SRI LANKA RETAIL SUMMIT 2026 · 10 SEPTEMBER

Stabilised. Now Grow.

Sri Lanka's macroeconomy has stabilized. Growth is needed for long term stability

Dr. Roshan Perera

Economist

Opportunities and Challenges

1	**The macroeconomy has stabilized**	Government revenue rose from 13.6% to 16.7% of GDP, the deficit narrowed to 2.3%, and inflation fell from 70% to target. Stability was achieved.
2	**But growth is still not sufficient**	Stability is not the same as growth. 5% is recovery, but not sufficient for long term stability.
3	**Constraints are structural**	Trade protection, Policy uncertainty, Regulation procedures and administrative complexity, labour and land availability
4	**Retail sector faces challenges**	External: tariffs, Middle East war; Internal energy costs, taxes, climate related issues
5	**Opportunities are there**	Economy has stabilized and growing
6	**Fastest growing region**	India grew 7.8% last quarter and has preferential access to two-thirds of world trade.

PART ONE

What was achieved

Turnaround in the macroeconomy

69.8% → 8.0%

Headline inflation, Sept 2022 peak → Aug 2026

−7.3% → +5.0%

Real GDP growth, 2022 → 2025 (and 5.1% in Q1-2026)

Near zero → US$6.6bn

Usable official reserves, mid-2022 → gross official reserves, end-July 2026

≈128% → 94.9%

Central government debt, % of GDP, 2022 peak → end-2025

What did this result in:

Exchange rate stability

External reserves built

Imports restrictions gradually loosened.

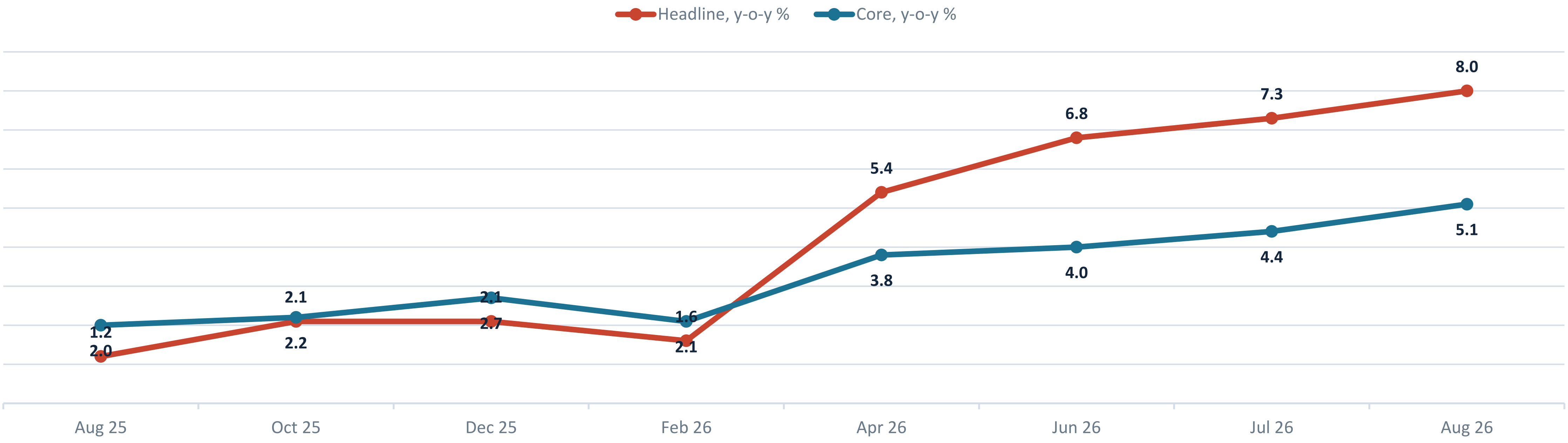
Government tax revenue raised

Primary surpluses achieved

Government debt fell

We are still not out of the woods… challenges remain

Inflation contained … but gradually creeping up



The target, and the breach

The Monetary Policy Framework Agreement sets inflation at 5% ±2.
Inflation has been above the target much of this year after several years below the target level
Core inflation is also rising

CBSL, CCPI (2021=100) press release, 31 August 2026; CBSL Monetary Policy Report, August 2026, §1 and §3.1. Core inflation excludes fresh food, energy, transport, rice and coconut.

Economy growing by 5 percent

Real GDP growth, y-o-y %	2025 Q1	Q2	Q3	Q4	2025	2026 Q1
Agriculture	−1.3	2.5	2.2	2.1	1.4	1.1
Industry	9.8	5.7	7.9	7.3	7.8	7.2
Services	2.7	4.0	3.6	3.1	3.3	3.4
GDP	4.7	5.0	5.3	4.8	5.0	5.1

Demand side, Q1-2026

Domestic demand	+9.3%
Consumption	+5.9%
Investment	+16.5%
Exports of goods & services	+2.3%
Imports of goods & services	+19.9%

Broad based growth but mostly catering to the domestic market

CBSL Monetary Policy Report, August 2026, Tables 01 and 02 (DCS provisional national accounts, constant 2015 prices).

