



Press Conference

Review of the Monetary Policy Stance

29 January 2025

**Economic Research Department
Central Bank of Sri Lanka**

The Central Bank of Sri Lanka maintains the Overnight Policy Rate at the current level

Overnight Policy Rate (OPR)	8.00%
Statutory Reserve Ratio (SRR)	2.00%

Margins for determination of the interest rates for Standing Facilities of the Central Bank remain unchanged at current levels;

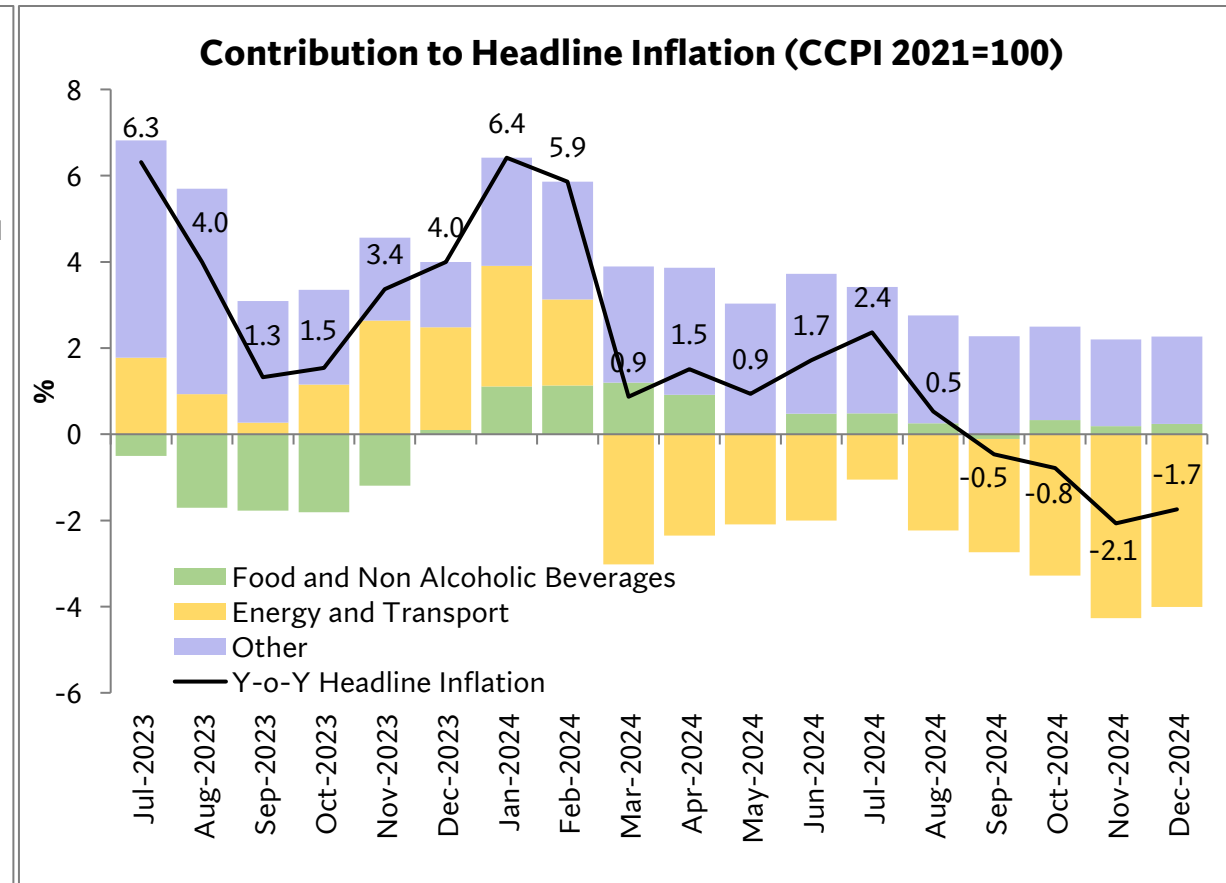
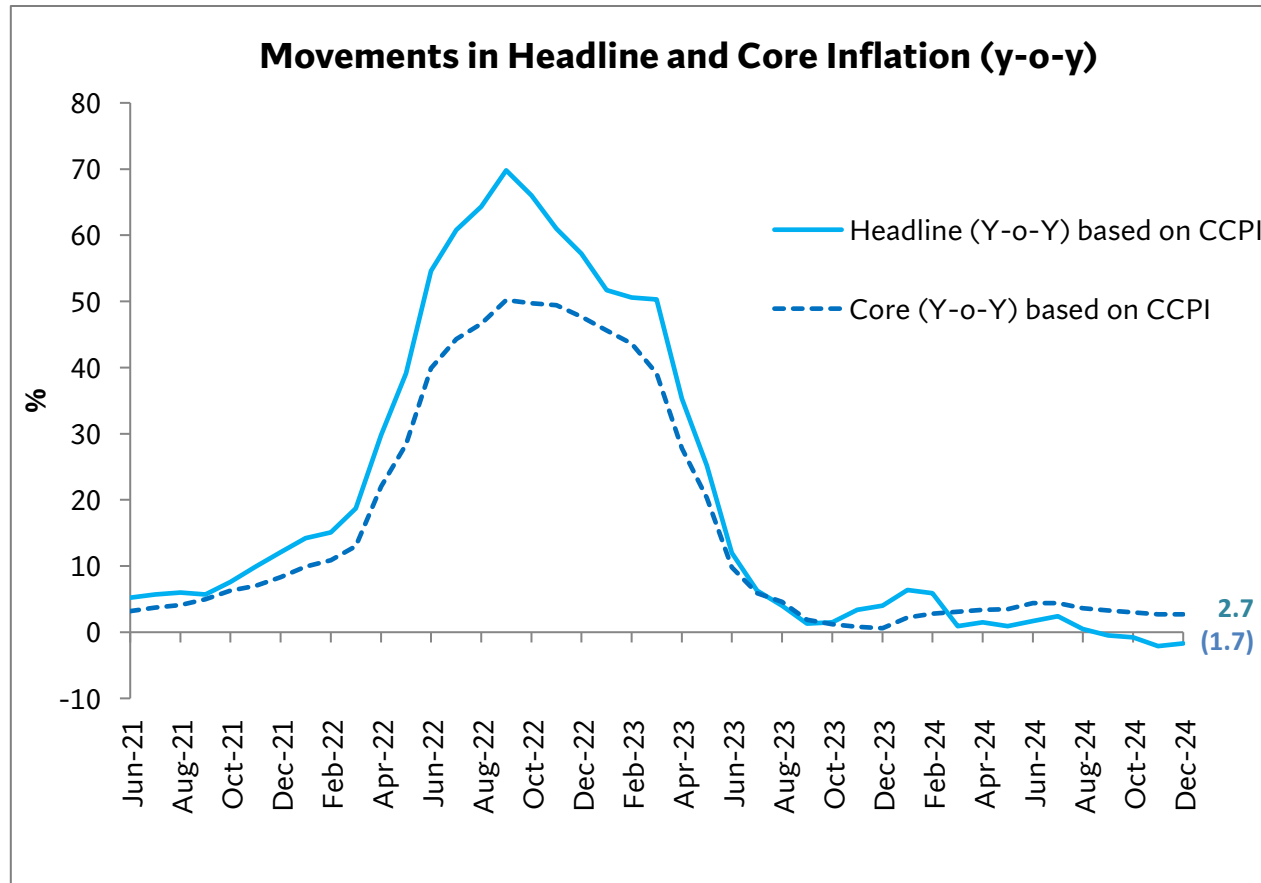
- a. Standing Deposit Facility Rate (SDFR): $\text{OPR} - 50 \text{ bps}$
- b. Standing Lending Facility Rate (SLFR): $\text{OPR} + 50 \text{ bps}$



