

# Monthly Economic Update (MEU)

May 2026

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



**EIU**

# Dashboard

Y-o-Y changes, otherwise specified

## Economic Growth

**5%** For the year 2026

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

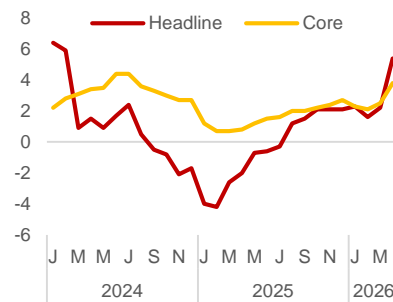
### Movement of Purchasing Managers' Index- April 2026

Manufacturing PMI **42.6**  
 Services PMI **46.7**  
 Construction PMI (Mar) **57.1**

All indices recorded a decline compared to the previous month.

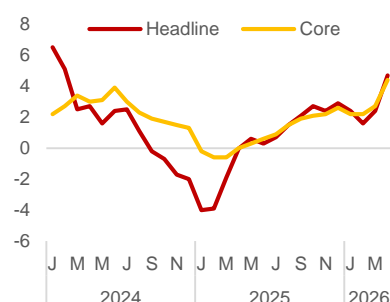
## Inflation

CCPI Inflation (%) - Base 2021



April 2026  
 Headline **5.4%**  
 Core **3.8%**

NCPI Inflation (%) - Base 2021



April 2026  
 Headline **4.7%**  
 Core **4.4%**

## External Sector

### Merchandise Trade

March 2026

Trade Deficit **USD 880 mn**

Exports **USD 1,254 mn**  
 1% y-o-y growth

Imports **USD 2,134 mn**  
 30.3% y-o-y growth

Services Net Exports **USD 227 mn**  
 -42.4% y-o-y increase

### Tourist Arrivals

**135,643**

April 2026 -22.3% y-o-y growth

### Tourism Earnings

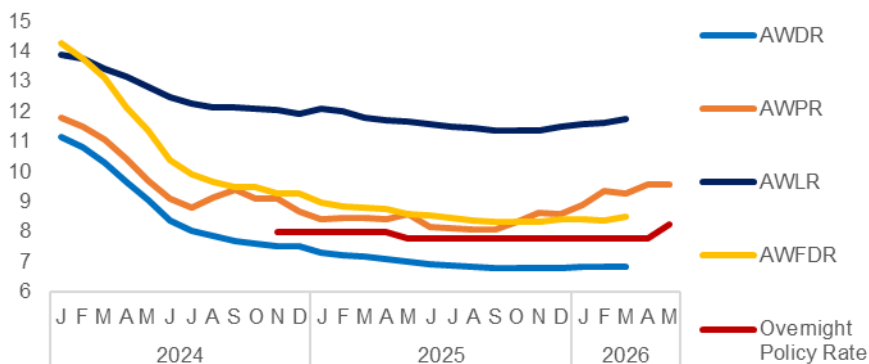
**USD 157.1mn**

April 2026 -19.4% y-o-y decline

### Workers' Remittances

April 2026 **USD 767.9mn**  
 24.5% y-o-y growth

## Interest Rates



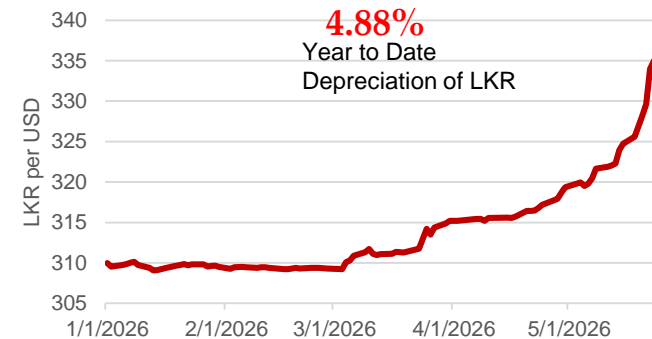
### Growth in Credit to Private Sector

Mar 2026

**13.8%**

Overnight Policy Interest Rate (OPR): **8.75%**

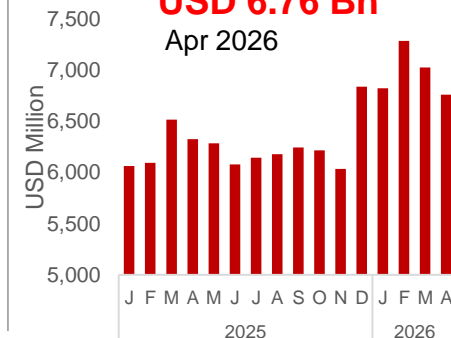
## Exchange Rate



## Official Reserves

**USD 6.76 Bn**

Apr 2026



# Highlights

## Local Economy

### **The Central Bank of Sri Lanka increases the Overnight Policy Rate (OPR)**

The Central Bank of Sri Lanka (CBSL) raised the OPR by 100 bps to 8.75% due to rising inflation and external pressures caused by higher global oil and commodity prices amid Middle East tensions. Inflation reached 5.4% in April 2026, driven mainly by energy costs, while stronger demand, credit growth, and imports added pressure. The external sector weakened due to a wider trade deficit and lower tourism earnings, though remittances remained stable and reserves stood at USD 6.8 billion. The rupee also faced depreciation pressure amid global uncertainty. In response, CBSL tightened monetary policy to control inflation and maintain external stability.

