Monetary Policy Review No. 3 of 2025

STABILITY FOR PROSPERITY 1950-2025

Press Conference

Review of the Monetary Policy Stance

22 May 2025

Economic Research Department
Central Bank of Sri Lanka

The Central Bank of Sri Lanka
further eases its monetary policy stance

25 bps

7.75%

Overnight Policy Rate (OPR)

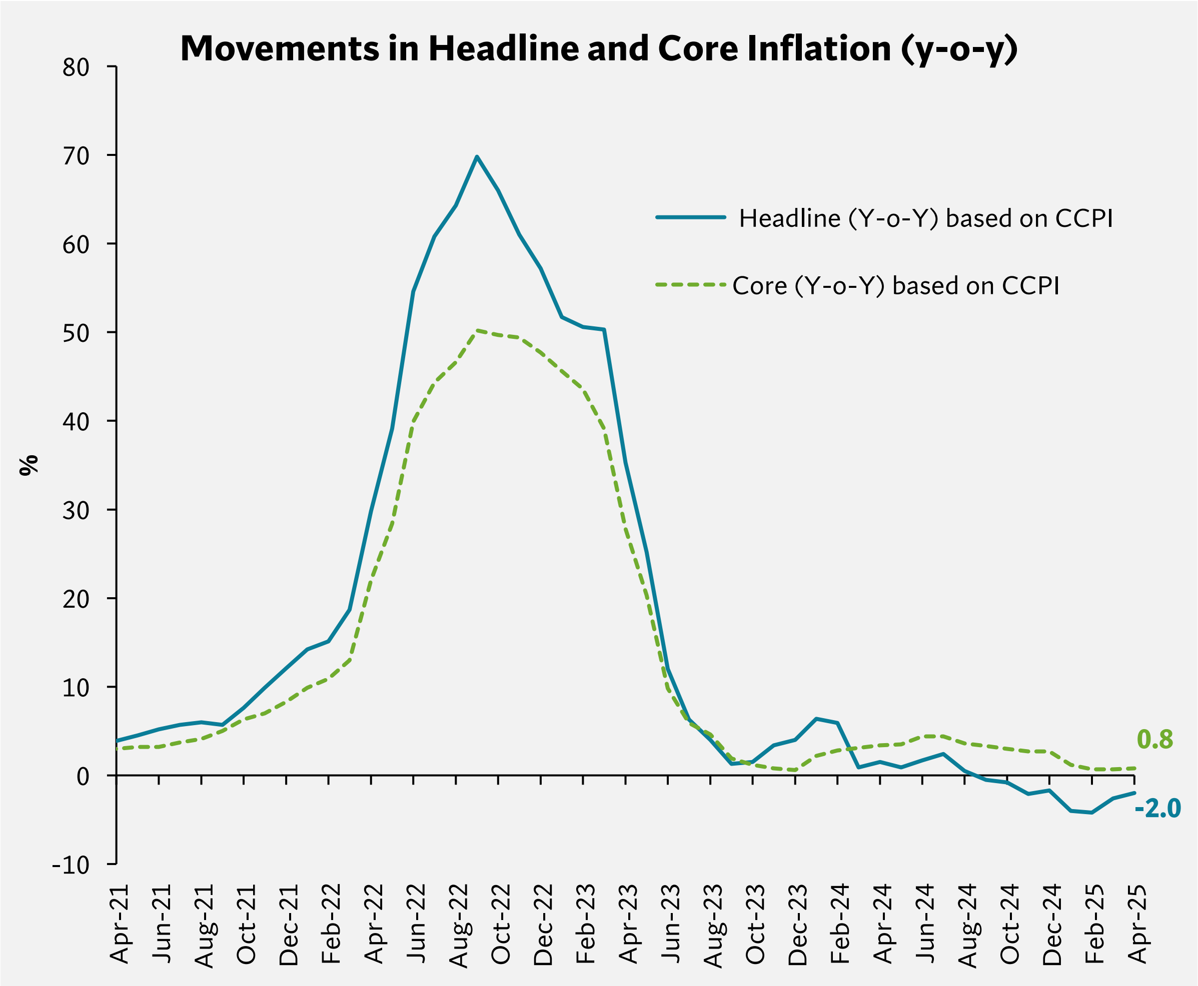
Margins for determination of the interest rates for Standing Facilities of the Central Bank remain unchanged;

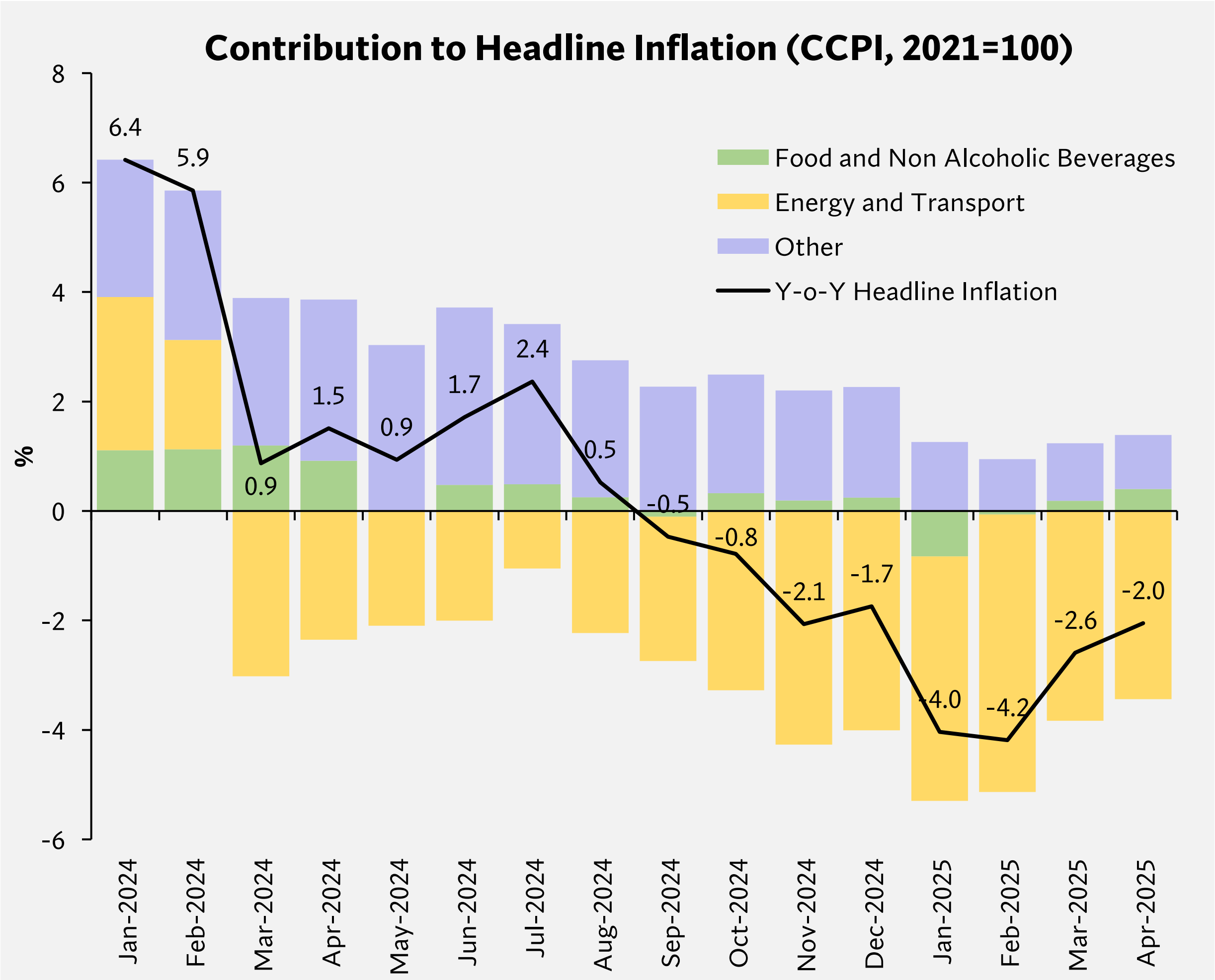
a. Standing Deposit Facility Rate (SDFR): OPR - 50 bps (7.25%)
b. Standing Lending Facility Rate (SLFR): OPR + 50 bps (8.25%)

