



MONETARY POLICY REPORT FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Highlights of the Monetary Policy Report February 2025

14 February 2025

Economic Research Department
Central Bank of Sri Lanka

Legal Requirement

In keeping with Sections 27 and 80 of the CBA, the Monetary Policy Report is prepared to **communicate** to the public and other stakeholders the rationale for the monetary policy decisions taken during the relevant period of review, while providing guidance on the inflation and economic growth outlook along with an assessment of risks to the outlook

The purpose of the Monetary Policy Report is to...

- Enhance transparency and communicate monetary policy rationale
- **Increase accountability and build credibility of monetary policy**
- Provide guidance for financial markets and all stakeholders
- **Anchor inflation expectations**
- Enhance policy coordination

The coverage

- Monetary policy framework of the CBSL
- Executive Summary
- Monetary Policy Summary
- Inflation and Economic Outlook
 - Baseline forecast
 - Key assumptions underpinning the forecast
 - Risks to inflation and economic growth projections
 - Comparison with the Previous Forecast
- Current economic conditions
 - Domestic sectoral and global developments

***The Key Focus
of the MPR***

***In addition,
box articles on***

***“How to Read the
Inflation Fan Chart”***

***“Price Trends Driving
Sri Lanka's Deflation
and Public Perceptions”***



MONETARY POLICY REPORT FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Monetary Policy Summary

The Central Bank of Sri Lanka continued to ease monetary policy...

Since the last Monetary Policy Report

September 2024

Policy interest rates were **maintained** at 8.25% (SDFR) and 9.25% (SLFR)

November 2024

Central Bank moved to a single policy rate mechanism.

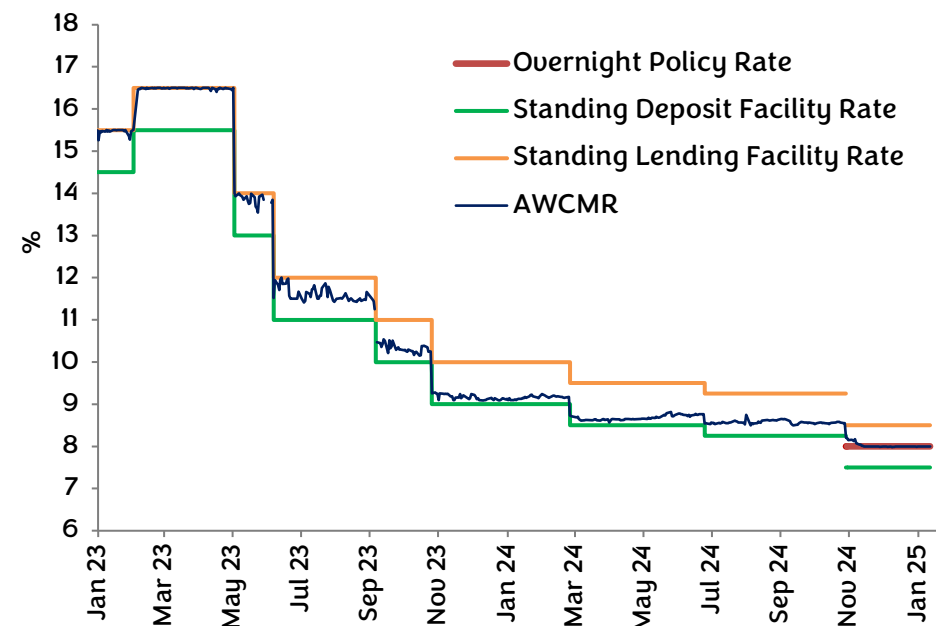
The Overnight Policy Rate (OPR) was introduced

OPR was set at 8.00%, with an **effective reduction of around 50 bps**

January 2025

OPR was **maintained** at 8.00%

OPR, AWCMR and Standing Facility Rates



“The Central Bank maintained its accommodative monetary policy stance throughout the year, with a further rate cut in November 2024 ”