Buffers were rebuilt...but not enough

US$6.51bn

Trade deficit, January–July 2026 — widened 69% year on year: imports +25.8%, exports +4.4%

US$5.38bn

Workers' remittances, January–July 2026 — up 21.4% year on year, covers 83% of the deficit

US$1.80bn

Tourism earnings, January–July 2026 — down 11.5% year on year, arrivals fell too

US$6.6bn

Gross official reserves, end-July 2026 — 3.2 months of import cover

Trade deficit widened mainly due to higher oil import expenditure and vehicle imports while exports remained flat

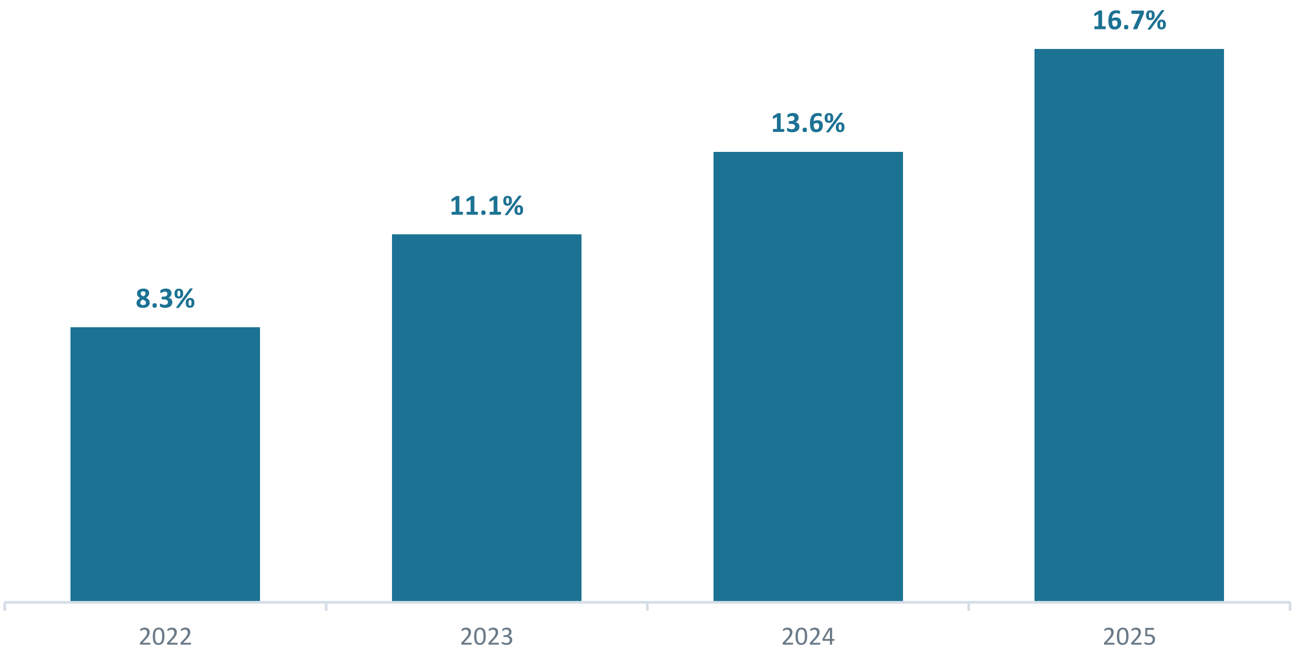
Remittances alone are now financing almost the entire trade gap as tourism earnings fell

A weak external sector puts pressure on the rupee

External sector stronger but buffers need to be built up

CBSL, External Sector Performance – July 2026, 31 August 2026; CBSL Monetary Policy Report, August 2026, §3.4 and §3.6. Reserves include the swap facility with the People's Bank of China.

Revenue recovered … but on a narrow base



Government revenue and grants, % of GDP

+33.4% VAT revenue, 2025 — now the largest single source, at 5.3% of GDP, after the rate rose to 18%

>50% of 2025 VAT revenue came from vehicle imports — the same driver behind 2026's VAT, excise and customs duty growth

8%→18% VAT rate since 2022 — more than doubled; registration threshold also cut, from Rs 80m to Rs 60m, pulling in smaller firms

44% of registered VAT filers paid on time in 2025, despite 56% more registrations — the base grew faster than compliance did

Much of this was due to a rate increase and a one-off vehicle-import surge, not broader or better enforcement

Ministry of Finance, Final Budget Position Report 2025, reported in Daily FT, 5 June 2026; CBSL Monetary Policy Report, August 2026, §3.5 (VAT, excise and customs duty growth mainly vehicle-related); Daily FT, 'Broader base, thinner yield', VAT compliance data, 2025; Verité Research, State of the Budget 2026, January 2026.

Overperformed on fiscal targets… however risks remain

% of GDP	2022	2023	2024	2025	IMF target
Primary balance	−3.7%	+0.6%	+2.2%	**+5.4%**	+2.3%
Overall budget deficit	−10.2%	−8.3%	−6.8%	−2.3%	—

Primary balances have exceeded the IMF's medium-term target of 2.3% of GDP
But the IMF review attributes roughly 2.0 points of 2025's 5.4% outturn to a one-off vehicle-tax windfall
Primary surplus expected to fall to 1% in 2026 (addl spending for Ditwah and Petroleum subsidy) but revert to the target of 2.3% in 2027

High
Debt sustainability risk, IMF 5th & 6th review, 2026 — rated high across every horizon; debt still above 100% of GDP through 2026

−1.4 pts
Tax revenue, 2025 to 2026 (IMF projection) — from 15.4% to 14.0% of GDP as the vehicle-tax windfall fades

3.0% vs 4.0%
Capital expenditure, actual vs planned, 2025 — chronic under-execution limits the growth payoff from consolidation

Mar 2027
When the EFF programme expires — a medium-term revenue strategy is due by October 2026, before debt service pressure intensifies

Fiscal sustainability requires a steady revenue base and rationalization and reallocation of expenditure

