SENFIN RESEARCH

Half-Year Economic Highlights

January – June 2026

Sources: CBSL, Ministry of Finance, SLTDA, Investing.com. Analysis by Senfin Securities.

EXECUTIVE SUMMARY

H1 2026 at a Glance

The story of the half-year: growth held near 5%, but the macro regime flipped. Deflation gave way to a rising 6.8% CCPI, prompting the CBSL's first rate hike in the cycle (to 8.75%). Fiscal accounts swung into surplus on a 35% revenue surge, while a sharp import/energy-led widening of the trade deficit became the key external risk.

CCPI INFLATION (JUN)

+6.8 %
▲ from −0.6% in Jun-25

REAL GDP (Q1)

5.1 %
▲ vs 4.8% in Q1-25

POLICY RATE (OPR)

8.75 %
▲ +100 bps hike (May-26)

12M T-BILL YIELD

10.2 %
▲ +226 bps YoY

FISCAL BALANCE (J–A)

+105 Bn
surplus vs −262 Bn '25

REMITTANCES (J–M)

3.9 $bn
▲ +26.0% YoY

TRADE DEFICIT (J–M)

4.66 $bn
▲ +70.8% wider YoY

GROSS RESERVES

6.65 $bn
▲ vs $6.03bn Jun-25

MAJOR POSITIVES

- Fiscal surplus & +35% revenue
- Record remittances, higher reserves
- GDP 5%; construction PMI booming

CHALLENGES & RISKS

- Inflation reflating toward 7%
- Import/energy-led deficit blow-out
- Rising funding costs (AWPLR 10.4%)

POSITIONING

- Reprice for a higher-rate H2
- Favour exporters & remittance plays
- Watch LKR on the import surge

SECTION 01

Real Sector

Prices, output and the productive base — inflation, GDP, PMIs, agriculture, power and commodities.

Inflation (CCPI / NCPI)

Real GDP

PMIs

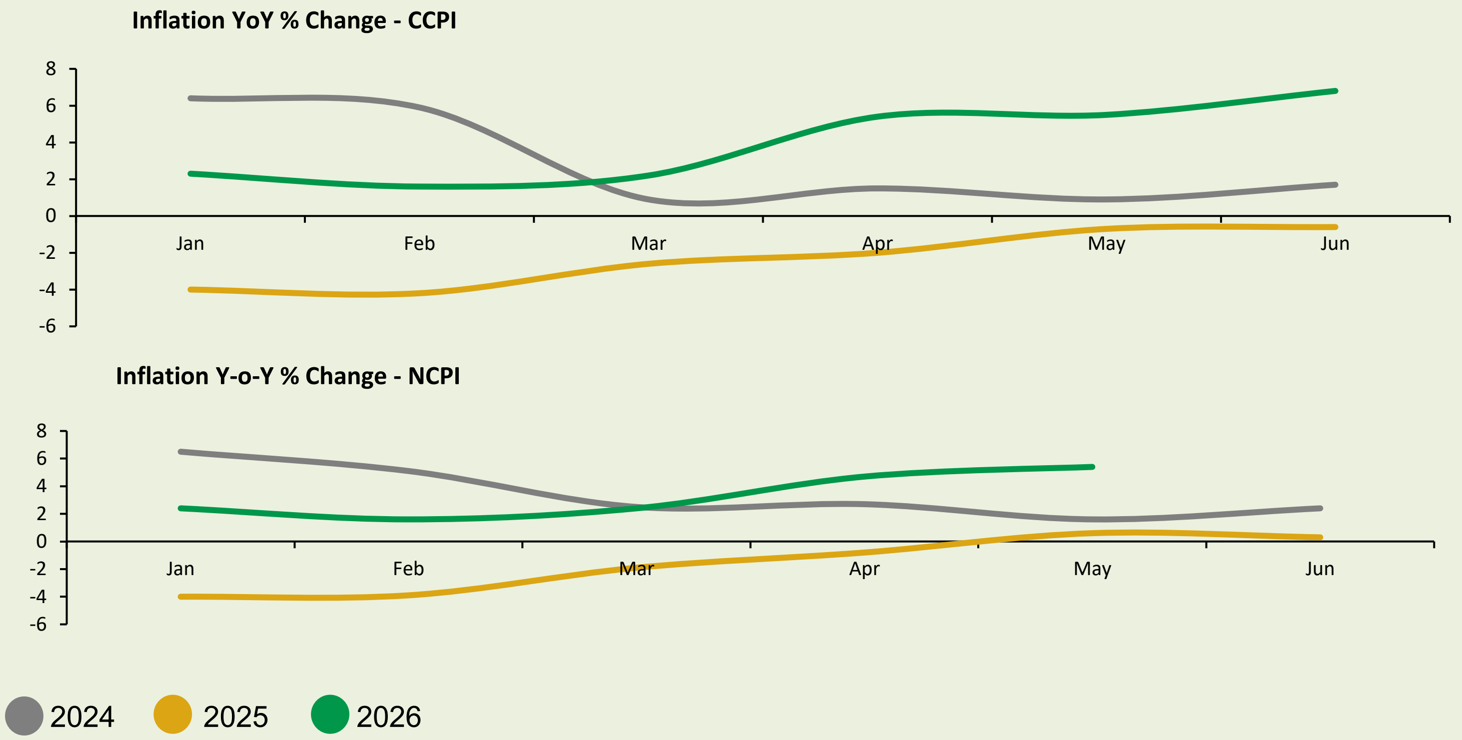
Agriculture

Electricity

Commodities

REAL SECTOR · PRICES

Inflation: Deflation in 2025 Gives Way to Broad Reflation



CCPI (JUNE-26)

6.8%

▲ from -0.6% June-25

NCPI (MAY-26)

5.4 %

▲ from 0.6% May-25

WHAT DROVE IT

- 2025 deflation reflected favourable base effects, a firmer rupee and lower energy costs.
- In 2026 those bases faded and a Mar–Apr crude-oil spike pushed prices up sharply.

KEY INSIGHT

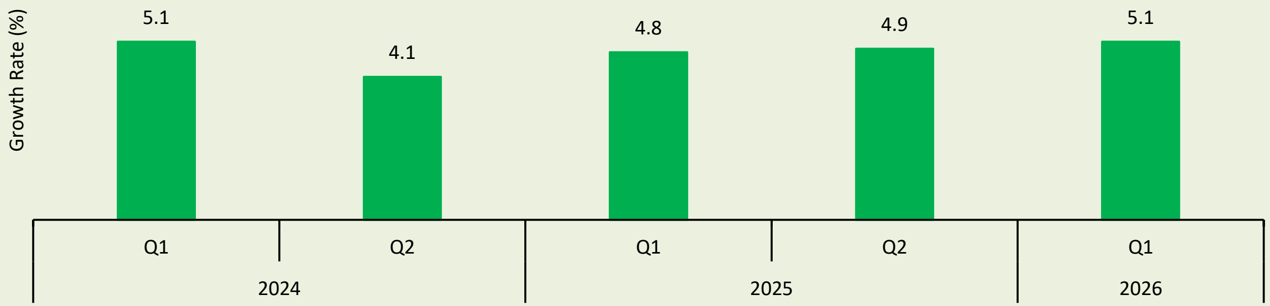
Both indices turned positive early in 2026 and accelerated; CCPI reached +6.8% by June, the fastest since the 2022–23 crisis unwind.

