



Macroeconomic Outlook | 19.05.2026

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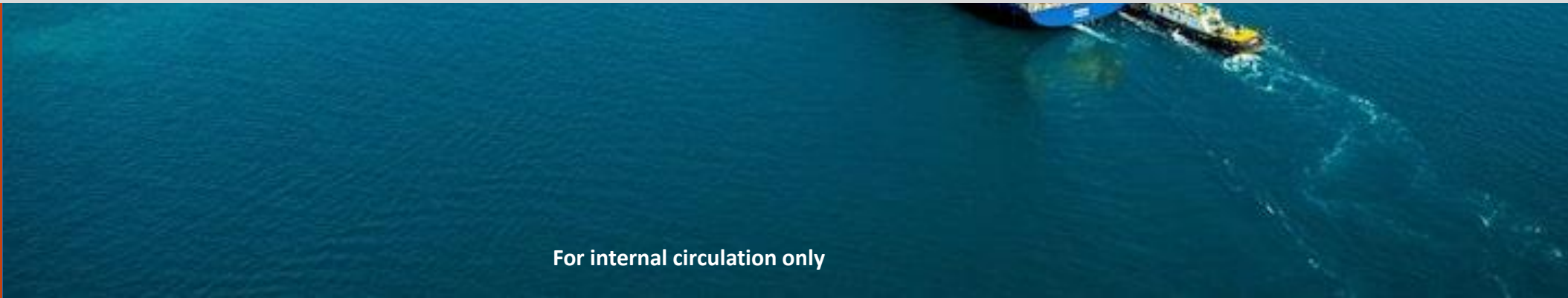


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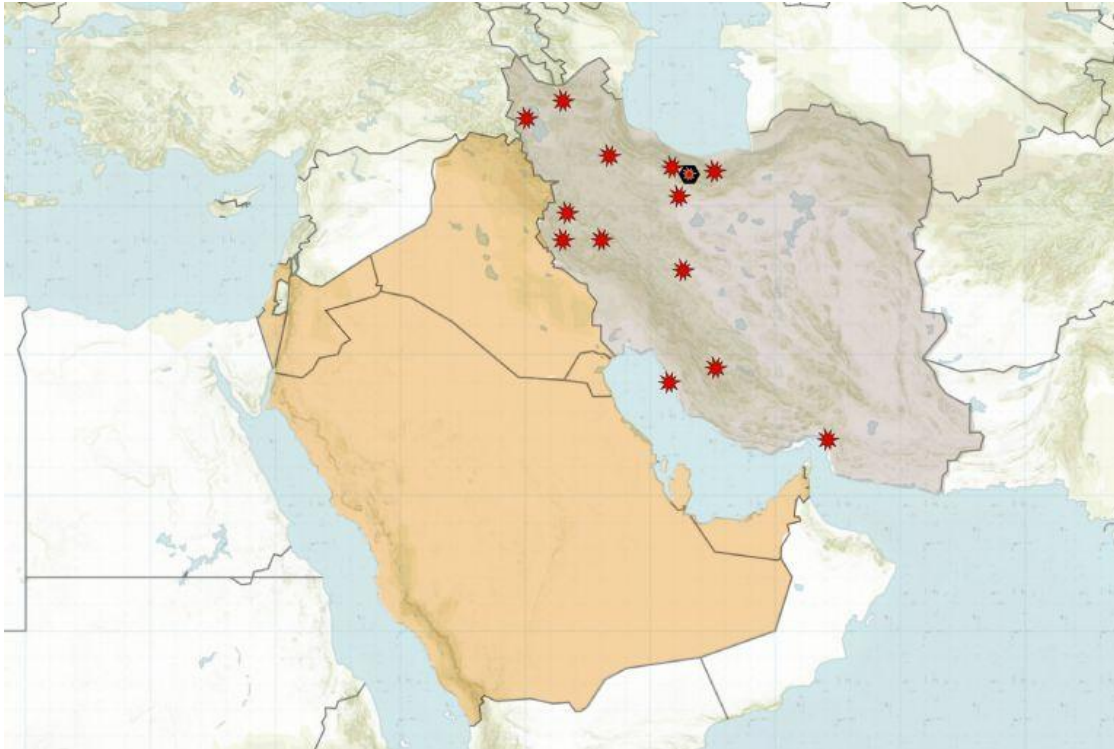
External sector performance and outlook

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Status of the ME conflict

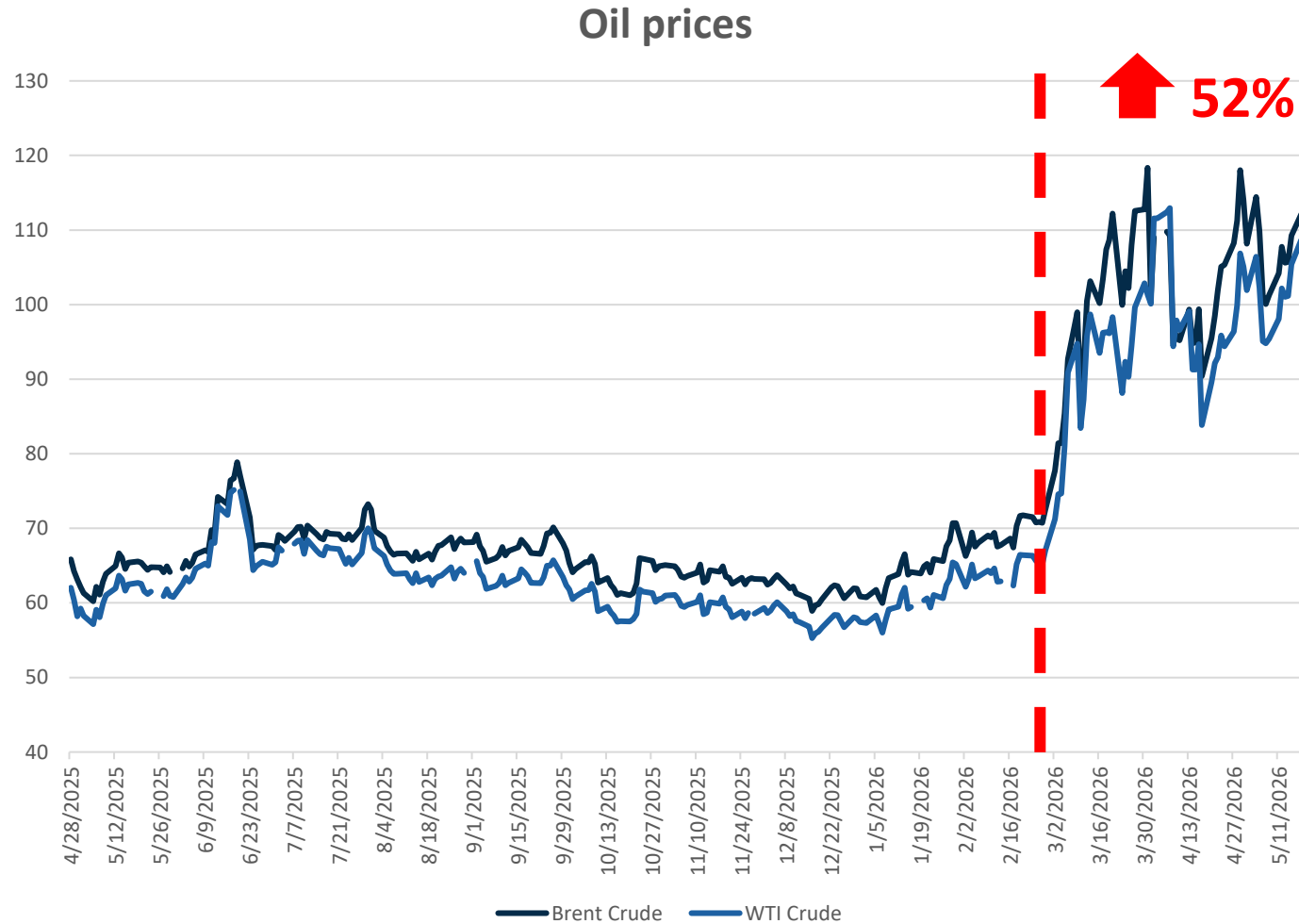


President Trump has temporarily delayed a scheduled military assault on Iran at the request of U.S. Gulf Arab allies, pending "serious negotiations" over Tehran's recent 14-point peace proposal.

