Chapter 1

MACROECONOMIC DEVELOPMENTS

Summary

Sri Lanka progressed in 2024 with a broad-based revival across multiple sectors. This follows the most severe crisis recorded in the country's post-independence history two years ago. A combination of effectual corrective fiscal and monetary policy measures implemented since mid-2022 resulted in a more stable economic environment and laid the foundation for sustained growth. The economic progression has been supported by the ongoing International Monetary Fund - Extended Fund Facility (IMF-EFF) programme, near completion of external debt restructuring, and renewing investor confidence. The positive impact of the corrective measures is now becoming visible in all major sectors of the economy. The results of the Central Bank's efforts in achieving its primary objective of maintaining domestic price stability have become clearly visible. Unprecedented price increases during the crisis period burdened the people, businesses, and the overall economy. However, with corrective monetary policy measures along with tighter fiscal policy and conducive global price developments, inflation has shown a significant disinflation trend since 2023. The notable decline in administratively determined and cost-reflective energy prices caused inflation to turn negative from September 2024. The ongoing temporary period of deflation will help ease the cost of living as well as the cost of production to some extent. Accommodative monetary policy induced a broad-based reduction in market interest rates, incentivising credit for consumption and investment of businesses and households. As a result, lending to the private sector by financial institutions picked up, particularly during the second half of 2024. The external sector of the economy showed greater stability amidst a challenging global environment. Meanwhile, the near completion of external debt restructuring, and the successful continuation of the IMF-EFF programme helped strengthening the external sector. Although the trade deficit widened with the recovery in merchandise imports, the notable improvement in earnings from tourism and workers' remittances in 2024 enabled the country to record an external current account surplus for the second consecutive year. Notable foreign exchange inflows to the country helped improve liquidity in the domestic foreign exchange market. These developments led the Central Bank to purchase the historically highest amount of foreign exchange in 2024, resulting in gross official reserves increasing notably, while the exchange rate appreciated for the second consecutive year. Meanwhile, fiscal performance in 2024 played a major role in strengthening Sri Lanka's economic stability. Revenue collection

1

improved and a positive primary balance was recorded in 2024 as well. The progress made in debt restructuring, along with the broader macroeconomic stability, and overall economic progression prompted the international rating agencies to upgrade the country's rating, assisting in restoring confidence in the country among investors and international creditors.

1.1 Inflation and Price Developments

1.1.1 Inflation[1]

After an initial uptick, inflation followed an overall decreasing trend during 2024 and reached deflationary levels from September. The increase in Value Added Tax (VAT), removal of VAT exemptions from several expenditure items in the consumer basket and notable food inflation led to an uptick in inflation in early 2024. However, the increase in inflation did not persist due to the reduction in electricity tariffs in March 2024 and the impact of the statistical base. Moreover, businesses could possibly have absorbed part of the resulting price increases due to VAT changes amidst the low demand conditions that prevailed. Accordingly, headline inflation remained in lower positive single-digit levels and below the target of 5% from March 2024 onwards. Subsequently, further reduction of electricity tariffs in July 2024 also contributed to falling price levels, and the impacts of these administered price changes were reflected in inflation as large negative m-o-m inflation recorded in March and August 2024. Further, the moderation of global commodity prices and the strengthening of the Sri Lanka rupee also contributed to the declining inflation trend. This dissipation of price pressures somewhat aided in easing the high cost of living faced by households in the crisis period. Consequently, y-o-y headline inflation reached a deflationary level in September 2024, recording a deflation of 0.5%, which continued to deepen later.[2] In general, the price increases of food, energy and transport sectors were benign in 2024. In particular, the Housing, Water, Electricity, Gas and Other Fuels category and the Transport category recorded deflation during several months in 2024, primarily driven by the aforementioned large electricity tariff reductions and cost-reflective downward fuel price adjustments amidst the normalisation of global crude oil prices and the appreciation of Sri Lanka rupee. Accordingly, y-o-y headline inflation, measured by the Colombo Consumer Price Index (CCPI, 2021=100),[3] was recorded at -1.7% by end 2024 compared to 4.0% by end 2023, while the annual average CCPI based headline inflation in 2024 decelerated to 1.2% from 17.4% recorded in 2023. The National Consumer Price Index (NCPI, 2021=100)[4] based y-o-y headline inflation also followed a similar path, dropping to -2.0% by end 2024, compared to 4.2% recorded at end 2023, while the annual average NCPI based headline inflation in 2024 decelerated to 1.6%, compared to 16.5% in 2023. Meanwhile, the downward adjustment to the electricity tariff administered in January 2025 led to the continuation of deflation in the first quarter of 2025. The statistical base effect due to VAT adjustments driven price increases and the notable food inflation in early 2024 also contributed to lowering the overall y-o-y inflation in early 2025. Accordingly, the CCPI based headline y-o-y inflation was recorded at -2.6% in March 2025, while the NCPI based y-o-y headline inflation stood at -3.9% by February 2025.

1 More details on the recent behaviour of inflation are deliberated in the Monetary Policy Report, published biannually by the Central Bank.

2 Please refer Chapter 3 of this Report for further discussion on the deviation of inflation from the inflation target.

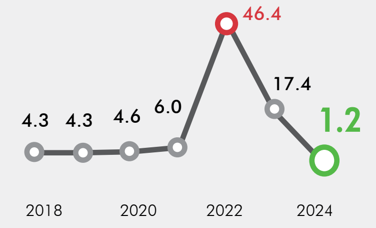
3 The Colombo Consumer Price Index (CCPI) is compiled by the Department of Census and Statistics (DCS), on a monthly basis. The CCPI demonstrates the price movements of a basket of consumer items in urban households in the Colombo district.

4 The National Consumer Price Index (NCPI) is compiled by the Department of Census and Statistics (DCS), on a monthly basis. The NCPI demonstrates the price movements of a basket of consumer items at the national level.

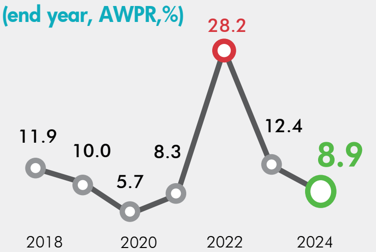
1

RECOVERY OF THE SRI LANKAN ECONOMY

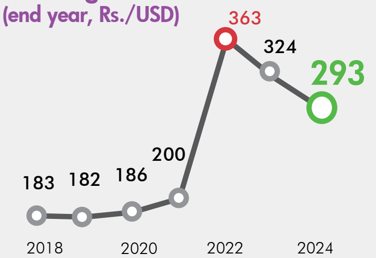
Inflation
(CCPI, annual average, %)



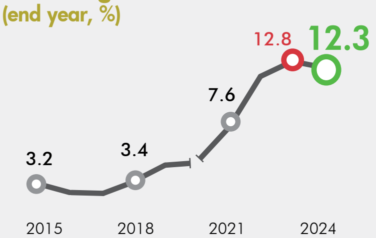
Interest Rate
(end year, AWPR,%)



Exchange Rate
(end year, Rs./USD)



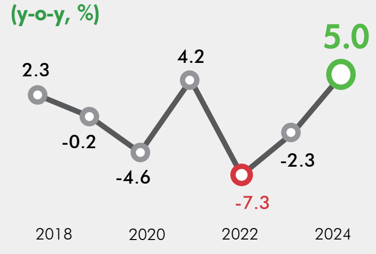
NPL/Stage III Loans Ratio*
(end year, %)



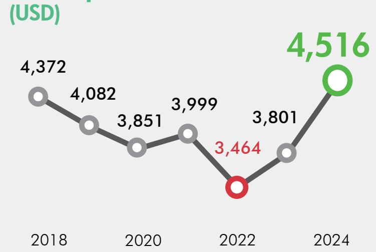
*Data after 2020 are based on SLFRS-based reporting

At the height of crisis vs 2024	At the height of crisis	2024
Inflation (CCPI, y-o-y, %)	69.8 Sep 2022	-1.7 end year
GDP Growth (y-o-y, %)	-7.3 2022	5.0
Per Capita GDP (USD)	3,464 2022	4,516
Interest Rate (AWPR, %)	29.7 Week 4, Nov 2022	8.9 end year
Private Sector Credit Growth (y-o-y, %)	-9.7 May 2023	10.7 end year
Exchange Rate (Rs./USD)	365 Week 2, May 2022	293 end year
Gross Official Reserves (with PBOC swap, USD bn)	1.7 Aug 2022	6.1 end year
NPL/Stage III Loans Ratio* (%)	13.6 Sep 2023	12.3 end year
Central Government Debt** (% of GDP)	114.2 2022	96.1 end year
Government Revenue and Grants (% of GDP)	8.3 2021	13.7
Overall Fiscal Balance (% of GDP)	-11.7 2021	-6.8

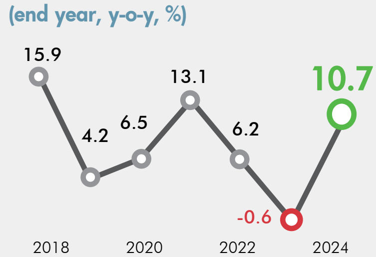
Real GDP Growth
(y-o-y, %)



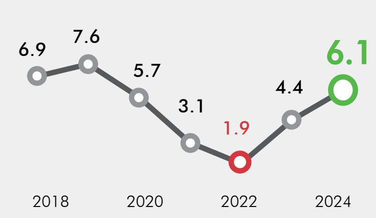
Per Capita GDP
(USD)



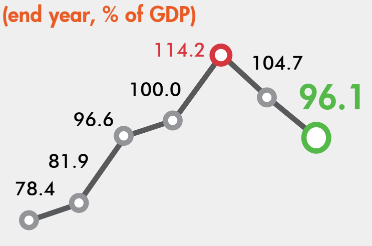
Private Sector Credit Growth
(end year, y-o-y, %)



Gross Official Reserves
(end year, USD bn)

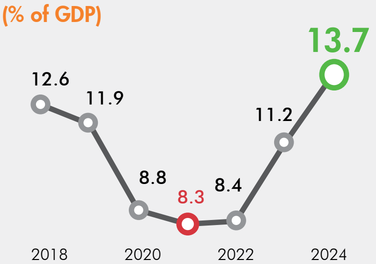


Central Government Debt**
(end year, % of GDP)

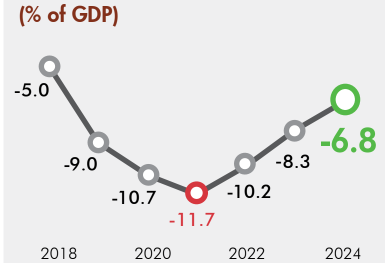


**Please refer to footnotes of table 1.21 of AER 2024

Government Revenue and Grants
(% of GDP)



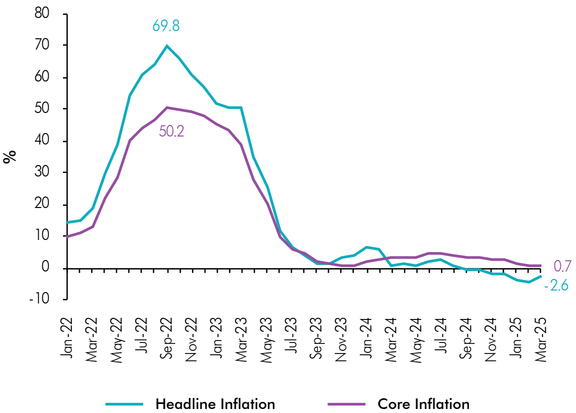
Overall Fiscal Balance
(% of GDP)



1

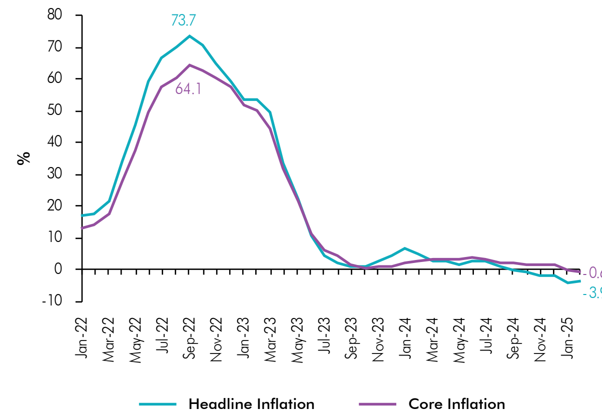
Figure 1.1: Inflation Dynamics in Sri Lanka

Movements in Headline and Core Inflation (CCPI, y-o-y) (a)



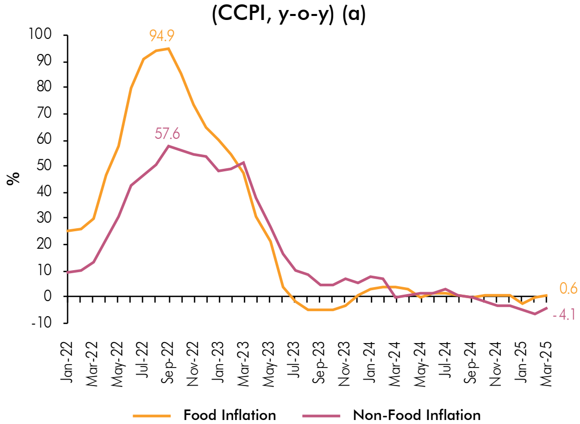
Source: Department of Census and Statistics

Movements in Headline and Core Inflation (NCPI, y-o-y) (a)



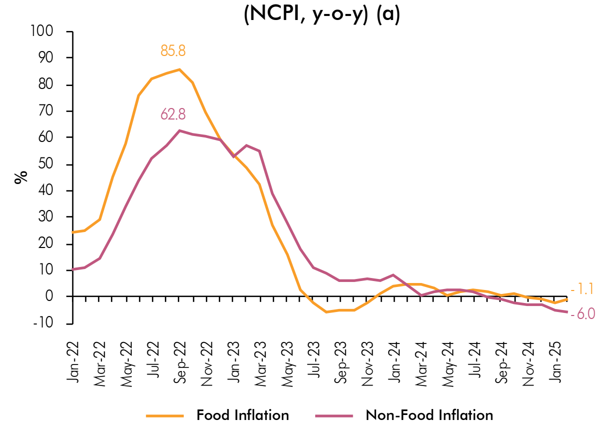
Source: Department of Census and Statistics

Movements in Food and Non-Food Inflation (CCPI, y-o-y) (a)



Source: Department of Census and Statistics

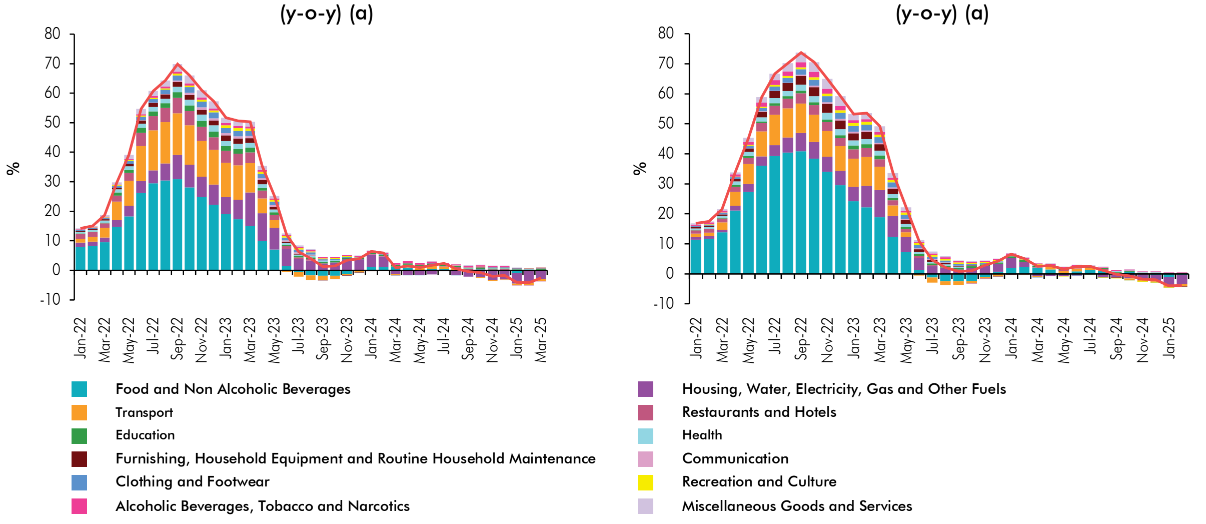
Movements in Food and Non-Food Inflation (NCPI, y-o-y) (a)



Source: Department of Census and Statistics

Contribution to CCPI-based Headline Inflation (y-o-y) (a)

Contribution to NCPI-based Headline Inflation (y-o-y) (a)



Sources: Department of Census and Statistics
Central Bank Staff Calculations

(a) The Department of Census and Statistics commenced publishing NCPI and CCPI with the new base year, 2021=100, from the data of January 2023 and February 2023, respectively, and discontinued the publication of NCPI and CCPI with the old base year, 2013=100. Accordingly, data commencing January 2023 in the chart are based on the series with the new base year, 2021=100.