**This decision was made with a
medium-term view of ensuring that
inflation converges to the target of 5%,
while supporting the economy to reach
its potential**



Headline inflation remained in the negative territory for the fourth consecutive month in December 2024...



Deflation was mainly driven by:

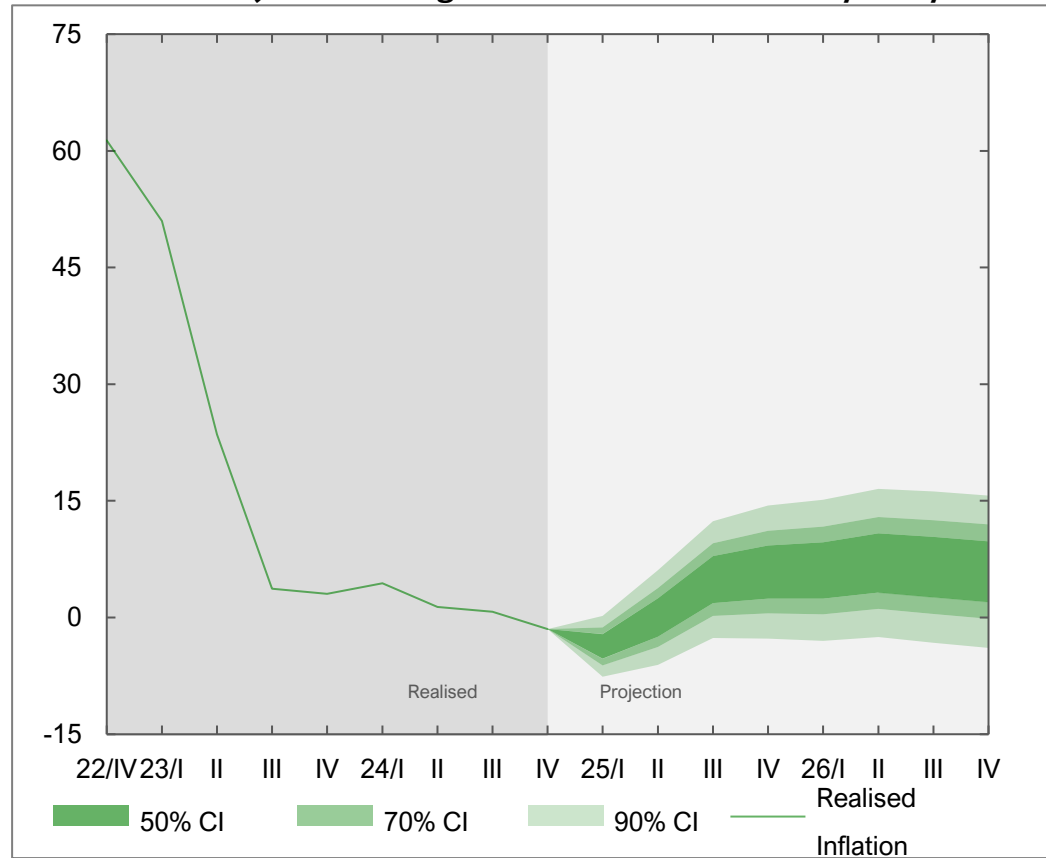
- Previous downward revisions to electricity tariffs and domestic fuel prices
- Subdued demand pressures



Headline inflation is projected to remain negative in the near term, before converging to the target...

Headline Inflation Projections (Quarterly, CCPI, Y-o-Y, %)

