

Monthly Economic Update (MEU)

October 2026

Economic Intelligence Unit
The Ceylon Chamber of Commerce



EIU

Dashboard

Y-o-Y changes, otherwise specified

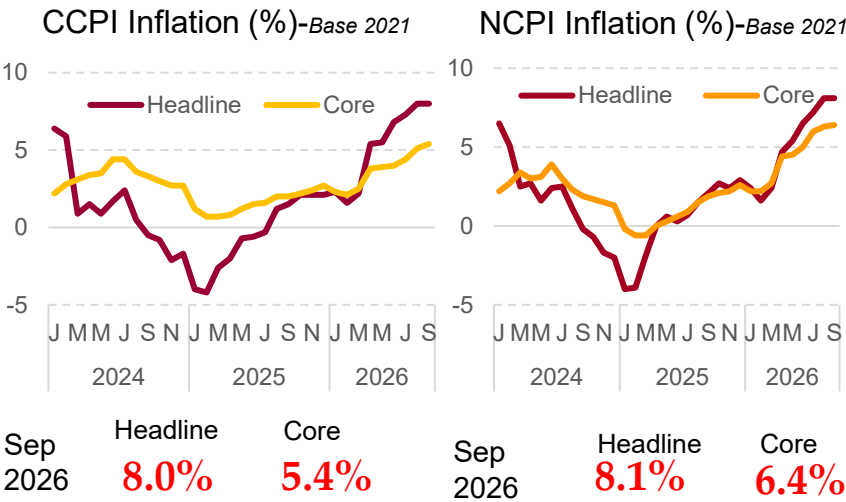
Economic Growth

4.2% For the Q2 of the year 2026
The Sri Lankan Economy grew by 4.2% in Q2 2026 compared to 5.0% growth in Q2 2025. All three major economic activities positively contributed to this growth. Further, the GDP implicit price deflator for the quarter was recorded as 6.9%.

Movement of Purchasing Managers' Index- September 2026

Manufacturing PMI **53.0**
Services PMI **60.5**
Construction PMI (Jul) **59.4**
All indices recorded an expansion compared to the previous month.

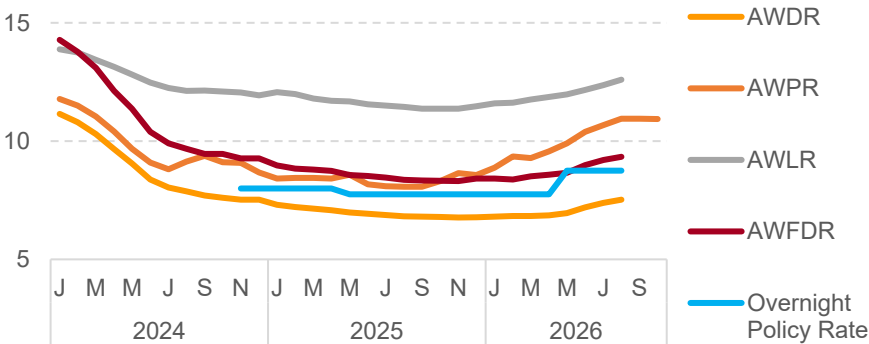
Inflation



External Sector

Merchandise Trade	August 2026		Tourist Arrivals	158,557
Trade Deficit	USD 673.5 mn		Sep 2026	0.2% y-o-y decline
Exports	USD 1,240 mn	3.3% y-o-y decline	Tourism Earnings	USD 185.6mn
Imports	USD 1,914 mn	12.8% y-o-y growth	Sep 2026	1.4% y-o-y growth
Services Net Exports	USD 220 mn	24.4% y-o-y decline	Workers' Remittances	USD 734.4mn
			Sep 2026	5.5% y-o-y growth