Statutory Reserve Ratio (SRR) unchanged : 2.00%

The Board is of the view that
this measured easing of
monetary policy stance
will support steering inflation towards the target of 5%,
amidst global uncertainties and
current subdued inflationary pressures

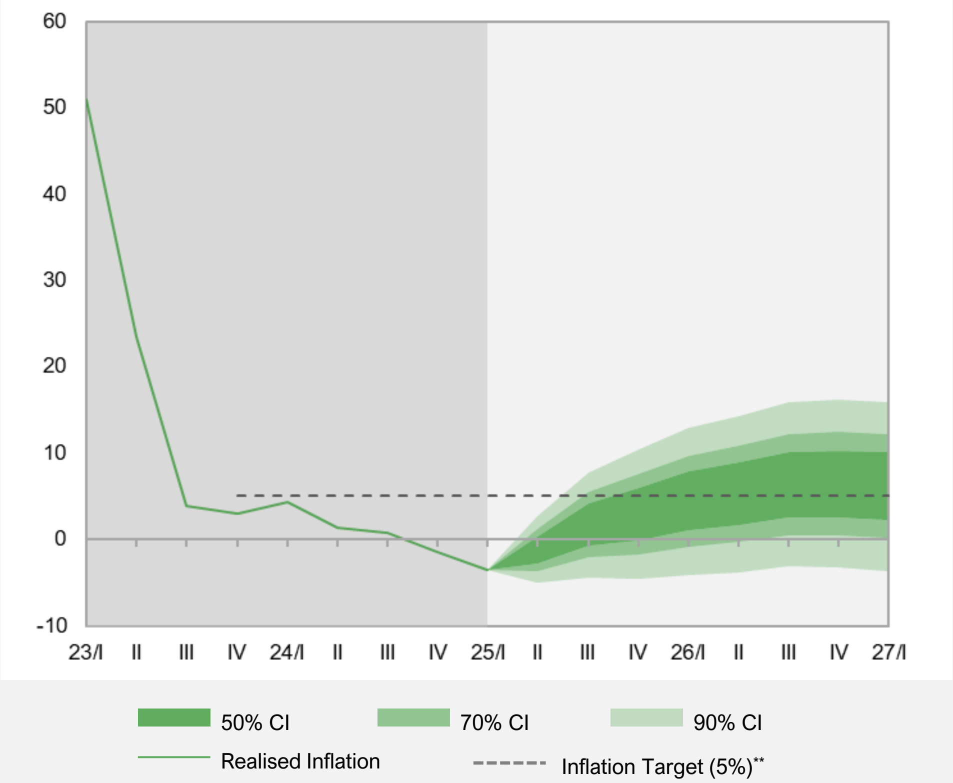
Deflationary conditions have begun to ease since March 2025, as predicted





The latest projection show signs of a more gradual pick up in inflation in the near term than previously anticipated

Headline Inflation Projections
(Quarterly, CCPI, Y-o-Y, %)
Based on the Projections during the May 2025 Monetary Policy Round



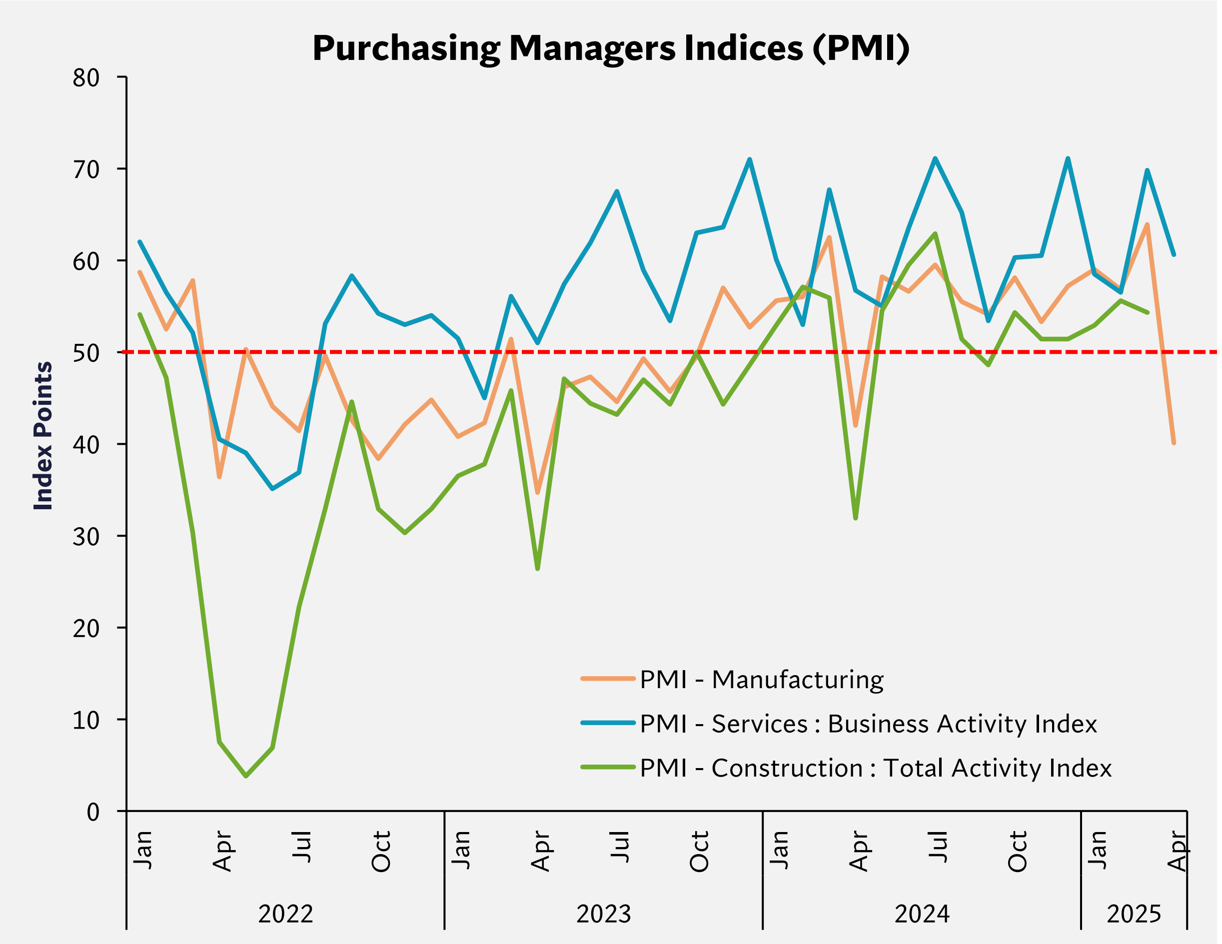
Source: *Central Bank Staff Projections*