Based on the Projections during the November 2024 Monetary Policy Round



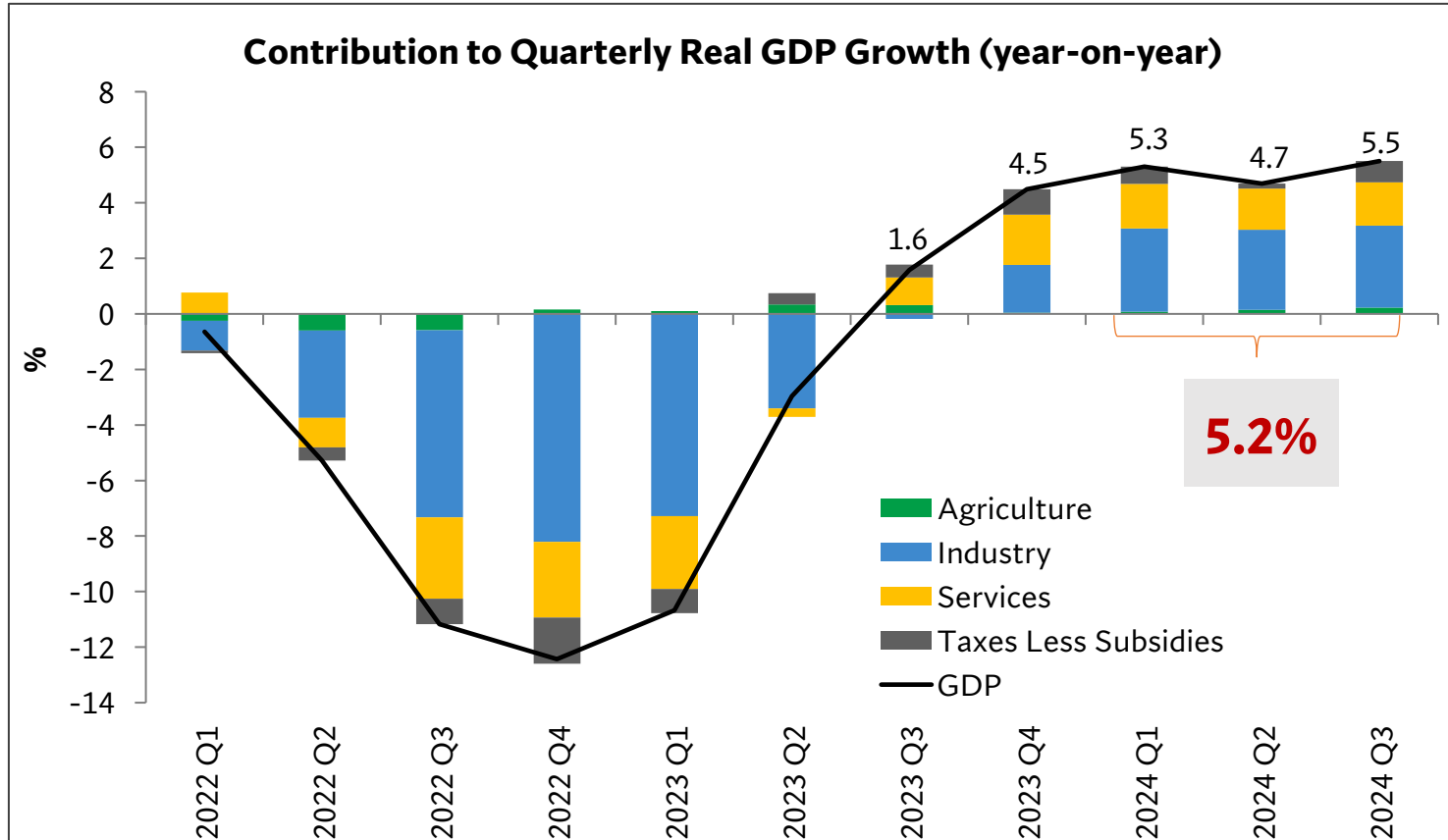
Source: Central Bank Staff Projections

- Latest projections indicate deeper deflation than previously projected: *mainly due to the more than anticipated downward adjustment in the electricity tariff announced in January 2025*
- Core inflation is projected to decelerate further over the next few months, before adjusting upwards

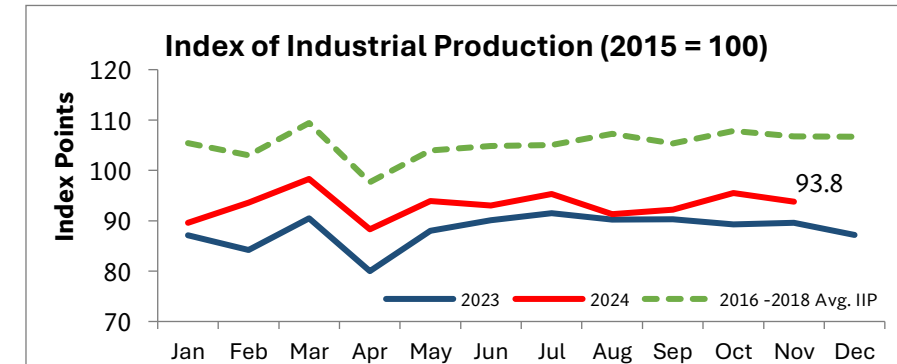
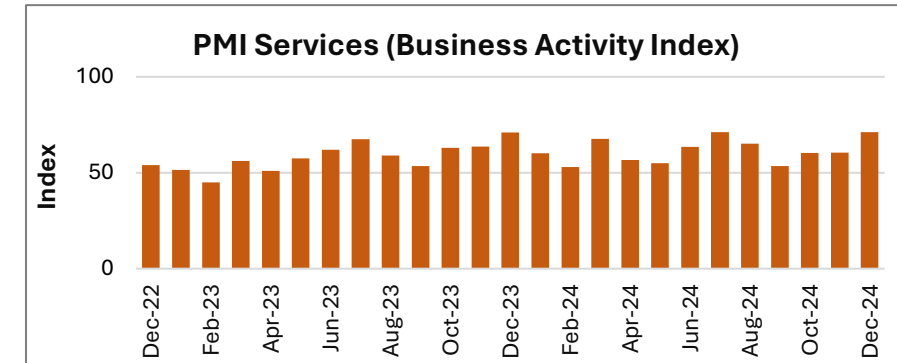
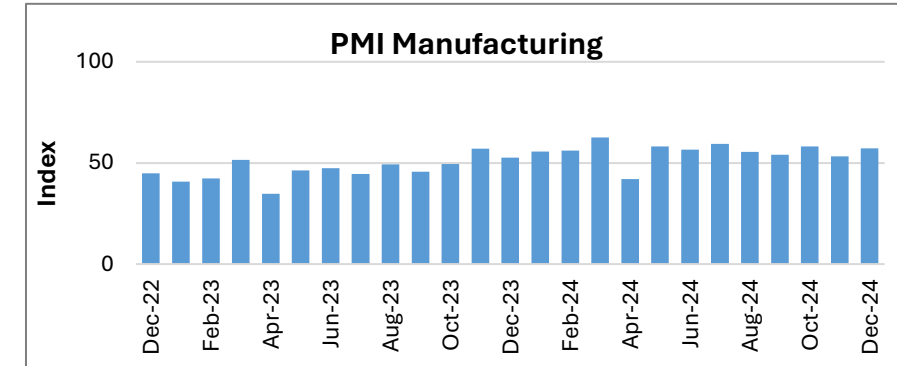
Inflation is expected to turn positive from mid-2025 and converge towards the targeted level of 5% over the medium term



The recovery in domestic economic activity continues...