Interest Rates

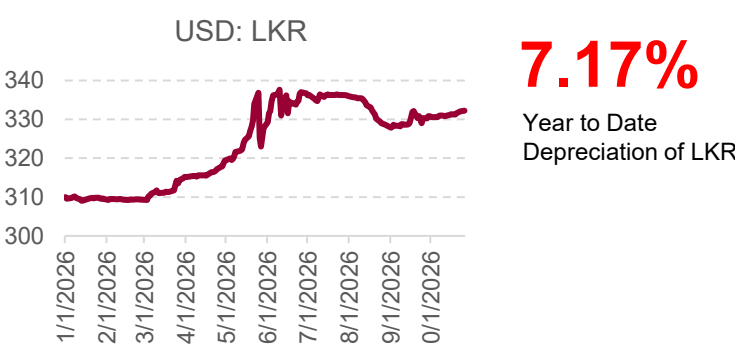


Growth in Credit to Private Sector

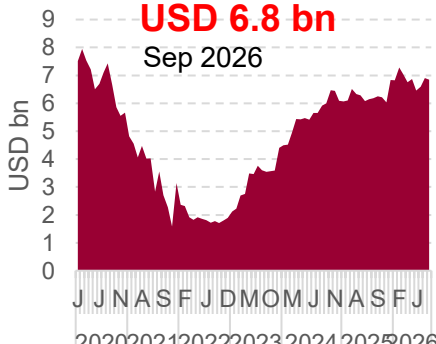
Aug 2026
24.5%

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

Exchange Rate



Official Reserves



Highlights

Local Economy

ADB Forecasts Growth of 4.0% in 2026 and 2027, with Risks to the Outlook

The Asian Development Bank (ADB) forecasts Sri Lanka's real GDP growth at 4.0% in both 2026 and 2027, reflecting continued economic recovery alongside growing external headwinds. Higher global energy prices, disruptions to supply chains and uncertainty surrounding the Middle East conflict are expected to weigh on economic activity, while rising import costs could place additional pressure on inflation and the external sector. The ADB also projects inflation to average 6.0% in 2026 and 5.2% in 2027, highlighting the challenge of sustaining growth while preserving price stability.

Household Consumption Hits Record LKR 9 Trillion, But Spending Patterns Shift

Boston Consulting Group's recently released report notes that household consumption has rebounded strongly after years of economic strain. Rural Sri Lanka now anchors the middle class, while affluent urban households contribute disproportionately to national spending. Consumers are more deliberate in choices, with essentials taking a larger wallet share and discretionary spending deferred. Digital discovery has surged, while word of mouth remains dominant. Digital banking and payments show deep engagement. The report cautions that while demand has returned, companies must adapt to structural shifts: divergent demand pools by geography and income, sharper prioritisation of spend, and the need to re-earn consumer preference at every decision point.

Cabinet Clears USD 100mn ADB Loan to Boost Recovery

The Cabinet approved a USD 100 million loan agreement with the Asian Development Bank (ADB) to support the Macro-Recovery Sector Development Programme. The financing is part of a larger USD 620 million policy-based lending package aligned with IMF reforms. The tranche includes a USD 50 million policy-based loan and a USD 50 million investment loan from ADB's ordinary capital resources. The programme aims to strengthen economic resilience, improve stability, and expand inclusive growth opportunities.

All Bids Rejected at Latest DDB Auction

The Public Debt Management Office rejected all bids at its latest Domestic Dollar Bond (DDB) auction closing on October 23, 2026. The government sought to raise USD 100 million across 1-year, 2-year, and 3-year tenors, but opted to pass on the bids rather than accept yields that misaligned with its current debt-servicing targets. While the issuance was intended to bolster foreign exchange reserves and provide local investors with a secure U.S. dollar-denominated instrument, the total rejection highlights the government's rigid stance on borrowing costs.

Global Economy

China's AI Boom Wipes Out USD 2.4 Tn in Market Value

Trillions have been erased from Chinese stock markets as the race with the US for AI supremacy intensifies. The STAR 50 Index plunged 40% since June, while broader indexes fell about 20%, wiping out USD 2.4 trillion in value. AI-related firms make up over 40% of China and Hong Kong's market capitalisation, amplifying the shock. Weak domestic demand, thin profit margins, and US restrictions on Chinese tech, including bans on humanoid robots and AI tools, have fueled investor anxiety. Analysts warn that without stronger profits and demand, China's AI-driven market push risks unsustainability, even as the US prepares blockbuster AI IPOs.

IMF Warns Rising Borrowing Costs Intensify Global Debt Risks

The IMF cautioned that surging government borrowing costs are squeezing fiscal space worldwide, with G7 bond yields at their highest in nearly 20 years. Global public debt is projected to exceed 100% of GDP by 2030, as average financing costs climb from 2.3% in 2021 to 3.7% by 2031. In the US, interest payments could reach 5.7% of GDP. Low-income countries already spend over 15% of tax revenues on debt service, crowding out investment and social programs. The IMF urged advanced economies to adopt credible fiscal plans and emerging markets to strengthen debt management, warning that delayed action will force harsher adjustments.

World Bank Warns Commodity Prices to Surge 23% in 2026

Global commodity prices are projected to rise 23% in 2026, driven by the Middle East conflict, El Niño disruptions, and low oil inventories. Energy prices are expected to jump 32%, with Brent crude averaging USD 91/barrel, while food commodities could increase 18% over 2026–27 due to disrupted grain shipments and higher fuel and fertilizer costs. Metals are forecast to rise 25% on demand from renewables and EVs, while precious metals may surge 40% as investors seek safe havens. The WB warns that combined shocks could trigger a food crisis and push more people into extreme poverty.