Table 1.1: **Movements of Inflation (y-o-y)**

%

		2013=100			2021=100				
		Dec-2020	Dec-2021	Dec-2022	Dec-2023	Dec-2024	Jan-2025	Feb-2025	Mar-2025
Headline Inflation	CCPI	4.2	12.1	57.2	4.0	**-1.7**	-4.0	-4.2	**-2.6**
	NCPI	4.6	14.0	59.2	4.2	**-2.0**	-4.0	-3.9	
Core Inflation	CCPI	3.5	8.3	47.7	0.6	**2.7**	1.2	0.7	**0.7**
	NCPI	4.7	10.8	57.5	0.9	**1.3**	-0.2	-0.6	
Food Inflation	CCPI	9.2	22.1	64.4	0.3	**0.8**	-2.6	-0.2	**0.6**
	NCPI	7.5	21.5	59.3	1.6	**-1.0**	-2.5	-1.1	
Non-Food Inflation	CCPI	2.0	7.5	53.4	5.8	**-3.0**	-4.7	-6.1	**-4.1**
	NCPI	2.2	7.6	59.0	6.3	**-2.9**	-5.2	-6.0	

Note: The Department of Census and Statistics commenced publishing NCPI and CCPI with the new base year, 2021=100, from the data releases of January 2023 and February 2023, respectively, and discontinued the publication of NCPI and CCPI with the old base year, 2013=100.

Source: Department of Census and Statistics

Core inflation gradually increased in the first half of 2024, consistent with the target for headline inflation, before easing thereafter. Despite the above dynamics, core inflation remained below the target for headline inflation throughout the year. In early 2024, increases in prices were recorded in non-food categories led by the VAT adjustments. However, the increase in core inflation was mild due to food prices included in the core basket not recording large increases. Moreover, the sharp reductions observed in headline inflation were not visible in core inflation due to such behaviour being largely driven by energy related price reductions, which are excluded from the core inflation basket. During the latter part of the year, core inflation recorded a gradual decline, mainly driven by deflation in the food category of the core inflation basket and the downward revision of water tariffs. At the same time, the decline in core inflation could be attributed to the appreciation of the Sri Lanka rupee to some extent while it also reflected some spillover from the energy-related price reductions. Accordingly, the CCPI based y-o-y core inflation remained at 2.7% by end 2024 compared to 0.6% by end 2023, while the CCPI based annual average core inflation in 2024 was recorded at 3.3% compared to 14.5% in 2023. Meanwhile, the NCPI based y-o-y core inflation stood at 1.3% by end 2024, compared to 0.9% at end 2023. In contrast, the annual average NCPI based core inflation in 2024 fell to 2.5% compared to 15.8% recorded in 2023. Meanwhile, the impact of the statistical base effect during early 2025 was also visible in core inflation.

1.1.2 Prices

The general price level, as measured by both CCPI and NCPI, exhibited a declining trend in 2024, with the prices of both food and non-food items following an overall declining trend during the year. This decline in general price level was driven by multiple factors including subdued demand due to low disposable income, considerable downward revisions in energy and transport related prices and the appreciation of the Sri Lanka Rupee.

Prices of food items exhibited an overall declining trend during the year, amid intermittent increases during the periods of off season and extreme weather conditions. With a considerable increase in prices of volatile food items due to limited supply owing to extreme weather conditions coupled with festive demand and non-volatile food items due to VAT amendments, prices of items in the food category increased in January 2024 and followed a declining trend until May 2024, in line with the decline in prices of volatile food items with the Maha harvest. Prices of food items subsequently increased in June and July 2024 due to off season and adverse weather

1

conditions. However, food prices declined again from August to November 2024 due to the decline in the prices of vegetables with the Yala harvest. In December 2024, prices of food items increased again due to the seasonal festive demand, and widespread weather disruptions. The overall decline in the prices of items in the food category was further supported by the decline in prices of imported food items driven by the appreciation of the Sri Lanka Rupee. Additionally, indirect impacts of the reductions in electricity tariffs and fuel prices contributed to the price declines of food items.

Prices of non-food items also exhibited an overall declining trend, primarily driven by administrative price revisions. Although the prices of items in the non-food category increased in January and February 2024 due to the VAT rate increase from 15% to 18% and the removal of several VAT exemptions at the beginning of the year, they subsequently declined for the remainder of 2024 primarily driven by sizeable downward revisions to cost-reflective administrative prices. Accordingly, electricity tariffs were significantly reduced twice during the year, as reflected by the reductions of 29.8% and 34.3% for the bills of 90 units,[5] effective 05 March 2024 and 15 July 2024, respectively. In line with these electricity tariff reductions, the water tariff was also adjusted downward by 8.8% for the bills of 22 units,[6] effective 21 August 2024, in accordance with the tariff formula. Meanwhile, prices of Petrol (92 Octane) and Auto Diesel were subjected to multiple downward revisions during the year, following an initial increase in January 2024 with the removal of VAT exemptions. Further, the price of Kerosene was also revised downwards in several months during the year. Moreover, the price of LP Gas, which increased by a considerable amount in January 2024 due to the removal of VAT exemptions, was revised downwards during the period from April to July 2024 and remained unchanged during the remainder of the year. Aligning with the reductions in prices of Auto Diesel, bus fares were reduced by 5.07% effective 02 July 2024 and by 4.24% effective 02 October 2024. However, no revision was made to train fares in 2024.

5 Electricity tariff of 90 units in the domestic category is considered in compilation of the CCPI (2021=100) and NCPI (2021=100). The electricity tariffs were reduced by an average of 21.9% and 22.5%, effective 05 March 2024 and 15 July 2024, respectively.

6 Water tariff of 22 units in the domestic category is considered in compilation of the CCPI (2021=100) and NCPI (2021=100). The water tariff for domestic category was reduced by an average of 7.0% effective 21 August 2024.

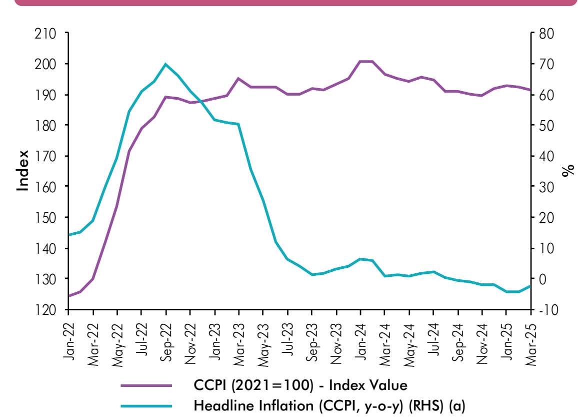
1.1.3 Consumer Price Indices and Cost of Living

Both official Consumer Price Indices (CPIs) exhibited an overall declining trend throughout 2024. Accordingly, CCPI declined from 195.1 index points in December 2023 to 191.7 index points in December 2024 after rising to 200.7 index points in January 2024 due to VAT amendments. This decline was driven by the downward revisions to cost reflective administered prices and moderation in food prices. Similarly, NCPI also declined from 208.8 index points in December 2023 to 204.6 index points in December 2024 after rising to 215.0 index points in January 2024.

As reflected by the annual average change in CPIs, cost of living[7] exhibited a marginal increase in 2024 compared to 2023. The estimated average monthly consumption

7 Consumer price indices are based on fixed consumption baskets derived from Household Income and Expenditure Survey (HIES) (2019) conducted by DCS. Hence, they do not reflect the changes in the household consumption patterns over the period.

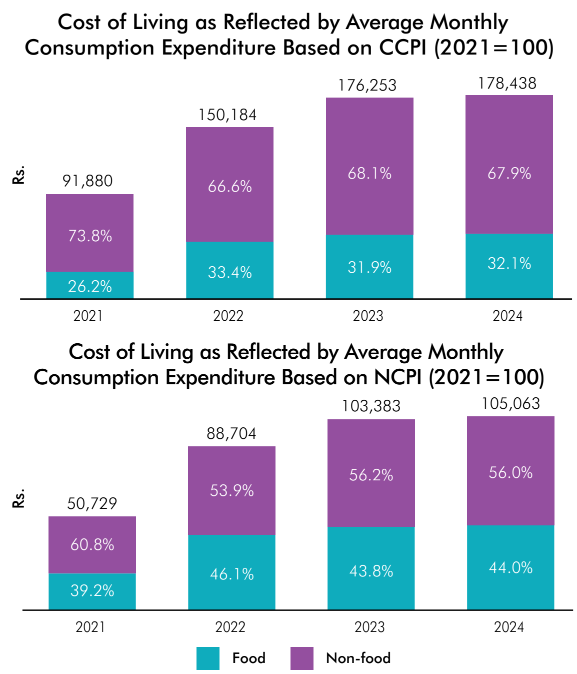
Figure 1.2: **CCPI vs. Headline Inflation**



(a) Y-o-Y inflation for 2022 is based on CCPI (2013=100)

Source: Department of Census and Statistics

Figure 1.3: **Cost of Living**



Sources: Department of Census and Statistics
Central Bank of Sri Lanka

expenditure for a household,[8] based on the CCPI, increased marginally by 1.2% from Rs. 176,253 in 2023 to Rs. 178,438 in 2024. This reflects a significant slowdown compared to the 63.5% increase recorded in 2022 compared to 2021, and the 17.4% increase in 2023 compared to 2022. Similarly, based on the NCPI, the estimated average monthly household[9] consumption expenditure increased from Rs. 103,383 in 2023 to Rs. 105,063 in 2024 by 1.6%, highlighting a notable easing compared to the 74.9% increase recorded in 2022 compared to 2021, and the 16.5% increase in 2023 compared to 2022. In terms of the distribution of estimated average monthly consumption expenditure for a household in both CCPI and NCPI baskets, the proportion allocated to the food category remains elevated since the economic crisis in 2022, while the non-food category accounted for the majority of it.

8 An average household in Colombo district consists of 3.8 persons based on HIES (2019) conducted by DCS.

9 An average household in Sri Lanka consists of 3.7 persons based on HIES (2019) conducted by DCS.

1.1.4 Inflation Expectations

The inflation expectations of both corporate and household sectors followed an overall declining trend during 2024, aligning with realised inflation. As per the Inflation Expectations Survey conducted by the Central Bank, at the beginning of the year, near-term inflation expectations, i.e., 3 months ahead, 6 months ahead and 1 year ahead periods, of both categories, exceeded the targeted level of 5%. This was primarily due to the sizeable VAT adjustments, which caused a surge in inflation. However, as utility prices were revised downwards thereafter, near-term inflation expectations started to decline steadily. From October 2024 onwards, near-term inflation expectations fell below the targeted level of 5% amid deflation. Throughout 2024, medium-term inflation expectations of the corporate sector remained within ±2 pps from the targeted level of 5%, with an overall declining path, driven by the movements in near-term inflation expectations. Although inflation expectations followed an overall declining trend in 2024, a gradual rise in inflation over the tenors were anticipated by both categories, in the latter part of the year.

1.1.5 Wages

Available data reveals[10] that nominal wages of employees in both private and public sectors experienced increases in 2024 compared to the previous year. In the informal private sector, the increase in nominal wages was mainly driven by labour shortages and higher demand for workers, while in the public sector, it was attributed to a rise in the Cost of Living Allowance (COLA) of public sector employees. During 2024, on an annual average basis, real wages in the public sector and the informal private sector increased, while those of the formal private sector eroded, compared to the previous year. However, it is notable that

10 Information in this section is primarily based on the public sector wage rate index (2016=100) and IPSWRI (2018=100) compiled by the Central Bank, and the formal private sector minimum wage rate index (1978 December=100) compiled by the Department of Labour. However, available wage indices have certain limitations in fully capturing the overall wage trends across the economy.

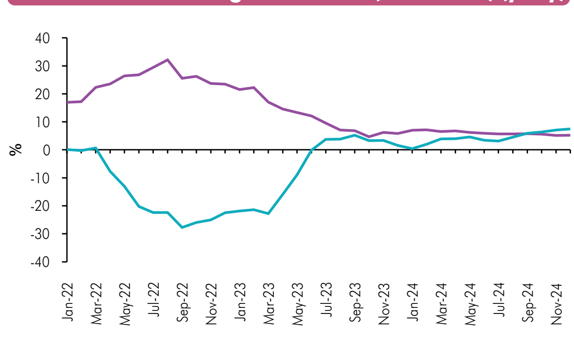
1

in 2023, nominal wages of employees in both formal private sector and informal private sector increased, while nominal wages of the public sector employees remained unchanged.

Private Sector Wages

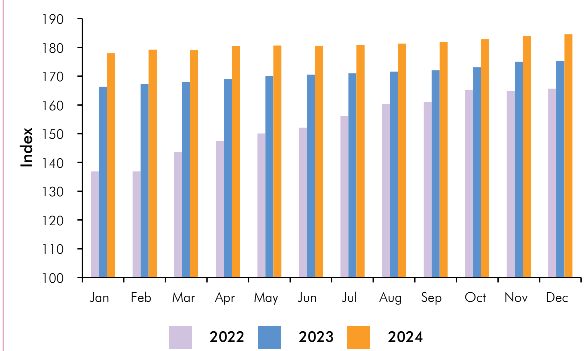
Nominal wages of informal private sector employees, as reflected in the Informal Private Sector Wage Rate Index (IPSWRI) (2018=100), showed an upward trend throughout 2024. This index recorded a 6.0% increase in nominal terms on an annual average basis in 2024 compared to the 11.4% increase in 2023. Growth was evident across all three major economic activities, namely, Agriculture, Industry, and Services, with the highest wage growth observed in Services activities. In terms of sub-activities, the IPSWRI, measured on an annual average basis, increased in nominal terms by 6.3%, 5.5%, and 7.2% in Agriculture, Industry, and Services, respectively, in 2024 compared to 2023. This was reportedly due to high demand for labour and difficulty in finding labour, which compelled employers to increase daily wages to retain experienced workers and ensure continuity in their business operations. However, during 2024, the y-o-y growth of nominal IPSWRI slowed in line with the easing of inflationary pressure, compared to 2023. Moreover, on a y-o-y basis, the real IPSWRI continued to accelerate during 2024 with the continued deceleration in inflation.

