



# Highlights of the Monetary Policy Report February 2026

16 February 2026

Economic Research Department  
Central Bank of Sri Lanka



# Legal Requirement

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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 an outlook for inflation as well as economic growth**



**Anchor inflation expectations**



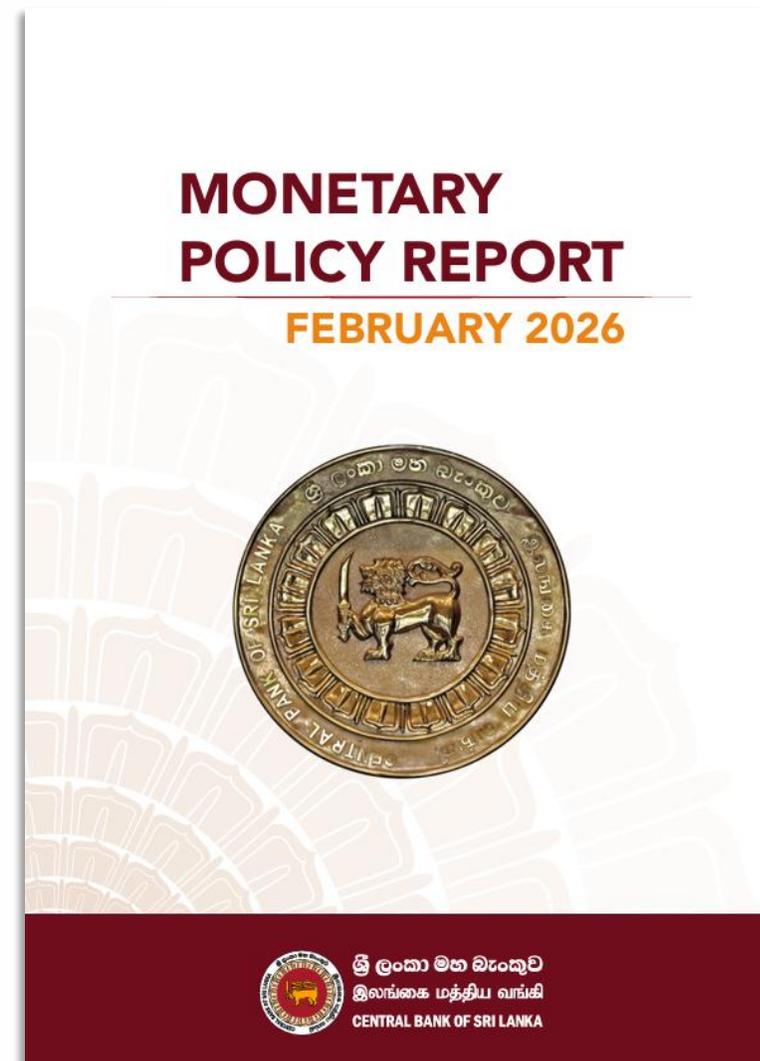
**Enhance policy coordination**

# The Coverage

- Monetary Policy Framework of CBSL
- Executive Summary
- Monetary Policy Summary
- Inflation and Economic Outlook
  - Baseline forecast
  - Key assumptions underpinning the forecast
  - Risks to realisation of baseline projections
  - Comparison with the previous forecast
- Current Economic Developments
  - Domestic sectoral and global developments

Box article : Digging Deeper into the Recent Deflation Episode in Sri Lanka

The content of the Report is based on the data available as of the January 2026 monetary policy round of the Central Bank, which concluded with the monetary policy announcement on 28 January 2026.



# Monetary Policy Framework of CBSL

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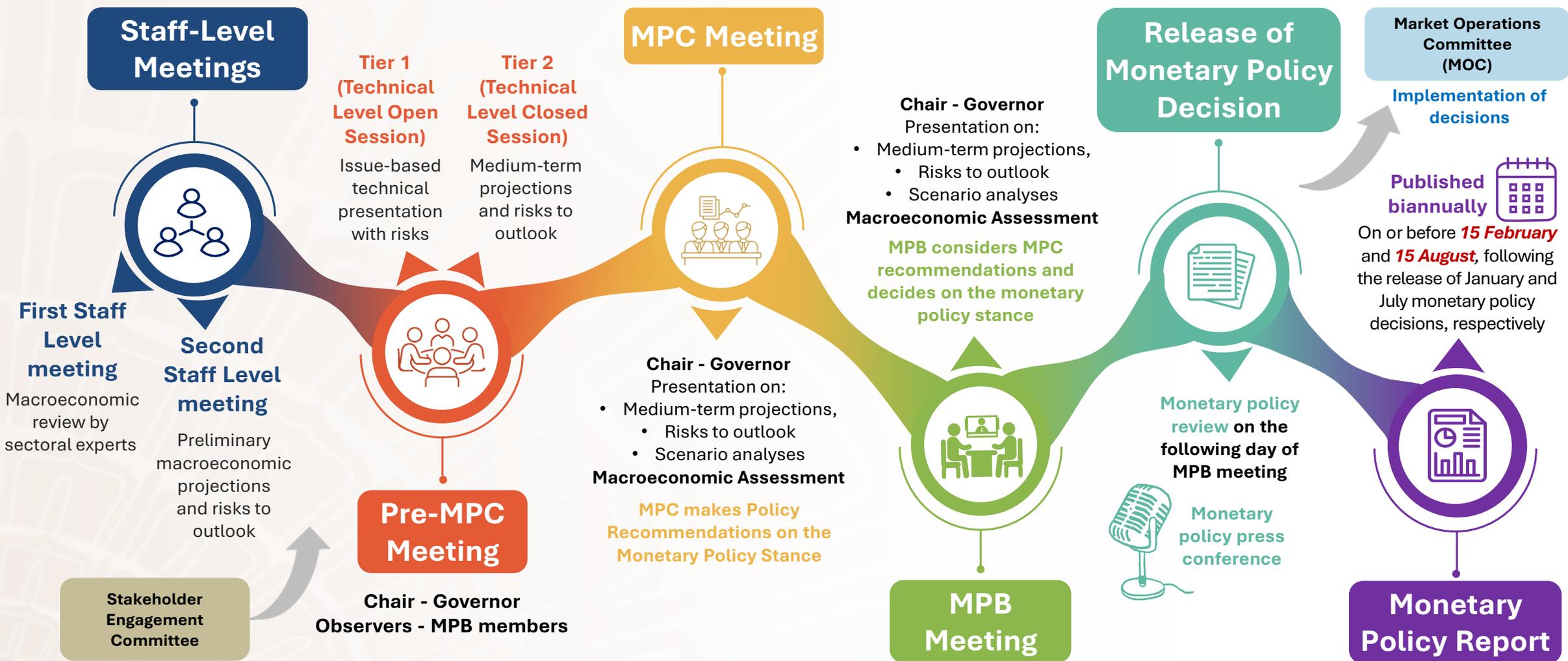