INVESTOR IMPLICATION

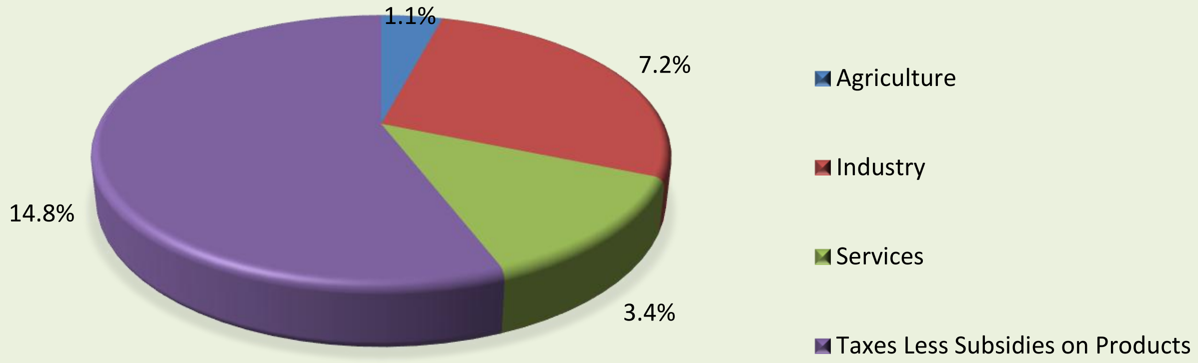
Real yields compress as inflation climbs — a headwind for long-duration bonds and a signal to reprice fixed income for a higher-inflation H2.

Real GDP: Resilient 5.1% Growth Anchors the Recovery

Real GDP growth — YoY %, by quarter



Sector Contribution to the GDP – Q1 2026



Q1-2026 OUTTURN

5.1 %

▲ +0.3 pts vs Q1-25

KEY INSIGHT

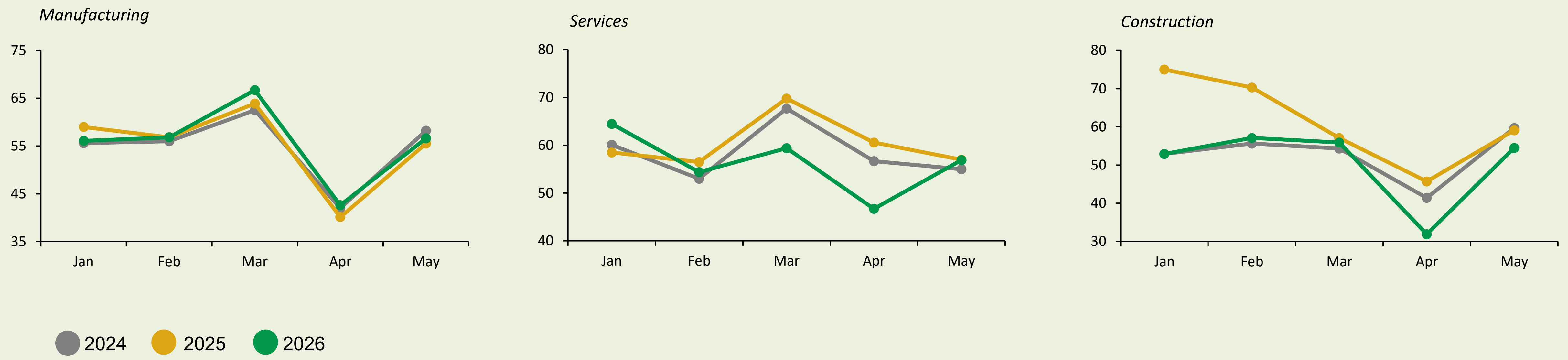
Growth has stayed in a tight 4.8–5.4% band for eight straight quarters — a durable, broad-based recovery led by industry and services rather than a one-off rebound.

INVESTOR IMPLICATION

Stable 5% real growth supports corporate earnings visibility; cyclical and consumer names benefit if the expansion holds through H2.

REAL SECTOR · ACTIVITY

Purchasing Managers' Indices: Firmly in Expansion



50 = neutral; readings above 50 indicate month-on-month expansion. H1 series shown Jan–May (Jun-26 pending).

READING THE PANEL

- Manufacturing steady (56.6).
- Services eased from its 2025 high.
- Construction surged — Jan-26 hit 75.

KEY INSIGHT

The standout is construction: a jump to 70–75 early in 2026 points to a revival in building and public works after years of contraction.

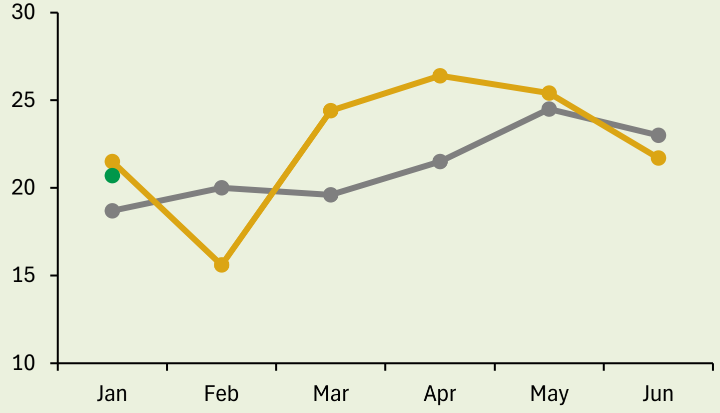
INVESTOR IMPLICATION

Construction-cycle beneficiaries — cement, steel, tiles, contractors — look best-placed; softer services momentum warrants monitoring.