US Allies Cut Treasury Purchases Sharply

Countries most closely aligned with the US slashed their net purchases of US Treasuries by over 60% in the first eight months of 2026, down to USD 174 billion, the lowest since 2021. The pullback was most pronounced in Asia: Japan, South Korea and Taiwan. With yields rising in markets from Japan to Europe, global investors have more alternatives to US Treasuries than they once did. The US debt pile has now surpassed USD 40 trillion, leaving it more reliant on private investors who demand higher yields.

KEY INSIGHTS

Local Economy

Sri Lanka's Medium-Term Economic Prospects

Sri Lanka's economic outlook points to continued expansion over the next two years, although growth is expected to moderate as the post-crisis rebound fades. Following estimated growth of 4.7% in the first half of 2026, the World Bank forecasts GDP growth of 4.4% for the full year, easing to 4.2% in 2027 and 4.0% in 2028. While industry and services are expected to remain the main growth drivers, the projections indicate that stabilisation alone may not be sufficient to generate a sustained acceleration in economic activity. Weak productivity growth and subdued investment are likely to constrain the economy's medium-term potential.

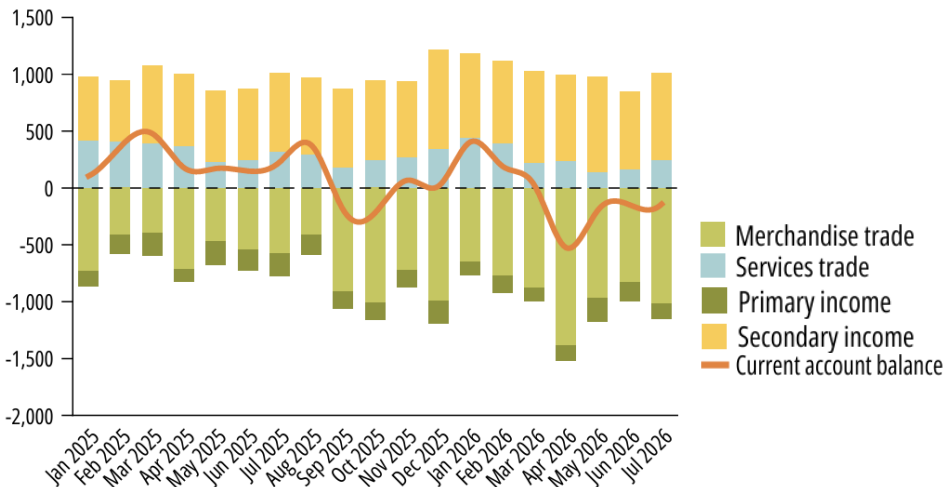
Inflation and external sector pressures will remain key risks to the outlook. The World Bank projects average inflation of 5.7% in 2026 and 5.3% in 2027, before converging towards the Central Bank's 5% target in 2028. However, prolonged volatility in global energy markets could keep domestic prices elevated and increase production and transport costs. Higher import expenditure is also expected to keep the current account in deficit, at a projected 0.5% of GDP in 2026, followed by smaller deficits in 2027 and 2028. The potential effects of El Niño on agricultural output and food prices present an additional downside risk.

Fiscal consolidation is expected to continue supporting macroeconomic stability and a gradual reduction in public debt. The World Bank projects central government debt to decline from 91.6% of GDP in 2025 to 77.2% by 2028, assuming sustained primary surpluses. Nevertheless, limited fiscal space and weak execution of capital expenditure could constrain investment in infrastructure and other productivity-enhancing areas.

The World Bank identifies agribusiness as a potential source of export earnings, employment and rural income, with the broader agrifood system accounting for approximately one-sixth of GDP, over 40% of employment and nearly 30% of merchandise exports. Improving trade policy predictability, logistics, access to finance, quality infrastructure and value addition could help unlock this potential. More broadly, stronger governance, reliable infrastructure and reforms that encourage private-sector investment will be important in moving Sri Lanka beyond recovery towards more productive and sustainable growth.

