

Monthly Economic Update (MEU)

June 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce



EIU

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

5.1% For the Q1 of the year 2026

The Sri Lankan Economy grew by 5.1% in Q1 2026 compared to 4.7% growth in Q1 2025. All three major economic activities positively contributed to this growth. Further, the GDP implicit price deflator for the quarter was recorded as 5.7%.

Movement of Purchasing Managers' Index- May 2026

Manufacturing PMI **56.6**

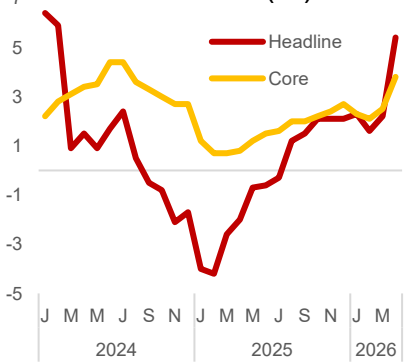
Services PMI **56.9**

Construction PMI **45.7** (April)

Manufacturing & Services indices recorded an increase compared to the previous month..

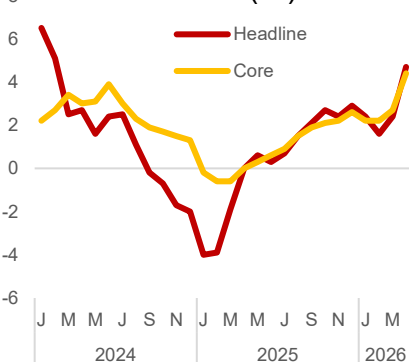
Inflation

CCPI Inflation (%) - Base 2021



May 2026 Headline **5.5%** Core **3.9%**

NCPI Inflation (%) - Base 2021



May 2026 Headline **5.4%** Core **4.5%**

External Sector

Merchandise Trade

April 2026

Trade Deficit USD 1382.6 mn

Exports USD 1074.1 mn

10.9% y-o-y growth

Imports USD 2456.7 mn

45.7% y-o-y growth

Services Net Exports USD 229.2 mn

-37.8% y-o-y growth

Tourist Arrivals

May 2026

145,745

9.6% y-o-y growth

Tourism Earnings

May 2026

USD 155.7mn

-5.1% y-o-y growth

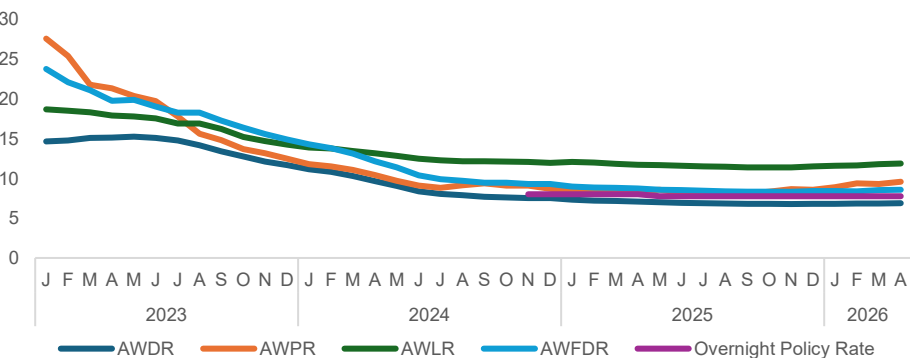
Workers' Remittances

May 2026

USD 847mn

32% y-o-y growth

Interest Rates



Growth in Credit to Private Sector

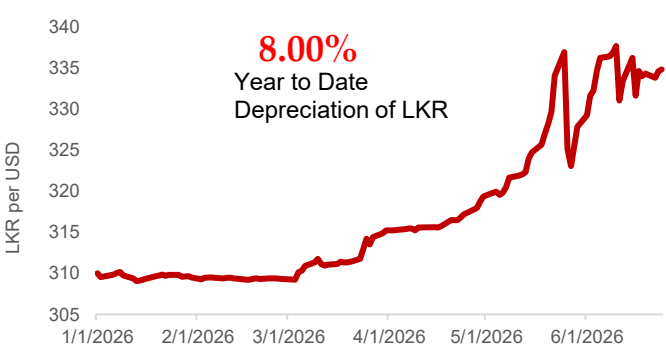
April 2026

27%

Overnight Policy Interest Rate

(OPR): **8.75%**

Exchange Rate



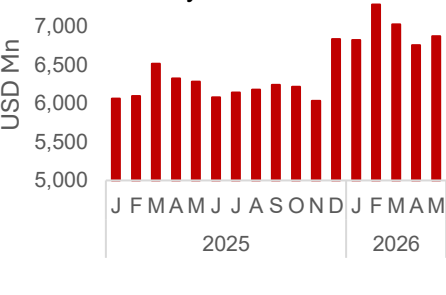
8.00%

Year to Date Depreciation of LKR

Official Reserves

USD 6,873 mn

May 2026



Highlights

Local Economy

Sri Lanka's Central Bank cuts exporter dollar conversion time to 30 days

In June 2026, the Central Bank of Sri Lanka introduced a new foreign exchange regulation requiring both direct and indirect exporters to convert any residual export earnings held in foreign currency into Sri Lankan rupees within 30 days, compared to the previous 90-day period. Exporters must complete the conversion by the 10th day of the following month. The policy aims to increase the supply of foreign currency in the domestic banking system, improve foreign exchange liquidity, and support the stability of the Sri Lankan rupee. By ensuring a more regular flow of export proceeds into the banking sector, the measure is expected to ease access to foreign exchange for importers and strengthen overall macroeconomic stability. However, the shorter conversion period reduces exporters' flexibility in managing foreign currency holdings and limits their ability to benefit from favorable exchange rate movements.

Transforming Sri Lanka into a Competitive Export Hub: An Overview of the National Export Development Plan

The National Export Development Plan (NEDP) 2026–2030 aims to make exports the main driver of Sri Lanka's economic growth, targeting USD 36 billion in exports by 2030. The plan focuses on expanding and diversifying exports, strengthening logistics and trade facilitation, improving market access, and promoting investment and innovation. Key growth sectors include apparel, digital services, electronics, marine industries, processed foods, and spices. By addressing challenges such as limited export diversification and weak integration into global value chains, the NEDP seeks to build a more competitive, resilient, and export-oriented economy.

Credit Supply Survey Q1 Performance and Q2 Outlook in 2026