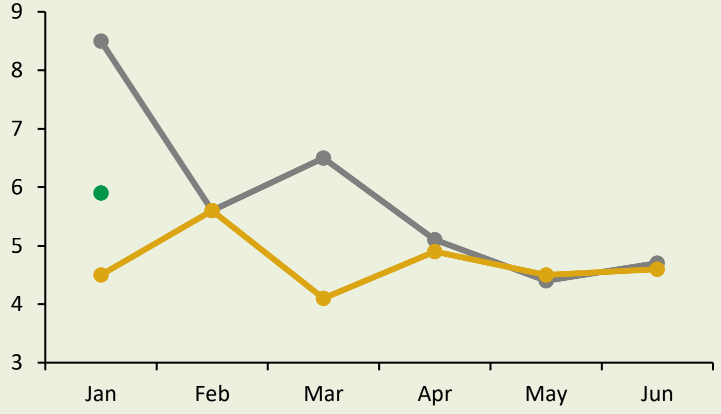
REAL SECTOR · AGRICULTURE

Plantation & Coconut Output: Mixed H1 Signals

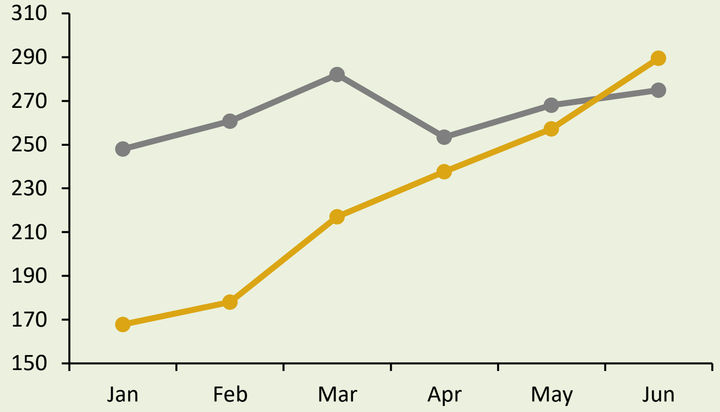
TEA · mn kg



RUBBER · mn kg



COCONUT · mn nuts



2024 2025 2026

Monthly production. 2026 series limited to January in the source data (Feb–Jun pending).

THE PATTERN

- Tea: 2025 was strong; Jan-26 softer.
- Rubber: structurally low, 5 mn kg.
- Coconut: 2025 recovered late-year.

KEY INSIGHT

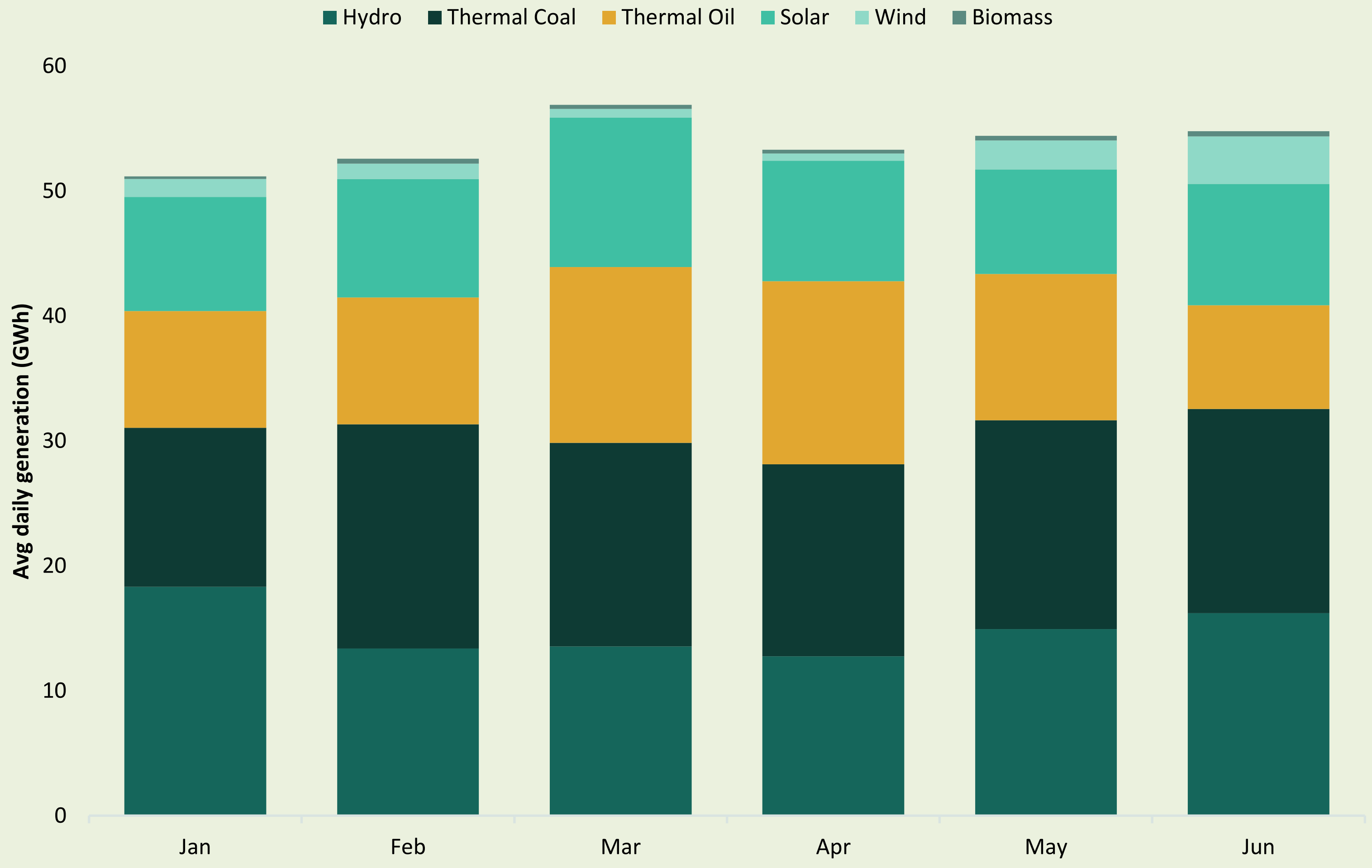
Tea remains the export anchor. Coconut's 2025 volumes recovered through H2 after a weak start, easing earlier domestic-price pressure.

INVESTOR IMPLICATION

Plantation earnings track global tea prices and weather; watch El Niño/monsoon risk. Rubber's low base caps upside for tyre-linked plays.

