



MONTHLY ECONOMIC WRAP | MAY 2026

AMBEON
SECURITIES

11.06.2026



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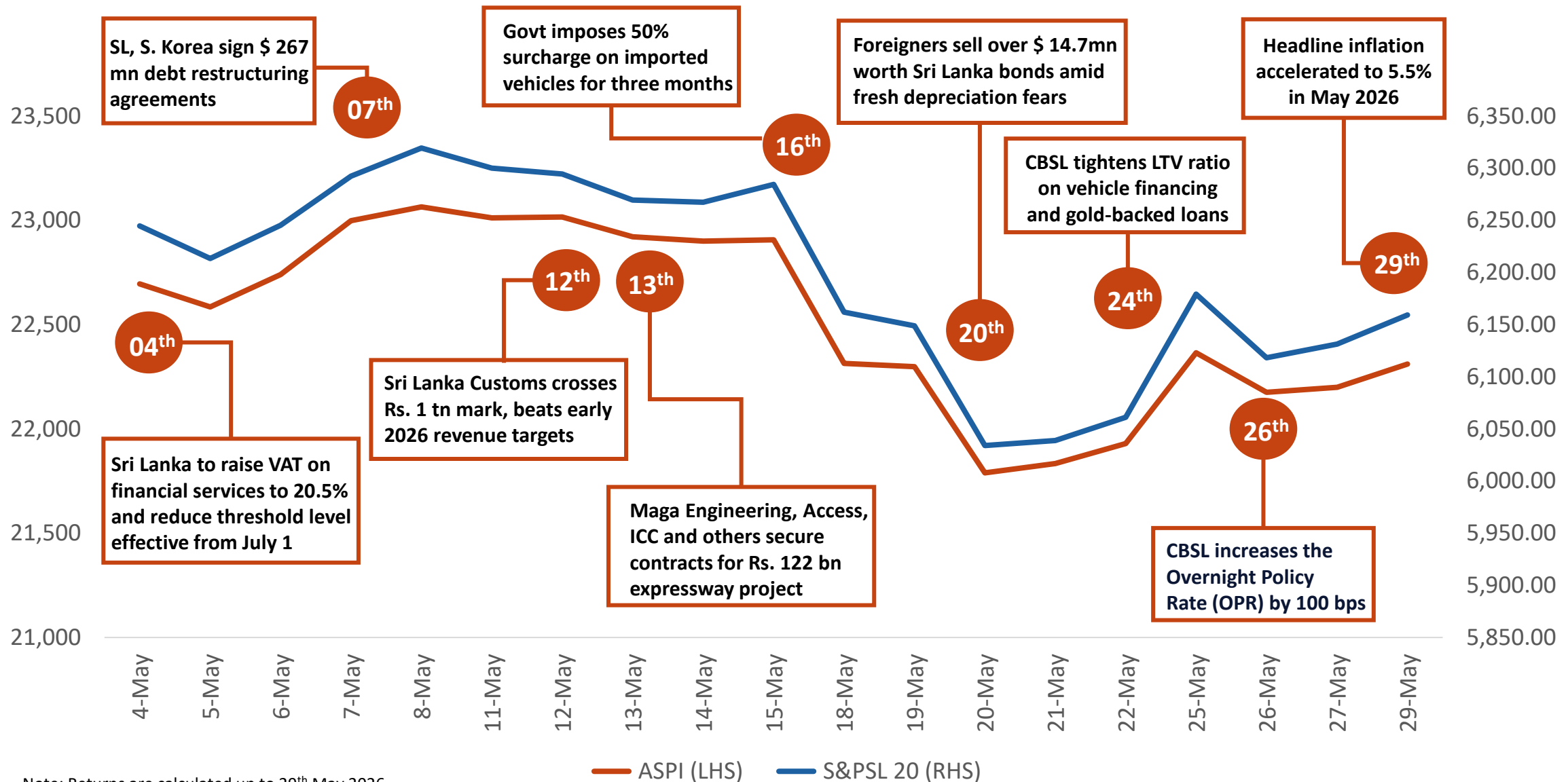


CSE PERFORMANCE

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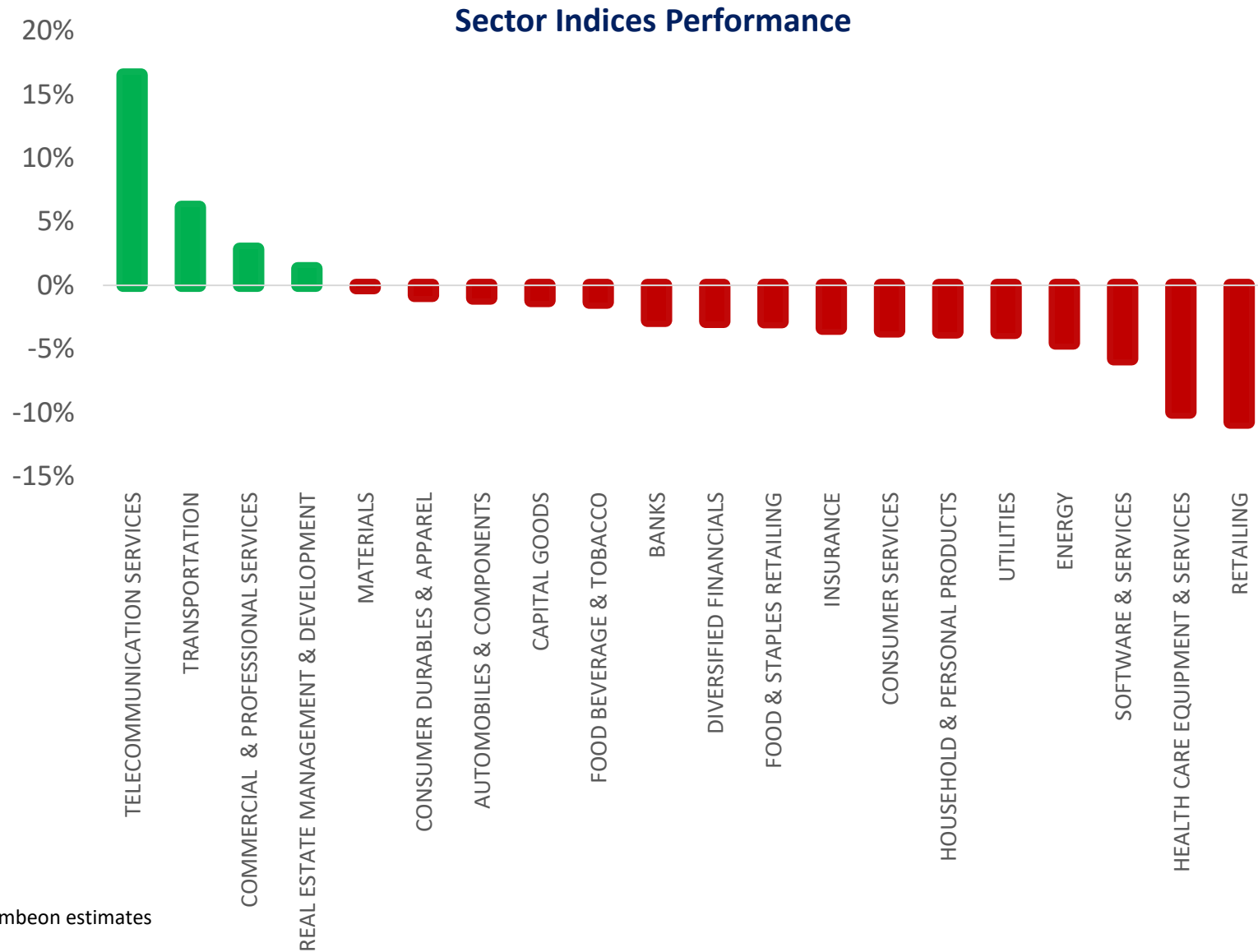


ASPI decreased by 1.69% and S&PSL20 decreased by 1.37% in May 2026



Note: Returns are calculated up to 29th May 2026
 Source: CSE, Ambeon estimates

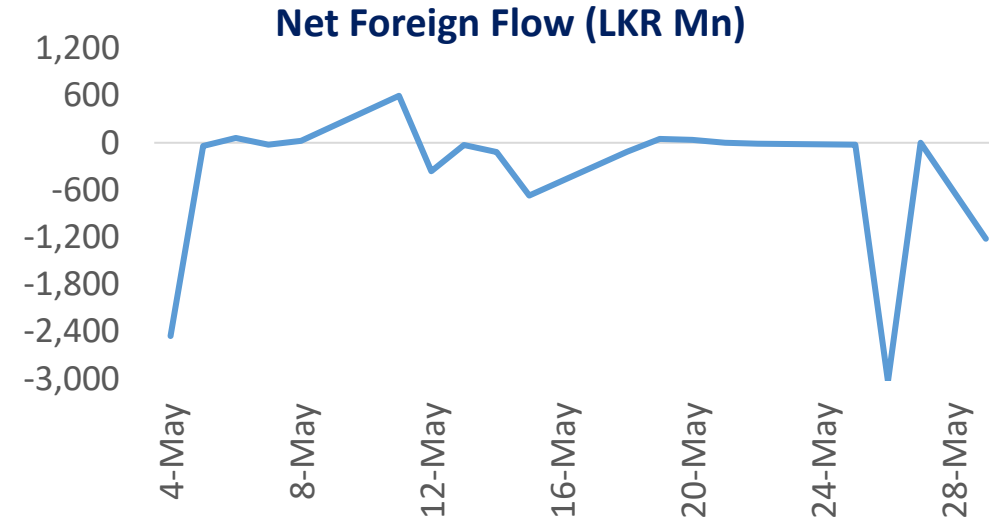
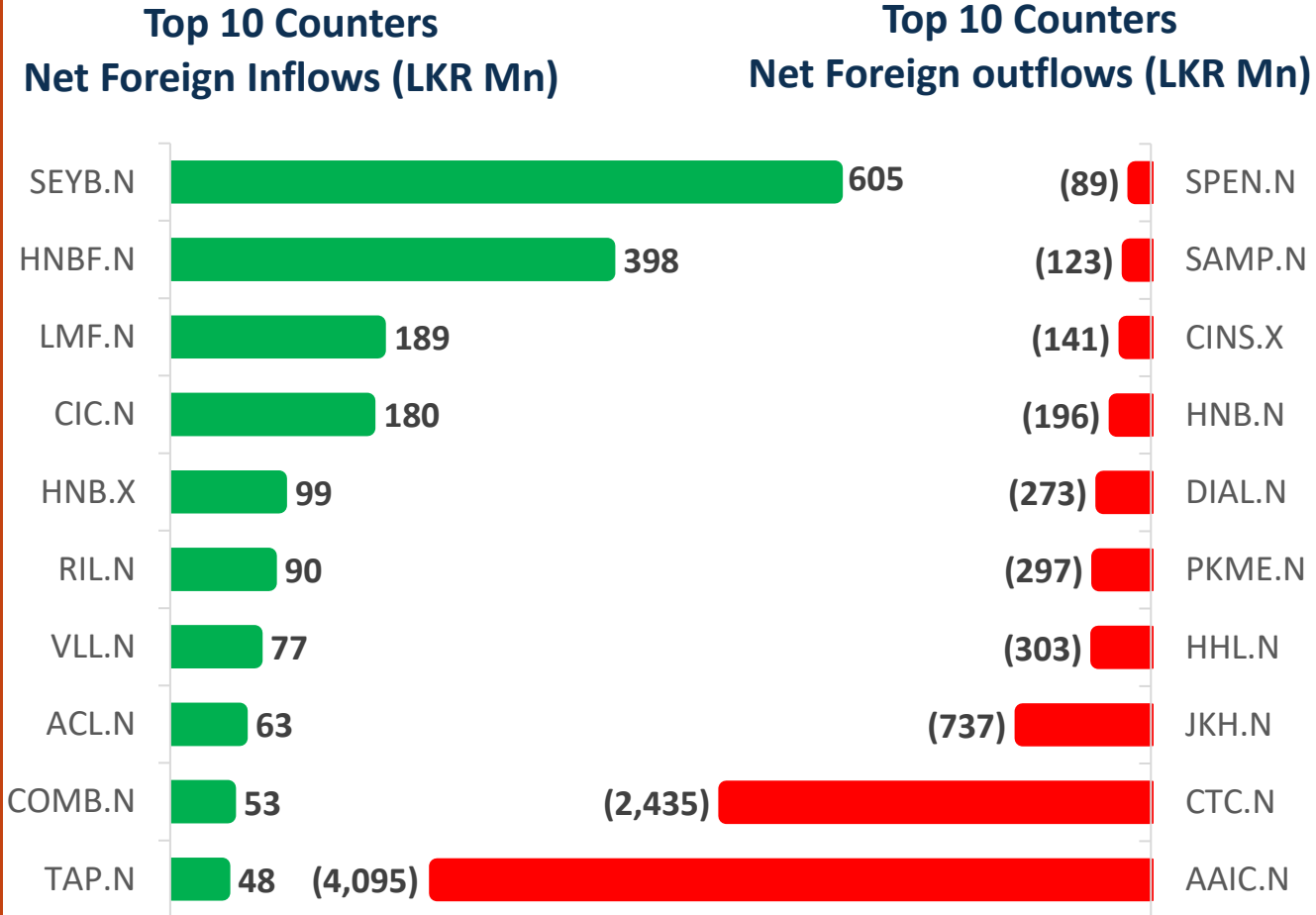
In May 2026, 4 sectors recorded increases while 16 sectors recorded declines



The **Telecommunication Services** sector had **the highest increase of 16.53%** this month, while **Retailing Sector** had the **largest decrease of 10.75%**.

Source: CSE, Ambeon estimates

Total net foreign outflow for May 2026 was LKR -7,324.44 Mn

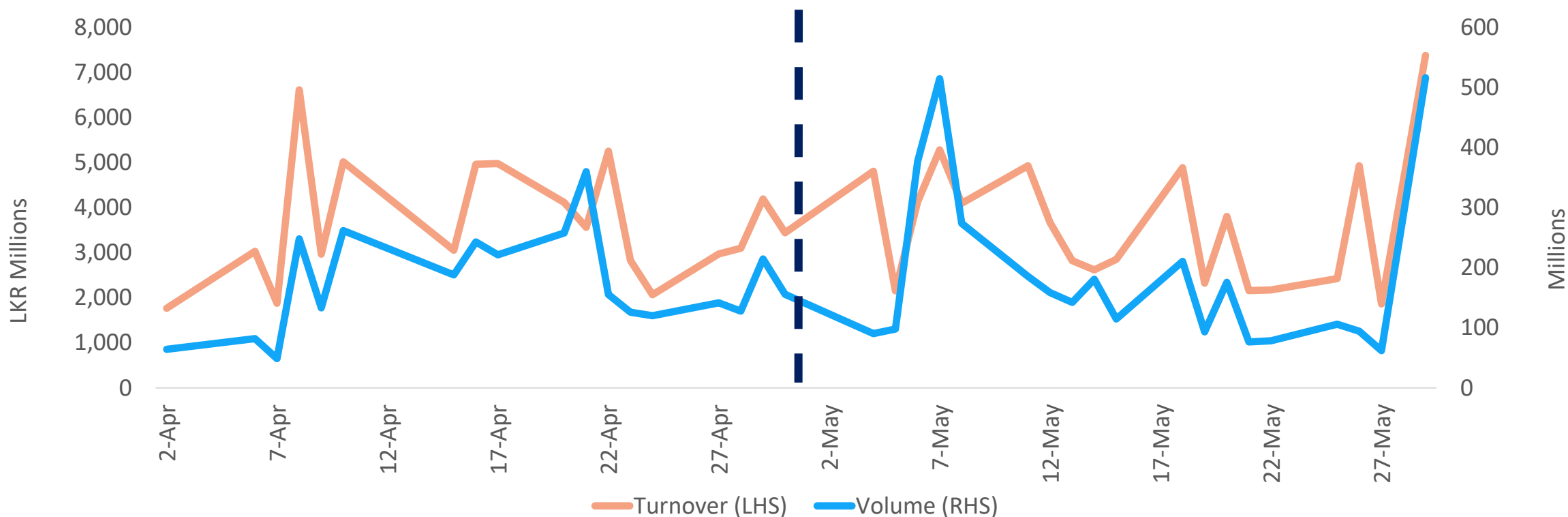


Except for 7 market days, the remaining days in the month recorded net foreign outflows.