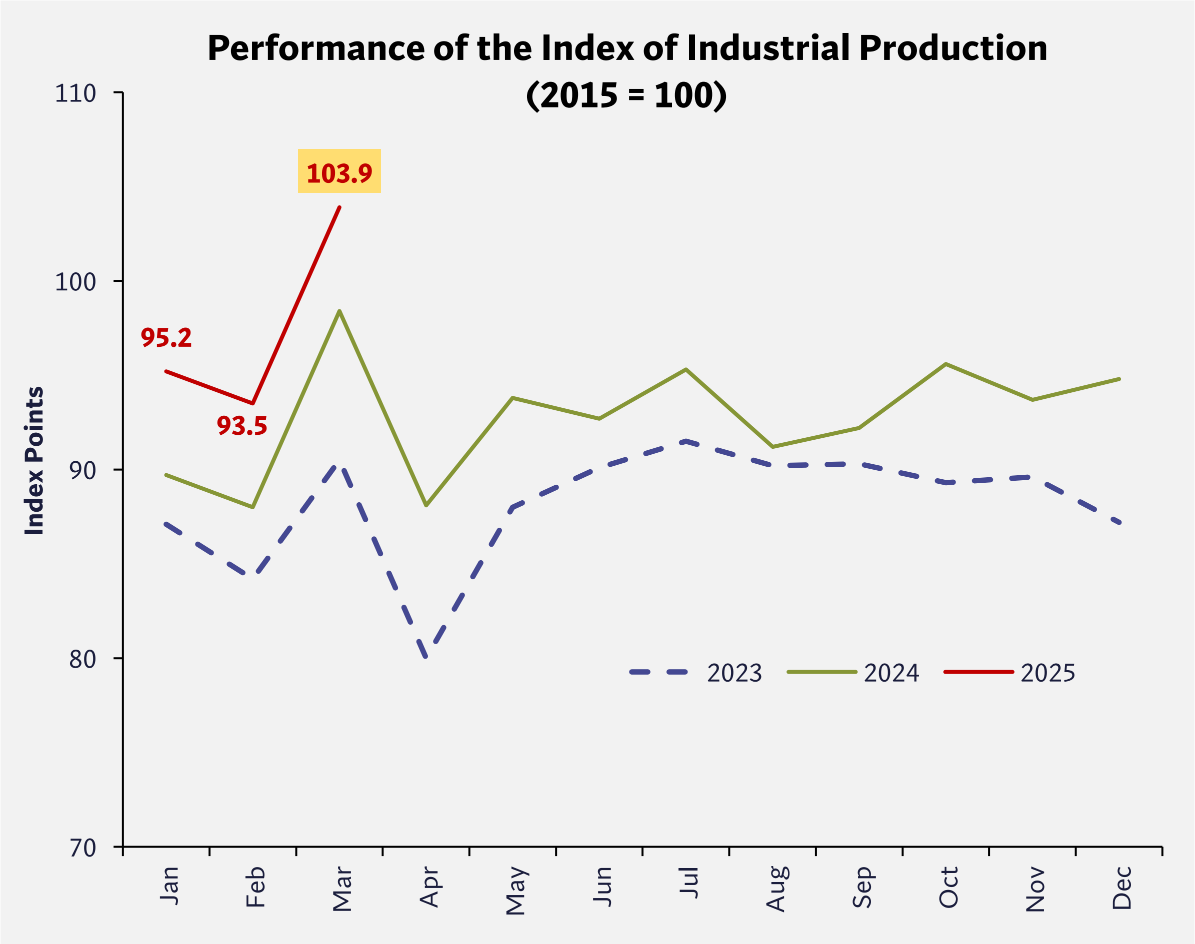
*** The inflation target (5%) was agreed under the Monetary Policy Framework Agreement (MPFA) signed between the Central Bank and the Minister of Finance in October 2023.*

- Headline inflation is expected to **turn positive in early Q3 of 2025** and **gradually align with the target** thereafter
- Core inflation is also **expected to increase gradually in the coming months** from current low levels

Inflation expectations are also aligning with the inflation target

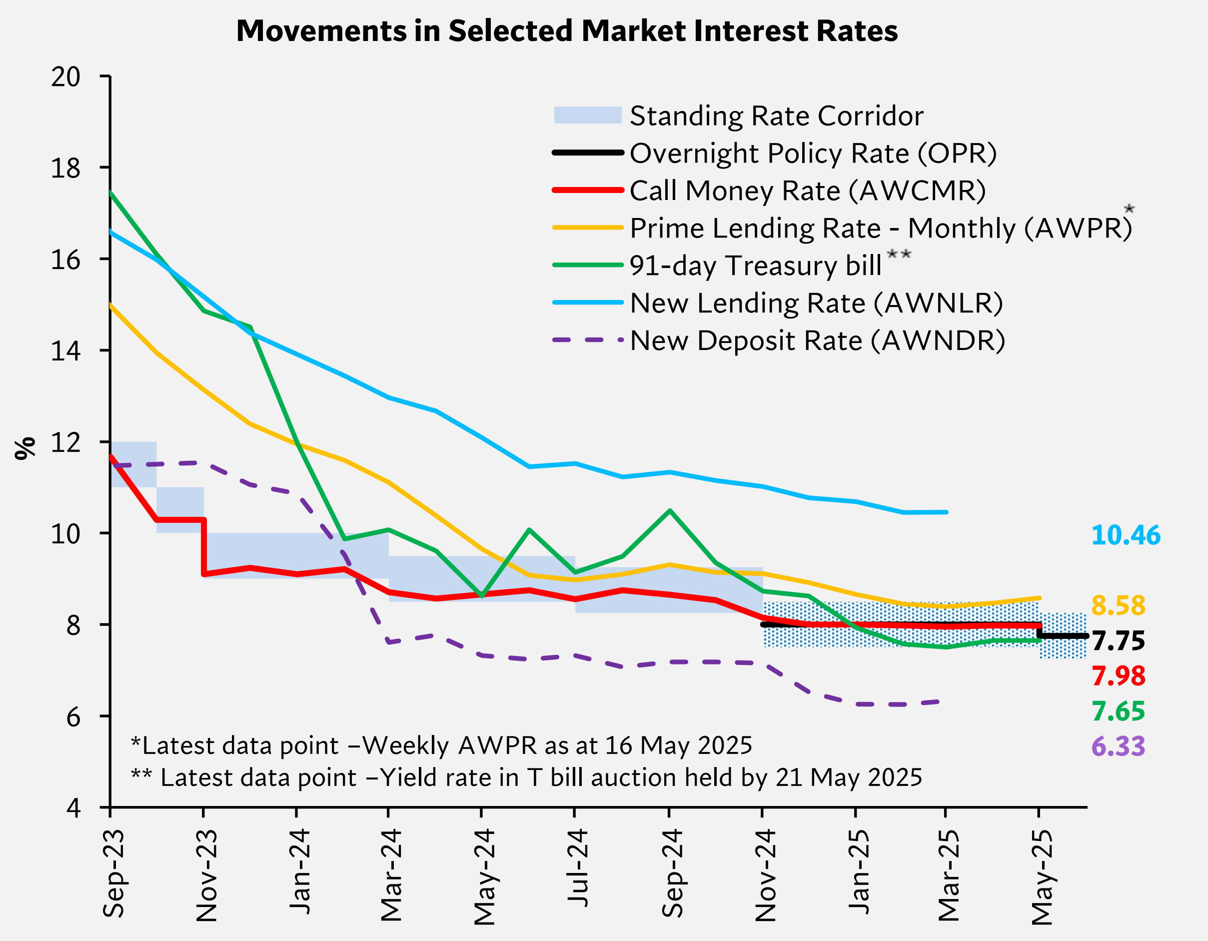
Recent leading economic indicators reflect sustained progress in domestic economic activity