However, Trump warned that a large-scale attack could happen "on a moment's notice" if a formal agreement is not reached.

Middle East ceasefire negotiations are deeply strained. U.S. Central Command maintains an active naval blockade of Iranian ports.

Oil price movement and outlook



Scenario	Oil price per barrel (USD)	Probability
Controlled Crisis	100 – 120	50%
Escalating Conflict	120 – 150	20%
Successful ceasefire	70 – 100	30%

Local fuel price sensitivity to global prices

Brent Oil Price	Petrol 92	Petrol 95	Auto Diesel	Super Diesel
100	370	430	340	400
110	395	455	365	425
120	420	480	390	450
130	445	505	415	475
140	470	530	440	500
150	500	560	465	525
160	525	585	495	555
170	550	610	520	580
180	575	635	545	605
190	600	660	570	630
200	625	685	595	655
210	660	720	630	690
220	685	745	660	720

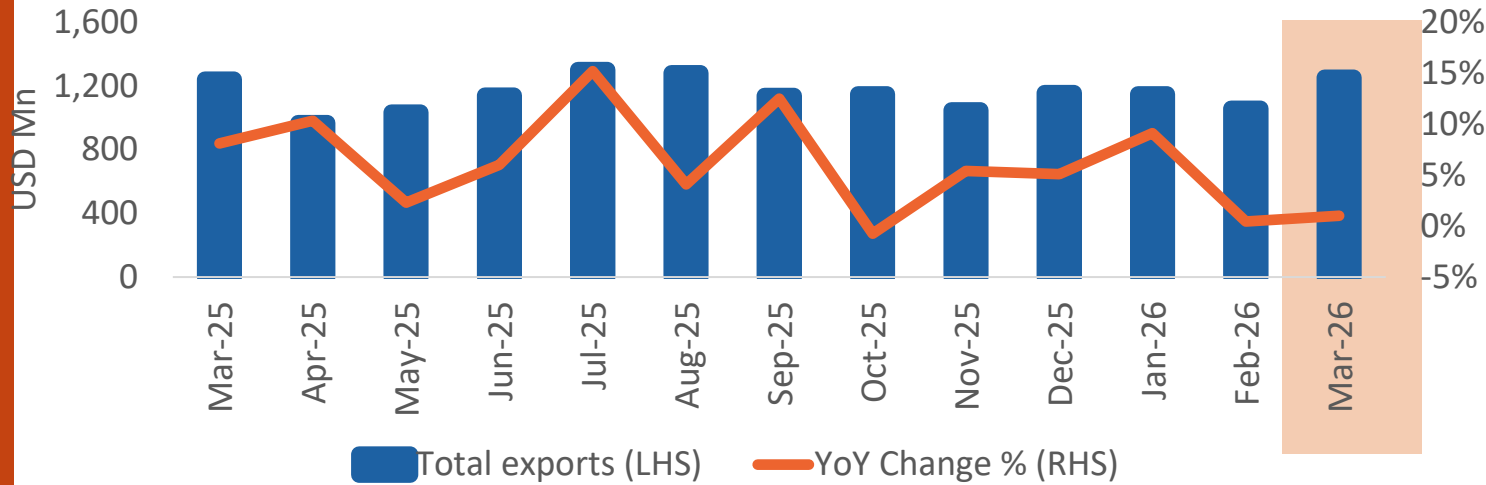
Diesel is ~50% subsidized while kerosene is 56% subsidized

A worsening exchange rate (~2-3% p.m.) can further put pressure

Global prices may not fall back soon

Import cost can significantly increase due to rising oil prices

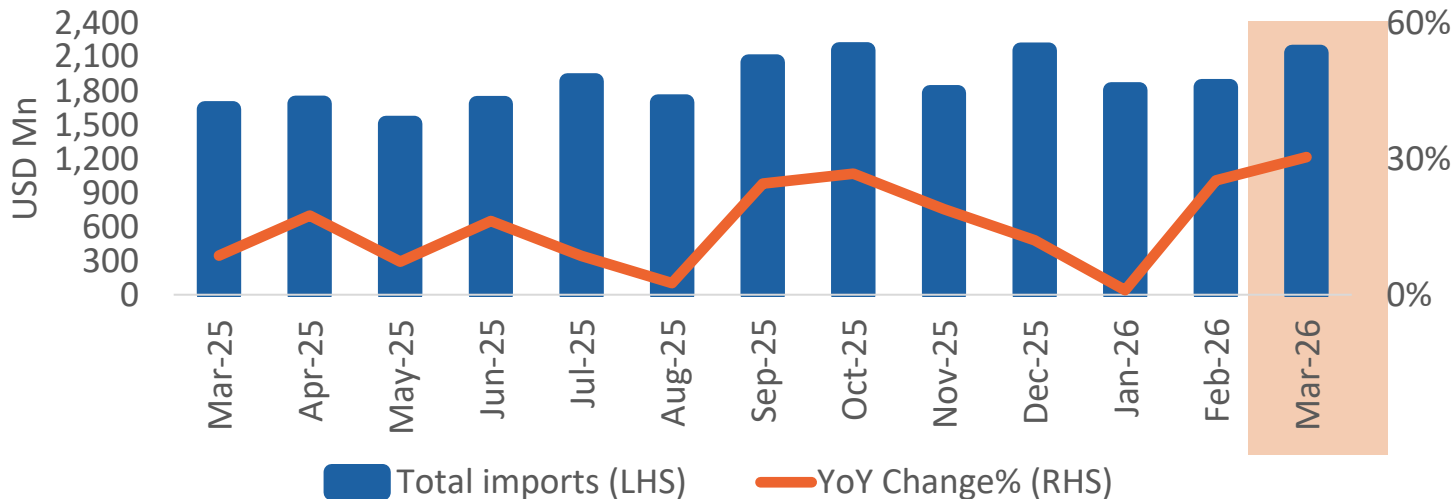
Total Exports and Growth



30% of total imports in Mar 2026 are fuel and coal (average = 18%)

Fuel import cost can increase by a further 40% - 45% for the next 3 months

Total Imports and Growth



On average, 8% of total imports are personal vehicles, compared to 4% in 2019 pre-restrictions

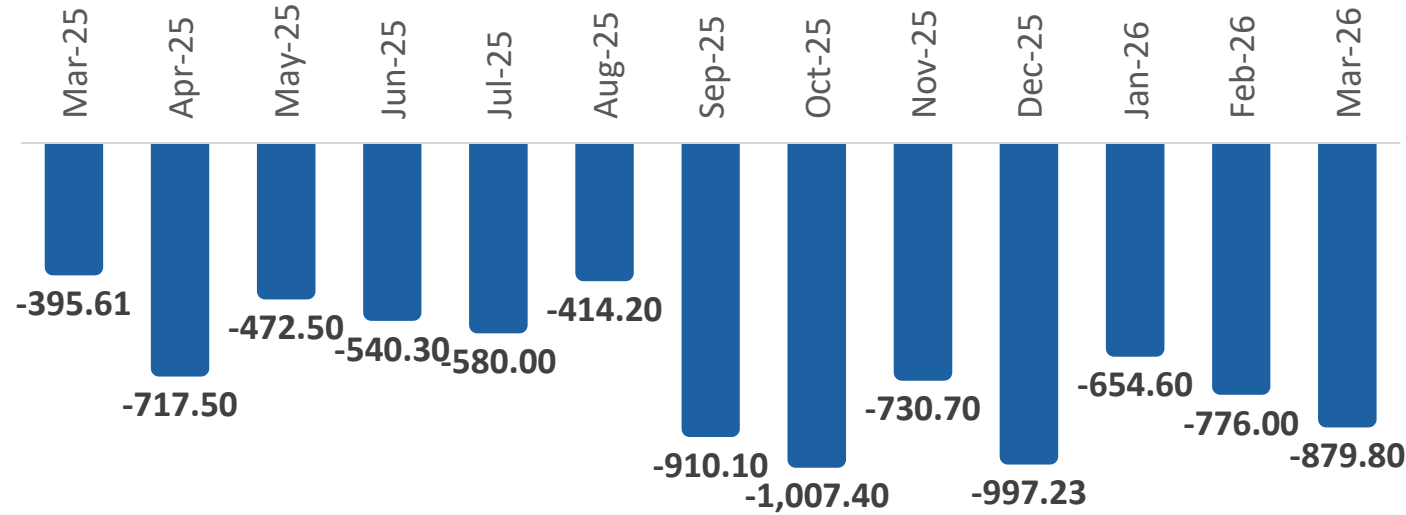
A surcharge tax of 50% has been imposed to curtail vehicle imports