Figure 1.4: **Movements of the Informal Private Sector Wage Rate Index (2018=100) (y-o-y)**



Source: Central Bank of Sri Lanka

Figure 1.5: **Movements of the Informal Private Sector Wage Rate Index (2018=100) (Nominal)**



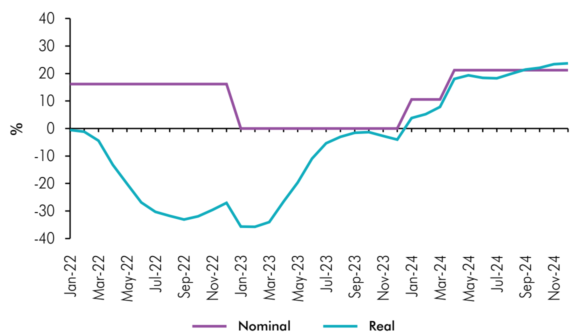
Source: Central Bank of Sri Lanka

Nominal wages of employees in the formal private sector, as measured by the minimum wage rate index (1978 December = 100) compiled by the Department of Labour, of employees whose wages are governed by wage boards, recorded a marginal increase in 2024. Accordingly, the nominal minimum wage rate index increased marginally by 0.1% on an annual average basis in 2024 compared to the 0.4% increase in 2023. However, the minimum real wage rate index measured on an annual average basis decreased by 1.1% in 2024 compared to the previous year, as the percentage increase in nominal wage rate indices remained insignificant during the period. As announced in the Budget 2025, measures will be taken to increase the monthly minimum wage of the private sector employees from Rs. 21,000 to Rs. 27,000 in April 2025 and to Rs. 30,000 from 2026. Additionally, in the Budget 2025, the Government proposed intervention to raise the daily wage of plantation sector workers to Rs. 1,700 to improve their living standards and address ongoing wage concerns.

Public Sector Wages

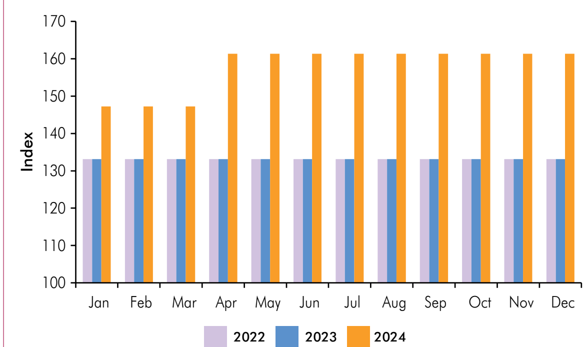
Nominal wages of public sector employees, measured by the public sector wage rate index (2016=100), increased in 2024, after two years of stagnation. As announced in the Budget 2024, the COLA for public sector employees increased by Rs. 10,000 from

Figure 1.6: **Movements of the Public Sector Wage Rate Index (2016=100) (y-o-y)**



Source: Central Bank of Sri Lanka

Figure 1.7: **Movements of the Public Sector Wage Rate Index (2016=100) (Nominal)**



Source: Central Bank of Sri Lanka

January 2024. Due to fiscal constraints, public sector employees received a partial payment of Rs. 5,000 from January to March 2024, with the full payment of Rs. 10,000 being paid from April 2024. Meanwhile, the arrears of the first three months of 2024 were paid in three equal instalments, starting from January 2025. Accordingly, the nominal wages of public sector employees on an annual average basis, rose by 18.5% in 2024 compared to the previous year. Meanwhile, the real wage erosion observed in 2023 was contained in 2024 due to the deceleration in inflation. As proposed in the Budget 2025, a revision of the public sector salary structure is expected by increasing the minimum basic salary and streamlining various allowances. Accordingly, the minimum monthly basic salary in the public sector will be increased by Rs. 15,750, from Rs. 24,250 to Rs. 40,000 effective 01 April 2025. This adjustment will involve consolidating the existing ad-hoc interim allowance of Rs. 2,500 and the special allowance of Rs. 5,000 into the basic salary, along with a net increase of Rs. 8,250 in the minimum monthly basic salary. This salary increase is set to be implemented in phases, beginning with a net salary increase of Rs. 5,000 and a 30% of the balance in April 2025. The remaining 70% will be disbursed in two equal instalments starting from January 2026 and January 2027. In addition, the Budget 2025 proposed to increase the annual salary increment by 80% effective 01 April 2025. As a result, the minimum annual salary increment, which currently amounts to Rs. 250, will rise to Rs. 450.

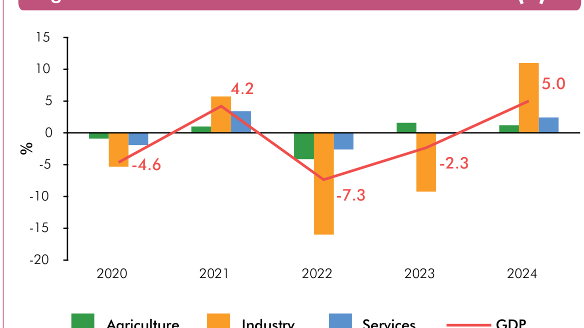
1.2 Real Sector Developments

1.2.1 Economic Growth

The Sri Lankan economy rebounded in 2024, achieving a robust 5.0% real economic growth, after two years of annual contraction. This recovery was steady throughout the year, with all four quarters posting positive Gross Domestic Product (GDP)[11] growth rates for the first time since 2017. The overall growth is mainly attributable to Industry activities, driven by the revival of manufacturing and construction activities, while Services activities also contributed

11 DCS estimates GDP under production, expenditure and income approaches.

Figure 1.8: **Annual Real GDP Growth Rates (a)**



(a) Based on the GDP estimates (base year 2015)

Source: Department of Census and Statistics

1

significantly, mainly supported by the sustained growth in accommodation and transport services. Meanwhile, Agriculture activities also contributed positively to the growth.

GDP at current market prices reached Rs. 29,898.6 bn in 2024, driven by a combination of real economic growth and a GDP deflator of 3.8%. Further, Gross National Income (GNI), estimated by adjusting GDP for the net primary income from the rest of the world, increased to Rs. 29,153.9 bn at current prices in 2024. In USD terms, GDP increased to 99.0 bn in 2024 from 83.8 bn in 2023.

The GDP per capita increased to Rs. 1,364,235 in 2024, compared to Rs. 1,244,262 in 2023, due to the growth in nominal GDP and the decline in mid-year population. Meanwhile, GNI per capita also increased to Rs. 1,330,255 in 2024, compared to Rs. 1,206,441 in 2023. In USD terms, GDP per capita increased to 4,516 in 2024 compared to 3,801 in 2023 and GNI per capita increased to 4,404 compared to 3,685 in 2023, due to the appreciation of the Sri Lanka rupee against the USD in 2024, in addition to the increase in nominal GDP in rupee terms and the decline in mid-year population.

1.2.2 Production

Agriculture

Agricultural activities grew moderately by 1.2% in 2024, compared to 1.6% in 2023. This growth was driven by animal production and growing of fruits, while the prolonged contraction in growing of coconut limited the overall expansion. Further, extreme weather conditions, particularly in the fourth quarter of the year, disrupted key Agriculture activities, including growing of rice and other cereals, and fishing activities, dampening overall growth.

Table 1.2: **Gross National Income by Industrial Origin at Constant (2015) Prices (a)(b)**

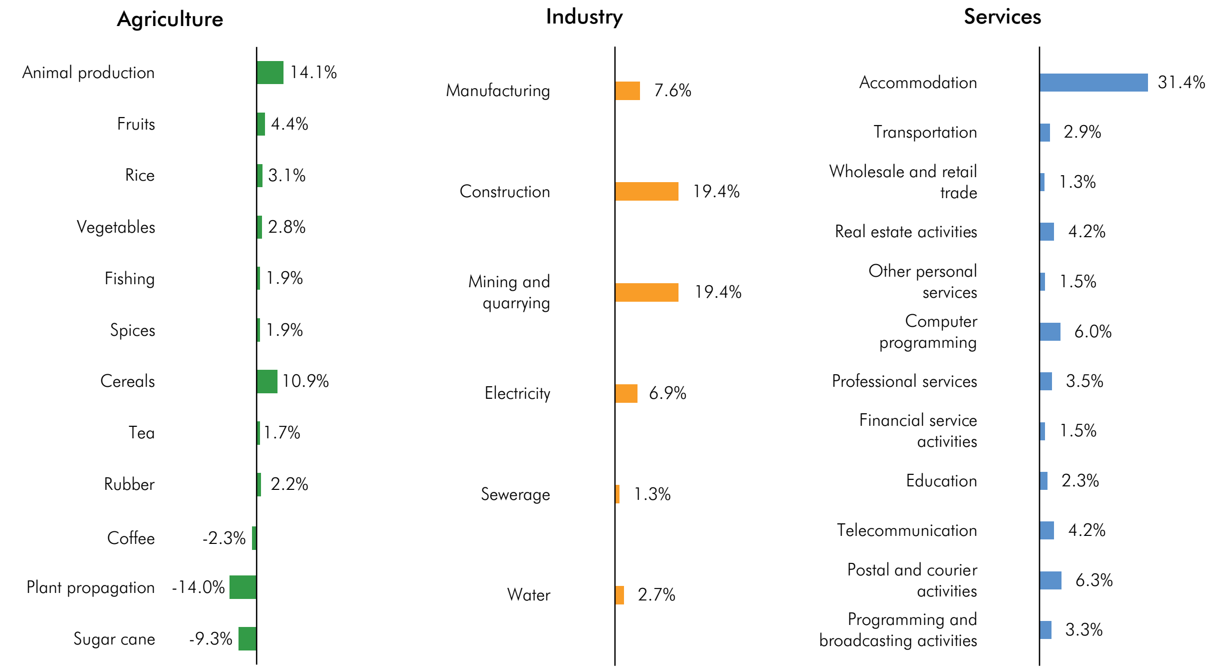
Economic Activity	Rate of Change (%)		Contribution to Growth (%)		As a Percentage of GDP (%)	
	2023 (c)	2024	2023 (c)	2024	2023 (c)	2024
Agriculture, Forestry and Fishing	1.6	1.2	0.1	0.1	7.8	7.5
Industry	-9.2	11.0	-2.5	2.8	25.3	26.7
Manufacturing, mining and quarrying and other industry	-4.7	8.3	-0.9	1.6	19.1	19.7
of which; Manufacturing activities	-3.2	7.6	-0.5	1.2	16.0	16.4
Construction	-20.8	19.4	-1.6	1.2	6.2	7.0
Services	-0.2	2.4	-0.1	1.5	60.7	59.2
Wholesale and retail trade, transportation and storage, accommodation and food service activities	3.2	3.9	0.9	1.1	28.0	27.7
Information and communication	-13.2	5.0	-0.5	0.2	3.0	3.0
Financial and insurance activities	-4.8	-1.2	-0.2	-0.1	4.9	4.6
Real estate activities (including ownership of dwelling)	-6.0	4.2	-0.3	0.2	4.4	4.4
Professional, scientific, technical, administration and supporting service activities	2.4	3.5	0.0	0.1	2.1	2.1
Public administration, defence, education, human health and social work activities	-0.6	-1.1	-0.1	-0.1	9.8	9.2
Other services (excluding own-services)	0.3	1.5	0.0	0.1	8.4	8.1
Equals Gross Value Added (GVA) at Basic Price	-2.6	4.6	-2.5	4.3	93.8	93.4
Taxes less subsidies on products	2.6	10.6	0.2	0.7	6.2	6.6
Equals Gross Domestic Product (GDP) at Market Price	-2.3	5.0	-2.3	5.0	100.0	100.0
Net primary income from rest of the world	-15.9	12.1				
Gross National Income at Market Price	-2.8	5.5				

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

1

Figure 1.9: **Growth in Economic Activities in 2024 (a)**



(a) Based on the GDP estimates (base year 2015)

Source: Department of Census and Statistics

Industry

Supported by the steady revival of domestic and external demand conditions, Industry activities reported a robust growth of 11.0% in 2024, a sharp recovery from the 9.2% contraction in 2023. Manufacturing activities, driven by sustained growth in the manufacture of food, beverages, and tobacco products, along with the recovery in the manufacture of textiles, apparel, leather, and related products, mainly contributed to this growth. Meanwhile, construction activities improved in 2024, due to the gradual roll out of new construction projects, stimulated by the conducive economic environment, compared to the contraction recorded in the previous year.

Services

As economic conditions gradually normalised, Services activities showed a healthy recovery in 2024, with a 2.4% growth compared to the 0.2% contraction in 2023. The surge in tourism had a positive ripple effect on various sectors, including accommodation, food and beverage services, transport, and trade, contributing to this growth. Meanwhile, financial and real estate services recovered in 2024, benefiting from improved business conditions supported by declining interest rates and increased lending appetite. Further, the recovery in computer programming and telecommunication activities also contributed positively to the Services growth.

