

STATE OF THE ECONOMY

AS REFLECTED IN THE

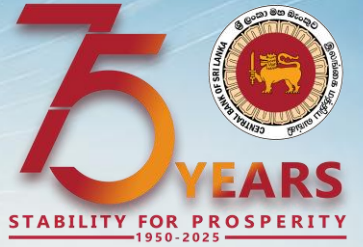
ANNUAL ECONOMIC REVIEW 2025

CENTRAL BANK OF SRI LANKA

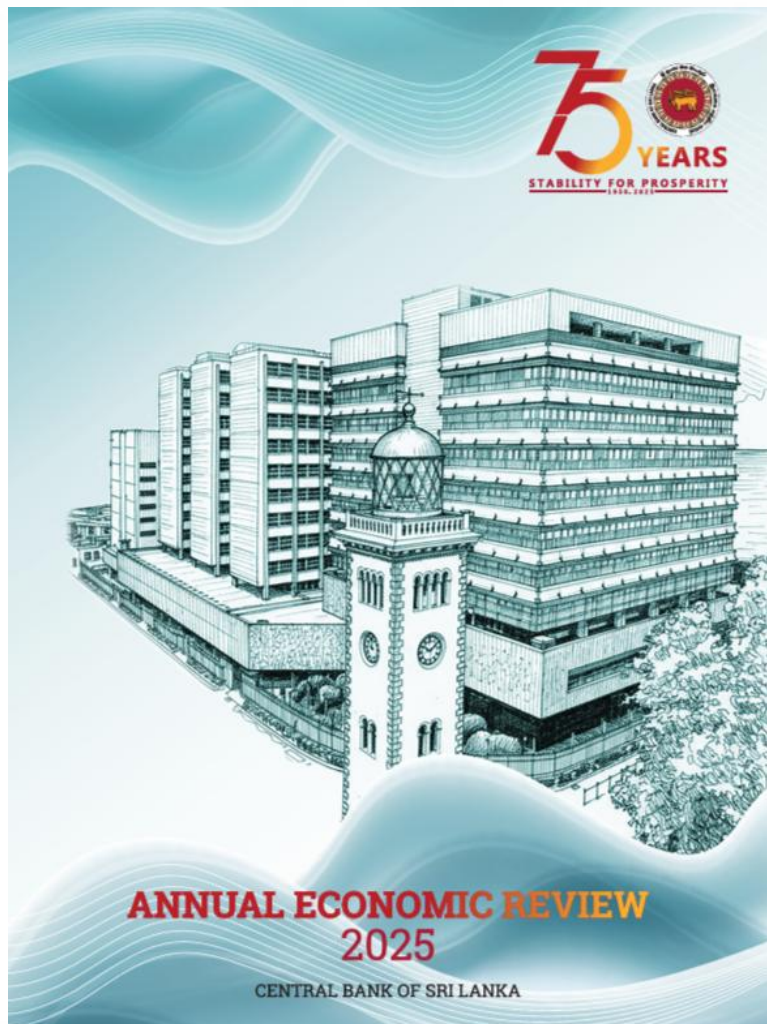
Dr. Lasitha Pathberiya

Director of Economic Research
Central Bank of Sri Lanka

13 May 2026



Section 80(3) of Central Bank of Sri Lanka Act, No. 16 of 2023



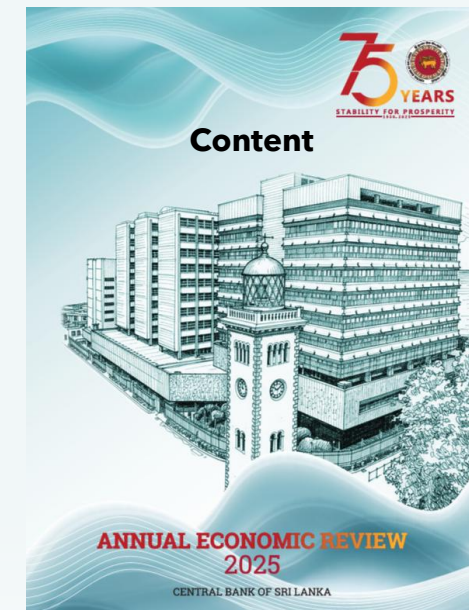
“The Governor of the Central Bank shall ensure that the Central Bank shall, **within a period of four months** after the close of each financial year, **publish, and lay before Parliament through the Minister, a report** approved by the Governing Board, **on the state of the economy** during such financial year **emphasising its policy objectives and the condition of the financial system.** The report shall include a **review and an assessment of the policies of the Central Bank** followed during such financial year”



Content of the Annual Economic Review 2025

1. Key Economic Indicators & Key Social Indicators
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**Detailed versions of the statistical appendices (145 tables) and special statistical appendices (9 tables) are available online in excel format.*



In 2025,
the Sri Lankan economy continued to
BUILD ON THE RECOVERY
achieved in previous years,
amid HEADWINDS
from rising trade tariffs,
geopolitical tensions, and
the impact of Cyclone Ditwah



Executive Summary



Real Sector & Inflation: Real GDP grew by 5% in 2025, marking the second consecutive year of expansion, with improved domestic activity. Inflation turned positive from August 2025 after a deflationary phase, driven by easing energy price declines and rising food prices



Monetary Sector: Monetary policy remained accommodative, supporting low interest rates and a notable expansion in private sector credit



External Sector: The current account recorded a surplus for the third consecutive year, supported by strong remittances and services exports. Foreign exchange inflows enabled reserve accumulation, while the rupee depreciated modestly under a flexible exchange rate regime



Financial Sector: Financial sector performance improved with strong capital and liquidity buffers and enhanced the overall system resilience



Fiscal Sector: Fiscal performance remained strong, with a primary surplus for the third consecutive year, driven by revenue-based consolidation. Continued efforts were made to support vulnerable groups while maintaining fiscal discipline



Outlook: Continued reforms and policy consistency will help restore macroeconomic stability and build buffers. However, 2026 appears to be more challenging, with risks from the ongoing war in the Middle East affecting inflation, external conditions, and activity



Infographic : Snapshot of the Sri Lankan Economy 2025

Sri Lankan economy continued to build on the economic recovery amid multiple shocks

Real GDP Growth

Growth momentum sustained

5.0% → 5.0%
2024 (y-o-y) 2025 (y-o-y)

Agriculture 1.4% | Industry 7.8% | Services 3.3%

Nominal GDP

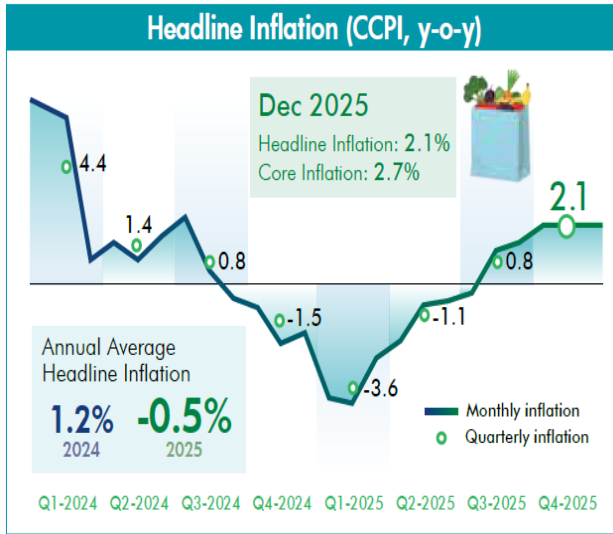
2024	2025
Rs. 30.1 tn	Rs. 32.8 tn
USD 99.6 bn	USD 108.8 bn

Growth: 8.8% in 2025 (in rupee terms)

Per Capita GDP

USD 5,003
2025

USD 4,546
2024



Monetary Policy Stance

Monetary Policy remained accommodative

OPR:	8.00% → 7.75%
SDFR:	7.50% → 7.25%
SLFR:	8.50% → 8.25%

Financial Sector

	2024	2025
Gross Stage 3 Loan Ratio		
Banking Sector	12.3%	9.7%
Finance Companies Sector	11.5%	6.1%
Capital Adequacy Ratio (CAR)		
Banking Sector	20.3%	17.9%
Finance Companies Sector	21.3%	18.7%

Market Interest Rates (%)

	end 2024	end 2025
Avg. Weighted Prime Lending Rate (AWPR) (Monthly)	8.92	8.87
Avg. Weighted Lending Rate (AWLR)	11.93	11.48
Avg. Weighted New Lending Rate (AWNLR)	10.77	10.69
Avg. Weighted Deposit Rate (AWDR)	7.53	6.78
Avg. Weighted New Deposit Rate (AWNDR)	6.52	6.29
1 Year T-bill Yield	8.96	8.45

Private Sector Credit (by LCBs)

Credit Growth (y-o-y): **25.2%** (2025) vs **10.7%** (2024)

Credit Expansion: **Rs. 2,056 bn** (2025) vs **Rs. 790 bn** (2024)

External Sector Performance

Trade Deficit widened
USD 6.1 bn → USD 7.9 bn
in 2024 in 2025

Import Growth > Export Growth

Gross Official Reserves
end 2025: USD 6.8 bn
end 2024: USD 6.1 bn

Improved amid external debt servicing

Exchange Rate (LKR per USD)
end 2025: 309.99
end 2024: 292.58

-5.6% Depreciation in 2025
+10.7% Appreciation in 2024

LKR depreciated against USD

Central Bank Net FX Purchases
(based on value date)
USD 2.0 bn in 2025
USD 2.8 bn in 2024

Continued net FX purchases

Current Account Surplus improved
USD 1.2 bn in 2024 → USD 1.7 bn in 2025

Fiscal Sector

Government Revenue (as a % of GDP)	Budget Deficit (as a % of GDP)	Primary Surplus (as a % of GDP)
2025: 16.7	2025: 2.3	2025: 5.4
2024: 13.6	2024: 6.8	2024: 2.2

Outstanding Central Government Debt**
95.5% of GDP end 2024 → 91.6% of GDP end 2025

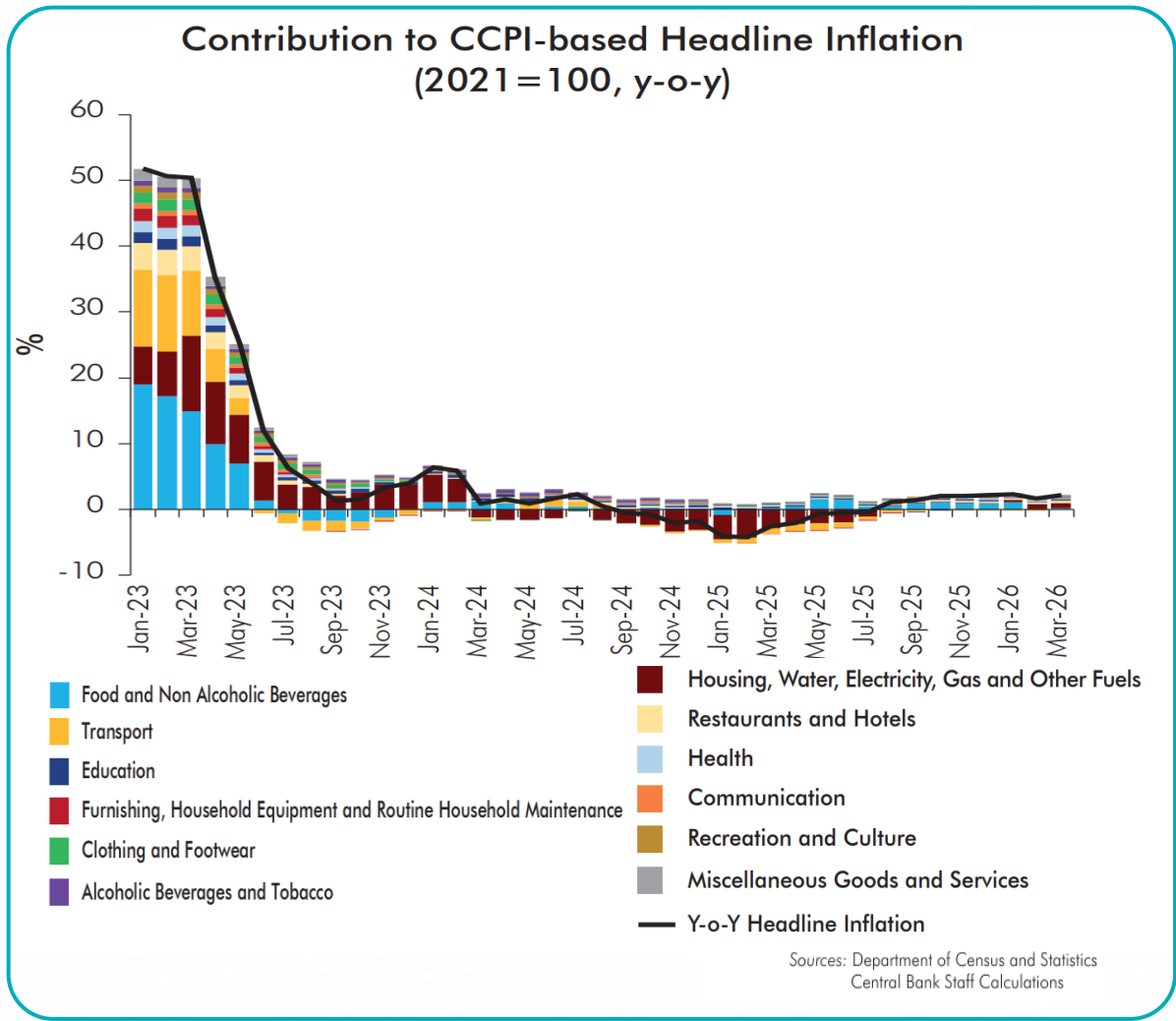
** Please refer to footnotes of table 1.21 of AER 2025.

