Monthly Economic Update (MEU)

August 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce

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%.

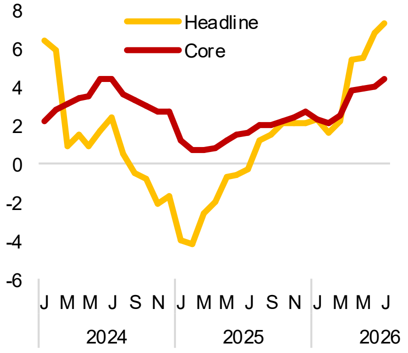
Movement of Purchasing Managers' Index- July 2026

Manufacturing PMI	55
Services PMI	61.4
Construction PMI (Jun)	60.0

All indices recorded an increase compared to the previous month.

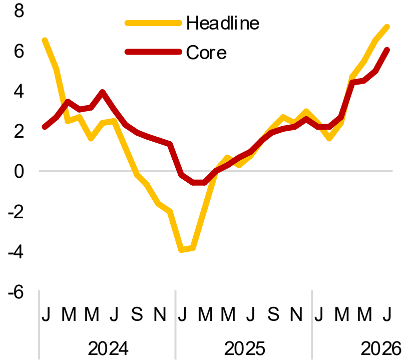
Inflation

CCPI Inflation (%)-*Base 2021*



July 2026	Headline	Core
	7.3%	4.4%

NCPI Inflation (%)-*Base 2021*



June 2026	Headline	Core
	7.2%	6%

External Sector

Merchandise Trade
June 2026

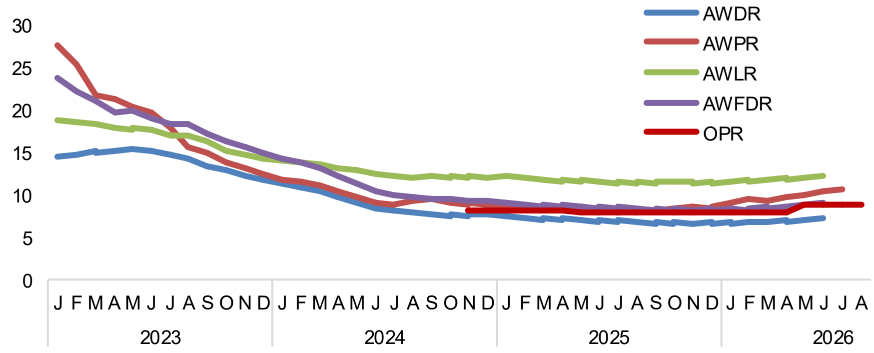
Trade Deficit	USD 829 mn
Exports	USD 1,144 mn 0.2% y-o-y growth
Imports	USD 1,972 mn 17.3% y-o-y growth
Services Net Exports	USD 161.9 mn -33.8% y-o-y growth

Tourist Arrivals 196,854
July 2026 -1.7% y-o-y growth

Tourism Earnings USD 285.5mn
July 2026 -10.7% y-o-y growth

Workers' Remittances USD 777.6mn
July 2026 11.5% y-o-y growth

Interest Rates



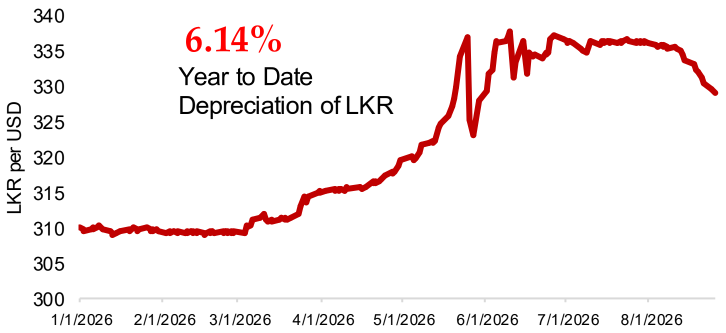
Growth in Credit to Private Sector

June 2026

27.4%

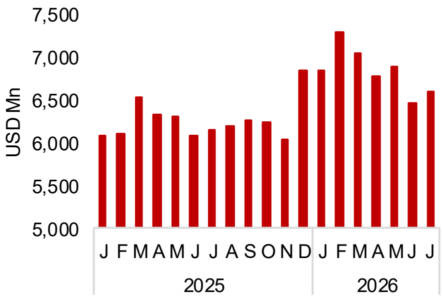
Overnight Policy Interest Rate (OPR): 8.75%