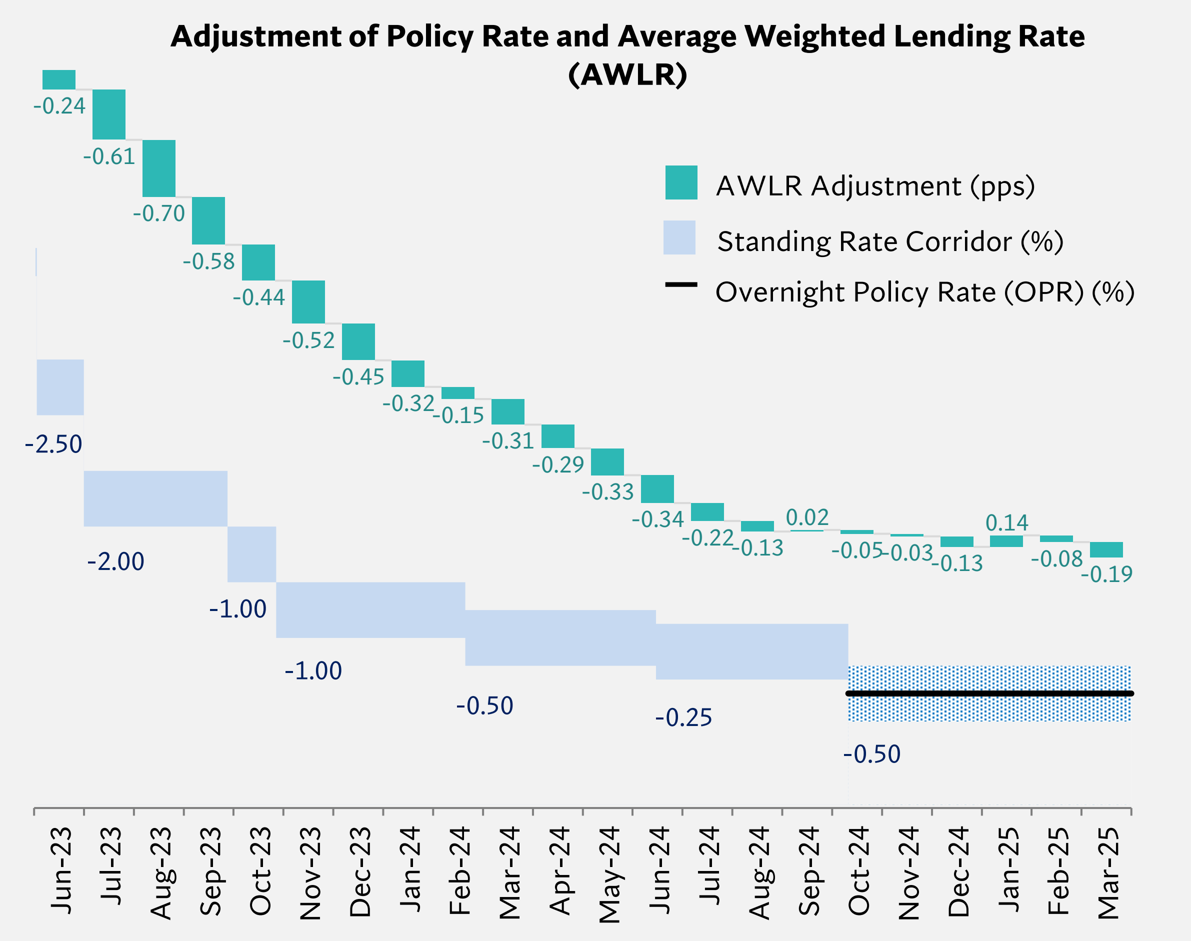




Global uncertainties, which could have implications on Sri Lanka, have escalated from the time of the previous monetary policy review

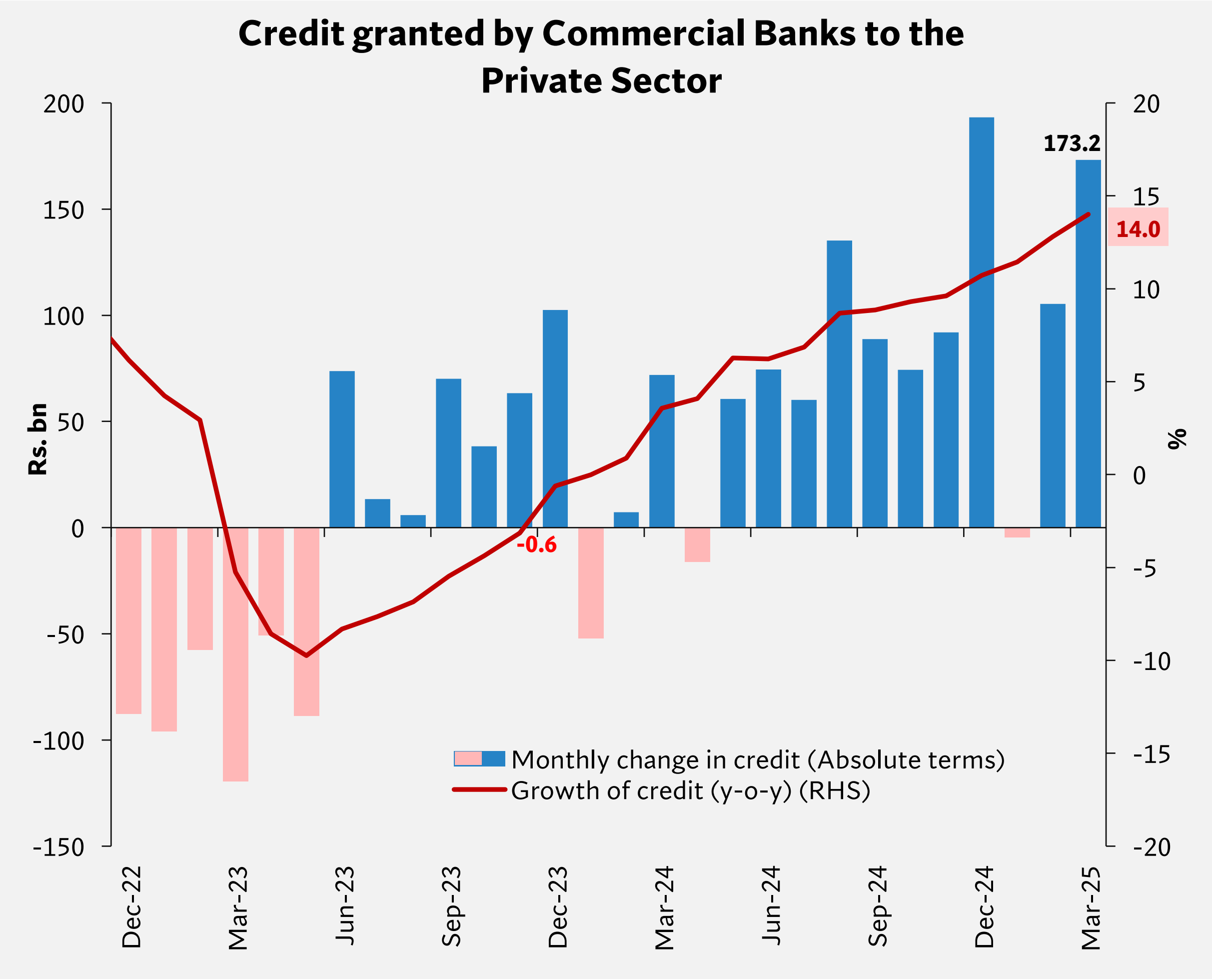
Most market interest rates have stabilised at lower levels