MONETARY POLICY REPORT

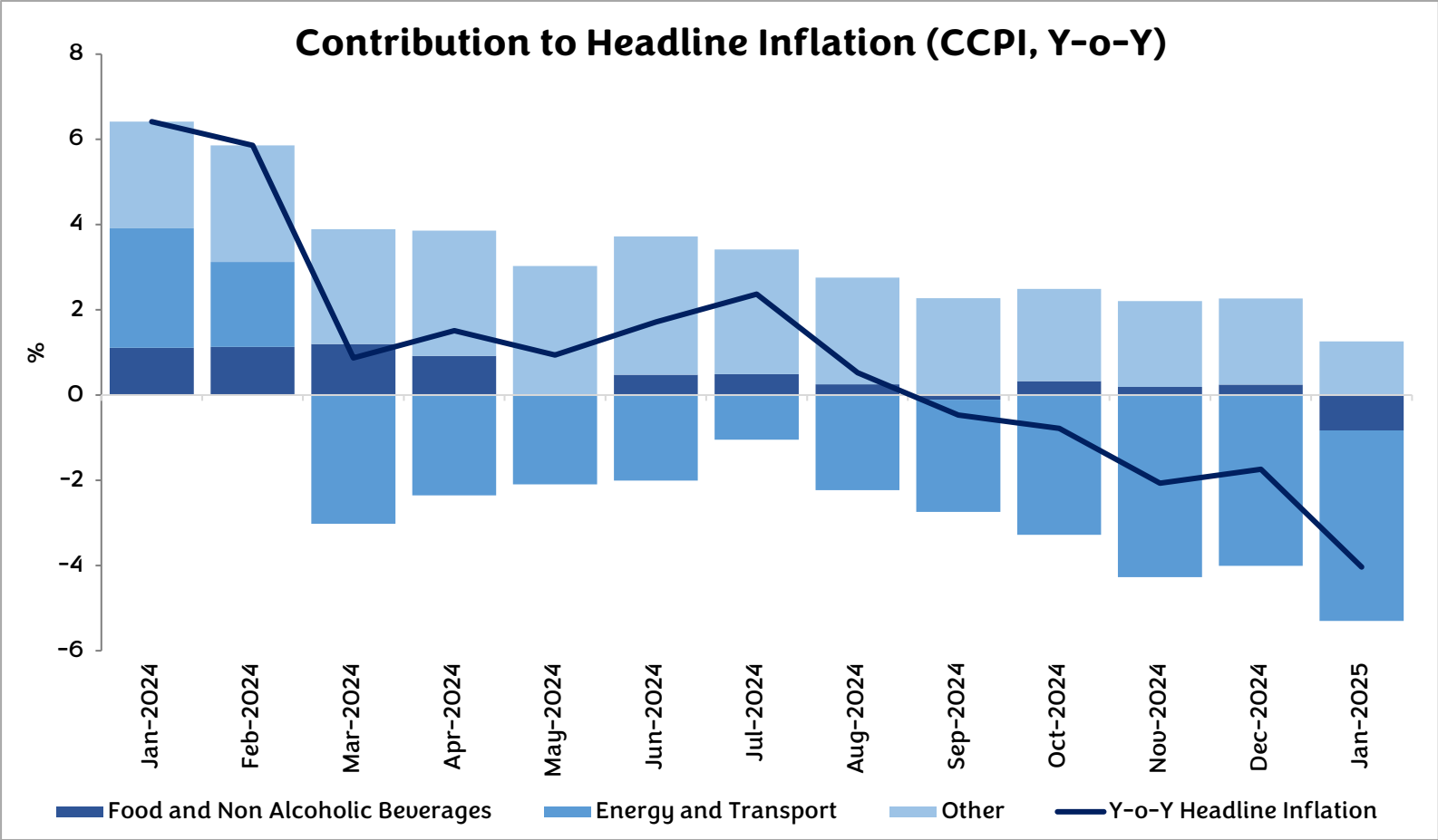
FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Inflation Development and Outlook

Headline inflation declined in H2-2024, remaining in negative territory since September...