Exchange Rate



Official Reserves

USD 6,591 mn
July 2026



Highlights

Local Economy

10 Key Takeaways from Central Banks' Monetary Policy Report-August 2026

The report mainly focused on Sri Lanka's continued economic recovery, supported by strong growth, private-sector credit expansion, rising remittances, and progress in fiscal consolidation. However, renewed inflationary pressures, higher import demand, rupee depreciation, and global uncertainties have emerged as key risks. The report highlights the need to maintain price stability and carefully manage external-sector pressures while sustaining the ongoing economic recovery.

Offshore Petroleum Licensing Round Signals New Investment Opportunity

Sri Lanka has opened the Sri Lanka Licensing Round 2026, offering four offshore exploration blocks in the Mannar Basin to international energy companies. The initiative aims to attract foreign investment and leverage advanced technologies to explore the country's offshore petroleum potential. If commercially viable resources are discovered, the development could generate government revenue through royalties, profit oil and taxes while strengthening long-term energy security and reducing dependence on imported fuel. However, the success of the initiative will depend on regulatory certainty, investor confidence and the transition from licensing to actual exploration and production, with subsequent activities expected to begin from 2028 onwards.

Sri Lanka's Youth Employment Challenge Takes Centre Stage

The World Bank published a major Sri Lanka feature on 12 August 2026, highlighting the gap between the number of young people entering the workforce and the number of formal jobs expected to be created. Nearly 1 million young Sri Lankans are expected to enter the formal workforce over the next decade, while current trends suggest only around 300,000 formal jobs could be created. The update stresses the importance of private-sector growth, skills development and better pathways into employment.

Colombo Land Values Continue to Rise

Sri Lanka's property market continued to strengthen in the first half of 2026, with the Colombo District Land Valuation Indicator up 5.9% year-on-year. Residential land values recorded the strongest increase at 6.7%, followed by commercial land at 5.7% and industrial land at 5.2%. The broad-based increase points to continued improvement in property-market conditions alongside the wider economic recovery.

Digital Payments Expand Beyond Colombo

The Central Bank continued its push to expand Sri Lanka's digital economy by conducting a Digital Payments Promotional Programme in Jaffna on 7–8 August 2026. The programme targeted government officials, businesses, and the public, aiming to increase awareness and adoption of digital payment methods. The initiative reflects CBSL's wider efforts to promote a more efficient and digitally connected financial system and extend digital-payment adoption beyond the country's main commercial centers.

Global Economy

Technology and Supply Chain Shifts Reshape Global Trade

Global trade is expected to reach record levels in 2026, but the key trend is the transformation of how and where trade takes place. Technology-driven sectors such as semiconductors, AI infrastructure, batteries, critical minerals and electric vehicles are becoming major growth drivers, while businesses are diversifying suppliers and logistics networks to strengthen supply chain resilience. This is creating opportunities for connector economies with strong logistics, stable business environments and competitive production capabilities. However, geopolitical tensions, higher shipping costs and growing trade restrictions are increasing fragmentation and uncertainty. For businesses, the ability to adapt, diversify and position themselves within emerging technology and trade corridors will be increasingly important for sustaining competitiveness.