REAL SECTOR · ENERGY

Electricity Generation Breakdown



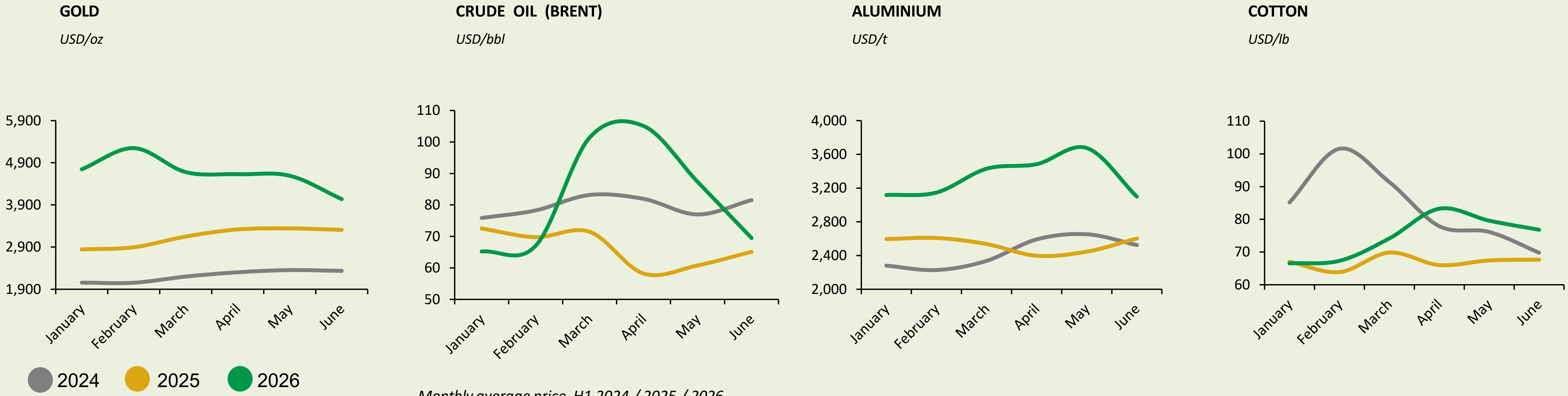
HYDRO EASED, THERMAL FILLED IN

Drier conditions cut average hydro output to 14.9 GWh/day in H1 (from 20.1 a year earlier), lifting reliance on coal and oil.

SOLAR SURGED

Solar generation more than doubled year-on-year (9.7 vs 4.3 GWh/day), the fastest-growing source in the mix.

Global Commodities: Gold & Oil Reprice Higher



Monthly average price. H1 2024 / 2025 / 2026.

PRICE ACTION

- Gold: +22% YoY ($4,039) safe-haven bid.
- Oil: spiked to $105 in Apr-26.
- Aluminium +19%; cotton firmer.

KEY INSIGHT

The oil spike is the key transmission channel into Sri Lanka feeding fuel prices, the import bill and headline inflation simultaneously.

INVESTOR IMPLICATION

Higher gold aids remittance-linked demand and reserves optics; costlier oil pressures margins for transport, power and manufacturing.

SECTION 02

Monetary Sector

The policy pivot — from easing and falling yields in 2025 to the first rate hike and rising market rates in 2026.

Policy Rate

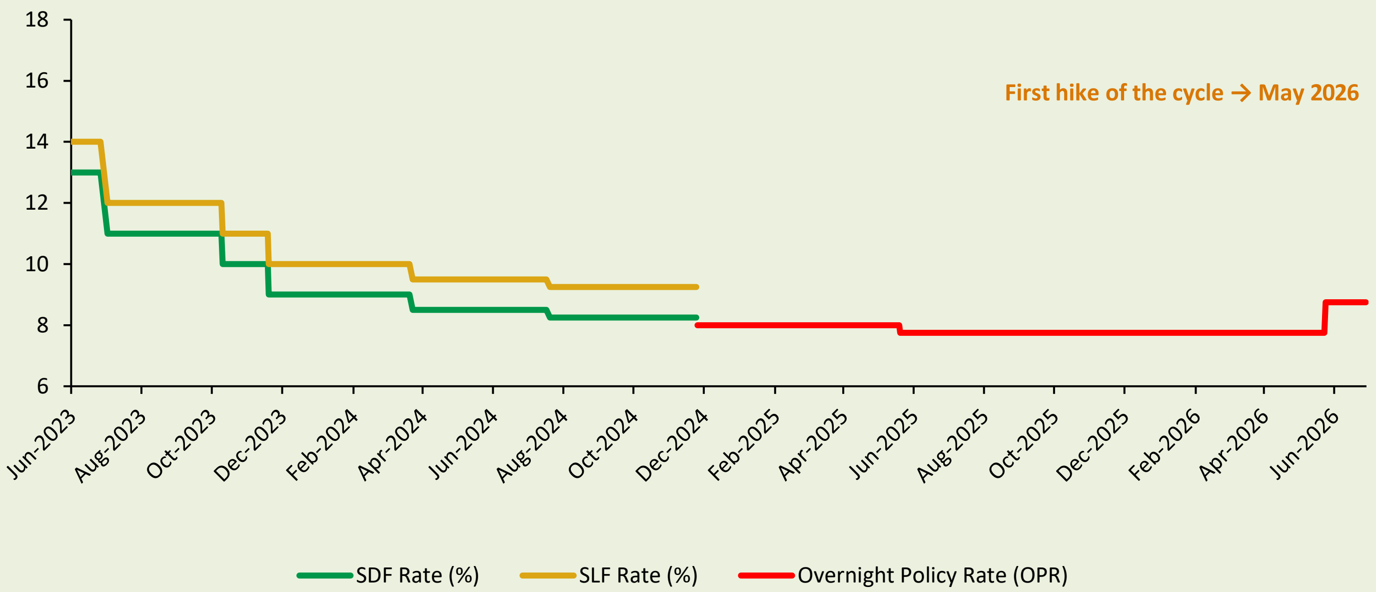
AWCMR

AWPLR

AWDR

T-Bill Yields

Overnight Policy Rate : CBSL Hikes the Policy Rate to 8.75%



POLICY RATE, END-JUN

7.75 → 8.75 %

▲ +100 bps in 2026

WHY THE TURN

- Through 2025 the CBSL eased aggressively as deflation set in, cutting the OPR to a 7.75% floor.
- As inflation turned positive and accelerated in 2026, it hiked +100 bps in May to anchor expectations.

KEY INSIGHT

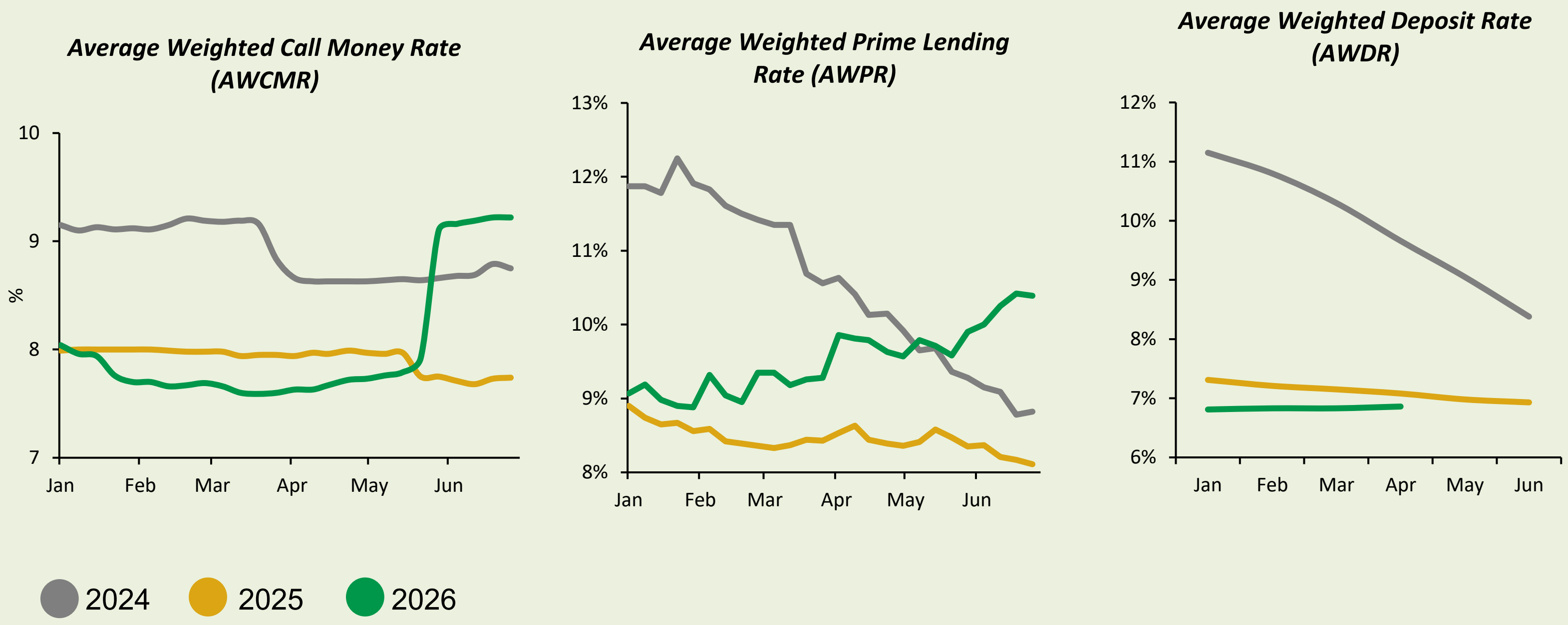
The hike marks a clean regime change the easing cycle is over. Policy is now leaning against reflation rather than supporting demand.