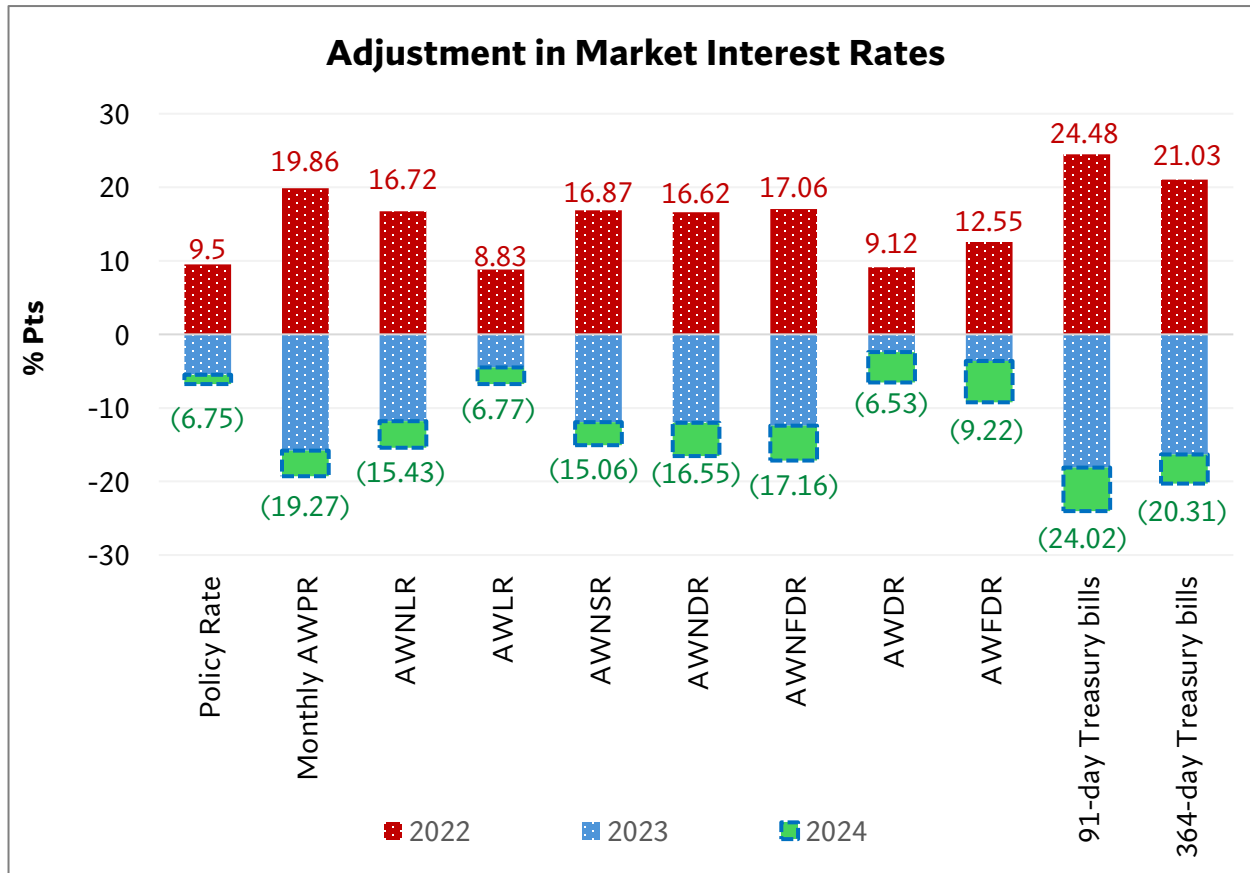


- The latest economic indicators suggest that the robust economic growth is likely to have continued
- Annual GDP growth is projected to be around 5.0% in 2024



The downward adjustment in overall market lending interest rates continued...

7



AWPR – Prime Lending Rate

AWNLR – Lending Rate (new loans)

AWLR – Lending Rate (outstanding)

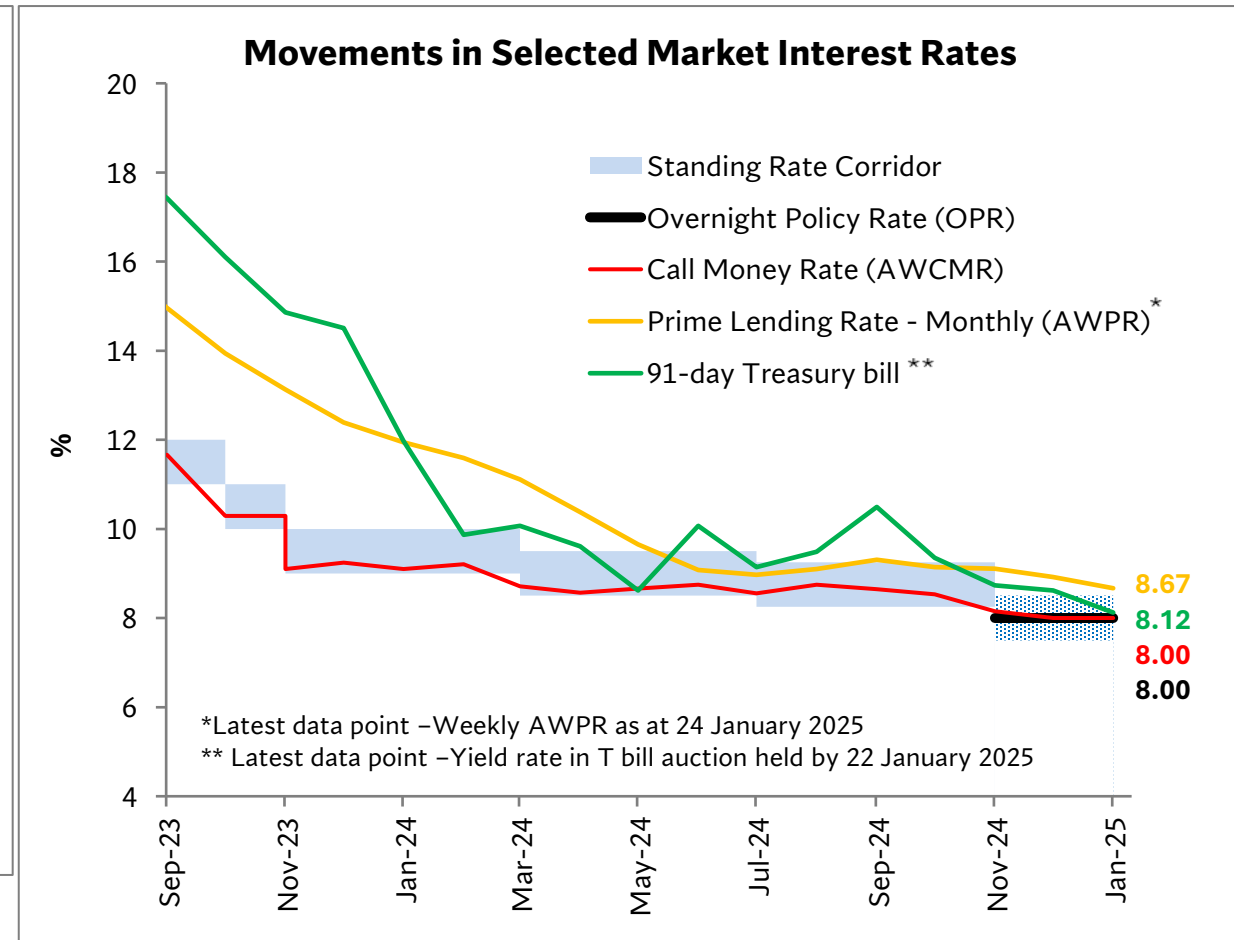
AWNSR – New SME Lending Rate

AWNDR – Deposit Rate (new deposits)