May 26 Total Net Foreign Flow LKR -7,324.44 Mn | Year-to-date Net Foreign Flow* LKR -32,455.38 Mn

Source: CSE, Ambeon estimates
 *Year-to-date calculated as of 29th May 2026

During May 2026, daily average turnover decreased while volume increased MoM



Daily average	MoM %	Apr 2026	May 2026	YTD Average
Turnover (LKR Mn)	-0.22%	3,655	3,647	4,952
Volume (Mn)	6.73%	175	187	204

Source: CSE, Ambeon estimates

Note: Daily average turnover and volume for the month

Regional valuation comparison

Frontier Markets (Asia)

Index	PE	PBV
ASPI (Sri Lanka)	12.9	1.5
KSE 100 (Pakistan)	8.0	1.5
VNI (Vietnam)	15.1	2.1

US & European Markets

Index	PE	PBV
S&P 500 (US)	27.9	5.8
DJIA (US)	24.5	5.9
FTSE 100 (UK)	16.7	2.3

Other Markets (Asia)

Index	PE	PBV
Nikkei 225 (Japan)	24.7	3.1
CSI 300 (China)	18.8	1.9
HSI (Hong Kong)	13.2	1.3
BSE 500 (India)	23.3	3.1
NIFTY 50 (India)	21.5	2.9
JCI (Indonesia)	14.7	1.6

Note: Figures are as of 02nd June 2026

Source: Bloomberg

Key economic news & events

04th May

Govt. widens VAT net: threshold reduced, digital services taxed, financial sector levy increased

The government introduced a new VAT amendment that expanded the tax base and improved revenue collection. The VAT registration threshold was reduced from Rs. 60 million to Rs. 36 million per year, which meant more small and medium businesses were required to register for VAT. VAT was also applied to digital services provided by foreign companies, including software subscriptions and online platforms. In addition, the tax rate on financial services was increased to 20.5%, while adjustments were made alongside the removal of the Social Security Contribution Levy to balance the overall tax impact.

16th May

Govt imposed 50% surcharge on imported vehicles for three months

Sri Lanka has imposed a temporary 50% surcharge on customs import duty for vehicles for a period of three months starting from 16 May 2026. The main aim is to reduce vehicle imports and ease pressure on the country's foreign exchange reserves, as the rupee has been weakening and imports have been rising. The surcharge is applied on top of existing import duties (not a separate standalone tax), meaning the actual price increase is smaller than 50%. However, it still makes imported vehicles more expensive and is expected to discourage or delay purchases. The measure does not apply to vehicles with letters of credit opened before 15 May.

24th May

CBSL tightens LTV ratio on vehicle financing and gold-backed loans

The Central Bank of Sri Lanka (CBSL) introduced new Loan-to-Value (LTV) limits effective from 25 May 2026 to reduce risks in the financial sector. Under the new rules, banks and finance companies can lend up to 70% of the value of gold pledged as collateral. The maximum LTV ratios for vehicle loans have also been reduced by 10 percentage points, requiring higher down payments from borrowers. These measures were introduced due to the rapid growth in gold-backed loans and vehicle financing, as well as concerns over fluctuations in gold prices and vehicle values. CBSL expects these changes to encourage responsible borrowing and lending while helping maintain financial stability.

26th May

CBSL increases the Overnight Policy Rate (OPR) by 100 bps to 8.75%

The Central Bank of Sri Lanka (CBSL) increased the Overnight Policy Rate (OPR) by 100 basis points to 8.75% at its Monetary Policy Review on 26 May 2026, citing rising inflationary and external sector pressures. Headline inflation accelerated to 5.4% in April 2026, surpassing the Bank's 5% target, mainly due to higher fuel and energy prices resulting from elevated global oil prices amid the Middle East conflict. Through this rate hike, the CBSL aims to contain inflation, stabilize inflation expectations, support the exchange rate, and maintain overall macroeconomic and external sector stability.



MONETARY SECTOR

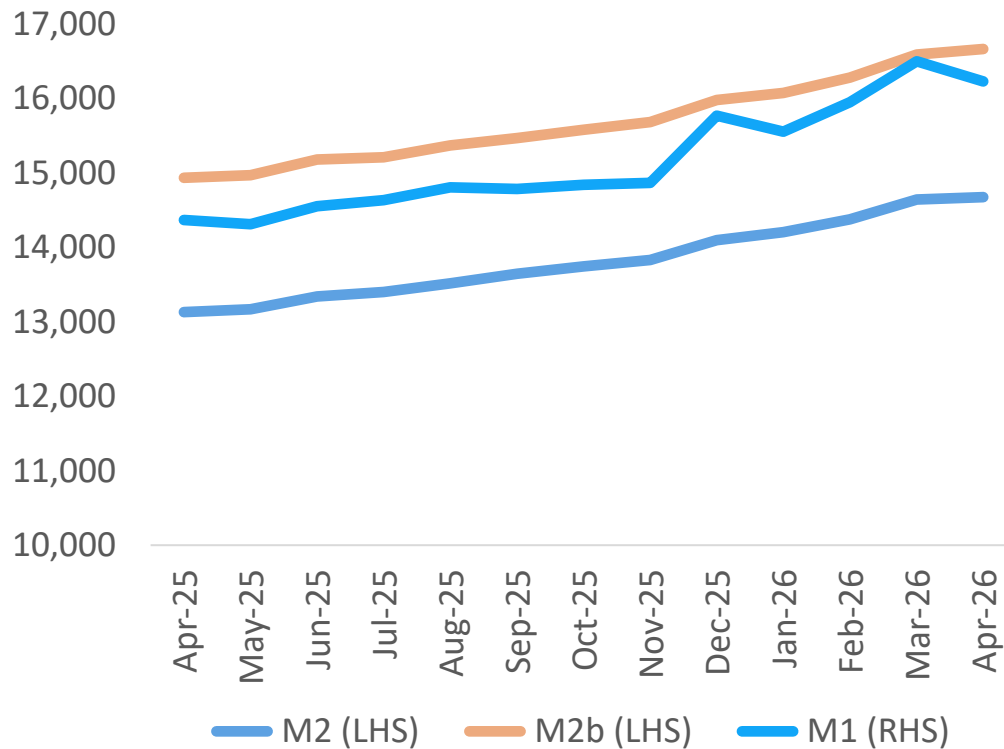
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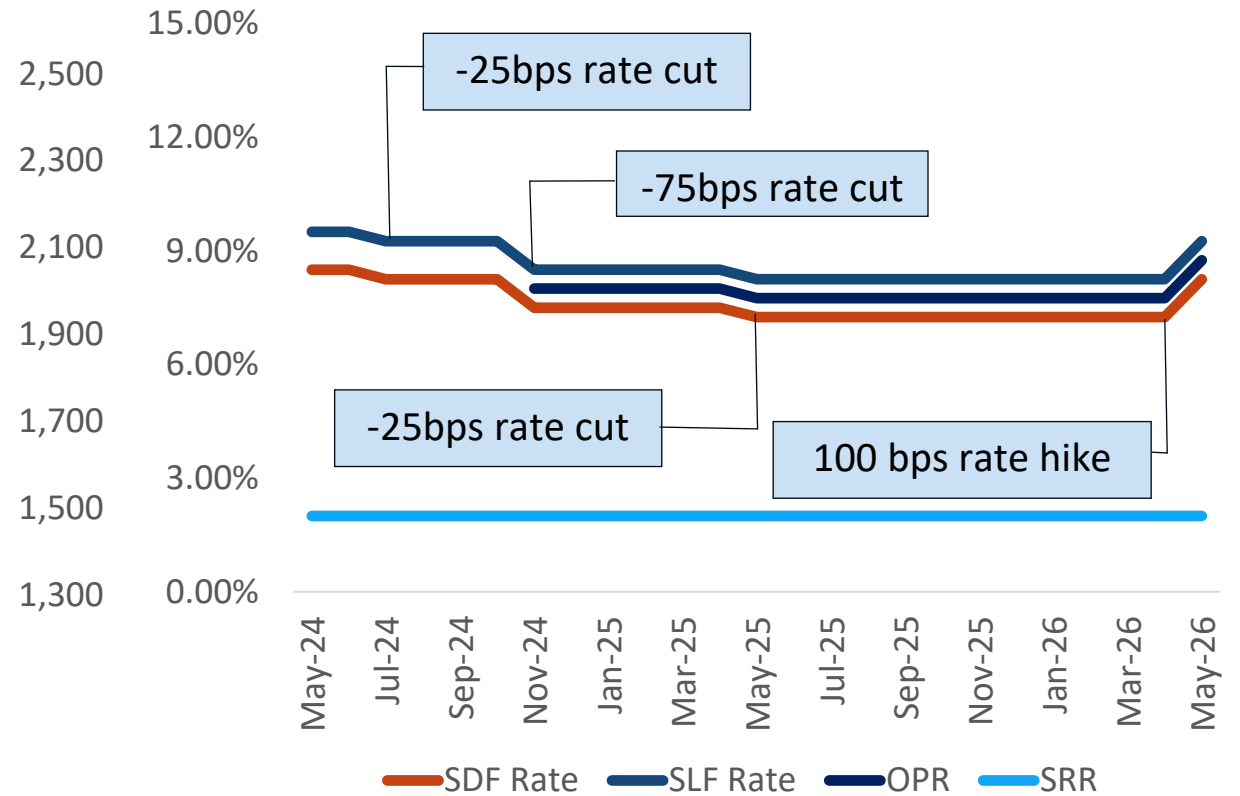
Overnight Policy Rate increased by 100 bps to 8.75% in May 2026

By the end of April 2026, Sri Lanka's narrow money supply (M1) rose to LKR 2,367.2 billion, while the consolidated broad money supply (M2b) expanded to LKR 16,660.4 billion, marking an increase from March 2026. Overnight Policy Rate (OPR) was increased by 100 basis points to 8.75% in May 2026 to contain rising inflationary pressures stemming from higher fuel and energy prices following the escalation of tensions in the Middle East. The rate hike was also aimed at mitigating the impact of the depreciation of the Sri Lankan rupee and maintaining inflation around the Central Bank's 5% target.

Money Supply (LKR Bn)