					Forecasts		
	2022	2023	2024	2025	2026	2027	2028
Real GDP growth and inflation, percent change							
Real GDP	-7.3	-2.0	5.0	5.0	4.4	4.2	4.0
Exports	9.8	12.7	12.4	5.1	3.0	4.9	4.3
Imports	-19.9	8.9	21.6	10.8	5.0	6.0	6.3
Consumer price inflation	46.4	17.4	1.2	-0.5	5.7	5.3	5.0
Fiscal accounts, central government, percent of GDP							
Revenues and grants	8.4	11.2	13.6	16.7	16.6	16.4	16.4
of which, tax revenue	7.3	9.9	12.3	15.4	15.3	15.1	15.1
Expenditures	18.6	19.5	20.4	19.0	19.2	18.7	18.5
Primary balance	-3.7	0.6	2.2	5.4	3.9	3.6	3.5
Fiscal balance	-10.2	-8.3	-6.8	-2.3	-2.6	-2.3	-2.1
Central government debt	114.2	104.2	95.5	91.6	87.0	81.9	77.2

Current account balance and current account components, US\$ million, January 2025–July 2026



KEY INSIGHTS

Local Economy

From Recovery to Restraint: Understanding Sri Lanka's Consumers

The survey of Sri Lankan consumers conducted by the Boston Consulting Group (BCG) reveals that the consumer landscape has improved since the economic crisis. However, it also highlights a contraction in the middle class, with approximately 0.4 million consumers moving from the emerging middle class to the lower-income aspirer segment.

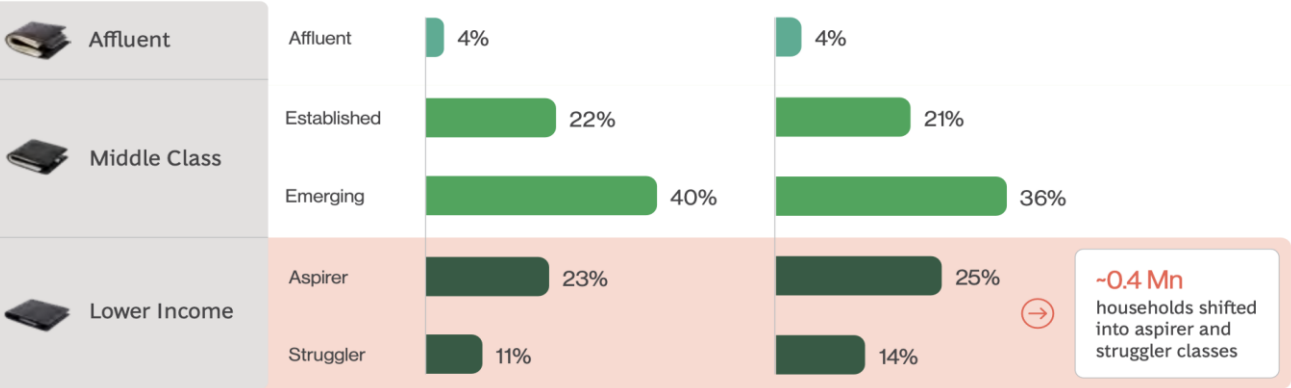
The study further explains that lower-income and emerging middle-income consumers prioritise spending on essential goods and remain cautious in managing their expenditure. Their spending is largely limited to critical essentials, with reduced expenditure on occasional purchases such as mobile phones and appliances. They also have no plans to make high-value purchases, such as vehicles and jewellery.

Furthermore, the study highlights that consumers continue to prefer cash as a method of transaction, with only 25% of surveyed consumers engaging in banking transactions. However, it also notes that once adopted, digital payment services are used extensively by these consumers.

Finally, the study finds that household consumption has recovered since the economic crisis, although consumers continue to exercise restraint in their spending. It also captures the impact of digitalisation on consumer purchasing behaviour, highlighting that consumers are becoming more selective in their purchases and increasingly relying on AI and digital sources to conduct their own product research.