1.2.3 Expenditure

Domestic demand grew by 9.5% at current prices during 2024, driven by the 6.4% growth in consumption expenditure and the 19.6% growth in investment expenditure. Gross fixed capital formation, the key component of investment expenditure, rebounded during the period mainly due to the increase in construction expenditure. Meanwhile, consumption expenditure continued to grow at a slower pace than in 2023 due to the moderated growth in private consumption expenditure, reflecting

1

Table 1.3: Aggregate Demand and Savings at Current Market Prices (a)(b)

Economic Activity	Rs. bn		Rate of Change (%)		As a percentage of GDP (%)	
	2023 (c)	2024	2023 (c)	2024	2023 (c)	2024
1. Domestic Demand	**28,011.5**	**30,683.4**	**12.4**	**9.5**	**102.2**	**102.6**
1.1 Consumption	21,270.3	**22,623.0**	15.9	**6.4**	77.6	**75.7**
Private	19,412.0	**20,542.2**	16.8	**5.8**	70.8	**68.7**
Government	1,858.4	**2,080.8**	6.8	**12.0**	6.8	**7.0**
1.2 Investment (Gross Capital Formation)	6,741.2	**8,060.3**	2.7	**19.6**	24.6	**27.0**
Gross Fixed Capital Formation	4,891.8	**5,618.8**	-15.0	**14.9**	17.8	**18.8**
Changes in Inventories and Acquisitions less Disposals of Valuables	1,849.3	**2,441.5**	128.9	**32.0**	6.7	**8.2**
2. Net External Demand	**-591.7**	**-784.8**	**31.0**	**-32.6**	**-2.2**	**-2.6**
Export of Goods and Services	5,672.9	**5,945.7**	9.3	**4.8**	20.7	**19.9**
Import of Goods and Services	6,264.6	**6,730.5**	3.6	**7.4**	22.8	**22.5**
3. Total Demand (GDP) (1+2)	**27,419.8**	**29,898.6**	**13.9**	**9.0**	**100.0**	**100.0**
4. Domestic Savings (3-1.1)	**6,149.5**	**7,275.5**	**7.8**	**18.3**	**22.4**	**24.3**
Private	7,800.3	8,584.7	7.7	10.1	28.4	28.7
Government (d)	-1,650.9	-1,309.1	-7.2	20.7	-6.0	-4.4
5. Net Primary Income from Rest of the World (e)	**-833.5**	**-744.7**	**-35.1**	**10.6**	**-3.0**	**-2.5**
6. Net Secondary Income from Rest of the World (e)	**1,906.8**	**1,942.7**	**64.5**	**1.9**	**7.0**	**6.5**
7. National Savings (4+5+6)	**7,222.8**	**8,473.5**	**15.6**	**17.3**	**26.3**	**28.3**
8. Savings Investment Gap						
Domestic Savings - Investment (4-1.2)	-591.7	**-784.8**			-2.2	**-2.6**
National Savings - Investment (7-1.2)	481.7	**413.2**			1.8	**1.4**
9. External Current Account Balance (2+5+6) (e)	**481.7**	**413.2**			**1.8**	**1.4**

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised
(d) This is the Current Account Balance of the Central Government.
(e) Any difference with the BOP estimates is due to the time lag in compilation.

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

the reduced-price impact on consumer expenditure. Meanwhile, the increase in import expenditure led to a contraction in net external demand in 2024.

At constant prices, the domestic demand rebounded during 2024, supported by the 21.1% growth in investment expenditure, which was mostly driven by the growth in construction activities. Further, consumption expenditure grew by 3.2% during the year, driven by private consumption expenditure. However, net external demand declined during the period due to the surge in import volumes.

The country's national savings grew by 17.3% at current prices during 2024, mainly attributable to the 18.3% growth in domestic savings. Moreover, both net primary income and net secondary income from the rest of the world also developed in a favourable direction in 2024, positively contributing to the growth in national savings. With this improvement in national savings, the national savings-investment gap remained positive in 2024.

1.2.4 Income

As per the estimates in the income approach, Gross Mixed Income, the major income generator which accounted for 37.4% of Gross Value Added (GVA) at current market prices in 2024, grew by 6.0%. Further, the Gross Operating Surplus, the second major income generator, grew by 6.8% in 2024. Meanwhile, Compensation of Employees and Other Taxes less Subsidies on Production increased in 2024, recording growths of 5.2% and 30.4%, respectively, during the year. Considering the institutional sector classification of GVA, Non-Financial Corporations was the largest income generator, followed by Household and Non-Profit Institutions Serving Households, Financial Corporations, and General Government, respectively.

1

Table 1.4: **Income Components by Institutional Sector at Current Market Prices (a)(b)**

Percentage Share (%)

Item	2023 (c)					2024				
	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy
Compensation of Employees	53.3	9.3	20.1	17.3	100.0	**53.8**	**7.7**	**20.9**	**17.7**	**100.0**
Gross Operating Surplus	82.2	15.5	2.3	-	100.0	**81.8**	**16.0**	**2.2**	**-**	**100.0**
Gross Mixed Income	-	-	-	100.0	100.0	**-**	**-**	**-**	**100.0**	**100.0**
Other Taxes less Subsidies on Production	64.6	14.6	-	20.8	100.0	**66.2**	**13.9**	**-**	**19.9**	**100.0**
Gross Value Added at basic price	43.1	7.9	6.4	42.5	100.0	**43.2**	**7.7**	**6.6**	**42.5**	**100.0**

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

1.2.5 Population, Labour Force, and Employment

As estimated by the Registrar General's Department, the mid-year population in Sri Lanka declined by 0.5% to 21.916 mn in 2024. This was due to the slowdown in natural increase in population, which is the difference between births and deaths during a year, and the net outmigration. The population density, which is the ratio of the population to the total land area of the country,[12] was recorded at 352 people per sq.km in 2024.

As reflected by the Sri Lanka Labour Force Survey conducted by the DCS, the economically active population[13] (labour force) decreased to 8.316 mn in 2024 from 8.408 mn recorded in 2023. The Labour Force Participation Rate (LFPR), which is the ratio of the labour force to the household population, also decreased to 47.4% in 2024, compared to 48.6% recorded in 2023.

The unemployment rate decreased to 4.4% during 2024, compared to 4.7% in 2023. In 2024, the unemployed[14] and employed[15] population decreased compared to 2023.

According to the Sri Lanka Bureau of Foreign Employment, departures for foreign employment recorded an increase of 5.8% to 314,828 in 2024 compared to 297,656 in 2023. The departures of males and females for foreign employment accounted for 59.3% and 40.7%, respectively, of the total departures for foreign employment during the year.

1.2.6 Economic Infrastructure

Power and Energy

Petroleum

Global crude oil prices remained highly volatile throughout 2024 with an initial trend of rising prices followed by gradual

Table 1.5: **Household Population, Labour Force and Labour Force Participation (a)**

Item	2023	2024 (b)
Household Population '000 Persons	17,306	**17,551 (c)**
Labour Force '000 Persons	8,408	**8,316**
Employed	8,010	**7,949 (c)**
Unemployed	398	**367 (c)**
Unemployment Rate	4.7	**4.4**
Male	3.6	**n.a.**
Female	7.0	**n.a.**
Labour Force Participation Rate (d)	48.6	**47.4**
Male	68.6	**n.a.**
Female	31.3	**n.a.**

(a) Household population aged 15 years and above
(b) Average durinng the year
(c) These values are derived from the available information as of 28 March 2025, and values may differ from the statistics publish by DCS on a later date.
(d) Labour force as a percentage of household population
n.a. - not available

Source: Department of Census and Statistics

12 The Survey Department of Sri Lanka re-computed the country's extent to 67,240 sq.km (Land area: 62,302 sq.km) in 2024, which had been reported as 65,610 sq.km (Land area: 62,705 sq.km) earlier. (Source: https://www.survey.gov.lk/sdweb/pdf/latestpost/Recalculation%20of%20Country%20Extent.pdf)

13 The number of persons (aged 15 years and above), who are employed or unemployed during the reference one week period.

14 Persons available and/or looking for work, and who did not work and took steps to find a job during the last four weeks and are ready to accept a job given a work opportunity within next two weeks are said to be unemployed.

15 Persons who worked at least one hour during the reference period, as paid employees, employers, own account workers or contributing family workers are said to be employed. This also includes persons with a job but not at work during the reference period.

1

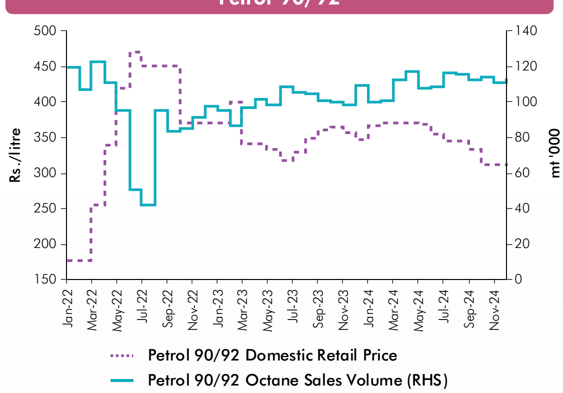
moderation towards the latter part of the year. This volatility was largely driven by uncertainties arising from geopolitical developments and concerns over slowing economic growth in the US and China. Consequently, the average Brent crude oil price fell by 3.0% to USD 79.79 per barrel in 2024 from USD 82.22 per barrel in 2023. This decline was significantly smaller than the 17.0% decline recorded between 2022 and 2023.

Reflecting moderated global energy prices and appreciation of the Sri Lanka rupee, domestic prices of petroleum products gradually declined from early 2024. The annual average import price of crude oil of the Ceylon Petroleum Corporation (CPC) declined by 5.5% from USD 89.60 per barrel in 2023 to USD 84.69 per barrel in 2024. Cost-reflective pricing adjustments were implemented throughout the year, resulting in overall reductions in retail prices of domestic petroleum products by the end of the year. Accordingly, the prices of Petrol 92, Auto Diesel, and Kerosene traded by the CPC recorded overall reductions of 10.7%, 13.1%, and 23.9%, respectively, compared to that of end 2023. This is a continuation of the trend of retail price reductions across these three petroleum product categories from 2022 to 2023, with Petrol 92, Auto Diesel, and Kerosene prices falling by 16.5%, 31.9%, and 48.5%, respectively, compared to end 2022.

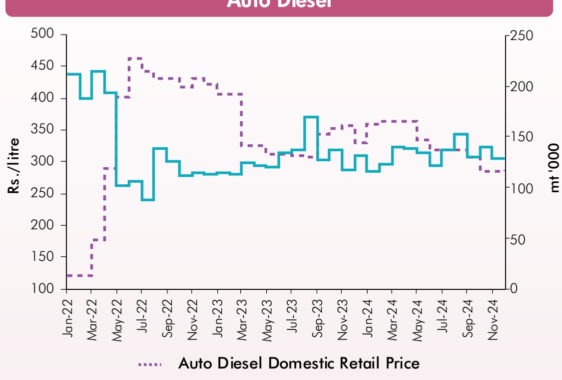
The petroleum sector experienced significant growth in sales during 2024, reflecting the gradual resurgence of

Featured Charts 1.1
Trends in Domestic Fuel Sales and Prices

Petrol 90/92



Auto Diesel



Sources: Domestic Fuel Retailers
Central Bank of Sri Lanka

The graphs illustrate the relationship between the sales volume and domestic retail price for Petrol 90/92 and Auto Diesel during 2022-2024. Both types of fuel witnessed sharp price increases in mid-2022 with the escalation of global prices of petroleum products and implementation of formula-based pricing. The volume of sales was affected by increased domestic prices, fuel rationing and subdued economic activity during the crisis period. In response to the combined impact of these developments, the overall sales volume of petroleum products in the domestic market recorded a sharp decline during the same period.

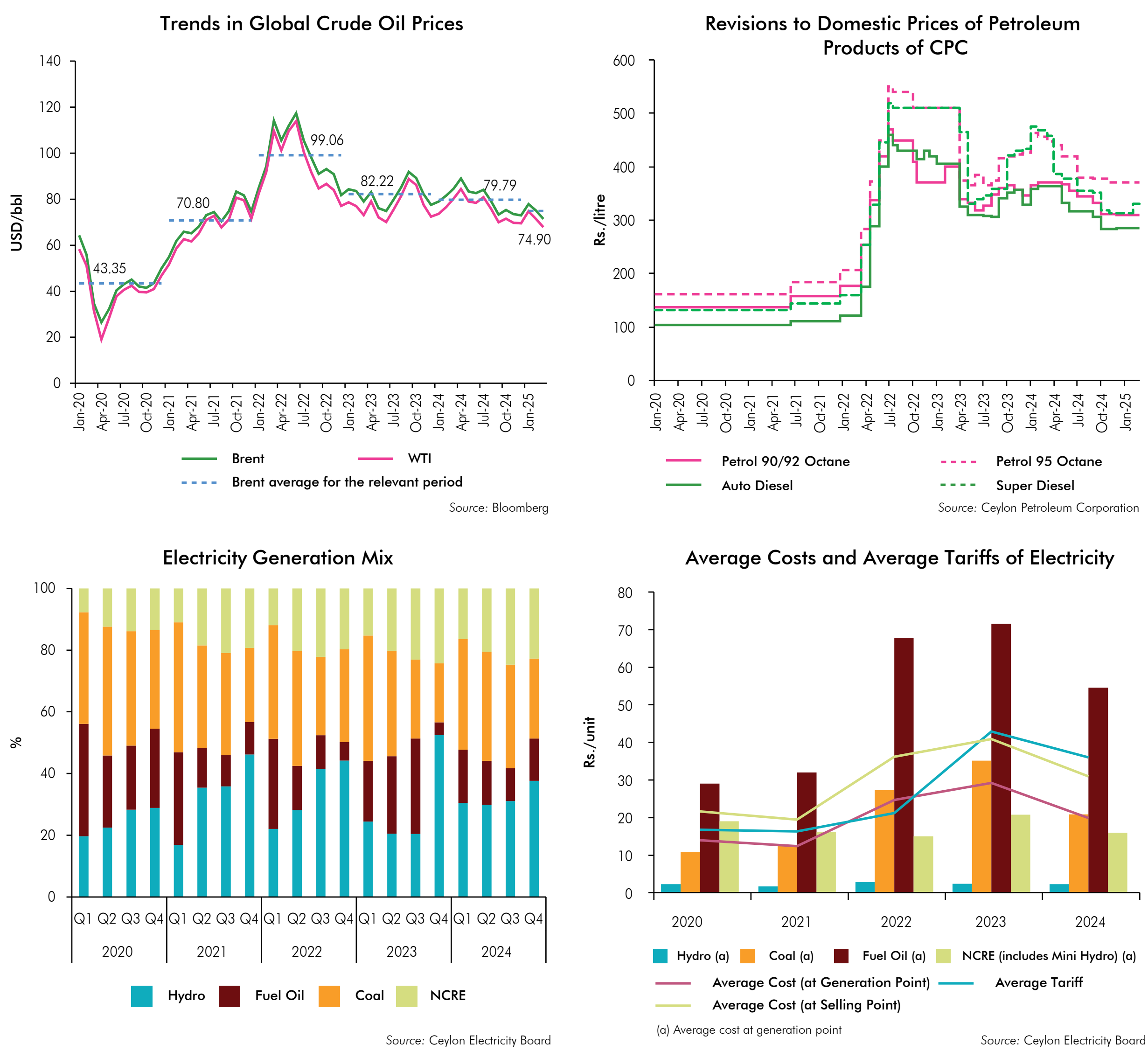
Although both global and domestic prices stabilised later and domestic fuel availability was restored after the crisis, the overall trends suggest that higher fuel prices led to reduced sales and vice versa, highlighting the market's sensitivity to price fluctuations and potential shifts in consumer demand. Thus, cost-based pricing mitigates the adverse implications to the country at times of global commodity price shocks.

1

economic activity. The sales volume of petroleum products recorded a y-o-y growth of 11.3% in 2024. To cater to the evolving needs of the economy and to improve efficiency and competition, efforts to liberalise Sri Lanka's domestic petroleum market were underway during the year. As part of this transition, as of end 2024, three new private sector players were operating, with two having launched during the year and one in 2023.

Following the adoption of cost-based pricing, the CPC continued to record a strong financial performance for the second consecutive year in 2024 compared to the substantial losses in the recent past. In this context, the CPC recorded a profit of Rs. 33.3 bn in 2024, subsequent to the profit of Rs. 120.3 bn recorded in 2023, following a significant loss of Rs. 617.6 bn recorded in 2022. The decline in profits in 2024, compared to 2023, was largely a result of the shrinking market share of the CPC following the entry of private sector players. Alongside the Government's decision to take over the government guaranteed foreign currency debt stock of the CPC amounting to USD 2.5 bn to the government balance sheet in 2022 as

Figure 1.10: **Energy and Power Sector Developments**



a measure to improve the financial viability of the CPC, the outstanding foreign currency denominated loans and import bills of the CPC stood at USD 0.3 bn at the end of 2024. Meanwhile, the CPC's total outstanding trade receivables from government entities stood at Rs. 10.0 bn at the end of 2024.