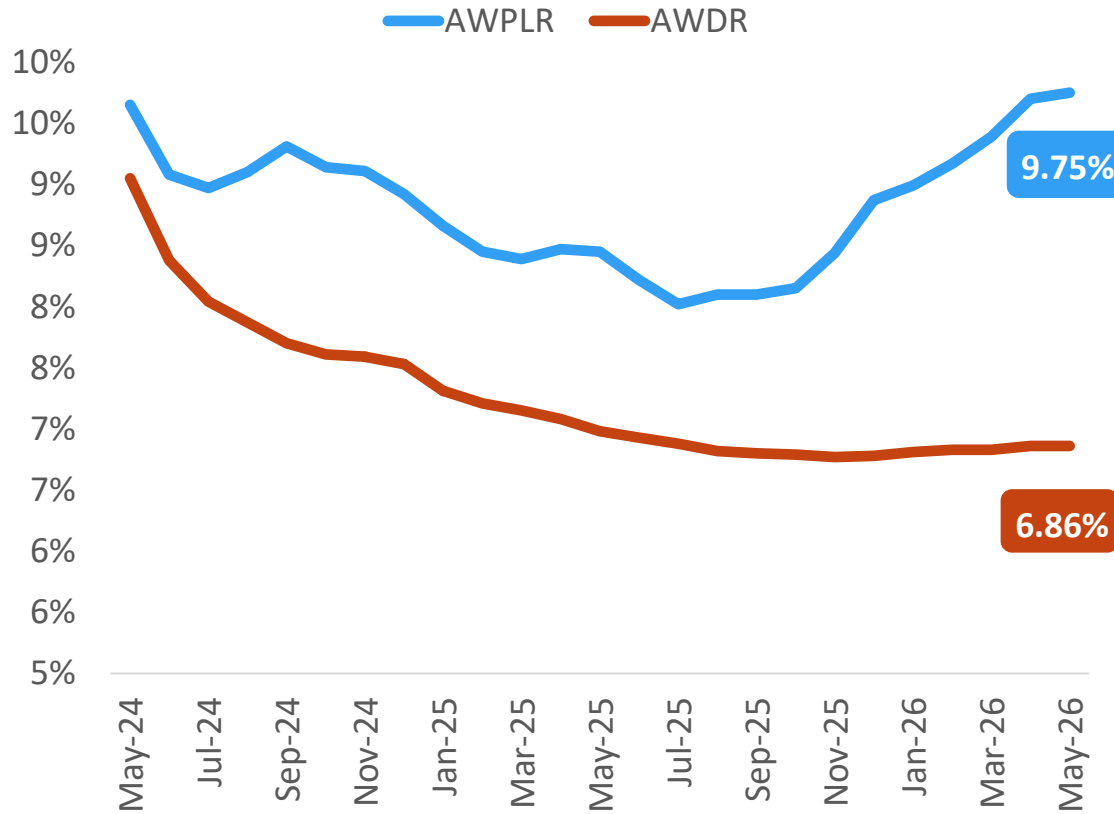
Policy Rates



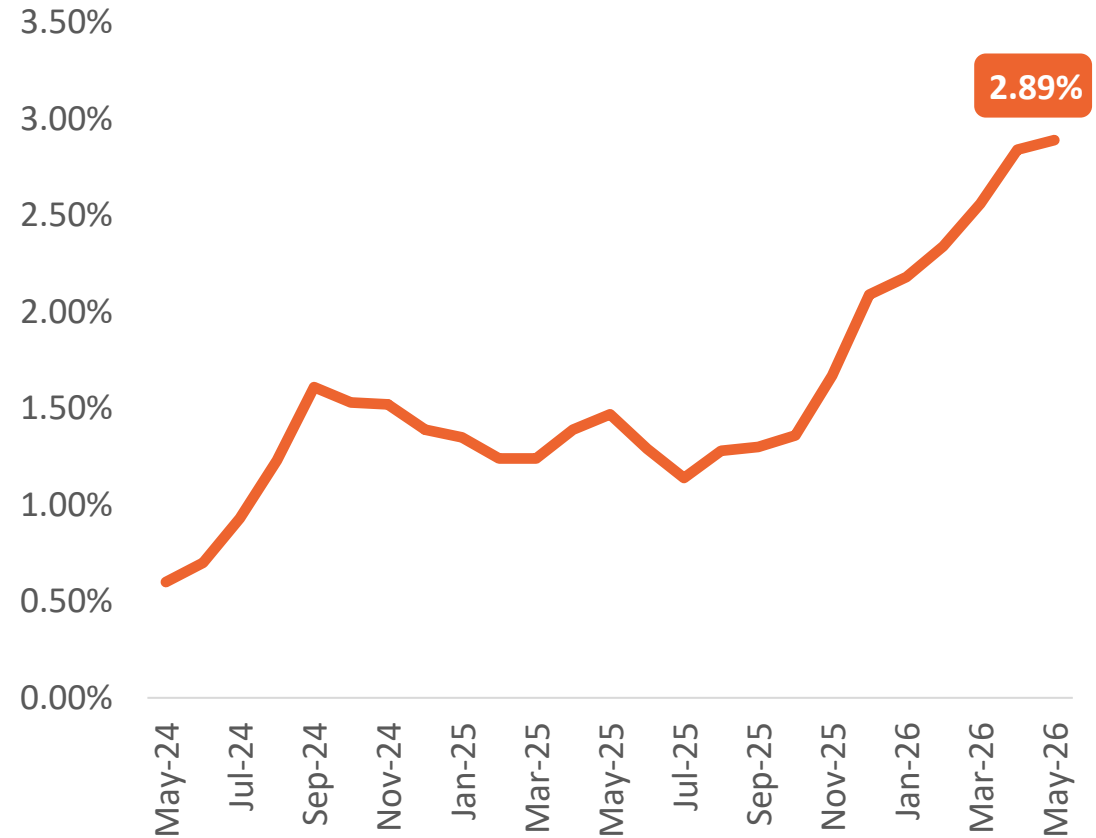
Source: CBSL

Lending rates and interest rate spread increased in May 2026

Lending and Deposit Rates



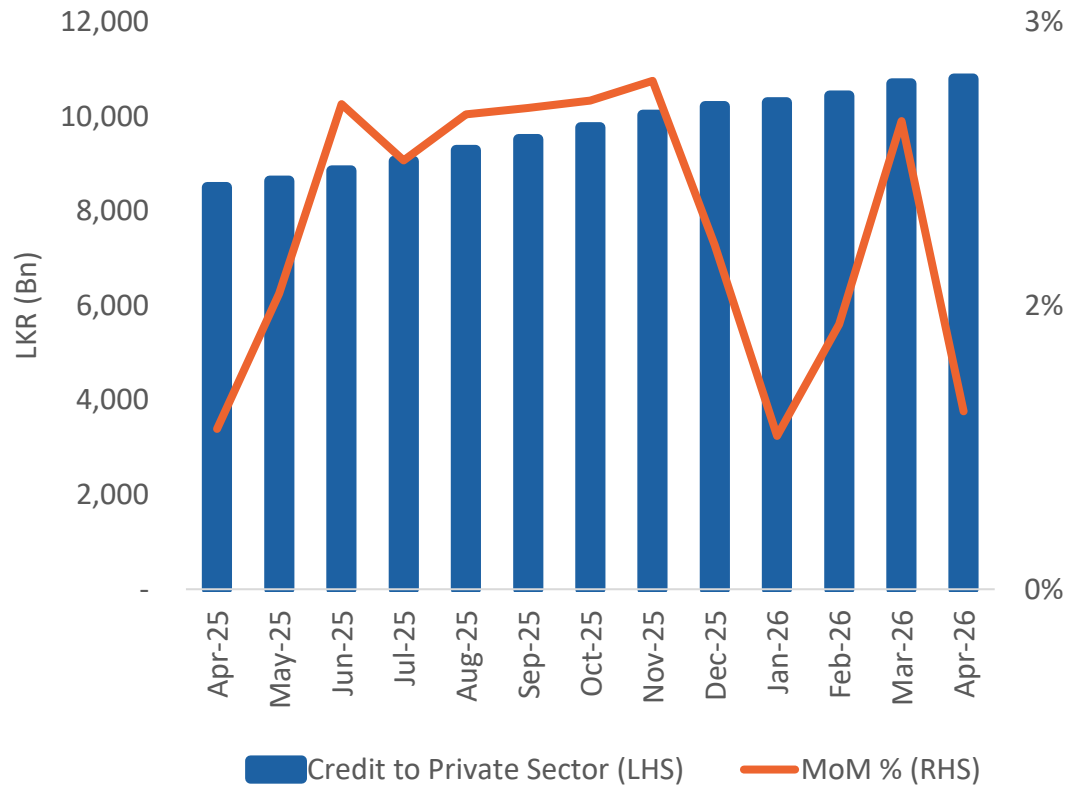
Interest Spread



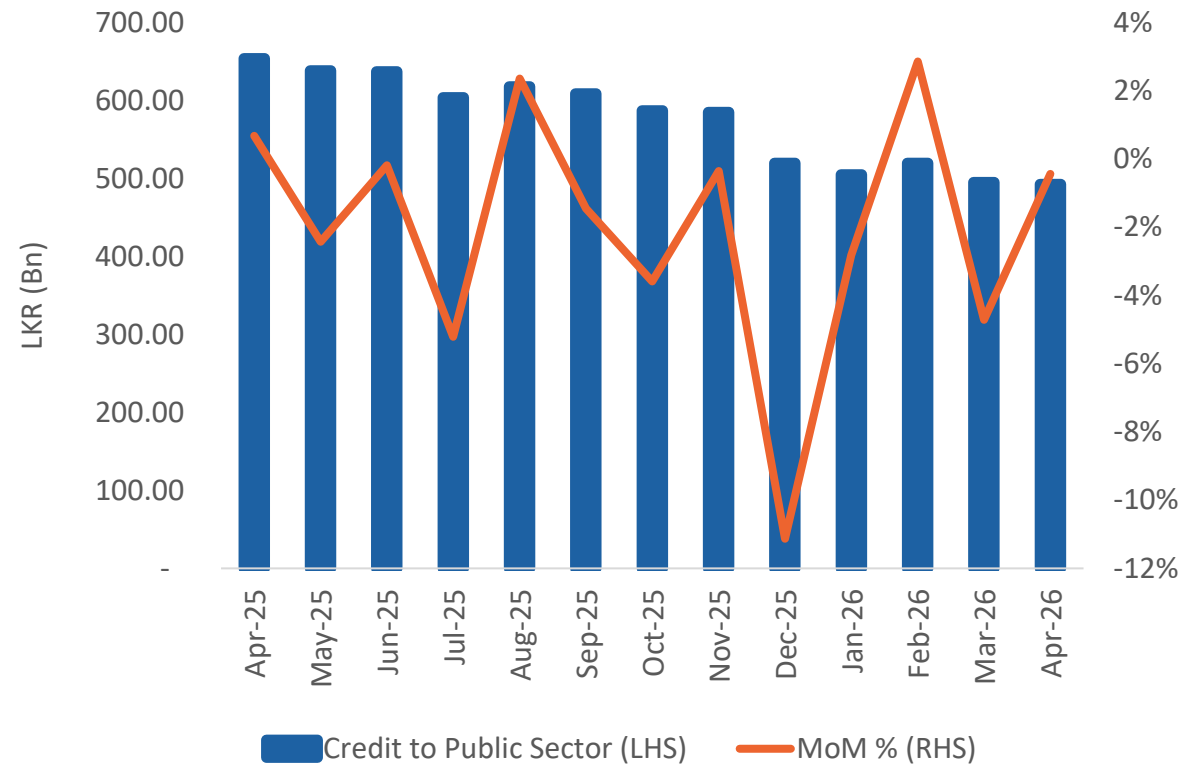
Source: CBSL

Private sector credit increased in Apr 2026

Credit to Private Sector

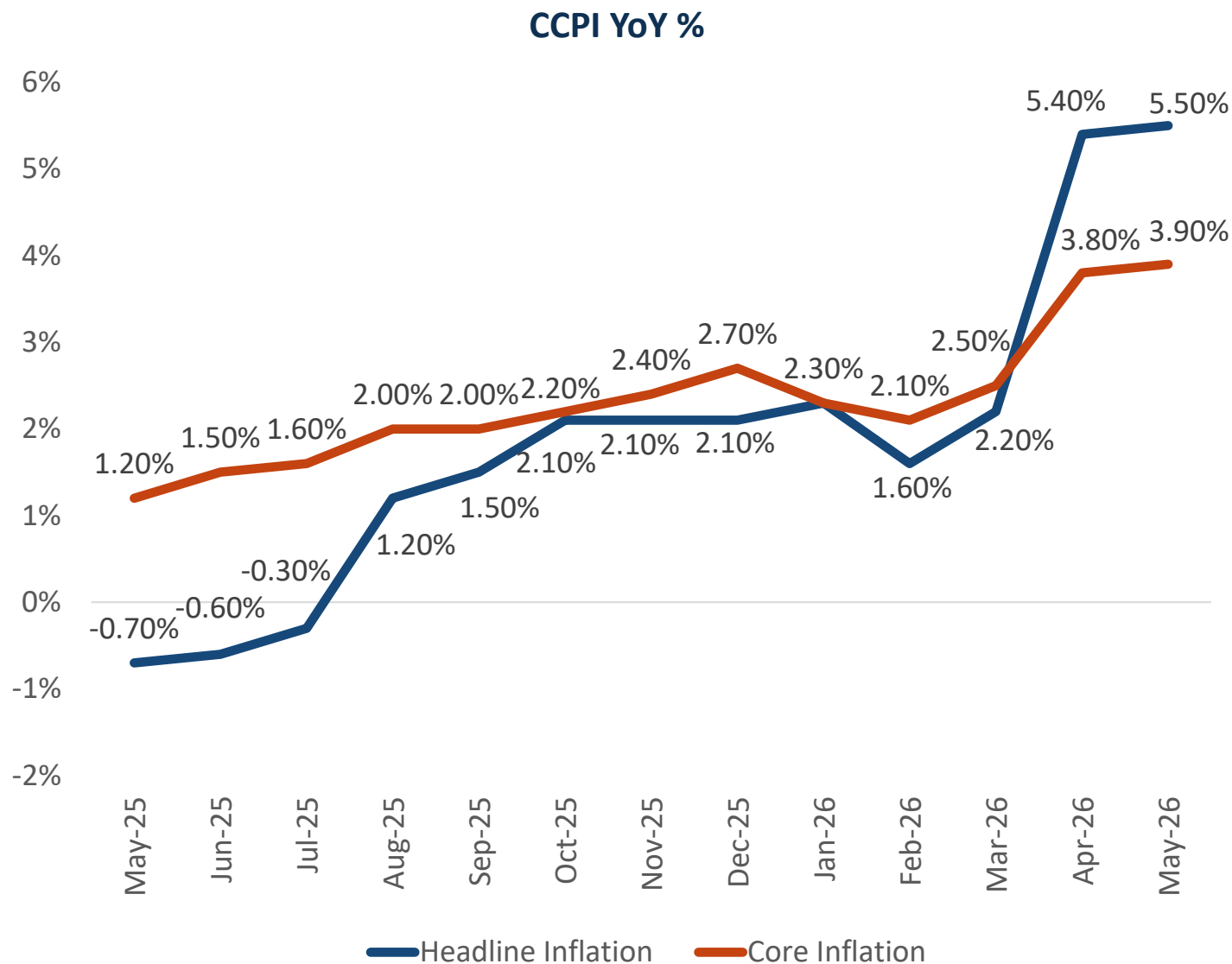


Credit to Public Sector



Source: CBSL

Headline inflation accelerated to 5.5% in May 2026



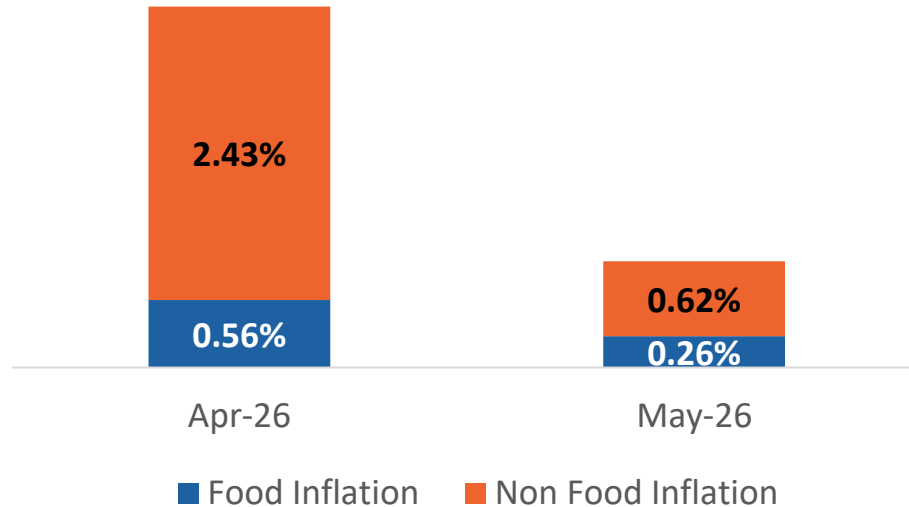
Headline inflation (YoY), measured by the Colombo Consumer Price Index (CCPI), accelerated to 5.5% in May 2026 from 5.4% in April 2026, mainly due to the ongoing Middle East war, which caused domestic energy prices to rise. The transport sector recorded the highest inflation at 13.9% YoY in May 2026, compared to 11.6% YoY in April 2026.

Meanwhile, core inflation (YoY) also marginally increased to 3.9% in May 2026 from 3.8% in April 2026.

Based on projections from the monetary policy round held in May 2026 and using the latest available information and assumptions, headline inflation is expected to stay above the Central Bank's 5% target in the near term. However, it is anticipated to gradually moderate and converge towards the target over the medium term, supported by the implementation of appropriate monetary and fiscal policy measures.