### **Sri Lankan Rupee Movement Under External Pressures in May 2026**

In May 2026, the Sri Lankan rupee weakened due to higher demand for foreign exchange from rising fuel, vehicle, and consumer goods imports alongside higher oil prices. Tourism, remittance, and export inflows were insufficient to offset the widening import bill, creating a foreign currency shortage. A stronger USD and global uncertainty pushed the rupee beyond Rs. 331, its weakest level since late 2023, with depreciation of around 3.6% year-to-date. Later, CBSL intervention stabilised the market and supported a partial recovery. While depreciation raised import costs and inflation, it temporarily benefited exporters and remittance inflows.

### **Para-Tariff Reforms to Boost Competitiveness and Consumer Welfare**

Sri Lanka is gradually removing para-tariffs to simplify imports and improve trade transparency. Charges such as PAL and CESS have increased import protection, pushing average duties to around 19%, according to the World Bank. Their phased removal by 2029 is expected to reduce import costs and improve trade openness. The reforms should lower production costs, improve export competitiveness, and increase household welfare through lower prices and higher incomes. However, greater competition may challenge less efficient industries, highlighting the need for productivity gains, skills development, and industrial upgrading.

### **IMF Executive Board Completes the Combined 5<sup>th</sup> and 6<sup>th</sup> Reviews Under the EFF for Sri Lanka**

IMF completed the 5th and 6th EFF reviews for SL, approving USD 695 Mn, raising total disbursements to USD 2.4 Bn. Program performance remained broadly strong, with most QPCs and SBs achieved. However, ME war and Cyclone Ditwah increased downside risks, slowing 2026 growth to 3%. IMF stressed continued fiscal discipline, revenue mobilisation, monetary stability, debt sustainability, and structural reforms.

## Global Economy

### **Middle East Conflict Threatens Global Economic Recovery**

The global economic outlook weakened sharply after the Middle East conflict began in February 2026, triggering higher oil prices, supply chain disruptions, and increased financial uncertainty. Disruptions around the Strait of Hormuz pushed Brent crude prices above \$100 per barrel, raising transportation, food, manufacturing, and energy costs worldwide. Financial markets became more volatile, while tighter financial conditions and rising inflation pressured both developed and emerging economies. The IMF expects global growth to slow in 2026, with risks of a deeper slowdown if the conflict continues. Economies such as Sri Lanka remain highly vulnerable due to dependence on imported energy, rising import costs, and weaker external demand. The crisis highlights the growing importance of energy security, renewable energy investment, and stronger economic resilience.