The Central Bank of Sri Lanka's Credit Supply Survey for Q1 2026 shows improved banking sector sentiment, with stronger willingness to lend compared to Q4 2025, supported by stable interest rates and better macroeconomic conditions. Lending activity increased across retail, corporate, and SME sectors, while SOE lending declined slightly. Loan demand also rose across all segments, driven by higher consumer borrowing especially housing loans, pawning, and vehicle leasing and stronger business expansion and working capital needs. Non-performing loans declined across sectors, indicating improved credit quality, although retail and SME loan rejections rose due to repayment capacity concerns and collateral constraints. Looking ahead to Q2 2026, banks expect further but slower growth in lending, with continued caution due to external geopolitical risks despite an overall positive outlook.

Strong Surge in Worker Remittances Strengthens External Stability

Worker remittances recorded robust growth in 2026, reflecting sustained inflows from overseas employment. In April 2026, remittance inflows reached USD 767.9 million, up from USD 646.1 million in April 2025, marking a year-on-year increase of 18.8%. On a cumulative basis, inflows during January–April 2026 rose to USD 3,062.8 million, representing a solid 24.5% increase compared to the same period in 2025. This continued upward momentum in remittances has played a key role in strengthening Sri Lanka's foreign exchange earnings, thereby supporting external sector stability and contributing to reserve accumulation.

Fiscal Sector Records Budget Surplus in Jan–Apr 2026 on Strong Revenue Growth

Sri Lanka's fiscal sector improved notably during January–April 2026, with government revenue and grants rising to Rs. 1,958.3 billion from Rs. 1,454.7 billion in January–April 2025.

Although expenditure and net lending also increased to Rs. 1,853.3 billion (from Rs. 1,716.3 billion), stronger revenue performance led to a shift from a budget deficit of Rs. 261.6 billion to a surplus of Rs. 105.0 billion. Financing conditions eased, with net domestic financing declining to Rs. 97.8 billion and net foreign financing recording a repayment of Rs. 202.8 billion, compared to Rs. 27.9 billion in the same period of 2025. Government securities markets remained stable, with Treasury Bill yields broadly steady, Treasury Bond yields declining in the secondary market, and strong demand reflected in a 1.8 times oversubscribed Treasury Bill auction.

Global Economy

Geopolitical De-escalation and the Repricing of Global Energy Markets: Implications of the U.S.–Iran Ceasefire

Global oil prices have declined significantly following a ceasefire agreement between the United States and Iran, easing concerns over disruptions to global energy supplies. Brent crude oil prices fell from a wartime peak of around \$125 per barrel to approximately \$78 per barrel as the agreement reopened key maritime routes, including the Strait of Hormuz, through which nearly 20% of global oil supplies pass. The U.S. decision to grant sanctions waivers for Iranian oil exports is also expected to increase global oil supply and further stabilize prices. Although oil prices remain above pre-war levels, the ceasefire has reduced the immediate risk of an energy crisis and improved prospects for greater stability in global energy markets if the peace agreement is sustained.