Export growth is sluggish due to global headwinds

Source: CBSL

Current account balance dependent on remittances and tourism earnings

Trade Balance (USD Mn)

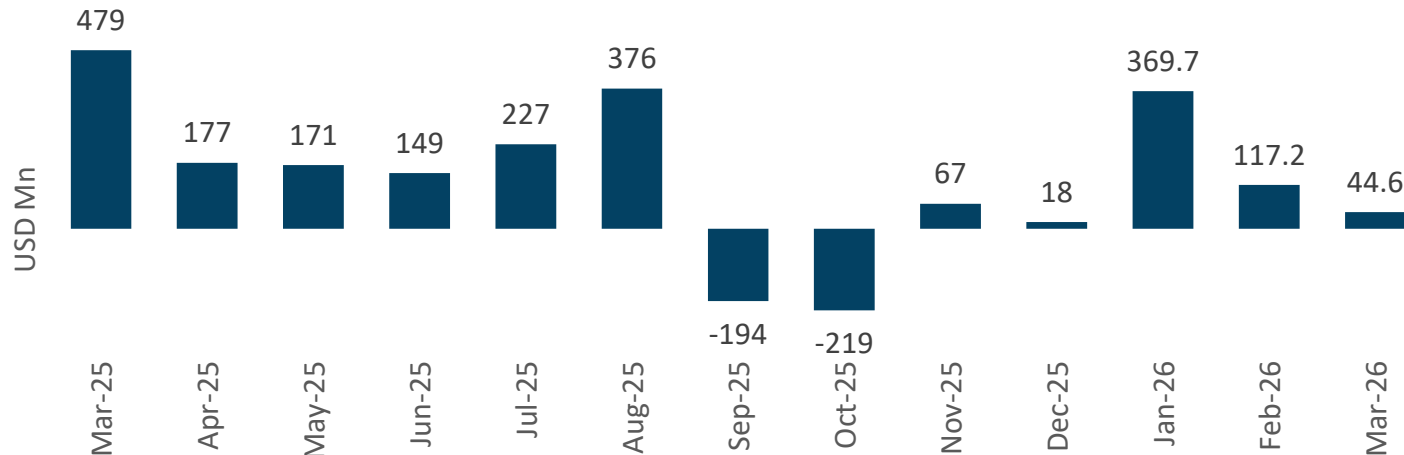


Negative trade balance driven by rising oil import bill

Positive current account balance due to remittances and tourism earnings

Trade deficit can further worsen by 30% - 40%

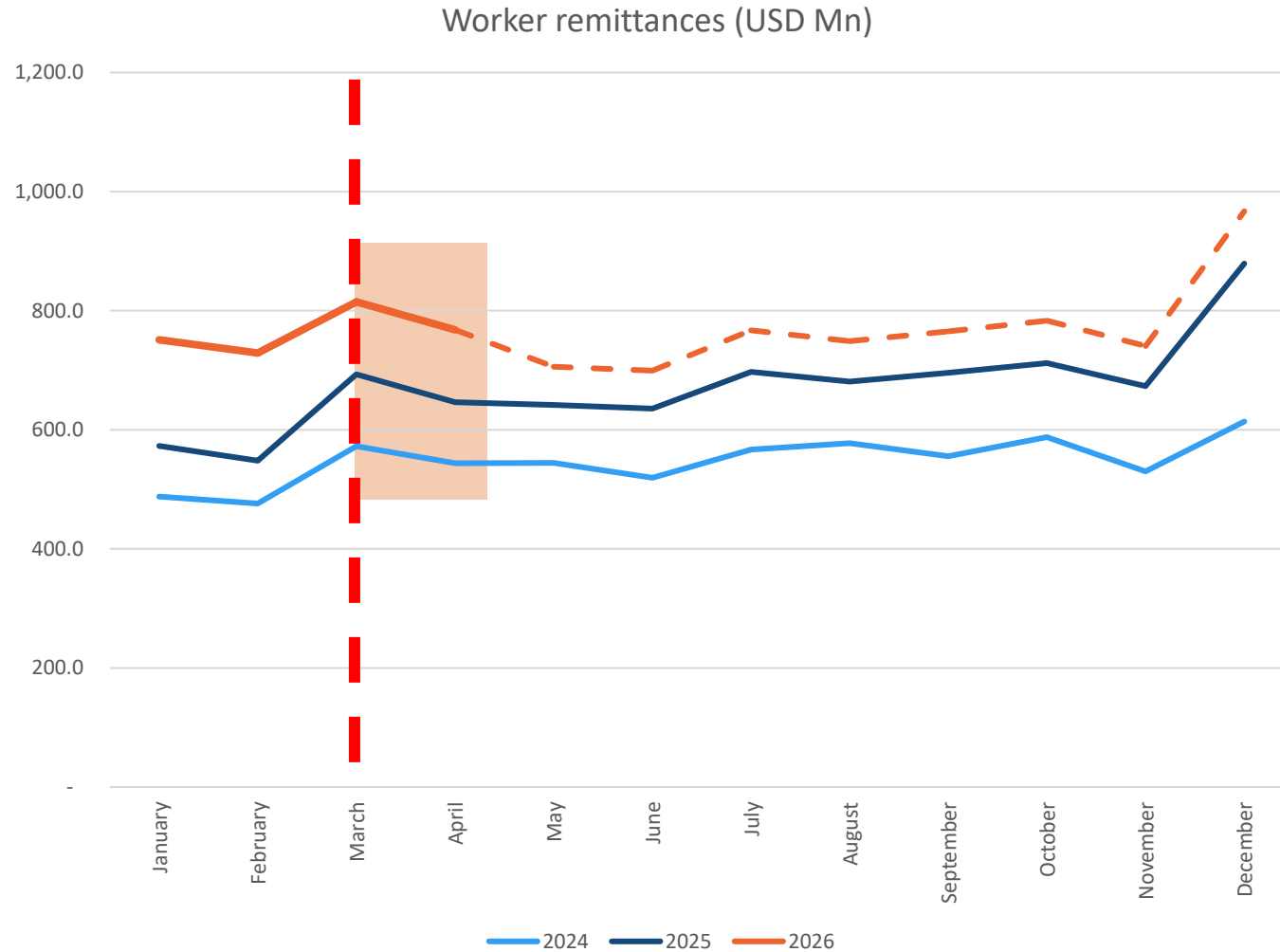
Current Account Balance (USD Mn)