### **Global Trade Slows Amid Geopolitical and Supply Chain Disruptions**

Global trade growth is expected to slow significantly in 2026 due to geopolitical tensions, energy disruptions, and shifting supply chains. The Middle East conflict and disruptions in the Strait of Hormuz have increased transport costs, insurance expenses, and supply delays, affecting energy markets and industrial production worldwide. Rising energy and commodity prices are also increasing inflation and weakening trade competitiveness, especially in import-dependent economies. Financial uncertainty has further caused volatile capital flows and tighter global financial conditions. In response, many countries are diversifying export markets and strengthening regional trade partnerships. For economies like Sri Lanka, these developments emphasise the need for export diversification, digital trade expansion, and stronger integration into global value chains.

### **Global Commodity Outlook 2026: Supply Shocks Drive Price Surge**

The global commodity market outlook for 2026 reflects heightened volatility following Middle East disruptions, particularly affecting trade through the Strait of Hormuz. Although the worst supply interruptions are expected to ease by May 2026, shipping recovery will be gradual, with stabilisation near pre-war levels only by the final quarter. These disruptions are mainly temporary access constraints rather than structural production shortages. As a result, global prices for energy, agriculture, and other key commodities are projected to rise by around 16% year-on-year in 2026, marking the first annual increase since 2022 and a sharp upward revision from earlier forecasts. Despite efforts to reduce oil dependence, the oil market is expected to face a temporary imbalance, with demand exceeding supply in mid-2026. However, as supply conditions improve, commodity prices are projected to decline by around 12% in 2027.

# KEY INSIGHTS

## Sri Lankan Economy

### Sri Lanka's Trade Reform Agenda: Economic Implications of Para-Tariff Rationalisation

Sri Lanka is embarking on a phased removal of para-tariffs as part of a broader effort to simplify country's import tariff structure and improve trade policy transparency. These para-tariffs, additional border charges imposed on imports alongside customs duties, have historically played a significant role in overall import protection, often making the effective tariff rate considerably higher than the nominal customs duty.

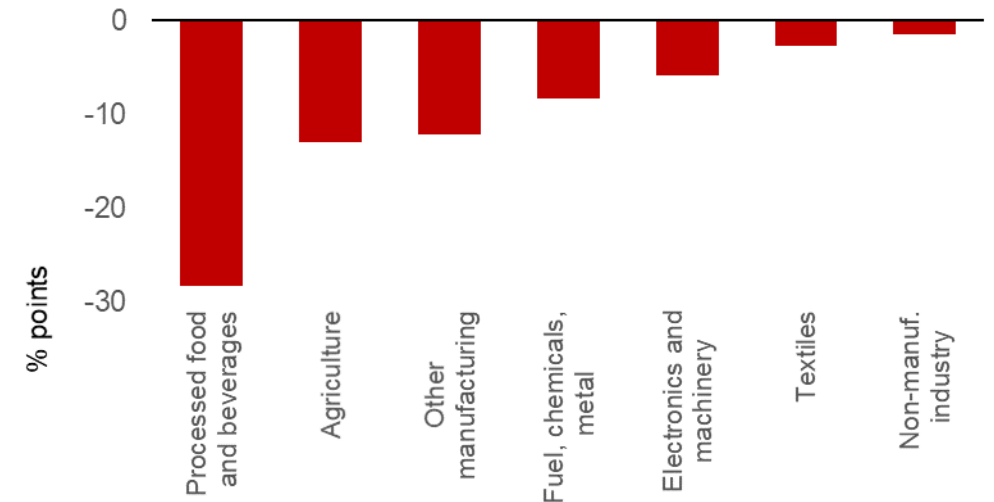
Sri Lanka's planned para-tariff reforms represent one of the most significant structural trade policy shifts in recent decades, with potentially far-reaching implications for competitiveness, consumer welfare, and export transformation. According to the World Bank, para-tariffs such as the Ports and Airports Levy (PAL) and CESS currently account for a substantial share of Sri Lanka's import protection, pushing average import duties to around 19%, well above many peer economies. The proposed phase-out by 2029 would reduce average duties by nearly nine percentage points, marking a decisive move toward a more transparent and rules-based trade regime.