Shrunken Middle Class

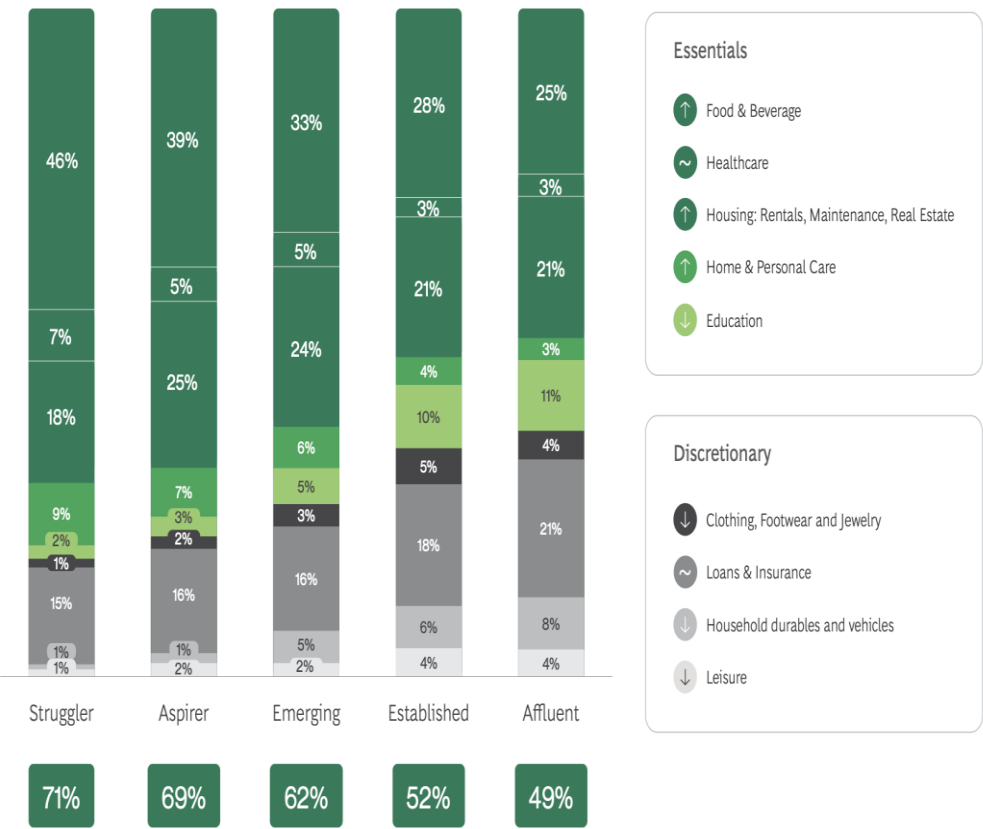
Share of households by income class



Breakdown of Household Spending as per Income Level

Share of household consumption expenditure

2026, by income



KEY INSIGHTS

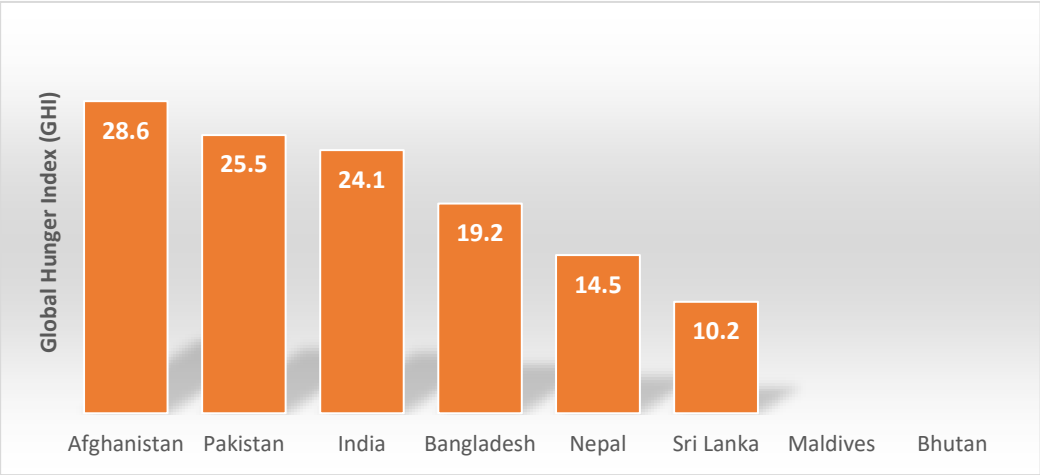
Local Economy

Sri Lanka Nears Low Hunger Status, but Risks Persist

Sri Lanka continues to record the lowest Global Hunger Index (GHI) score in South Asia, improving from 20.8 in 2012 to 10.2 in 2026, compared with 11.4 in 2018. This progress reflects sustained improvements in food security, nutrition, healthcare, sanitation and child survival. The prevalence of undernourishment declined from 10.0% to 4.9%, while child stunting and mortality also improved. These achievements highlight the contribution of investments in public health, education, maternal and child care, and social protection programmes.

However, challenges remain. Child wasting stands at ~9.3%, indicating persistent concerns about dietary quality and acute malnutrition. Climate-related shocks pose further risks to food security, as illustrated by Sri Lanka's inclusion in the 2025 Global Report on Food Crises following Cyclone Ditwah, which disrupted agricultural production, livelihoods and access to food.