Proposed US 12.5% Forced Labour Tariff and Implications for Sri Lanka

The United States has proposed a new tariff framework under its Section 301 investigations that links market access to compliance with forced labour standards. Economies that have adopted forced labour import prohibitions would face a 10% tariff, while those considered to have inadequate measures would face a 12.5% tariff. Sri Lanka has been placed in the higher tariff category. If implemented, this could reduce the competitiveness of Sri Lankan exports, particularly in sectors such as apparel, textiles, and rubber products, where even small cost differences can influence buyer decisions. The proposal highlights the growing importance of supply chain transparency and labour compliance in international trade. Strengthening regulatory frameworks and traceability systems could help Sri Lanka maintain its reputation as a reliable and responsible sourcing destination.

Gold Becomes the World's Largest Reserve Asset

The June 2026 European Central Bank report revealed that gold has surpassed US Treasuries to become the world's second-largest reserve asset after the US dollar, accounting for 27% of global official reserves. However, this shift was driven primarily by a sharp increase in gold prices, rising around 30% in 2024 and 60% in 2025, rather than a major reallocation of reserve holdings. Nevertheless, central banks continue to maintain strong demand for gold due to its role as a safe-haven asset, inflation hedge, portfolio diversifier, and protection against geopolitical risks, with 89% of surveyed central banks expecting global gold holdings to increase. Despite its growing importance, gold remains constrained by its lack of income generation, storage costs, price volatility, and limited supply. Overall, gold's rise reflects increasing demand for reserve diversification amid geopolitical uncertainty, although its overtaking of US Treasuries is largely the result of soaring gold prices rather than a fundamental shift away from traditional reserve assets.

KEY INSIGHTS

Sri Lankan Economy

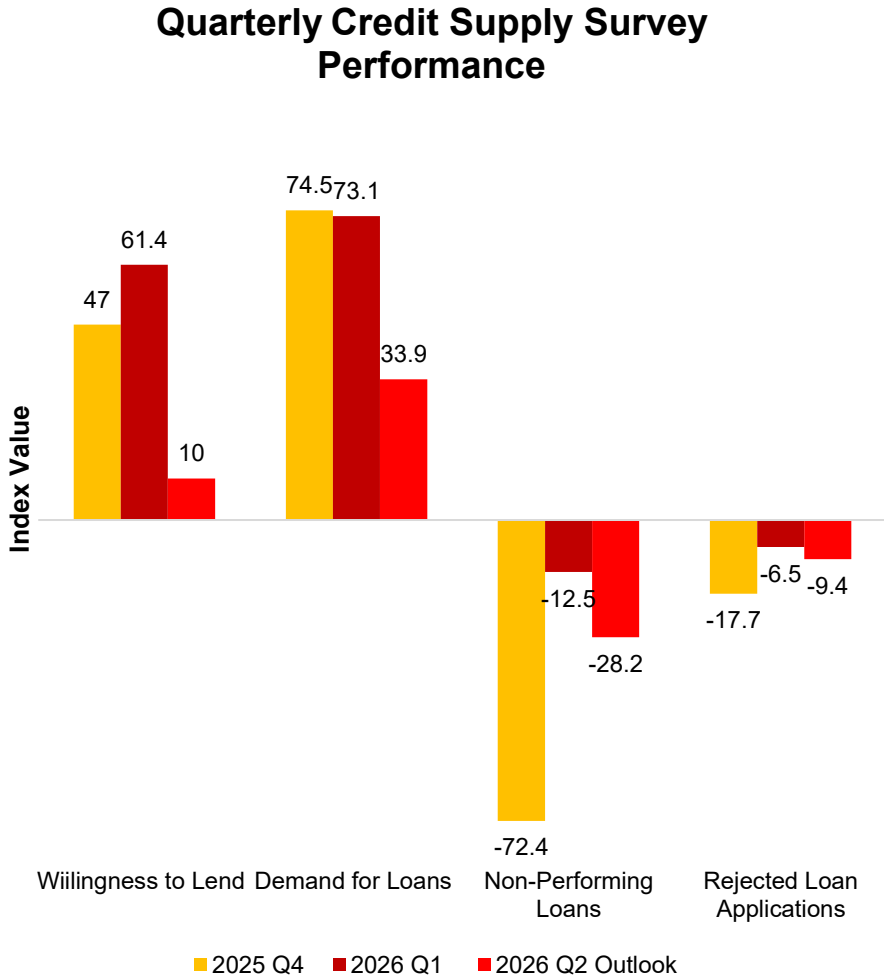
Credit Supply Survey Q1 Performance and Q2 Outlook in 2026

The Central Bank of Sri Lanka's Credit Supply Survey for the first quarter of 2026 highlights a clear improvement in banking sector sentiment, reflecting gradually strengthening macroeconomic conditions. Compared to Q4 2025, banks demonstrated a stronger willingness to lend, supported by a stable interest rate environment, improving economic prospects, and more favorable business conditions. This positive trend was visible across the retail, corporate, and SME sectors, although lending to state-owned enterprises (SOEs) declined slightly. Notably, these gains were achieved despite disruptions caused by Cyclone Ditwah and ongoing geopolitical tensions in the Middle East.