The reforms are expected to disproportionately benefit sectors heavily reliant on imported intermediate goods. Industries such as food and beverage manufacturing, rubber, and plastics are likely to see sharp declines in input costs, potentially improving productivity and export competitiveness over the medium term. In contrast, already outward-oriented sectors such as textiles may experience relatively limited tariff reductions, reflecting their existing integration into global value chains.

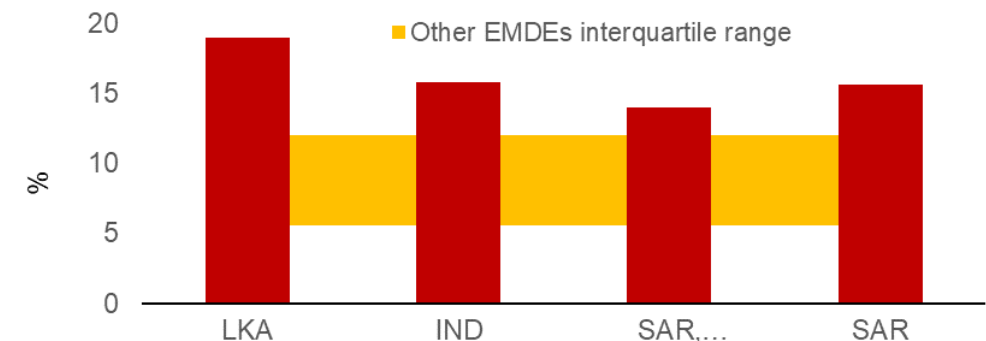
Importantly, the reforms also carry strong distributional implications. Lower-income and rural households, which allocate a larger share of expenditure toward manufactured food products, are projected to experience greater welfare gains through lower consumer prices and higher real incomes. The World Bank estimates household consumption could rise by over 3% in the short term, highlighting how trade liberalisation can support broader economic recovery alongside macroeconomic stabilisation efforts.

However, the transition will not be without challenges. Reduced protection may expose less competitive domestic industries to greater external competition, increasing pressure for productivity enhancement, labour mobility, and industrial upgrading. The success of the reforms will therefore depend not only on tariff rationalisation, but also on complementary policies that strengthen export capacity, skills development, and institutional efficiency.

Sri Lanka's proposed para-tariff phase-out until 2029



Average import Duty



# KEY INSIGHTS

## Sri Lankan Economy

### External Sector Performance in Q1 2026

Sri Lanka's external sector performance in the first quarter of 2026 reflected a notable deterioration in the current account balance, driven primarily by a sharp widening of the merchandise trade deficit amid strong import growth. The current account surplus declined significantly to USD 532 million during Q1 2026, compared to USD 948 million in the corresponding period of 2025, representing a contraction of 44%. While export earnings recorded moderate growth, the acceleration in import expenditure substantially outpaced export performance, placing pressure on the overall external balance.

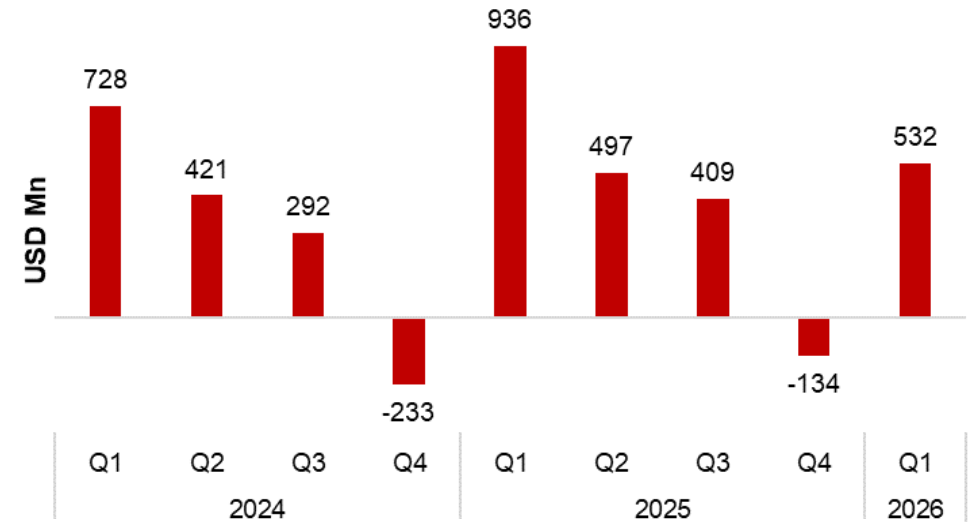
Merchandise exports increased by 3.4% year-on-year to USD 3.46 billion in the first quarter of 2026. Industrial exports continued to dominate export earnings, supported by stronger performance in petroleum products, food and beverages, rubber products, and machinery and mechanical appliances. Agricultural exports also recorded modest growth, aided by higher earnings from spices and seafood exports. However, tea exports contracted during the period, reflecting weaker export volumes.