Global Hunger Index

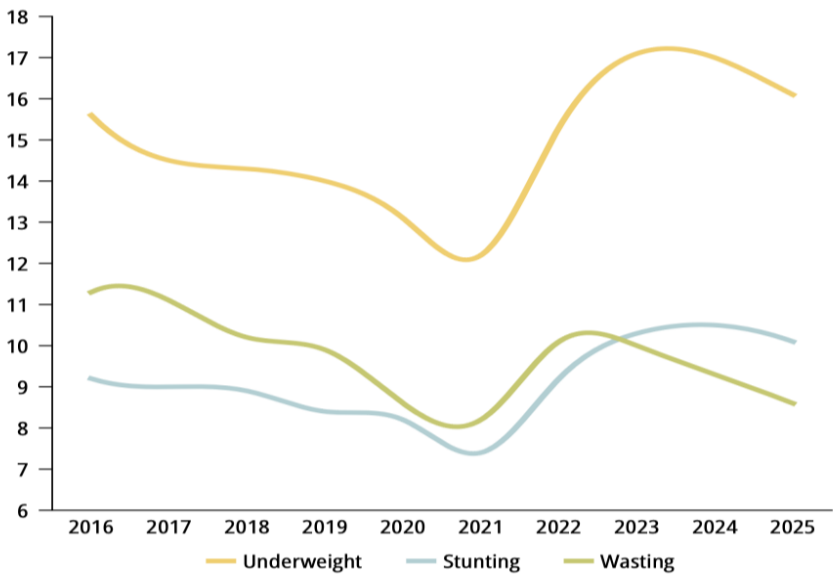


Note: In South Asian context, Maldives and Bhutan are not shown due to the insufficient data

Looking ahead, Sri Lanka's priority should be to strengthen food system resilience alongside continued improvements in hunger indicators. Key measures include promoting climate-smart agriculture, improving irrigation and water management, encouraging diversified and nutritious diets, reducing post-harvest losses, and strengthening targeted social protection. Particular attention is needed to address child wasting and protect vulnerable households from food price fluctuations and climate shocks. These efforts will be essential for moving towards the GHI's low-hunger category and sustaining food security amid growing global uncertainty.

Food Safety is Yet to Recover

Share of children under five with stunting, wasting and who are underweight, percent, 2016–2025



KEY INSIGHTS

Global Economy

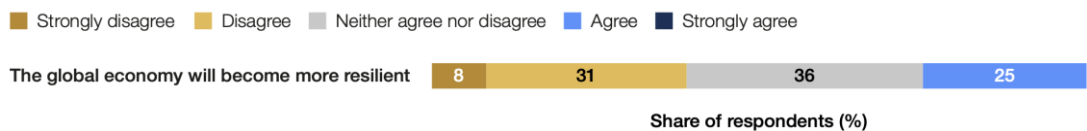
A Cost-Focused Global Outlook for the Next 12 Months

Similar to the challenges facing Sri Lanka, economies worldwide are grappling with rising cost pressures amid the ongoing Middle East crisis. Household expenditure on essentials, including food, electricity and transport, is expected to increase, adding to global inflationary pressures. Against this backdrop, the World Economic Forum's Chief Economists Outlook for October 2026 indicates that governments are increasingly considering policy measures to ease the cost of living, including tax reductions on essential goods, subsidies and price caps.

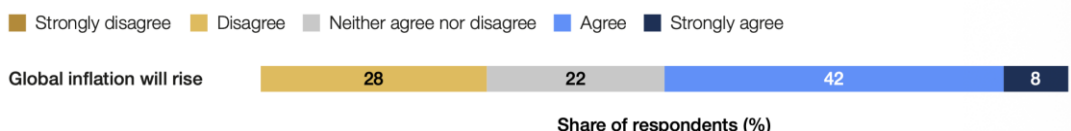
The International Monetary Fund (IMF), in its monetary policy brief, notes that emerging markets and low-income developing countries are more likely to resort to subsidies and price controls to manage these pressures. However, the IMF recommends prioritising targeted and temporary transfers over measures that suppress market prices. Such transfers provide a more effective and cost-efficient means of protecting vulnerable households when the prices of essential goods rise sharply. By directing assistance to those most in need, governments can preserve limited fiscal resources while allowing market prices to reflect scarcity and encourage more efficient consumption.

These global policy insights highlight the fiscal risks associated with measures introduced to shield households and businesses from rising costs. While short-term relief may be necessary, governments must carefully assess its fiscal implications and avoid measures that create unsustainable expenditure commitments. The priority should be to balance immediate cost-of-living concerns with longer-term solutions that strengthen economic resilience, address underlying cost pressures and support sustainable growth.