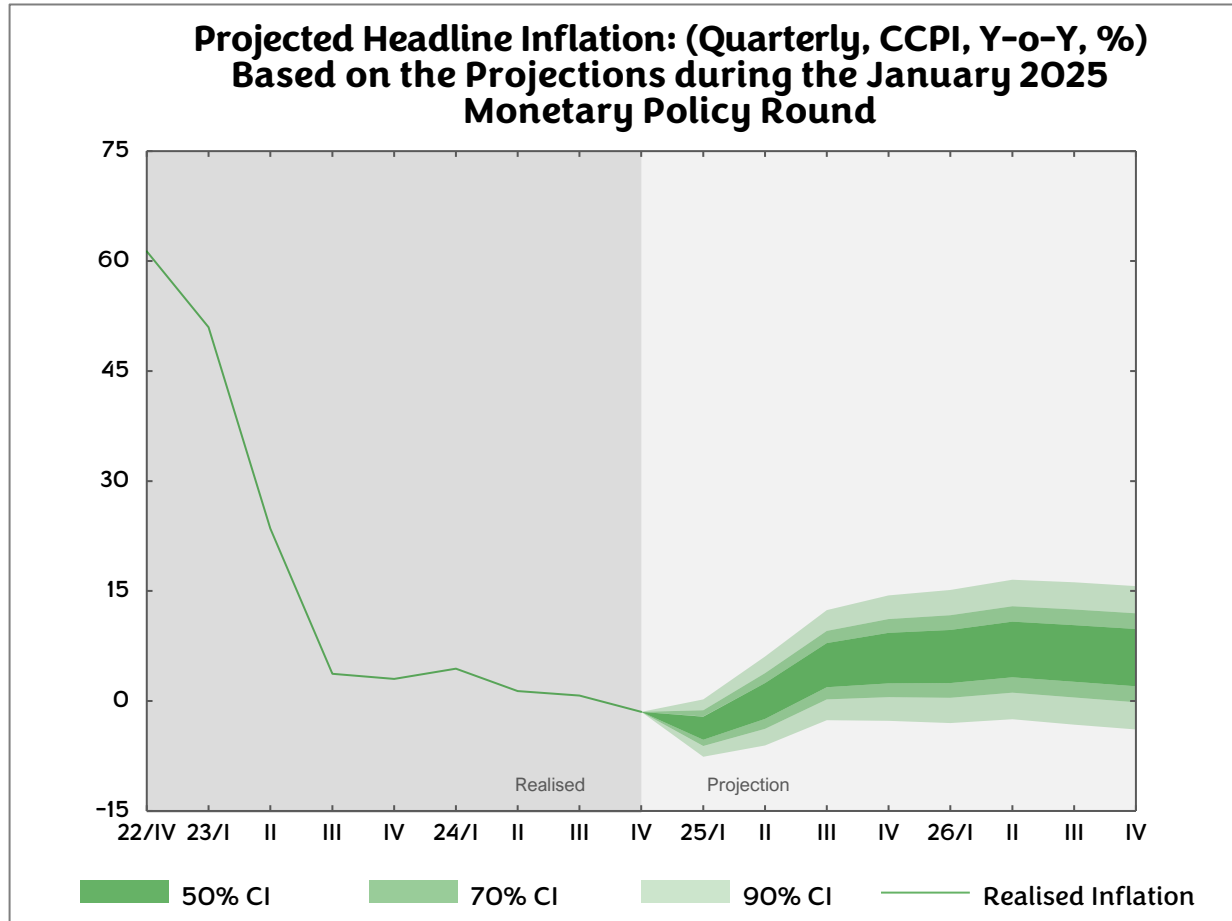


Sources: Department of Census and Statistics, Central Bank Staff Calculations

The deflationary trend was mainly driven by substantial downward revisions in electricity tariffs

Downward revisions to domestic fuel and LP gas prices, along with reductions in water tariffs and moderating food prices, also contributed to the decline

Headline inflation is expected to decline further in the near term before gradually stabilising around the targeted level of 5% over the medium term...