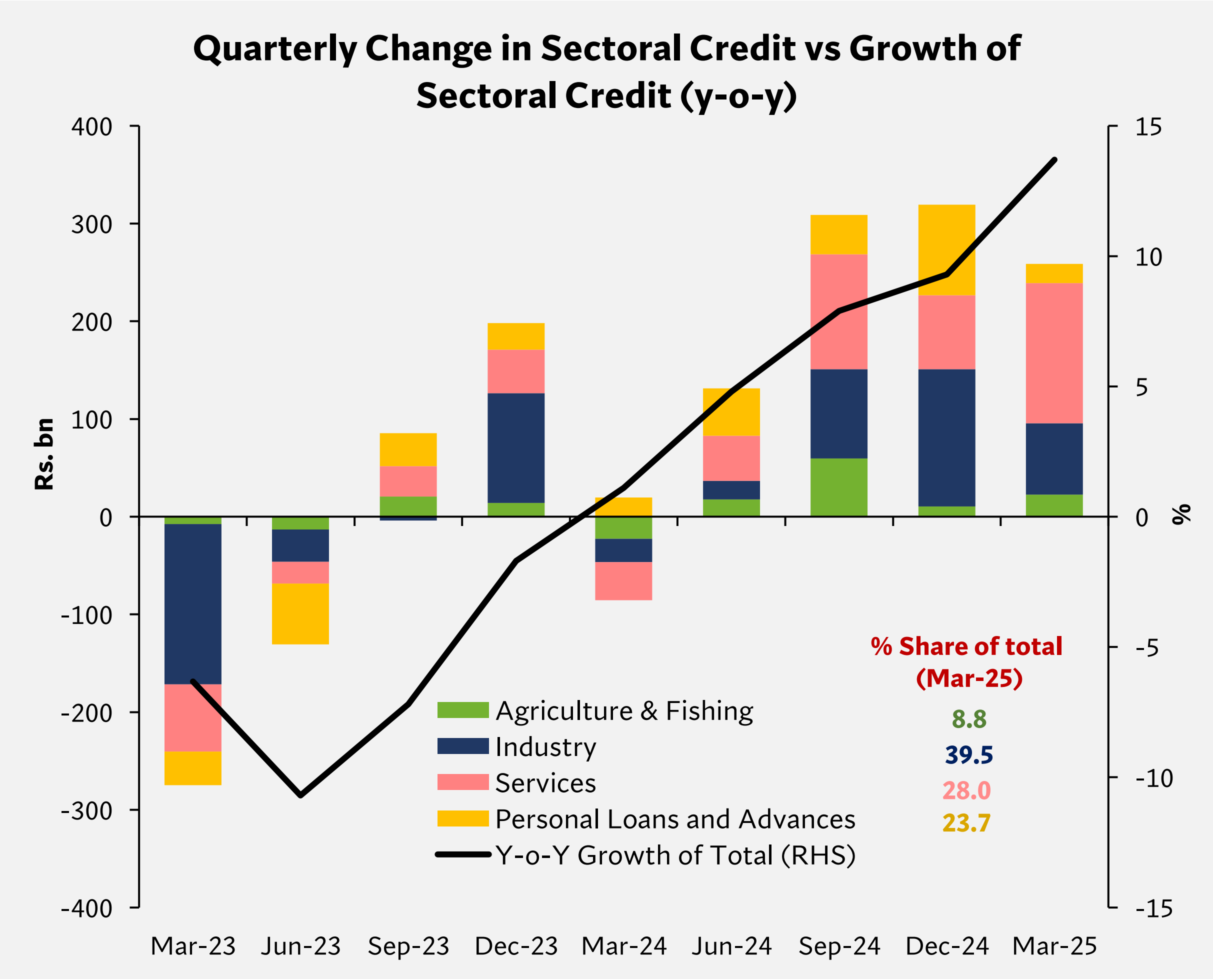




With the current policy easing, the Board expects further downward adjustments in lending rates

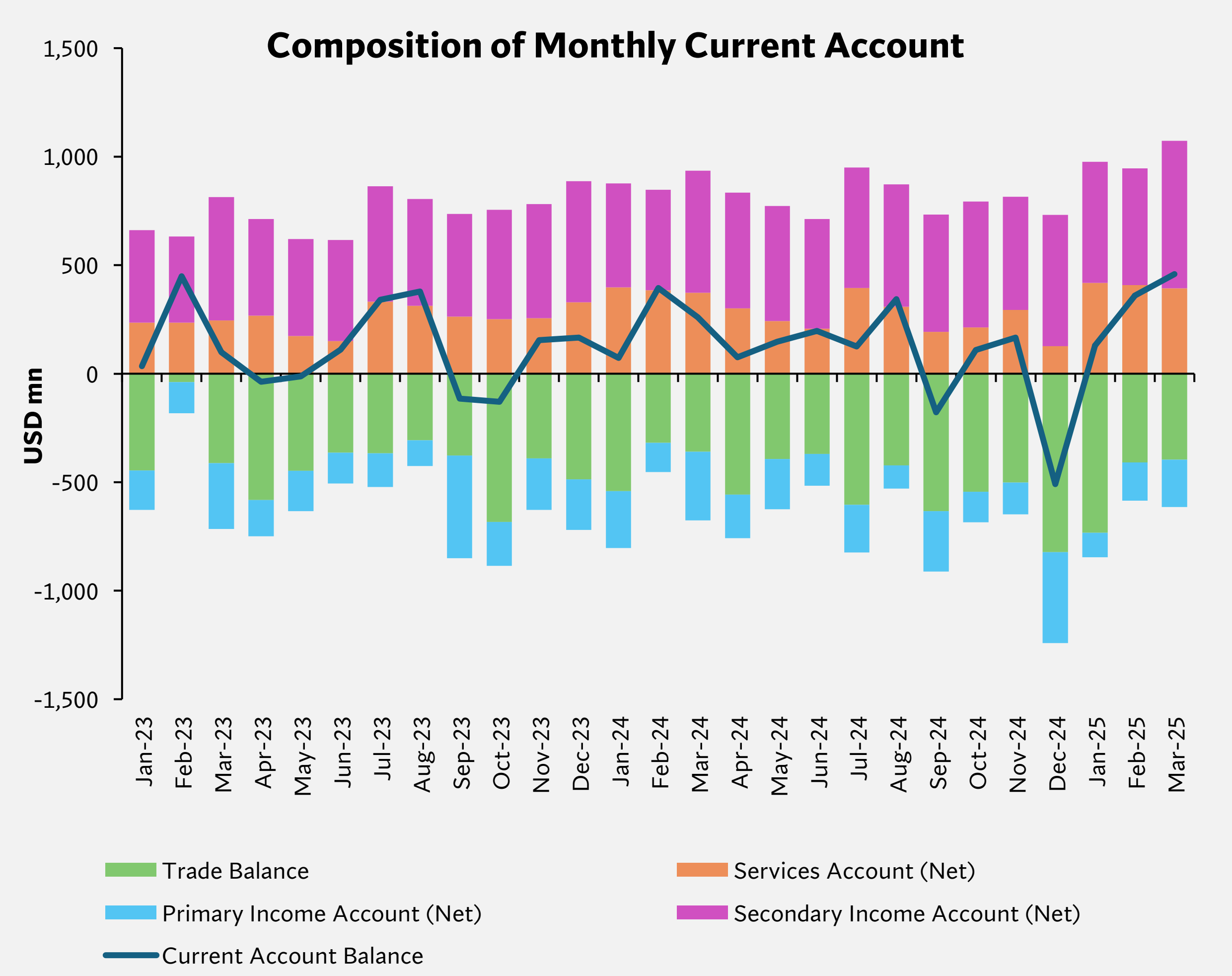
Credit flows to the private sector remain strong with all economic sectors benefitting from such expansion