Strengthening El Niño Raises Risks for Global Agriculture and Food Markets

The strengthening El Niño is increasing weather-related risks across major agricultural regions, although widespread production losses have yet to materialise. Australia and Brazil currently face the greatest risks, with excessive rainfall threatening wheat quality in Brazil, while uneven rainfall in India is creating vulnerabilities for maize and soybean crops. The potential impact extends beyond agriculture, as lower crop yields could increase food prices and disruptions from droughts and floods could affect energy, transport and global supply chains. With ocean temperatures already at record highs, the coming months will be critical in determining whether rising weather pressures translate into broader food market and economic impacts.

Geopolitical Fragmentation Redefines the Global Business Environment

The global economy is moving away from a predictable international order as geopolitical fragmentation, great-power competition and economic nationalism increasingly shape trade, investment and technology decisions. Governments and businesses are now competing for resources, markets, technology and investment while managing growing geopolitical risks across supply chains and international partnerships. This has strengthened the focus on strategic autonomy, with countries such as India seeking to diversify partnerships while maintaining independent decision-making. For Sri Lanka, this evolving environment presents both risks and opportunities, making resilience, adaptability and strategic positioning increasingly important for navigating the emerging global economic order.

Global Consumer Confidence Shows Signs of Renewed Caution

Global consumer confidence fell by 0.7 points to 48.4 in August 2026, ending three consecutive months of improvement. The decline in the Current, Investment and Jobs sub-indices indicates growing caution around present economic conditions, employment and investment. Overall, the August reading suggests that geopolitical uncertainty and ongoing economic pressures are weighing on global consumer sentiment, despite a relatively stable outlook for the future

KEY INSIGHTS
Sri Lankan Economy

10 Key Takeaways

from Central Banks' Monetary Policy Report-August 2026

1. **Inflation Re-emerged as a Key Risk**
Headline inflation rose above the 5% target, driven mainly by higher global energy prices and supply-side shocks

2. **CBSL Shifted to a Tightening Cycle**
The Central Bank ended its accommodative stance, raising the Overnight Policy Rate by 100 bps to 8.75% in May 2026.

3. **Inflation Expected to Moderate**
Inflation is projected to remain elevated in the near term before gradually converging towards the 5% target

4. **Economic Growth Remains Resilient**
Sri Lanka's economy expanded by 5.1% in Q1 2026, with full-year growth projected at 4-5%.

5. **Credit Growth Remains Strong**
Private sector credit expanded sharply, reflecting improving economic activity and strong domestic demand.

6. **External Sector Came Under Pressure**
Higher fuel and vehicle imports pushed the current account into a deficit after three consecutive years of surplus.

7. **Rupee Faced Depreciation Pressures**
The LKR weakened amid rising import demand, external shocks, and geopolitical uncertainties

8. **Remittances Continued to Provide Support**
Strong growth in workers' remittances helped offset pressures from weaker tourism earnings and higher import costs.

9. **Fiscal Consolidation Remained on Track**
Government revenue growth strengthened significantly, supporting improved fiscal balances and sustained consolidation efforts.

10. **Global Risks Remain Elevated**
Geopolitical tensions, commodity price volatility, and potential El Niño-related disruptions pose key risks to inflation and growth.