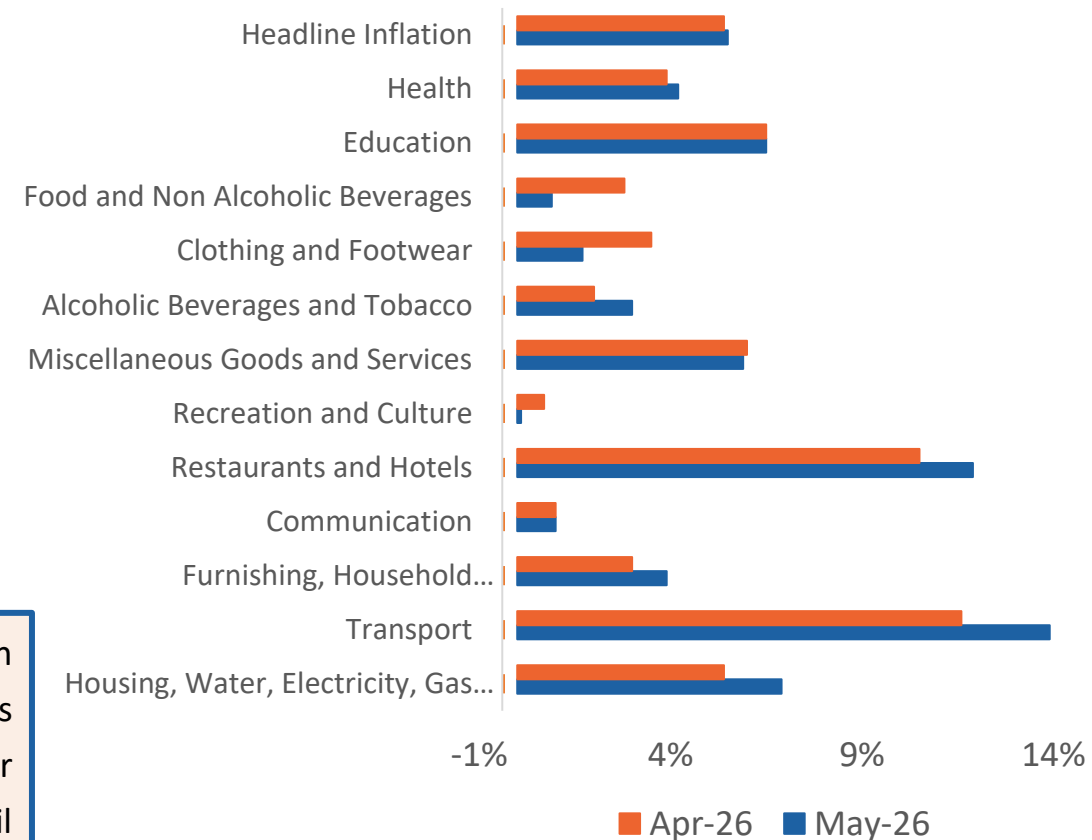
May 2026, CCPI increased by 0.9% MoM mainly due to non-food category

Contribution to monthly change in CCPI



On a month-on-month basis, the CCPI increased by 0.9% in May 2026, with non-food prices contributing 0.6 percentage points and food prices contributing 0.3 percentage points to the overall increase. On a year-on-year basis, headline inflation accelerated to 5.5% in May 2026 from 5.4% in April 2026. Food inflation (YoY) decelerated to 0.9% in May 2026 from 2.8% in the previous month, while non-food inflation (YoY) accelerated to 7.8% in May 2026 from 6.8% in April 2026.

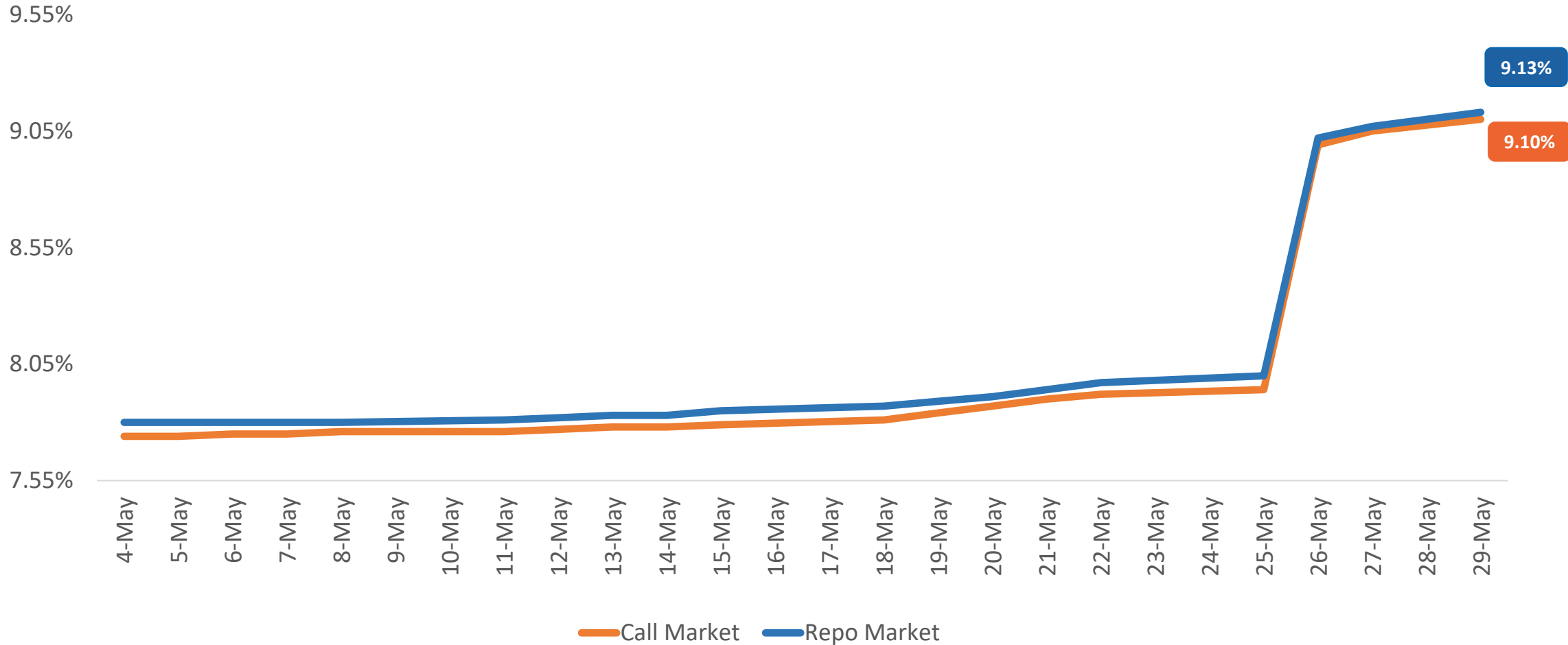
CCPI YoY Change by Subcategory



Prices accelerated in the Transport, Housing, Furnishings, Restaurants, Alcoholic beverages and Health subcategories, while price decelerated in the remaining subcategories.

Call and Repo Rates experienced a spike at the end of May 2026

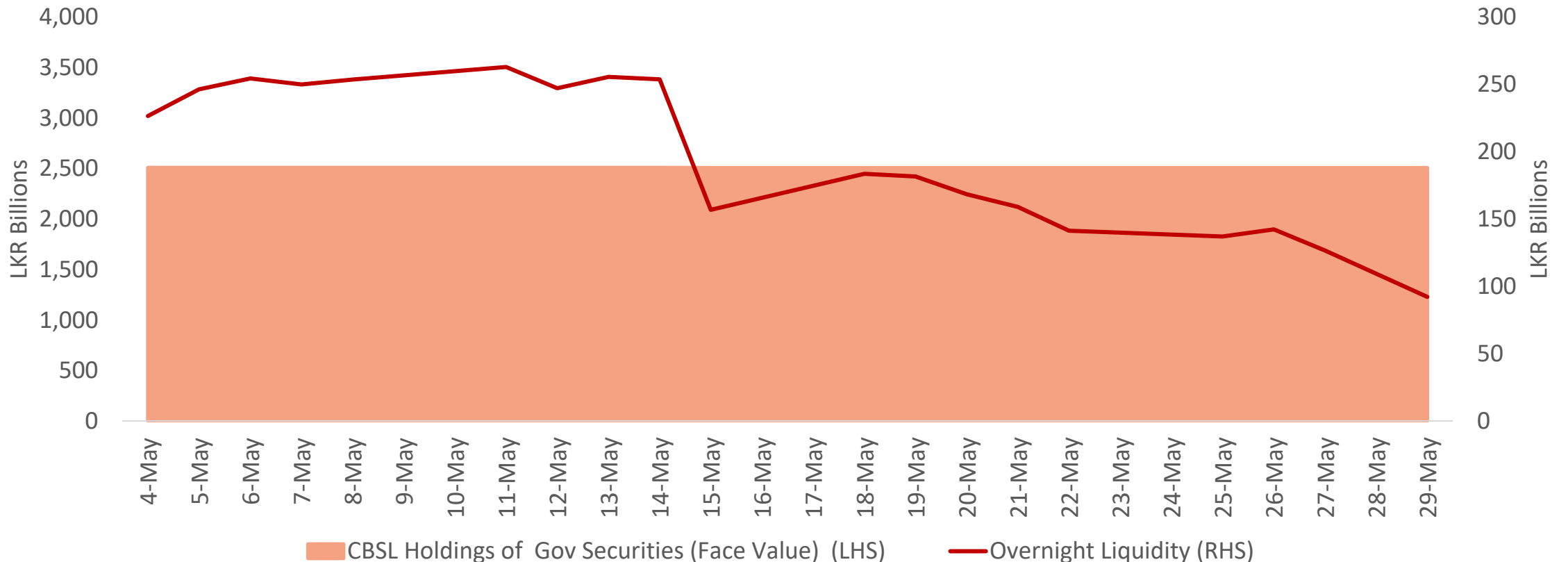
Weighted Averaged Yields of Money Market Rates



CBSL's G-Sec holdings were stable; overnight liquidity remained positive

During May 2026, the Central Bank of Sri Lanka's (CBSL) holdings of government securities remained broadly stable at LKR 2,507.92 billion, slightly declining from LKR 2,508.92 billion. Meanwhile, overnight liquidity in the banking system remained volatile throughout the month, with several sharp fluctuations observed. It declined during the middle of the month and further dropped toward the end of the month; however, it remained in positive territory.

Liquidity and CBSL Holdings



Source: CBSL

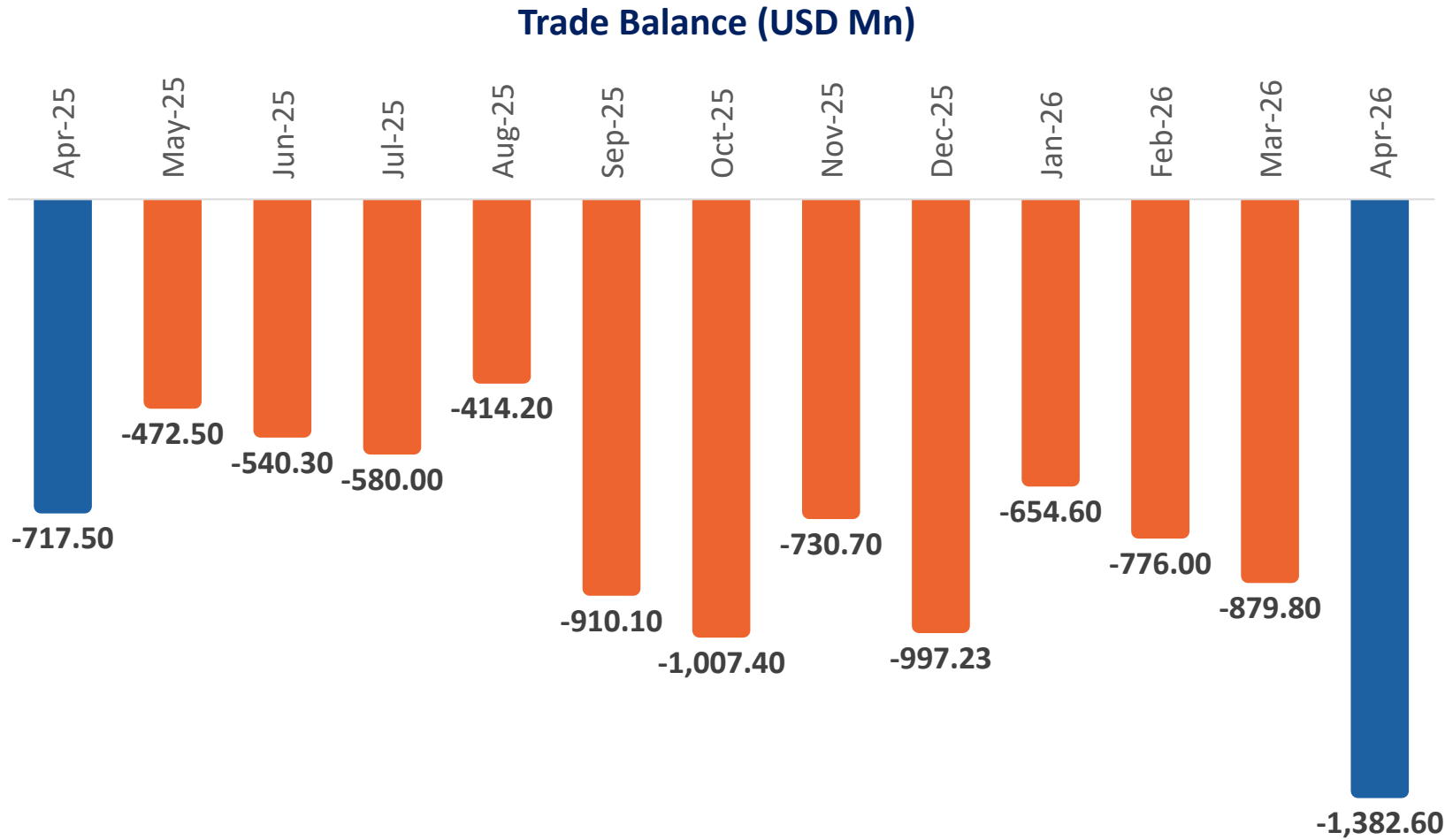


EXTERNAL SECTOR

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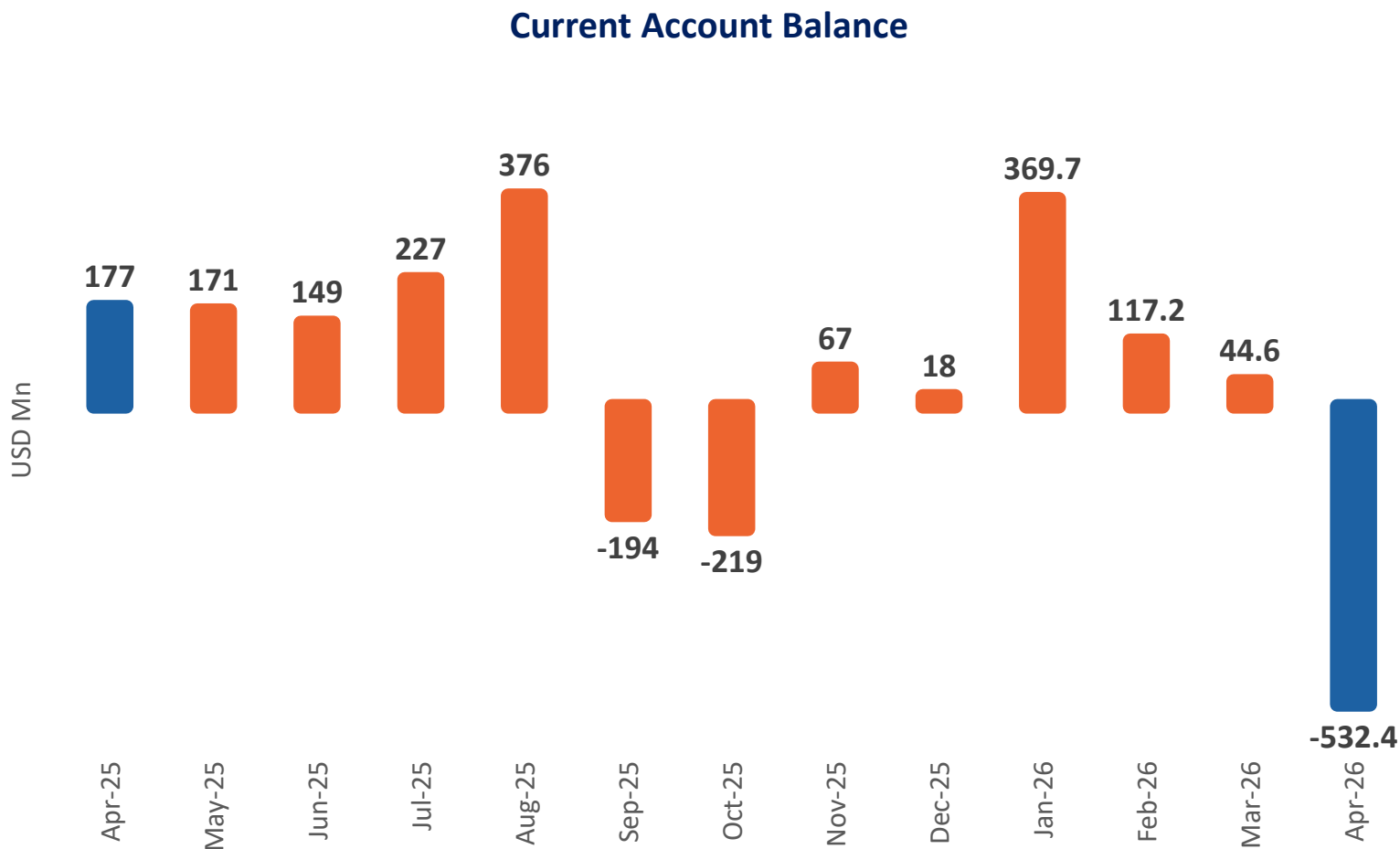
Trade Balance deteriorated by 92.7% YoY in Apr 2026



In April 2026, Sri Lanka’s trade deficit widened to USD 1,382.6 million, reflecting a 92.7% increase compared to April 2025 and a 57.1% increase from the previous month.