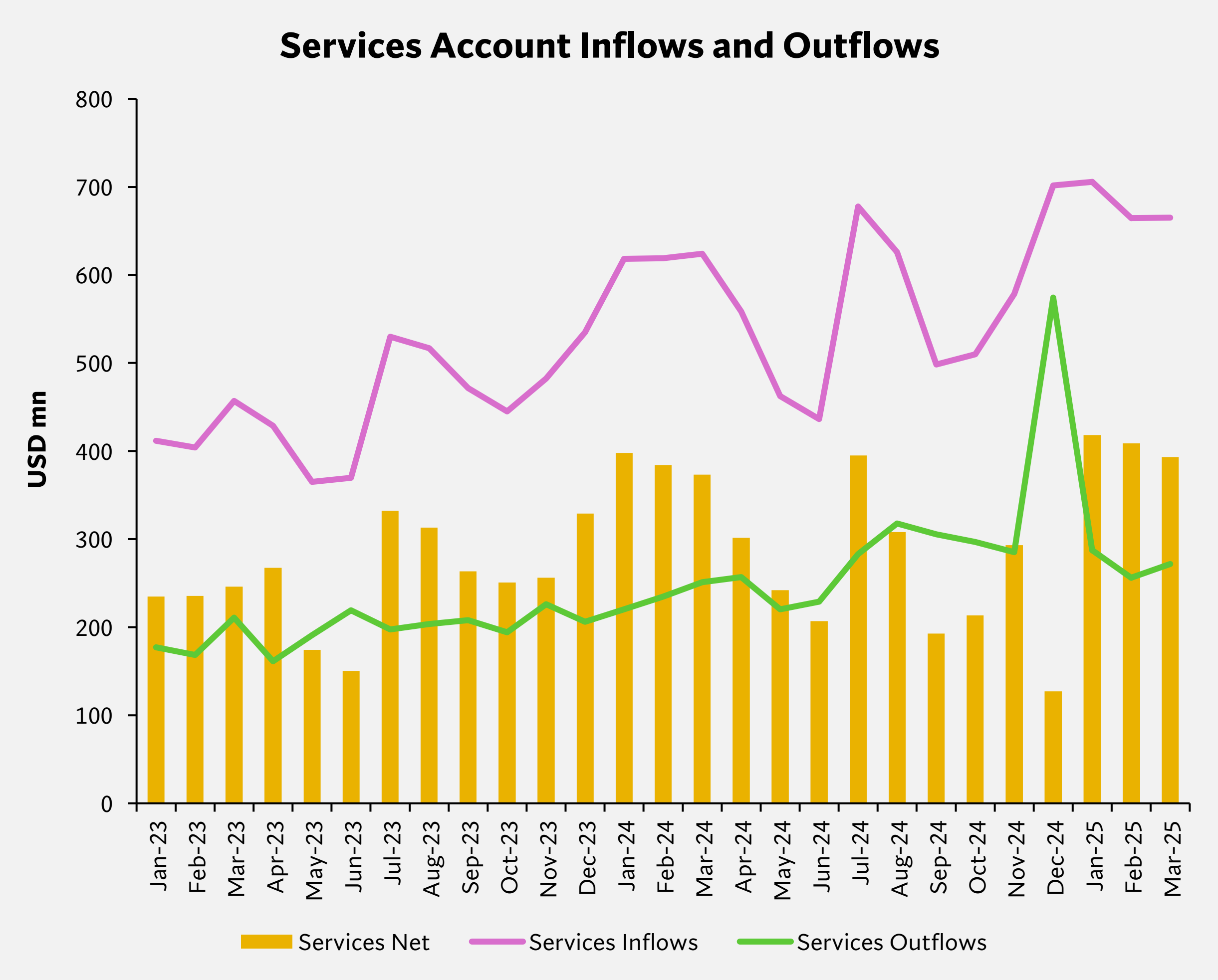




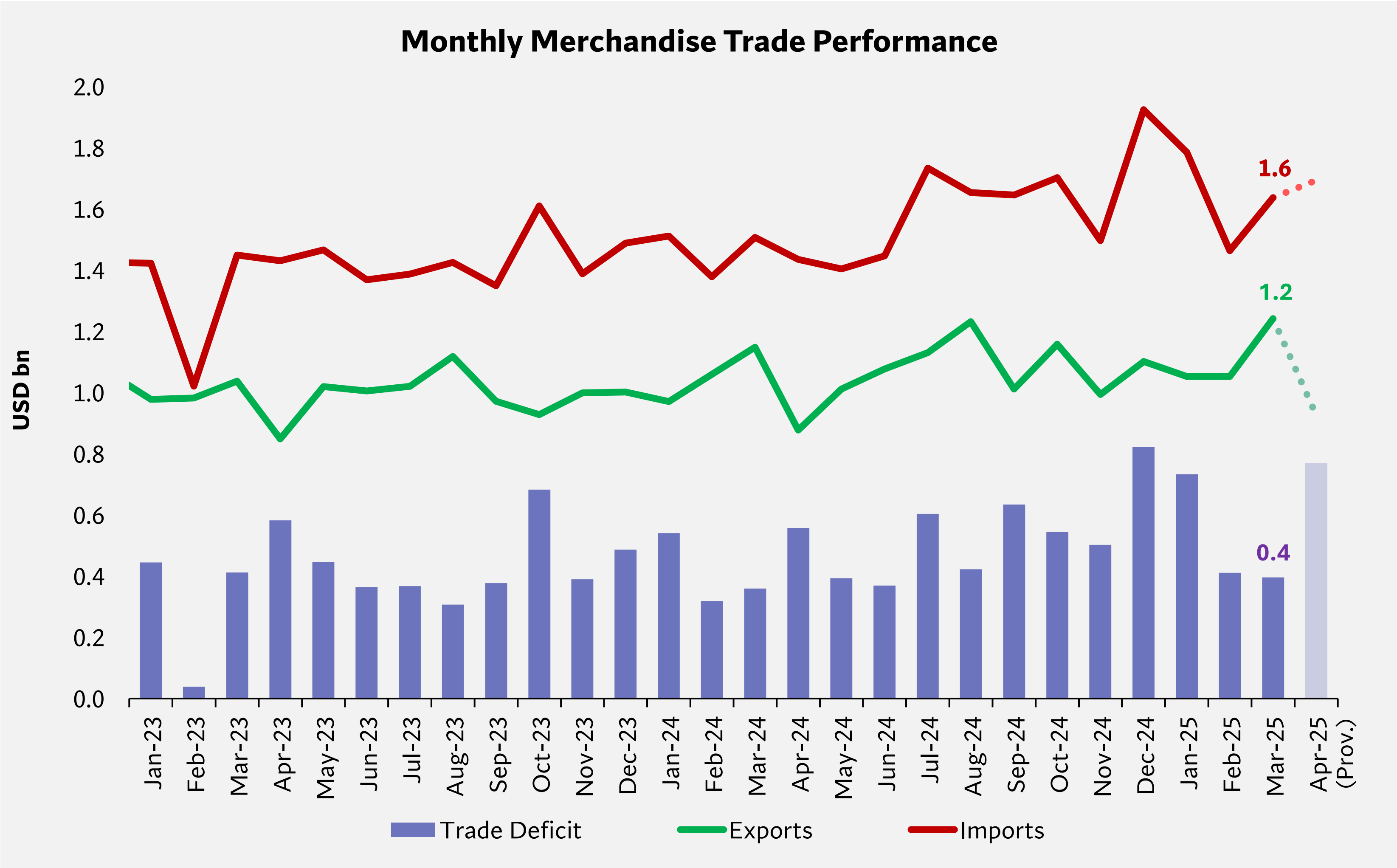
This credit expansion is expected to continue throughout the year, with further support from the latest easing

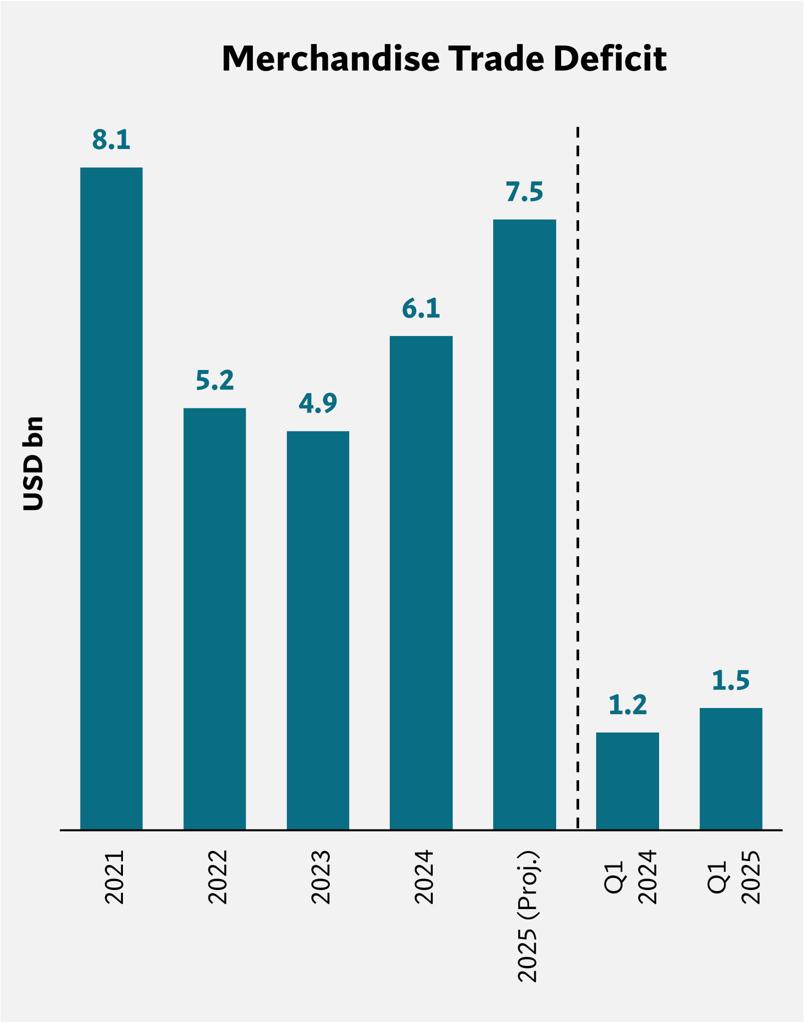
The current account is estimated to have recorded a notable surplus in Q1-2025