Remittances will be crucial to minimize the current account impact

Source: CBSL

Worker remittances before and after the crisis



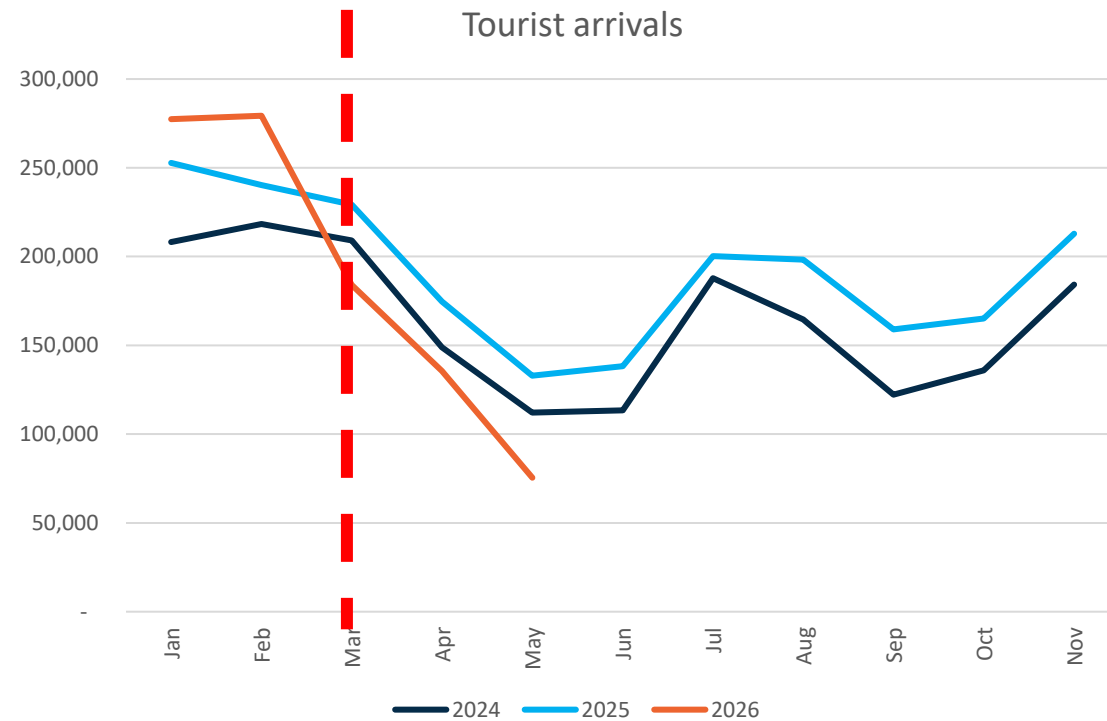
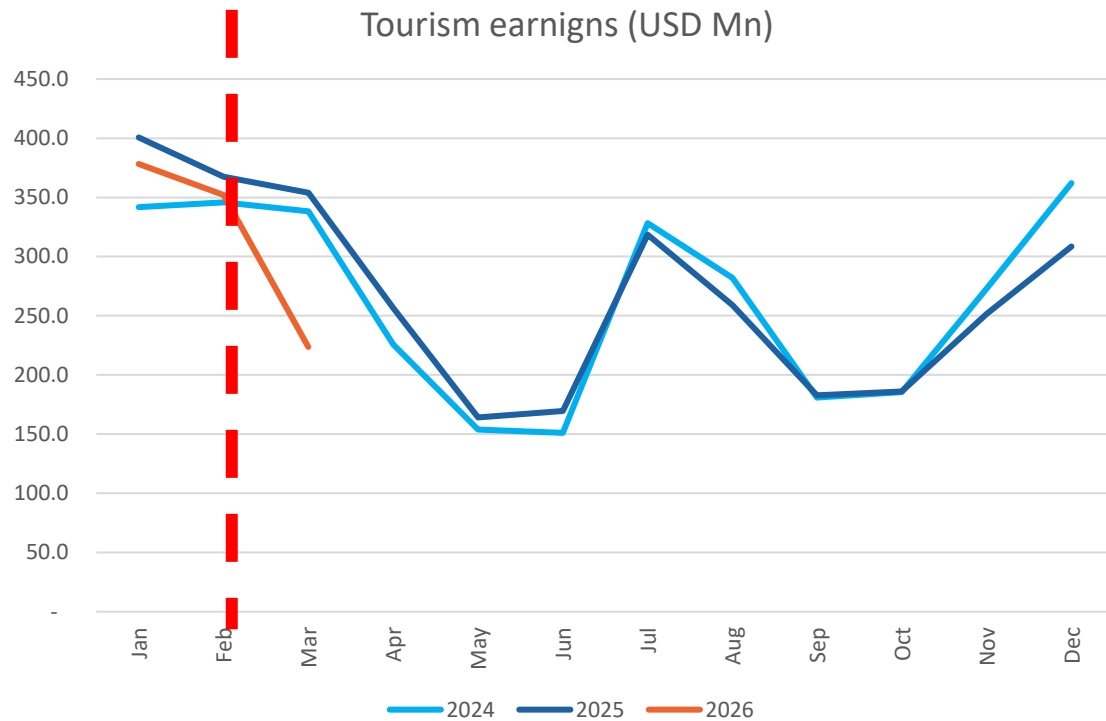
1Mn expats in ME; 35% in UAE, 25% is Saudi Arabia

Total remittances:
 4M 2026 = USD 3 Bn (+24%)
 2025 = USD 8 Bn (+23% YoY)
 2024 = USD 6.5 Bn (10% YoY)

April 2026 remittance growth was 19% after the ME crisis

2026 full year forecast = USD 9.2 Bn (10% YoY growth for the rest of the year)

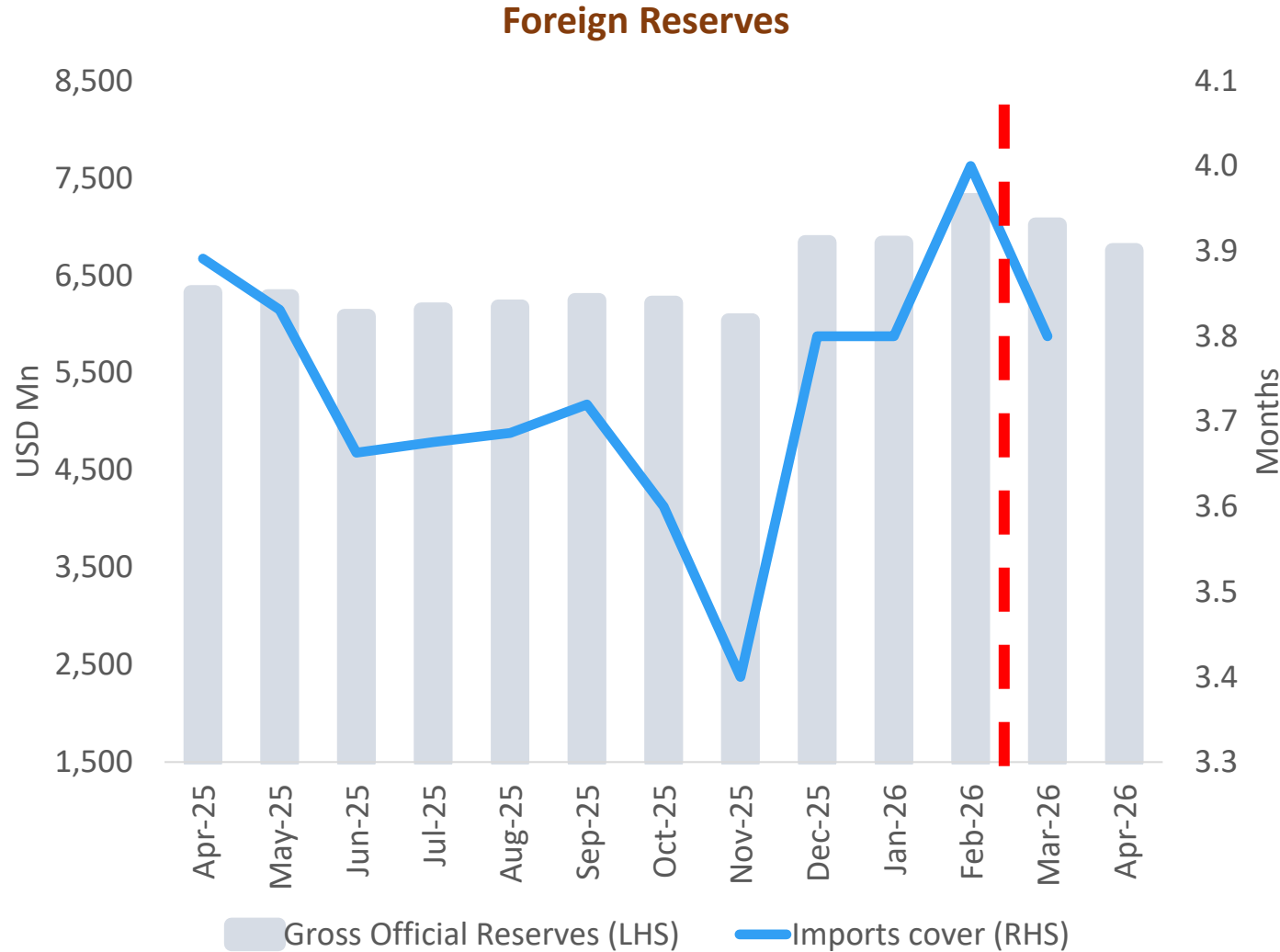
Tourism arrivals and earnings expected to drop