In contrast, merchandise imports expanded sharply by 18.1% year-on-year to USD 5.77 billion during the quarter, resulting in the trade deficit widening to USD 2.31 billion from USD 1.54 billion in the corresponding period of 2025. The increase in imports was broad-based, with notable growth in fuel imports, textile and textile articles, machinery and equipment, personal vehicles, and other non-food consumer goods. Import growth was particularly evident in intermediate and consumer goods, signalling stronger domestic demand and economic activity.

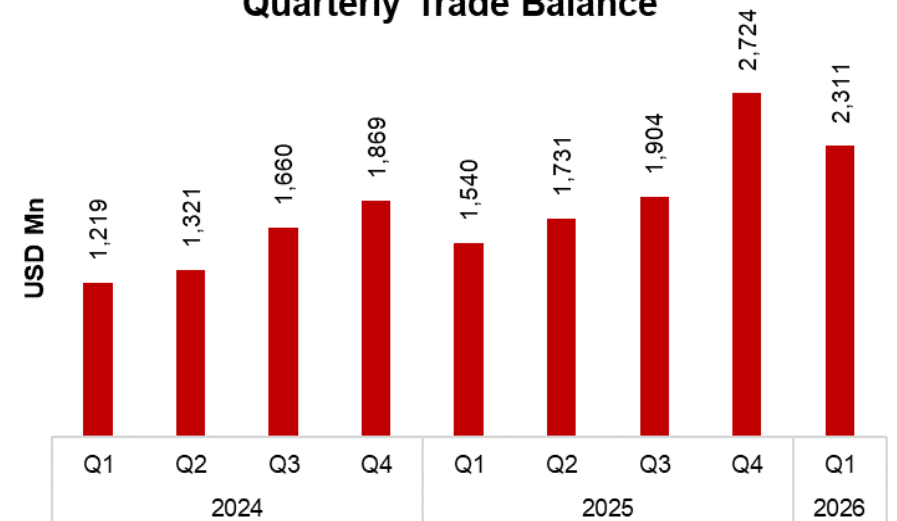
Meanwhile, the services account surplus moderated by 20.2% to USD 973 million during the first quarter of 2026, largely due to lower inflows from travel and transport-related services alongside higher services outflows. Nevertheless, secondary income inflows remained a key source of support for the external sector, increasing by 27.7% to USD 2.26 billion, primarily driven by stronger workers' remittances.

Overall, Sri Lanka's external sector in the first quarter of 2026 reflected improving domestic economic conditions and rising import demand, although the resulting widening of the trade deficit contributed to a weaker current account position compared to the same period of the previous year.