Loan demand also picked up across all sectors during the quarter. Retail demand increased significantly, particularly for housing loans, pawning facilities, and vehicle leasing, indicating improving consumer confidence. Similarly, the corporate and SME sectors recorded stronger demand, driven by credit schemes, expansion of existing operations, and new business ventures. Meanwhile, demand from the SOE sector turned positive, largely due to financing needs related to fuel price adjustments and development projects.

Encouragingly, non-performing loans declined across all sectors, signaling improved repayment capacity and better credit quality. Loan rejections also decreased in the corporate and SOE segments, supported by stronger economic conditions and improved quality of loan proposals. However, a slight increase in rejections was observed in the retail and SME sectors, mainly due to concerns over repayment capacity, collateral limitations, and risks associated with unexpected natural disasters.

Looking ahead to the second quarter of 2026, banks expect lending willingness to increase further, though at a slower pace. While loan demand is projected to grow supported by rising consumer activity and demand for working capital banks are likely to remain cautious due to potential spillover effects from global geopolitical tensions. Overall, while the outlook remains positive, a balanced and prudent lending approach is expected to continue.



KEY INSIGHTS

Sri Lankan Economy

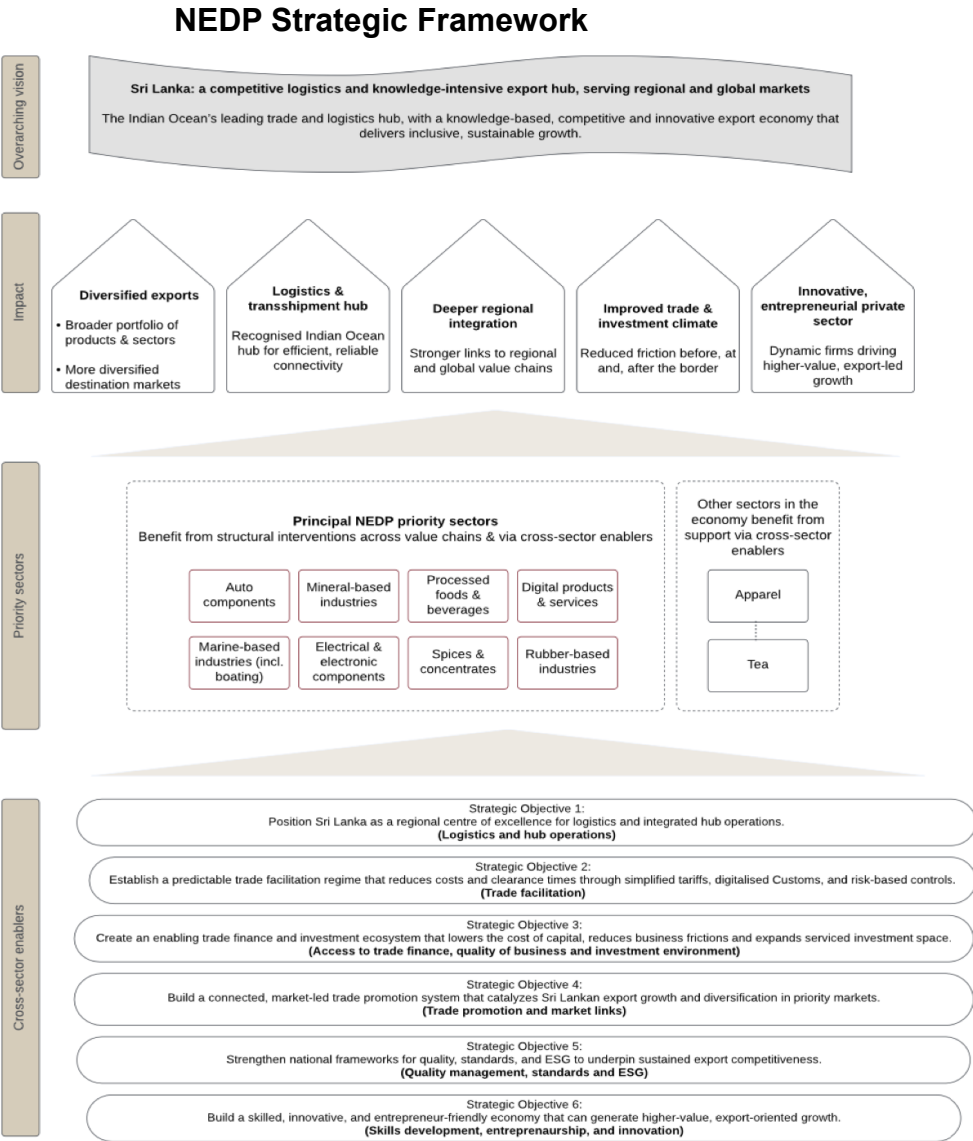
Transforming Sri Lanka into a Competitive Export Hub: An Overview of the National Export Development Plan