Earnings (USD Bn): 2024 = 3.1, 2025 = 3.2, 1Q26 = 0.95
 2026 March earnings down by 37%
 2026 full year earnings forecast = USD 2.5 – 3 Bn

Arrivals: 2025 = 2.3Mn, 4M2026 = 0.95 Mn
 2026 April arrivals down 22%
 Full year arrivals forecast = 1.9Mn to 2Mn (20% - 30% drop for the rest of the year)

Sri Lanka's foreign reserve position



CBSL has been buying dollars to boost reserves

Rising import bill is putting pressure on reserves which is sufficient for 3.2 months

Debt repayments are accelerating from 2028 which will further put pressure

Reserves currently remain vulnerable to external shocks

IMF program 5th and 6th tranches expected soon



Total approved EFF program = USD 3 Bn (2027)

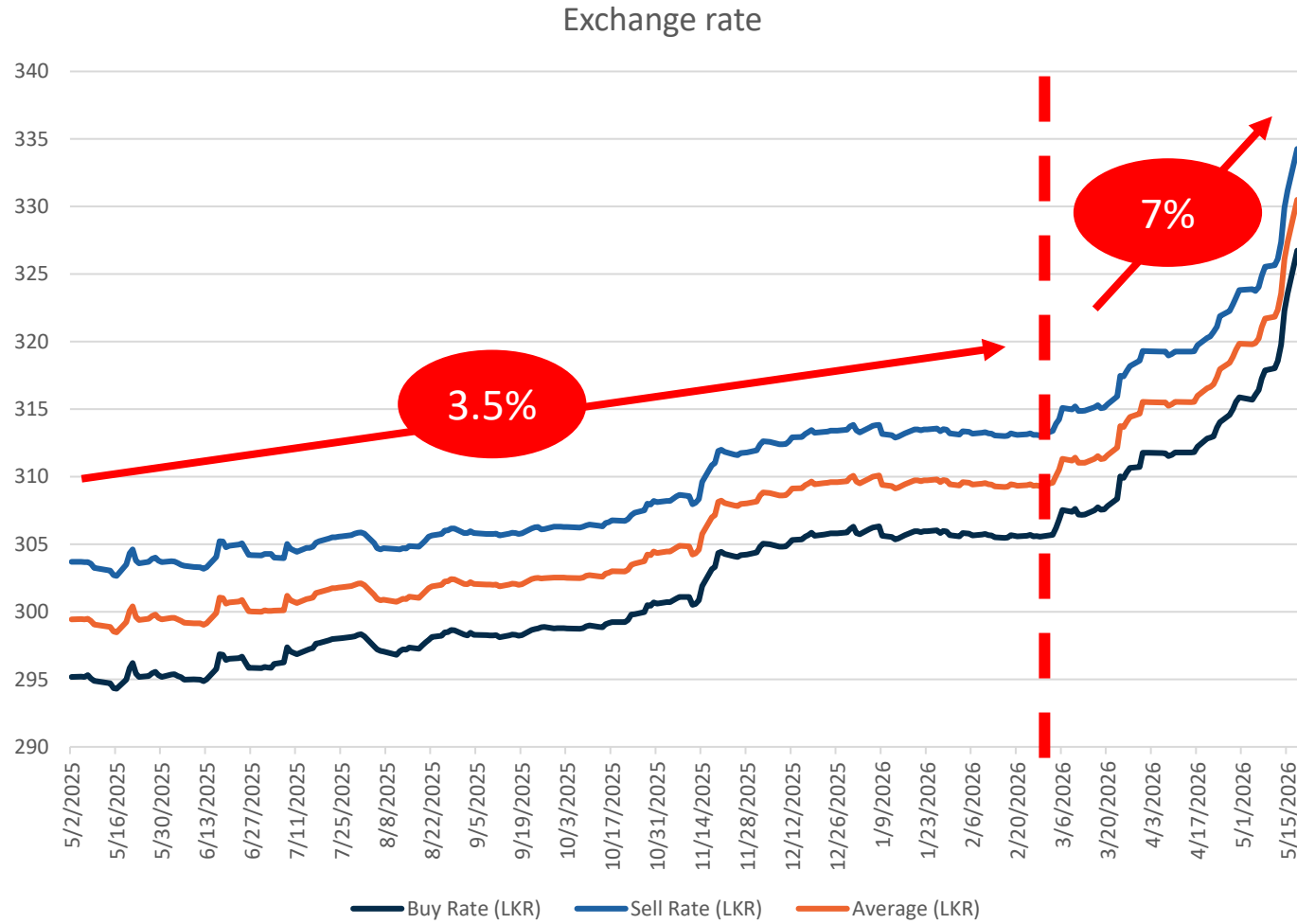
Disbursements so far = USD 2.4 Bn (80%)

Funds under Rapid Finance for Ditwah = USD 206 Mn

5th and 6th tranches expected together = USD 700 Mn

Reforms ongoing and some have been successfully implemented

Exchange rate movement and forecast



Month	Buy rate	Sell rate
Jan-26	305.6681	313.2039
Feb-26	305.5642	313.0569
Mar-26	311.7664	319.312
Apr-26	315.8712	323.8049
May-26	326.7405	334.2668
Jun-26	343.0775	350.9801
Jul-26	353.3699	361.5095
Aug-26	362.2041	370.5473
Sep-26	371.2592	379.811
Oct-26	378.6844	387.4072
Nov-26	386.2581	395.1553
Dec-26	390.1207	399.1069