### Quarterly Current Account Balance



### Quarterly Trade Balance



# KEY INSIGHTS

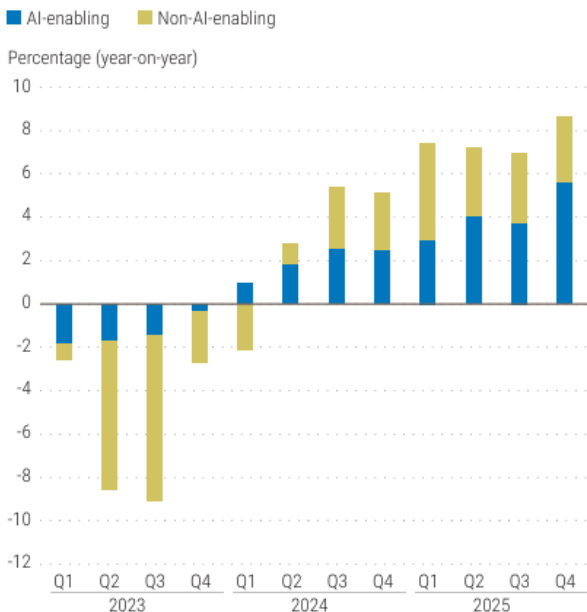
## Global Economy

### International Trade in a Fragmenting Global Economy

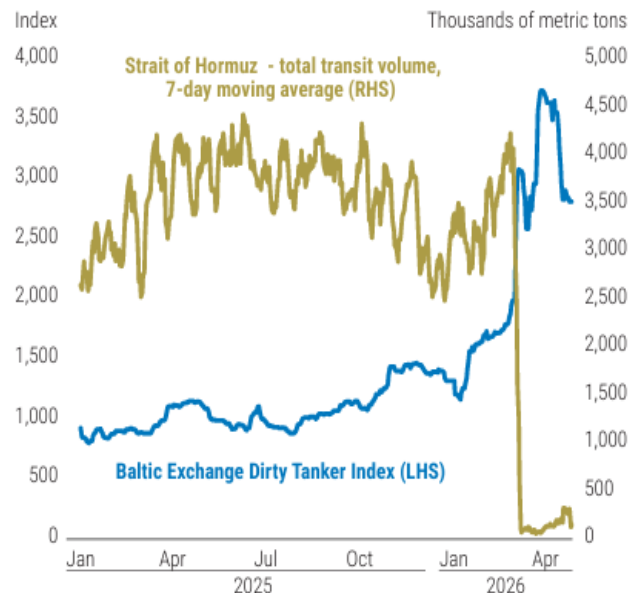
The global trade landscape in 2026 is entering a period of heightened uncertainty, shaped by geopolitical tensions, energy disruptions, and shifting supply chains. The UN's World Economic Situation and Prospects (Mid-2026) projects global trade growth to slow sharply to 2.7% in 2026, down from a strong 5.0% in 2025, reflecting both cyclical moderation and structural challenges.

A major disruption stems from the Middle East conflict, particularly the effective closure of the Strait of Hormuz, a critical global energy and shipping corridor. This has led to surging transport costs, higher insurance premiums, and significant supply chain delays, affecting not only energy markets but also fertiliser and industrial inputs

World merchandise trade growth by category



Strait of Hormuz transit volume and Baltic Exchange Dirty Tanker Index



Despite these pressures, trade has shown some resilience. AI-related goods and digital services continue to support global flows, with technology-driven demand cushioning export performance in parts of Asia. At the same time, countries are reconfiguring trade networks, with Asian economies increasingly diversifying exports toward regional markets, the EU, and emerging partners to mitigate tariff risks and geopolitical exposure.

Inflation dynamics are closely intertwined with trade developments. Global inflation is expected to rise to 3.9% in 2026, reversing earlier disinflation trends, largely due to higher energy and commodity prices. This has direct implications for trade competitiveness, as rising input costs compress margins and reduce demand, particularly in import-dependent economies such as Sri Lanka.

From an international finance perspective, heightened uncertainty is tightening global financial conditions. Capital flows to emerging markets have become volatile, with sharp portfolio outflows observed following the onset of the crisis. Rising interest rates and borrowing costs further constrain trade financing, especially for developing economies with limited fiscal space.

For Sri Lanka and similar economies, these developments underline the urgency of diversifying export markets, strengthening regional trade integration, and promoting higher-value exports. In an era of fragmented globalisation, resilience in international trade will increasingly depend on adaptability, digitalisation, and strategic positioning within evolving global value chains.