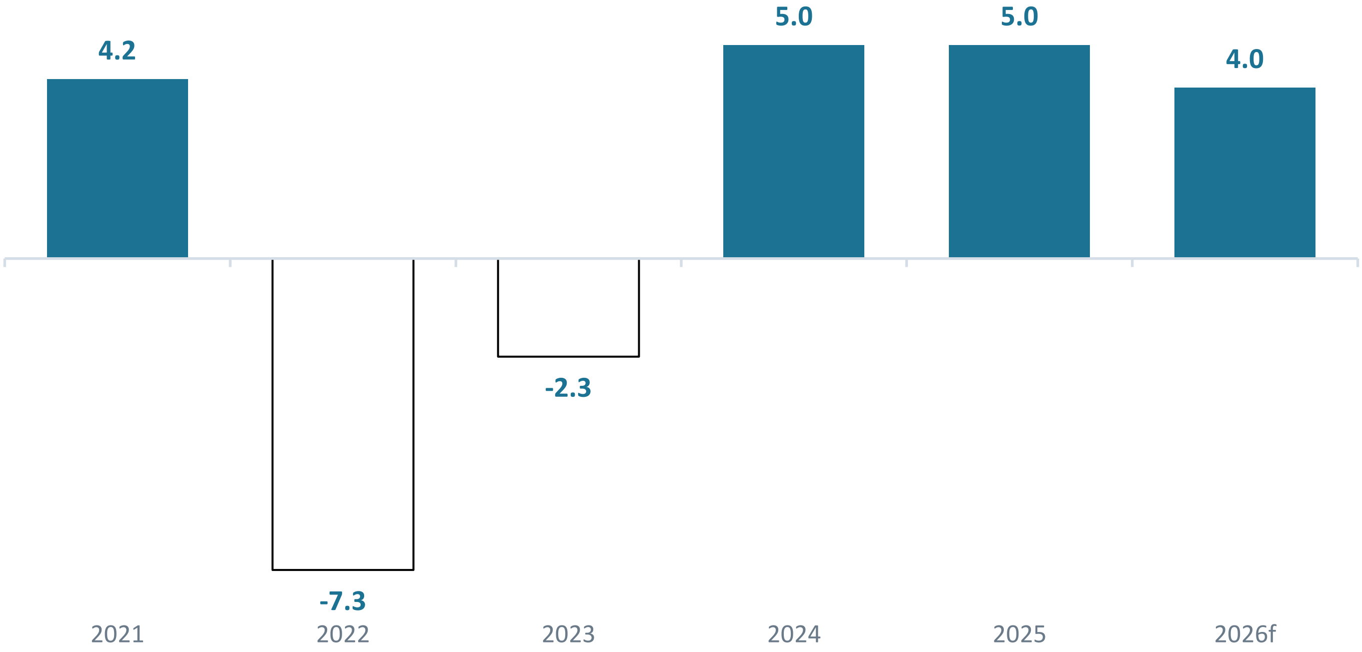
IMF, Executive Board Completes the Combined Fifth and Sixth Reviews under the EFF for Sri Lanka, 27 May 2026, and associated review documents; Ministry of Finance, Final Budget Position Report 2025; CBSL Monetary Policy Report, August 2026, §3.5; publicfinance.lk, 'Sri Lanka's IMF scorecard', 2026.

PART TWO

Real wins, but more needs to be done

Stabilization is not growth — and it is not permanent either

Recovery is not complete



Real GDP growth, % — 2026 shown at the mid forecast of 4.0%

Three years of 5% has not yet replaced two years of contraction

The economy contracted by 7.3% in 2022 and a further 2.3% in 2023.

Regained some of what was lost

But sustained growth is required is required for long term stability

We are back where we were. But we are still behind where we want to be

DCS national accounts via CBSL Monetary Policy Report, August 2026; ADB Asian Development Outlook, April 2026 (2026 forecast 4.0%, 2027 4.2%).

Real incomes yet to recover

$3,977 → $4,439

Real GDP per capita finally overtook the pre-crisis 2021 level of $4,358.

4 years

Sri Lanka regained upper-middle-income status in the World Bank's July 2026 country classification — the first time since losing it in the 2022 crisis.

Three reasons not to celebrate yet

1

It took four years to get back to where we started

Real per capita income in 2025 is only narrowly above 2021. The 2022–2023 contraction wiped out years of prior gains,

2

Poverty hasn't come back down

World Bank poverty rate ($3.65/day): 11.3% in 2019, a 2023 peak of 27.1%, now projected at 22.7% for 2025 — still nearly double pre-crisis levels, even as headline GDP per capita recovers.

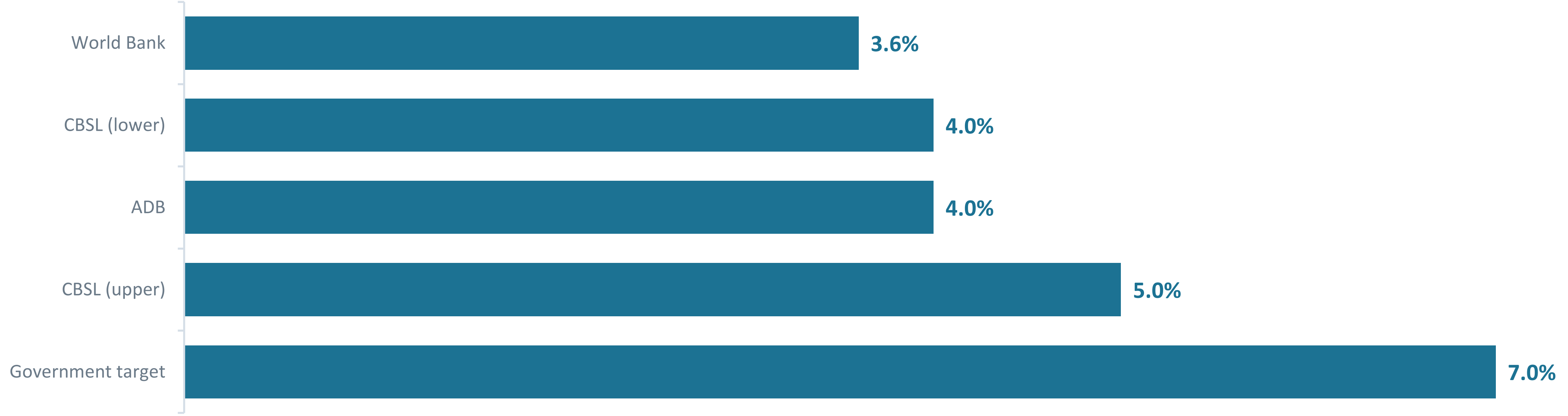
3

Real wages are not moving with it

Public sector real wages fell 0.4% in May 2026. A rising per-capita GDP figure can coexist with a falling real wage — GDP per capita is an average, and this recovery has not been evenly shared.