AWNFRD – Fixed Deposit Rate (new deposits)

AWDR – Deposit Rate (outstanding)

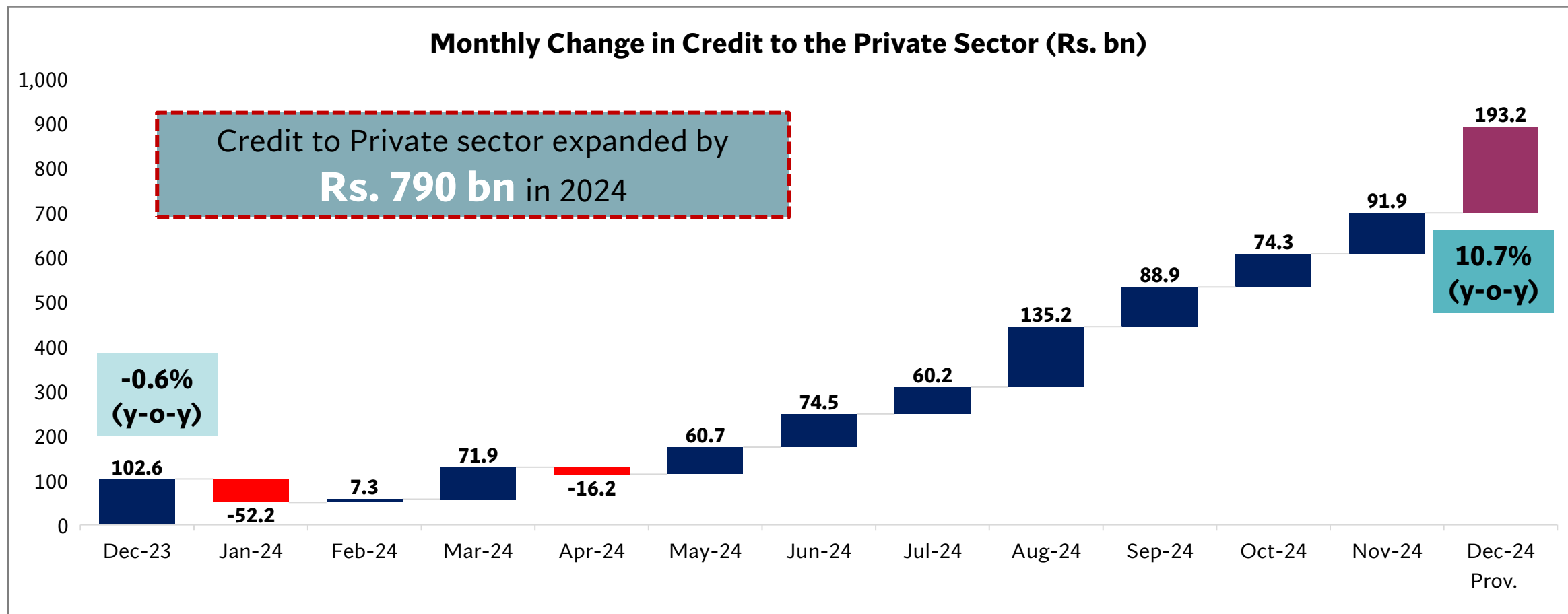
AWFDR – Fixed Deposit Rate (outstanding)