Data Source: CBSL

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Sri Lankan Economy

Sri Lanka Opens New Offshore Petroleum Licensing Round

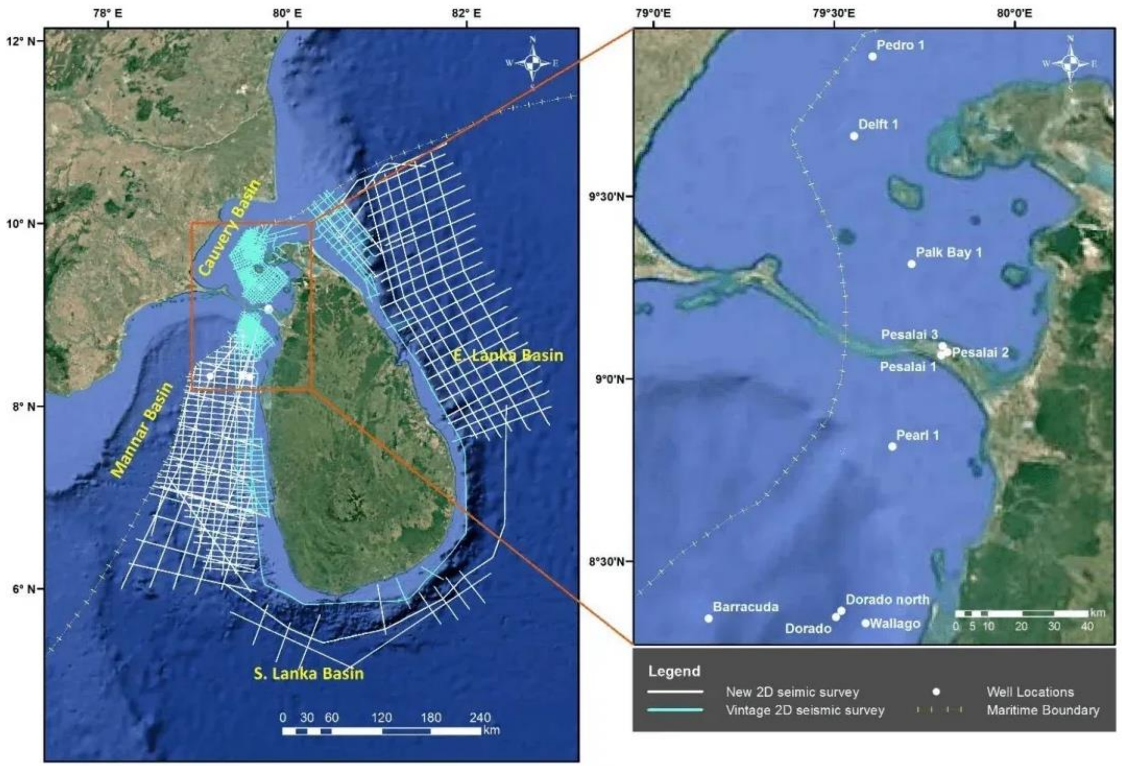
Sri Lanka has taken a significant step towards developing its offshore petroleum resources with the launch of the **Sri Lanka Licensing Round 2026** on 25 August. The Petroleum Development Authority of Sri Lanka (PDASL) is offering four offshore exploration blocks in the Mannar Basin to qualified international energy companies, following evidence indicating the petroleum potential of the basin. The blocks are located in deep-water areas, where exploration will require advanced technologies, specialised expertise and sophisticated geological interpretation techniques.

The licensing round will be supported by an international investor roadshow and investor engagement programme aimed at attracting global energy companies and generating interest in Sri Lanka's offshore petroleum potential. If successful, the initiative could create a new avenue for foreign direct investment while generating multiple sources of government revenue, including royalties, profit oil and taxes on investor profits.

Beyond the potential fiscal benefits, the development of domestic petroleum resources could contribute towards strengthening Sri Lanka's energy security and reducing its dependence on imported fuels. Given the country's continued exposure to global energy price fluctuations and supply disruptions, the discovery and commercial development of domestic resources could provide an important degree of energy independence over the longer term.

However, the success of the initiative will depend on its ability to progress beyond the licensing stage and translate exploration activity into commercially viable production. Sri Lanka has previously attempted to develop its petroleum resources, with limited progress towards actual production. Ensuring policy consistency, regulatory certainty, investor confidence and the timely completion of the necessary approvals and development processes will therefore be critical. While the selection of blocks and approvals for the licensing round have been completed, the subsequent activities leading to exploration and potential production are expected to commence from 2028 onwards. The outcome of this process could therefore have important long-term implications for investment, government revenue and Sri Lanka's energy security.

Sedimentary Basins Locations



Source: Petroleum Development Authority of Sri Lanka.