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# Monetary Policy Framework

- CBSL conducts monetary policy under the **Flexible Inflation Targeting (FIT) Framework**
  - The Monetary Policy Board (MPB) is formulating monetary policy and implementing a flexible exchange rate regime that is consistent with FIT
- Inflation target: **5%**, as per the Monetary Policy Framework Agreement (MPFA)
- CBSL steers short-term market interest rates using policy instruments and currently the **Overnight Policy Rate (OPR)** is the primary monetary policy tool
- In the current framework, the **Average Weighted Call Money Rate (AWCMR)** serves as the CBSL's **operating target**

# Monetary Policy Decision-making Process in Sri Lanka



Note: This process takes place six times per year

MPB – Monetary Policy Board  
MPC – Monetary Policy Committee

# Monetary Policy Summary

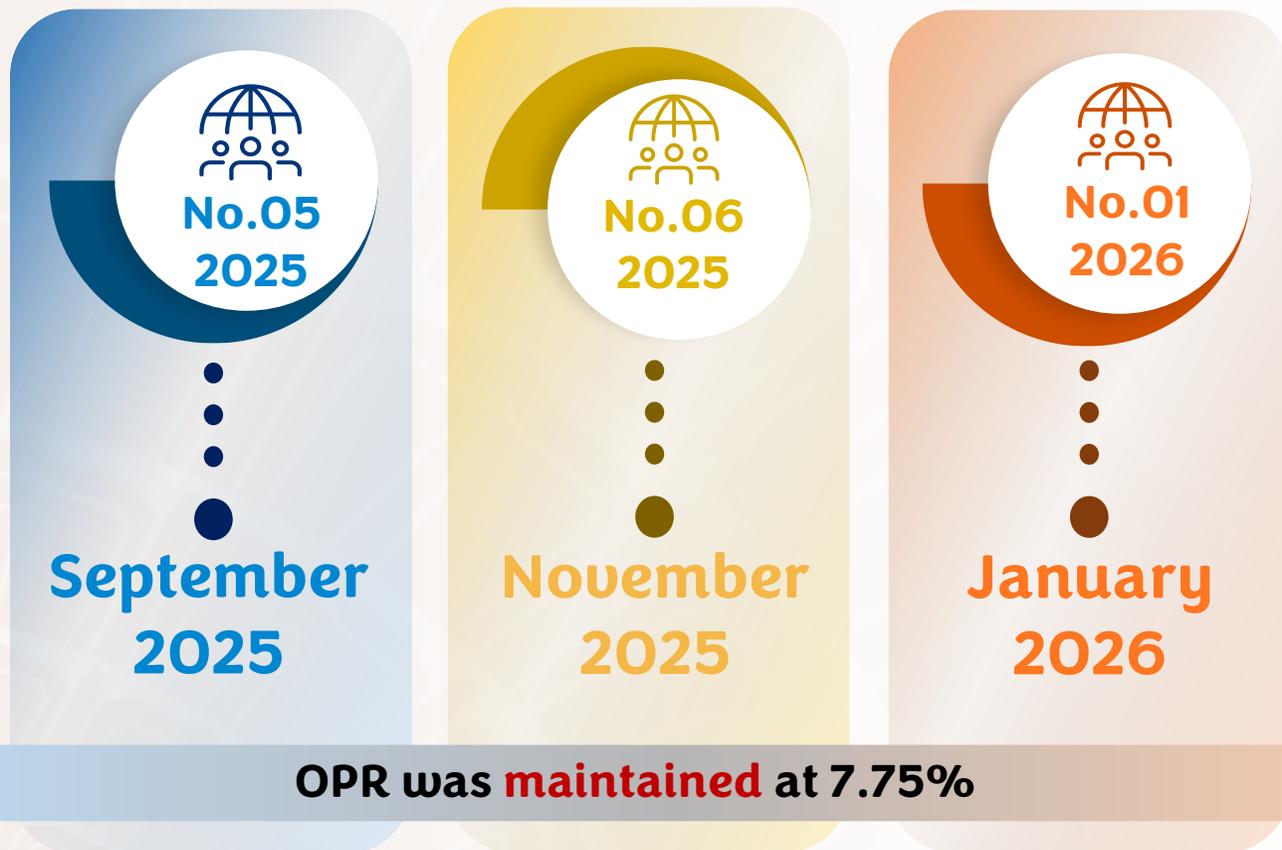
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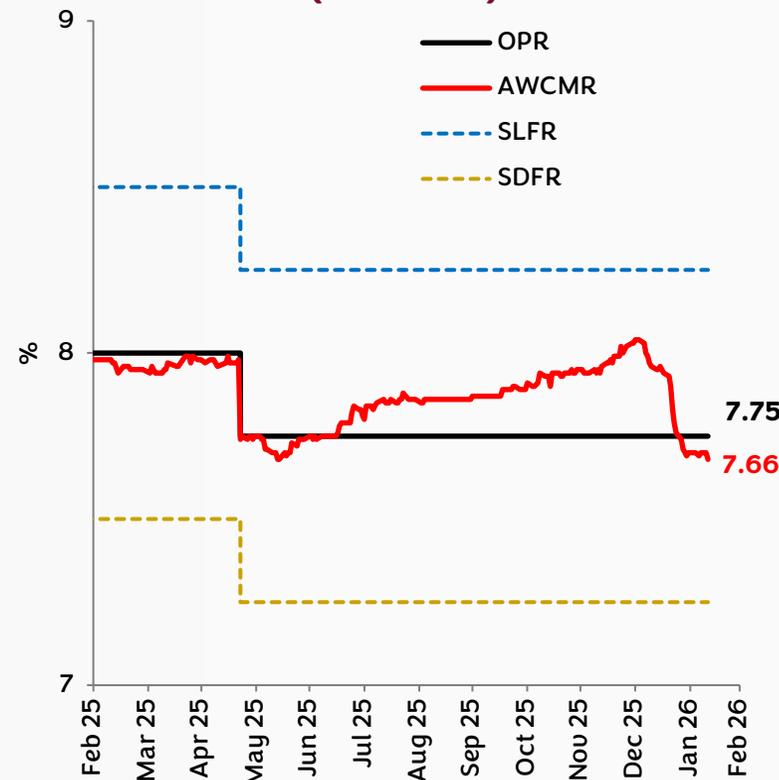
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# The Central Bank of Sri Lanka continued to maintain its accommodative monetary policy stance



Policy rate(s) reduced by a total of around **800 bps** thus far during the current easing cycle since June 2023

### Movements in the Overnight Policy Rate (OPR) and the Average Weighted Call Money Rate (AWCMR)



# Inflation Developments and Outlook

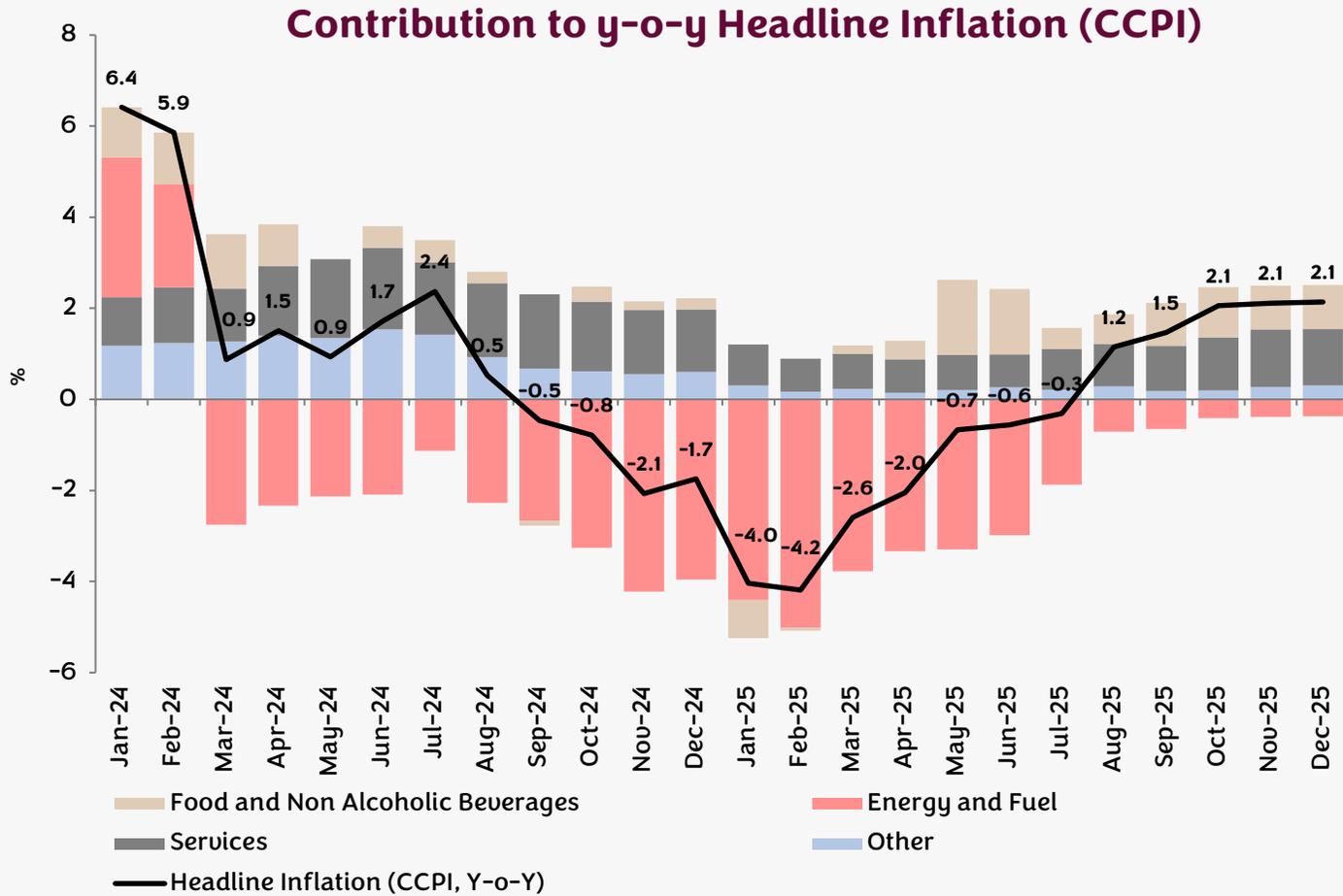
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# Headline inflation rebounded into positive territory and strengthened gradually over 2025