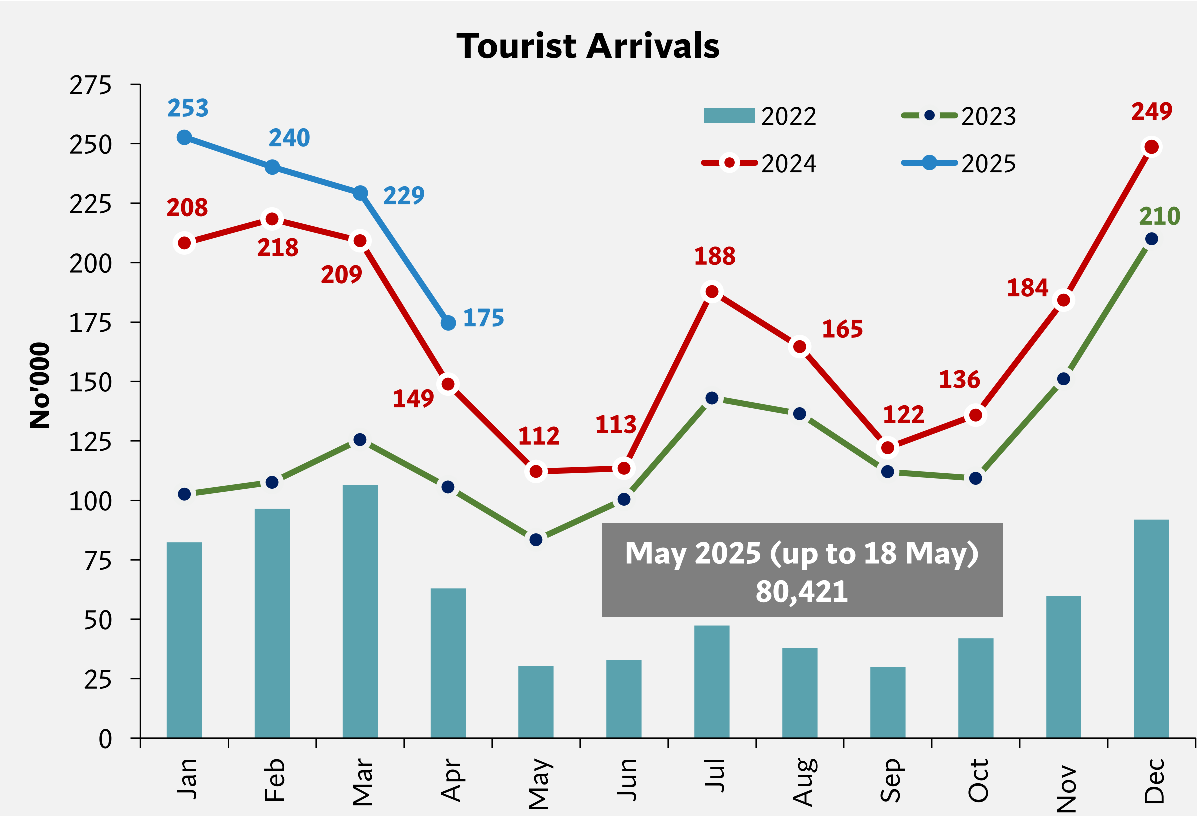


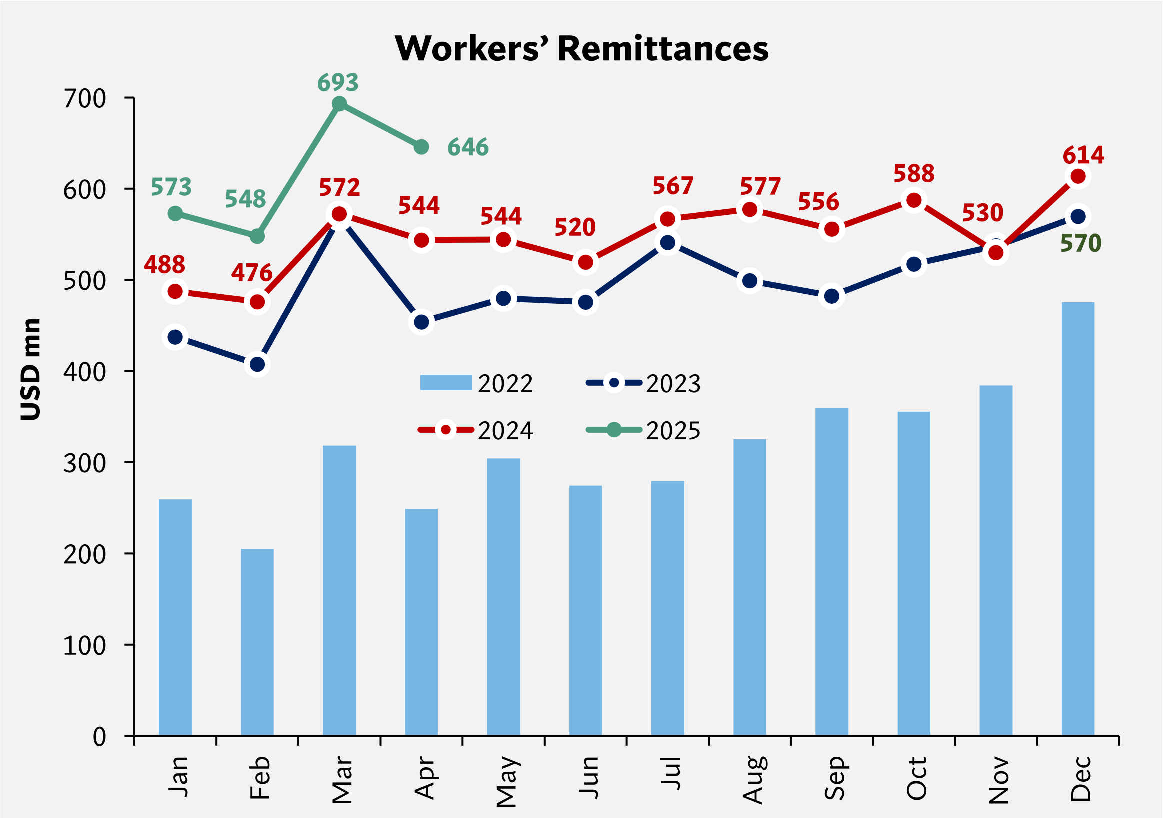
An expansion in import expenditure relative to export earnings drove the merchandise trade deficit to widen