World Bank, World Development Indicators — constant-price GDP per capita, updated July 2026; World Bank poverty projections ($3.65/day line), reported in The Morning, 2026; World Bank FY2027 Country Income Classifications, July 2026 (upper-middle-income reclassification); CBSL Monetary Policy Report, August 2026, §3.1 (real wage indices).

Growth Projections



Why faster growth is needed

Economy would need to grow by 7-7.8% annually to reach high income status ($14,375) by 2048 (22 years)

6 % growth – 2056 (30 years)

7% growth – 2015 (25 years)

8% growth – 2046 (20 years)

World Bank South Asia Development Update, April 2026 (3.6% in 2026, 3.8% in 2027); ADB Asian Development Outlook, April 2026 (4.0%); CBSL Monetary Policy Report, August 2026 (range of 4–5%); Government of Sri Lanka medium-term target.

Recovery is fragile

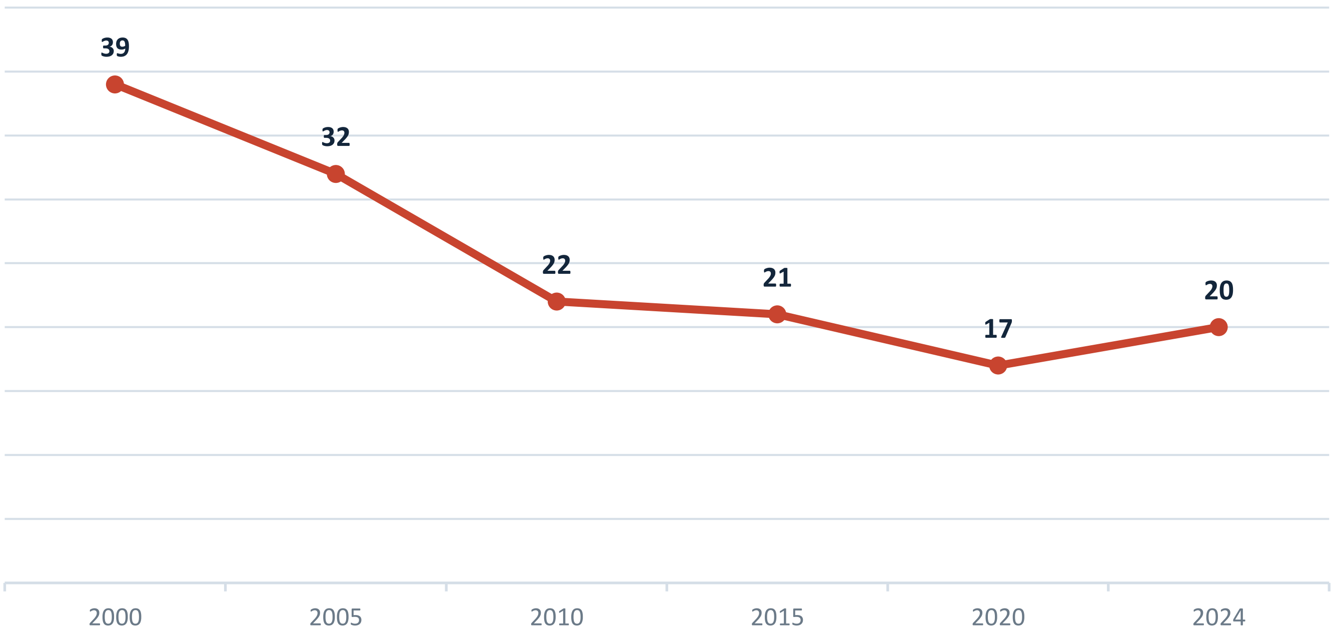
What has slipped in 2026	Jan–Jul 2025	Jan–Jul 2026	What it means
Current account balance	+US$1,671m	−US$387m	First deficit after three years of surplus
Merchandise trade deficit	−US$3,850m	−US$6,507m	Widened by 69% in twelve months
Goods imports	US$11,644m	US$14,643m	+25.8% — fuel and vehicles
Goods exports	US$7,794m	US$8,137m	+4.4% — barely moving
Fuel import bill	US$2,265m	US$3,622m	+59.9%, and 25.6% of the total import bill
Tourism earnings	US$2,031m	US$1,797m	−11.5%, with arrivals down
Exchange rate (end period)	Rs 310 / US$ (end-2025)	Rs 328.01 / US$	5.5% depreciation year to date

CBSL, External Sector Performance – July 2026, 31 August 2026; CBSL Monetary Policy Report, August 2026, §3.4. Current account also in deficit for four consecutive months to July 2026.

PART THREE

What is holding growth back

We have de-globalised



Exports of goods and services, % of GDP

80.9% → 42.7%

Trade as a share of GDP, 2001 → 2023

~130%

Thailand and Malaysia: trade as a share of GDP

~180%

Vietnam: trade as a share of GDP

Every country that got rich in our neighborhood traded more as it grew.

National Tariff Policy of Sri Lanka, Ministry of Finance (published February 2026); World Bank export-potential estimate (2022) as cited therein; Advocata Institute, 'Five fixes for a fragile economy', 31 October 2025.