Note: In January 2026, CCPI based headline inflation (y-o-y) accelerated to 2.3%

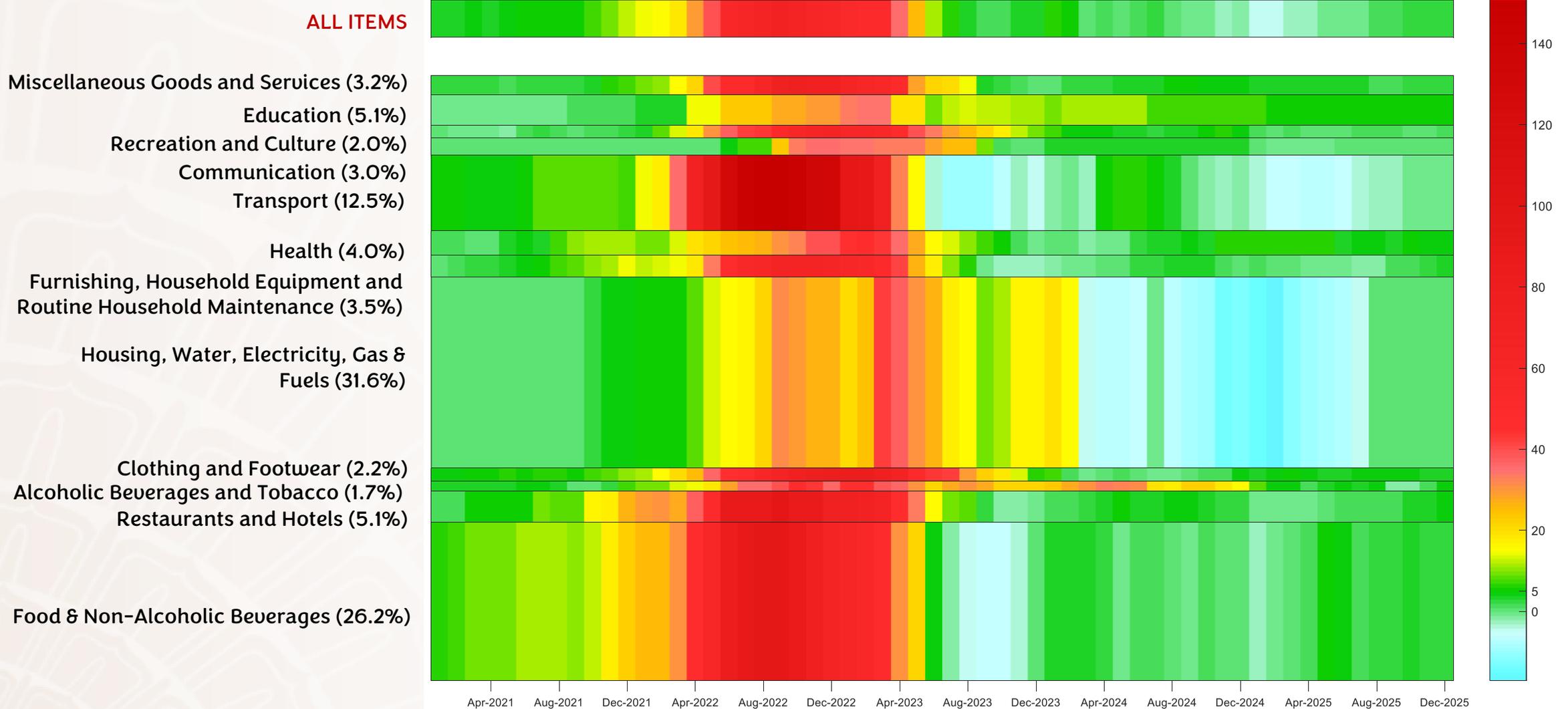
Sources: Department of Census and Statistics, Central Bank Staff Calculations

Service-specific components are extracted from the overall (Headline) CPI baskets of goods and services (2021=100) using the Classification of Individual Consumption According to Purpose (COICOP) 2018.