# KEY INSIGHTS

## Global Economy

### Energy Shock and Geopolitical Fragmentation Threaten Global Recovery

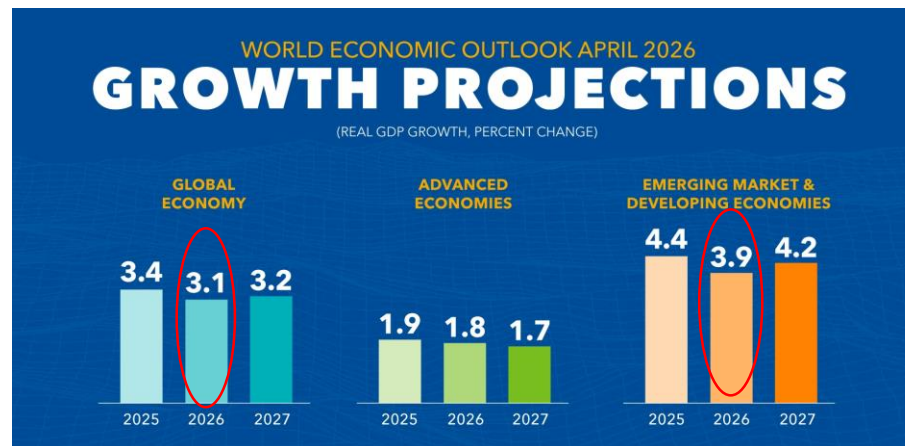
The global economic outlook has weakened sharply following the outbreak of war in the Middle East on 28 February 2026. What had been a period of steady recovery and easing inflation has rapidly shifted into renewed uncertainty, driven by surging energy prices, supply chain disruptions, and tightening financial conditions. At the center of the crisis is the Strait of Hormuz, a key global energy transit route. Damage to production facilities and shipping disruptions pushed Brent crude prices above \$100 per barrel within weeks, raising fears of a major global energy shock. Rising fuel costs are already increasing the price of transportation, food production, fertilisers, chemicals, and manufacturing, feeding inflation across the global economy.

The conflict is also disrupting fertiliser supplies, semiconductor-related inputs, aviation routes, tourism, and trade flows, while financial markets have reacted with heightened volatility, weaker equity markets, wider risk premiums, and capital outflows from emerging economies. Under the IMF's baseline scenario, global growth is expected to slow to 3.1% in 2026, while inflation rises to 4.4%. However, a prolonged conflict and extended disruption to Gulf energy supplies could push global growth close to 2% and inflation toward 6%, bringing the world economy close to recession. Developing Asia and the Pacific remain especially vulnerable due to heavy dependence on imported energy and exposure to global trade and financial conditions. Higher production costs, weaker tourism, rising food prices, and tighter financial conditions are expected to weigh on regional growth.

Sri Lanka's recovery, though resilient in 2025, also faces growing external risks. Economic growth was supported by broad-based activity, subdued inflation, and improving financial conditions despite disruptions from Cyclone Ditwah. However, growth is expected to moderate in 2026 as the post-crisis rebound fades and external pressures intensify. Rising energy prices are likely to accelerate inflation, while a prolonged Middle East conflict could further strain the economy through higher import costs, weaker external demand, and tighter financial conditions. Post-cyclone reconstruction may provide some support, but chronic under-execution of public capital spending remains a key challenge.

The crisis is unfolding amid increasing geopolitical fragmentation and renewed trade tensions, with countries placing greater emphasis on national security and strategic supply chains. At the same time, the situation highlights the importance of strengthening energy resilience, accelerating renewable energy adoption, and investing in long-term productivity and technological transformation.

Much now depends on the duration of the conflict. A swift resolution could limit the economic fallout, but prolonged instability risks triggering a deeper global slowdown and testing the resilience of economies still recovering from recent crises.