The YoY decrease in the trade balance was driven mainly by the increase in import expenditure by 45.7% YoY.

Current Account Balance decreased by 401.4% YoY in Apr 2026

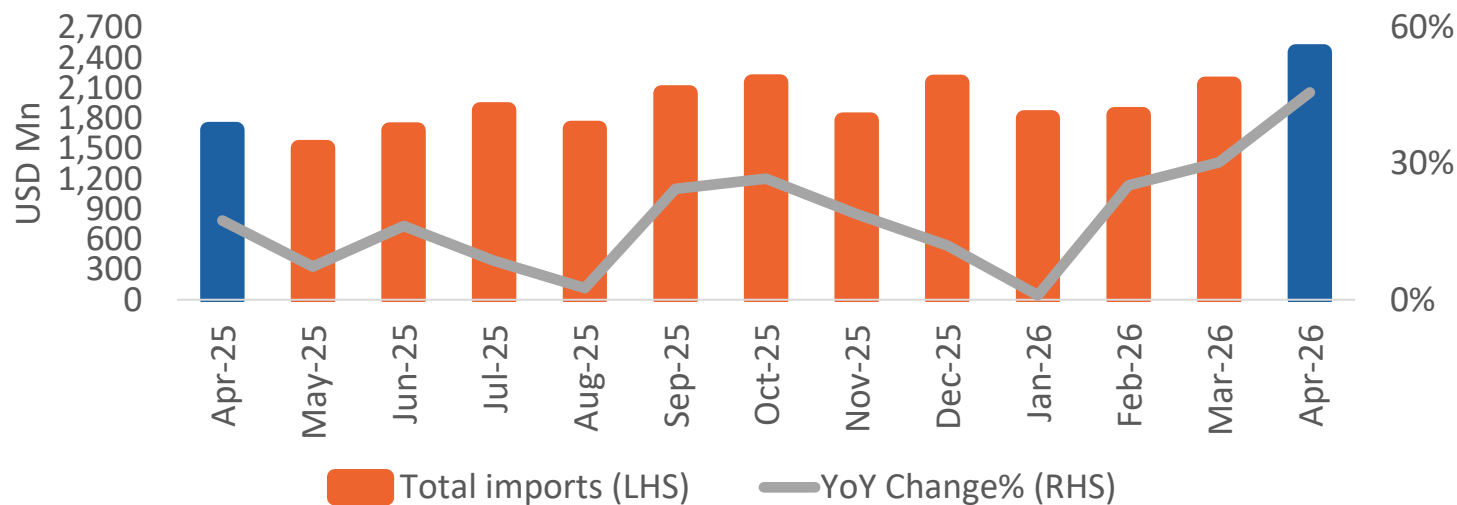


The current account recorded a deficit for the first time in the year 2026 after 3 consecutive surpluses. The current account balance deteriorated by 401.4% YoY and posted a deficit of USD 532.4 million. On a month-on-month basis, the balance deteriorated by approximately 1294%. The cumulative current account deficit amounted to approximately USD 0.9 million.

The current account balance comprises four key components: the trade balance, the services account, the primary income account, and the secondary income account. In April 2026, the trade balance deteriorated by 92.7% YoY. Similarly, service account decreased by 37.8% YoY. The Primary account surplus decreased by 23.4% YoY and secondary account surpluses increased by 19.0%.

Apr 2026 import expenditure increased by 45.7% YoY

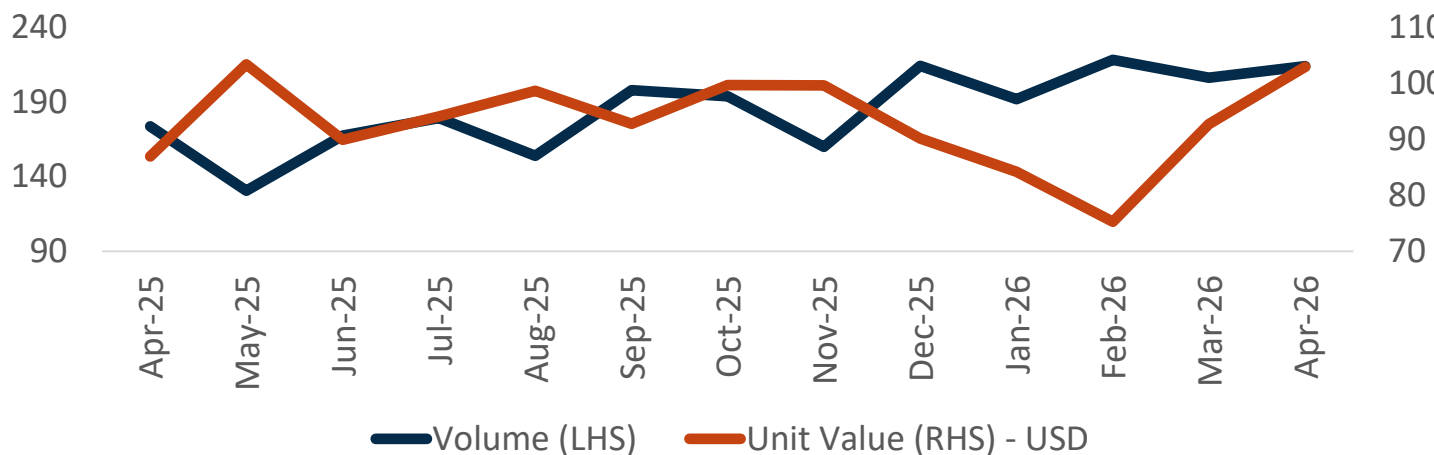
Total Imports and Growth



In April 2026, imports increased by 45.7% year-on-year (YoY) to USD 2,456.7 million, marking a 15.1% increase compared to the previous month. The year-on-year growth was mainly driven by higher imports of intermediate goods.

On MoM basis, imports of consumer goods, intermediate goods and investment goods increased. The increase in consumer goods imports was primarily driven by higher imports of items within the food and beverages category, including dairy products, cereals, sugar, and confectionery.

Import Indices

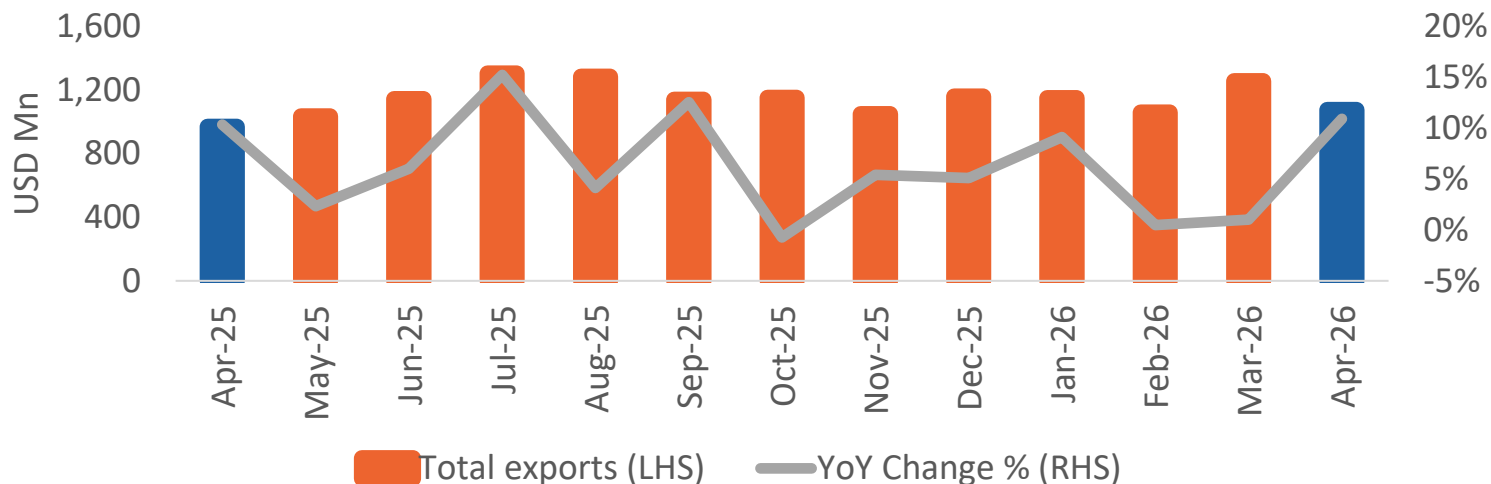


Meanwhile, imports of intermediate goods also rose on a MoM basis, mainly due to higher fuel and fertilizer import prices resulting from conflicts in the Middle East.

In April 2026, the Import Volume Index increased by 23.1% YoY, while the Import Unit Value Index increased by 18.3% YoY.

Apr 2026 export earnings increased by 10.9% YoY

Total Exports and Growth

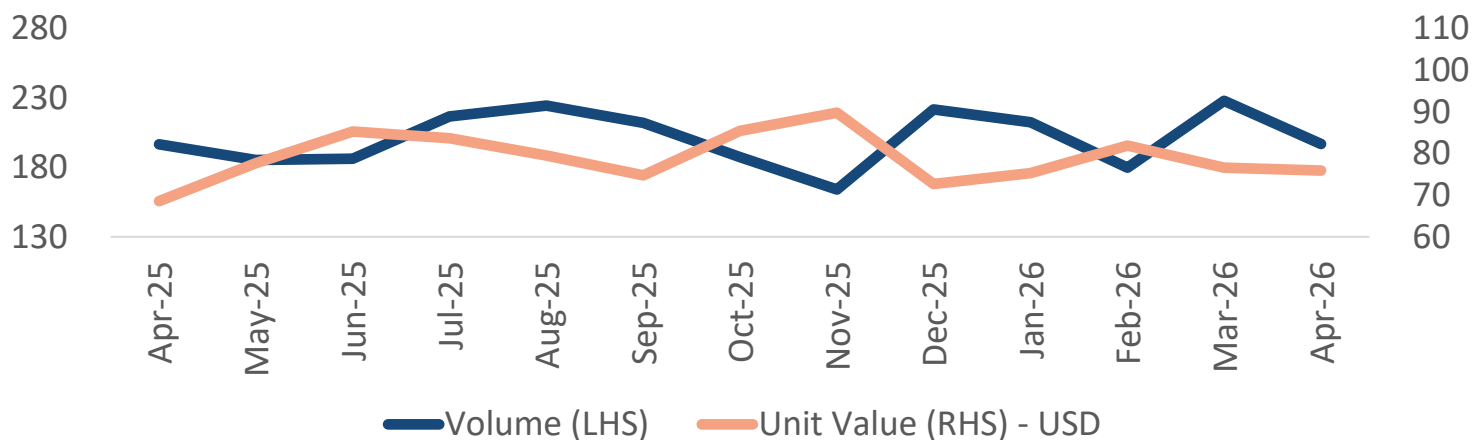


In April 2026, export earnings increased by 10.9% YoY to USD 1,074.1 million, representing a 14.4% decrease compared to March 2026. The YoY increase was mainly driven by industrial exports.

On a MoM basis, earnings from agricultural, industrial exports decreased while earning from mineral exports increased. Among these, industrial exports recorded the largest decline, primarily driven by lower export volumes of textiles, petroleum products, rubber products etc. Meanwhile, agricultural export earnings also decreased on a MoM basis, mainly due to Tea, Coconut, Rubber and spices

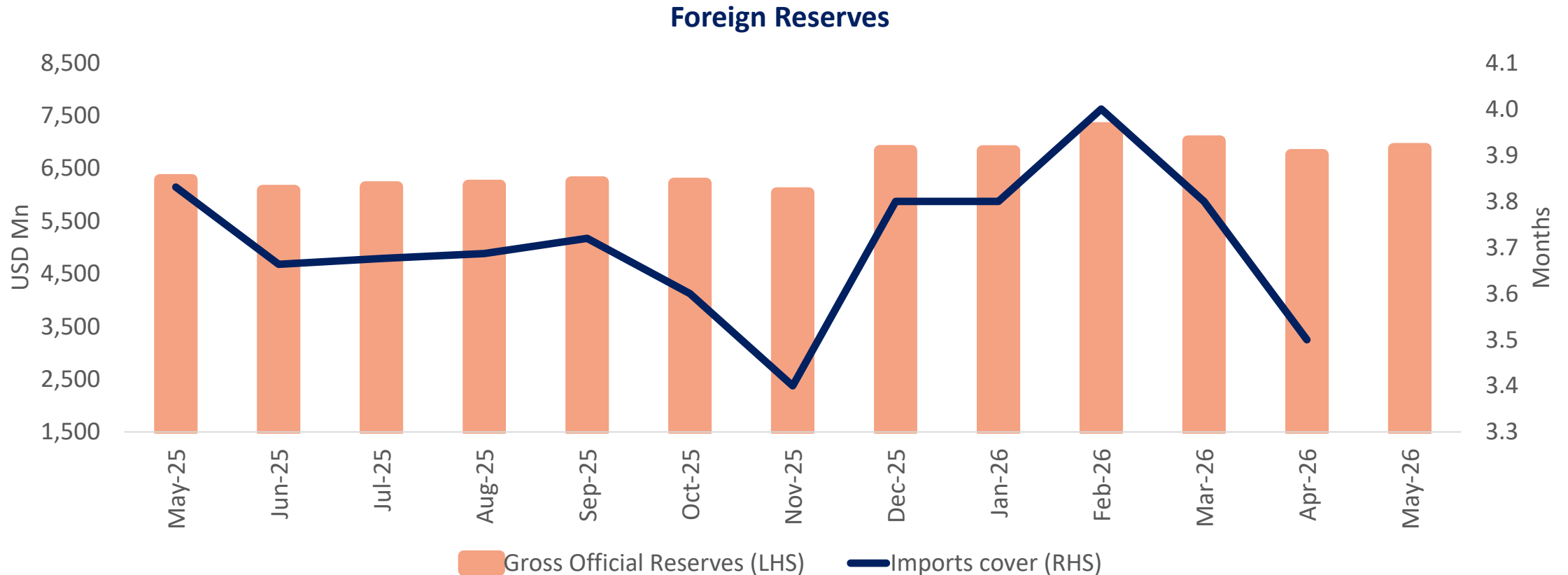
In April 2026, the Export Volume Index increased by 0.2% YoY while the Export Unit Value Index increased by 10.7% YoY during the same period.