Electricity

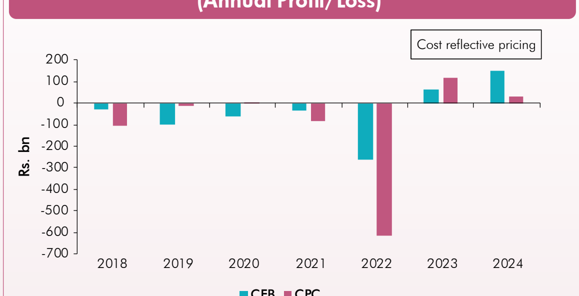
Electricity demand continued to recover in 2024 in line with the turnaround of the economic activity and two consecutive downward adjustments in the tariff. All consumer categories recorded a growth in sales leading to an overall increase of 7.3% in 2024. Notably, domestic and religious sector sales increased after a slight decline in the first quarter of 2024, supported by reduced electricity tariffs. Electricity generation also increased by 7.8% during the year to meet the increased demand.

The electricity generation mix showed some volatilities due to weather related disturbances. The seasonal dry spell in the first quarter of the year and the low inter-monsoon rainfall exerted some pressures on the power sector during the months of March, April, and October 2024, leading to increased reliance on fuel based thermal power generation. However, favourable rainfall witnessed during mid-May and above-average rainfall observed towards the end of November contributed to the optimal use of electricity generation through higher hydropower generation. During the year, the contribution of hydro, fuel, coal, and Non-Conventional Renewable Energy (NCRE) sources amounted to 32.3%, 13.9%, 32.6%, and 21.2%, respectively, for overall electricity generation.

Featured Charts 1.2
Importance of Cost Reflective Pricing for Utilities

Sri Lanka has had a long legacy of below-cost pricing for utilities such as electricity and fuel to offer 'blanket' type of relief to consumers irrespective of their income level. These concessions took a significant toll on the financial performance of the Ceylon Electricity Board (CEB) and CPC. Liquidity shortages of these State Owned Business Enterprises (SOBEs) were financed by the banking sector and thereby crowded out other productive investments. To secure financial viability of these SOBEs, the Government had to assume a portion of these legacy debts in 2022 and make substantial adjustments in fuel prices and electricity tariffs in 2022 and 2023, in line with cost reflective pricing mechanisms. Since then, both CEB and CPC have been making annual profits. This experience has revealed that though untargeted energy subsidies provided short term reliefs to the public and businesses, ultimately, they had to bear accumulated cost later in the form of high prices for energy, taxes and overall inflation. To prevent this vicious cycle of below cost pricing for short term gains leading to long term losses for the macroeconomy, continuation of cost reflective pricing is essential. Therefore, deviation from the cost reflective pricing mechanism for utilities is not beneficial for the Government or businesses or the public in the long run. Therefore, rather than extending a 'blanket' type of relief to all through mispricing of utilities, any additional support can be provided to the needy segments of the economy through targeted benefit schemes. Also measures could be taken to enhance operational efficiency and competition while reducing production cost to pass the benefits to the consumer.

Financial Performance of CEB and CPC (Annual Profit/Loss)



Sources: Ceylon Electricity Board
Ceylon Petroleum Corporation

1

The Ceylon Electricity Board (CEB) remained profitable in 2024, despite consecutive tariff reductions. An annual total profit of Rs. 148.6 bn was recorded for 2024. Supported by this profit, the CEB's short-term borrowings and liabilities declined to Rs. 123.6 bn by the end of 2024 from Rs. 292.8 bn by the end 2023, while long-term liabilities decreased to Rs. 409.0 bn from Rs. 413.3 bn. During the year, cost-reflective electricity tariff revisions continued, though the implementation of quarterly revisions was irregular. Accordingly, electricity tariffs were revised twice during the year, with an average of 21.9% reduction in March, followed by a further 22.5% reduction in July. A substantial decline in monthly profits was observed during the latter part of the year owing to consecutive significant tariff reductions. In January 2025, another round of downward revisions was undertaken to the electricity tariffs by an average of 20.0% raising concerns about the extent of cost reflectivity of such a tariff revision. Thus, further tariff reductions, if not supported by an actual reduction in cost, could severely weaken the CEB's financial performance.

The Government continued to pursue reforms in the domestic power and energy sector amidst its efforts to address the growing demand for electricity, while balancing issues pertaining to existing infrastructure. In June 2024, the Electricity Act No. 36 of 2024 was enacted, to catalyse necessary restructuring within the sector. This legislation focuses on key areas such as industry regulation, market competition, renewable energy integration, and institutional restructuring and thus aiming to create a significant paradigm shift in the legislative framework pertaining to the energy sector. Following the change in the Government, a committee was appointed at the end of 2024 to review and recommend further amendments to ensure the Act effectively supports a secure, sustainable, and user-centric electricity sector. Further, the envisaged operational system upgrades for Sobadhanavi power plant would enable it to become the first power plant in the country capable of utilising Liquefied Natural Gas (LNG) for electricity generation. These upgrades are expected to be completed by the first half of 2025, while the development of supporting infrastructure, including LNG storage facilities, are envisaged for completion in 2028. Additionally, the CEB is in the process of updating the Long-Term Generation Expansion Plan (LTGEP) for 2025-2044 to better align with current market conditions and future energy demands of country.

Transport Sector

The transport sector recorded a mixed performance in 2024, following significant setbacks to the sector during the period of crisis. The performance of the indicators of road transport, in terms of operated kilometrage, recorded a marginal expansion. In the meantime, the passenger kilometrage of the Sri Lanka Transport Board (SLTB), calculated based on ticketed passengers reported a contraction. Further, activities in the rail transportation showed a mixed performance, while air transport indicators recorded expansions. During 2024, the port sector exhibited a significant resurgence of its activities, sustaining the upward momentum gathered from 2023.

Table 1.6: **Performance of the Transport Sector**

Sector	2023 (a)	2024 (a)	Change 2023/2024 (%)
Road Transport (Sri Lanka Transport Board)			
Operated kilometrage (mn)	364	371.7	2.1
Passenger kilometrage (mn)	14,272	13,153	-7.8
Rail Transport (Sri Lanka Railways)			
Passenger kilometrage (mn)	7,044	6,000	-14.8
Goods kilometrage (ton mn)	159	172	8.1
Air Transport			
Passenger movements (in mn) (b)	7.5	8.8	17.8
Of which SriLankan Airlines	3.7	3.5	-6.1
Freight (mt '000)	158.6	195.4	23.2
Of which SriLankan Airlines	79.3	93.0	17.2
Sea Transport (Port of Colombo)			
Container handling (TEUs '000)	6,950	7,792	12.1
Number of Ship arrivals	4,237	3,968	-6.3

(a) Provisional
(b) Excluding transit passengers
TEUs = Twenty-foot Equivalent Container Units

Sources: Sri Lanka Transport Board
Sri Lanka Railways
Civil Aviation Authority of Sri Lanka
Sri Lanka Ports Authority

1

Other Developments

During 2024, the Government continued efforts in improving key infrastructure projects, including the Colombo Port City, naval ports, highways, urban development, and housing, though progress remained uneven across sectors. The Port Access Elevated Highway was nearing completion, while land acquisition and civil works for Sections I and III of the Central Expressway progressed during the year. The Cabinet approval was granted for the construction of 1,996 housing units under a foreign government aid programme, while several other low-income and middle-income housing initiatives led by the Urban Development Authority (UDA) were also continued, focusing on providing decent housing facilities for underserved communities. Additionally, under the Siyak Nagara Development Programme and the Public Institutions Development Programme, which are key initiatives of the UDA, several municipal infrastructure and public amenities enhancement projects were completed during the year. As part of the ongoing developments in the Colombo Port City, the region's first Downtown Duty-Free Mall was completed and launched during the year. Additionally, new banking regulations applicable to the Colombo Port City were introduced in 2024, highlighting its readiness for attracting investments through improved regulatory assurance to investors. On the port infrastructure, the development of the East Container Terminal (ECT) and West Container Terminal-I (WCT-I) at the Port of Colombo progressed during the year, with ECT and WCT-I set for completion in 2026 and 2027, respectively. These developments will further augment the competitiveness of the Port of Colombo and enable it to compete more vigorously with other neighbouring ports by capitalising on emerging opportunities in the port industry and meeting the growing demand.

1.2.7 Social Infrastructure

Education

After a series of setbacks due to the pandemic and the economic crisis, the education sector showcased returning to normalcy to a large extent during 2024, though scarring effects of the pandemic and economic crisis still linger. During the year, a wide spectrum of measures in ensuring equitable access and the quality of education of the country were undertaken by the respective authorities. As such, in consolidating the equal access to free education, the Government continued the student welfare programmes during 2024. Thus, school uniforms were distributed among more than 4.5 mn students, the school meals programme was extended to cover 1.4 mn students, and free school textbooks were distributed. Additionally, in further enhancing student support, grant schemes such as Subhaga, Sujatha Diyani, and Mahatma Gandhi scholarships and bursaries were extended to school students in 2024. Further, the Government made provisions to raise the stipend for students in vocational education, the Mahapola scholarship and monthly bursary payments for university students as envisaged in the Budget 2025.The General Certificate of Education Ordinary level (O/L) and Advanced level (A/L) examinations originally designated for 2023 were conducted in 2024, whereas O/L for 2024 was postponed to 2025. The continuous delays in conducting examinations in the aftermath of the pandemic and the economic crisis have negatively affected the pace of education. Further, the COVID-19 pandemic and the economic crises have intensified school dropout rates and the financial burden on parents for their children's education.

Health

The health sector gradually returned to normalcy in 2024, despite the resource limitations. Accordingly, in uplifting and upgrading the healthcare system and services during 2024, the Government implemented several measures with the support of key stakeholders. Significant infrastructure development milestones were accomplished during the year, covering many parts of the island in enhancing the equitable access and inclusiveness of healthcare services. Among others, inauguration of German-Sri Lanka Friendship Maternal and Child Health Hospital at Karapitiya, funded by the Government of Germany, commissioning of five-storey ward complex at Kurunegala Teaching Hospital and a six-storey building with a catheterisation laboratory for cardiac treatment at Trincomalee District General Hospital and bone marrow transplantation unit at Jaffna Teaching Hospital are noteworthy developments. Further, in early 2025, Sri Lanka's first and only Bone Marrow and Hematopoietic Stem Cell Transplant (HSCT) Unit in a government hospital for children with cancer was inaugurated at the Apeksha Cancer Hospital in Maharagama with the financial aid from various donors.

Despite continued progress in the healthcare sector of Sri Lanka, challenges remain. These challenges are related to the modernisation of the healthcare system, human resources, funding and resource allocation, and regional disparities. Absence of adequate laboratory testing capacities and transport facilities negatively affected disease surveillance and control activities during the year. In the aftermath of the COVID-19 pandemic and the economic crisis of Sri Lanka, the strategic focus on maternal and child nutrition, mental health of the adolescent and youth communities, and health issues among the vulnerable communities in the estate and the urban sectors of the economy remain areas of concern. Therefore, proactive strategies should be formulated in confronting paradigm shifts in the healthcare sector related to these areas and increasing ageing population of the country, rapid increase of Non-Communicable Diseases (NCDs) and health risks associated with climate change.

Social Safety Nets

Recognising the persistent challenges facing vulnerable communities, the Government reinforced its efforts to expand and enhance social safety nets, ensuring targeted assistance. In line with these efforts, the Aswesuma welfare benefit scheme, initiated in July 2023 under the Welfare Benefits Board (WBB), continued to provide financial assistance to low-income families categorised as 'severely poor', 'poor', 'vulnerable', and 'transitional', while also offering individual allowances to differently abled people, patients with chronic kidney disease of unknown etiology (CKDu), and elderly citizens. In 2024, the programme provided cash transfer benefits to 1.8 mn beneficiary families nationwide with the total disbursement amounting to Rs. 145.6 bn, including arrears payments. Additionally, individual allowances amounting to Rs. 34.2 bn were provided to differently abled individuals, CKDu patients, and elderly citizens. The WBB also successfully implemented a programme that provided financial assistance for the purchase of stationery to 1.1 mn school children from low-income families, with a total expenditure of Rs. 6.6 bn. Meanwhile, revisions to the welfare benefits payment scheme were introduced in May and December 2024. Along with this, further enhancements were announced in the Budget 2025 to improve and expand the benefits under Aswesuma. According to the Extraordinary Gazette issued in December 2024, the scheme targets expanding support to 2.4 mn beneficiaries and aims to provide allowances to 1.28 mn individuals, covering differently abled people, CKDu patients, and elderly citizens. Meanwhile, the WBB commenced the second phase of Aswesuma in early 2025, intending to expand benefits to those in need. Efforts are currently underway to assess and select eligible families for assistance. However, social spending targets under the IMF-EFF programme have not been fully met due to administrative issues, such as unavailability of bank accounts and National Identity Cards for beneficiaries, thereby slowing the disbursement of benefits to the selected beneficiaries. Accordingly, focused efforts are being taken to expeditiously resolve these issues to sufficiently cover the vulnerable segments of the population. The Cabinet also granted approval in February 2025, to initiate the Prajashakthi National Movement, which comprises an integrated programme initiated by the Ministry of Rural Development, Social Security, and Community Empowerment. The programme seeks to combine multiple approaches to poverty alleviation by integrating social protection, economic empowerment, and rural development initiative into a unified framework, ensuring sustainable support for vulnerable communities.

In 2024, the Ministry of Women and Child Affairs initiated several policy reforms and national development programmes. This was alongside vital social protection and subsidy initiatives, to enhance social welfare and support vulnerable communities. Accordingly, the Ministry introduced key legislative measures, including the Women Empowerment Act, No. 37 of 2024, which was enacted to establish the National Commission on Women, appoint a Woman Ombudsperson to ensure women's rights, create a national fund for women, and implement the National Gender Equality and Women's Empowerment policy. During the year, the Ministry also implemented several women and child welfare programmes, including nutrition and morning meal allowances and financial support for pre-school teachers.