KEY INSIGHTS
Sri Lankan Economy

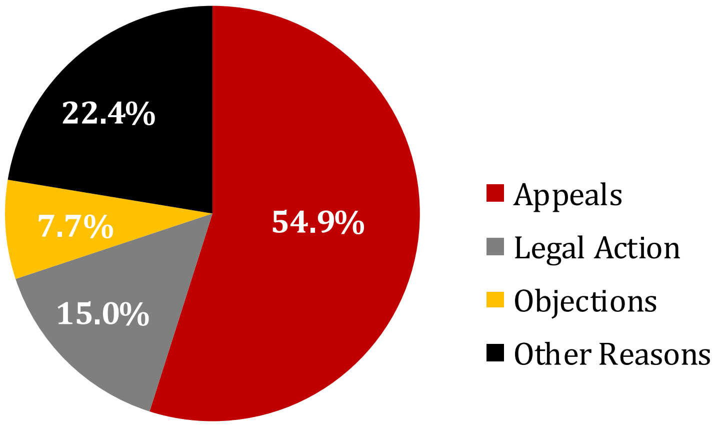
The Growing Stock of Tax Arrears and Its Fiscal Implications

The recently published Auditor General's Special Audit Report highlights a significant challenge for Sri Lanka's fiscal consolidation efforts, revealing that a large share of potential government revenue remains beyond immediate reach. As at 30 June 2024, total tax arrears, penalties and interest owed to the Inland Revenue Department amounted to Rs. 961.4 billion, representing an increase of Rs. 18.4 billion compared with a year earlier. Of this amount, **only Rs. 168.4 billion, or 17.5%, was classified as collectible**, while Rs. 793.1 billion, equivalent to 82.5% of the total balance, was temporarily held over due to appeals, objections, legal proceedings and other administrative constraints.

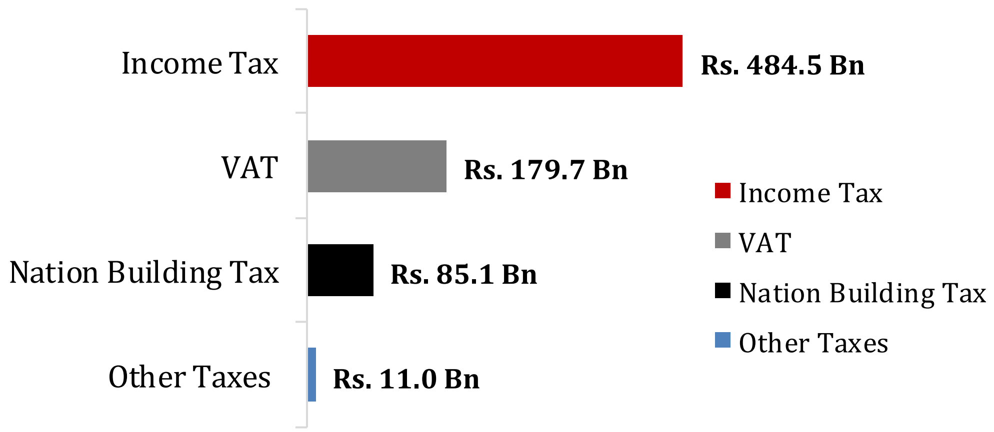
Beyond the increase in outstanding balances, the report points to structural weaknesses in revenue administration. Approximately 35% of collectible arrears have remained outstanding for more than two years, indicating that even amounts considered recoverable are not being collected with sufficient efficiency. Appeals and review requests account for nearly 55% of held-over balances, while legal proceedings account for a further 15%, suggesting that lengthy dispute-resolution mechanisms have become a major obstacle to revenue realization. Income tax arrears recorded under the RAMIS system increased by more than Rs. 96 billion during the review period, reinforcing concerns about compliance and enforcement among higher-value taxpayers. At the same time, cash recovery rates remained low, at around 14% for sampled Legacy system arrears and close to 1% for major RAMIS taxpayers examined by the audit.