Growth projections for Sri Lanka	2026	2027
WORLD BANK GROUP	3.6%	3.8%
INTERNATIONAL MONETARY FUND	3.1%	3.1%
ADB	4.0%	4.2%
	5.0%	5.0%

# Evolving Landscape

## External Sector Pressures and the Movement of the Sri Lankan Rupee in May 2026

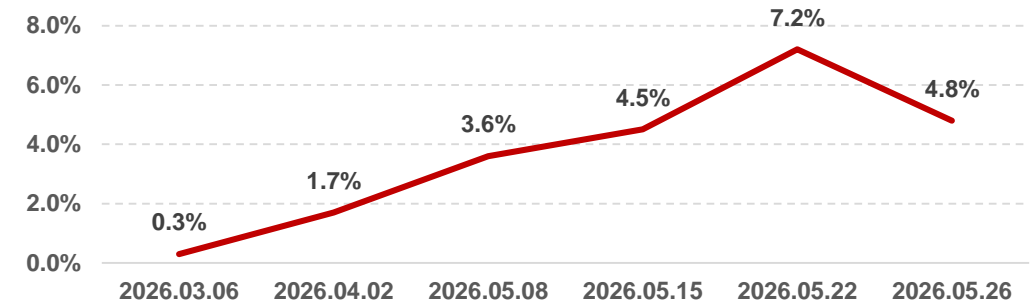
In May 2026, the Sri Lankan rupee depreciated against the US dollar due to a combination of domestic and external economic pressures. The exchange rate weakened mainly because the demand for foreign currency increased faster than the supply available in the market. One of the key reasons for the depreciation was the rise in import expenditure, particularly for fuel imports. Higher global oil prices increased the country's demand for US dollars to pay for petroleum purchases. At the same time, import-related activities, including vehicle imports and other consumer goods, further increased pressure on foreign exchange demand.

Although Sri Lanka continued to receive foreign exchange through tourism earnings, worker remittances, and exports, these inflows were not sufficient to offset the growing import demand during the month. In addition, global uncertainty and the strengthening of the US dollar affected many emerging market currencies, including the Sri Lankan rupee. As a result, the rupee weakened significantly in May, with the US dollar rising above Rs. 331 to reach its highest level since late 2023.

According to Central Bank data, the rupee had depreciated by around 3.6% against the US dollar between January and early May 2026. However, toward the latter part of May, the rupee showed signs of appreciation following the Central Bank of Sri Lanka's intervention to stabilise the foreign exchange market. Reports indicated that the Central Bank introduced measures to calm market speculation and manage excessive volatility. Consequently, the interbank exchange rate improved from around Rs. 331/348 to nearly Rs. 329/335. Bloomberg also reported that the rupee appreciated by about 2.7% in one trading session, becoming one of the best-performing Asian currencies during that period.

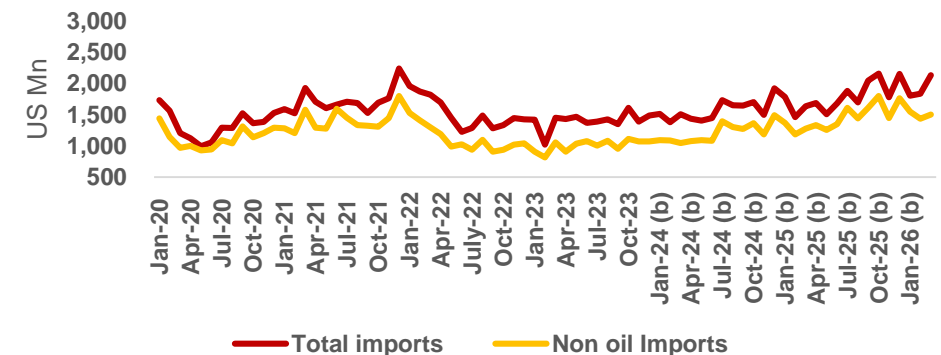
The depreciation of the rupee has important economic implications. A weaker currency increases the cost of imported goods such as fuel, medicine, and raw materials, which may contribute to inflation and higher production costs. However, exporters and remittance earners may benefit in the short term because foreign currency earnings convert into a higher amount of rupees.

Rupees' year to date depreciation against USD



Note: A lower percentage after 22 May reflects partial appreciation of the Sri Lankan rupee against the US dollar following Central Bank intervention and policy adjustments.

Imports from 2020-2026



(b) Provisional

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