Inflation returned to positive territory in August 2025 after a 11-month deflationary phase and has since increased gradually

The increase has been supported by the easing of energy and transport deflation and a mild uptick in core inflation, consistent with a gradual improvement in demand conditions

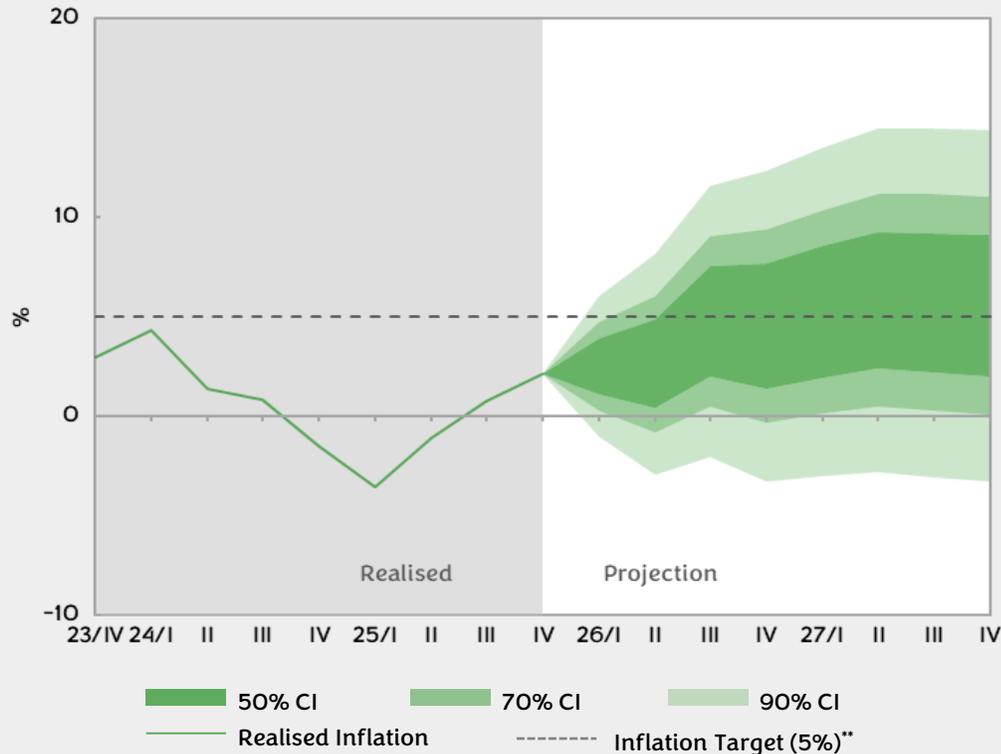
# Headline Inflation Heatmap



Note: Data preceding January 2023 are based on the CCPI (2013=100), while data commencing January 2023 are based on the CCPI (2021=100). Base weights are given in parentheses, based on the CCPI (2021=100). The height in each subcategory represents the relative base weight of the category (excluding in the case of All items).

# Inflation is projected to accelerate gradually and move towards the target of 5% by the H2-2026

**Baseline Headline Inflation Forecast: (Quarterly, CCPI, y-o-y)**  
Based on the Projections during the January 2026 Monetary Policy Round



\*\* 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.