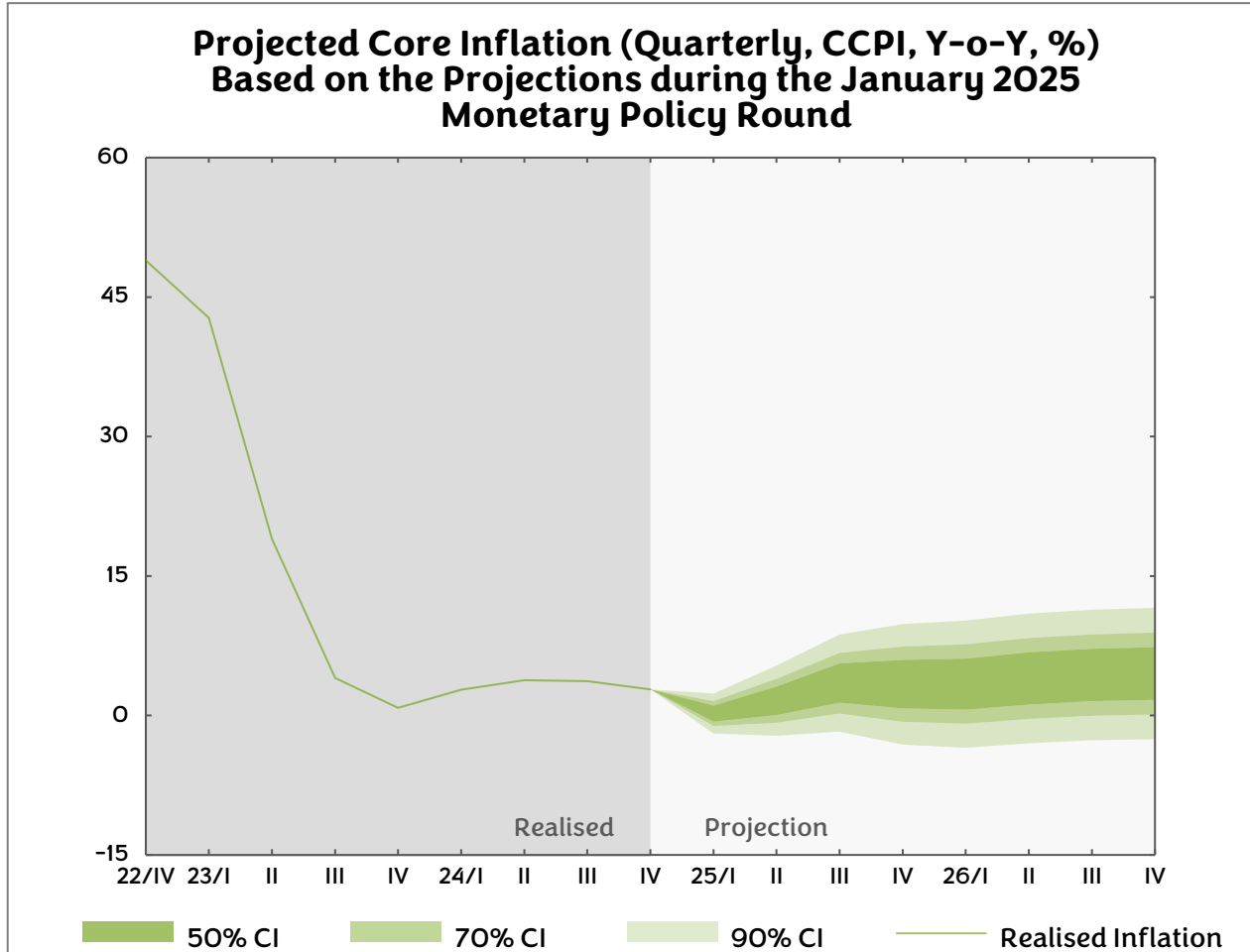


Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2025. Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100, seasonally adjusted), while data after this period are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in January 2025.

- Deflationary conditions are expected to continue in the near term
- Inflation may edge above the target between late 2025 and mid-2026, however, projections indicate that this deviation will be short-lived

Inflation is forecast to converge to the targeted **5%** level over the medium term, supported by the implementation of appropriate policy measures

Core inflation projections reflect a lower degree of volatility...



Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2025. Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100, seasonally adjusted), while data after this period are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in January 2025.

- **Core inflation is expected to experience a temporary dip in the near term, affected by the base effect of the VAT adjustments implemented in January 2024**
- **But it is projected to normalise thereafter, aligning with the headline inflation target with a lower degree of volatility**

Risks to the inflation outlook...

