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When bombs fell on energy infrastructure in the Middle East earlier this year, the echoes were felt at every filling station across Sri Lanka.

Within weeks, the price of a litre of petrol shot past Rs. 400 for the first time since the 2022 economic crisis.

This is not a story about faraway politics. This is a story about how a narrow sea lane called the Strait of Hormuz, which is barely 39 kilometres wide at its narrowest point, can determine whether a father in Kandy can afford to fill up his tuk-tuk, whether a mother in Kurunegala can heat a meal for her children, and whether a small business owner in Pettah can keep the lights on.

Sri Lanka imports every single drop of petroleum it consumes. When the world's oil tap tightens, Sri Lankans feel it immediately and feel it hardest.

The fire that started far away

The crisis traces its roots to February 2026, when US-Israeli military

Flames of war, rising prices at home

How the Middle East conflict shook global oil markets and delivered a second economic shock on the doorstep of ordinary Sri Lankans

Fuel Type	Nov 2025 (Rs./litre)	May 30, 2026 (Rs./litre)	% Change
Petrol 92 Octane	294	434	+47.6%
Auto Diesel	277	407	+46.9%
Super Diesel (Euro 4)	318	478	+50.3%
Kerosene	180	285	+58.3%
Petrol 95 Octane	335	495	+47.8%

Source: Ceylon Petroleum Corporation (historical fuel prices)

strikes on Iran triggered a major disruption to global oil shipping routes.

The Strait of Hormuz, through which roughly 20 million barrels of crude passed every day, suddenly became a war zone. Global oil supply fell by an estimated 10 million barrels per day, the largest supply shock on record.

The consequences were swift and severe. Brent crude oil, the global benchmark, which had been trading at approximately US\$ 69 per barrel in 2025, surged by over 50 percent to cross the symbolic US\$ 100-per-barrel threshold for the first time in four years.

The World Bank now forecasts Brent to average at US\$ 86 per barrel in 2026, with a worst-case scenario of US\$ 115 if the conflict escalates further. To put it simply: every barrel of oil we buy to run our buses, lorries, tuk-tuks, and fishing boats now costs

roughly 25 percent more than it did eighteen months ago.

Sri Lanka's pump prices: A timeline of pain

In November 2021, a litre of Petrol 92 cost Rs. 177. In the 2022 crisis, prices increased to Rs.450-470. As the IMF stabilisation program was introduced in 2023, prices eased back to Rs. 290 by late 2025.

Within weeks of the Middle East war breaking out, the Ceylon Petroleum Corporation (CPC) began the first of a series of sharp revisions. By late March 2026, prices had increased roughly 25 percent across the board. By the end of May, Petrol 92 stood at Rs. 434, Auto Diesel at Rs. 407, Super Diesel at Rs. 478, and Kerosene at Rs. 285.

Why fuel prices hit you everywhere

The price at the pump is not just about filling your car. Fuel is the hidden cost in almost everything you buy, eat, or use. When diesel rises, bus fares rise. When petrol climbs, the tuk-tuk trip to the hospital costs more. When kerosene prices go up, the evening meal at home becomes more expensive to cook.

Sri Lanka's inflation rate surged to 5.5 percent in May 2026, its highest level in 27 months. Compared with May in 2025, Y-O-Y inflation has risen

by 13.89 percent in the transportation sector. The Central Bank responded by raising its Overnight Policy Rate by 100 basis points.

Bus ticket prices have already risen by 12 percent. Vegetable prices are climbing because the lorries that bring produce from the central highlands to Colombo now operate on more expensive diesel. Fish prices have increased because fishing trawlers run on fuel that has nearly doubled in cost since 2022.

Even the cost of construction has risen, as petrochemical-based raw materials and transport costs push builders to pass on costs to buyers. The construction sector's Purchasing Managers' Index fell to 45.7 in April, below the 50-point mark that signals contraction.