✓ **Stability Restored** **Credit Ratings Improved** ✓ **Positive Economic Momentum Continued**

Inflation and Price Developments



Following eleven consecutive months of deflation, headline inflation returned to positive territory in August 2025 and gradually accelerated thereafter



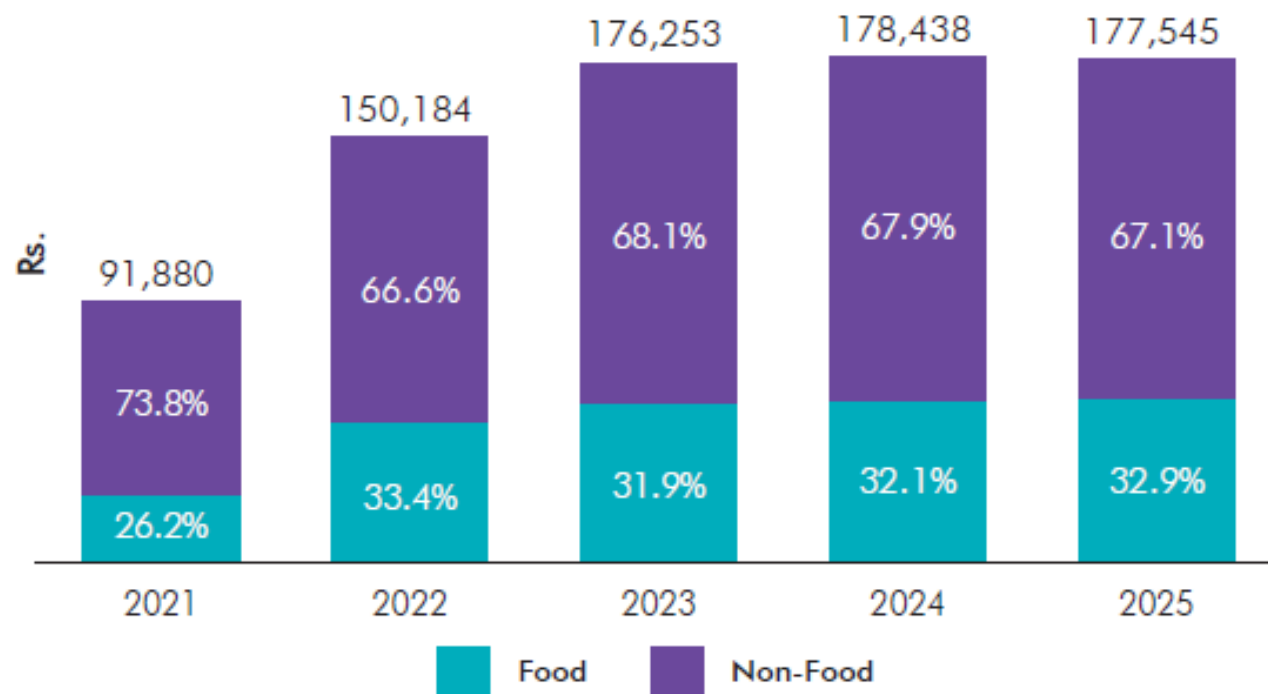
- **Deflationary conditions deepened in early 2025**, driven by downward revisions to electricity tariffs and statistical base effects
- However, from **March 2025**, deflation began to ease due to rising food inflation and upward adjustment in electricity tariffs
- As deflationary pressures in energy and transport category eased, alongside rising food inflation and normalising demand conditions, **inflation returned to positive territory in August 2025 and gradually accelerated thereafter**

CCPI based Headline Inflation (2021=100)		
Year	End year (y-o-y)	Annual average
2023	4.0%	17.4%
2024	-1.7%	1.2%
2025	2.1%	-0.5%



As reflected by the Colombo Consumer Price Index (CCPI), the cost of living declined marginally in 2025 compared to 2024

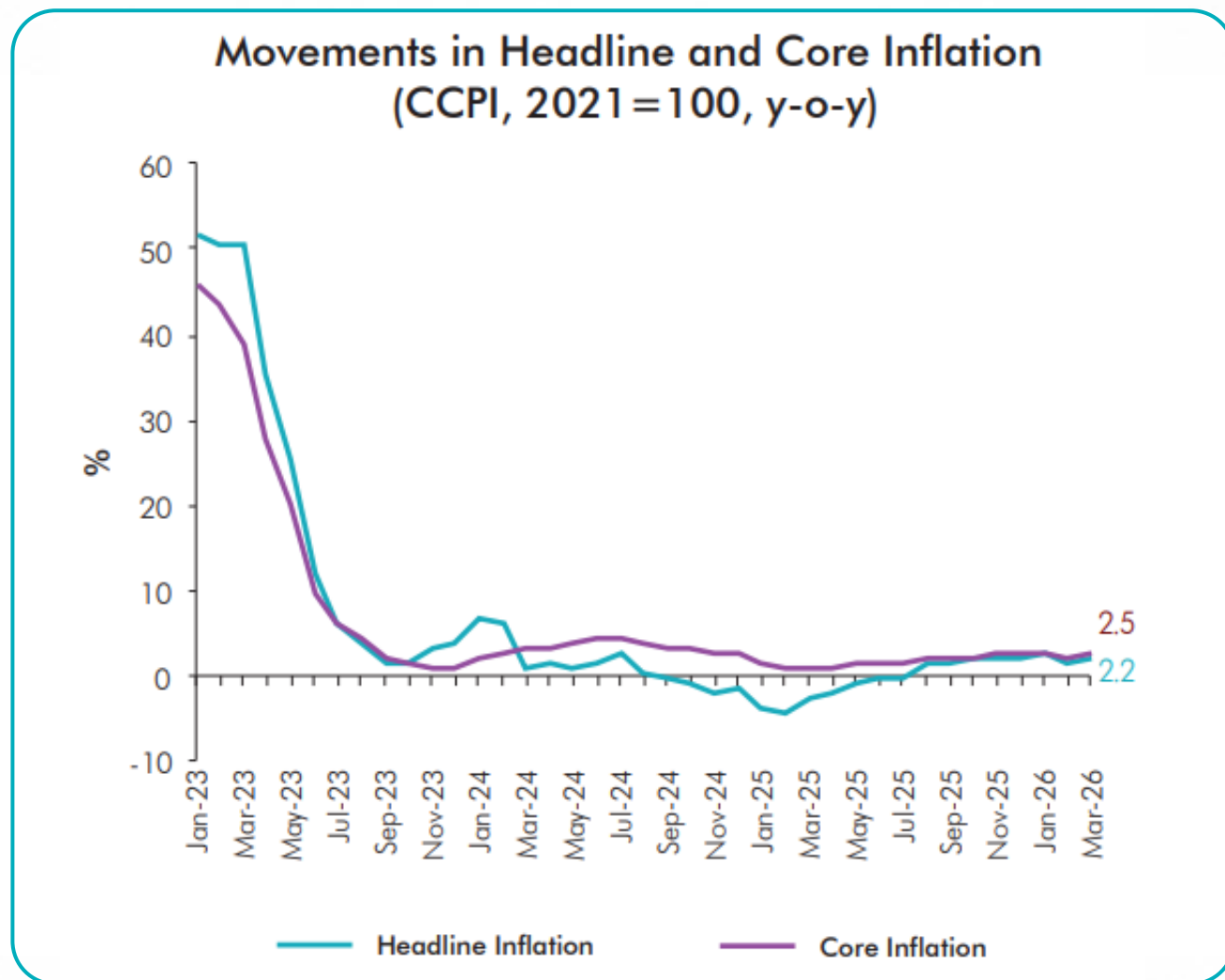
Average Monthly Consumption Expenditure
Based on CCPI



- The estimated average **monthly consumption expenditure for a household**, based on the **CCPI**, **decreased marginally** by 0.5% from Rs. 178,438 in 2024 to Rs. 177,545 in 2025



Core inflation showed a gradual acceleration during 2025 while remaining at low positive levels



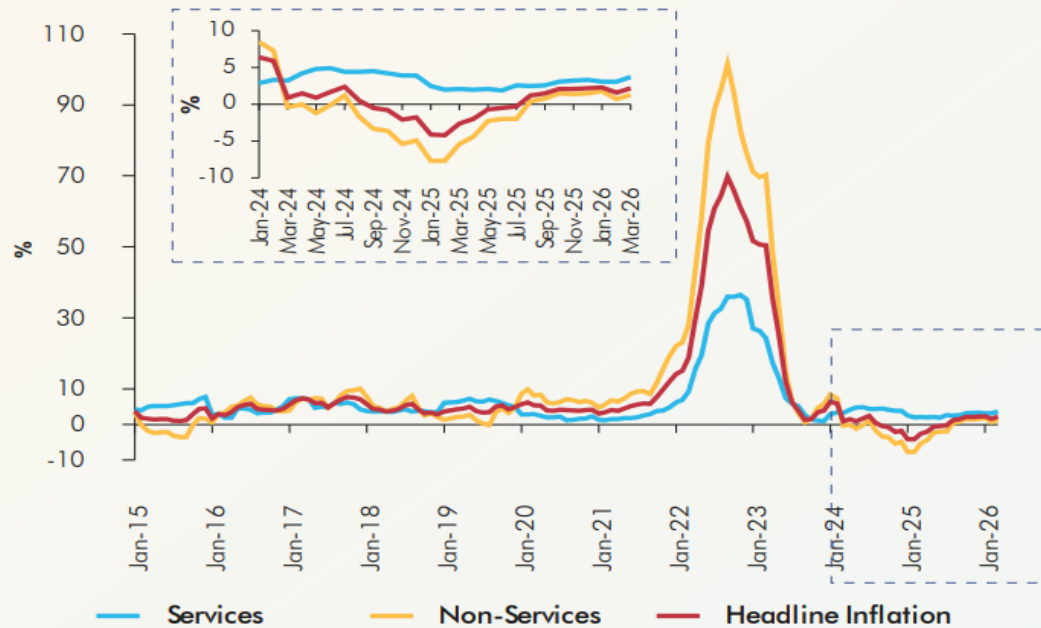
- Core inflation remained at **low positive levels** throughout 2025, despite **a gradual upward trend** driven by food and selected non-food categories within the core basket
- This suggests that the pickup in demand may have been somewhat slower than indicated by other economic indicators
- Early 2026 developments also show core inflation remaining at low positive levels, indicating a **slower-than-expected recovery in domestic demand conditions**



Featured Chart

Services and Non-Services Inflation Dynamics

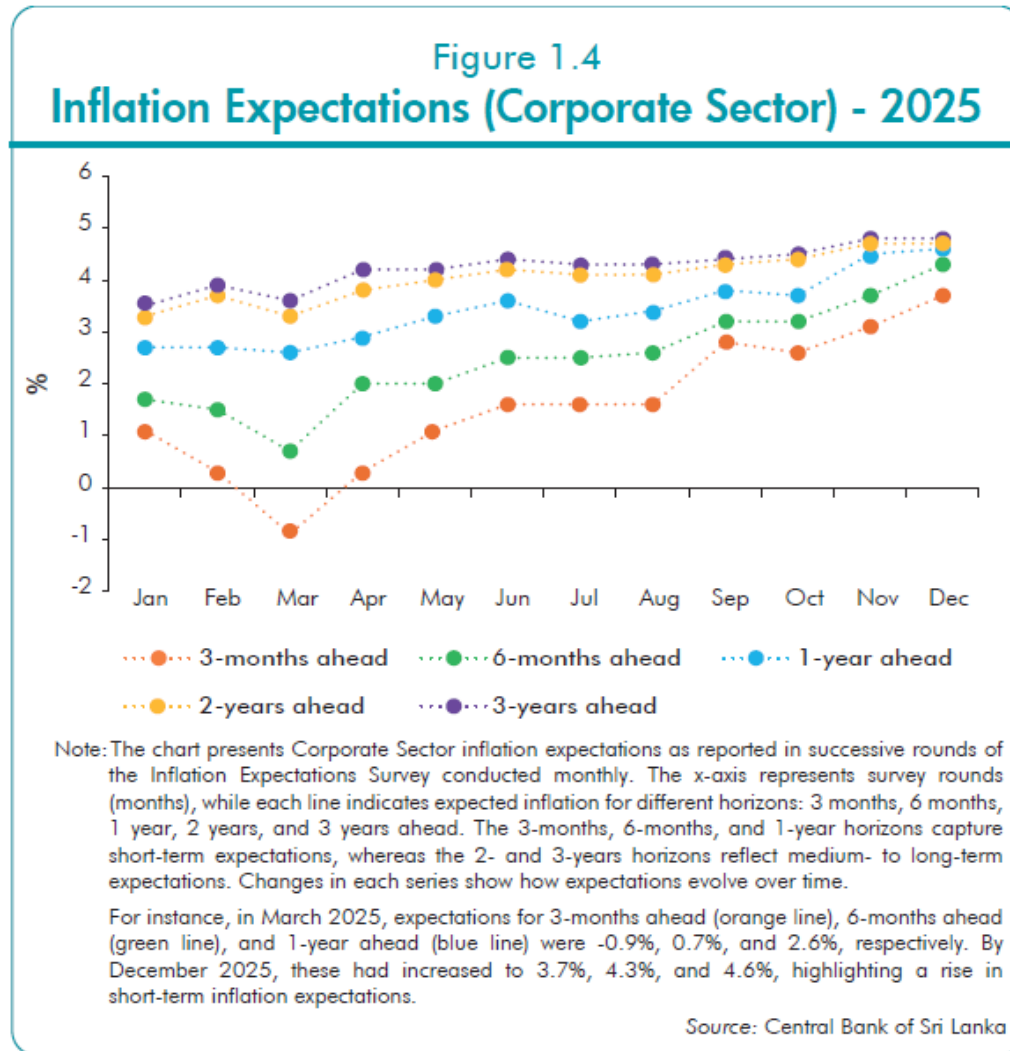
Movements of Services, Non-Services and Headline Inflation (CCPI, y-o-y)



- Services inflation refers to the **increase in the prices of services over time, such as housing rent, restaurant and hotel services, education, communication, and transport services** among others
- Compared to goods prices, **services prices tend to be less volatile and adjust more gradually to supply-side disruptions or external shocks**, thereby exhibiting greater persistence
- Hence, services inflation serves as an important indicator of underlying inflationary pressures
- Even during episodes of headline deflation where **non-services deflation prominently deepened, services inflation remained positive**, continuing to exert upward pressure on overall inflation



Inflation expectations of both corporate and household sectors, as reflected in the Inflation Expectations Survey, increased gradually during 2025



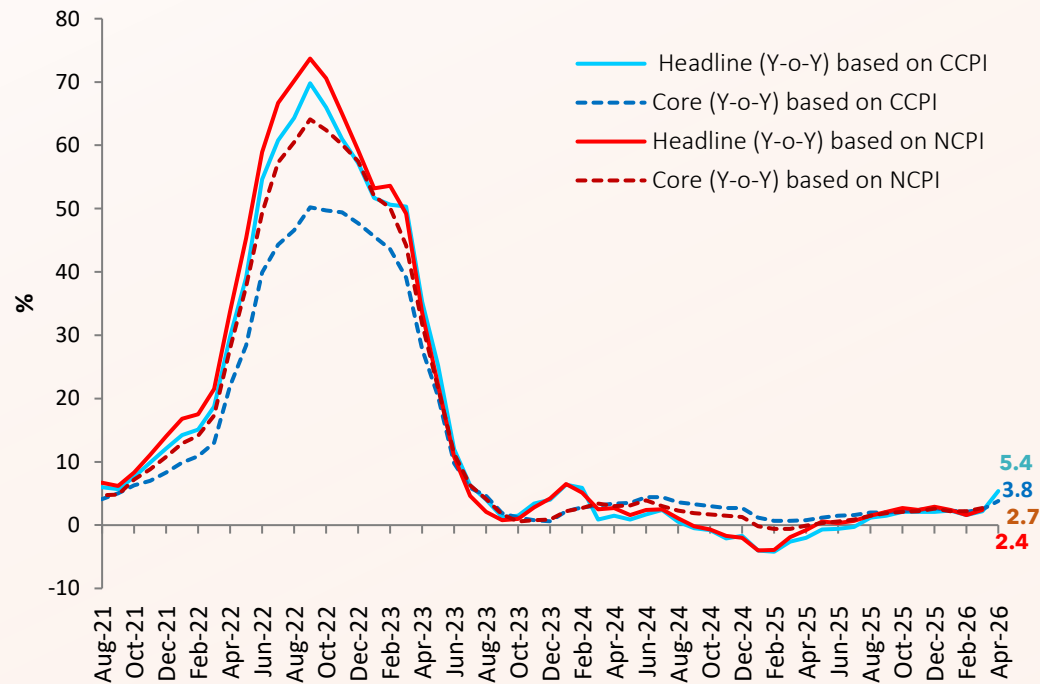
- For the **corporate sector**, short-term inflation expectations remained **below target** in early 2025 but **increased gradually** from mid-year toward the 5% target
- Inflation expectations of the **households** also exhibited a similar **upward movement** over the year but **remained at a lower level compared to the corporate sector**, reflecting their tendency to adjust expectations based on past inflation
- **Medium- to long-term** inflation expectations of the **corporate sector remained well anchored** around the inflation target, with only a marginal upward adjustment observed towards the latter part of 2025