Upside risks



Possible adverse weather conditions affecting agricultural production



Any deviation from the envisaged fiscal consolidation path



Any possible depreciation at a higher level



Possible upward pressures on global food and energy prices amidst geopolitical uncertainty

Downside risks



Possible second-round effects of energy price reductions



Possible price reductions of essentials



Sustained impact of diminished purchasing power of people



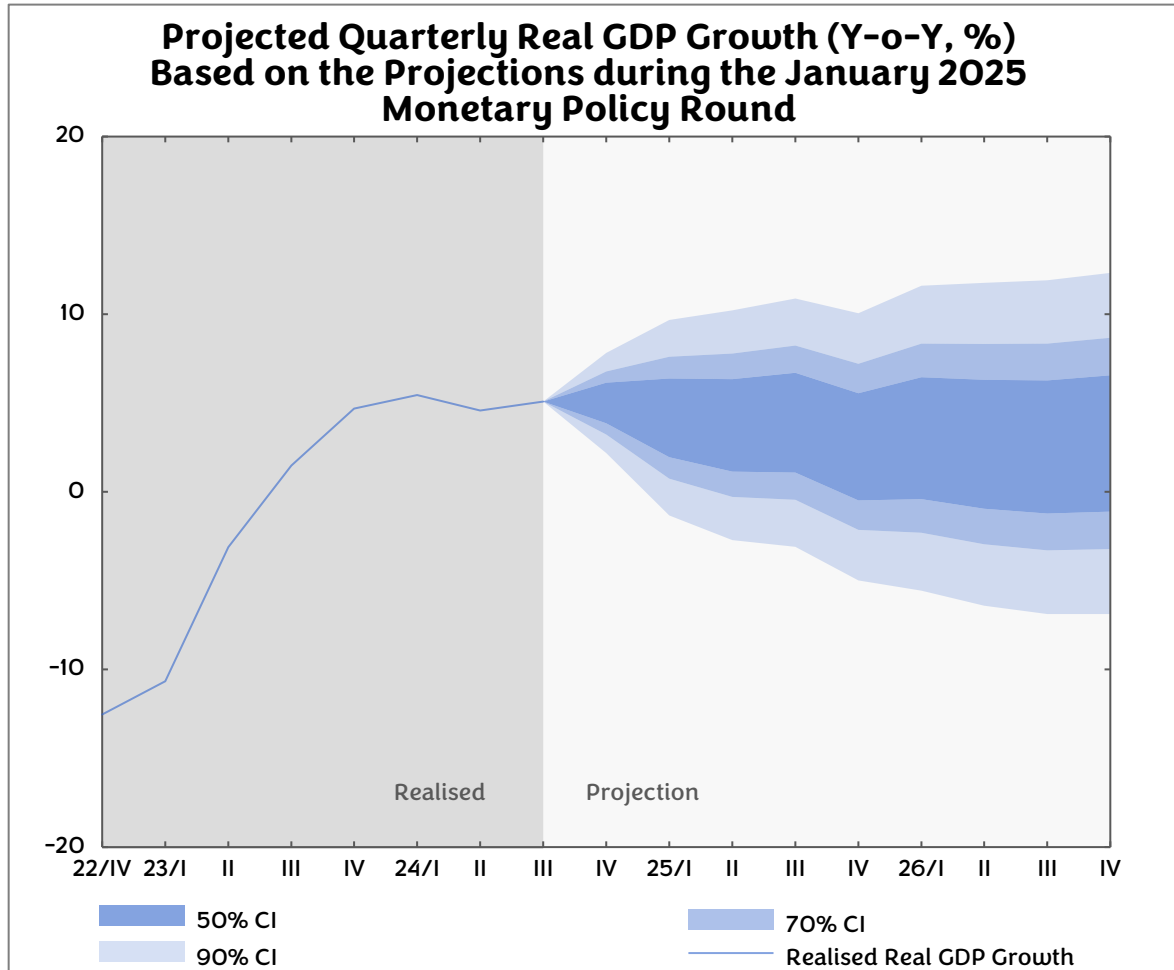
MONETARY POLICY REPORT FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Economic Growth Outlook

Economic growth is expected to continue its rebound over the medium term, although at a moderate pace...



Based on currently available information, which does not include any pro-growth structural reforms, the economy is projected to operate below its full capacity over the medium term

Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2025.

Risks to the growth outlook...