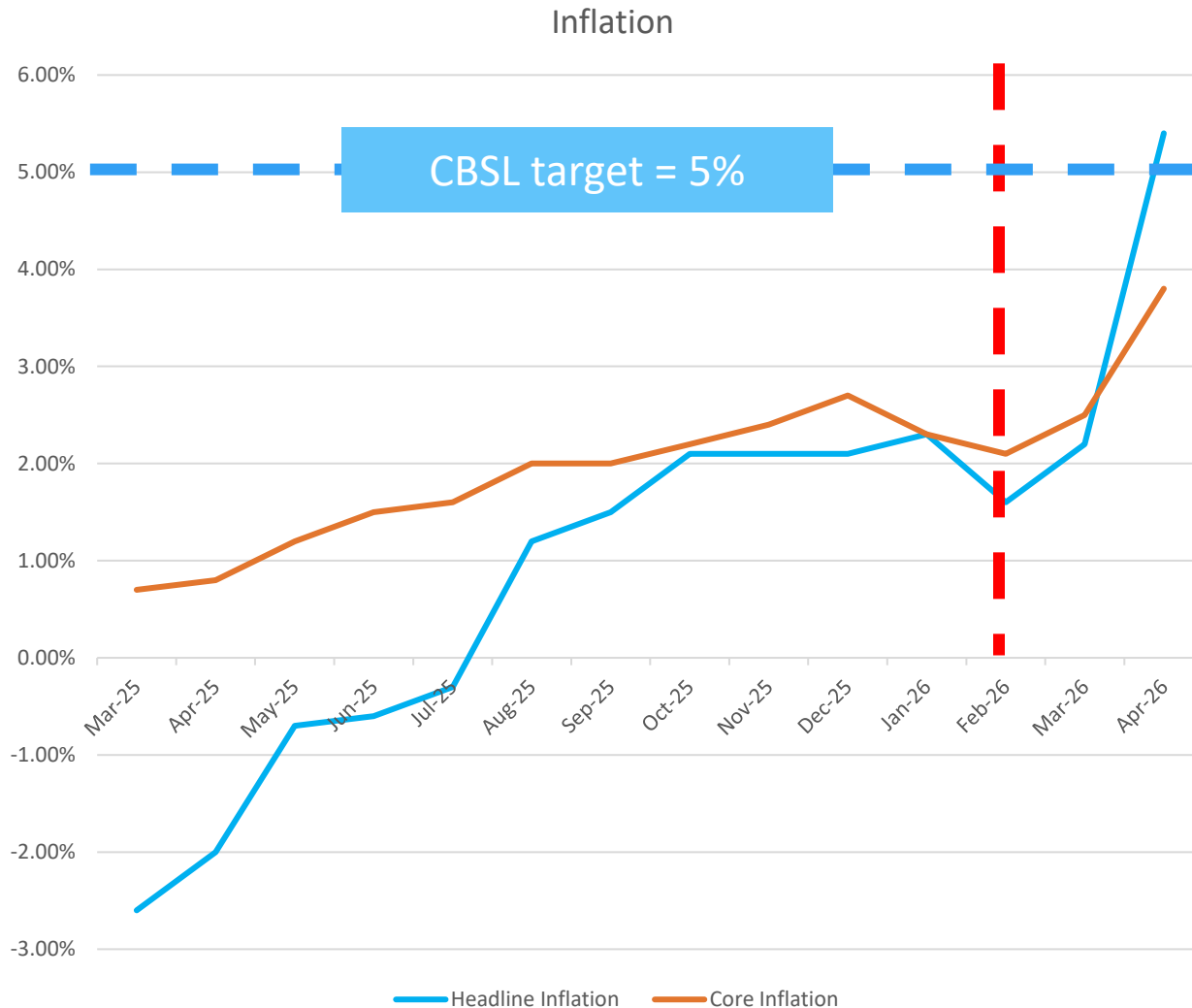


Outlook on other economic variables

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Inflation outlook

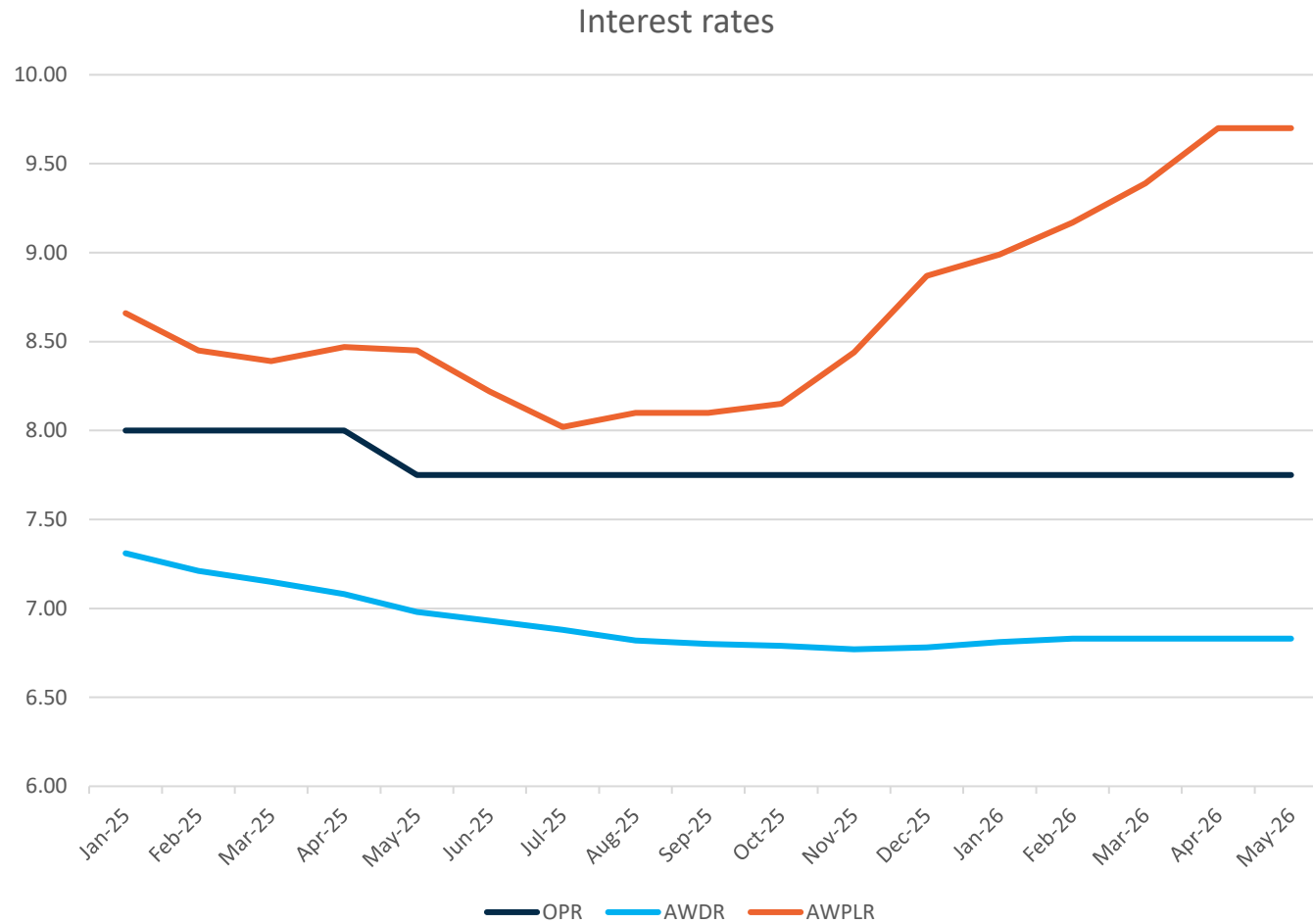


Energy (oil and electricity) are key drivers of rising inflation

Month	Inflation
Jan-26	2.30%
Feb-26	1.60%
Mar-26	2.20%
Apr-26	5.40%
May-26	6.00%
Jun-26	6.40%
Jul-26	6.90%
Aug-26	7.70%
Sep-26	8.10%
Oct-26	8.50%
Nov-26	9.00%
Dec-26	9.80%

Source: CBSL

Interest rate outlook



Interest rate spreads have been widening

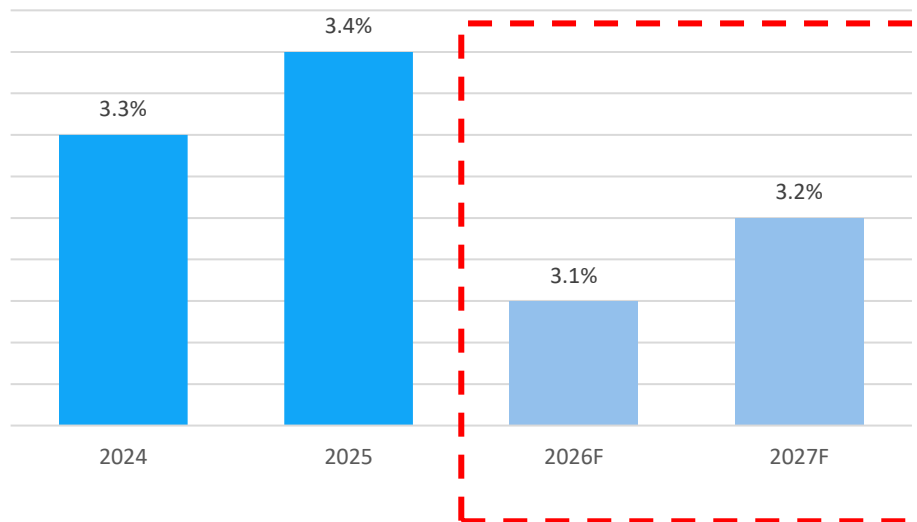
Policy rate is 7.75%. It is possible CBSL may revise rates upwards