AWCMR remained aligned with OPR



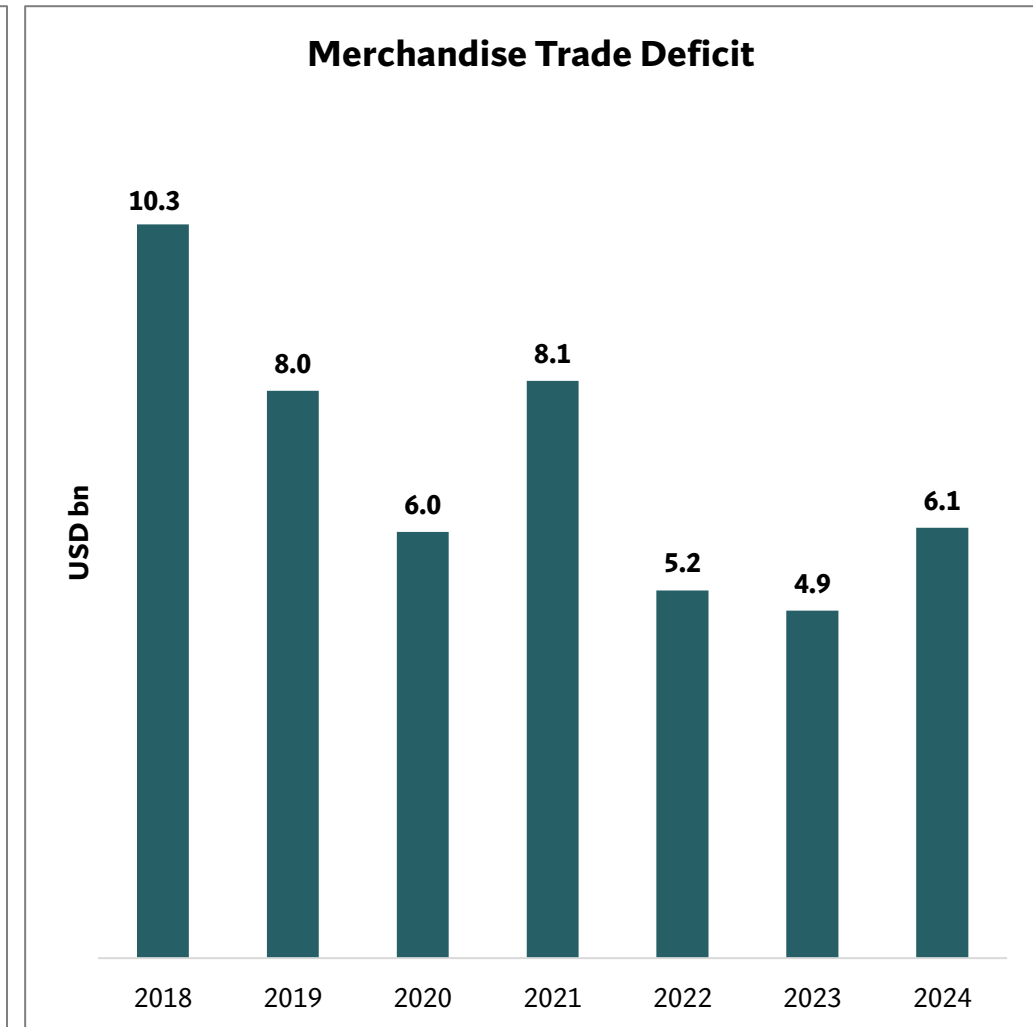
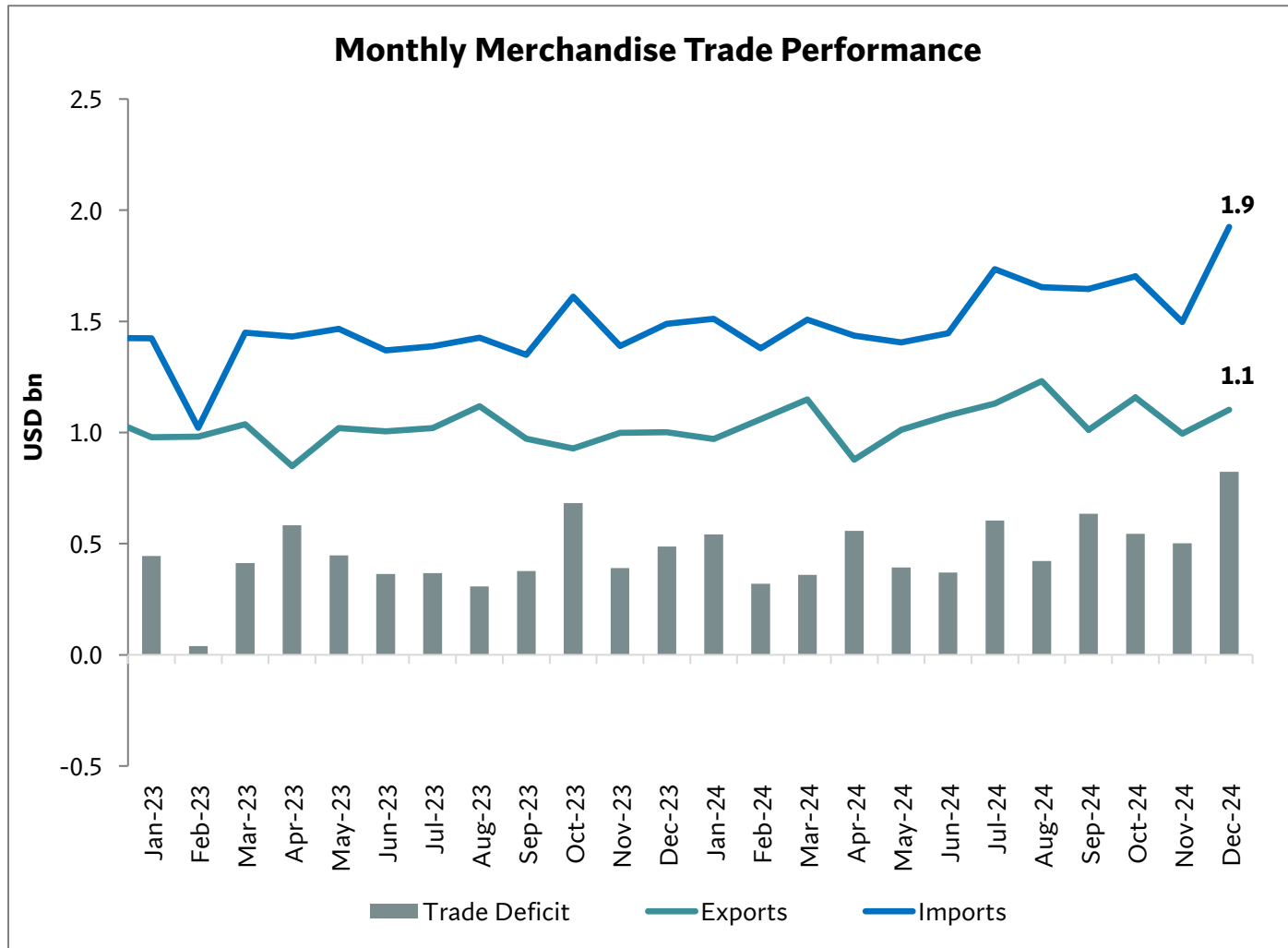
The growth of credit extended to the private sector by LCBs continued to accelerate...