From a broader economic perspective, the findings highlight that fiscal sustainability depends not only on tax policy but also on the effectiveness of tax administration. While recent reforms have focused on widening the tax base and strengthening revenue generation, the accumulation of arrears suggests that institutional bottlenecks continue to limit actual revenue collection. Faster resolution of tax appeals, greater transparency in arrears reporting, enhanced analytical capabilities within RAMIS, and addressing staff shortages within the Inland Revenue Department could unlock substantial revenue without imposing additional tax burdens on compliant taxpayers. Improving arrears recovery would strengthen government finances, enhance tax fairness, and reduce reliance on borrowing or further revenue measures at a time when maintaining fiscal credibility remains critical for Sri Lanka's economic recovery.

Reasons for Held-Over Tax Arrears



Tax Arrears by Tax Type



Data Source: National Audit Office

KEY INSIGHTS
Global Economy

How Technology and Supply Chains Are Reshaping Global Commerce

Global trade is on track to reach record levels in 2026, yet the latest UNCTAD Global Trade Update suggests that the most important story is not the pace of growth itself, but the forces reshaping where and how trade takes place. While international commerce continues to expand, businesses are increasingly operating in a world of geopolitical uncertainty, shifting supply chains, and rapidly evolving trade corridors.

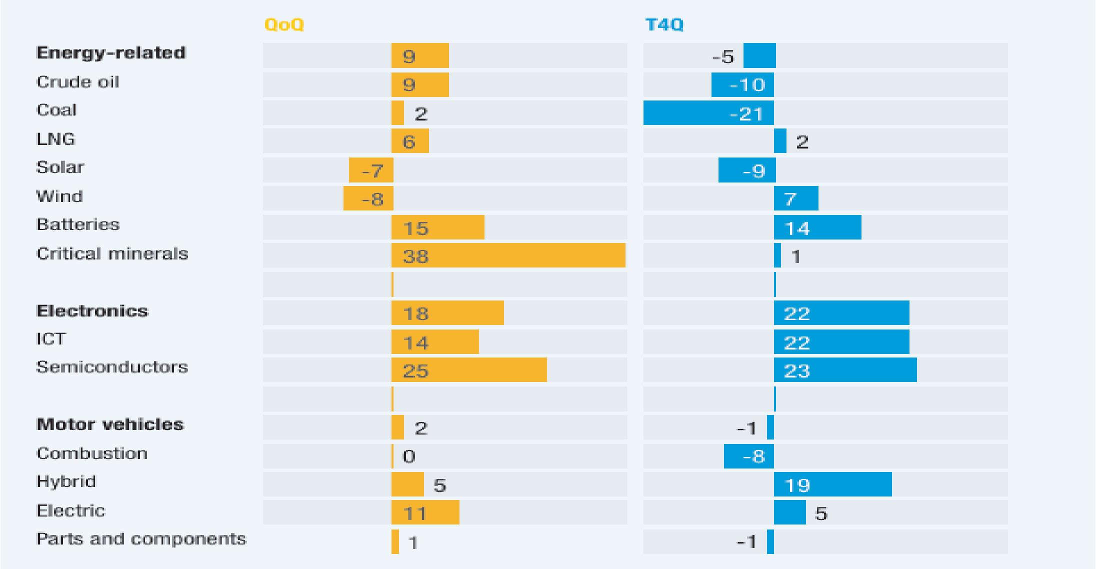
One of the most notable developments is the growing influence of technology-driven sectors. Demand for semiconductors, artificial intelligence (AI) infrastructure, batteries, critical minerals, and electric vehicles has emerged as a key driver of trade growth. As economies accelerate digitalization and the transition to cleaner energy systems, trade in these products is becoming increasingly important to global value chains. For exporters and investors, this signals a continued shift towards high-value, technology-intensive industries.

At the same time, businesses are rethinking their supply chain strategies. Rather than reducing cross-border trade, firms are investing in resilience by diversifying suppliers, expanding logistics networks, and building alternative sourcing channels. This trend is creating opportunities for so-called "connector economies" and new trade corridors that can serve as bridges between major markets. Countries that can provide stable business environments, efficient logistics, and competitive production capabilities stand to benefit from this reconfiguration of global trade networks.