Export Indices



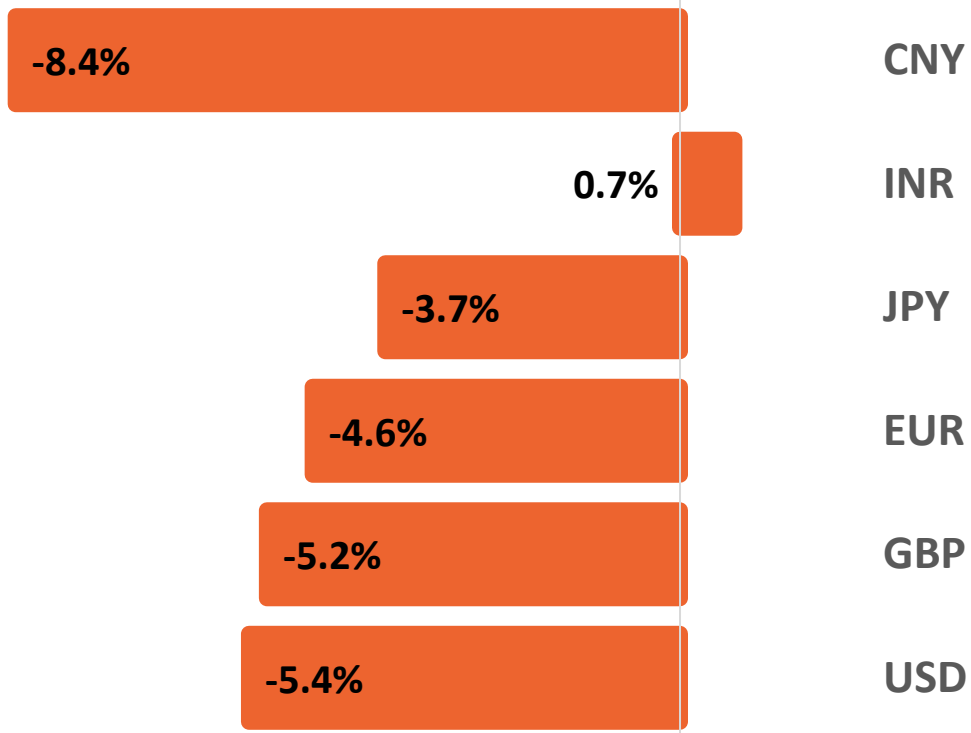
In May 2026 gross official reserves rose to USD 6.9 Bn

In May 2026, Sri Lanka’s gross official reserves rose to approximately USD 6.90 billion. Reserves increased by 9.37% YoY and increased by 1.69% MoM. The main reason for this increase was the strong inflow of workers' remittances, which reached US\$ 847 million in May 2026, helping to offset the pressure from higher fuel imports and vehicle imports.

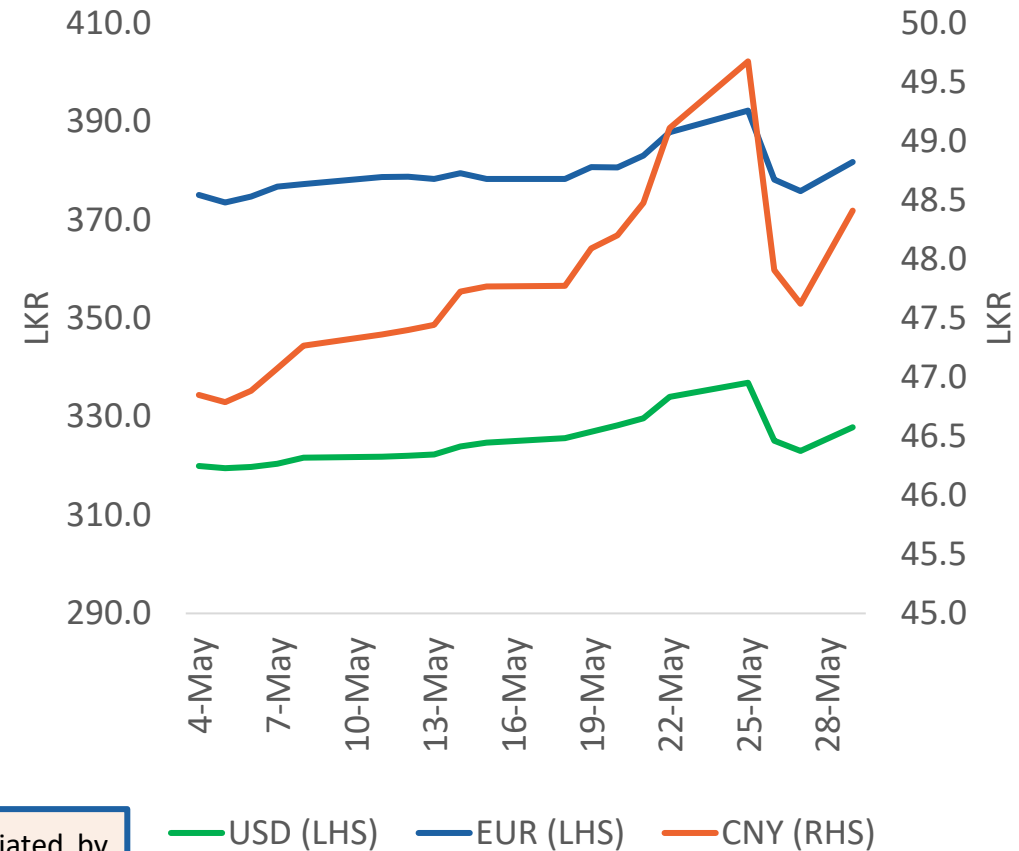


In May 2026, the LKR depreciated against the majority of currencies

LKR appreciation/(depreciation) against major currencies YTD end of May 2026



Monthly movement of major currencies

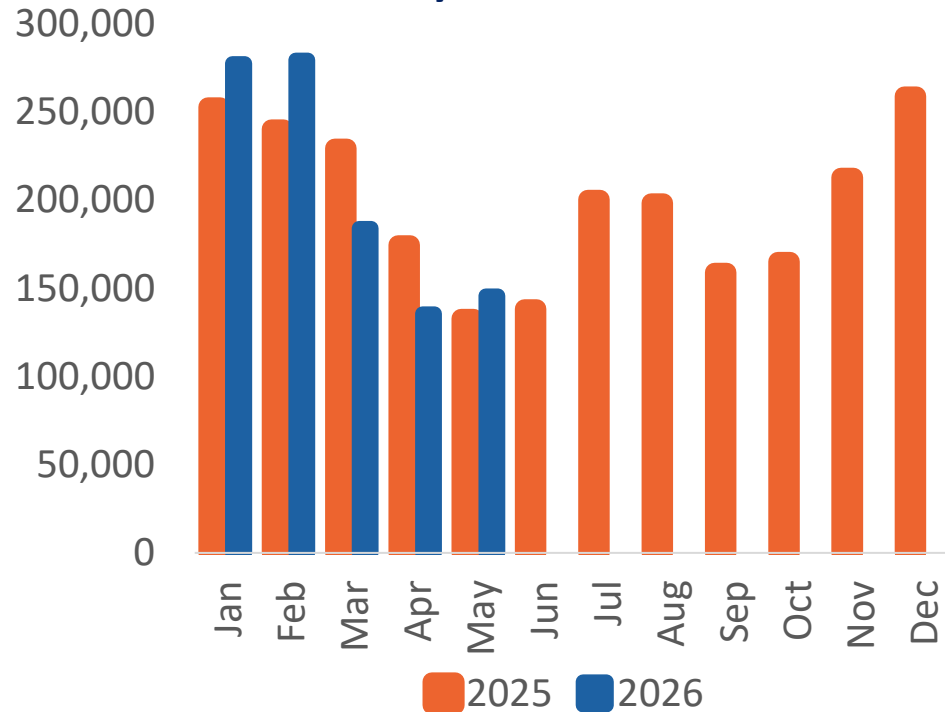


In May 2026, the LKR depreciated by 2.47% against the USD, depreciated by 1.79% against the EUR and depreciated by 3.33% against the CNY.

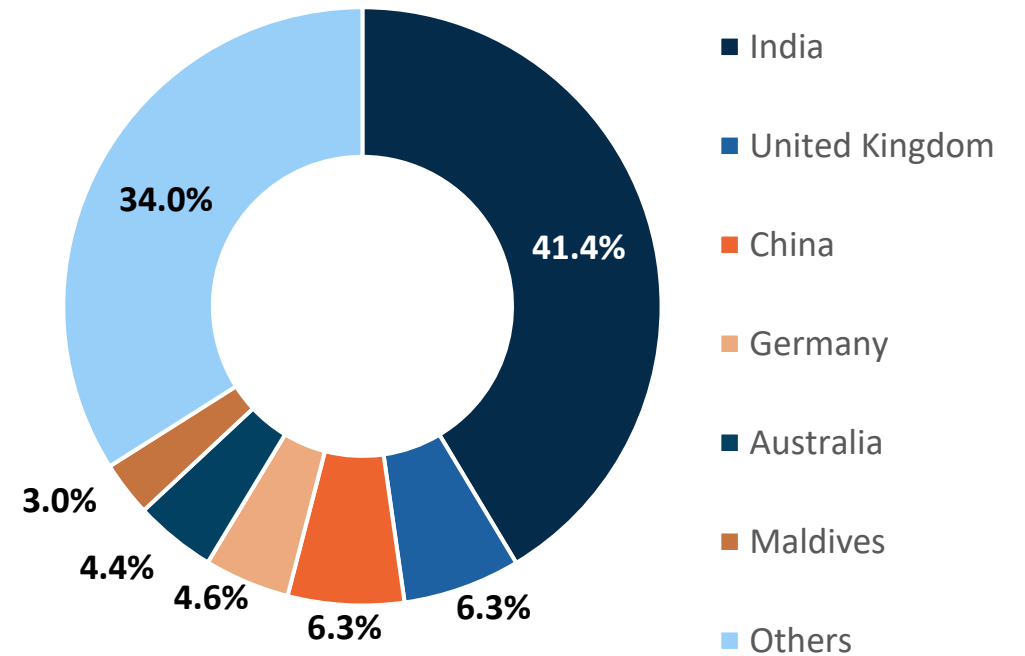
May 2026 tourist arrivals increased by 9.65% YoY

In May 2026, Sri Lanka recorded 145,745 tourist arrivals, reflecting a 9.65% YoY increase and a 7.45% increase compared to last month. Tourist arrivals increased in May 2026 after a significant decline in April 2026, which marked the lowest number of arrivals since May 2025. However, the May 2026 figures indicate that the tourism industry is recovering from the impact of the Middle East crisis, and despite lower arrivals due to seasonal factors compared to last year, the sector has performed better this year.

Monthly Tourists Arrivals



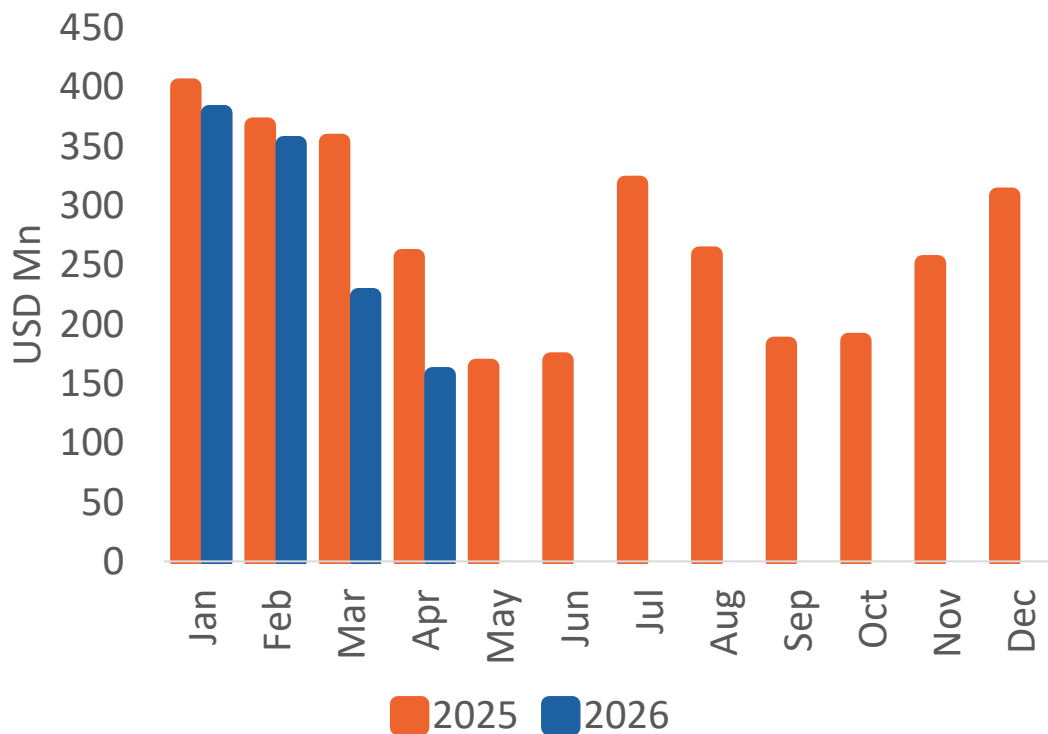
Arrival % by Country in May 26



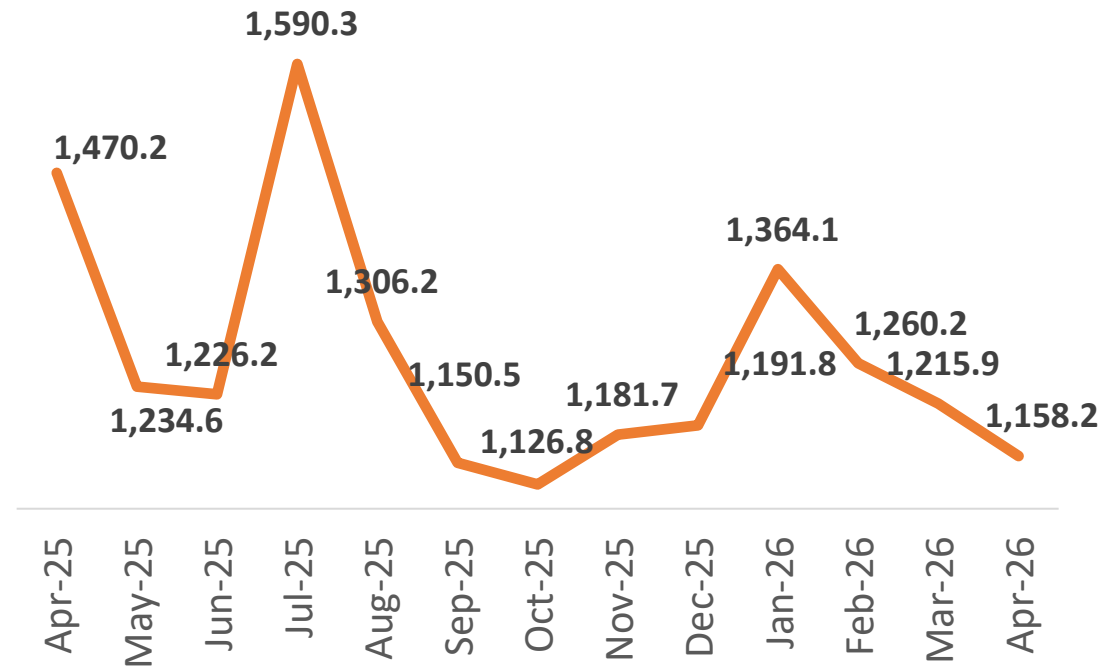
YTD Tourist Arrivals = 1,022,022

Apr 2026 tourism earnings dropped by 38.8% YoY

Monthly Tourists Earnings



Earnings per Tourist (USD)