The **National Export Development Plan (NEDP) 2026–2030** outlines Sri Lanka’s strategy to transform exports into the primary engine of economic growth, recovery, and resilience. The plan aims to expand and diversify the country’s export base, strengthen participation in regional and global value chains, and position Sri Lanka as a competitive logistics and services hub connecting Asia, Europe, Africa, and other markets. The Government has set ambitious targets of increasing exports to approximately **USD 36 billion by 2030**, with merchandise exports contributing USD 28 billion and services exports over USD 8 billion. Exports are also expected to account for 14–15% of GDP by 2030.

The NEDP identifies several comparative advantages that can support export growth, including Sri Lanka’s strategic location, the expansion of the Colombo Port, a skilled workforce, a strong apparel industry, growing IT capabilities, and internationally recognized products such as tea, spices, gems, and tourism offerings. Emerging sectors such as electrical and electronic components, boat building, and digital services are also highlighted as promising growth areas.

The strategy is built around six key objectives: strengthening logistics and hub operations, improving trade facilitation, expanding access to trade finance and investment, enhancing trade promotion and market access, improving quality standards and ESG compliance, and developing skills, entrepreneurship, and innovation. Priority sectors include auto components, mineral- and rubber-based industries, marine industries, spices and concentrates, digital products and services, electrical and electronic components, and processed food and beverages.

The plan acknowledges significant challenges, including limited export diversification, overreliance on apparel and tea, inadequate participation in value chains, logistics and infrastructure gaps, and constrained access to trade finance, particularly for SMEs. To address these issues, the NEDP emphasizes trade digitalization, implementation of the National Single Window, market diversification into regions such as ASEAN, Africa, and the Middle East, tariff reforms, expanded trade agreements, and stronger economic diplomacy. Ultimately, the NEDP seeks to create a more diversified, innovative, and resilient export-oriented economy, though its success will depend on effective implementation and strong collaboration between the public and private sectors. Visit the full NEDP Report [here](#)



KEY INSIGHTS

Global Economy

Gold Becomes the World's Largest Reserve Asset

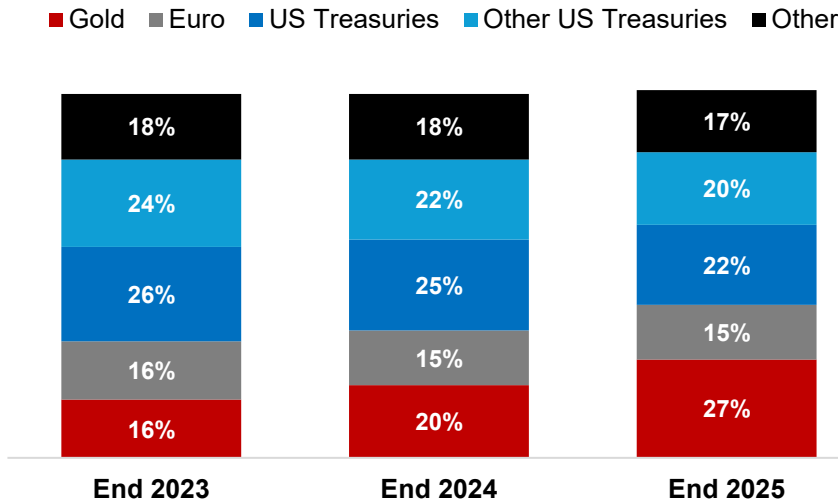
The June 2026 European Central Bank report revealed that gold has surpassed US Treasuries to become the world's second-largest reserve asset after the US dollar, marking a shift in the composition of global official reserves. While this development may appear to signal a structural move away from traditional reserve assets, the underlying drivers suggest that much of the change has been driven by the remarkable appreciation in gold prices rather than a wholesale reallocation of reserves.

According to the ECB, gold accounted for 27% of global official foreign reserves at the end of 2025, exceeding the share of US Treasuries (22%) and the euro (15%). However, this increase was largely a valuation effect. Gold prices surged by approximately 30% in 2024 and a further 60% in 2025, significantly increasing the value of existing gold holdings. When gold reserves are valued at end-2023 prices, gold's share falls to 16%, equal to that of the euro, while US Treasuries remain substantially higher at 26%. Nevertheless, the rise of gold is not solely a statistical phenomenon. Central banks have maintained strong demand for the metal in recent years. Although official sector purchases eased to around 850 tonnes in 2025 from over 1,000 tonnes annually between 2022 and 2024, buying remained well above pre-2022 levels. At the same time, private investment demand nearly doubled to 2,200 tonnes, supported by record inflows into gold-backed exchange-traded funds.