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





Earnings from Tourism

2024
USD 3.2 bn

2025 Jan-Apr
USD 1,379 mn

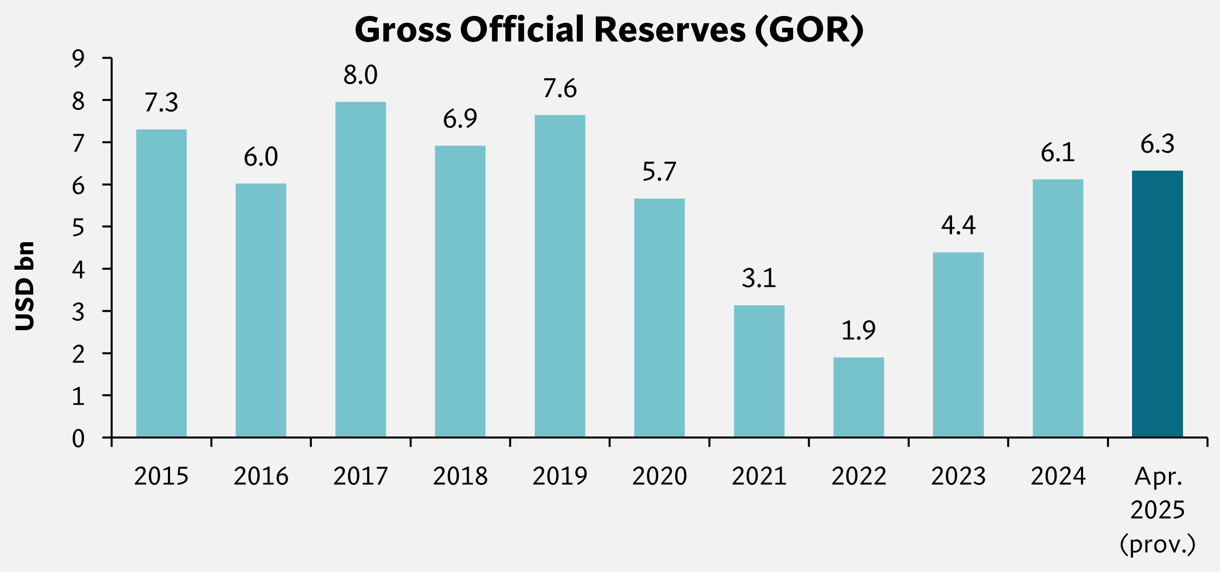
2024 Jan-Apr
USD 1,252 mn

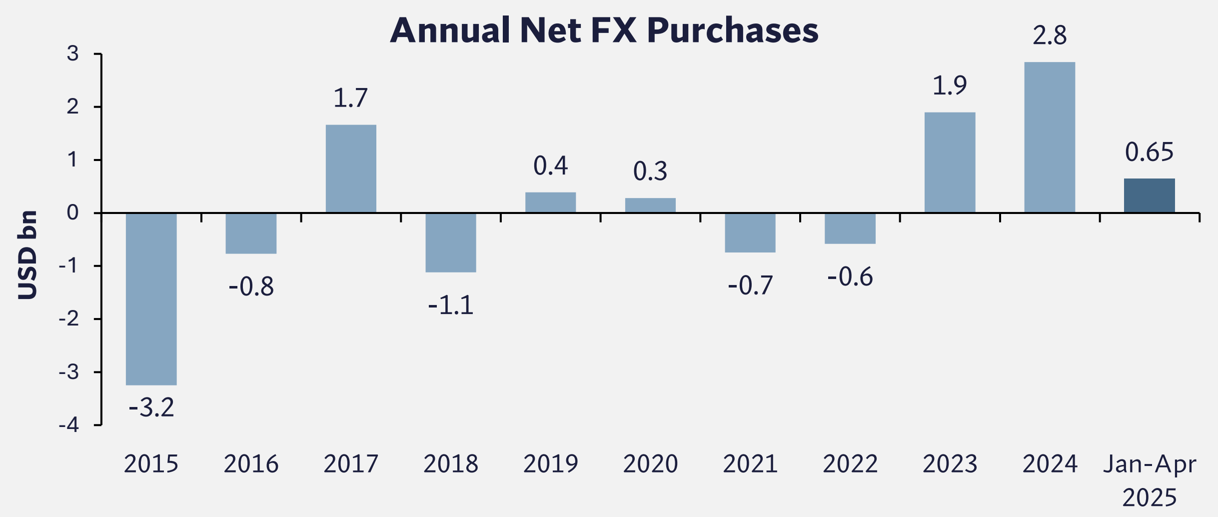
2024
USD 6.6 bn

2025 Jan-Apr
USD 2,461 mn

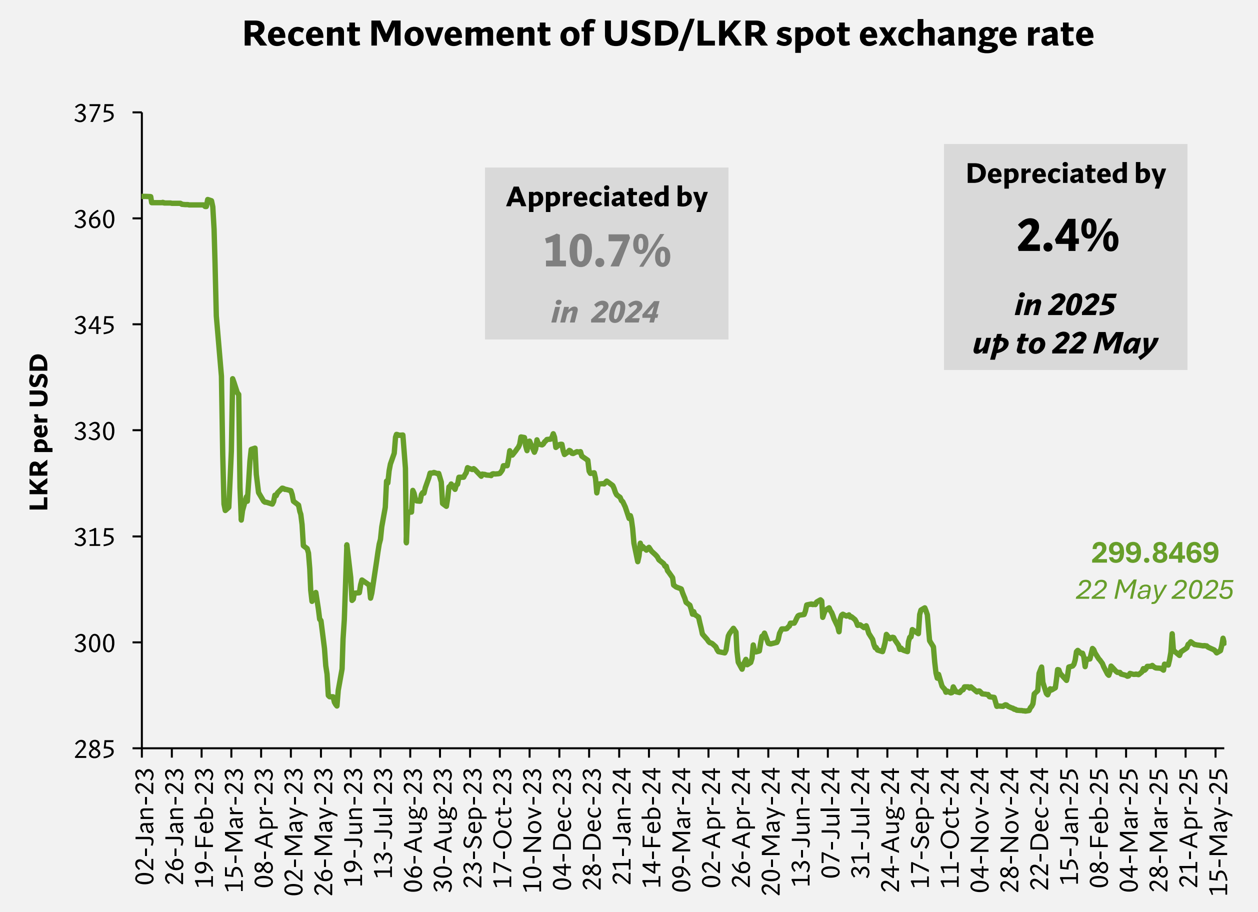
2024 Jan-Apr
USD 2,080 mn

Continued net forex purchases by the Central Bank helped strengthen the official reserves amidst debt servicing and other forex outflows





Sri Lanka rupee recorded some depreciation against the US dollar so far during the year, following two years of annual appreciation



The Board will carefully assess incoming data on the domestic and global fronts and take measures, as appropriate, to ensure that *inflation stabilises around the target of 5%*, while supporting the economy to reach its potential

Thank You