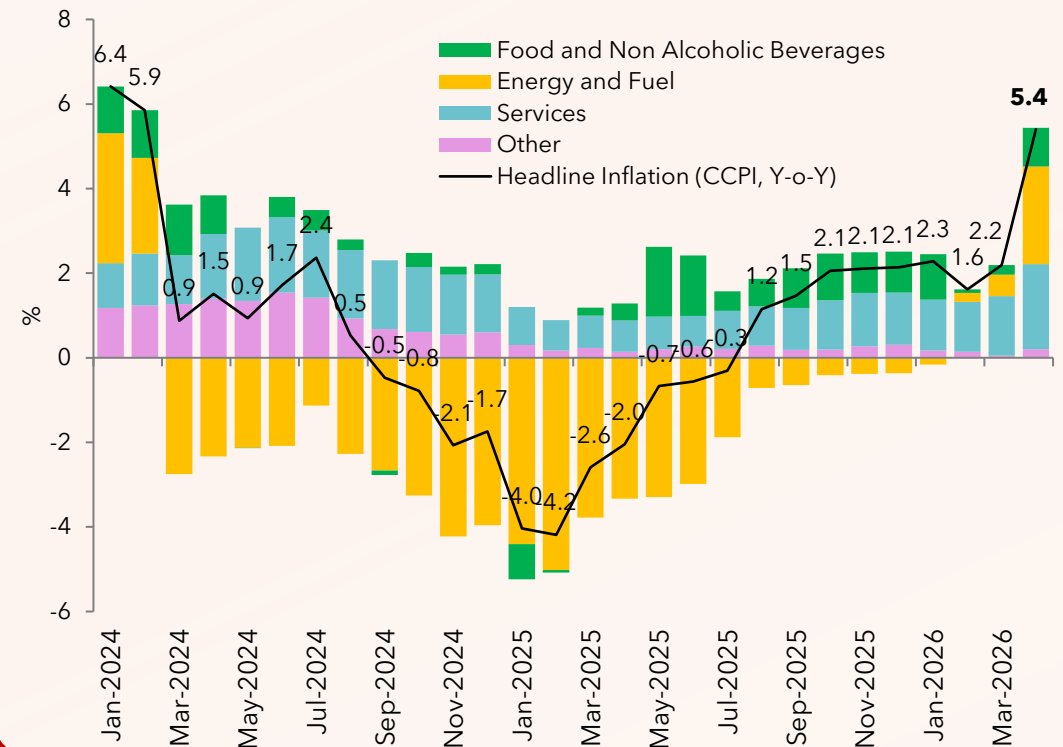
Recent Update

Headline inflation accelerated to 5.4% in April 2026 reflecting the spillovers from the ongoing war in the Middle East, particularly the significant upward adjustments in domestic energy prices

Movements of Headline Inflation & Core Inflation

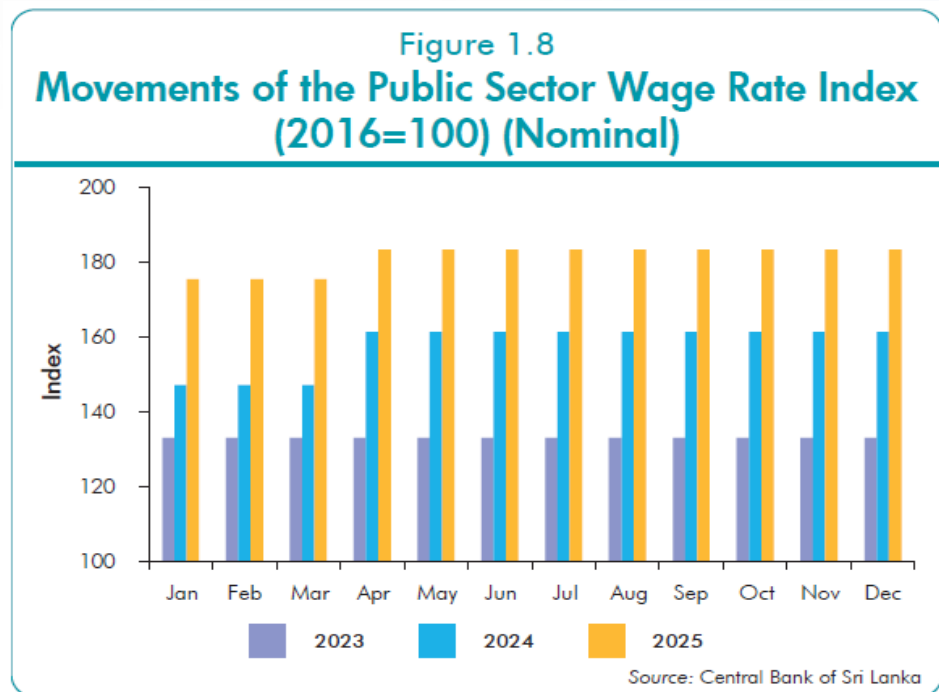
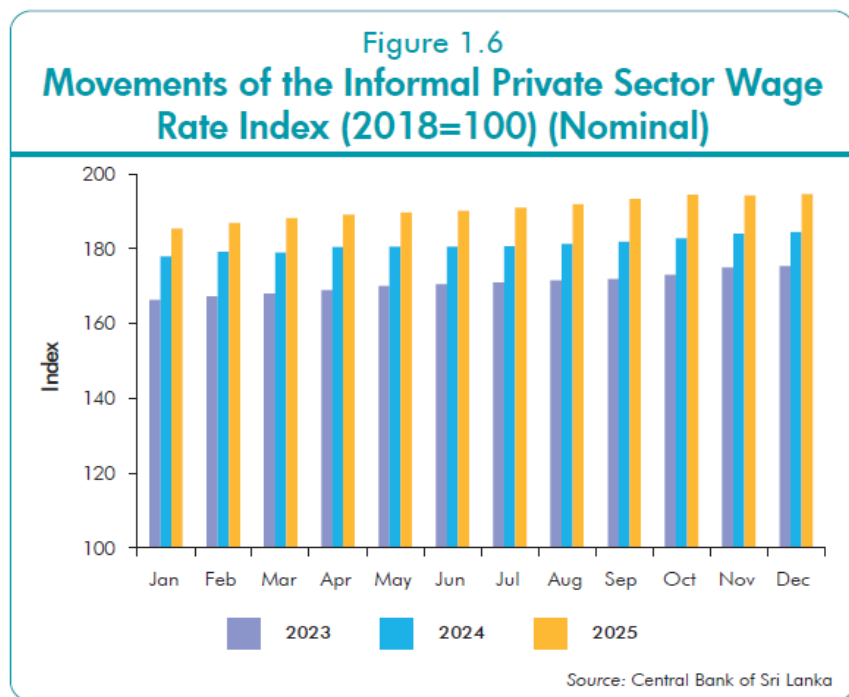


Contribution to Headline Inflation (CCPI, 2021=100)



Nominal wages of employees in both the private and public sectors recorded an increase in 2025 compared to the previous year

- **Nominal wages** of employees in both the private and public sectors **increased** in 2025, reflecting **evolving labour market conditions** and **administrative wage adjustments**
- Nominal wages of **both formal and informal private sector employees** showed an upward trend throughout 2025

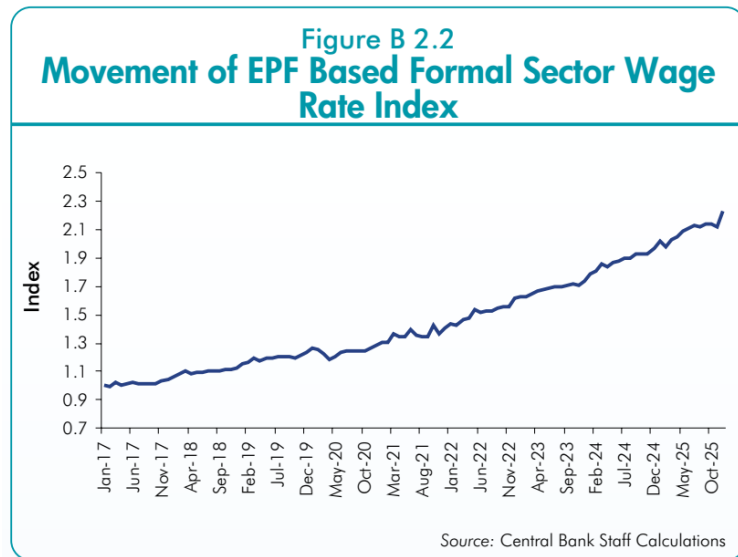


- Nominal wages of **public sector employees** recorded a marked increase during 2025, reflecting the implementation of the public sector salary revision announced in Budget 2025
- **Real wages improved in 2025**, supported by nominal wage increases and relatively contained inflationary pressures

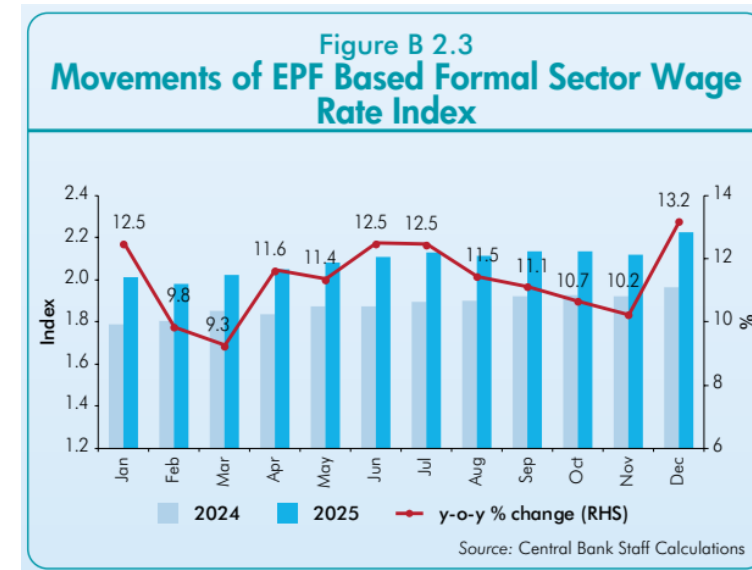


Addressing Data Gaps in Private Sector Wage Dynamics using EPF-based Formal Sector Wage Rate Index

- **A gradual upward trend in private sector wages,** with a more pronounced increase following the inflationary period during 2022-2023



- **A sustained wage growth with some moderation was observed during mid-2025,** followed by a pickup towards the end of the year, reflecting changes in economic activity, seasonal factors, and wage-setting practices



Real Sector Developments



The Sri Lankan economy maintained its growth momentum in 2025, recording a real expansion of 5.0%, for the second consecutive year

Figure 1.9
Annual Real GDP Growth Rates (a)

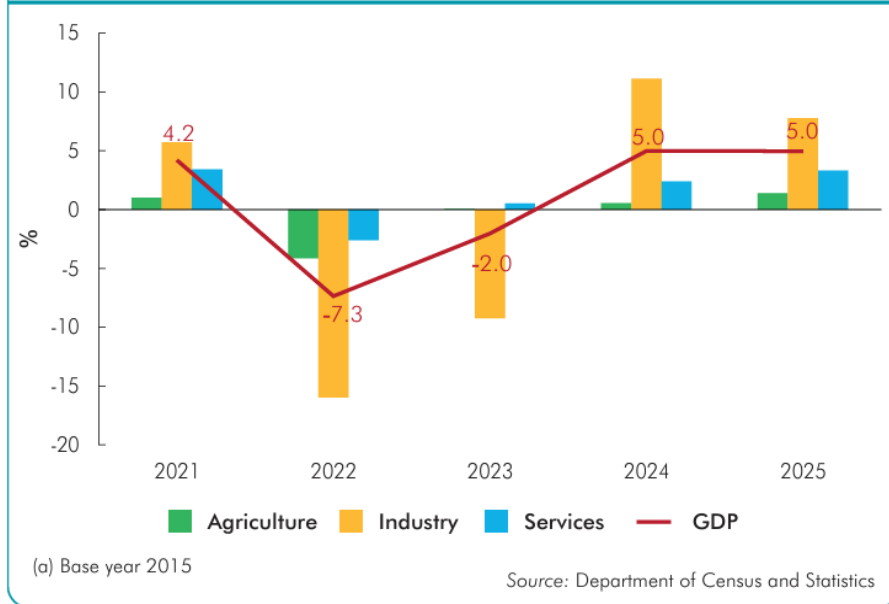
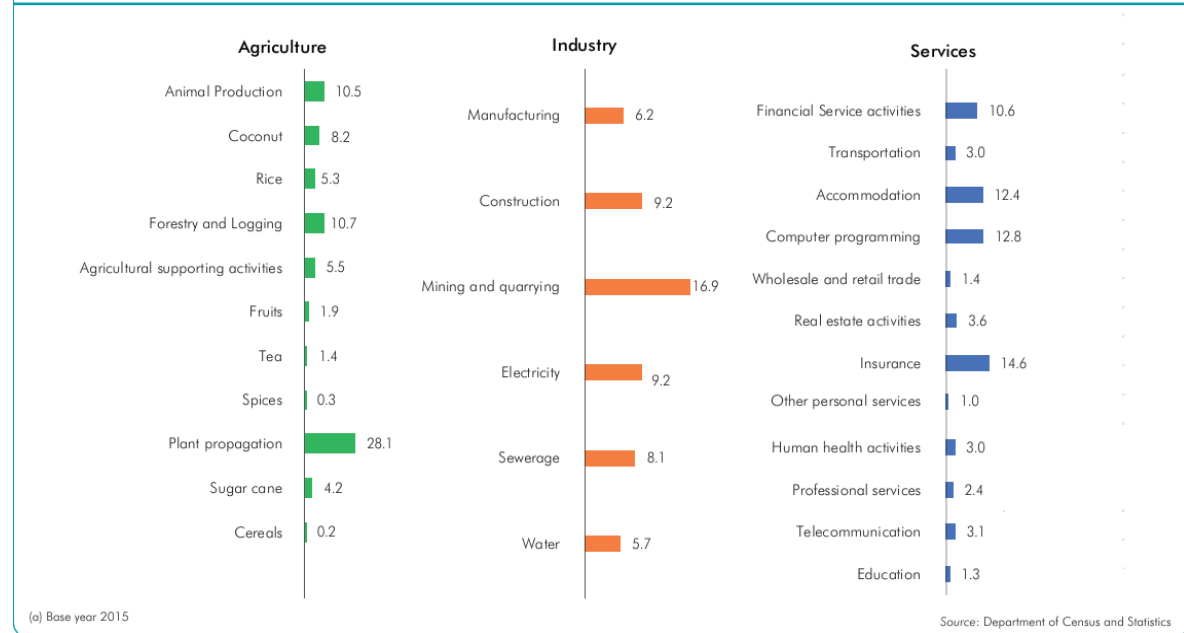


Figure 1.10
Growth in Economic Activities at Constant Prices in 2025 (a)



Item	2025	2024
Per capita GDP at Current Market Prices (USD)	5,003	4,546
GDP at Current Market Prices		
Rs. (Bn)	32,750.84	30,095.83
USD (Bn)	108.84	99.63

- The overall growth was **mainly attributable to Industry activities**, driven by the notable contributions from **manufacturing** and **construction** activities
- **Services** activities also contributed significantly, mainly supported by the sustained growth in **financial services** and **transport activities**
- **Agriculture** activities also contributed positively, driven by **animal production** and **the growing of coconut**



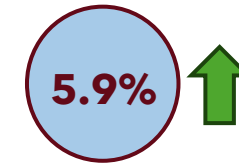
From an Expenditure perspective at current prices, Consumption and Investment grew, while Net external demand remained contracted in 2025

Table 1.3
Aggregate Demand and Savings at Current Market Prices (a)(b)

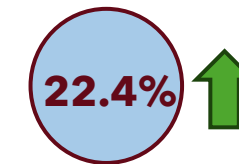
Economic Activity	Rs. bn		Rate of Change %		As a Percentage of GDP %	
	2024 (c)	2025	2024 (c)	2025	2024 (c)	2025
1. Domestic Demand	30,880.6	34,019.7	9.8	10.2	102.6	103.9
1.1 Consumption	22,951.4	24,310.6	7.0	5.9	76.3	74.2
Private	20,859.6	22,102.3	6.5	6.0	69.3	67.5
Government	2,091.8	2,208.3	12.6	5.6	7.0	6.7
1.2 Investment (Gross Capital Formation)	7,929.3	9,709.1	18.6	22.4	26.3	29.6
Gross Fixed Capital Formation	5,743.1	6,803.2	14.8	18.5	19.1	20.8
Changes in inventories and Acquisitions less Disposals of Valuables	2,186.2	2,905.9	30.0	32.9	7.3	8.9
2. Net External Demand	-784.8	-1,268.8	-32.6	-61.7	-2.6	-3.9
Export of Goods and Services	5,945.7	6,212.0	4.8	4.5	19.8	19.0
Import of Goods and Services	6,730.5	7,480.8	7.4	11.1	22.4	22.8
3. Total Demand (GDP) (1+2)	30,095.8	32,750.8	9.3	8.8	100.0	100.0
4. Domestic Savings (3-1.1)	7,144.5	8,440.3	17.3	18.1	23.7	25.8
Private	8,453.6	8,223.3	9.2	-2.7	28.1	25.1
Government (d)	-1,309.1	217.0	20.7	116.6	-4.3	0.7
5. Net Primary Income from Rest of the World (e)	-784.8	-608.6	5.9	22.4	-2.6	-1.9
6. Net Secondary Income from Rest of the World (e)	1,942.7	2,394.5	1.9	23.3	6.5	7.3
7. National Savings (4+5+6)	8,302.4	10,226.1	15.9	23.2	27.6	31.2
8. Savings Investment Gap						
Domestic Savings - Investment (4-1.2)	-784.8	-1,268.8			-2.6	-3.9
National Savings - Investment (7-1.2)	373.1	517.0			1.2	1.6
9. External Current Account Balance (2+5+6) (e)	373.1	517.0			1.2	1.6

(a) Base year 2015
(b) Provisional
(c) Revised
(d) This is the Current Account Balance of the Central Government.
(e) Any difference with the BOP estimates is due to the time lag in compilation.

