnerabilities, disproportionately affecting developing economies like Sri Lanka. Likelihoods: high (sharp de-escalation), moderate (short-term conflict), low (long-drawn conflict).Globally, the immediate impact is expected to be reflected in oil price volatility and cautious investor sentiment. Over the medium term, prolonged tensions could reverse recent progress in controlling inflation, raising production costs and weakening demand. In the long term, further escalation may widen fiscal deficits and disrupt global credit cycles, particularly if recessionary pressures emerge.

War Risk Insurance Premiums



Data Source: UNTCAD

For Sri Lanka, the effects will primarily be transmitted through energy markets, trade, tourism, and remittances. Disruptions to the Strait of Hormuz, rising fuel prices, and a stronger US dollar could increase import costs and debt servicing burdens. In the short term, higher logistics costs and export disruptions may reduce foreign exchange earnings, while tourism could decline due to travel uncertainties.

Over the medium term, rising fuel and fertilizer prices, increased costs of construction sector, higher airfares, and increased export costs may weaken competitiveness and contribute to inflation. Slower remittance growth could further add pressure.

To mitigate these risks, businesses should focus on liquidity management, diversification, and resilience, while policymakers should prioritize energy security, gradual fuel price adjustments, and market diversification. Proactive measures will be essential to maintain economic stability amid evolving global uncertainties.

Movement in Global Oil and Gas Prices (February – March in 2026)

Data Source: UNTCAD

KEY INSIGHTS
Global Economy

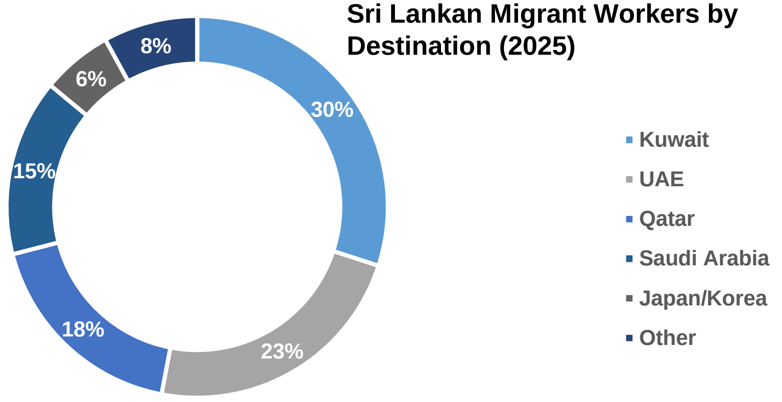
Impact of the Middle East Crisis on Migrant Workers

The Middle East has one of the largest concentrations of migrant workers in the world. Countries in the region, like Saudi Arabia, United Arab Emirates, Qatar, Kuwait, Bahrain, and Oman, heavily rely on foreign labor to support some of the most important sectors in these economies, including construction, domestic work, logistics, retail, and hospitality. According to data from the International Labor Organization, migrant workers account for more than 40 percent of the total labor force in the Middle East, and even higher percentages in the economies of the Gulf Cooperation Council (GCC). A substantial percentage of these migrant workers hail from South and Southeast Asian countries like India, Pakistan, Bangladesh, Nepal, the Philippines, and Sri Lanka, and they rely on these jobs in the Middle East to support their families.

Periods of geopolitical tensions and armed conflicts in the region may significantly impact the migrant workers. For instance, economic disruptions may result in job losses and wage pressures in industries that are heavily dependent on migrant workers. Moreover, the crises may cause living costs to rise significantly, particularly because of increases in fuel and food prices. These increases may affect the living standards of migrant workers who are mostly from the lower-income segment and send a substantial portion of their earnings. Research by the World Bank reveals that remittance flows from the Middle East are particularly vulnerable to economic slowdowns and geopolitical tensions in the host countries.

The impact of the crisis on Sri Lanka: The impact of the crisis on Sri Lanka is considerable because of the country's reliance on labor migration to the Middle East. Worker remittances are a critical component of Sri Lanka's foreign exchange earnings. According to the Central Bank of Sri Lanka, worker remittances have been a significant component of Sri Lanka's foreign exchange earnings over the last few years. In particular, the remittances have exceeded USD 6 billion annually. A fall in the earnings of Sri Lankan workers in the Middle East may impact the remittance flows from the region. In conjunction with the possible increases in global fuel prices because of the crisis, the impact on the inflation rates in Sri Lanka may be considerable.