INVESTOR IMPLICATION

Position for a higher-for-longer H2: shorten duration, favour floating-rate exposure, and expect deposit competition to intensify.

Market Rates Follow: Call, Lending & Deposit Rates

End-of-June rates — % (AWDR 2026 = latest, April)



PRIME LENDING (AWPLR)

8.11 → 10.39 %

▲ +228 bps in 2026

DEPOSIT RATE (AWDR)

6.93 → 6.86 %

still near cycle low

THE TRANSMISSION

- Call money (AWCMR) tracked the OPR up to 9.2% after the May hike.
- Lending rates repriced fastest (+228 bps); deposit rates lagged, still near their lows.

KEY INSIGHT

A widening gap between lending and deposit rates lifts bank margins near term, but rising loan pricing will test credit demand and asset quality.

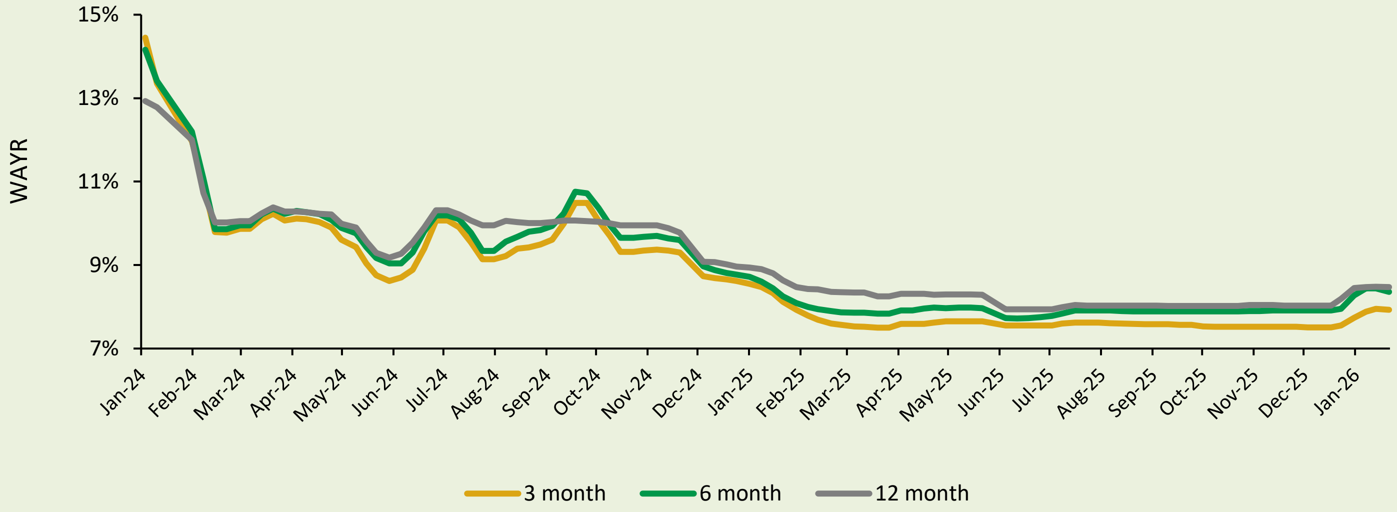
INVESTOR IMPLICATION

Constructive on banks' NIMs short-term; monitor borrower stress as prime rates cross 10%. Rising deposit rates should follow with a lag.

MONETARY · SOVEREIGN

Treasury Bill Yields

Primary-market T-bill yields — %, end of June



WHAT HAPPENED

- Yields collapsed 250 bps through 2025 on disinflation and easing.
- In 2026 they retraced the entire move, climbing back to 10% as inflation and the policy hike bit.

KEY INSIGHT

The near-flat curve at 10% shows the market pricing higher near-term rates without yet demanding a large term premium a fragile equilibrium.

INVESTOR IMPLICATION

Bills again offer double digit nominal yields; but with inflation near 7%, real returns are thin. Ladder maturities; avoid heavy duration bets.

12M YIELD, END-JUN	6M YIELD, END-JUN	3M YIELD, END-JUN
7.94 → 10.17 %	7.75 → 10.21 %	7.55 → 10.14 %
▲ +223 bps YoY (2026)	▲ +246 bps YoY (2026)	▲ +259 bps YoY (2026)

SECTION 03

Fiscal Sector

Consolidation delivers — a revenue surge flips the January–April balance into surplus while debt stabilises.