A narrow sea lane, a nation's fate

Sri Lanka imports approximately 66 percent of its total energy, the vast majority travelling through or near the Strait of Hormuz. Critically, the country holds fuel reserves for only one month of consumption. When shipping disruptions hit, there is almost no buffer.

The Government reintroduced the QR-based National Fuel Pass, implemented a four-day public sector work week, and announced plans to build six new storage tanks costing Rs. 4.77 billion – adding ten days of additional reserve capacity. Necessary steps, but a reminder of how fragile the country's energy architecture remains.

What could happen next

The road ahead has several dangerous bends. If global oil prices remain elevated at or above US\$ 86 per barrel through the remainder of

2026, consistent with the World Bank's baseline forecast, Sri Lanka could face persistent imported inflation pressures that threaten the macroeconomic stability achieved since the 2022 crisis.

Under the IMF bailout program, fuel and electricity tariffs are expected to broadly reflect cost-recovery principles. This limits the Government's ability to absorb higher energy costs through broad-based subsidies. Given the already constrained fiscal space and the limited scope for additional subsidy support, sustained increases in global oil prices would likely be passed through to domestic consumers and businesses through higher fuel and electricity prices.

This could raise production and transportation costs, increase the cost of living, and place renewed pressure on inflation and economic growth. In a worst-case scenario, if Brent crude reaches US\$ 115 per barrel as the World Bank's pessimistic model suggests, inflation in developing economies such as Sri Lanka could increase towards 5.8 percent, the highest level since 2022. The Central Bank would face a difficult policy dilemma: tighten monetary policy further to contain inflation at the risk of slowing economic recovery, or maintain current rates and permit inflationary pressures to persist.

A more immediate concern is the impact of higher oil prices on Sri Lanka's fuel import bill. Fuel imports account for around 20% of the country's total import expenditure on average, making Sri Lanka highly vulnerable to oil price shocks.

Sustained increases in global oil prices would raise import costs, widen the trade deficit, increase demand for foreign exchange, and place pressure on the Balance of Payments (BOP). Higher fuel costs could also slow foreign reserve

accumulation and complicate external debt management.

Higher transport costs may also dampen tourism demand, while slower growth in Gulf economies could reduce remittance inflows, further weakening external stability.

What can be done?

The long-term solution to Sri Lanka's fuel vulnerability is clear: a decisive transition towards renewable energy. Solar, wind, and hydropower can generate electricity without importing a single barrel of oil. The Government and the Central Bank have signalled that structural reform must centre on higher reliance on domestically generated renewable energy. The planned LNG terminal should be accelerated. Investment in solar power for homes, schools, and industries should be made a national priority, supported by accessible financing and simplified regulations.

In the near term, targeted relief for the most vulnerable is essential. A blanket subsidy for all fuel users is expensive and benefits wealthier car owners more than the poor. A better approach would be direct income support or targeted cash transfers to low-income households to offset rising transport and food costs, while maintaining cost-reflective pricing at the pump to meet IMF program commitments.

Improving public transport infrastructure would reduce the aggregate fuel burden on families while also cutting the national import bill.

Emergency fuel storage expansion is no longer optional. Every additional day of reserve capacity is a day's buffer against the next shock. And if 2026 has taught Sri Lanka anything, it is that external shocks are not exceptional events. They are the new normal.

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Period	Brent crude oil price (US\$ per barrel)	Key event
Jan 2021	\$54	Post-Covid recovery
Jan 2022	\$83 – \$85	Russia-Ukraine tensions
Jul 2022	\$105	Post-Ukraine surge
Jan 2023	\$84	Increased supply and weakening global demand pressures
Jan 2025	\$69	Oversupply, stable period
Feb-Mar 2026	\$70 – \$100	The Middle East war begins
Apr 2026	\$100+	Strait of Hormuz disruption
2026 Forecast	\$86 average \$115 worst-case	World Bank projection

Sources: World Bank Commodity Markets Outlook (April 2026). 2026 values reflect actual and forecast data available as of June 2026.

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