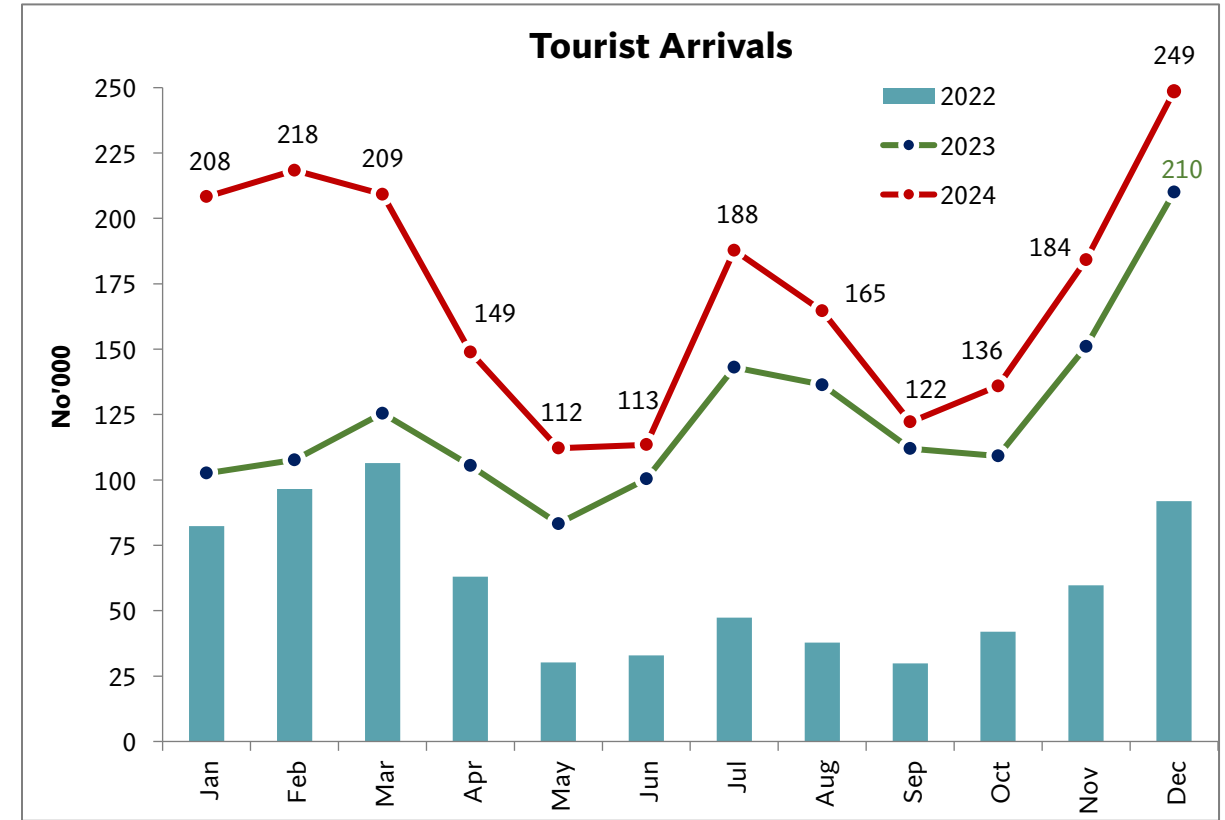
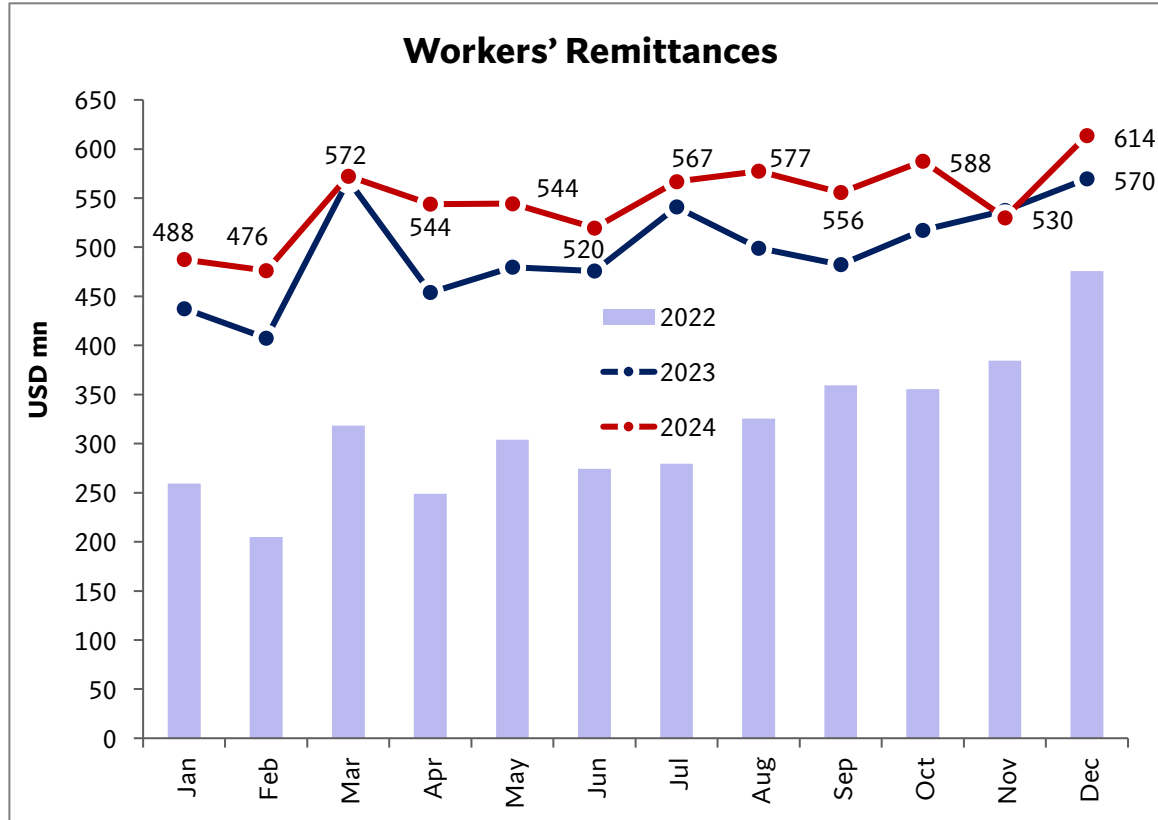
The expansionary momentum of credit to the private sector is expected to persist



The merchandise trade deficit widened during 2024 compared to the previous year...



Improvements in earnings from tourism and workers' remittances contributed positively to the external current account...