Government Revenue

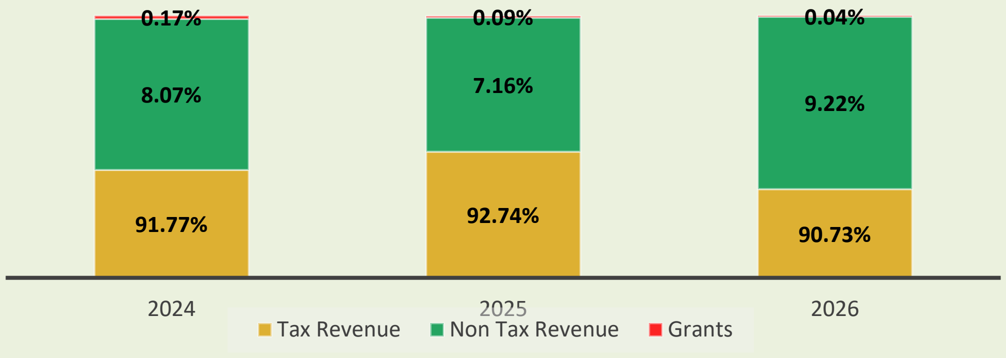
Expenditure

Public Debt

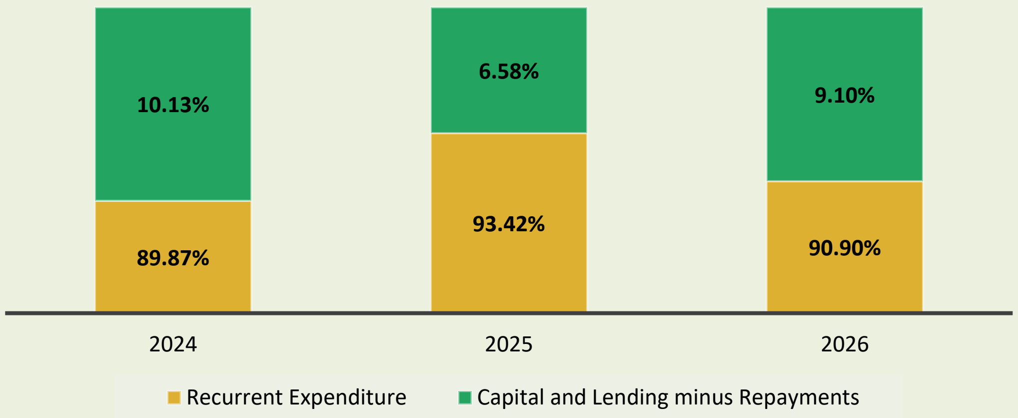
FISCAL · BUDGET

Revenue Surges 35% — Balance Swings to Surplus

Revenue and Grants (Jan-Apr.)



Expenditure and Lending minus Repayments (Jan – Apr.)



Total Revenue and Grants recorded strong growth in 2026, driven mainly by higher tax collections, supporting the improvement in the fiscal balance.

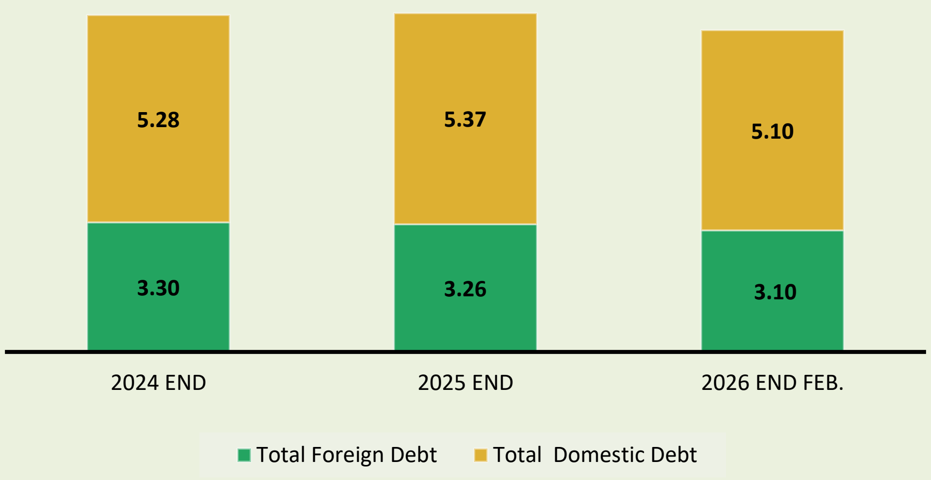
Tax Revenue remained the largest source of government revenue, contributing 90.73% of total revenue and grants in 2026, compared to 91.77% in 2024.

Grant income continued to decline, falling from LKR 2.04 bn in 2024 to LKR 0.83 bn in 2026, reducing its share from 0.17% to 0.04% of total revenue and grants

Non-Tax Revenue increased significantly from LKR 98.27 bn in 2024 to LKR 180.60 bn in 2026, raising its contribution from 8.07% to 9.22%.

Public Debt Stabilises Near LKR 30 Trillion

Domestic & Foreign Debt as a % of GDP



Sri Lanka's public debt remained elevated at around LKR 30 trillion by February 2026, highlighting the continued importance of prudent fiscal management.

Domestic debt continued to account for the larger share of government borrowings, standing at LKR 18.6 trillion compared to foreign debt of LKR 11.3 trillion as of February 2026.

The foreign debt-to-GDP ratio improved from 3.30x in 2024 to 3.10x in February 2026, reflecting gradual progress in managing external debt obligations.

Similarly, the domestic debt-to-GDP ratio declined from 5.28x in 2024 to 5.10x in February 2026, indicating that economic growth is gradually outpacing debt accumulation.

SECTION 04

External Sector

Strength and strain — record remittances and higher reserves against a widening, import-led trade deficit.

Remittances

Tourism

Trade

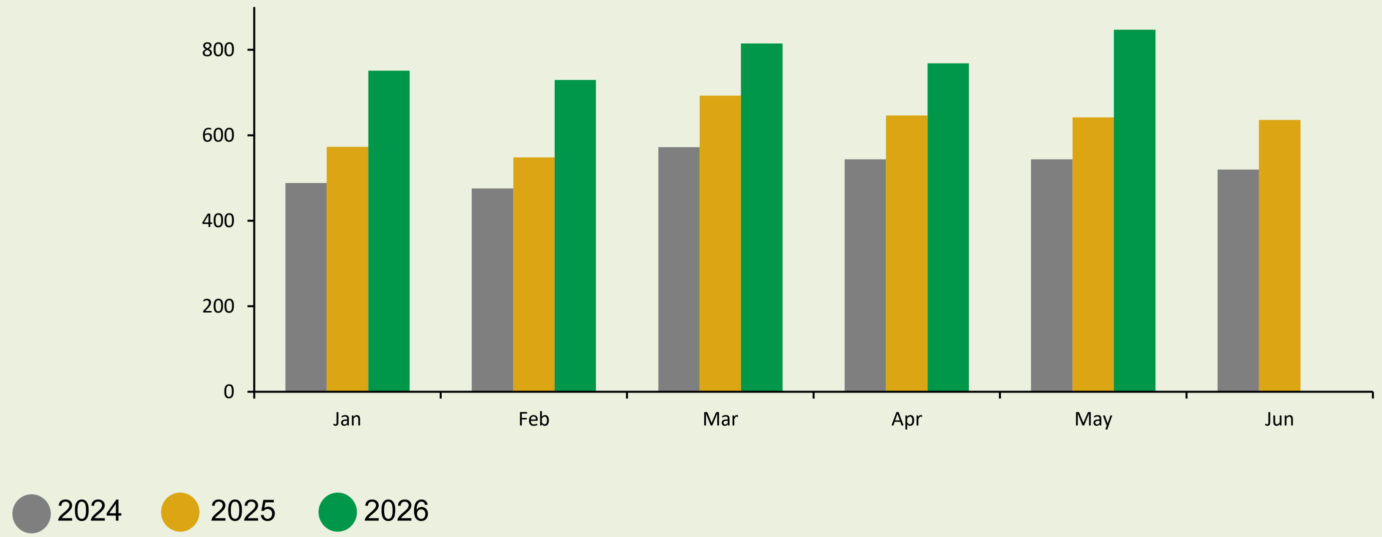
Reserves

Exchange Rates

EXTERNAL · INFLOWS

Workers' Remittances Hit Successive Record Highs

Monthly workers' remittances — USD mn



WHAT'S BEHIND IT

- Every month of 2026 set a new high (peak $847mn in May).
- A stable rupee, formal-channel migration and higher gulf-region wages boosted recorded flows.