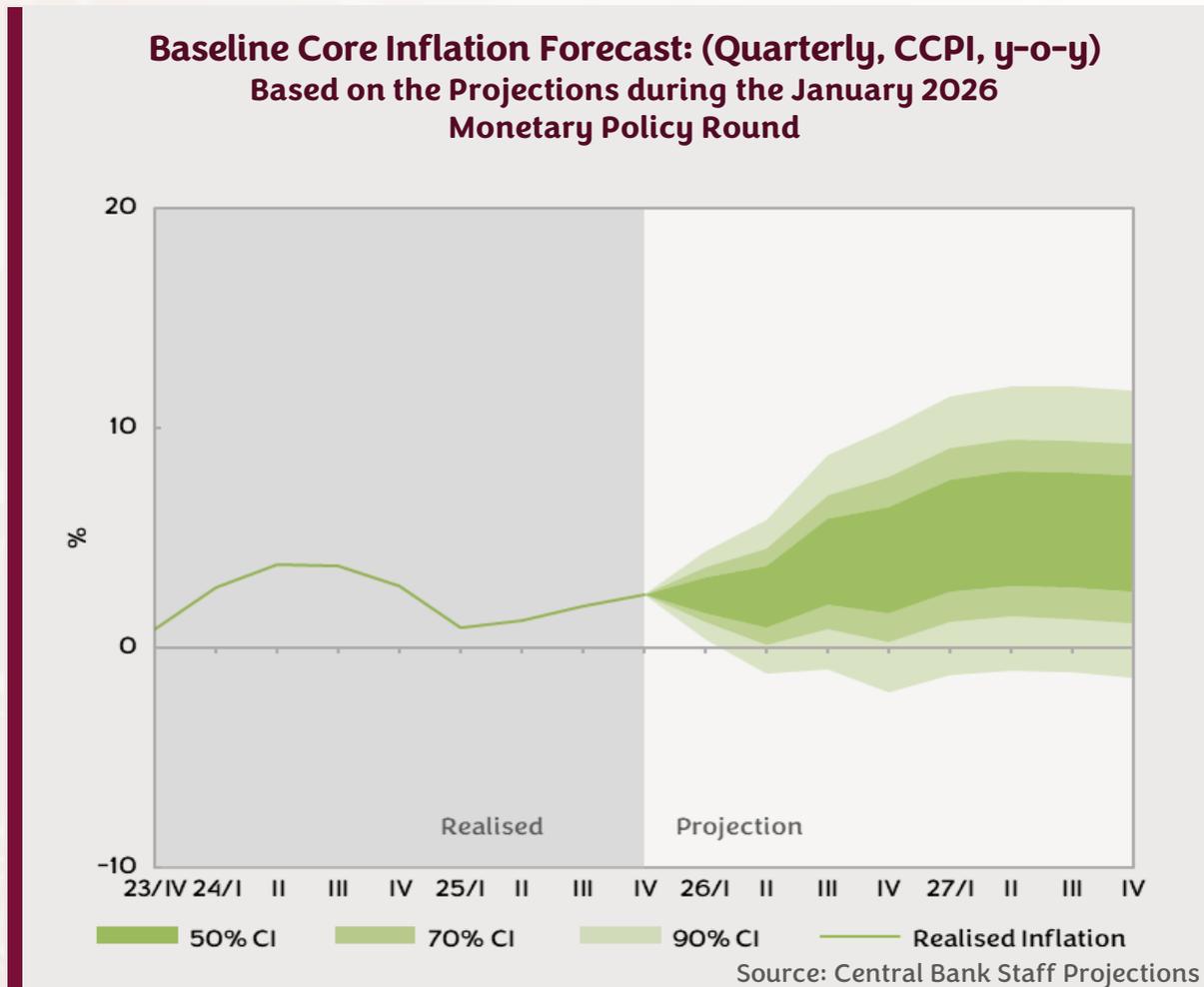
Source: Central Bank Staff Projections

**Inflation is expected to increase gradually, driven by strengthening demand and the anticipated return of energy and transport inflation to positive levels**

**Medium-term projections indicate that headline inflation will continue its gradually increasing trajectory and move towards the target of 5% with the implementation of appropriate policy measures**

**Note:** The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2026. Realised data shown in the fan chart are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in January 2026.

# Core inflation projections reflect a lower degree of volatility



- **Core inflation is expected to gradually increase and stabilise at a level consistent with the headline inflation target**
  - *The anticipated strengthening of domestic demand conditions is expected to support this gradual increase in core inflation*
  - *Imported inflation, which is partly driven by global food prices and global inflation trends, is also expected to contribute to the anticipated trend in core inflation*

**Note:** The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2026. Realised data shown in the fan chart are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in January 2026.

# Risks to Realisation of Baseline Inflation Projections

## Demand Pressures



Higher-than-anticipated demand pressures driven by lagged credit growth and Ditwah-related relief measures

## Depreciation Pressure



Possible higher than expected depreciation pressure

## Geopolitical Tensions



Heightened uncertainty arising from geopolitical tensions, which could disrupt global supply chains and commodity markets

## Adverse Weather



Possible repeated adverse weather events affecting the agriculture production and variation in electricity mix

## Downside Risks

High Persistence of Inflation at Lower Levels



Improved Recultivation Activities

Improved continuity in recultivation activities following Ditwah-related disruptions



Lower E&T Inflation

Possibility of slower than expected increase in E&T inflation



## Upside Risks

Risks to baseline inflation projections are assessed to be **balanced** in both the near and medium term