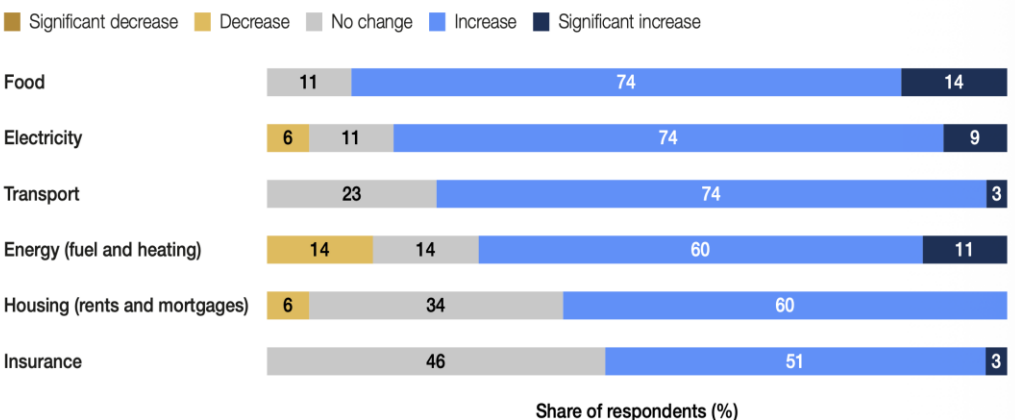
Expectations of Global Economic Resilience in the Next 12 Months



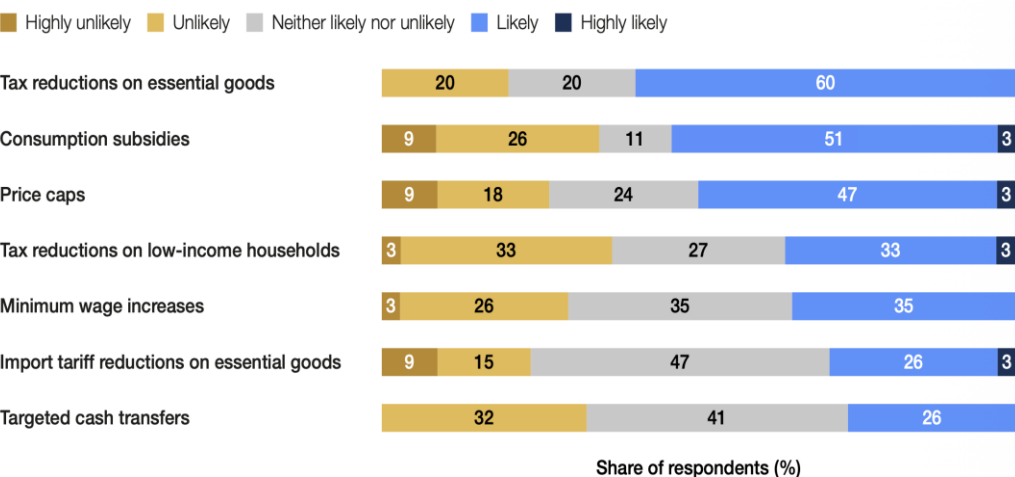
Global Inflation Expectations for the Next 12 Months



Household Expenditure Expectations for the Next 12 Months



Government Policies to Reduce Cost Pressures



KEY INSIGHTS

Global Economy

Developing Asia stays resilient, but Energy Shocks and El Nino cloud the Outlook

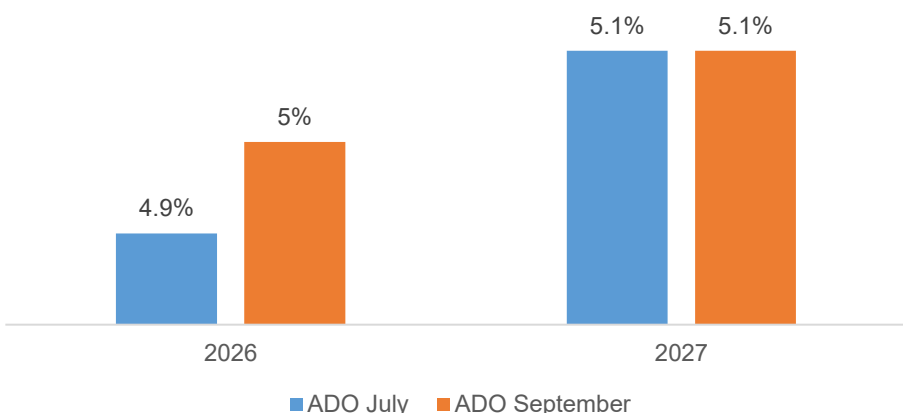
Developing Asia and the Pacific is set to grow 5% in 2026, down from 5.5% in 2025, before edging up to 5.1% in 2027, according to the Asian Development Bank's September 2026 Outlook. The 2026 forecast is 0.1 percentage points higher than in July. The upgrade rests on a few supports. Steady domestic demand, government stimulus and strong technology exports tied to the global AI investment cycle are helping offset higher trade and energy costs. The 2026 inflation forecast is trimmed to 4.2%, as broad subsidies cushion higher energy prices, before easing to 3.5% in 2027.