2022
USD 3.8 bn

2023
USD 6.0 bn

2024
USD 6.6 bn

Earnings from Tourism

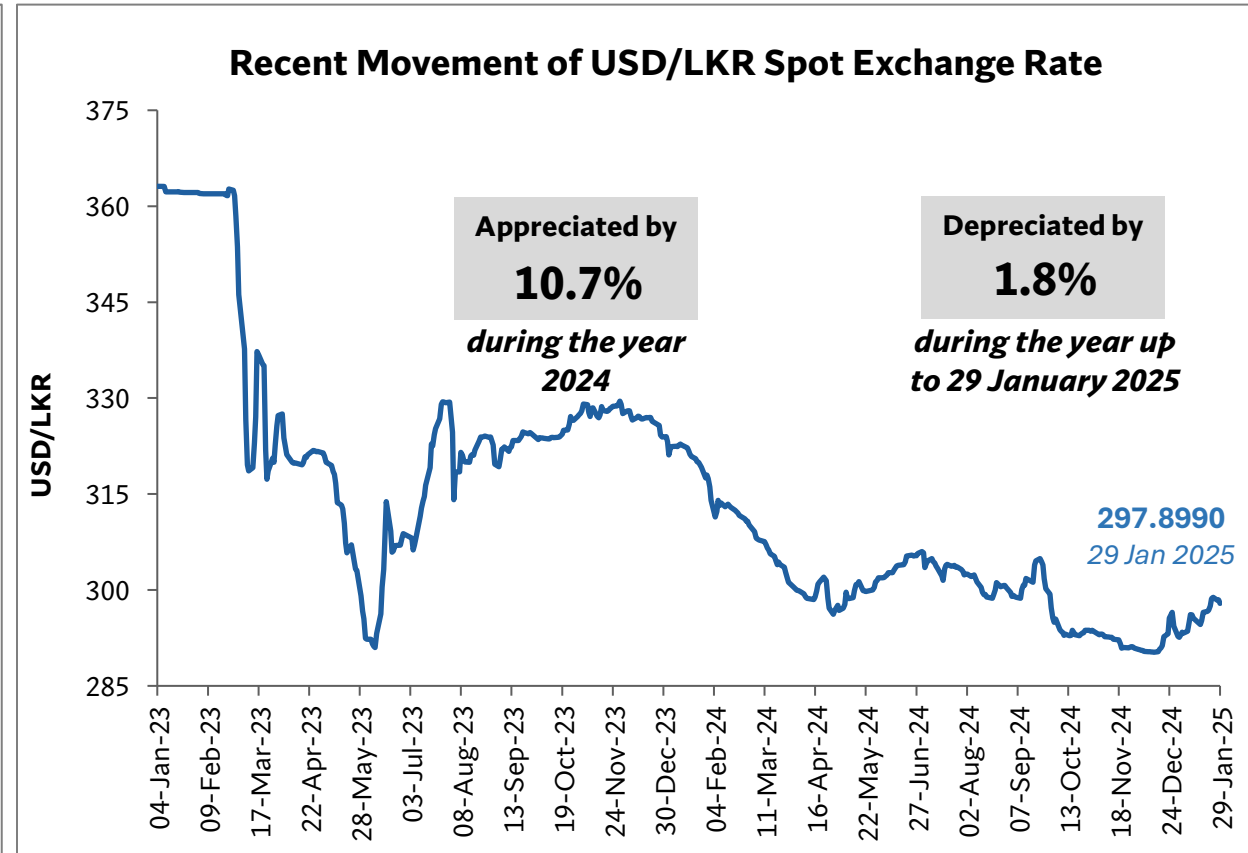
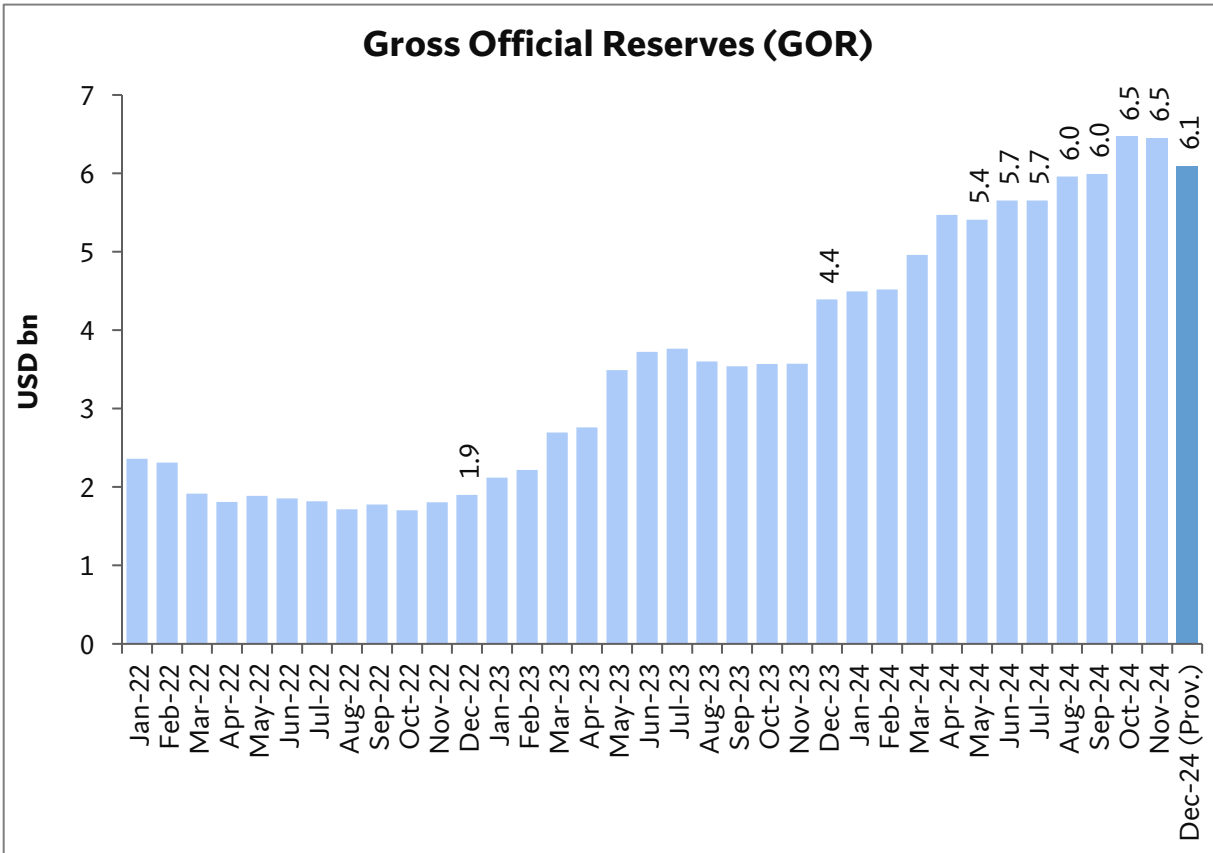
2022
USD 1.1 bn

2023
USD 2.1 bn

2024
USD 3.2 bn



Gross Official Reserves remains at a healthy level...



The external debt restructuring process, except for a small portion, was completed successfully in December 2024, strengthening the external sector outlook of the country



The Board noted that the **economic recovery is gaining momentum** supported by **improving business confidence** and **market sentiments** as well as the robust expansion of private sector credit, reflecting relaxed monetary conditions.

While the **ongoing period of deflation is likely to deepen in the immediate future** due to supply side factors, **a gradual convergence towards the inflation target** is expected by the H2-2025.

*The Monetary Policy Board will stand ready to **take appropriate measures to maintain domestic price stability** in the period ahead while supporting the economy to reach its potential*



Thank You