Our productivity is low

LAND IS UNUTILISED

1.1m of 16m

Land parcels titled under Bim Saviya. Around 70% of household wealth remains untitled and cannot be used as collateral for enterprise finance.

LABOUR IS LEAVING

49.2%

Labour force participation, Q1-2026 — and falling, with female participation at 32.5% against male 69.1%. ~250,000 working-age Sri Lankans are expected to leave for foreign employment this year.

CAPITAL IS IDLE

95%

ENERGY COST IS HIGH

2.5–3x

What Sri Lankan households and industry pay for electricity versus the South Asian average. The World Bank names the 2026 energy shock as a lead reason for its growth downgrade — from 5% in 2025 to 3.6% this year.

ADB Asian Development Outlook, April 2026 (public capex); World Bank South Asia Development Update, September 2026 (energy shock and 2026 growth downgrade); Advocata Institute, 'Five fixes for a fragile economy', 31 October 2025 (land titling, corporate tax, EPF); DCS Labour Force Survey Q1-2026, reported in Daily FT, 4 July 2026; publicfinance.lk, regional electricity tariff comparison.

PART FOUR

What all of this does to retail

Costs from abroad. Prices from home.

Costs, pushed up from outside

- Fuel import bill up 59.9%; Brent ~US$90 and volatile
- Rupee 5.5% weaker year to date — every import repriced
- Commercial electricity +18% from 11 May
- War-risk insurance on Hormuz transits
- SVAT repealed

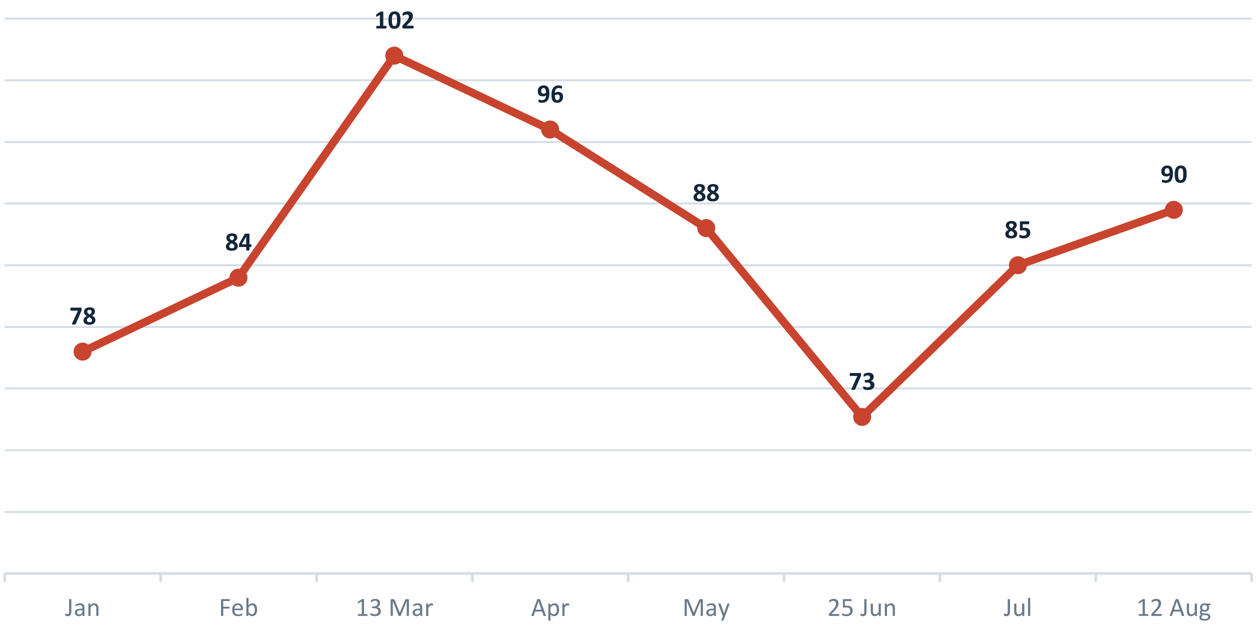
Prices, held down from inside

- Public sector real wages fell 0.4% in May 2026
- Clothing and footwear inflation 1.4%; recreation −2.1%
- Households trading down: smaller baskets, smaller packs
- An informal competitor below the Rs 60m VAT threshold
- Consumer confidence index from +36 to −8 in five months

Direct impact on bottom lines

CBSL External Sector Performance – July 2026; CBSL Monetary Policy Report, August 2026 (real wage indices, §3.1); CBSL CCPI, 31 August 2026; PUCSL tariff determination, 9 May 2026; Verité Research Mood of the Nation, July 2026.