KEY INSIGHT

Remittances are now the single largest, most reliable source of foreign exchange the backbone of the external account and reserve build-up.

INVESTOR IMPLICATION

Resilient inflows cushion the widening trade gap and underpin the LKR; supportive for consumption, housing and finance-company demand.

JAN–MAY INFLOWS

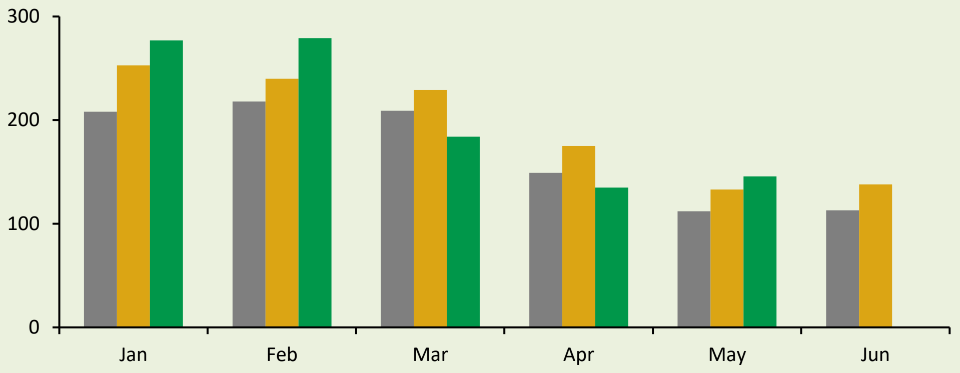
$3.9 bn
▲ +26.0% YoY (2026)

VS 2024 BASE

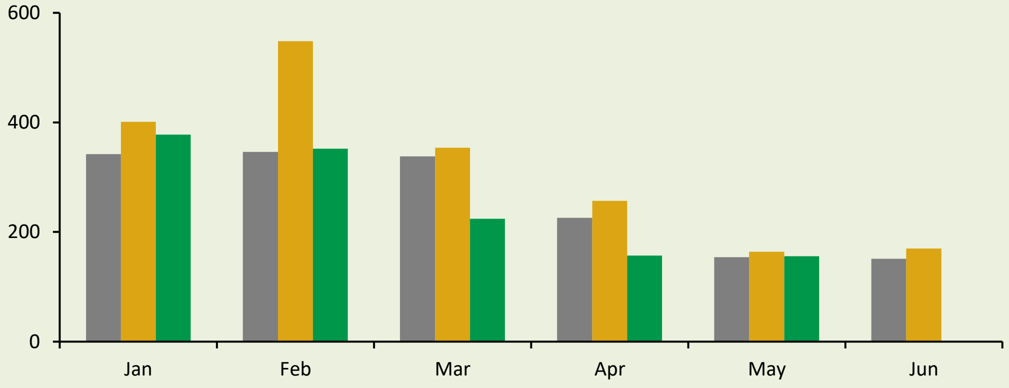
+49 %
$2.6bn → $3.9bn (J–M)

Tourism: Arrivals Resilient, Earnings Off the 2025 Peak

Monthly tourist arrivals — thousands



Monthly tourism earnings — USD mn



2024 2025 2026

ARRIVALS (J–M)

1.02 mn

≈ flat vs 2025

EARNINGS (J–M)

$1.27 bn

▼ −26% vs 2025 peak

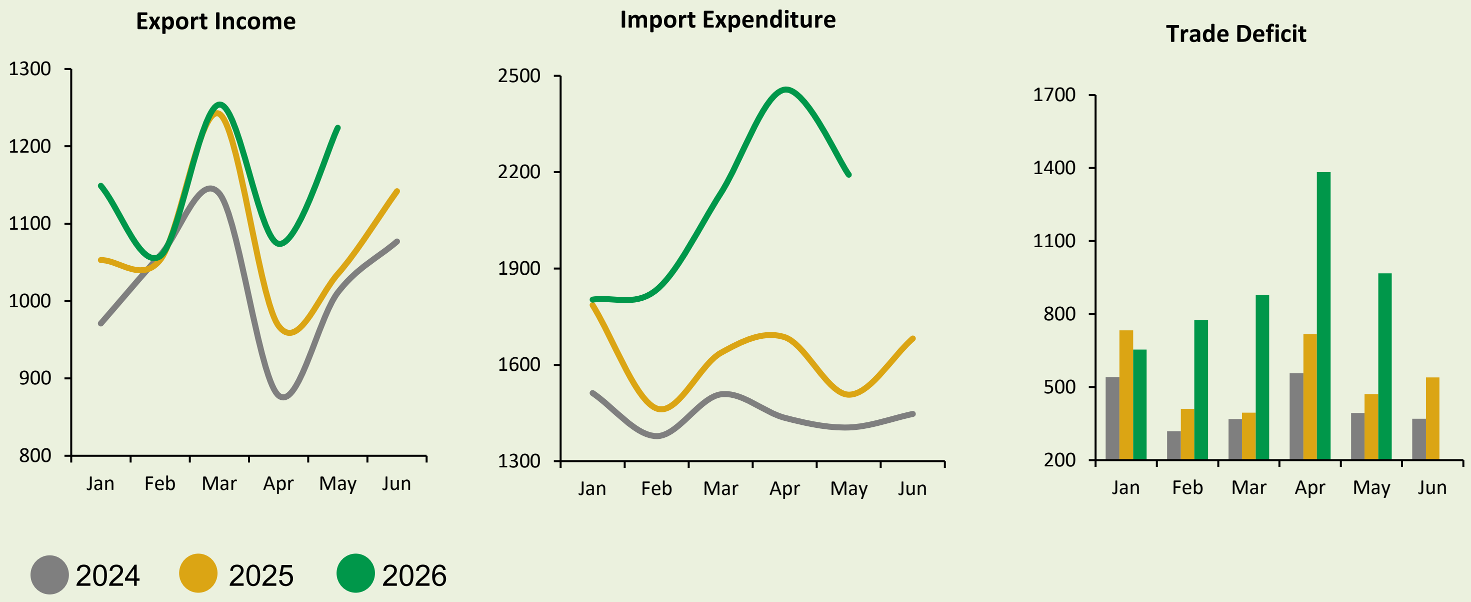
KEY INSIGHT

Arrivals held up (front-loaded Jan–Feb), but earnings fell from the 2025 high — softer spend-per-visitor bears watching. Jun-26 pending.