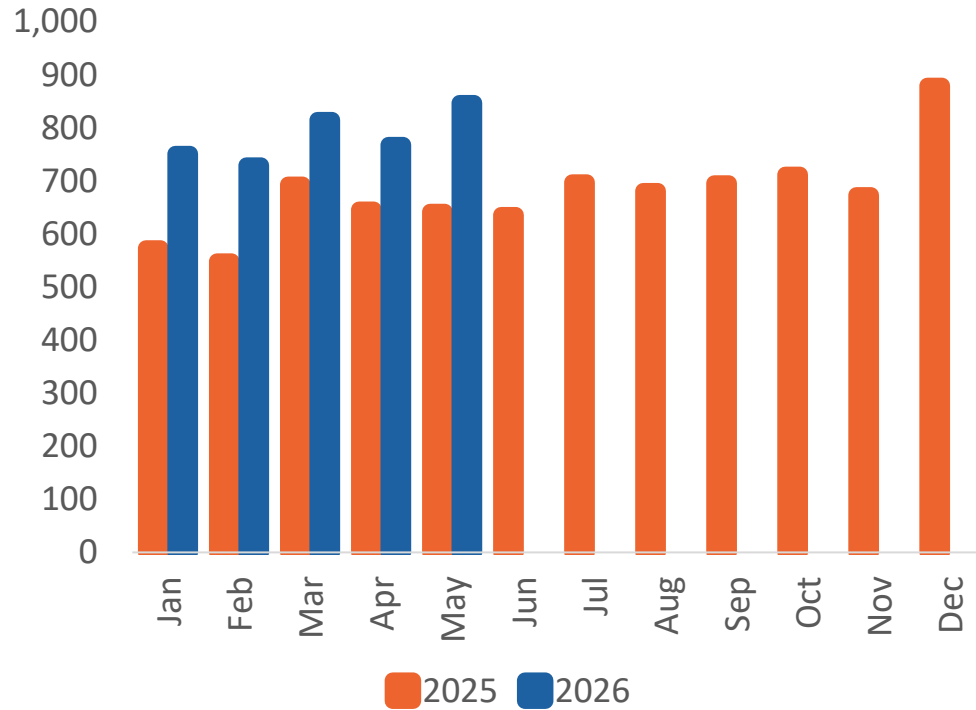
YTD Tourism Earnings = USD 1,111.1 Mn

In Apr 2026, tourism earnings dropped by 38.8% YoY to USD 157.1 million and dropped by 29.8% compared to the previous month. Earnings per tourist was USD 1,158.2 , reflecting a 21.2% YoY decrease and a 4.7% MoM decrease.

May 2026 worker remittances increased by 32% YoY

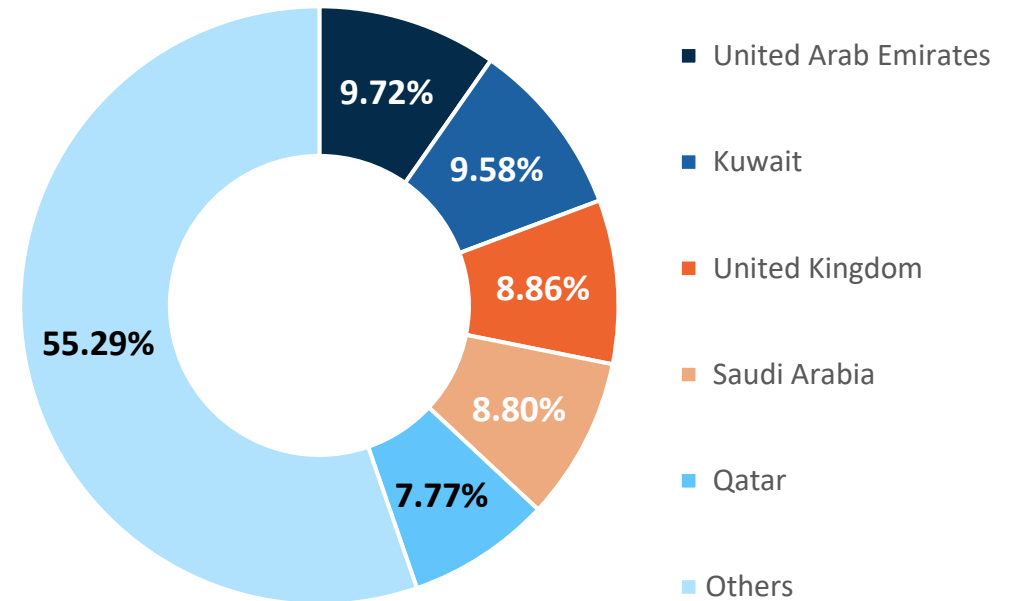
In May 2026, remittance inflows reached USD 847 million, reflecting a 32% YoY growth and a 10.3% MoM increase. The Jan-May 2026 remittances showed a 26% increase compared to the same period last year. Remittance earnings were primarily driven by the United Arab Emirates accounting for 9.72% of the total earnings.

Workers' Remittances (USD Mn)



YTD Remittances = USD 3,909.8 Mn

Remittance Earnings % by country in Q4 of 2025



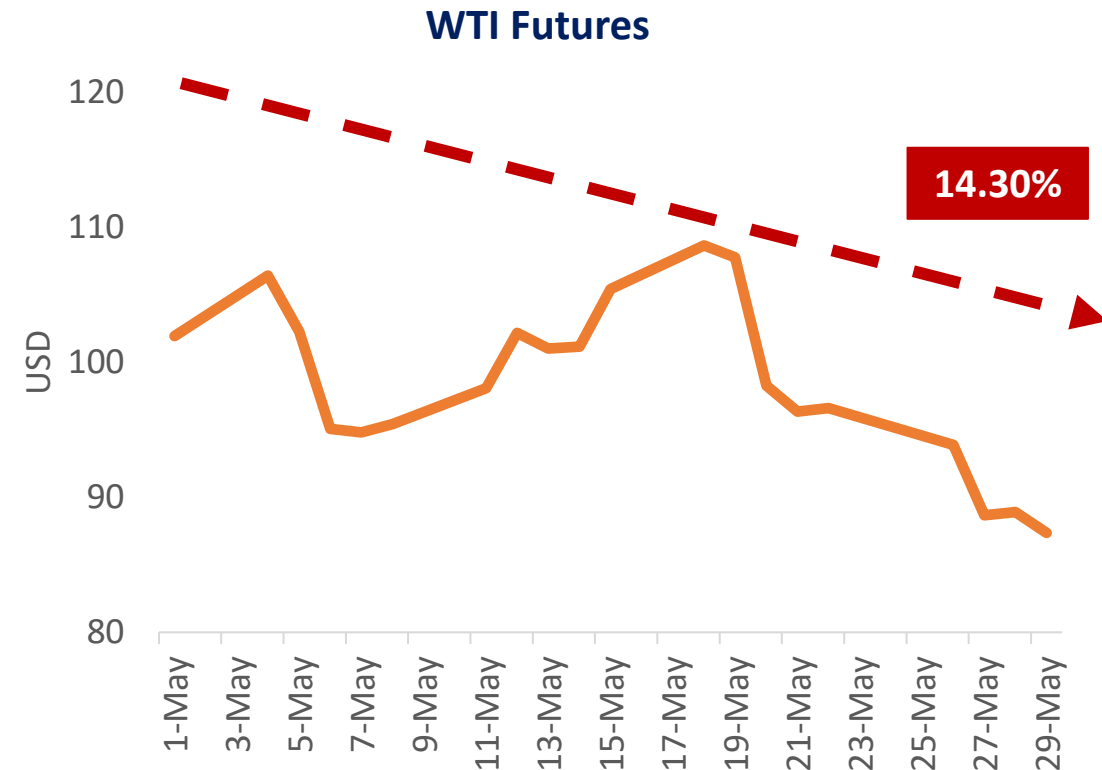
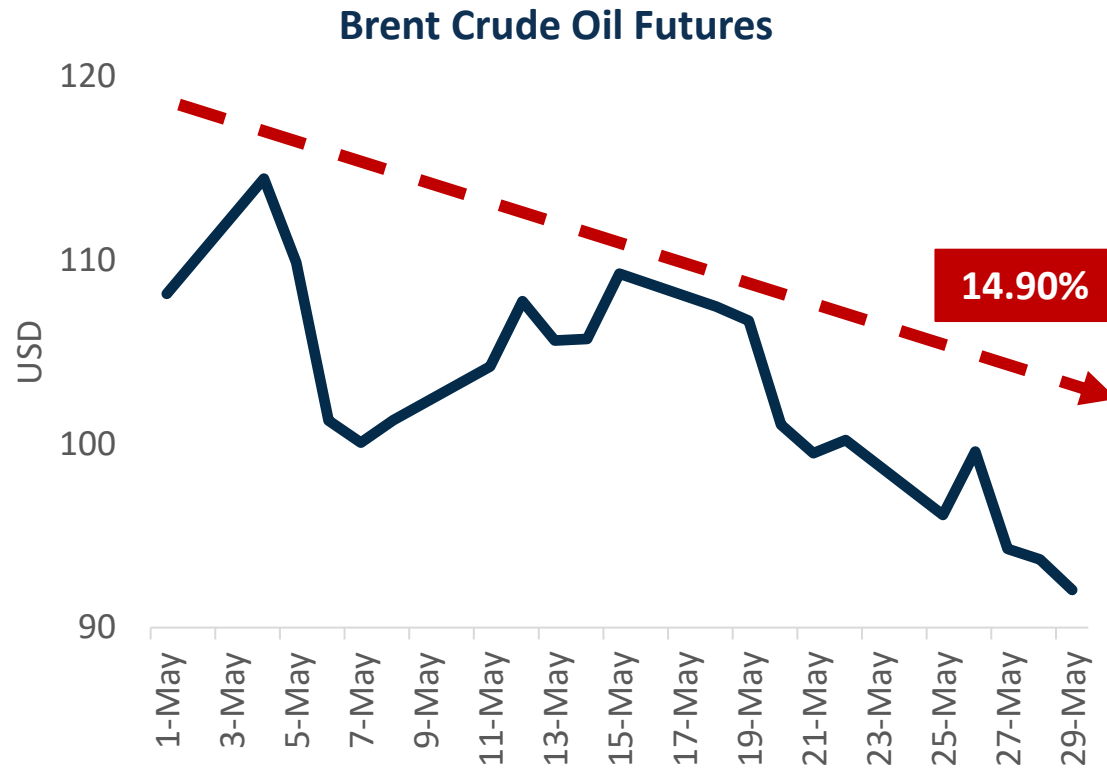


COMMODITIES AND OTHER

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Crude oil prices decreased in May 2026

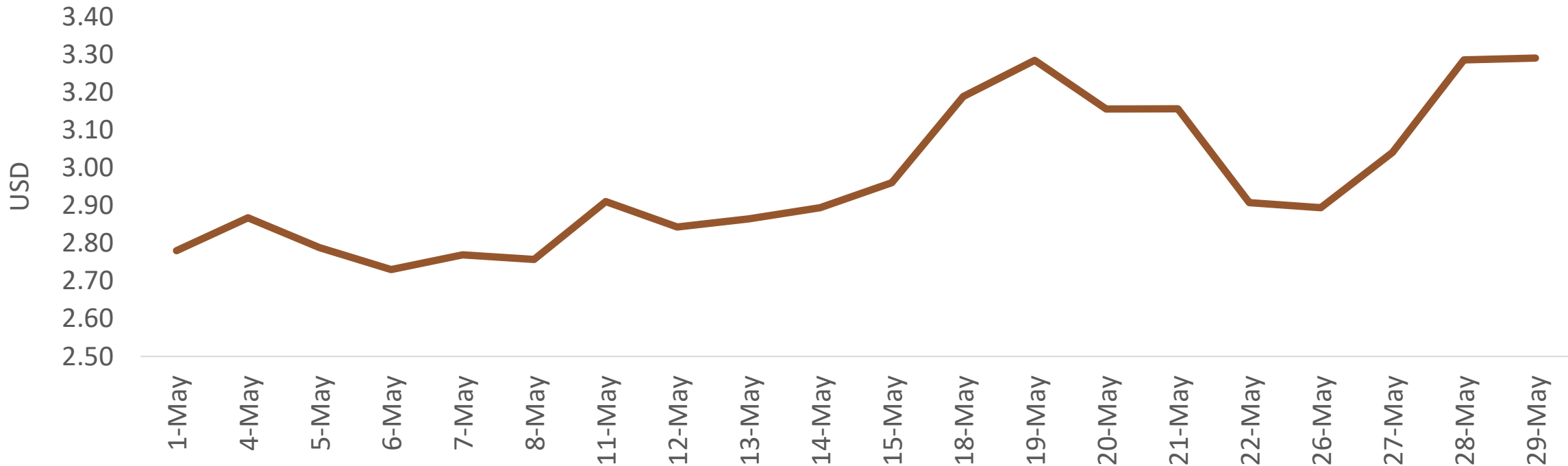


In May 2026, crude oil prices declined, with Brent crude falling by 14.9% and WTI crude decreasing by 14.3%. Prices generally trended downward throughout the month as concerns over potential supply disruptions eased amid diplomatic efforts and discussions surrounding the US–Iran situation. Although uncertainty remained regarding the outcome of the negotiations, expectations of reduced geopolitical risks and improving market sentiment contributed to the decline in oil prices by the end of the month compared to the beginning of the month.