The 2026 Central Bank Gold Reserves Survey further highlights the enduring appeal of gold. Nearly 89% of respondents expect global central bank gold holdings to increase over the next year, while a record 45% anticipate increasing their own reserves. Gold's attractiveness stems from its role as a safe-haven asset during crises, a hedge against inflation, a tool for portfolio diversification, and increasingly, protection against geopolitical risks. Reflecting these trends, 74% of surveyed central banks expect the share of US dollar reserves to decline over the next five years, while gold holdings continue to rise.

Unlike government securities however, gold generates no income, entails storage costs, and remains subject to price volatility. The survey also highlighted that The Bank of England remains the most popular vaulting location (57%), while domestic storage came in second (49%), followed by the Bank for International Settlements at 16%. Moreover, gold supply is inherently limited and cannot expand quickly to meet rising global liquidity needs. Consequently, while gold's rising share of global reserves reflects growing demand for diversification and protection against geopolitical risks, its recent ascent above US Treasuries is largely the result of soaring gold prices rather than a fundamental shift away from traditional reserve assets.

Shares of Global Foreign Reserves



Gold - USD Spot Price



Key Insights

Global Economy

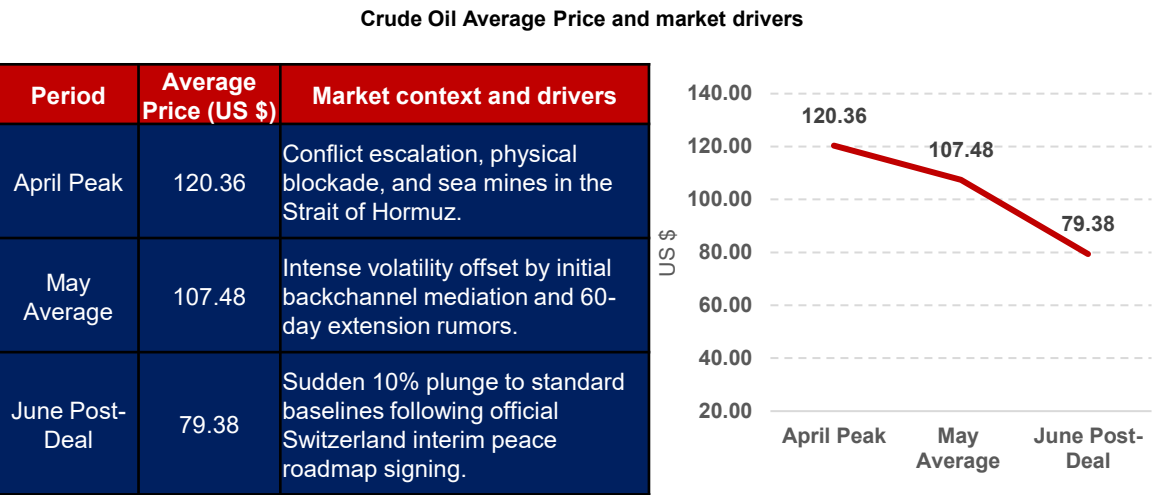
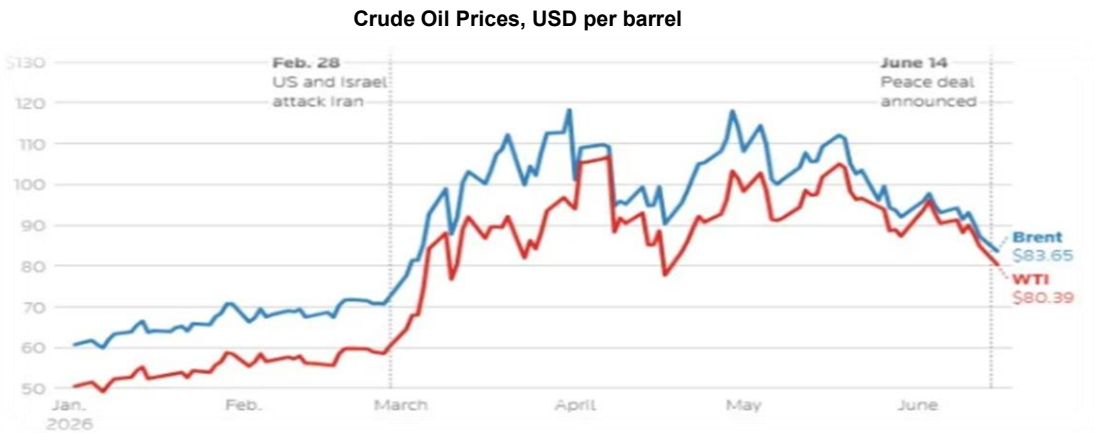
Geopolitical De-escalation and the Repricing of Global Energy Markets: Implications of the U.S.–Iran Ceasefire