Downside risks



Brain drain may lead to labour shortages and low productivity



Weather anomalies and climate change could impact economic activities negatively



Possible impact of global uncertainty amidst policy changes in the US on the external sector performance

Upside risks



The impact of the successful completion of the debt restructuring process



Introduction of new growth-oriented policies



Possible spillovers due to the revival of tourism



MONETARY POLICY REPORT FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

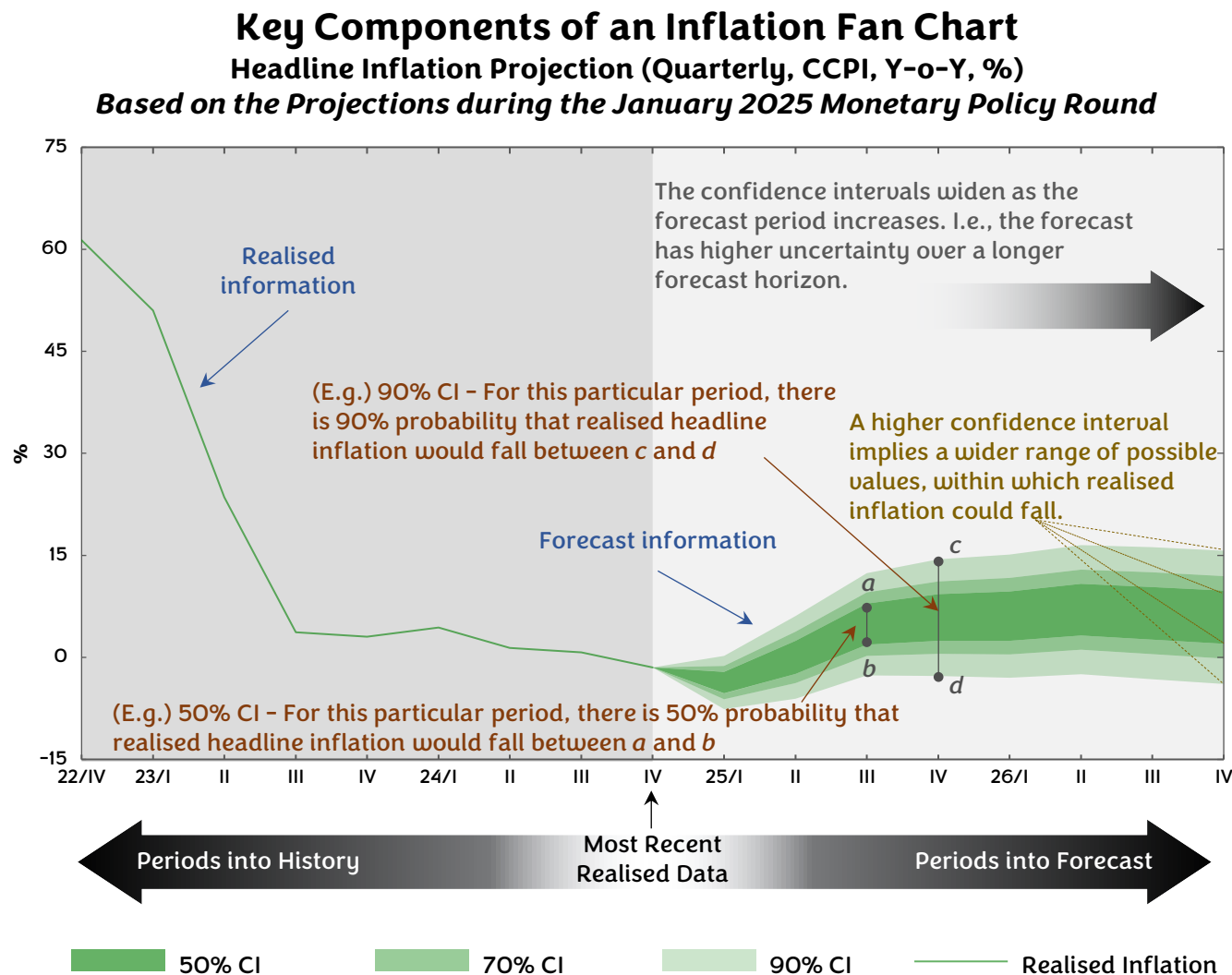
Box Articles

Box Article A : How to Read the Inflation Fan Chart...