Volatile oil prices



Brent crude, US$ per barrel — indicative of the path, not settlement prices

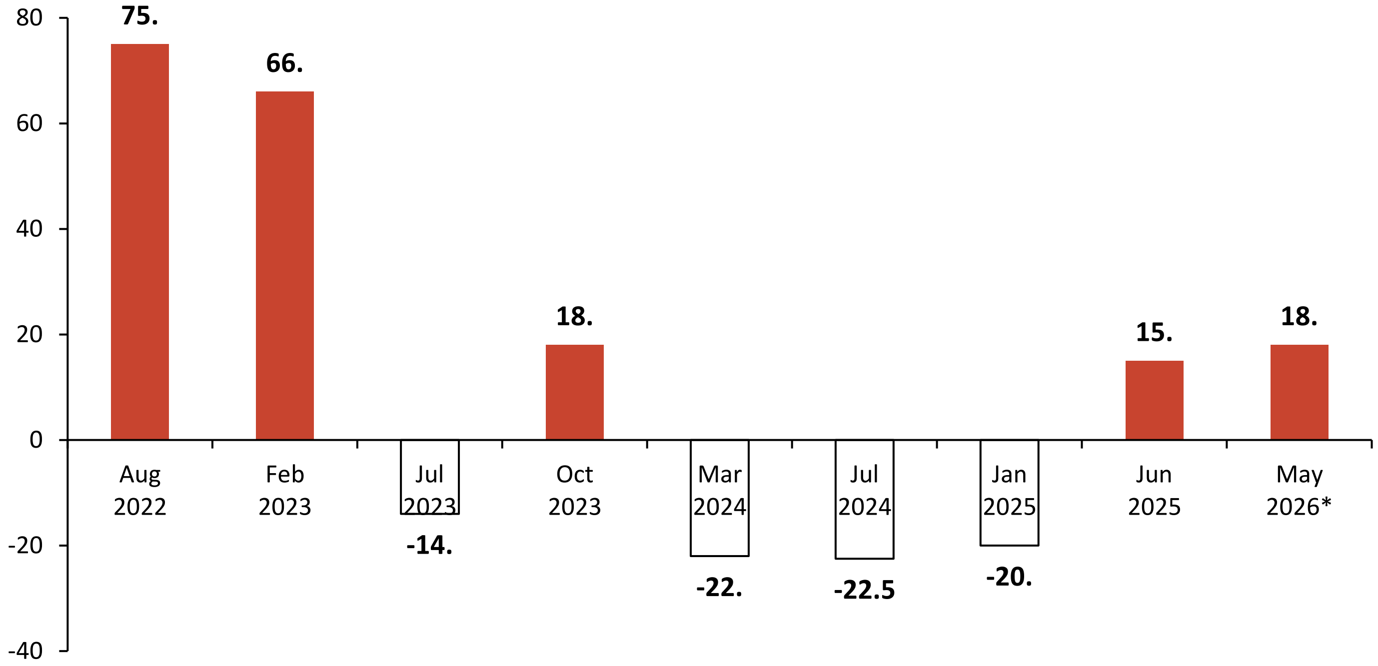
THE CHOKEPOINT PREMIUM

Hormuz transits	~10 vessels a day, against 130 before late February
Crude through the strait	7–9 mb/d, against roughly 20 mb/d normally
War-risk insurance, Hormuz	7.5–10% of hull value, from 1–3% in June
Bunker fuel, 20 major ports	+55% against pre-war, as at 10 June 2026
Gulf-route container surcharge	US$1,800 per 20ft; US$3,800 per reefer
Cape of Good Hope routing	At least 10 extra days per voyage

. You cannot hedge that with a pricing decision taken once a quarter.

Al Jazeera, 12 August 2026 (Brent US$89.53; Hormuz transit and flow data); International Banker, 'The Chokepoint Premium', 12 August 2026 (insurance, bunker and surcharge data); CBSL Monetary Policy Report, August 2026, §3.7.

High and volatile electricity prices



Announced tariff revision, % change at each PUCSL decision (asterisk: commercial GP2/GP3 band only)

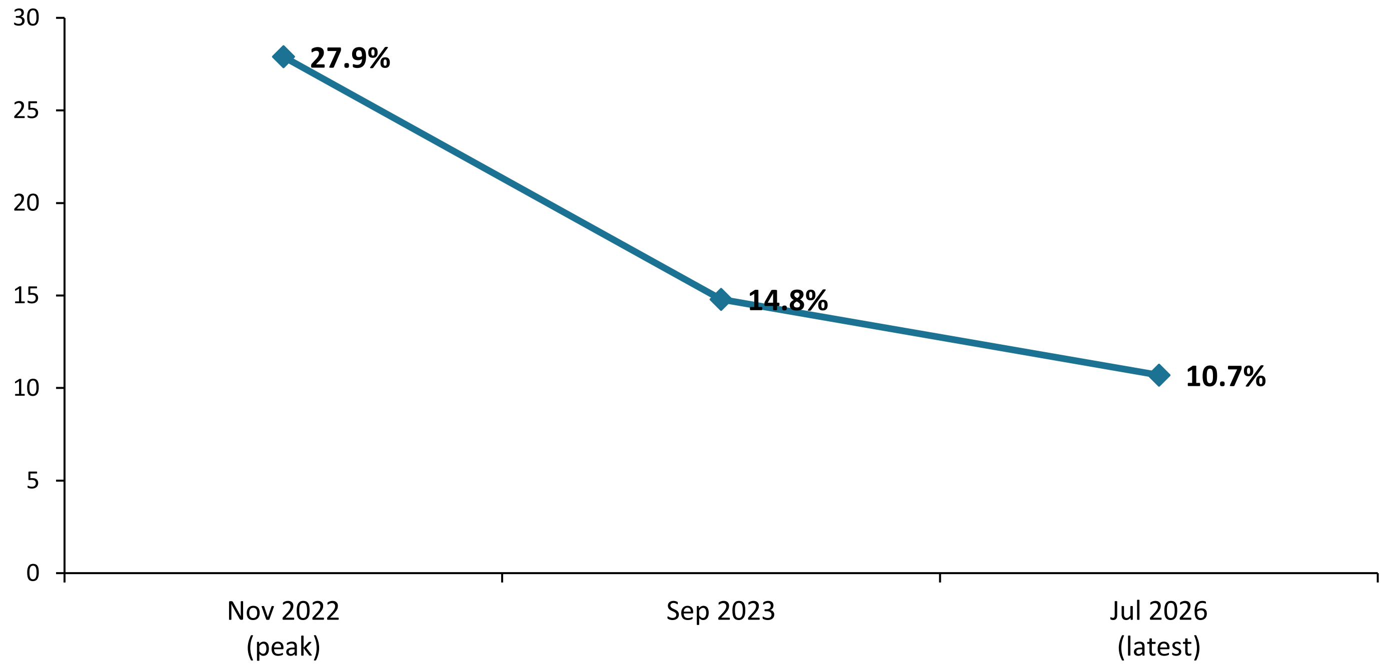
~96%

Net effect on an average household bill since August 2022, on Central Bank data — even after four rounds of cuts in 2024–25. T
he May 2026 figure is the commercial band only;

Electricity prices have remained elevated

Public Utilities Commission of Sri Lanka, tariff decision documents, 2022–2026; The Morning, "Electricity tariffs 96% higher than 2022 rates," 2025 (Central Bank data); Ada Derana, tariff announcements, August 2022 and February 2023; PUCSL tariff determination, 9 May 2026.