# Economic Growth Outlook

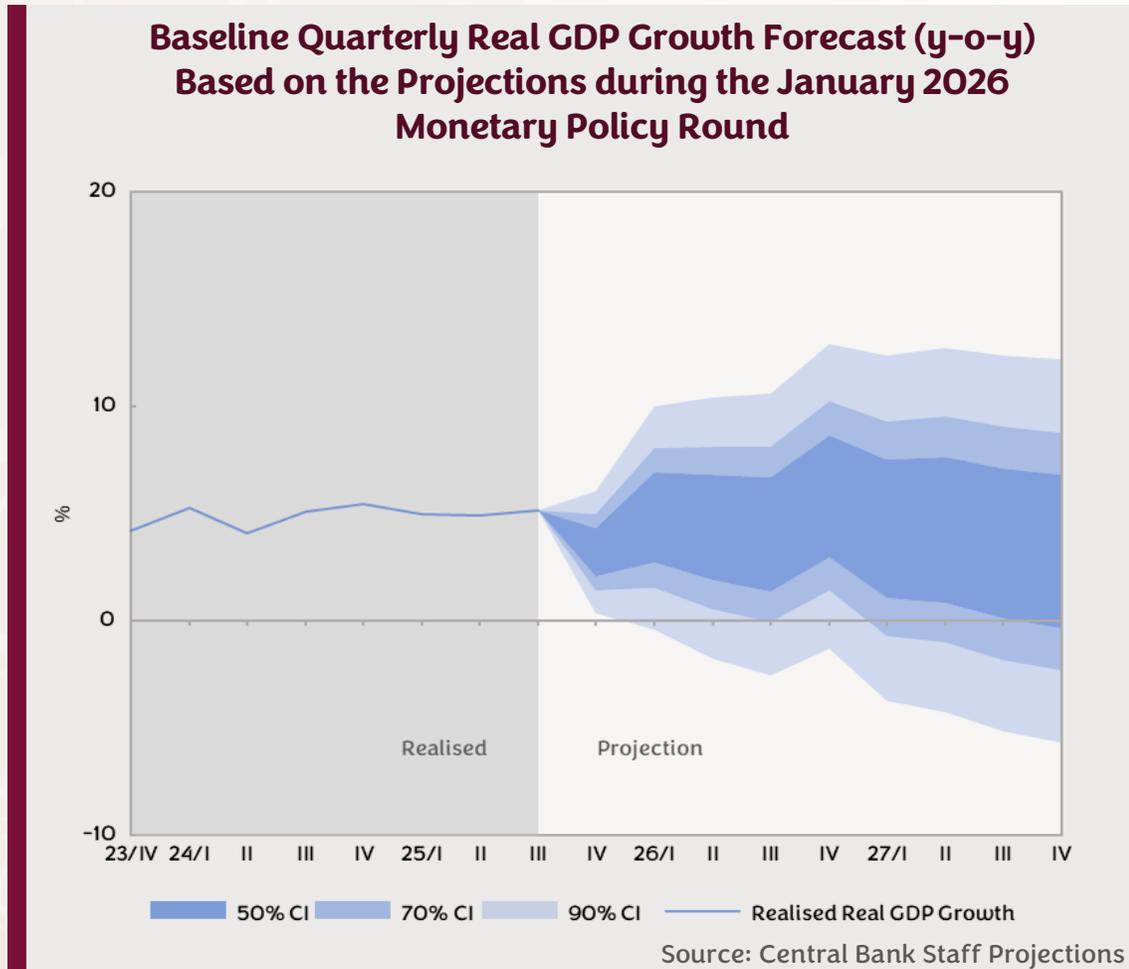
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# Economic growth is expected to move along a modest growth trajectory over the medium term



**Note:** The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in January 2026.

**Economic growth for 2025 is projected to be around 4.5%**

**Volatile global geopolitical environment and any possible positive spillovers from the ongoing structural reforms in the economy increase the level of uncertainty associated with growth prospects**

# Risks to Realisation of Baseline Growth Projections

## Recovery in Economic Activity



Faster-than-expected recovery in economic activity following Ditwah-related disruptions

## Upside Risks

## Downside Risks

### Geopolitical Tensions



Heightened trade tensions and geopolitical uncertainties, negatively affecting the growth outlook of trading partners and major tourism sources



# Box Article

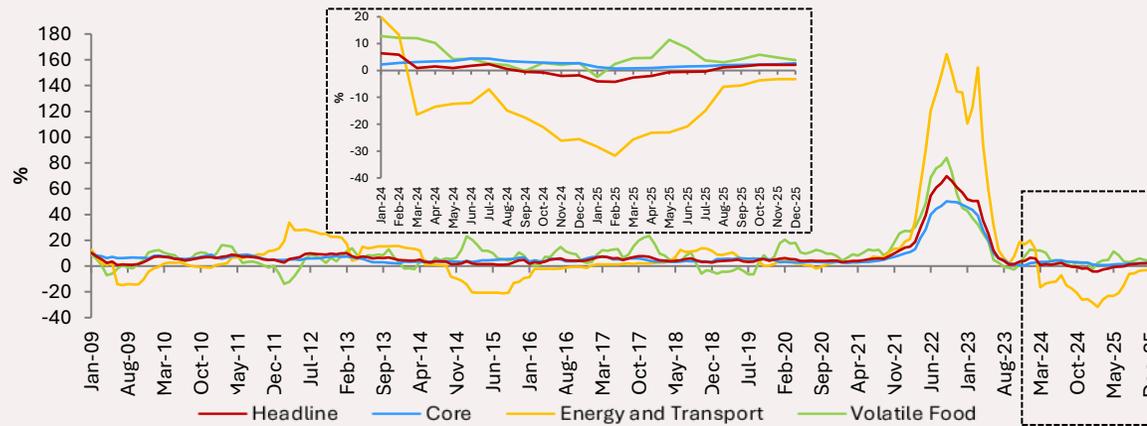
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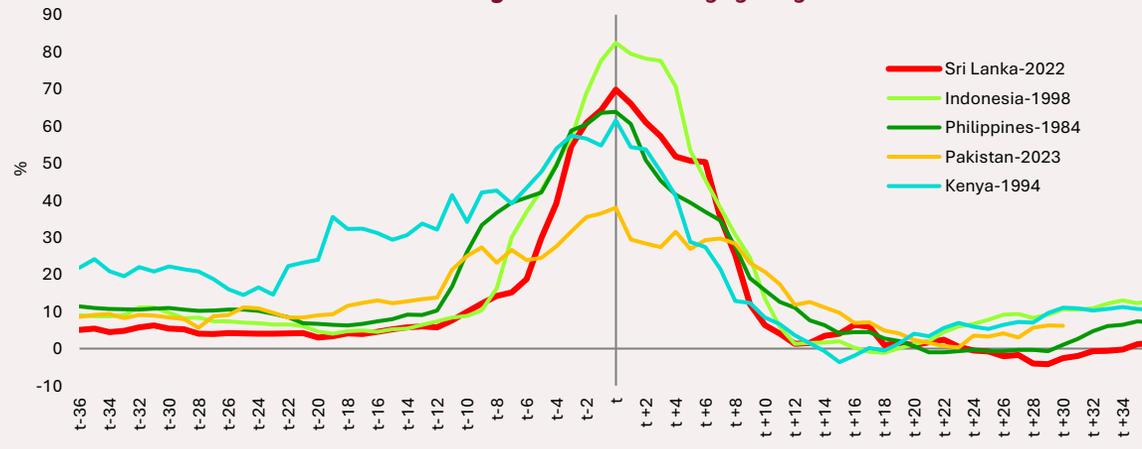
# Box Article: Digging Deeper into the Recent Deflation Episode in Sri Lanka