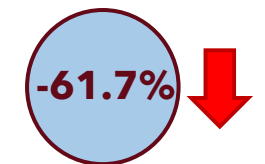
Sources: Department of Census and Statistics
Central Bank of Sri Lanka



Consumption Expenditure



Investment Expenditure

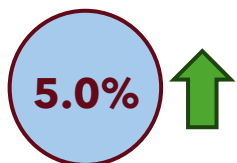


Net External Demand

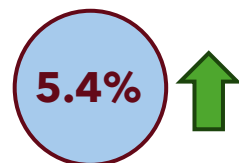
- **Consumption expenditure:** Driven by the increase in private consumption expenditure
- **Investment expenditure:** Mainly contributed by the increase in expenditure on transport equipment and construction
- **Net external demand:** Higher growth in goods and services imports than in goods and services exports



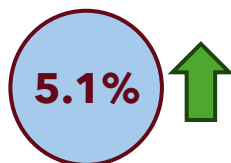
From the Income perspective, all income generators contributed positively to the growth in 2025



Gross Mixed Income



Gross Operating Surplus



Compensation of Employees

As per the institutional sector classification

- **Non-financial Corporations** remained the largest income generator
- followed by: **Household, Financial corporations and General Government**

Table 1.4
Income Components by Institutional Sector at Current Market Prices (a)(b)

Item	Percentage Share (%)									
	2024 (c)					2025				
	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy
Compensation of Employees	54.2	7.6	20.3	18.0	100.0	54.1	7.1	21.1	17.6	100.0
Gross Operating Surplus	81.7	16.1	2.2	-	100.0	83.0	14.8	2.2	-	100.0
Gross Mixed Income	-	-	-	100.0	100.0	-	-	-	100.0	100.0
Other Taxes less Subsidies on Production	66.5	13.8	-	19.7	100.0	67.5	12.5	-	20.1	100.0
Gross Value Added at basic price	43.5	7.7	6.5	42.3	100.0	44.0	7.1	6.7	42.1	100.0

(a) Base year 2015
(b) Provisional
(c) Revised

Source: Department of Census and Statistics



Unemployment declined, but structural issues in the labour market still persist

Table 1.5
Household Population, Labour Force and Labour Force Participation

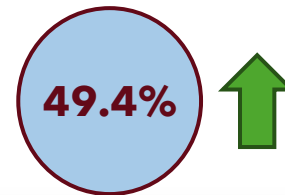
Item	2024	2025 (a)
Household Population '000 Persons (b)	17,548	17,307
Labour Force '000 Persons	8,316	8,554
Employed	7,950	8,219
Unemployed	366	335
Unemployment Rate	4.4	3.9
Male	3.0	2.8
Female	7.1	6.1
Labour Force Participation Rate (c)	47.4	49.4
Male	67.4	69.1
Female	29.8	32.5

(a) Average of four quarters

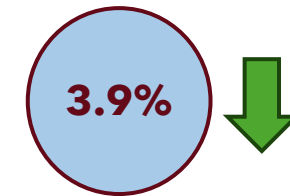
(b) Aged 15 years and above

(c) Labour force as a percentage of household population

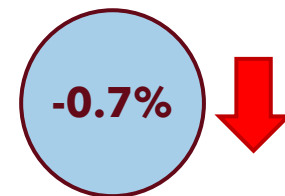
Source: Department of Census and Statistics



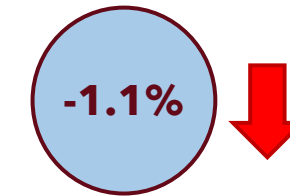
Labour Force Participation Rate



Unemployment Rate



Mid-Year Population*
(y-o-y growth)



Departures for Foreign Employment
(y-o-y growth)

* Provisional. Based on 2024 and 2025 Mid-Year population estimates compiled by the Registrar General's Department as at 31.03.2026



Monetary Sector Developments and Policies



The Central Bank maintained an accommodative monetary policy stance that commenced in mid-2023



The Central Bank's monetary easing cycle that commenced in mid-2023 continued throughout 2025, with one downward adjustment to the Overnight Policy Rate in May



Supported by this reduction, the overall **market interest rate structure adjusted downwards** during 2025



Amid improved liquidity conditions and activity in the domestic money market, the Central Bank gradually **scaled back and discontinued liquidity injections** through Open Market Operations (OMOs) in early 2025



Throughout 2025, the Central Bank **continued to maintain a flexible exchange rate regime** in line with the Flexible Inflation Targeting (FIT) framework

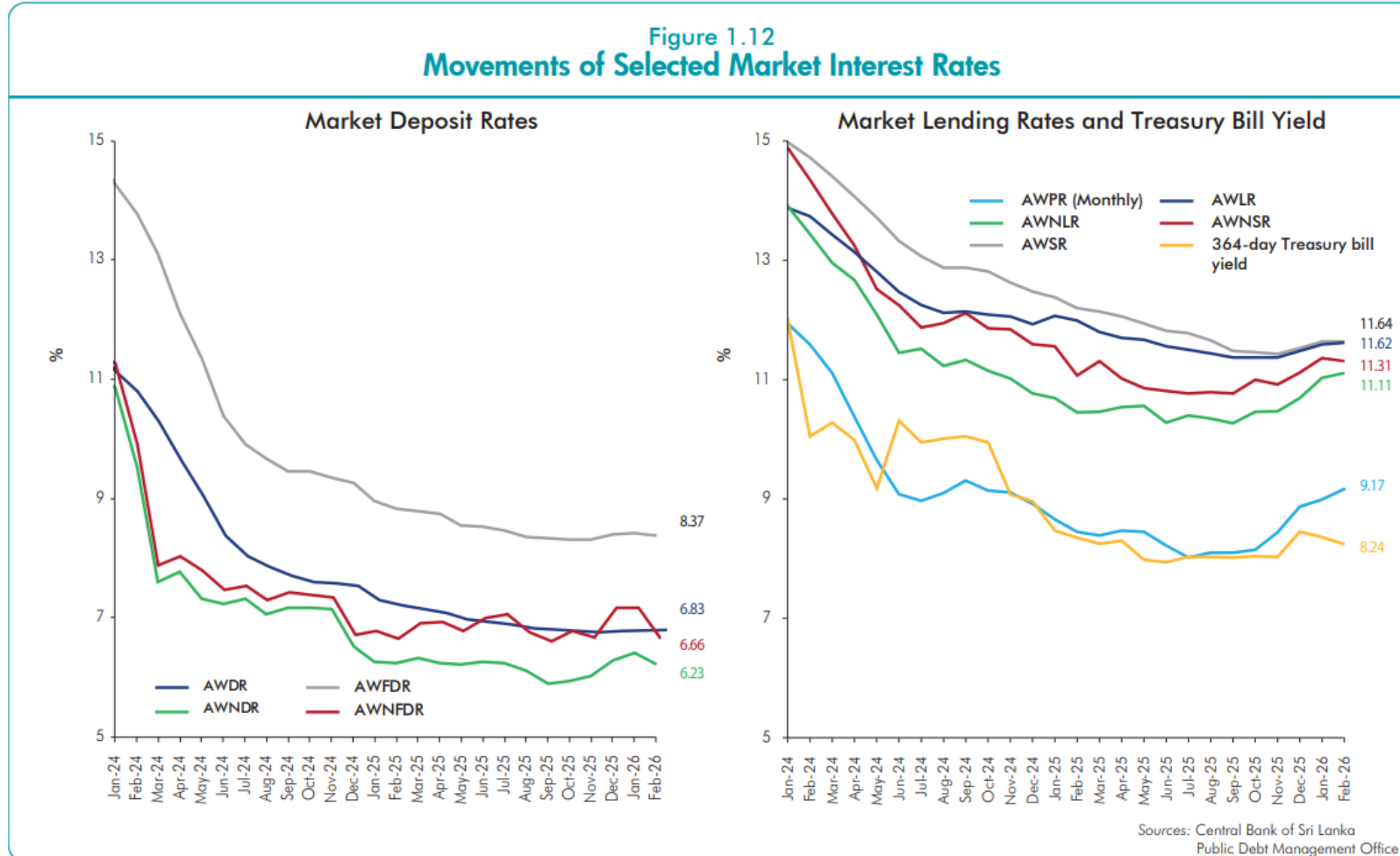


The Central Bank **continued to strengthen its monetary policy communication** to effectively manage the expectations of a broad range of stakeholders during 2025



Overall market interest rates continued to adjust downwards in 2025, although a modest uptick was observed towards the latter part of the year

Figure 1.12
Movements of Selected Market Interest Rates



The overall decline in market interest rates was driven by

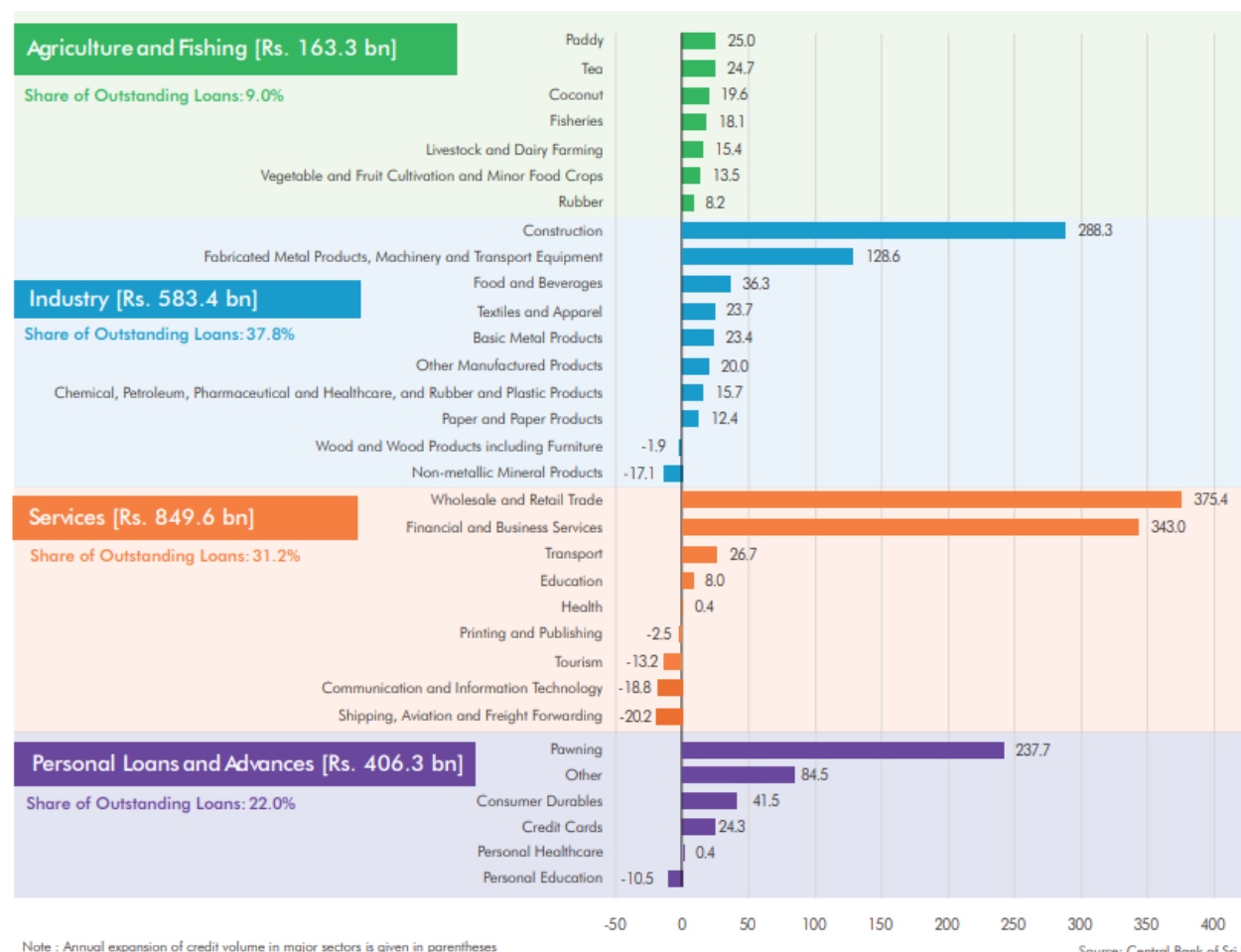
- The continuation of the **accommodative** monetary policy stance
- **A low-inflation** environment,
- **Well-anchored** inflation expectations



A broad-based expansion in credit across key sectors of the economy was observed in 2025, reflecting the ongoing recovery in economic activity

- Credit extended to the Services sector recorded the **largest expansion**
 - Within the Services sector, notable credit growth was observed in the **wholesale and retail trade; financial and business services; transportation; and education** subsectors
- Credit extended to the Industry sector was mainly driven by the subsectors **Construction; Fabricated Metal Products, Machinery and Transport Equipment**
- **Personal Loans and Advances** also rose **significantly** driven by increased **gold-backed lending, credit extended for consumer durables**, and higher **credit card** related exposures
- **Agriculture expanded** by Rs. 163 bn during the year, contributing to around 8% of the total credit expansion

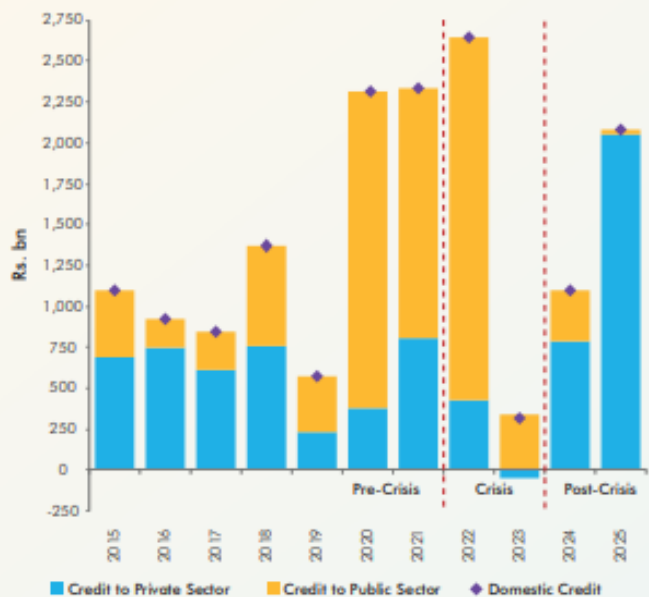
Figure 1.16
Annual Private Sector Credit Expansion in Sub-sectors (Rs. bn) - 2025
(As per the Monthly Survey of Loans and Advances by LCBs)



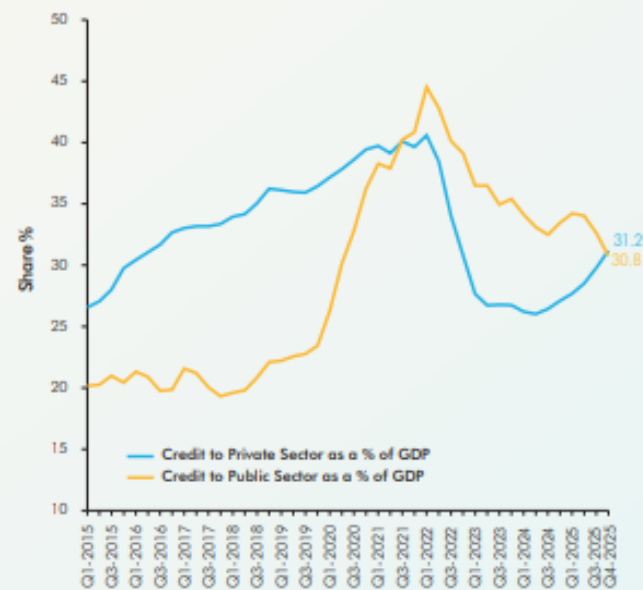
Featured Chart

Rebalancing Domestic Credit: Public vs. Private Sector Dynamics

Domestic Credit Expansion
(Private vs Public)



Private and Public Sector Credit
as a Share of GDP



Note: 1. Domestic credit refers to the total gross loans and advances extended to both the private and public sectors by the banking system. The public sector component includes credit extended to the Government, including investments in government securities and credit extended to State-Owned Business Enterprises (SOBEs).