However, these opportunities come with growing challenges. The report highlights that geopolitical tensions, particularly those affecting major shipping routes, continue to raise transportation and logistics costs. Meanwhile, the increasing use of export controls, industrial policies, and technology-related trade restrictions is contributing to greater fragmentation of the global trading system. Such developments can increase uncertainty for businesses and complicate long-term investment decisions.

The message for businesses is that future trade success will depend not only on market access but also on adaptability. Companies that position themselves within emerging technology sectors, diversify supply chains, and capitalize on new regional trade connections are likely to be better placed to navigate an increasingly fragmented global economy. In this environment, resilience may prove to be just as important as competitiveness.

AI- and electric vehicle-related goods showed strong growth in Q1-2026
Growth (percent)



Source: UNCTAD estimates based on national statistics of Australia, Brazil, China, Japan, South Africa, the United States and the European Union.
Note: Trailing four quarters (T4Q) growth measures the change in a variable over the last four quarters (Q2 2025 to Q1-2026) compared to the previous four quarters (Q2-2024 to Q1-2025).Quarterly growth (QoQ) is the quarter-over-quarter growth rate between Q4-2025 and Q1-2026.
LNG stands for liquefied natural gas, and ICT stands for information and communication technology.

Data Source: UNCTAD Global Trade Update

KEY INSIGHTS
Global Economy

Several major growing regions are showing signs of rising pressure, with widespread production losses yet to emerge

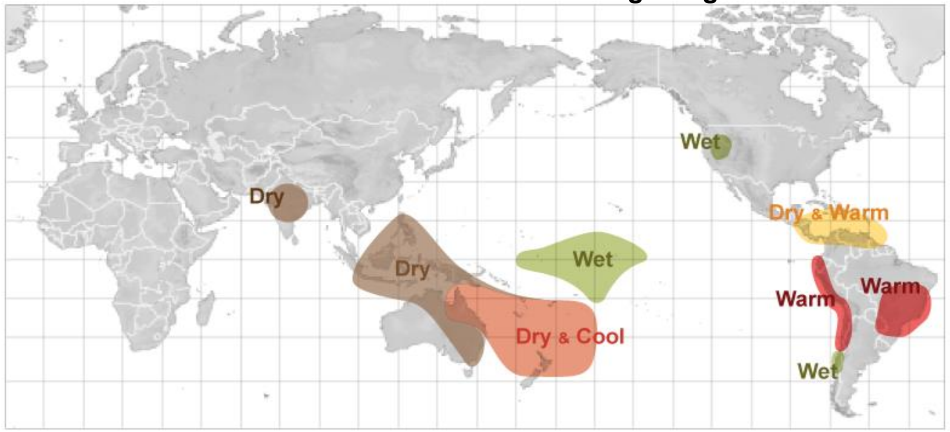
In June, the World Meteorological Organization (WMO) urged governments and climate-sensitive sectors to prepare for a potentially strong El Nino. Two months later, its latest update indicates that the event is continuing to intensify and is expected to influence global weather patterns through August to October. According to the WMO, there was an 80% likelihood of El Nino during June-August 2026, with the probability rising to more than 90% through November, while the July update projected the event could strengthen further during the second half of the year. El Nino develops when unusually warm ocean waters in the tropical Pacific alter atmospheric circulation patterns.