US natural gas prices increased by 18.3% in May 2026

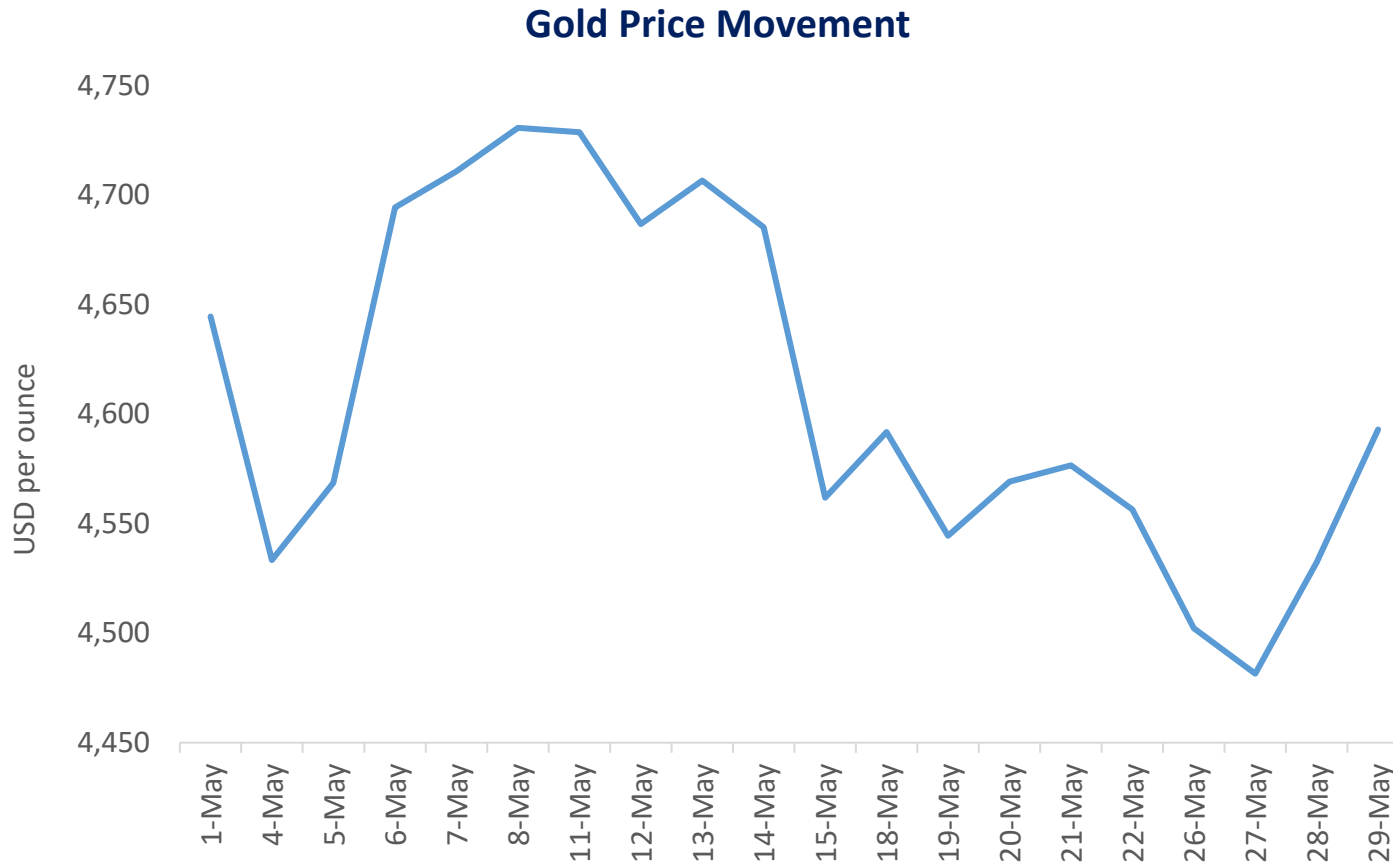
In May 2026, U.S. natural gas prices increased by 18.3%. Natural gas prices increased in May mainly due to tight global LNG supply conditions and stronger seasonal demand, especially from Europe and Asia. Supply was constrained by maintenance at U.S. LNG export facilities and disruptions linked to Middle East tensions affecting flows through the Strait of Hormuz, which reduced available LNG cargoes in the spot market. At the same time, Europe faced low storage levels and continued competition from Asian buyers, pushing buyers to secure cargoes at higher prices.

Natural Gas Futures



Source: Reuters.com, Investing.com

Gold prices decreased by 1.1% in May 2026



Gold prices decreased by 1.1% in May 2026.

Gold prices declined toward the end of the month as markets reacted to rising oil prices triggered by US–Iran tensions, which increased concerns about global inflation. This led investors to expect that the US Federal Reserve could maintain higher interest rates for a longer period to control inflation. As higher interest rates make interest-bearing assets more attractive compared to non-yielding gold, demand for gold weakened. Consequently, investors sold their gold holdings, causing prices to slip despite ongoing geopolitical tensions. As a result, gold hit a two-month low on 27th May.

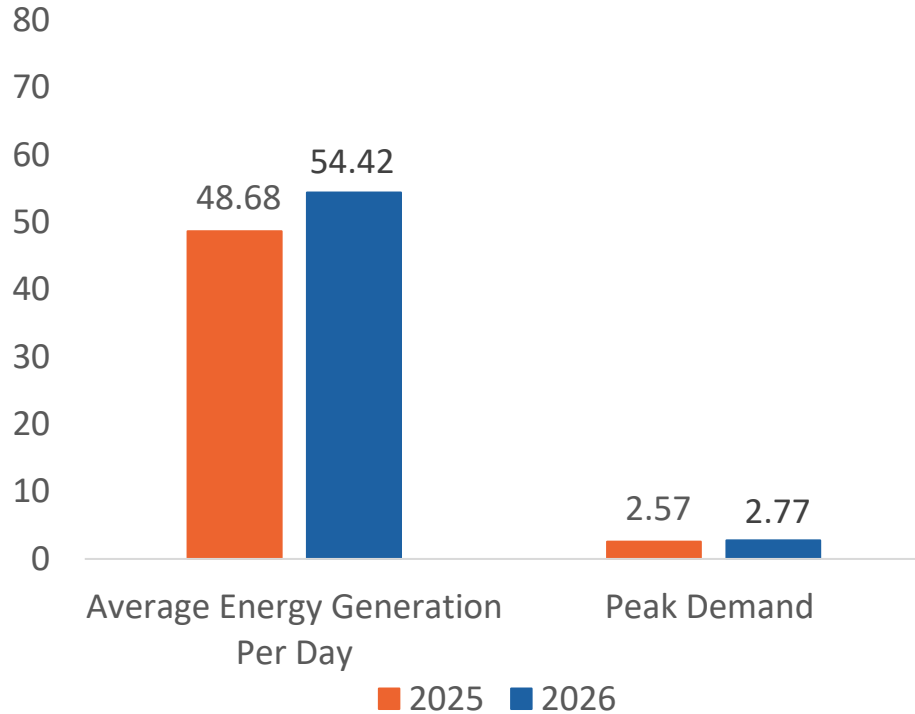
However, on 28th May, the market rebounded as the US dollar and oil prices eased following news that the US and Iran had reached an agreement to extend the ceasefire.

Throughout May 2026, gold prices remained highly volatile as markets reacted to ongoing uncertainty related to the Middle East tensions. Fluctuations in US–Iran relations and fears of potential escalation or de-escalation repeatedly shifted investor sentiment.

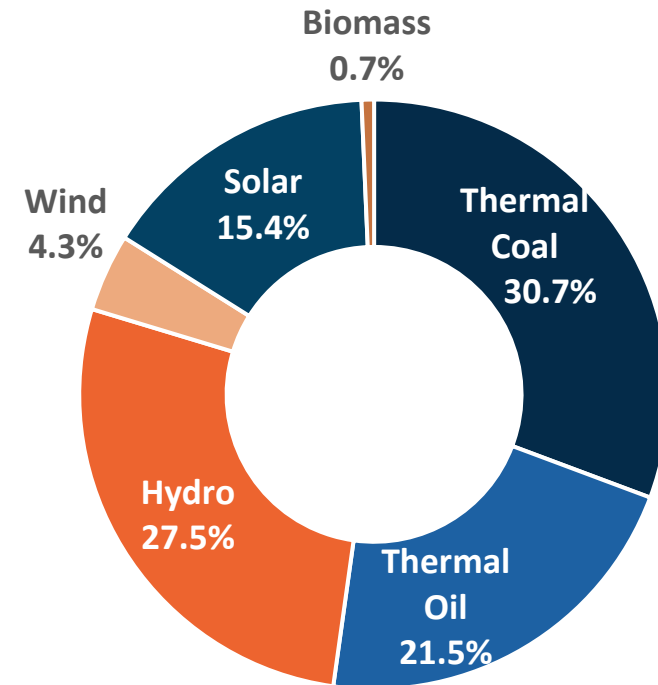
May 2026 daily electricity generation rose 11.8% YoY

In May 2026, average daily electricity generation reached 54.42 GWh, marking an 11.8% increase compared to the same month last year. The average daily peak demand during the month was 2.77 GW which is an 8.1% increase YoY.

Average Daily Electricity Generation in May (GWh)



Electricity Generation Composition by Category in May 2026



Apr 2026 tea production decreased by 8.2% YoY

In April 2026, Sri Lanka's tea production decreased by 8.2% YoY to 24.22 million kilograms.

In March 2026, tea export volumes declined by 15.8% YoY to 19.73 million kilograms. As a result, export earnings fell by 12.9% YoY to LKR 35.79 billion.

The decline was mainly driven by shipping and logistics disruptions linked to Middle East tensions and the Strait of Hormuz crisis, which weakened demand from key markets such as the Middle East and Russia.

Tea Exports (Mar 2026)

Export	Volume in Kgs	Value in LKR Mn
Tea in Bulk	7,448,470	11,218
Tea in Packets	9,134,727	14,894
Tea in Bags	2,331,794	6,729
Instant Tea	351,107	1,193
Green Tea	464,358	1,754
Total	19,730,456	35,788

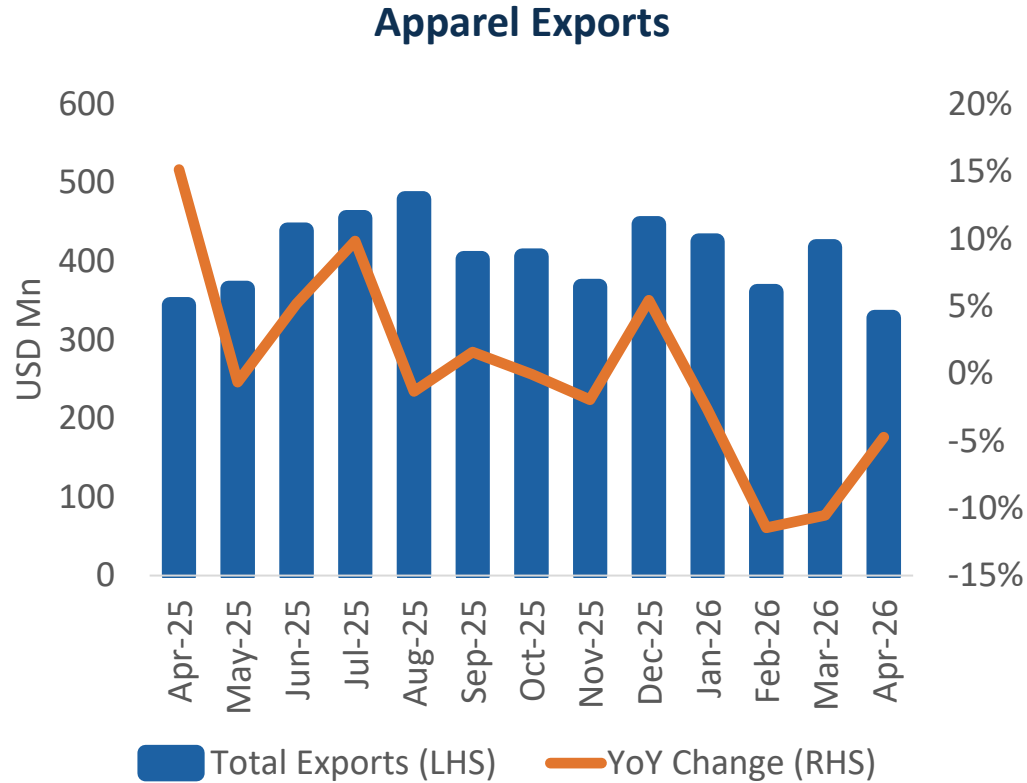
Average Tea Auction Prices (Monthly)

LKR per Kg	Mar 2026	Apr 2026
High	1,156.45	1,181.24
Medium	966.16	1,029.64
Low	1,193.45	1,255.17
Total	1,154.09	1,200.91

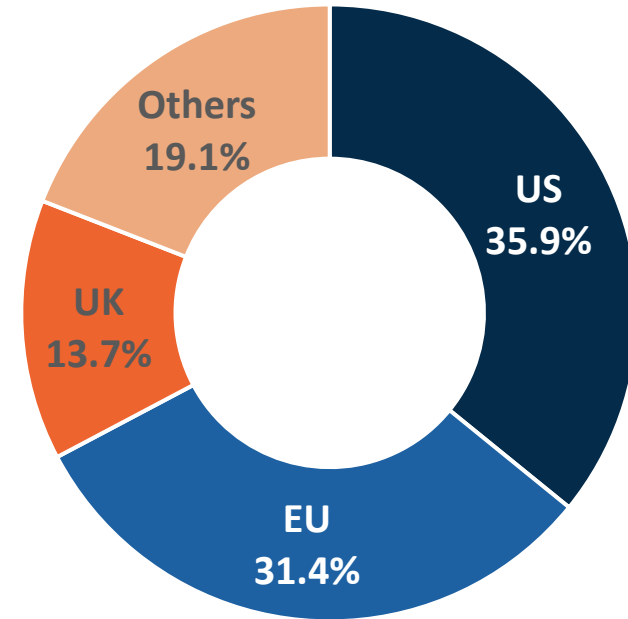
Tea Production (Apr 2026)

Production	Kgs
High	6,194,860
Medium	5,149,158
Low	12,638,004
Green Tea	238,637
Total	24,220,659

Apr 2026 apparel exports decreased by 4.72% YoY



Top Export Markets – Apr 2026



Sri Lanka’s apparel exports in April 2026 amounted to USD 328.15 million, reflecting a 4.72% year-on-year decline and a 21.48% month-on-month decrease. Key export markets also showed declines, with exports to the US decreasing by 3.46% YoY, exports to the UK falling by 16.91%, and exports to the European Union declining by 8.78% YoY. Apparel exports dropped significantly in April 2026 due to weaker demand in traditional markets, including the EU, UK, and US. However, exports to other markets grew by 12.61% YoY, indicating potential for diversification beyond traditional markets. Despite the current slowdown, the long-term goal of reaching USD 5 billion in exports this year remains, although achieving it will require strong national support.

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