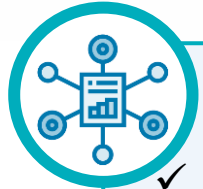
2. Credit-to-GDP ratio is derived as the ratio of total outstanding credit to the annualised nominal GDP of the corresponding quarter.

Sources: Central Bank of Sri Lanka
Department of Census and Statistics

- In the years preceding the economic crisis, the Government **increasingly relied** on financing from the **domestic banking sector**, contributing to a **crowding-out effect** on private sector credit
- During the crisis period, the Government relied **almost entirely** on domestic sources
- **Fiscal consolidation** efforts and **legislative reforms** have yielded favourable results in the post-crisis economy, resulting in **moderation in public sector credit**, which has created **space for private sector borrowing**
- Accordingly, private sector credit-to-GDP ratio **gradually recovered** to 31.2% by end 2025. However, it still **remains below** pre-crisis levels



The Central Bank Act stipulates achieving and maintaining domestic price stability as the primary objective of the Central Bank



Monetary policy framework

- ✓ **Flexible Inflation Targeting (FIT)**
 - ✓ Central Bank to formulate monetary policy and implement a flexible exchange rate regime within the FIT framework to achieve price stability
- ✓ As per the Monetary Policy Framework Agreement (MPFA), the **Central Bank is required to maintain quarterly headline inflation at the target of 5%**
 - ✓ The **quarterly headline inflation deviated from the inflation target** by 2 pps margin at the lower side for the last three quarters in 2024 and during 2025
 - ✓ Five reports on the target breach (from downside) were submitted to Parliament through the Minister of Finance
 - ✓ Sixth report was submitted to the Minister of Finance in March 2026



Overnight Policy Rate (OPR)

- ✓ OPR serves as the **Central Bank's primary monetary policy instrument** to signal its monetary policy stance
- ✓ **AWCMR continues to serve as the operating target** of the FIT monetary policy framework



Transparency and accountability

- ✓ **MPB submitted reports to Parliament/ public as inflation target was not met**
- ✓ Coordination council meets **quarterly to exchange views on matters** involving the Central Bank and the MOF
- ✓ **Publishes the Monetary Policy Report bi-annually**, in February and August of each year



External Sector Developments



Sri Lanka's external sector strengthened further in 2025, with the current account recording a surplus for the third consecutive year

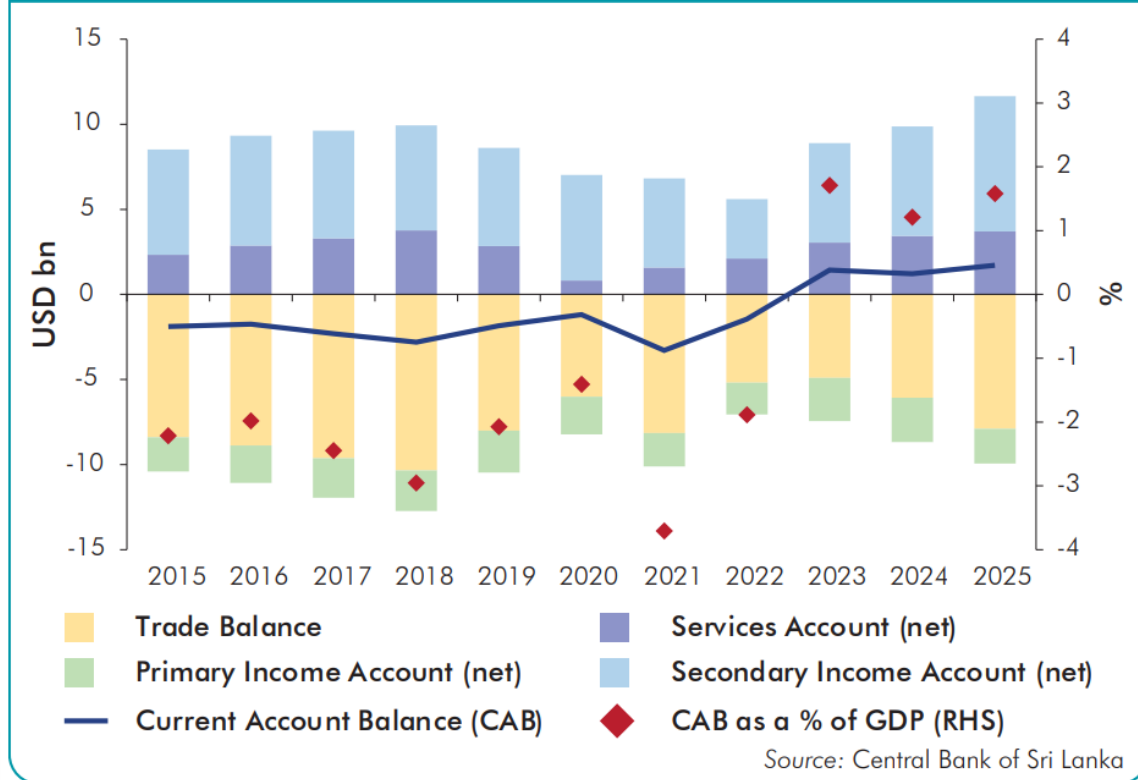
Current Account Surplus

2023
USD 1.4 bn

2024
USD 1.2 bn

2025
USD 1.7 bn

Figure 1.20
Annual External Current Account



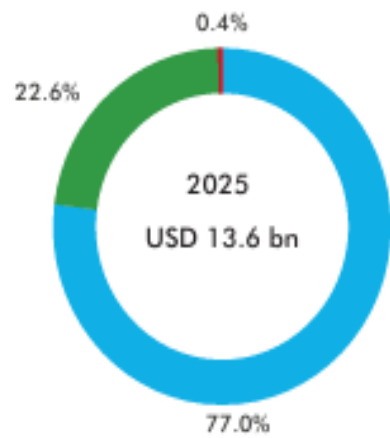
Despite the widened trade deficit, the current account recorded a higher surplus in 2025, supported by

- stronger services account surplus,
- substantial improvement in workers' remittances, and
- narrowing of the primary income account deficit

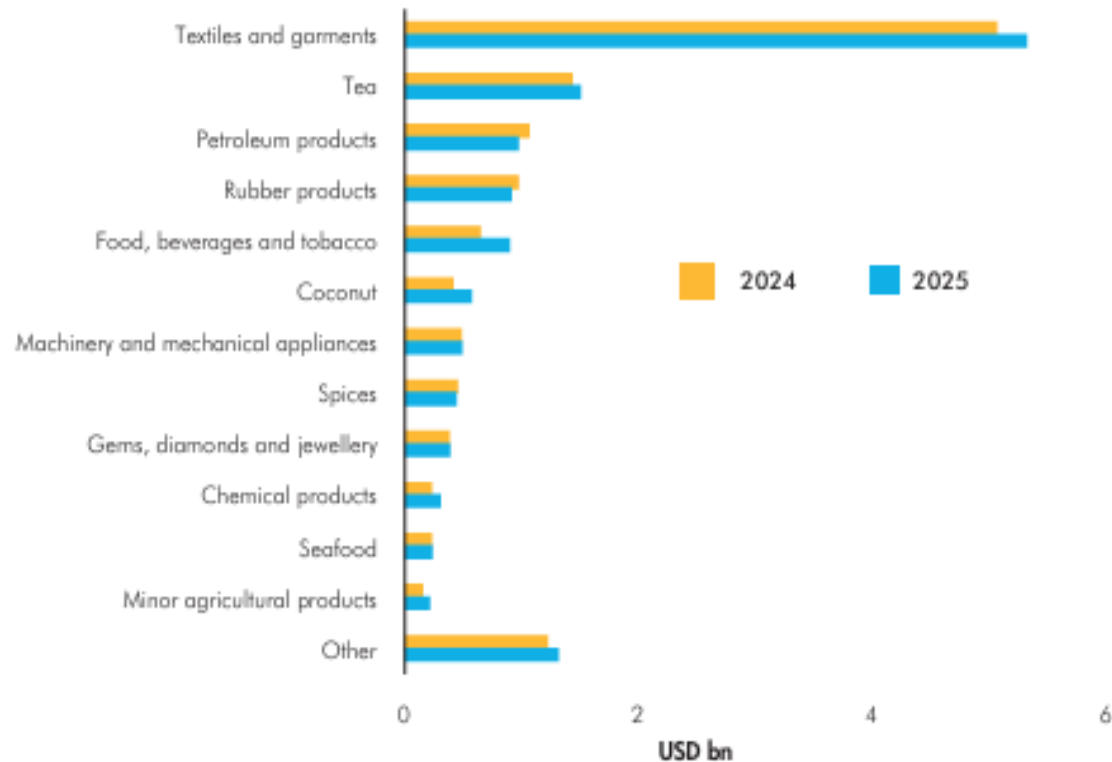


Merchandise exports recorded a notable expansion in 2025, reaching the highest annual export level on record at USD 13.6 bn

Figure 1.21
Composition of Exports



■ Industrial Goods
■ Agricultural Goods
■ Mineral and Other Goods



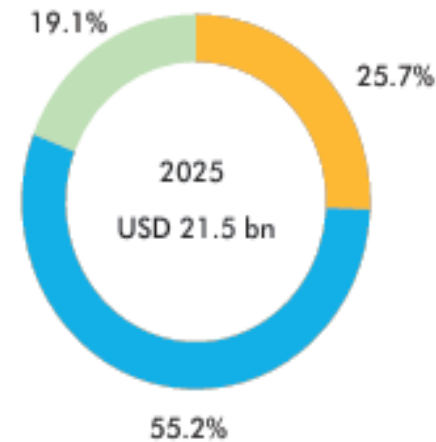
Sources: Sri Lanka Customs
Central Bank of Sri Lanka

- Export earnings recorded a **6.3% growth in 2025** supported by **improved industrial and agricultural exports**
- As a percentage of GDP, export earnings in 2025 amounted to **12.5%**

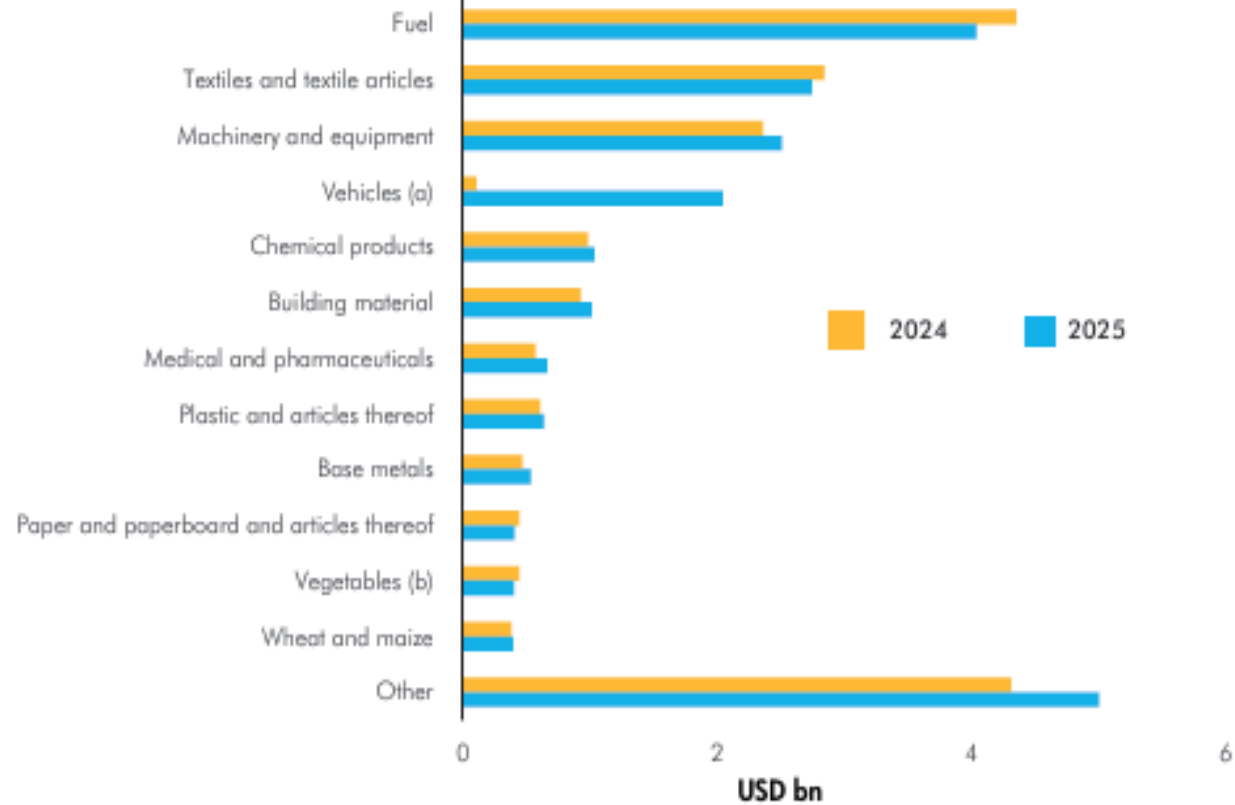


Merchandise import expenditure increased to USD 21.5 bn in 2025, driven by vehicle imports, recording a y-o-y growth of 14.0%

Figure 1.22
Composition of Imports



■ Consumer Goods
■ Intermediate Goods
■ Investment and Other Goods



(a) Includes personal and commercial vehicles.
 (b) Includes lentils, onions, potatoes, leguminous and other vegetables.