1.3 Monetary Sector Developments

1.3.1 Market Interest Rates

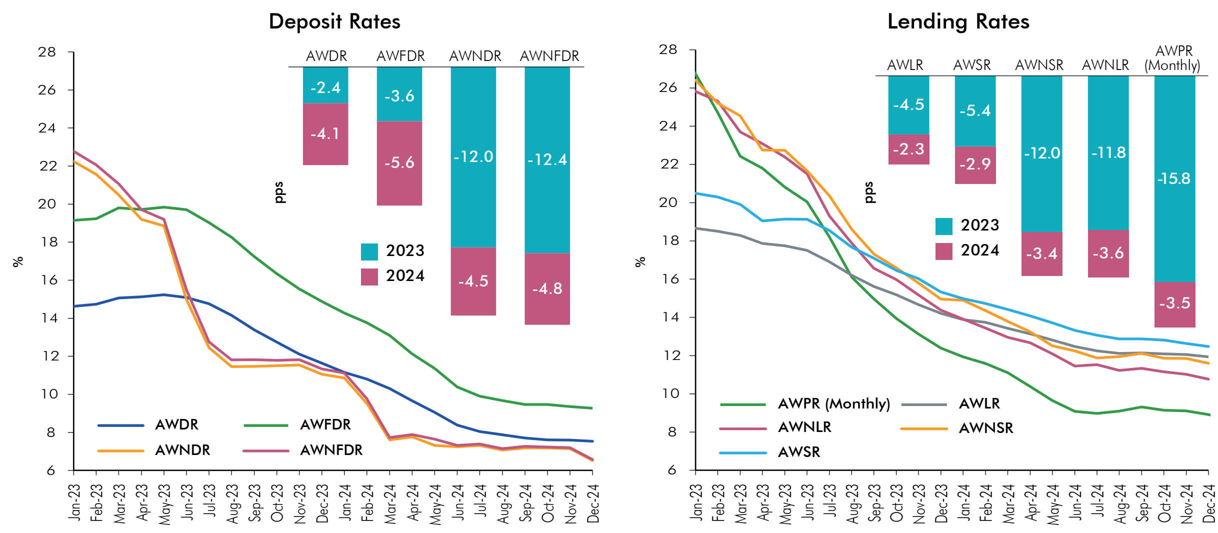
Market interest rates continued their downward momentum in 2024 driven by accommodative monetary policy measures implemented since June 2023. Since then, the total policy rate reduction amounted to around 775 bps, with around 125 bps of this reduction in 2024. This includes the effective reduction of around 50 bps in the policy interest rate in late November 2024 alongside the introduction of the Overnight Policy Rate (OPR),[16] which marked a shift to a single policy interst rate system from a dual policy interest rate system. The Average Weighted Call Money Rate (AWCMR)[17] adjusted downwards during the year in line with the further relaxation of the monetary policy stance and the enhanced liquidity conditions in the domestic money market. Following the introduction of the OPR in November 2024, AWCMR experienced a gradual downward adjustment and subsequently stabilised around 8.00% by the end of the year. In addition to the easing of monetary policy, subdued inflation, moderate inflation expectations, and reduced risk premia following the near-finalisation of the debt restructuring process supported the overall decline in market interest rates in 2024. While the downward adjustment in market interest rates was more pronounced during the first half of 2024, the pace of adjustment was slowed by the temporary uptick in yields on government securities in mid-2024. Nevertheless, both market deposit and lending interest rates moderated further towards the latter part of 2024. The interest rates based on the outstanding stock of interest-bearing rupee deposits held with Licensed Commercial Banks (LCBs), Average Weighted Deposit Rate (AWDR) and Average Weighted Fixed Deposit Rate (AWFDR), declined by 4.1-5.6 pps in 2024. Notably, both AWDR and AWFDR exhibited a consistent downward trend throughout the year, although the pace of decline slowed somewhat in the latter half. Interest rates on new interest-bearing rupee deposits mobilised by LCBs during a particular month, as reflected by the Average Weighted New Deposit Rate (AWNDR) and Average Weighted New Fixed Deposit Rate

16 Please refer Box 03, on "Transition to a Single Policy Interest Rate Mechanism" for further details on the introduction of OPR.

17 The short term interest rate closely monitored by the Central Bank as the operating target under the Flexible Inflation Targeting (FIT) framework to guide the market interest rates.

1

Figure 1.11: Movements of Selected Market Interest Rates



Note: The column charts represent the annual adjustment in interest rates in 2023 and 2024

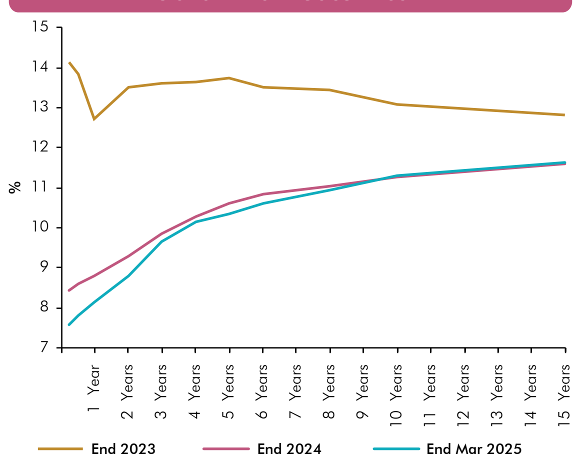
Source: Central Bank of Sri Lanka

(AWNFDR) declined by 4.5-4.8 pps during 2024. While AWNDR and AWNFDR adjusted swiftly to monetary policy easing in early 2024, the latter half of the year exhibited mixed movements, reflecting a slowdown after the initial overadjustment. Lending rates, particularly interest rates applicable on short-term rupee loans and advances granted by LCBs to their prime customers during a particular week (Average Weighted Prime Lending Rate (AWPR)), which is one of the benchmark interest rates in the retail market, declined notably by 3.2 pps in 2024. Meanwhile, the lending interest rate based on all outstanding rupee loans and advances extended by LCBs (Average Weighted Lending Rate (AWLR)) and the lending interest rate based on all new rupee loans and advances extended by LCBs during a particular month (Average Weighted New Lending Rate (AWNLR)), declined by 2.3 and 3.6 pps, respectively, in 2024, over the 4.5 and 11.8 pps decline in 2023. Although the benchmark lending rates declined notably, the maximum rates on certain bank loan products remained elevated, indicating the potential for further reductions in such rates. Meanwhile, the interest rates applicable on loans extended to Micro, Small, and Medium Enterprises (MSMEs) also declined during the year in line with the moderation of other market lending interest rates. Accordingly, the interest rate based on all outstanding rupee loans and advances extended by licensed banks to the SME sector (Average Weighted SME Lending Rate (AWSR)), and the interest rate based on all new rupee loans and advances extended by licensed banks during a particular month to the SME sector (Average Weighted New SME Lending Rate (AWNSR)) declined by 2.9 and 3.4 pps, respectively. Although lending interest rates to SMEs recorded an overall reduction, rates on loans extended to micro and small-scale borrowers remained relatively rigid compared to other market lending rates due to the nature of lending and the associated risks. Despite the decline in nominal market interest rates, real interest rates, measured using realised inflation levels, remained largely positive in 2024 due to low inflation and deflationary conditions since September 2024. However, the anticipated convergence of inflation toward the target in the second half of 2025 suggests a likely decline in real interest rates. The downward trajectory of market lending rates continued in early 2025, reflecting the lagged impact of further easing of the policy stance in the second half of 2024.

Yields on Government Securities

Yields on government securities declined in 2024, in line with the notable improvements in fiscal performance, easing of monetary policy and the gradual dissipation of risk premia. However, the trajectory of government securities yields in 2024 experienced intermittent increases in the middle of the year. The increase in yields on government securities observed between June and September 2024 was mainly driven by factors, such as high offered amounts at auctions to meet the Government's funding requirements amidst large-scale market maturities, as well as market sentiments influenced by political uncertainties. However, from mid-September onwards, yields resumed a steady downward trend, signalling a more measured adjustment in response to evolving market conditions. The overall reduction in yields was supported by prudent fiscal management along with the maintenance of adequate buffers, advancement in public debt restructuring, and favourable developments on the inflation front amidst monetary policy easing and increased market liquidity. Additionally, increased net foreign inflows into the government securities market towards the end of 2024, along with subdued inflation and benign inflation expectations further supported this trend. Treasury bills across all maturities saw

Figure 1.12: **Secondary Market Yield Curve for Government Securities**



Source: Central Bank of Sri Lanka

Table 1.7: **Movements of Interest Rates**

% per annum

Interest Rate	End 2023	End 2024	Change in pps
Policy Interest Rate of the Central Bank			
Overnight Policy Rate (OPR) (a)	-	8.00	-
Standing Facility Rates (a)			
Standing Deposit Facility Rate (SDFR)	9.00	7.50	-1.50
Standing Lending Facility Rate (SLFR)	10.00	8.50	-1.50
Average Weighted Call Money Rate (AWCMR)	9.24	8.00	-1.24
Yield Rates on Government Securities			
Primary Market (b)			
Treasury bills			
91-day	14.51	8.62	-5.89
182-day	14.16	8.77	-5.39
364-day	12.93	8.96	-3.97
Treasury bonds			
2-year	13.87 (c)	13.83 (d)	-0.04
3-year	14.07 (c)	11.63 (d)	-2.44
4-year	14.21 (c)	10.42 (d)	-3.79
5-year	14.32 (c)	10.75 (d)	-3.57
10-year	-	-	-
Secondary Market			
Treasury bills			
91-day	14.13	8.43	-5.70
182-day	13.86	8.61	-5.25
364-day	12.71	8.81	-3.90
Treasury bonds			
2-year	13.52	9.31	-4.21
3-year	13.62	9.87	-3.75
4-year	13.66	10.30	-3.36
5-year	13.74	10.61	-3.13
10-year	13.10	11.27	-1.83
Interest Rates on Deposits			
Licensed Commercial Banks (e)			
Savings Deposits	0.25-13.00	0.25-9.00	-
1 Year Fixed Deposits (f)	1.00-22.00	2.50-18.39	-
AWDR	11.64	7.53	-4.11
AWFDR	14.88	9.27	-5.61
AWNDR	11.06	6.52	-4.54
AWNFDR	11.33	6.57	-4.76
Other Financial Institutions (g)			
National Savings Bank			
Savings Deposits	3.00	3.00	-
1 Year Fixed Deposits	8.00	7.00	-1.00
Finance Companies (h)			
Savings Deposits	4.33-6.62	3.91-6.03	-
1 Year Fixed Deposits	11.88-13.56	9.23-11.00	-
Interest Rates on Lending			
Licensed Banks (i)			
AWSR	15.33	12.48	-2.85
AWNSR	14.96	11.59	-3.37
Licensed Commercial Banks (e)			
AWPR - Monthly	12.39	8.92	-3.47
AWLR	14.21	11.93	-2.28
AWNLR	14.38	10.77	-3.61
Licensed Specialised Banks (g)			
National Savings Bank	15.00-20.00	12.75-18.00	-
State Mortgage and Investment Bank (j)	9.50-21.00	9.00-20.00	-
Finance Companies (h)			
Finance Leasing	14.98-32.48	10.99-31.75	-
Corporate Debt Market			
Debentures	13.50-29.50	12.00-15.25	-
Commercial Papers	17.00-26.50	12.00-13.75	-

Sources: Central Bank of Sri Lanka
Colombo Stock Exchange
Respective Financial Institutions

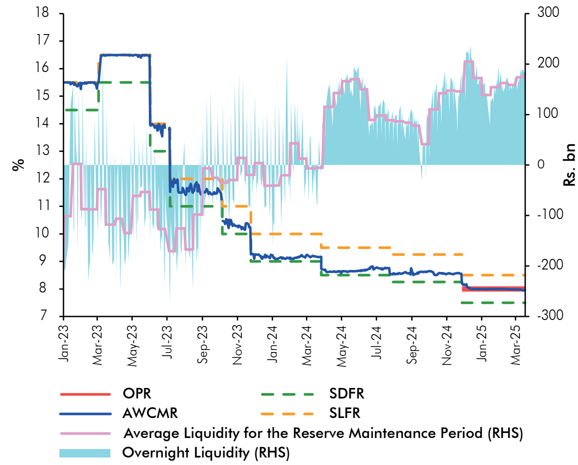
(a) Effective 27 November 2024, OPR is defined as the policy interest rate of the Central Bank. SDFR and SLFR are linked to OPR with a margin as decided by the Central Bank
(b) Weighted average yield rates at the latest available auction
(c) Last Primary Auction during 2023:
2 yr - 28 Dec | 3 yr - 12 Dec | 4 yr - 28 Dec | 5 yr - 12 Dec
(d) Last Primary Auction during 2024:
2 yr - 11 Jan | 3 yr - 12 Nov | 4 yr - 30 Dec | 5 yr - 12 Dec
(e) Based on the rates quoted by LCBs
(f) Maximum rates are special rates offered by certain LCBs
(g) Based on the rates quoted by other selected Financial Institutions
(h) Interest rate ranges are based on the average maximum and average minimum rates quoted by Finance Companies (FCs) which are applicable for deposits mobilised and loans granted during the respective months. Data for 2024 are provisional
(i) Based on the rates quoted by LCBs and LSBs
(j) Lending for housing purposes only

a decrease in yields by 4.0-5.9 pps during 2024. In line with this trend, Treasury bond yields also adjusted downwards. In 2024, the majority of Treasury bond issuances have been concentrated in the medium tenor. Yields have dropped by approximately 1.0-4.0 pps across various maturities during the year. Compared to the flatter secondary market yield curve observed at the end of 2023, the yield curve shifted downwards and normalised to an upward-sloping curve in 2024. Yet, the downward adjustment to the yields on Treasury bonds with longer maturities remained sluggish.

1.3.2 Domestic Money Market Liquidity

Liquidity in the domestic money market increased significantly in 2024, mainly as a result of liquidity injections following the net purchases of foreign exchange by the Central Bank. In view of the increased liquidity levels and domestic money market activity, restrictions that were imposed in early 2023 on the usage of the Central Bank's Standing Facilities by participatory institutions were relaxed in February 2024 and completely removed from April 2024. In addition to the Central Bank's net foreign currency purchases equivalent to approximately Rs. 858 bn from the domestic forex market, net foreign loan disbursements to the Government, particularly by the bilateral partners, and net foreign currency swaps between the Central Bank and LCBs also added to rupee liquidity in the domestic money market. However, the coupon payments on Treasury bonds held by the Central Bank, maturities of the Central Bank holdings of Treasury bills, and net currency withdrawals along with the maturities of term reverse repos partially absorbed the liquidity in the domestic money market during the year. Accordingly, liquidity, which stood at a deficit of around Rs. 70 bn on average in 2023, increased to a surplus of around Rs. 120 bn as of mid-2024 and expanded further to around Rs. 168 bn by end 2024. Although overall liquidity remained at surplus levels, the distribution of liquidity among participatory institutions was asymmetric resulting in limited activity in the interbank market, particularly in the first half of 2024. Large liquidity surpluses of foreign banks were not available to deficit banks to a great extent due to counterparty limits for transactions, though Sri Lanka's sovereign rating upgrade towards the end of 2024 changed the situation somewhat. Conforming to the accommodative monetary policy stance, the Central Bank continued to intervene regularly in the domestic money market through Open Market Operations (OMOs), injecting liquidity on a needs basis, to smooth out the asymmetric distribution of liquidity among market participants. However, as liquidity levels continued to remain at notable surplus levels with improved activity among market participants, the Central Bank gradually scaled down its OMOs and discontinued its overnight reverse repo operations from early December 2024.