The one input that has got cheaper



Average bank lending rate, % — November 2022 peak to July 2026

17 points

Fall in the average bank lending rate from its November 2022 peak to July 2026

A Rs 100 million working-capital facility priced at the 2022 peak cost roughly Rs 28 million a year in interest; the same facility today costs roughly Rs 11 million.

With inflation rising this trend could also reverse.

CBSL Monetary Policy Report, August 2026 (OPR raised to 8.75%, May 2026).

PART FIVE

A small market has to look outward

A large market at our doorstep

The biggest constraint to scaling up

~22 million

Sri Lanka's population — smaller than metropolitan Mumbai alone. On a market this size, modern retail hits its buying-power and logistics-density ceiling fast.

$4,439

GDP per capita, 2025, World Bank constant-price terms — roughly $4,000 of average spending power. Population times income is the real market size, and on both counts it is small.

Three ways to borrow scale you do not own

1

Buy at regional scale

Private label, direct sourcing, regional buying consortia, franchise or affiliation with regional formats. India is next door: shorter lead times, smaller minimum orders, and a supplier base scaled for a billion people.

2

Upgrade suppliers into export chains

Cold chain, grading, traceability, certification, payment records. What you already demand of a supplier is what an international buyer demands — you are one certification away from an export business.

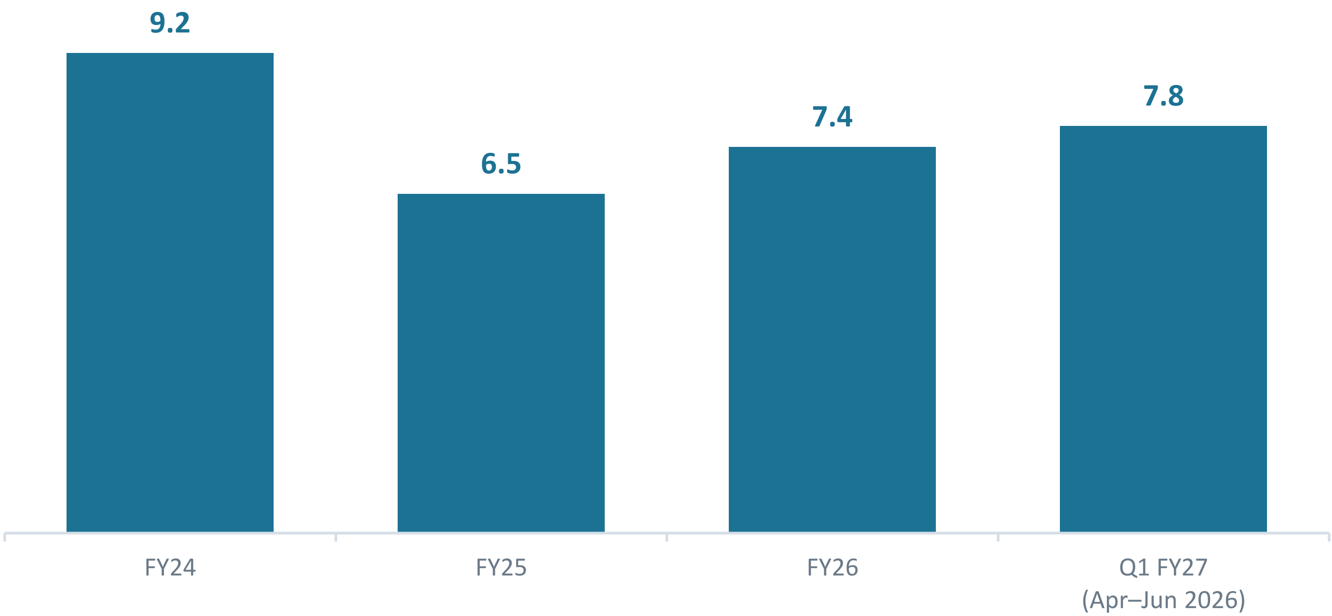
3

Sell the capability itself

Formats, franchising, management systems, logistics and sourcing are tradable services. Thailand's retail groups became regional operators by exporting formats, not goods.

World Bank population data; World Bank, World Development Indicators, GDP per capita (constant 2015 US$), 2025; ADB Briefs No. 386, April 2026; Department of Census and Statistics.

India grew 7.8% last quarter



India real GDP growth, % — latest revised NSO series. FY26 from the Economic Survey 2025-26; Q1 FY27 released 31 August 2026.

US$1.09tn

India's retail market in 2025, projected to roughly double by 2030

US$159bn

Indian e-commerce in 2026, growing at over 11% a year toward US$260bn by 2030

432 million

India's middle class in 2020–21- already bigger than the population of Europe — and growing toward 715 million by 2030–31.

A market growing at nearly 8%, thirty kilometres away, in the same time zone

National Statistical Office of India, Q1 FY2026-27 estimates, 31 August 2026 (7.8%); Economic Survey 2025-26, 29 January 2026 (FY26 at 7.4%); IBEF, Retail Industry in India, updated May 2026; Deloitte India estimates the sector at US$1.06tn rising to US$1.93tn by 2030; PRICE ICE 360 Surveys, 'The Rise of India's Middle Class', 2024-25.