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

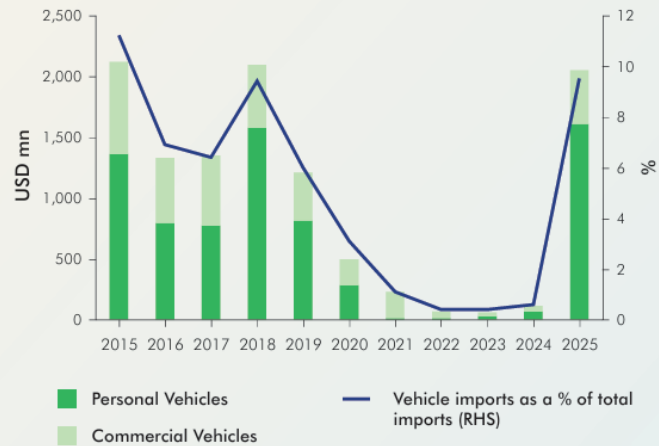
- Imports increased in 2025 due to **the relaxation of vehicle import restrictions** and the **gradual recovery in domestic demand and investment activity**
- As a percentage of GDP, import expenditure in 2025 amounted to **19.7%**



Featured Chart

Relaxation of Motor Vehicle Import Restrictions and Import Trends

Annual Vehicle Imports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

Monthly Vehicle Imports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

- Motor vehicle import restrictions were **relaxed in a phased manner**, with all remaining restrictions on personal vehicles removed by January 2025
- The Government introduced several tariff and non-tariff measures to **moderate a potential surge in demand** following the prolonged restriction period
- Despite these measures, **vehicle imports increased markedly** in 2025, reflecting a strong pent-up demand accumulated during the years of import restrictions and improvements in economic activity
- Consequently, expenditure on vehicle imports, including both personal and commercial vehicles, **rose significantly to USD 2.04 bn in 2025**, representing **9.5% of total imports**



The merchandise trade deficit widened to USD 7.9 bn in 2025, compared to USD 6.1 bn in 2024

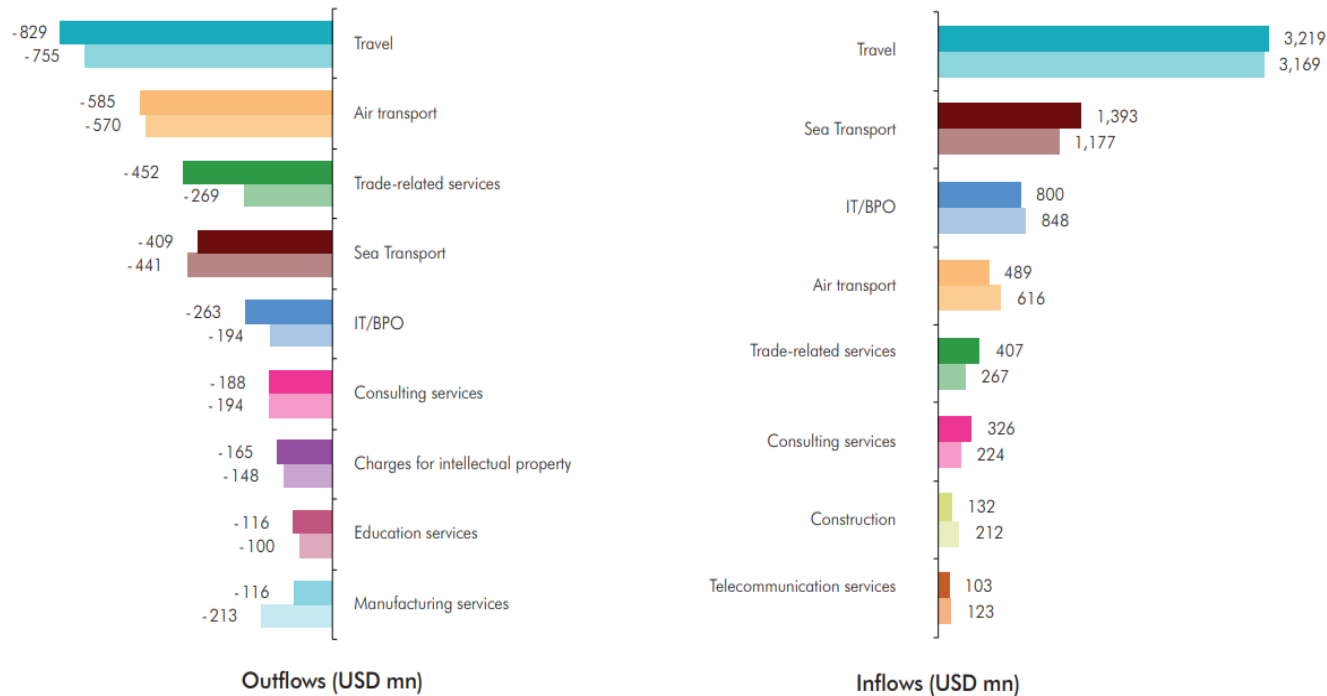


- **Merchandise trade deficit widened in 2025** compared to the preceding year, largely reflecting a sharper expansion in import expenditure than in export earnings
- Sri Lanka recorded its **highest trade deficit** with China, which widened significantly to USD 4.9 bn in 2025 from USD 4.1 bn recorded in 2024
- Trade deficit with India also widened in 2025, largely due to the increase in motor vehicle imports
- Sri Lanka continued to maintain a trade surplus amounting to USD 2.5 bn with the United States, mainly supported by apparel exports



Services account surplus further increased & workers' remittances recorded a historic high in 2025

Figure 1.24
Services Inflows and Outflows



Note: The darker shaded bars represent values for the year 2025, while the lighter shaded bars represent 2024.

Source: Central Bank of Sri Lanka

- **Services account** recorded a **surplus of USD 3.7 bn** in 2025, compared to USD 3.4 bn in 2024
- **Tourist arrivals in 2025 surpassed the peak** recorded in 2018, growing by 15.1% on y-o-y basis
- **Tourism earnings** registered a marginal growth of 1.6% compared to 2024
- **Inflows from computer and IT/BPO services** moderated slightly compared to 2024
- **Services outflows** related to travel abroad increased while payments for transport services declined

- **Surplus in secondary income account** increased substantially in 2025, driven mainly by a **sharp rise in workers' remittances to USD 8.1 bn**, while recording a historic high in 2025



Financial Account remained modest in 2025

Table 1.13
Financial Account

Item	USD mn	
	2024 (a)	2025 (b)
Financial Account (net)	965	904
Net Acquisition of Financial Assets	1,970	1,431
Net Incurrence of Liabilities	1,005	527
Direct Investment: Assets	110	98
Direct Investment: Liabilities	759	1,044
Portfolio Investment: Assets	180	-259
Portfolio Investment: Liabilities	302	-267
Financial Derivatives	-	-
Other Investment: Assets	-3	973
Other Investment: Liabilities	-56	-250
Reserve Assets	1,682	618
Net Errors and Omissions	-254	-808

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

FDI excl. loans

2024
USD 759 mn

2025
USD 1,044 mn

FDI incl. loans

2024
USD 845 mn

2025
USD 1,154 mn

On a sectoral basis, FDIs were primarily directed to port container terminals, rubber products manufacturing, and textiles and garments sectors during the year

Colombo Stock Exchange (CSE)

2024
USD 33 mn

2025
USD -122 mn

Colombo Stock Exchange, including primary and secondary markets, recorded a net outflow during the year

Government Securities Market

2024
USD -179 mn

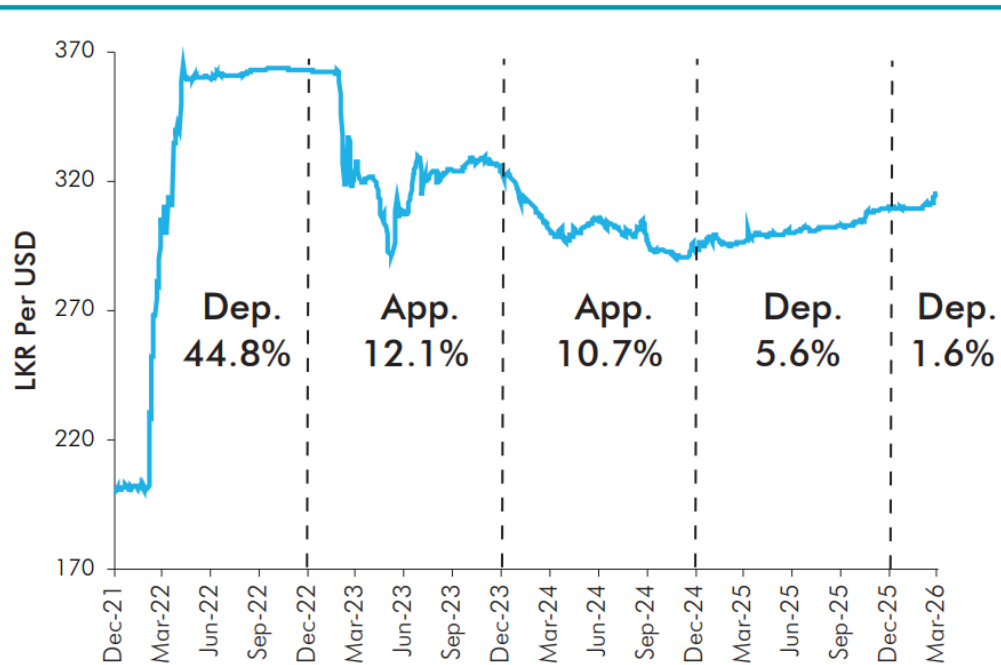
2025
USD 248 mn

Government securities market, including Treasury bills and Treasury bonds, recorded a net inflow during the year



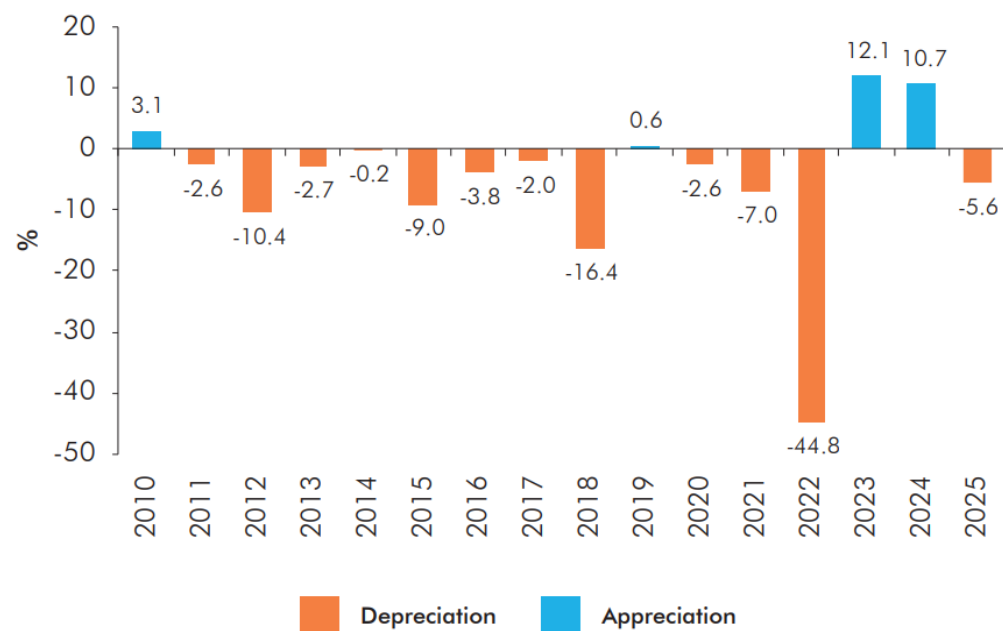
Following two consecutive years of appreciation, the Sri Lanka rupee recorded a depreciation against the US dollar in 2025

Figure 1.28
Daily Exchange Rate Movements



Source: Central Bank of Sri Lanka

Figure 1.26
Appreciation / Depreciation of LKR against USD

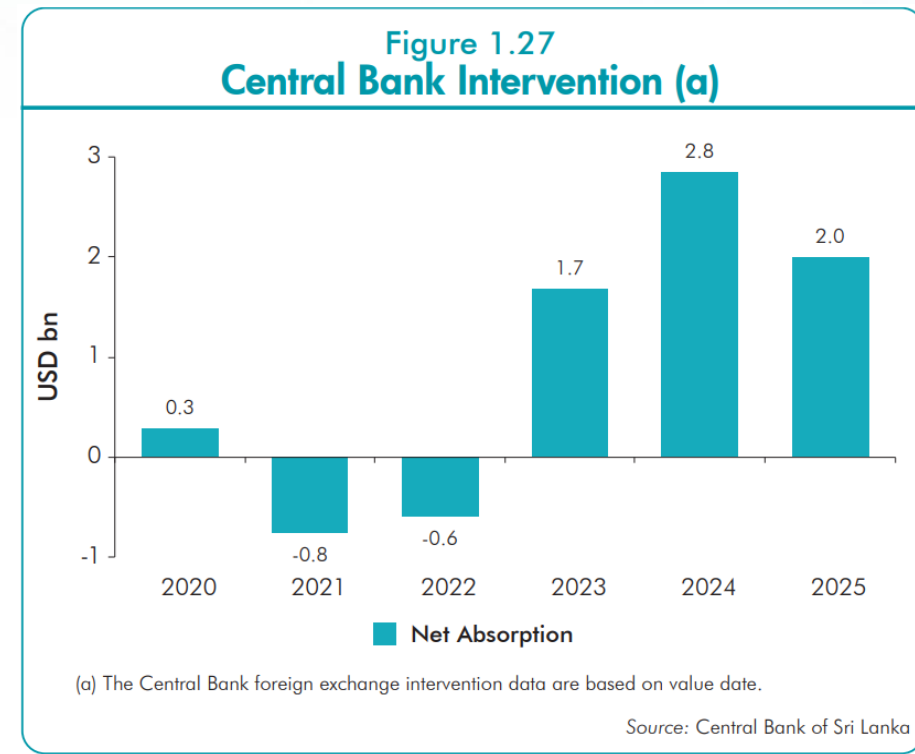
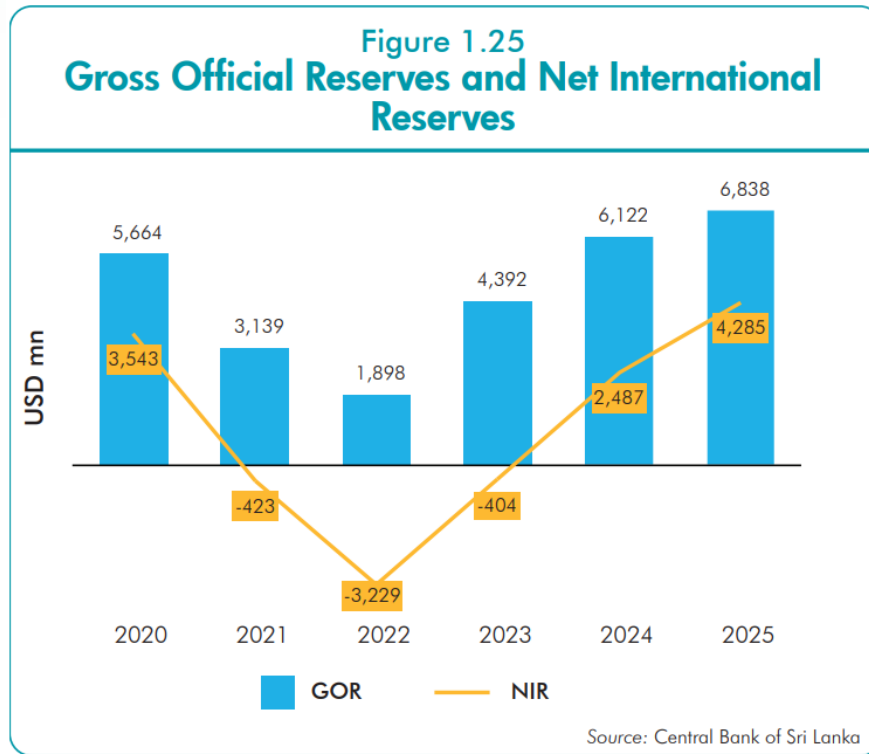


Source: Central Bank of Sri Lanka

- **Sri Lanka rupee depreciated** against all major currencies in 2025, **while major currencies exhibited mixed movements** against the US dollar



GOR improved to USD 6.8 bn as at end 2025, amid the external debt service payments



Buildup of GOR was primarily due to the

- **net purchases of foreign exchange amounting to USD 2.0 bn** (on value date basis) by the Central Bank from the domestic forex market
- **receipt of the fourth and fifth tranches of the ongoing IMF-EFF programme**
- **emergency financing under the RFI**
- **financing from the ADB**



Featured Chart

Progress on the IMF-EFF Programme

- **Total EFF disbursements** to date: **SDR 1.27 bn (USD 1.74 bn)**
- **SDR 150.5 mn (USD 206 mn)** was **disbursed in Dec 2025 under RFI** to address urgent BOP and fiscal pressures from *Cyclone Ditwah*
- Achievements thus far include **significant fiscal consolidation, improved inflation outcomes, stronger reserve position, and structural reforms in governance and cost-reflective pricing**



* The fifth review of the programme, which was due to be completed by December 2025, was deferred owing to the Cyclone Ditwah, to allow for an assessment of its economic impact and the appropriate policy response.