Figure 1.13: **Key Short Term Interest Rates and Market Liquidity**



Source: Central Bank of Sri Lanka

1.3.3 Credit Aggregates

Credit extended to the private sector by LCBs recorded a notable expansion in 2024. Credit to the private sector by LCBs in

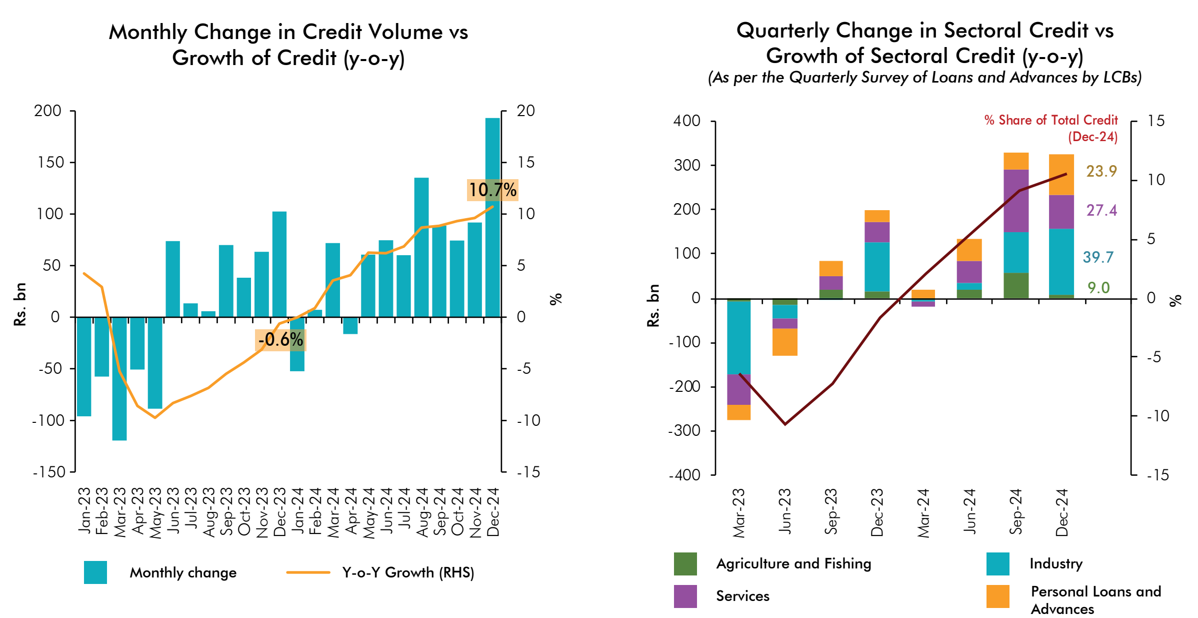
1

early 2024 displayed an uneven trend, reflecting cautious lending behaviour and sluggish demand for credit amid evolving economic conditions. However, since mid-2024, private sector credit witnessed a steady and notable expansion, driven by multiple factors. In this regard, the continued relaxation of the monetary policy stance played a crucial role, as successive policy rate reductions improved liquidity conditions and lowered borrowing costs, thus encouraging both businesses and individuals to seek financing. Additionally, along with improved business confidence, the gradual revitalisation of domestic economic activity contributed to this credit growth, particularly from May 2024. Accordingly, the outstanding credit to the private sector by LCBs during 2024 increased by Rs. 789.6 bn, recording a y-o-y growth of 10.7% by December 2024 compared to a contraction recorded at the end of 2023. Meanwhile, amidst a low interest rate environment, credit to the private sector by Licensed Specialised Banks (LSBs) increased only by Rs. 27.9 bn during 2024, recording a y-o-y growth of 2.5% by end 2024. In contrast, private sector credit by Finance Companies (FCs) improved notably by Rs. 277.1 bn during 2024 recording a y-o-y growth of 21.0% by the end of 2024, primarily driven by rising demand for consumer credit, particularly in the form of gold and personal loans, as well as vehicle leasing, supported by improved liquidity conditions in the sector.

A notable expansion of credit to key sectors of the economy[18] was observed in 2024, reflecting a recovery in economic activity amid improved business confidence. Signalling a rebound in industry-related activities, credit to the Industry sector (which accounts for 39.7% of outstanding credit) recorded a y-o-y growth of 8.4% by end 2024. Within this sector, credit to the construction subsector, which is the largest contributor to Industry activities, experienced a growth of 5.5%, y-o-y, indicating a gradual revival of construction-related activities following a long period of subdued activity. Credit expansion was also observed in textiles and apparel; chemical, petroleum, pharmaceutical and healthcare, and rubber and plastic products; fabricated

18 Findings are based on the Quarterly Survey on Loans and Advances extended to the Private Sector by LCBs.

Figure 1.14: **Credit Extended to the Private Sector by LCBs**



Source: Central Bank of Sri Lanka

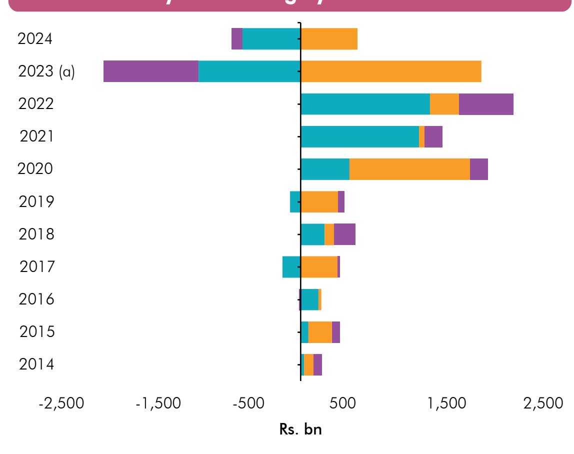
metal products, machinery, and transport equipment; and food and beverages subsectors. Credit to the Services sector (which accounts for 27.4% of outstanding credit) also showed an expansion, with a y-o-y growth of 12.3% by end 2024. Notable improvements in credit were observed in the wholesale and retail trade; financial and business services; communication and information technology; and shipping, aviation, and freight forwarding subsectors, indicating a revival in services-related economic activity. Credit to the Agriculture sector (which accounts for 9.0% of outstanding credit) recorded a y-o-y growth of 12.6% by end 2024. Within this sector, credit to tea, coconut, paddy, and fisheries expanded, reflecting improved financing for primary agricultural production and export-oriented commodities. Credit extended in the forms of personal loans and advances (which accounts for 23.9% of outstanding credit) also recorded a y-o-y growth of 11.3% by end 2024. Pawning-related credit, which has seen a sustained expansion over recent years, continued to expand significantly, recording a y-o-y growth of 20.5% in 2024. Rising gold prices and pawning remaining the easiest and quickest form of obtaining credit are reasons for its notable expansion. Further, credit card-related loans also grew during the year, signalling reviving consumer spending and financial sector activity. Meanwhile, a maturity-wise analysis of the expansion of credit to the private sector by LCBs shows that growth in short to medium-term credit was higher than that of long-term credit. With the continued revival of economic activity, a sustained expansion of mid to long-term credit is anticipated.

Continuing the trend observed in 2023, credit obtained by SOBEs from LCBs contracted in 2024. Credit to SOBEs by LCBs declined by Rs. 113.1 bn in 2024 primarily driven by net repayments from major SOBEs amidst the improved financial performance of such entities following the continuation of cost-reflective price adjustments and other ongoing reforms to improve the financial viability of the SOBEs. Among the major SOBEs, the CPC, following the transfer of its debt obligations to LCBs to the Government in 2023, made net repayments amounting to Rs. 59.4 bn in 2024, thereby significantly reducing its dependence on the banking sector. The CEB also made net repayments amounting to Rs. 27.2 bn during the year supported by cost-reflective price adjustments. Additionally, net repayments by Road Development Authority (RDA) and Colombo Commercial Fertilizer were observed in 2024. Moreover, the appreciation of the Sri Lanka rupee against the USD led to a reduction in the rupee-equivalent value of foreign currency borrowings by some SOBEs.

Net Credit to the Government (NCG) by the banking system contracted marginally by Rs. 14.9 bn in 2024, mainly due to the contraction in NCG by the Central Bank, while NCG by LCBs recorded an increase. Continuing the developments observed in 2023, NCG by the Central Bank declined notably by Rs. 602.7 bn in 2024.[19] This was mainly due to the offloading of Treasury bills held by

19 A change in the method used to estimate the fair value of the Treasury bond holding of the Central Bank caused a notable expansion in NCG in November 2024.

Figure 1.15: **Annual Change in Credit to Public Sector by the Banking System**



(a) With the approval of the Cabinet of Ministers at its meeting held on 30 January 2023, the outstanding foreign currency guaranteed debt of CPC was absorbed into central government debt with effect from December 2022. Accordingly, this adjustment was implemented in two phases, first in April 2023 and subsequently in December 2023, hence, was reflected in the balance sheets of the particular state - owned commercial banks, which caused a reduction in credit to public corporations/ SOBEs and a corresponding expansion in NCG by LCBs .

Source: Central Bank of Sri Lanka

1

Table 1.8: Developments in Monetary Aggregates

Rs. bn

Item	End 2020	End 2021	End 2022	End 2023	End 2024 (a)
1. Reserve Money	**964**	**1,306**	**1,349**	**1,329**	**1,539**
(% change y-o-y)	3.4	35.4	3.3	-1.5	**15.8**
Net Foreign Assets of the Central Bank	527	-387	-1,614	-837	**222**
Net Domestic Assets of the Central Bank	438	1,693	2,963	2,166	**1,317**
2. Narrow Money (M_1)	**1,177**	**1,460**	**1,454**	**1,658**	**1,926**
(% change y-o-y)	36.0	24.0	-0.4	14.1	**16.1**
3. Broad Money (M_{2b})	**9,406**	**10,647**	**12,290**	**13,189**	**14,322**
(% change y-o-y)	23.4	13.2	15.4	7.3	**8.6**
3.1 Net Foreign Assets (NFA)	-209	-982	-1,767	-456	**573**
Monetary Authorities (b)	527	-387	-1,614	-837	**222**
Licensed Commercial Banks (LCBs)	-736	-595	-153	381	**351**
3.2 Net Domestic Assets (NDA)	9,615	11,629	14,056	13,645	**13,749**
Domestic credit	11,721	14,002	16,632	16,421	**17,083**
Net Credit to the Government (NCG)	4,548	5,832	7,471	8,285 (c)	**8,270**
Central Bank	869	2,094	3,432	2,376	**1,774**
Licensed Commercial Banks (LCBs)	3,679	3,738	4,039	5,909	**6,497**
Credit to Public Corporations / SOBEs	1,002	1,188	1,750	770 (c)	**657**
Credit to the Private Sector	6,171	6,981	7,411	7,366	**8,156**
(% change y-o-y)	6.5	13.1	6.2	-0.6	**10.7**
Other Items (net)	-2,106	-2,373	-2,576	-2,776	**-3,334**
4. Broad Money (M_4)	**11,462**	**12,985**	**14,840**	**15,829**	**17,261**
(% change y-o-y)	21.4	13.3	14.3	6.7	**9.0**
4.1 Net Foreign Assets (NFA)	-217	-999	-1,767	-456	**552**
Monetary Authorities (b)	527	-387	-1,614	-837	**222**
Licensed Commercial Banks (LCBs)	-736	-595	-153	381	**351**
Licensed Specialised Banks (LSBs)	-8	-17	-	-	**-21**
4.2 Net Domestic Assets (NDA)	11,679	13,984	16,607	16,285	**16,709**
Net Credit to the Government (NCG)	5,366	6,769	8,469	9,507 (c)	**9,470**
Central Bank	869	2,094	3,432	2,376	**1,774**
Licensed Commercial Banks (LCBs)	3,679	3,738	4,039	5,909	**6,497**
Licensed Specialised Banks (LSBs)	742	845	881	1,022	**1,078**
Finance Companies (FCs)	75	92	116	200	**121**
Credit to Public Corporations / SOBEs by (LCBs)	1,002	1,188	1,750	770 (c)	**657**
Credit to the Private Sector	8,285	9,339	9,917	9,815	**10,910**
(% change y-o-y)	6.3	12.7	6.2	-1.0	**11.2**
Licensed Commercial Banks (LCBs)	6,171	6,981	7,411	7,366	**8,156**
Licensed Specialised Banks (LSBs)	936	1,094	1,159	1,126	**1,154**
Finance Companies (FCs)	1,177	1,264	1,347	1,323	**1,600**
Other items (net)	-2,973	-3,312	-3,529	-3,807	**-4,327**
Memorandum Items:					
Money Multiplier (M_{2b})	9.75	8.15	9.11	9.93	**9.30**
Velocity (M_{2b} average) (d)	1.84	1.73	2.04	2.17(e)	**2.18**

(a) Provisional
(b) This includes NFA of the Central Bank as well as the Government's Crown Agent's balance reported by the Department of State Accounts.
(c) With the approval of the Cabinet of Ministers at its meeting held on 30 January 2023, the outstanding foreign currency guaranteed debt of the Ceylon Petroleum Corporation (CPC) was absorbed into central government debt effective December 2022. Accordingly, this adjustment was implemented in two phases, first in April 2023 and subsequently in December 2023, hence, was reflected in the balance sheets of the particular state-owned commercial banks, which caused a reduction in credit to Public Corporations/ SOBEs and a corresponding expansion in NCG
(d) Based on rebased GDP estimates (base year 2015) by the Department of Census and Statistics
(e) Revised

Source: Central Bank of Sri Lanka

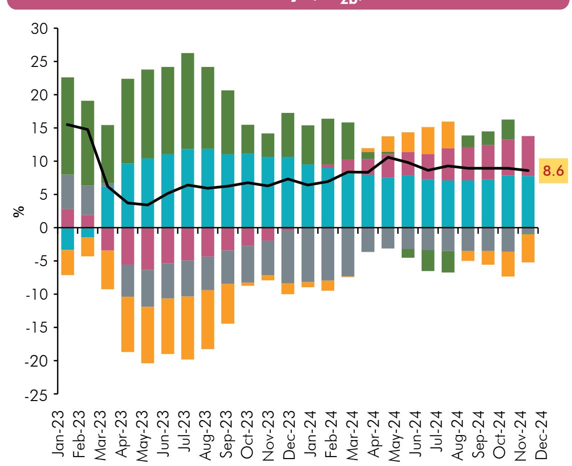
the Central Bank and the reduced reliance on the Standing Lending Facility (SLF) of the Central Bank by participatory institutions. In contrast, NCG by LCBs recorded an increase of Rs. 587.8 bn during the year, reflecting their increased investments in government securities. However, the increased investments in government securities was lower compared to previous year. This could be explained by the reduced attractiveness of such investments due to the low rate of return. Meanwhile, the reduction of NCG based on the Financial Survey (M_4)[20] amounted to Rs. 37.6 bn in 2024. This included a contraction of Rs. 79.0 bn in NCG by FCs, while NCG by LSBs expanded by Rs. 56.3 bn with enhanced investment in government securities by LSBs.