Last few T bill auctions have seen rates moving up

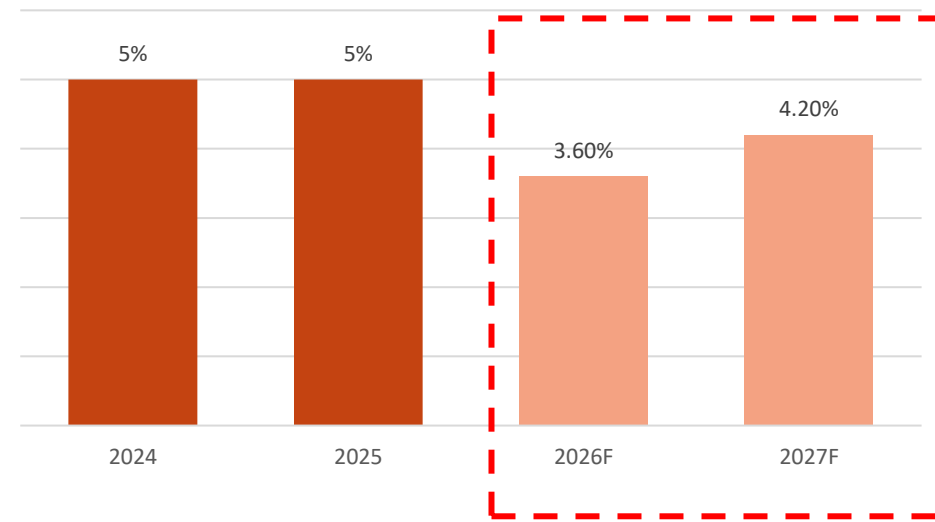
Rising inflation and depreciating currency are key concerns supporting a rate hike

GDP growth and forecast

Global GDP growth



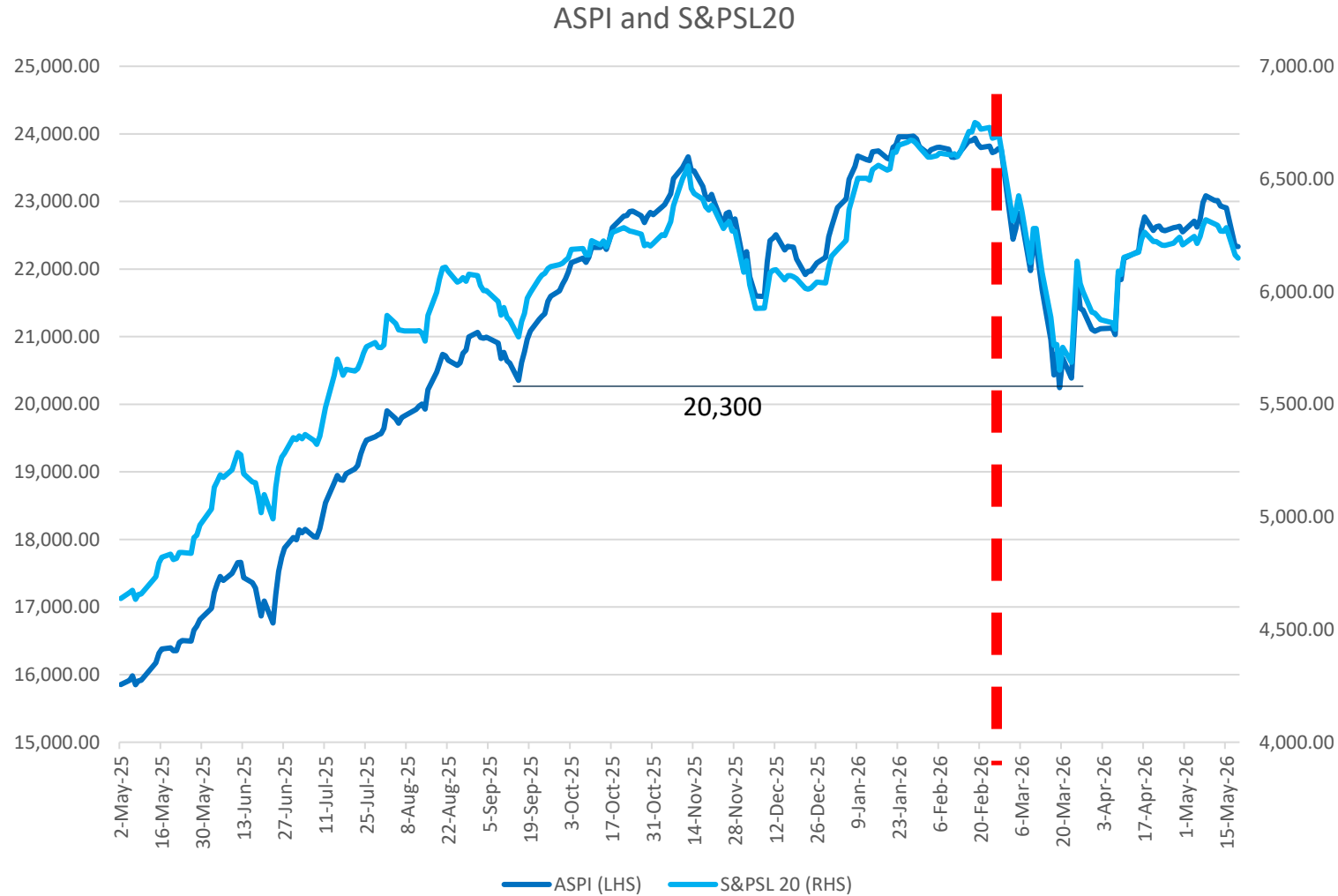
Sri Lanka GDP growth



Both global and local GDP forecasts are lower compared to 2025

Energy prices and supply chain shocks remain key challenges

ASPI movement



Foreign selling continues

March quarter earnings growth so far = 21%

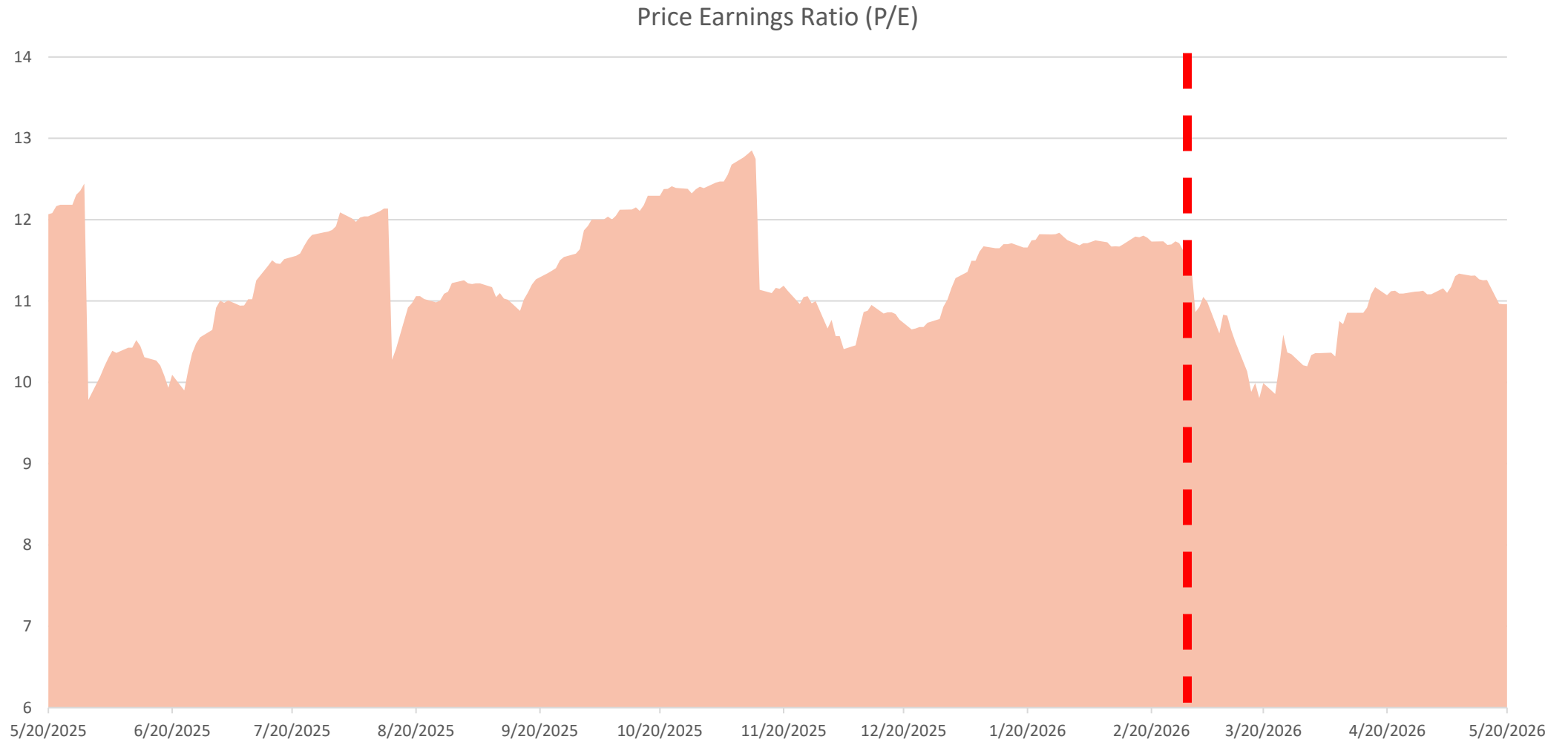
Earnings for June will see the impact of energy prices