Condition of the Financial System and Policies



The banking sector continued to expand in 2025, supported by the accommodative monetary policy stance and improving macroeconomic conditions

Table 2.3
Composition of Assets and Liabilities of the Banking Sector

Item	2024(a)		2025(b)		Change (%)	
	Rs.bn	Share (%)	Rs.bn	Share (%)	2024	2025
Assets						
Loans & Receivables	11,476.7	51.8	13,933.2	55.9	4.1	21.4
Investments	9,089.8	41.0	9,369.6	37.6	24.5	3.1
Others (c)	1,580.3	7.1	1,619.3	6.5	(23.8)	2.5
Liabilities						
Deposits	17,969.3	81.1	19,927.4	80.0	8.1	10.9
Borrowings	1,292.9	5.8	1,678.2	6.7	(7.5)	29.8
Capital Funds	2,054.1	9.3	2,374.0	9.5	16.3	15.6
Others	830.5	3.7	942.5	3.8	38.2	13.5
Total Assets/Liabilities	22,146.8	100.0	24,922.1	100.0	8.6	12.5

(a) Revised

(b) Provisional

(c) Includes cash and bank balances, placements, reverse repurchase agreements and fixed assets

Source: Central Bank of Sri Lanka

- **Loans and receivables** of the banking sector recorded a y-o-y growth of **21.4%** at end 2025, compared to **4.1%** at end 2024
- **Stage 3 loans ratio** of the banking sector decreased from **12.3%** at end 2024 to **9.7%** at end 2025, yet remained elevated compared to the pre-crisis level
- **Profitability indicators** of the banking sector marginally declined during 2025, while **capital buffers remained well above** the regulatory requirements



The FCs sector continued its growth momentum, recording a significant credit expansion during 2025, while remaining resilient with adequate capital buffers throughout the year

Table 2.7
Composition of Assets and Liabilities
of the FCs Sector

Item	2024 (a)		2025 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2024	2025
Assets						
Loans & Advances (Net)	1,428.3	74.1	2,227.9	80.2	22.6	56.0
Investments	352.2	18.3	375.0	13.5	(8.7)	6.5
Others (c)	147.9	7.7	173.8	6.3	2.0	17.5
Liabilities						
Deposits	1,056.4	54.8	1,265.2	45.6	13.0	19.8
Borrowings	305.4	15.8	849.3	30.6	15.3	178.1
Capital Funds	468.2	24.3	531.0	19.1	13.6	13.4
Others	98.4	5.1	131.3	4.7	17.7	33.4
Total Assets/Liabilities	1,928.4	100.0	2,776.7	100.0	13.7	44.0

(a) Revised

(b) Provisional

(c) Mainly consists cash and bank balances, fixed assets and right of use assets

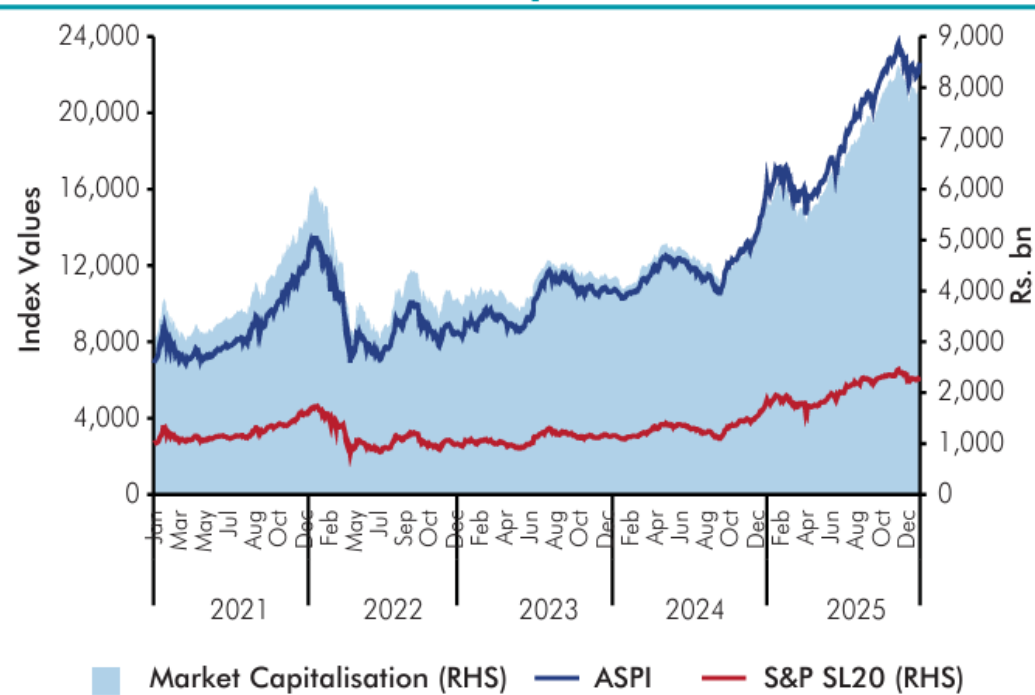
Source: Central Bank of Sri Lanka

- **Loans and advances** of the FCs sector significantly increased by **56.0%** y-o-y at end 2025 compared to a **22.6%** growth at end 2024 due to growth in finance leases, vehicle loans, and loans secured by gold
- **Gross Stage 3 loans ratio** of the sector declined to **6.1%** at end 2025, compared to **11.5%** at end 2024
- **Total CAR** of the sector declined to **18.7%** at end 2025, compared to **21.3%** at end 2024



In 2025, the equity market sustained strong performance amid intermittent declines from external uncertainties and reduced foreign flows

Figure 2.8
Behaviour of Price Indices and
Market Capitalisation



Source: Colombo Stock Exchange

- The equity market ended 2025 with strong gains, as the **ASPI grew by 41.9%** and the **S&P SL20 by 26.6%**



During 2025, the Central Bank continued to introduce prudential policy measures to improve the resilience and stability of the financial sector



The Central Bank continued its macroprudential surveillance to take pre-emptive measures to identify, assess, mitigate and continuously monitor systemic risks that threaten financial system stability

- Framework for the designation of **Domestic Systemically Important Banks (DSIBs)** was reviewed, and five Licensed Banks (LBs) were designated as DSIBs in April 2025
- In July 2025, revisions were introduced to the **Loan to Value (LTV)** caps applicable to credit facilities granted in respect of motor vehicles and the limits were further tightened in November 2025



Improving technology risk management and resilience of LBs was one of the key focus areas of the Central Bank in 2025. Accordingly, Circular No. 02 of 2025 on “**Reporting of Information Technology and Cybersecurity Incidents of LBs**” was issued with a view to strengthening the operational resilience of LBs



The **Sustainable Finance Roadmap 2.0** was launched in May 2025, representing a significant milestone in advancing sustainable finance within Sri Lanka’s financial sector



Further, Circular No. 04 of 2025 on “**Relief Measures to Assist Individuals and Businesses affected by the Recent Cyclonic and Flood Disasters**” was issued to provide relief measures to the individuals and businesses affected by the cyclone and flood related disasters



The Central Bank introduced a range of regulatory measures to ensure smooth functioning of the financial system



With the aim of improving risk management practices of the Finance Companies(FCs), the Central Bank issued directions on **liquidity risk management framework** requiring companies to focus on critical components of the framework



Further, a direction on **maximum interest rates on deposit and debt instruments** was issued to FCs, to promote sustainable business practices when soliciting deposits and issuing debt instruments



The Central Bank implemented several policy measures to promote the **adoption of digital payments**, including reduction of maximum per transaction fees, expanding maximum per transaction value and enhancing global connectivity through partnerships



The **resolution provisions were extended** to all FCs through an Order issued under Section 57 of BSPA, by ensuring both LBs and FCs are subjected to a standardised resolution regime



Financial Infrastructure of the country continued to function efficiently, supporting the Stability and Resilience of the Financial System during 2025



Digital Payments Growth: Digital payment usage increased significantly, reflecting a shift from traditional payment methods



AML/CFT/CPF Compliance: Financial Intelligence Unit (FIU) continued compliance with international AML/CFT/CPF standards, while financial sector integrity and resilience were maintained



Legal Reforms: Engaged in legal reform initiatives to strengthen financial system stability



Financial Consumer Protection: Continued strengthening of the Financial Consumer Protection framework through policy and supervisory initiatives



Resolution Framework: Continued to operationalise and strengthen the resolution framework established under the Banking (Special Provisions) Act, No. 17 of 2023



Fiscal Sector Developments



Stronger fiscal discipline and sustained reforms improved fiscal performance in 2025

Primary balance recorded a notable surplus for the third consecutive year

Primary surplus as a % of GDP

2024: 2.2 (Rs. 649.6 bn) → **2025: 5.4 (Rs. 1,755.8 bn)**

The current account balance recorded a surplus

Current account balance as a % of GDP

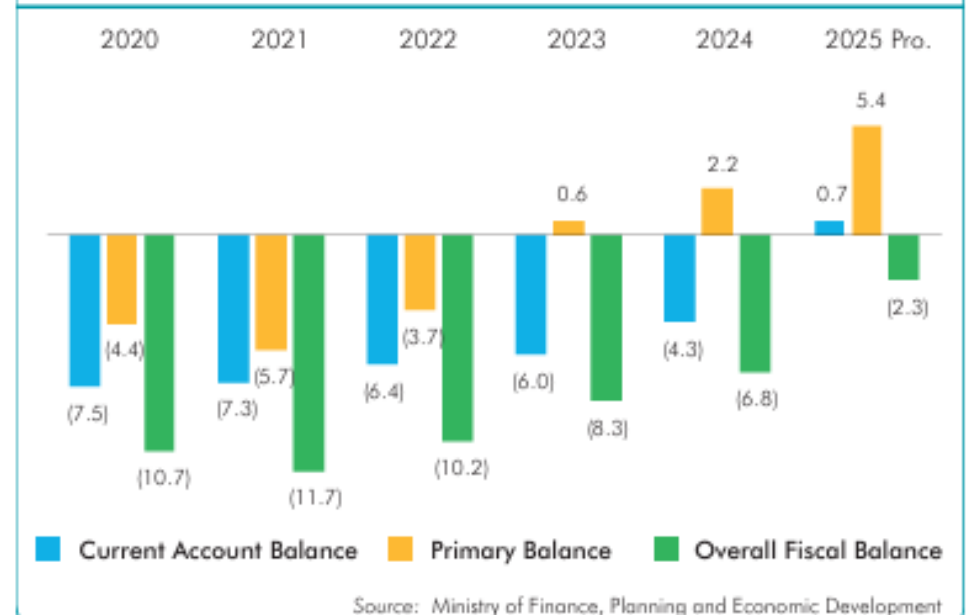
2024: -4.3 (Rs. 1,309.1 bn) → **2025: 0.7 (Rs. 217.0 bn)**
for the first time since 1987

The overall budget deficit narrowed significantly

Overall budget deficit as a % of GDP

2024: 6.8 (Rs. 2,039.9 bn) → **2025: 2.3 (Rs. 744.9 bn)**

Figure 1.30
Key Fiscal Balances (% of GDP)



Primary Balance = Government Revenue and Grants - Government Expenditure excluding Interest Payments

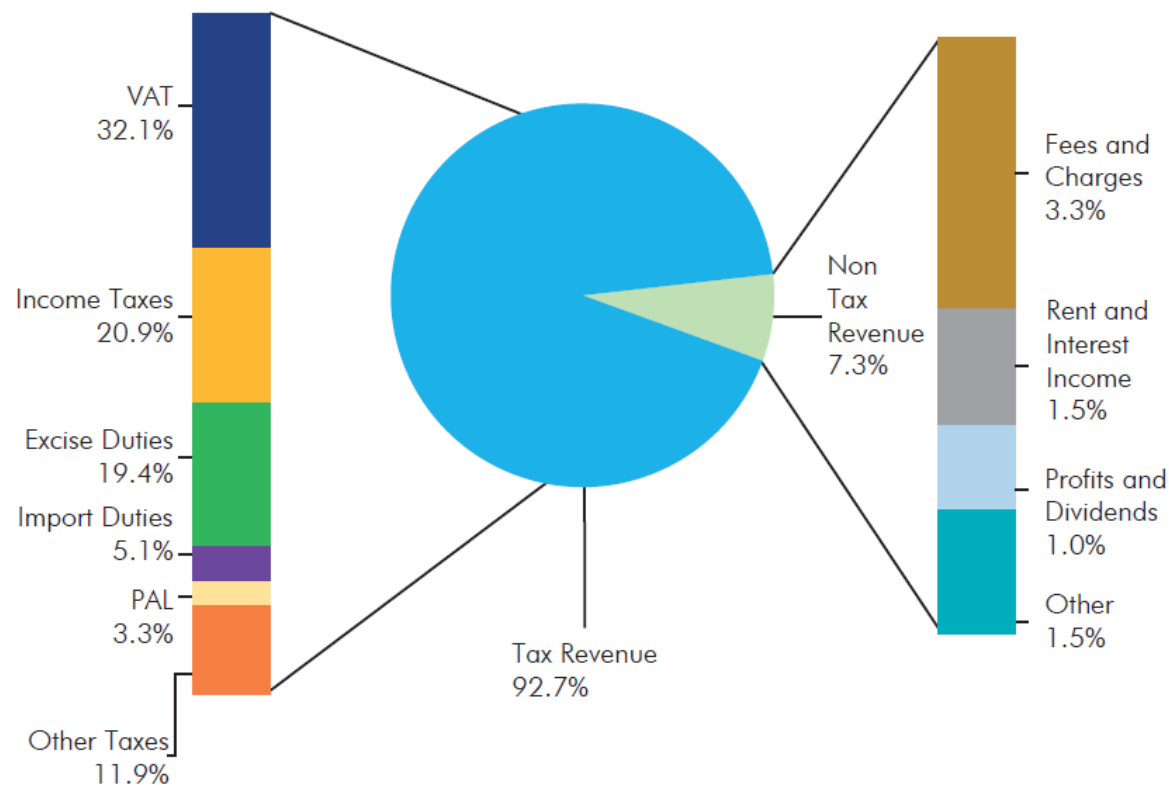
Current Account Balance = Government Revenue and Grants - Recurrent Expenditure



Government revenue increased significantly in 2025, supported by stronger tax collection and reforms