Global oil prices are falling sharply following a major diplomatic breakthrough and ceasefire agreement between the United States and Iran. After a 107-day war that triggered a severe global energy crisis, the two nations signed an interim peace roadmap in Switzerland. This diplomatic pivot has significantly calmed energy markets, dropping the price of benchmark Brent crude oil to roughly \$78 a barrel, down from its wartime peak of \$125 in April. The primary driver behind this sudden price decline is the reopening of major maritime shipping routes.

The agreement establishes a direct line of communication to ensure safe, peaceful navigation through the Strait of Hormuz. This vital waterway handles about 20% of the world's daily oil supply but was previously blocked by military operations and sea mines. Under the new terms, tens of millions of barrels of stranded oil can now begin flowing back into global markets safely.

Another critical factor easing market anxiety is the lifting of strict energy sanctions. The United States granted immediate sanctions waivers for Iranian oil and petrochemical exports. This allows Tehran to officially resume global oil sales to boost its local economy, injecting substantial new supply into the international market and driving down overall costs. While the preliminary agreement guarantees a 60-day pause in hostilities, mediators from Qatar and Pakistan are working to finalize a permanent settlement.

Experts note that while the immediate risk of a catastrophic energy shortage has passed, it will take weeks to fully clear shipping backlogs and remove sea explosives. Consequently, prices remain higher than their pre-war level of \$60 a barrel. However, if the peace deal holds, financial analysts expect oil prices to stabilize further, providing much-needed economic relief to consumers worldwide.



EVOLVING LANDSCAPE

Proposed US 12.5% Forced Labour Tariff and Implications for Sri Lanka

The United States is increasingly using trade policy to address issues that go beyond traditional economic concerns. A recent proposal by the Office of the United States Trade Representative (USTR) illustrates this shift. Under a series of Section 301 investigations, the U.S. has proposed new tariff measures affecting 60 economies that it believes have not taken sufficient action to prevent the importation of goods produced with forced labour.

The proposed framework introduces two tariff categories. Economies that have adopted at least some form of forced labour import prohibition, or have made relevant commitments through trade agreements, would face a 10% tariff. Those that are considered to have neither implemented nor effectively enforced such measures would face a higher tariff of 12.5%. Sri Lanka has been placed in the latter category.

While the proposal is still under consideration, it sends a clear signal about the direction of global trade policy. Market access is no longer determined solely by price, quality, and competitiveness. Increasingly, countries are also being assessed on how effectively they address labour rights, supply chain transparency, and responsible sourcing practices.

Why this Matters for Sri Lanka?

At first glance, the difference between a 10% and 12.5% tariff may appear relatively small. However, in highly competitive export markets, even a 2.5 percentage point difference can influence sourcing decisions.

Sri Lanka's exporters compete with suppliers across Asia for access to the U.S. market. If competing countries qualify for the lower tariff rate while Sri Lanka remains in the higher tier, international buyers may perceive Sri Lankan products as relatively more expensive. This could place additional pressure on key export sectors such as apparel, textiles, rubber products, and other manufactured goods.

The apparel industry, in particular, could face challenges given its significant exposure to the U.S. market and the intense competition from regional sourcing destinations. Buyers constantly evaluate costs across multiple countries, and even marginal differences can affect procurement decisions when large volumes are involved.

Visit the full USTR Report [here](#)

Compliance is becoming a Competitive Factor

Perhaps the most important takeaway is that compliance is increasingly becoming a determinant of trade competitiveness.

The U.S. proposal focuses not only on labour conditions within a country, but also on whether governments have systems in place to prevent forced labour-linked goods from entering their own supply chains. This reflects a broader international trend where governments and businesses are expected to demonstrate greater visibility and accountability throughout the production process.

For Sri Lanka, this means that labour standards alone may not be sufficient. Greater attention will need to be given to supply chain traceability, due diligence mechanisms, import controls, and verification systems that can provide assurance to international trading partners.

Similar requirements are already emerging in other major markets, including the European Union. As a result, these issues are likely to become a permanent feature of global trade rather than a temporary compliance exercise.