Crops in Canada and Australia remain relatively resilient despite increasing dryness. Excess rainfall is beginning to create concerns for wheat production in southern Brazil, and India continues to display sharp regional differences. Among the countries assessed, Australia and Brazil currently face the greatest risks. Excessive rainfall across the southern wheat belt, which produces more than 80% of the country's wheat, is raising concerns about fungal disease pressure and grain quality. Similar conditions during previous El Nino years contributed to production losses, making weather conditions over the coming months especially important. India's situation remains highly variable. While some regions continue to receive adequate rainfall, others face significant monsoon deficits, leaving maize and soybean crops vulnerable as they enter key development stages. U.S. corn and soybean crops are showing only a weak and inconsistent El Nino signal, with local weather conditions likely to play a larger role in determining yields. Beyond agriculture, El Nino's effects extend to the wider economy. Reduced crop production can lead to higher food prices, while droughts and floods can disrupt energy production, transportation and global supply chains. With global ocean temperatures already at record highs, the strengthening El Nino is expected to increase climate-related risks across multiple sectors. For now, widespread global crop losses have yet to materialise. However, as El Nino continues to intensify and crops move into sensitive growth stages, the coming weeks will provide a clearer indication of its impact on global agricultural production and food markets.

Country Update: Where El NiNo Is Affecting Crops

Country	Main Crops Affected	Current El Niño Impact	Risk Level	Outlook
Canada	Wheat, canola	Dryness increased in July after a very wet spring replenished soil moisture.	Moderate	Strong crop conditions remain, but continued dryness could pressure later-planted crops.
United States	Corn, soybeans, winter wheat	Limited and inconsistent El Nino influence during summer.	Low to Moderate	Crop performance depends more on local weather than ENSO patterns.
Brazil	Wheat	Excessive rainfall in southern wheat regions is raising disease and grain-quality concerns.	High	Persistent wet weather could affect yields and milling quality.
Argentina	Wheat	Improved rainfall and soil moisture have eased early-season drought concerns.	Low	Currently among the countries benefiting most from El Niño rainfall patterns.
Australia	Wheat, barley, canola	Dryness is intensifying in Western Australia and may spread eastward.	High	Below-average rainfall forecasts could create broader production risks.
India	Maize, soybeans, rice	Uneven monsoon performance with significant regional rainfall deficits.	Moderate to High	Crop outcomes depend on rainfall recovery in drier regions.

El NiNo effects from June through August



Data Source: National Oceanic Atmosphere Administration, U.S. Department of Commerce

No Longer Business as Usual: Navigating a Fragmented World

For some time now, a question has increasingly shaped conversations around the world: **what is happening to the world as we knew it?** The geopolitical order that provided a degree of predictability and stability over the past several decades is undergoing a significant transformation. Long-established alliances, economic relationships and assumptions about global security can no longer be taken for granted. We appear to be living through a period of transition, caught between an old order that is gradually losing its dominance and a new one that has yet to fully take shape.

This growing sense of uncertainty has also been reflected in the work of several international organisations, research institutions and strategic think tanks. Increasing geopolitical fragmentation, intensifying great-power competition, economic nationalism and the use of trade, technology and investment as strategic tools are increasingly being identified as factors that governments and businesses must incorporate into their long-term strategies.

What makes this transition particularly complex is that competition is no longer limited to countries. Governments are competing for investment, technology, resources, markets and influence, while corporations are simultaneously competing for access to those same opportunities. Businesses are also increasingly finding themselves operating within geopolitical tensions, as decisions relating to supply chains, technology partnerships, market access and investment are influenced not only by commercial considerations but also by national security and foreign policy concerns.

In response, countries are increasingly seeking greater **strategic autonomy,** the ability to protect national interests and maintain room for independent decision-making without becoming overly dependent on any single country or bloc. India provides an important example of this approach. While strengthening partnerships with major global powers, India has also sought to preserve its ability to make decisions based on its own economic, security and development priorities.

For countries such as Sri Lanka, this changing environment presents both challenges and opportunities. Navigating an increasingly fragmented world will require a clear understanding of shifting geopolitical and economic dynamics. The future may not offer the same level of certainty or stability that countries and businesses once relied upon. However, rather than viewing this period simply as one of disruption, it may be more useful to recognise it as a transition towards a new global order—one in which resilience, adaptability and strategic positioning will become increasingly important.

Overarching Themes of the Geopolitical Developments in 2026

Source: EY Paethenon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