EXTERNAL · TRADE

Trade Deficit Widens Sharply on an Import Surge

Merchandise trade— USD mn



IMPORTS (J–M)

+29 %

$8.1 → $10.4 bn

EXPORTS (J–M)

+7.6 %

$5.4 → $5.8 bn

DEFICIT (J–M)

+71 %

widened to $4.7 bn

WHAT WIDENED IT

- Imports jumped 29%, led by fuel (oil spike), investment goods and a demand recovery.
- Exports rose a solid 8%, but far too slowly to offset the import bill — April imports hit $2.46 bn.

RISK / WATCH

The deficit's 71% blow-out is the half-year's clearest vulnerability: it drains FX and, if sustained, pressures reserves and the rupee.

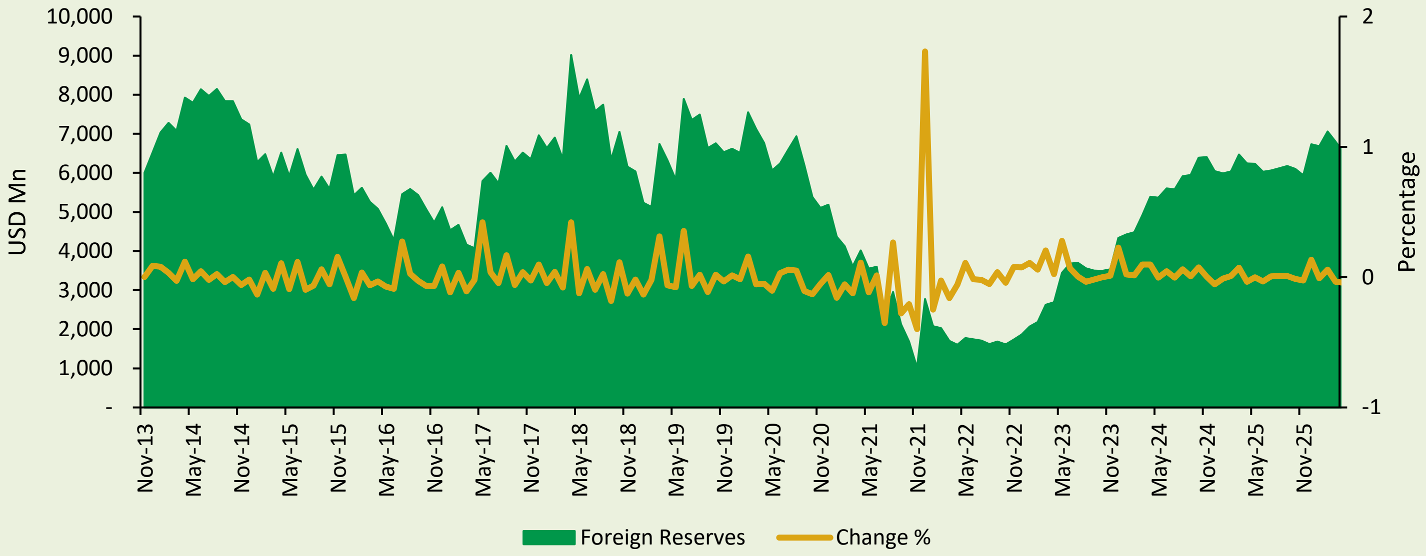
INVESTOR IMPLICATION

Import-reliant sectors face FX/cost risk; a weaker LKR would favour exporters. Watch oil and the import cover of reserves closely.

EXTERNAL · BUFFERS

Official Reserves Build to a Multi-Year High

Gross official reserves — USD mn



RESERVES, END-JUN BASIS

6.03 → 6.65 $bn

▲ higher YoY (2026)

VS CRISIS TROUGH

3.8x

up from $1.7bn (Jun-22)

WHAT BUILT THEM

- Record remittances, tourism receipts and CBSL FX purchases rebuilt the buffer from its 2022 lows.
- A dip in Mar–Apr 2026 reflected the import/oil surge before recovering to $6.65 bn in May.

KEY INSIGHT

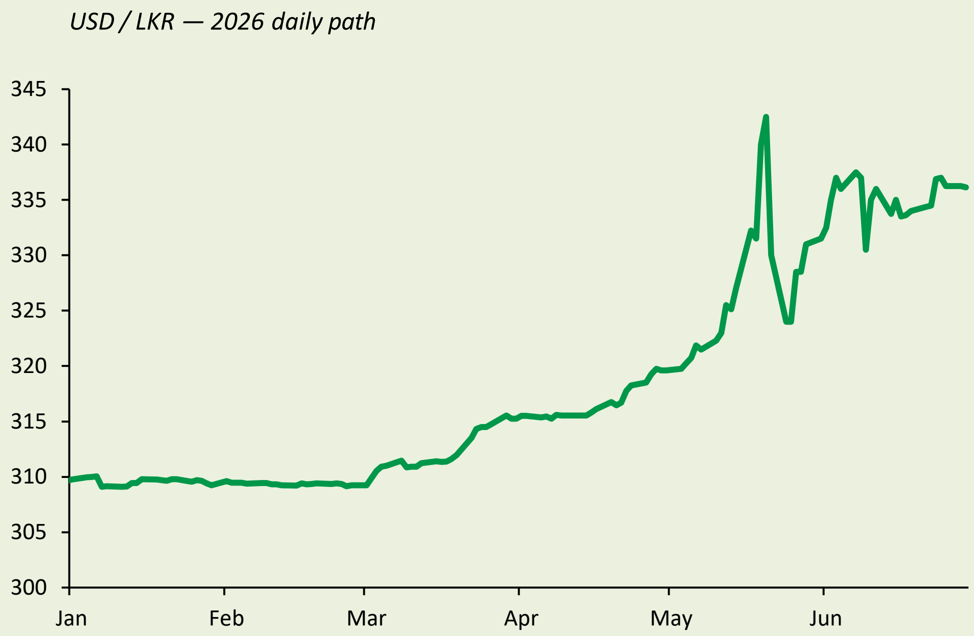
Reserves near $6.7 bn provide real import cover and policy space — a marked contrast to the near-empty coffers of the 2022 default.

INVESTOR IMPLICATION

Healthier buffers reduce tail risk and support the LKR, but the trade-deficit drag means the build could stall if imports stay elevated.

EXTERNAL · CURRENCY

Exchange Rates: Rupee Broadly Stable Through 2026



USD CROSS-RATES — 2026 (Jan → Jun)

Pair	Jan	Jun	Move vs USD
USD/LKR	309.600	336.125	LKR +8.6%
USD/EUR	0.8514	0.8756	EUR +2.8%
USD/GBP	0.7422	0.7540	GBP +1.6%
USD/INR	89.968	94.665	INR +5.2%

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