S1: 21,671
S2: 21,492
S3: 21,176

ASPI movement and expectations



Market PE movement



Avoid companies with high debt

LKR Mn

Ticker	Name	LT Brrwng LF	ST Brrwng LF	Total debt	C&CE LF	Net debt
LOLC SL Equity	LOLC HOLDINGS LTD	680,719	37,138	717,857	124,920	592,936
LFIN SL Equity	LB FINANCE PLC	297,650	6,188	303,838	14,909	288,929
JKH SL Equity	JOHN KEELLS HOLDINGS PLC	91,321	174,387	265,708	18,985	246,723
HAYL SL Equity	HAYLEYS PLC	86,627	185,957	272,584	28,113	244,471
VONE SL Equity	VALLIBEL ONE PLC	76,060	86,261	162,321	19,149	143,172
DFCC SL Equity	DFCC BANK PLC	151,810	-	151,810	24,291	127,519
NDB SL Equity	NATIONAL DEVELOPMENT BANK PL	148,947	-	148,947	25,856	123,091
BRWN SL Equity	BROWN & CO PLC	62,711	69,221	131,933	18,674	113,258
LOFC SL Equity	LOLC FINANCE PLC	89,335	5,989	95,324	7,501	87,822
SINS SL Equity	SINGER SRI LANKA PLC	26,286	62,705	88,991	3,903	85,088
CDB SL Equity	CITIZENS DEVELOPMENT BUSINES	84,480	-	84,480	2,677	81,803
BIL SL Equity	BROWNS INVESTMENTS LTD	37,919	56,912	94,832	17,310	77,522
SHL SL Equity	SOFTLOGIC HOLDINGS PLC	52,249	30,241	82,490	5,574	76,916
CBNK SL Equity	CARGILLS BANK PLC	66,756	8,207	74,964	4,612	70,351
PLC SL Equity	PEOPLE'S LEASING & FINANCE P	4,955	73,050	78,005	9,158	68,847
DIAL SL Equity	DIALOG AXIATA PLC	24,910	62,816	87,726	19,050	68,675
SLTL SL Equity	SRI LANKA TELECOM PLC	58,807	16,852	75,659	9,935	65,724
SPEN SL Equity	AITKEN SPENCE PLC	45,016	32,768	77,784	16,508	61,276
MELS SL Equity	MELSTACORP PLC	49,788	36,841	86,629	25,831	60,798
VFIN SL Equity	VALLIBEL FINANCE PLC	62,828	753	63,581	3,888	59,693
JXG SL Equity	JANASHAKTHI LTD	46,745	2,268	49,013	1,243	47,770
DIMO SL Equity	DIESEL & MOTOR ENGINEERING	5,350	42,746	48,096	2,985	45,111
CTHR SL Equity	CT HOLDINGS PLC	23,455	25,286	48,741	7,452	41,289
SFIN SL Equity	SINGER FINANCE LANKA PLC	41,840	975	42,816	1,691	41,125
AEL SL Equity	ACCESS ENGINEERING PLC	30,112	13,153	43,265	3,719	39,546
AHUN SL Equity	AITKEN SPENCE HOTEL HOLDINGS	30,627	13,500	44,126	4,669	39,457
CARG SL Equity	CARGILLS (CEYLON) PLC	21,741	24,675	46,416	7,253	39,164
SEYB SL Equity	SEYLAN BANK PLC	44,090	21,776	65,867	28,311	37,555
NTB SL Equity	NATIONS TRUST BANK PLC	14,973	43,326	58,299	21,910	36,389
JKHL SL Equity	JOHN KEELLS HOTELS PLC	19,208	17,723	36,931	721	36,210

Companies with high selling expenses may see higher fuel cost impact

Ticker	Name	Selling Expn T12M	Revenue T12M	Selling / revenue
SWAD SL Equity	SWADESHI INDUSTRIAL WRKS PLC	2,132	4,518	47%
MULL SL Equity	MULLER & PHIPPS CEYLON PLC	179	585	31%
EXT SL Equity	EXTERMINATORS LTD	45	154	29%
DPL SL Equity	DANKOTUWA PORCELAIN PLC	909	4,016	23%
HUNT SL Equity	HUNTER & CO PLC	1,346	6,120	22%
CTEA SL Equity	DILMAH CEYLON TEA CO PLC	4,340	22,140	20%
TKYO SL Equity	TOKYO CEMENT CO LANKA PLC	10,093	56,348	18%
TKYOX SL Equity	TOKYO CEMENT LANKA-NON VOTIN	10,093	56,348	18%
HBSN SL Equity	HSENIID BUSINESS SOLUTIONS PL	349	2,036	17%
TILE SL Equity	LANKA TILES PLC	1,892	12,124	16%
RCL SL Equity	ROYAL CERAMICS LANKA PLC	9,494	64,662	15%
KPHLN SL Equity	KAPRUKA HOLDINGS PLC	260	1,791	14%
EBCR SL Equity	E.B. CREASY & CO PLC	5,175	35,726	14%
KFP SL Equity	KEELLS FOOD PRODUCTS PLC	1,077	7,852	14%
JAT SL Equity	JAT HOLDINGS PLC	1,634	12,162	13%
CONV SL Equity	CONVENIENCE FOODS LANKA PLC	842	6,298	13%
BOGA SL Equity	BOGALA GRAPHITE LANKA PLC	221	1,698	13%
REXP SL Equity	RICHARD PIERIS EXPORTS PLC	666	5,804	11%
SLTL SL Equity	SRI LANKA TELECOM PLC	12,862	117,122	11%
DIAL SL Equity	DIALOG AXIATA PLC	20,116	183,639	11%
LWL SL Equity	LANKA WALLTILE PLC	4,531	43,055	11%
LAMB SL Equity	KOTMALE HOLDINGS PLC	1,172	11,326	10%
KDL SL Equity	KELSEY DEVELOPMENT PLC	16	165	10%
MDL SL Equity	MYLAND DEVELOPMENTS PLC	7	70	9%

Investment strategy

Equities: 25–35%

Bonds / Fixed Income: 20–25%

Alternatives (Gold / Commodities): 10–15%

Cash / Cash Equivalents: 30–40%

A. Increase Allocation (Overweight)

- Cash
- Export-Oriented / USD Earners (HAYL, HAYC, TJL, MGT, HBS, JAT)
- Diversified Conglomerates with FX Exposure
- Banking (benefit from rate hike)
- Gold / Commodity Proxy Exposure
- Fixed income

B. Neutral / Selective

- Consumer Staples (HHL)
- Tourism & Leisure (benefit from LKR depreciation)

C. Reduce / Underweight

- Import heavy counters (SINS)
- High debt companies

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