Economic Risks and Opportunities

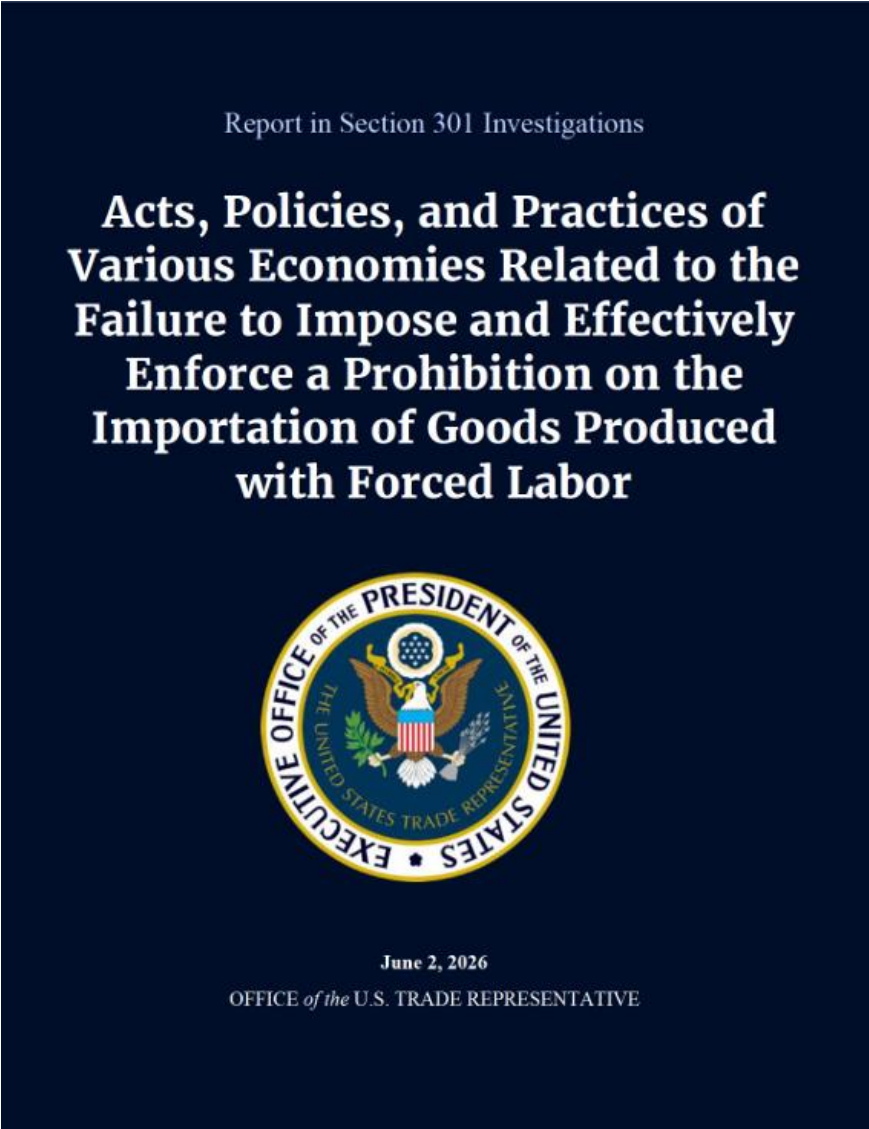
If implemented, the proposed tariff could increase the cost of Sri Lankan exports entering the U.S. market, potentially affecting competitiveness and profitability. Exporters may also face additional compliance and documentation requirements, while investors could increasingly assess supply chain governance and market access risks when making investment decisions.

However, the proposal should not be viewed solely as a threat.

Sri Lanka has long maintained a reputation for comparatively strong labour standards and ethical manufacturing practices, particularly within the apparel sector. This provides a strong foundation from which to respond. By strengthening supply chain transparency, enhancing regulatory frameworks, and aligning with emerging international standards, Sri Lanka can reinforce its position as a trusted sourcing destination.

In a world where buyers are paying greater attention to responsible sourcing and supply chain integrity, countries that can demonstrate credibility and compliance may ultimately gain a competitive advantage.

EVOLVING LANDSCAPE cont'd



[Click on the report to read the full report](#)

Countires Subjected to proposed 12.5% Tariff

Algeria	Costa Rica	Japan	Peru	Trinidad and
Angola	Dominican	Jordan	Philippines	Tobago
Argentina	Republic	Kazakhstan	Qatar	Türkiye
Australia	Egypt	Kuwait	Russia	United Arab
Bahamas	El Salvador	Libya	Saudi Arabia	Emirates
Bahrain	Guatemala	Malaysia	Singapore	United
Bangladesh	Guyana	Morocco	South Africa	Kingdom
Brazil	Honduras	New Zealand	South Korea	Uruguay
Cambodia	Hong Kong	Nicaragua	Sri Lanka	Venezuela
Chile	India	Nigeria	Switzerland	Vietnam
China	Iraq	Norway	Taiwan	
Colombia	Israel	Oman	Thailand	

Countires Subjected to proposed 10% Tariff

Canada, Ecuador, the European Union, Indonesia, Mexico, Pakistan.

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