A 26-year-old free trade agreement, unused potential

India–Sri Lanka FTA, in force since 2000	Then	Now (2024)
Sri Lankan exports entering India under ISFTA preference	Nearly all (2003)	**60%**
Sri Lankan imports from India entering under preference	29% (2004)	**9%**
Products on Sri Lanka's negative list	—	**1,180 (24% of tariff lines)**
Products on India's negative list	—	**429**
Garment quota utilisation (8m pieces a year)	—	**Near 100% since 2017**
India's share of Sri Lankan exports / imports	—	**7% of exports, 20% of imports**

US$808 million

Untapped Sri Lankan export potential to India, on ADB's estimate — spices, jewellery and precious metals alone account for 65% of it.

What is actually blocking it

Rules of origin still requiring a four-digit tariff-heading change; no mutual recognition of product certification; India's technical barriers tripled since 2015; and our own para-tariffs, which are three-quarters of our 9% import tax burden.

ADB Briefs No. 386, 'Unlocking Sri Lanka's Trade with India', Hugot, Ranatunga and de Silva, April 2026. Advocata Institute, 'India signs, Sri Lanka hesitates', Dhananath Fernando, 15 February 2026 — of ~US$4.4bn imported from India in 2021, under 5% came in under FTA provisions.

India has access to the world

Agreement	Status	What it opens
India – European Union	Concluded 27 January 2026	97% of EU tariff lines, ~99.5% of trade value
India – United Kingdom (CETA)	In force, 2025	Duty-free on ~99% of India's exports to the UK
India – EFTA (TEPA)	In force, 2025	Switzerland, Norway, Iceland, Liechtenstein
India – UAE (CEPA)	In force since 2022	99% of tariff lines
India – Oman (CEPA)	Signed 2025	Zero duty on 98.08% of tariff lines
India – Australia (ECTA)	In force since 2022	Tariffs eliminated on the full range of Indian exports
India – GCC, Israel, Chile, Canada	Under negotiation	Launched or revived during 2025–26

Roughly two-thirds of world trade

Our preferential access to Europe is GSP+: a discretionary concession, reviewed periodically, that we have to reapply for.
India's is a treaty. A Sri Lankan input inside an Indian value chain can reach Europe on India's terms — which are legally binding, and better than ours.

European Commission, IP/26/184, 27 January 2026; India–UK CETA; India–EFTA TEPA; India–UAE and India–Australia agreements (2022); India–Oman CEPA (2025). Advocata Institute, 'India signs, Sri Lanka hesitates', 15 February 2026 — India has agreements with close to 60 countries and blocs; Sri Lanka has three, with Pakistan, Singapore and Thailand.

PART SIX

Turn data into demand

AI can lift margin from customers already in the store — if the rails are built and trusted.

AI turns your own data into insight and personalisation

$400–660bn

McKinsey's estimate of the annual value generative AI could add to retail and consumer goods globally — 1.2 to 2.0% of sector revenue, mostly from personalisation, customer insight and marketing at scale.

1

Better insight from data you already hold

POS records, loyalty programmes and digital payment data reveal what a customer actually buys, not what a survey says they buy — AI turns that into demand forecasts and stocking decisions in place of intuition.

2

Personalisation at a scale

Recommendation, pricing and offer engines built on transaction history lift conversion and basket size the way a good floor manager does for one customer at a time — for all of them, at once.

3

Service and operations that run themselves

Demand forecasting, dynamic pricing and AI-driven customer service compress cost per transaction — the margin this deck has been chasing since Part Four.

McKinsey & Company, 'The economic potential of generative AI: The next productivity frontier,' June 2023 (retail and consumer packaged goods estimate, US$400–660bn annually, 1.2–2.0% of revenue).

The customer is already digital — retail has to catch up

59.7%

Internet penetration in Sri Lanka, October 2025 — 13.9 million users, up 12% in a year.

130%

Mobile connections as a share of population — 91.3% of them already broadband-capable (3G/4G/5G).

US$2.6bn

Sri Lanka's B2C e-commerce market, 2025 — projected to reach US$3.2bn by 2029, most orders starting on a phone.

400,000

Merchants now accepting LankaQR — digital payments are gaining share fastest among younger, urban shoppers.

Most Sri Lankan online orders now begin on a phone, not a desktop, and social platforms — Facebook, Instagram, TikTok, WhatsApp

The channel has already gone mobile. The question is whether your data, pricing and service have kept pace.

DataReportal, 'Digital 2026: Sri Lanka' (October 2025 figures); Mobiz International, 'eCommerce Landscape in Sri Lanka in 2026 and Beyond'; Stanchion Payments, 'Sri Lanka Payments Evolution: Digital Trends & QR Adoption,' 2026 (LankaQR merchant network).

The payment rail is built. The identity rail is next.

Rs 100bn

Processed daily in cashless payments across LankaPay - digital transactions now exceed Sri Lanka’s GDP.

2026

Target year for SLUDI's pilot launch

≈70%

Share of national salary payments carried on SLIPS — most of the Sri Lankan workforce is already paid digitally.

531,000

Indian visitors in 2025 (22.5% of arrivals) — first customers for India’s UPI, now live at Sri Lankan merchants.

Why both rails matter for AI, specifically

Every digital payment is a data point — what, when, by whom — while cash leaves no trail.

A verifiable identity turns that trail into a credit file.

The greatest AI personalization will belong to retailers who can do both — see the transaction, and verify who made it.

Payment is the sensor network. Identity is the verification layer. AI-driven personalization needs both.

LankaPay, ‘Digital Transactions via LankaPay Outpace GDP of Sri Lanka,’ December 2024; Biometric Update, ‘From physical infrastructure to digital rails: India’s blueprint for Sri Lanka,’ September 2026 (Indian visitor arrivals, UPI expansion, Singapore precedent).

What is needed next

1. Build stronger buffers
2. Facilitate trade
3. Improve productivity
4. Digitalize and adopt AI

Thank you