Figure 1.31

Composition of Government Revenue - 2025



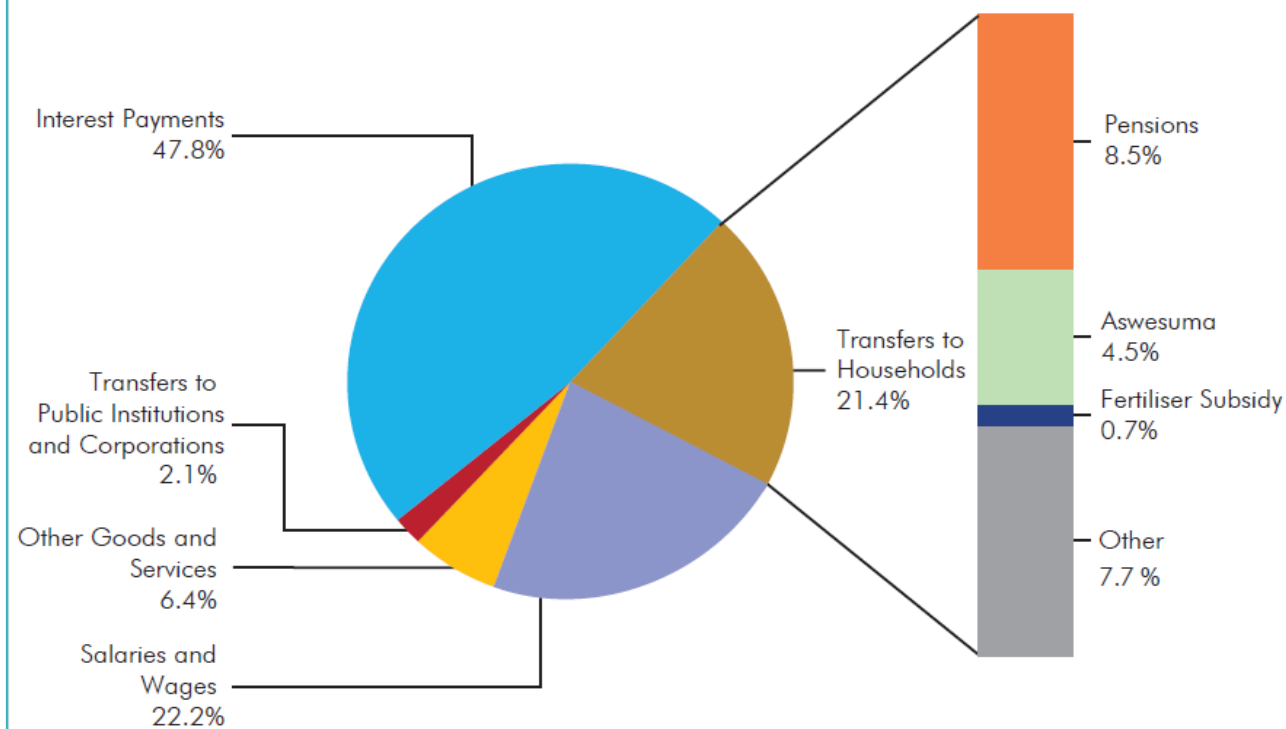
Source: Ministry of Finance, Planning and Economic Development

- Supported by revenue enhancement measures, government revenue recorded a y-o-y growth of **35.2% in 2025**, reaching **Rs. 5,449.4 bn**, while revenue as a share of GDP increased markedly from **8.2% in 2022 to 16.6% in 2025**
- Higher tax collection mainly from **vehicle import related taxes**
- Tax reforms** were further reinforced by the efforts of the Inland Revenue Department (IRD) and Sri Lanka Customs
- Number of registered income taxpayers, both corporate and non-corporate, **increased**



Government expenditure moderated in 2025, supported by ongoing fiscal consolidation and expenditure rationalisation

Figure 1.32
Composition of Government Recurrent Expenditure - 2025



Source: Ministry of Finance, Planning and Economic Development

- In nominal terms, total government expenditure and net lending **increased marginally by 1.6% in 2025** compared to 2024
- Recurrent expenditure declined by **2.0% in 2025** compared to 2024
- Interest expenditure, the largest component of recurrent expenditure, declined **by 7.0% in 2025** compared to 2024
- Capital expenditure and net lending recorded a notable increase of **26.2% in 2025**



Central government debt declined to 91.6% of GDP by end-2025, from 95.5% in 2024

- **Reduced net issuances** of government securities compared to the previous year
- **Foreign debt increased** in 2025 due to domestic currency depreciation against the US dollar and the receipt of foreign loans
- Successfully completed most of the **external debt restructuring** during 2025
- Issued **dollar-denominated bonds** to the domestic market in December 2025

Table 1.21
Outstanding Central Government Debt (a)(b)
(End Year)

Item	Rs. billion	
	2024	2025 (c)
Domestic Debt (d)	18,309.7	18,675.3
By Maturity Period		
Short Term (e)	3,220.1	2,134.4
Medium and Long Term (f)	15,089.6	16,540.9
By Institution (g)		
Bank (g)	9,411.2	9,183.5
Non Bank (g)	8,158.5	8,490.8
Repurchase Transaction Allocations (g)(h)	739.9	1,001.1
Foreign Debt (i)(j)	10,429.0	11,319.4
Multilateral	3,773.5	4,374.0
Bilateral and Commercial	6,655.6	6,945.4
Total Outstanding Central Government Debt	28,738.7	29,994.7
As a percentage of GDP (k)		
Total Outstanding Central Government Debt	95.5	91.6
Domestic Debt	60.8	57.0
Foreign Debt	34.7	34.6

Sources: Ministry of Finance, Planning and Economic Development
Central Bank of Sri Lanka

Macroeconomic Outlook



Global Economic Environment and Outlook



Recent resilience in the global economy amid trade policy shifts and rising geoeconomic fragmentation is being **challenged** by the **intensification of the current Middle East war** that began in late February 2026



Renewed geopolitical tensions following the onset of the current Middle East war could significantly affect **global economic prospects**, depending on the war's severity and duration, while **heightening global uncertainty** across multiple dimensions



As geopolitical tensions in the Middle East escalate, the **global disinflation trend could be halted**, potentially causing **renewed inflationary pressures**. Against this backdrop, the **global monetary policy stance in 2026 is likely to be more cautious** than in 2025, particularly if uncertainty surrounding geopolitical developments persists

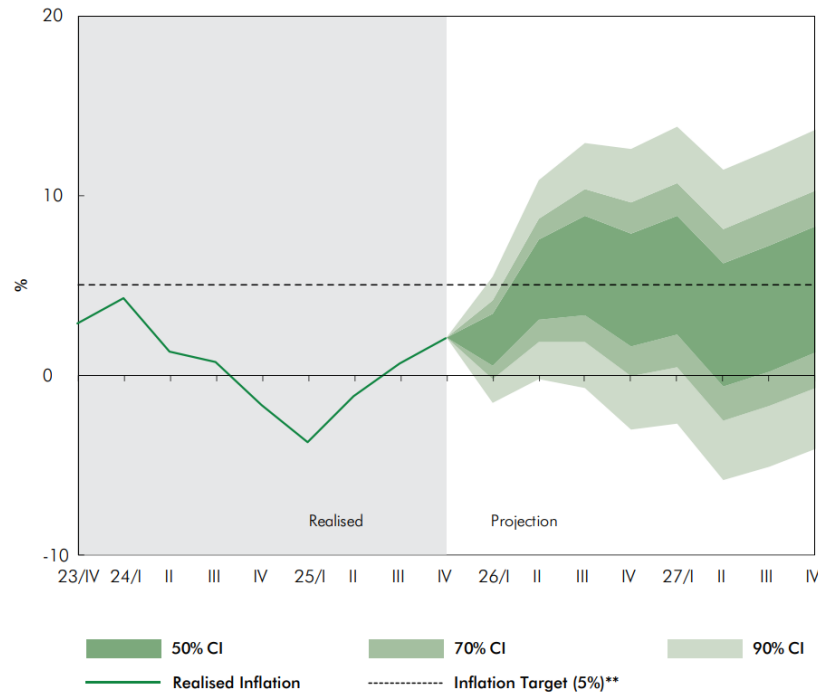


The escalation in geopolitical tensions in the Middle East could **have significant implications for the Sri Lankan** economy through **several channels**, particularly if the war persists for a prolonged period



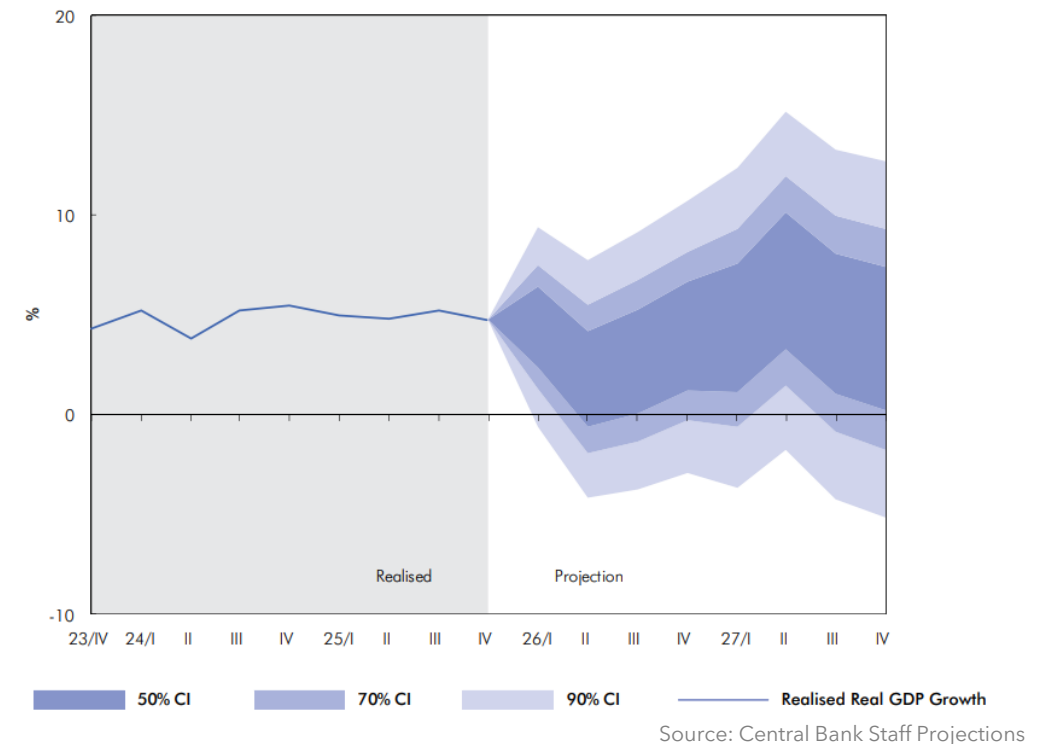
Inflation Outlook and Growth Prospects

Baseline Quarterly Headline Inflation Forecast (CCPI, y-o-y, based on projections in March 2026)



** The inflation target (5%) was agreed under the Monetary Policy Framework Agreement (MPFA) signed between the Central Bank and the Minister of Finance in October 2023.
Source: Central Bank Staff Projections

Baseline Quarterly Real GDP Growth Forecast (y-o-y, based on projections in March 2026)



Note : The projections discussed here are based on information available as of the conclusion of the monetary policy round in March 2026. Amid the fluid nature of the prevailing crisis in the Middle East and its wide ranging spillovers across both global and domestic economic activity, the present macroeconomic outlook remains subject to elevated uncertainty. Accordingly, any significant changes in underlying conditions could lead to notable deviations from these projections.



Monetary Sector Outlook



The monetary policy decision-making process will remain data-driven and forward-looking, with close consideration of evolving domestic macroeconomic conditions and **potential spillovers from global policy shocks and uncertainties**



The growth momentum of credit to the private sector is likely to continue, although **spillovers** from the **Middle East war** could weigh on this outlook

- Overall credit growth is expected to be relatively moderate in 2026, with a likely slowdown towards the latter part of the year



Credit to the public sector by the banking system is expected to moderate, supported by the continuation of fiscal consolidation, accompanied by major structural reforms, including the restructuring of SOBEs



Government is likely to rely more on alternative domestic financing options **amid limited access to external financing**, necessitating the maintenance of adequate financial buffers to **withstand both global and domestic shocks**



The Central Bank will continue to communicate its policy decisions promptly to the public through various channels, but will also assess **the effectiveness and the public understanding** of its messages



External Sector Outlook



Merchandise trade deficit is projected to widen in 2026 as import growth outpaces exports, though it is **expected to remain at sustainable levels** in the near to medium term



Services account is expected to grow over the medium term



Primary income account deficit is projected to narrow in 2026, largely reflecting reduced interest payments following the external debt restructuring



In the secondary income account, workers' remittances, which recorded notable growth rates in recent years, are **expected to maintain at least moderate growth** in the near- to medium-term



With above developments, following three consecutive years of current account surpluses, **Sri Lanka's current account is expected to remain at sustainable levels going forward**



Financial account is expected to record continued inflows in 2026 and medium term, supported by investor confidence from IMF-EFF continuation and the debt restructuring completion



Maintaining a market-determined exchange rate and building reserves is paramount to external sector stability

Although these factors are expected to support external sector resilience over the medium term, **the external sector outlook will remain contingent on evolving global challenges, which may necessitate building adequate buffers and, timely and well-targeted policy interventions** to mitigate possible adverse effects



Financial Sector Outlook



Financial Sector **remains stable** supported by robust **credit growth, improved asset quality** along with **strong capital buffers** even amidst rising global uncertainties linked to geopolitical tensions



The Central Bank **continues to monitor** and stays vigilant to detect early signs of potential imbalances and excessive buildup of risks to financial stability



Even though, the asset quality of both banking sector and FCs sector improved during 2025, sustaining credit quality in these sectors may be **challenging**, given potential **delays in recoveries** and **increased impairment requirements** following the impact of Cyclone Ditwah as well as possible pressures on the repayment capacity of households and corporates arising from spillovers of the ongoing war in the Middle East



A broad set of **legal and policy initiatives** will continue to be advanced to strengthen and safeguard financial stability



Fiscal Sector Outlook



Government is expected to remain committed to **prudent fiscal management** and **revenue-based fiscal consolidation** measures



The **proposed amendments to the Inland Revenue Act**, No. 24 of 2017, scheduled for 2026, are expected to further strengthen revenue mobilisation



Institutional reforms, structural reforms in State-Owned Enterprises (SOEs) and improvements in public sector efficiency, with a greater emphasis on digitalisation and technological integration across government institutions



The fiscal sector outlook remains subject to several downside risks stemming from the evolving global and domestic environment



Featured Chart

Recent Economic Shocks in Sri Lanka: Uncertainty is the New Normal

Major Domestic and External Disturbances (Shocks) Faced by the Sri Lankan Economy in Recent Years



External Shocks

- 2011-12- Global Oil Price Surge - The intensified sovereign debt crisis in the Euro area and geopolitical uncertainties in some oil producing Middle Eastern and North African countries
- 2020-21- COVID-19 pandemic that resulted in prolonged periods of lockdowns, including the closure of airports, seaports and domestic mobility restrictions affected all key economic sectors
- 2025 - Uncertainties caused by US tariff policy revisions
- 2026 Q1- US-Israel-Iran war and geopolitical tensions have created a larger uncertainty with impacts on global trade and supply chain disruptions

Internal Shocks

- 2016- Domestic floods and landslides
- 2017- Drought conditions that continued from 2016
- 2018- Political instability
- 2019- Easter Sunday attack - Tourism sector heavily impacted
- 2022-23- Economic Crisis leading to public anxiety and political upheaval
- 2025- Weather related disruptions due to Cyclone Ditwah

Sources: Central Bank of Sri Lanka
Department of Census and Statistics

- **Increasing frequency and intensity of economic shocks have increased uncertainty**, weakening growth, policy effectiveness, and decision-making capacity
- **Building adequate and efficient fiscal and external buffers, crisis preparedness and safety nets is essential** to enhance economic resilience and protect vulnerable communities



Concluding Remarks

Looking ahead, **sustaining the growth momentum** will depend critically on **strengthening economic diversification, enhancing competitiveness, and raising productivity**. In an increasingly volatile and shock-prone environment, **the capacity to respond** with timely, well-calibrated, and credible policy actions **will be central to preserving macroeconomic stability and ensuring a resilient, inclusive, and sustainable growth trajectory for Sri Lanka**



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