



Issued By Economic Research Department

Date 26 March 2025

Monetary Policy Review: No. 02 – March 2025

The Central Bank of Sri Lanka keeps the Overnight Policy Rate (OPR) unchanged

The Monetary Policy Board decided to keep the Overnight Policy Rate (OPR) at 8.00% at its meeting held yesterday. The Board arrived at this decision after carefully considering the developments both domestically and globally. The Board remains confident that the prevailing monetary policy stance will ensure that inflation will move towards the target of 5% while supporting the growth of the domestic economy.

Inflation remains negative at present mainly due to repeated reductions in electricity tariffs and fuel prices. Deflationary conditions are expected to gradually ease from March 2025, with inflation projected to turn positive by mid-2025. Projections based on the currently available data suggest that inflation would reach the targeted levels by year-end.

The latest annual estimates revealed that the domestic economy recorded a strong recovery in 2024 after two years of contractions. Recent developments in the economy and leading indicators point towards a continuation of this momentum.

Rupee liquidity remains at surplus level. Market interest rates have continued to decline in line with the eased monetary policy stance. Supported by low interest rates, credit flows to the private sector remained robust. This trend is expected to continue, encouraging domestic economic activity.

External sector performance has been more favourable than expected. Exports have remained strong, while imports have gained traction causing the trade deficit to widen. Earnings from tourism and workers' remittances helped improve the external current account. Foreign inflows to the government securities market have risen recently reflecting improved confidence. Increased net foreign purchases by the Central Bank and the receipt of the fourth tranche of the IMF-EFF programme helped increase official reserves enhancing resilience. The Sri Lanka rupee saw a marginal depreciation thus far in 2025.

Risks to the inflation and growth outlook remain broadly in balance. However, the Board is watchful, among other things, of the possible impact of global trade and geopolitical uncertainties on the Sri Lankan economy. As such, monetary policy formulation will continue to be based on a forward-looking and data-dependent approach. The Board stands ready to respond to emerging risks to maintaining price stability while supporting the economy to reach its potential.

The release of the next regular statement on the monetary policy review will be on 28 May 2025.

ⁱ **Inflation Fan Chart** is available on https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/mpr_fan_chart_02_2025_e.pdf

ⁱⁱ **Data Annexure** is accessible at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/mpr02_2025_e.pdf