The inflation fan chart is a way of communicating the inflation forecast, along with an indication of the associated uncertainty over the forecast

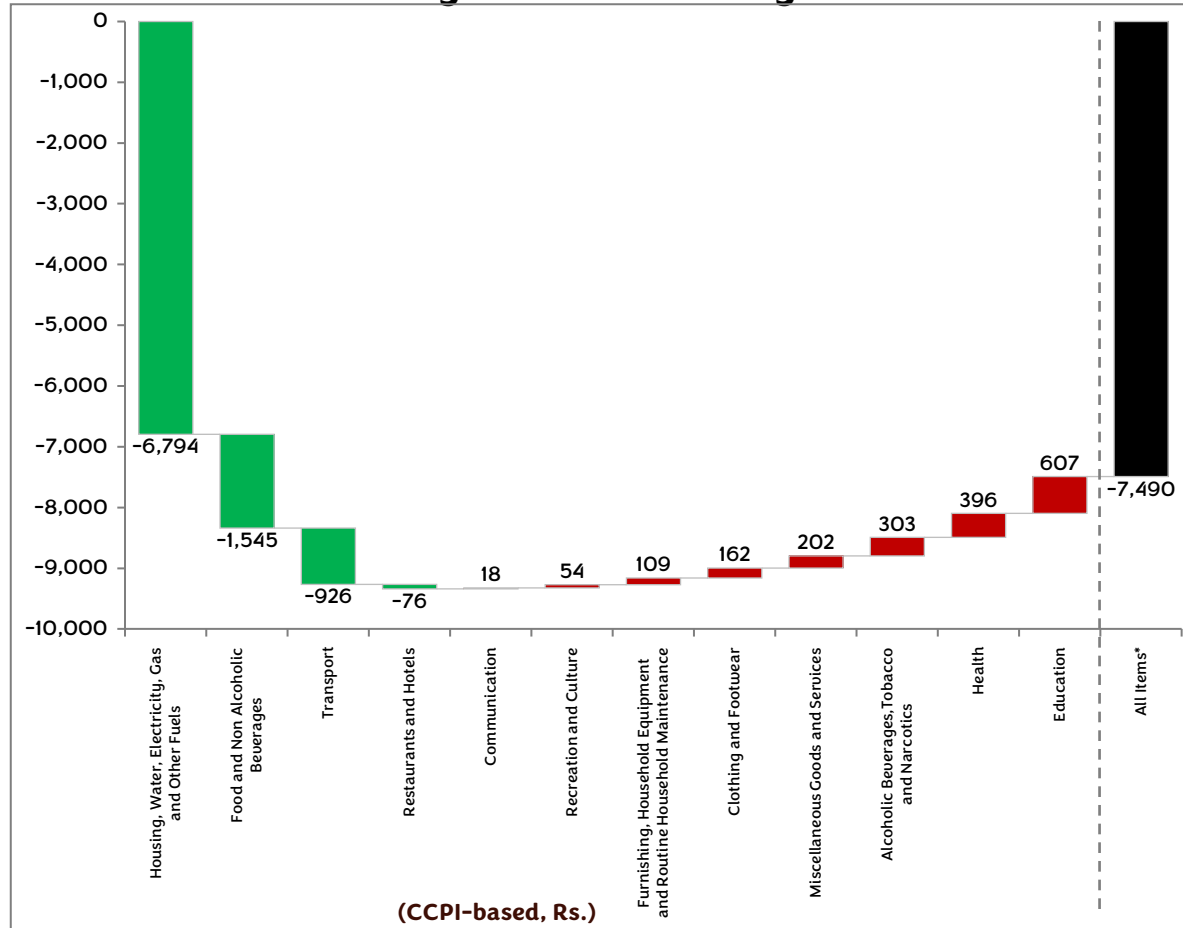
What's included in a fan chart:

- **Values realised in recent history**
- **Confidence intervals**
 - ...represent the possible ranges of values that inflation in the forecast period could fall within



Box Article B : Price Trends Driving Sri Lanka's Deflation and Public Perceptions...

Contribution to decline in household spending from January 2024 to January 2025



“Deflation is characterised by a decline in the aggregate price level of an economy, as measured by a consumer price index, compared to the same period a year ago”

If deflation has persisted for the last few months, why some segments claim that it is hardly reflected as a relief in the cost of living?

- **Already elevated price levels**
- **Many income levels have likely not fully adjusted to offset the impact of past inflationary episodes**
- **Psychological and behavioural aspects**
- **Lack of awareness of the concept of inflation**



MONETARY POLICY REPORT FEBRUARY 2025



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Thank You