**Movement of Headline, Core, Energy and Transport and Volatile Food Inflation (CCPI, 2006/07 =100, 2013=100 and 2021=100, y-o-y)**



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

**Comparison of Movements in Inflation with Regional Economies that experienced Inflationary Peaks (monthly, y-o-y)**



Note: Time period t was taken as the month of peak inflation

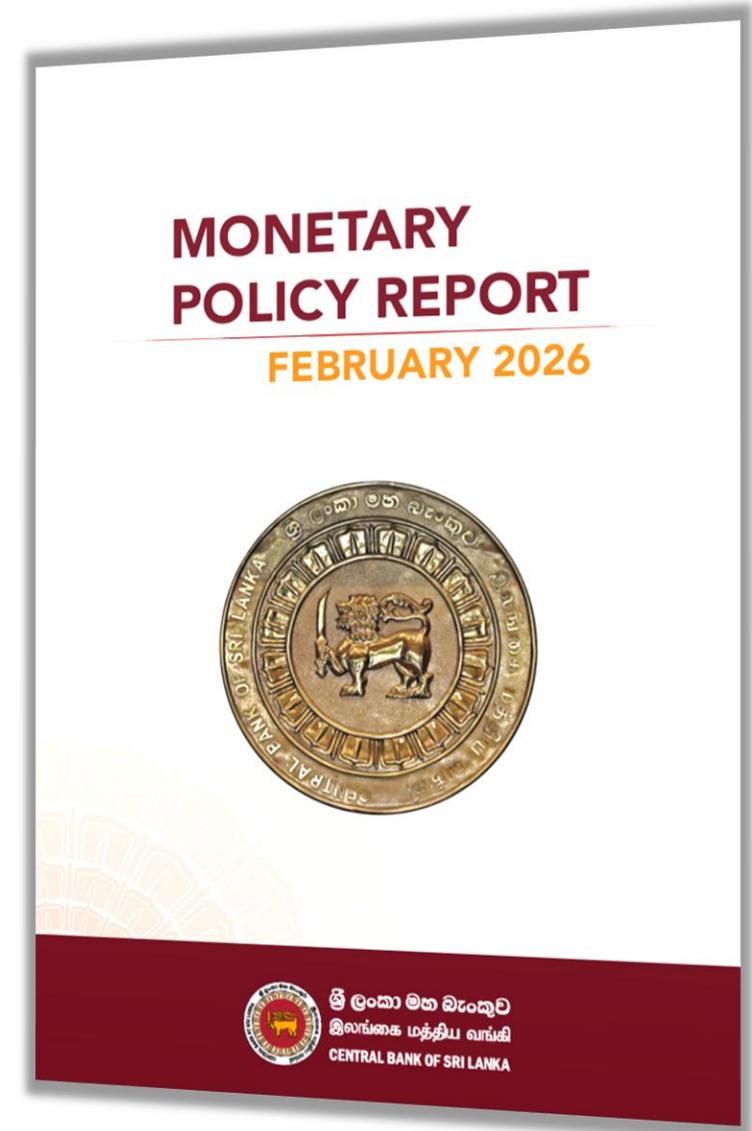
Sources: International Monetary Fund  
Department of Census and Statistics

- Following the September 2022 peak, headline inflation declined steadily, supported by appropriate monetary policy tightening
- It entered into a transitory deflationary period caused mainly by energy and transport downward price adjustments, and has since returned to low positive levels
- Core inflation remained positive throughout
- Structural price revisions in 2022 have kept prices elevated relative to pre-crisis levels, resulting in an elevated price base and moderate inflation trajectory amid subdued purchasing power
- Along with the demand pickup, inflation is expected to gradually converge towards the 5% target, albeit at a slower pace

The recent deflationary episode can also be perceived as a correction of prices after the peak inflation, rather than an economic slowdown and a deflationary spiral

# Central Bank's Monetary Policy Report February 2026

*Now available at*





# Monetary Policy Report

## February 2026

# Q&A



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# Thank you