Sri Lankan Migrant Workers by Destination (2025)



Top Sectors Employing Migrants in the Middle East

Construction
Largest sector, heavily migrant dependent

Domestic Work
6.6 Mn workers across GCC

Hospitality and Retail
Significant employment, mostly Asian migrants

Transport & Logistics
Growing demand due to infrastructure projects

Data Sources: World Bank,, International Labor Organisation, Sri Lanka Bureau of Foreign Employment

Evolving Landscape

Import Tax Reforms w.e.f. 1st April 2026

Overview of Import Tax Reforms

The recent changes to import point taxes in Sri Lanka, effective from 1 April 2026, represent an important step in the government's ongoing effort to rationalize the import taxation framework while maintaining fiscal stability in a post-crisis economic environment. The reforms largely reflect the policy direction announced in Budget 2026 and aim to gradually simplify the tariff structure, reduce reliance on para-tariffs, and align border taxation more closely with conventional customs duties.

Customs Duty: Restructuring of Duty Bands

One of the most notable aspects of the reform is the restructuring of customs duty bands. The previous duty structure of 0%, 15%, and 20% has been replaced with a four-tier system of 0%, 10%, 20%, and 30%. This adjustment introduces greater differentiation across products and may improve tariff policy flexibility.

From a trade perspective, the reduction of the 15% duty band to 10% is likely to reduce the cost of importing certain intermediate and consumer goods, potentially easing price pressures for businesses and consumers. In a context where Sri Lanka continues to experience relatively high production costs and constrained domestic supply in some sectors, this reduction could support economic recovery by lowering input costs for industries that rely on imported materials.

Higher Duty Tier: Targeted Protection for Selected Imports

At the same time, the introduction of a higher 30% duty band signals a targeted protectionist approach for selected sectors. While most products currently taxed at 20% will remain unchanged, a limited number of items, including motor vehicles, will see their duties rise from 20% to 30%.

This suggests a deliberate policy choice to discourage imports of high-value or non-essential goods that place pressure on foreign exchange reserves. Vehicle imports, in particular, have historically been a significant contributor to Sri Lanka's import bill, and tighter taxation on this category aligns with broader macroeconomic objectives of external sector stability.

CESS Levy: Gradual Restructuring and Phase-Out

Another important dimension of the reform is the gradual restructuring of para-tariffs, particularly the CESS levy. Over the past four years, the government has been phasing out CESS on more than 2,600 product categories.

The latest changes continue this transition by removing CESS from certain products, especially agricultural goods, while revising it for others such as processed foods, oils, and sanitaryware. This reflects a longer-term policy objective of simplifying the import tax regime by shifting revenue reliance away from multiple overlapping levies toward the customs duty system. Such rationalization is generally viewed as beneficial for transparency and predictability in trade policy.

Customs Duty Surcharge: Temporary Measure Extended

However, not all temporary fiscal measures are being removed immediately. The Customs Duty Surcharge, which was originally introduced as a short-term measure and was intended to last only six months, has been repeatedly extended and will remain in effect until the end of 2026.

Its continuation indicates that fiscal consolidation remains a priority, and the government is still relying on certain import-based revenue streams during the recovery period.

Other Import Taxes: PAL, Excise Duty and VAT Adjustments

Additional adjustments, such as reduced or exempted rates for the Ports and Airports Development Levy (PAL), the introduction of excise duty on washing machines, and the removal of the 0% VAT import rate for certain garment sector inputs, highlight a broader recalibration of the import tax system.

In particular, the discontinuation of zero-rated import VAT for some textile inputs may temporarily affect cash flow for manufacturers, although exporters can continue to use VAT deferment mechanisms.

Overall Policy Direction

Overall, these reforms indicate a strategic shift toward a more streamlined tariff regime that balances trade facilitation with fiscal and external sector objectives. While certain changes may marginally increase costs for selected goods, the broader direction, particularly the gradual removal of para-tariffs and the rationalization of duty bands, could improve policy clarity and support a more predictable trade environment in the medium term.