The risks, however, are piling up. Elevated and volatile energy prices, driven by the prolonged Middle East conflict and the renewed escalation of Russia's war in Ukraine, continue to weigh on the outlook. A stronger El Nino could cut crop output and hydropower generation. A sharp correction in AI-related equity valuations, tighter financial conditions and renewed trade policy uncertainty pose further downside risks.

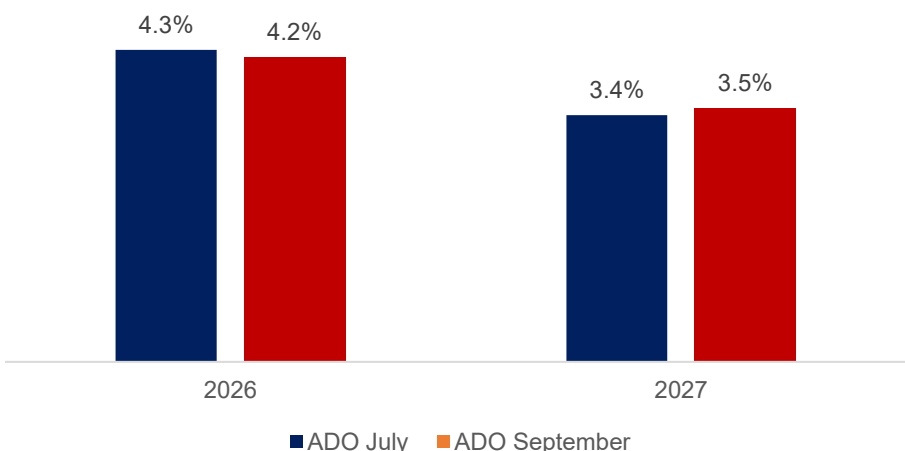
Across the region, the picture is mixed. Developing Southeast Asia's forecasts rose to 4.7% for 2026 and 4.9% for 2027 after a stronger first half. South Asia's 2026 forecast was lifted to 6.4% from 6%, driven by strong public investment and firm export growth in India. The Caucasus and Central and West Asia saw cuts of 0.1 percentage points for both years, to 3.7% and 4.1%, mainly on weaker external demand, particularly in Türkiye.

Sri Lanka in focus - The same outlook forecasts Sri Lanka to grow 4% in 2026, placing it 18th among Asia's fastest-growing economies. While it's an upward revision from earlier this year, it is below the regional average of 5% and well below South Asia's 6.4%, which India's strength largely drives. Energy is a particular worry for the island: ADB's April outlook projected inflation accelerating sharply to 5.2% in 2026, driven largely by the Middle East conflict. Sustaining momentum will depend on continued economic stability, investment and improvements in productivity.

GDP Growth: Development Asia and the Pacific



Inflation: Developing Asia and the Pacific



Evolving Landscape

Navigating Global Uncertainty and Emerging Investment Opportunities

The global economic landscape is undergoing significant transformation, shaped by geopolitical tensions, supply chain realignments, energy security concerns, and intensifying competition for investment. While economic growth has remained resilient in several regions, investors are increasingly prioritizing stability, policy predictability, and strategic market access when selecting investment destinations.

Europe continues to face a range of economic and social challenges that are influencing global business decisions. Slower growth, declining productivity, rising energy costs, demographic pressures, and increased global competition have affected the region's economic outlook. In addition, public protests across several European countries, including France, have highlighted concerns related to the cost of living, pension reforms, immigration policies, agricultural regulations, and broader social welfare issues. Geopolitical uncertainties, particularly the ongoing implications of the Russia-Ukraine conflict, have further heightened energy security concerns and reshaped investment priorities.

These developments are encouraging multinational companies to diversify supply chains, explore new markets, and reduce concentration risks. As firms seek resilient and strategically located destinations, emerging economies are presented with new opportunities to attract investment and integrate into evolving global value chains.

Overarching message: Sri Lanka's proposition is moving beyond recovery towards long-term competitiveness, leveraging its strategic location, stronger connectivity, regulatory reforms and future-ready sectors to become a connected, resilient, investment-friendly economy.

SRI LANKA'S RESPONSE

An investment-led growth model

- Building on macroeconomic stabilisation, anchored on policy consistency, transparency and investor confidence
- Reforms aim at a conducive environment for long-term, sustainable investment

Private participation in strategic infrastructure (Selected examples from discussions)

- East Container Terminal (ECT) management and operation opened to private participation, with state ownership retained
- West Container Terminal development continues, alongside a dedicated logistics hub in the Port of Colombo
- Strengthens Sri Lanka as a regional logistics and trade hub as firms reassess Indian Ocean supply chains

Future-oriented sectors

- Renewable energy: grid infrastructure investment and competitive procurement
- Digital talent: ICT and AI training centre planned with Singapore

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