1.3.4 Money Aggregates

Reserve money recorded a notable growth in 2024 compared to the previous year, mainly driven by the increase in currency in circulation (CIC). CIC increased significantly due to festival demand in April 2024 and gradually declined by the end of May 2024, with the subsequent return of currency to the banking system. However, CIC remained elevated thereafter amidst the low inflation environment. Increased demand for currency amidst election related expenses and the year-end festive demand also increased CIC. Additionally, a gradual shift to cash-based transactions was also observed, driven by possible tax evasion motives. Accordingly, CIC increased by Rs. 172.2 bn in 2024. Meanwhile, highly volatile movements in reserve money were observed in the first quarter of 2024 due to irregular large excess reserves maintained by LCBs, that resulted from the Central Bank's administrative measures to restrict the LCBs' access to standing facilities of the Central Bank. The volatility in reserve money dissipated thereafter with the removal of these restrictions, effective April 2024. An increase in LCBs' rupee deposit liabilities during the year led to an improvement in their reserves with the Central Bank, adding to the expansion of reserve money. Accordingly, reserve money expanded to Rs. 1,539.3 bn by the end of 2024, recording a y-o-y growth of 15.8%.

On the assets side of the Central Bank's balance sheet, the expansion of reserve money during the year was entirely driven by the expansion of Net Foreign Assets (NFA). NFA of the Central Bank continued to improve and turned positive in October 2024 for the first time since July 2021, increasing by Rs. 1,059.5 bn during the year. This was supported by the combined impact of an increase in foreign assets and the reduction in foreign liabilities. The improvements in foreign currency assets were mainly driven by the accumulation of foreign reserves by way of net purchases from the domestic foreign exchange market, while the servicing of foreign debt obligations, including the swap facility with the Reserve Bank of India (RBI), led to the gradual decline in foreign liabilities. Meanwhile, the contraction in net claims on the Government, particularly the decline in the Treasury bill

Figure 1.16: Contribution to y-o-y Growth of Broad Money (M_{2b})



Source: Central Bank of Sri Lanka

20 The Financial Survey provides a broader measure of money supply, covering all deposit taking institutions, including LSBs and FCs, in addition to LCBs and the Central Bank.

holdings of the Central Bank (net of repo) was the key driver of the contraction in Net Domestic Assets (NDA)of the Central Bank. In addition, the decline in the Central Bank's claims on LCBs due to the full settlement of the Liquidity Assistance Facility (LAF) provided by the Central Bank also contributed to the decline in NDA during the year. Accordingly, NDA of the Central Bank contracted by Rs. 848.9 bn in 2024.

Improved NFA of the Central Bank and the notable expansion in credit extended to the private sector by LCBs largely contributed to the expansion of broad money (M_{2b}) supply during 2024. NFA of the banking system, which includes the Central Bank as well as LCBs, improved by Rs. 1,029.0 bn, largely reflecting the improvement in NFA of the Central Bank. Meanwhile, NFA of LCBs contracted during 2024 mainly due to the revaluation effects resulting from the appreciation of the Sri Lanka rupee, alongside the decline in foreign assets of LCBs. However, this was partially offset by the decline in the foreign liabilities of LCBs during the year. In line with these developments, the y-o-y growth of M_{2b} accelerated to 8.6% in 2024 compared to 7.3% in 2023. Following the trend in M_{2b}, the growth of M_4 broad money supply, as measured by the Financial Survey, also accelerated at a similar pace. Meanwhile, the money multiplier, which is the ratio between M_{2b} and reserve money, decreased to 9.30 in 2024 from 9.93 in 2023 as a result of the significant expansion in reserve money.

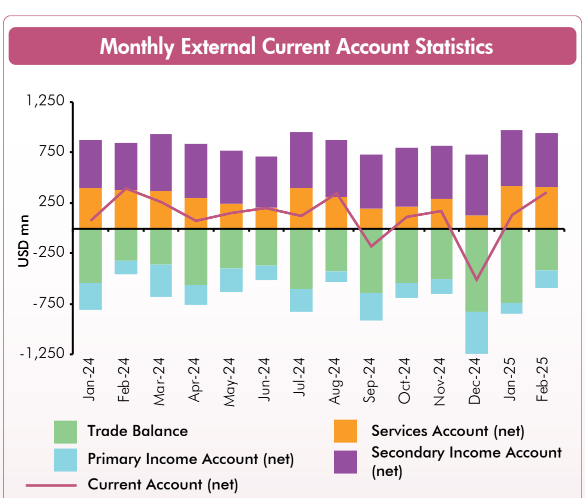
1.4 External Sector Developments

1.4.1 Balance of Payments

Current Account

Sri Lanka's external sector continued its positive momentum and the external current account recorded a sizeable surplus in 2024. Merchandise trade deficit widened in 2024 compared to 2023 due to the larger expansion in import expenditure outpacing the expansion in export earnings. Yet, constrained demand for imports due to low purchasing power and restrictions on vehicle imports prevented excessive expansion in imports. The deficit in merchandise trade was offset by notable improvements in trade in services, especially in the tourism sector, and an increase in the surplus of secondary income account. The deficit in the primary income

Featured Charts 1.3
Monthly External Current Account Statistics



Source: Central Bank of Sri Lanka

The current account balance in most months of 2024 was positive, except for two months, resulting in an annual current account surplus. In September 2024, the services account surplus was unusually low, as tourism was affected by visa related disruptions and a general seasonal dip. In December 2024, there was a significant outflow from the primary income account as interest payments and from the services account as government expenditure, both related to the restructuring of International Sovereign Bonds (ISBs). The current account recorded a surplus in the first two months of 2025 as well, supported by a robust growth in earnings from tourism and workers' remittances.

1

Table 1.9: **Current and Capital Account**

USD mn

Item	2023 (a)	2024 (b)
Current Account (net)	1,439	1,206
Receipts	23,776	26,877
Payments	22,337	25,671
Trade Balance	-4,900	-6,069
Exports	11,911	12,772
Agricultural	2,567	2,774
Industrial	9,278	9,947
Mineral	38	25
Other	28	26
Imports	16,811	18,841
Consumer	3,044	3,466
Intermediate	11,007	11,915
Investment	2,745	3,448
Other	16	13
Services (net)	3,053	3,435
Receipts	5,416	6,910
of which;		
Transport	1,550	1,794
Travel	2,068	3,169
Computer Services	795	848
Construction Services	355	212
Payments	2,363	3,475
of which;		
Transport	732	1,017
Travel	503	755
Computer Services	198	194
Construction Services	111	127
Primary Income (net)	-2,548	-2,599
Receipts	460	609
Compensation of Employees	53	146
Investment Income	407	463
Direct Investment	8	73
Other Investment	349	271
Reserve Assets	49	119
Payments	3,007	3,208
Compensation of Employees	30	20
Investment Income	2,977	3,188
Direct Investment	916	942
Portfolio Investment	854	877
Other Investment	1,207	1,369
Secondary Income (net)	5,834	6,439
Receipts	5,989	6,585
of which;		
Workers' Remittances	5,970	6,575
Payments	155	146
Capital Account (net)	37	12
Receipts	40	20
Payments	3	8
Current and Capital Account (net)	1,476	1,217
As a % of GDP		
Trade Balance	-5.9	-6.1
Goods and Services Balance	-2.2	-2.7
Current Account Balance	1.7	1.2

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

account remained at the same level in 2024 compared to 2023. Accordingly, the current account surplus amounted to USD 1.2 bn (1.2% of GDP) in 2024 compared to USD 1.4 bn (1.7% of GDP) in 2023.

Merchandise Trade Account

The merchandise trade deficit widened in 2024 compared to the preceding year, but remained lower than averages from recent years. The trade deficit of USD 6.1 bn in 2024 was moderate compared to the annual average trade deficit of around USD 9 bn recorded during the pre-pandemic period from 2015 to 2019. Export earnings recorded a positive trajectory, in most of 2024, on a y-o-y basis, mainly supported by the increase in industrial exports. Meanwhile, import expenditure rose significantly in 2024 due to increased economic activity, relaxed import restrictions, eased monetary conditions and favourable global price dynamics. As a percentage of GDP, the trade deficit widened to 6.1% in 2024 from 5.9% in the previous year.

Despite these developments, Sri Lanka's terms of trade, measured by the ratio of export prices to import prices, improved marginally in 2024 as import prices declined at a slightly higher pace than the decline of export prices. The increase in both export earnings and import expenditure in 2024 was explained by higher volumes. Meanwhile, total trade, encompassing both export earnings and import expenditure, increased by 10.1% (y-o-y) in 2024 reflecting the recovery in economic activity as both export and import sectors expanded supported by improved domestic and global conditions. However, the trade openness moderated in 2024 compared to 2023 and remained at a lower level compared to the 1990s.

1

Table 1.10: Summary of Merchandise Trade Performance

Category	2023 Value (USD mn)	2024 Value (USD mn)	y-o-y change %
Exports	11,910.7	12,772.0	7.2
Industrial	9,277.7	9,946.9	7.2
Agricultural	2,566.5	2,774.5	8.1
Mineral	38.5	24.5	-36.2
Unclassified	28.0	26.1	-6.6
Imports	16,811.1	18,841.4	12.1
Consumer	3,043.9	3,465.7	13.9
Food and Beverages	1,693.0	1,914.3	13.1
Non-food Consumer	1,350.9	1,551.4	14.8
Intermediate	11,006.6	11,914.5	8.2
Investment	2,744.6	3,448.2	25.6
Unclassified	16.0	13.0	-18.8
Trade Balance	-4,900.4	-6,069.4	
Total Trade	28,721.8	31,613.4	10.1

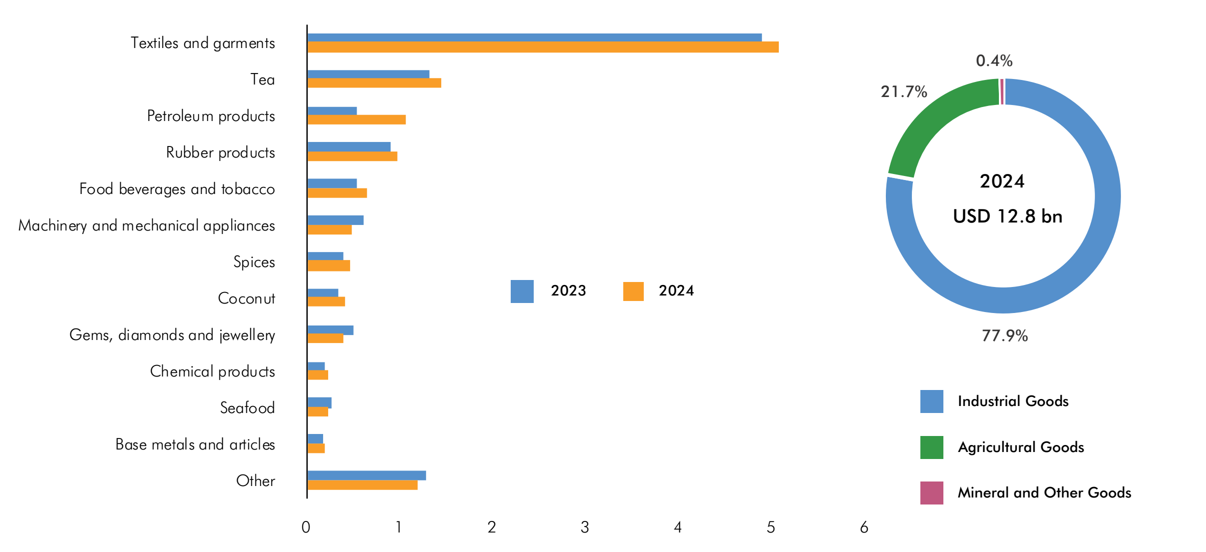
Sources: Sri Lanka Customs
Petroleum Exporters and Importers
National Gem and Jewellery Authority
Central Bank of Sri Lanka

Export Performance

The merchandise export sector exhibited a notable growth in 2024. This performance reflected the country's economic recovery and resilience built amidst a challenging external environment. Earnings from exports recorded USD 12.8 bn in 2024, an increase of 7.2% compared to 2023. However, as a percentage of GDP, export earnings in 2024 decreased to 12.9% from 14.2% in 2023 but remained higher than the pre-pandemic average of 12.4% recorded during the period 2015 to 2019.

The increase in industrial exports played a major role in driving the growth of export earnings. Exportation of petroleum products surpassed the USD 1 bn mark for the first time in history with a 97.2% increase in 2024 compared to 2023. This increase was driven by higher bunkering and aviation fuel volumes, thus emerging as a key contributor to the overall rise in exports, despite its lower value addition. Although this surge in petroleum exports was partly driven by the disruptions to the Red Sea shipping route, it highlights the potential of the country to capitalise on this sector further, provided that global demand for bunkering services and energy-related products remains robust and refinery capacity in the country is expected to strengthen to ensure sufficient value addition. Further, a notable recovery was observed in textiles and garments exports (mainly garments). Earnings from food, beverages and tobacco exports improved further in 2024 driven by the exports of value-added coconut products. Meanwhile, exports of rubber products also improved, led by gloves exports.

Figure 1.17: Composition of Exports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

1

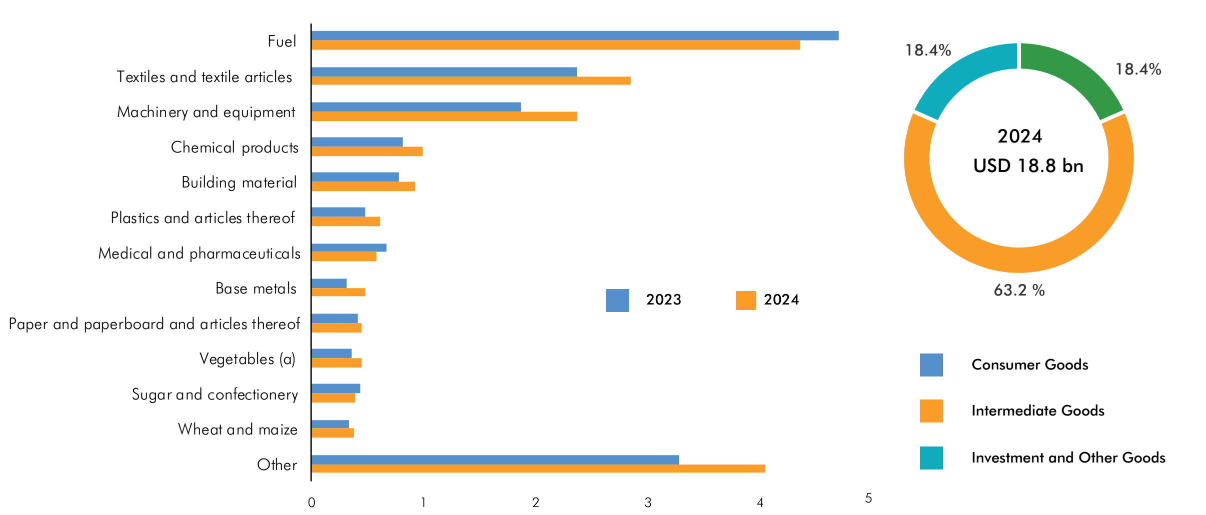
However, export earnings from gems, diamonds, and jewellery, as well as machinery and mechanical appliances, experienced a decline in 2024.

Agricultural exports also showed an increase in earnings in 2024 compared to 2023. Among agricultural exports, increases in tea, coconut-related products, and spices were particularly significant. The increase in earnings from tea exports, fuelled by both higher export volumes and prices, highlights the persistent global demand for Sri Lankan tea. Despite the y-o-y increase, the tea export volume in 2024 was significantly lower than the pre-pandemic annual average recorded from 2015 to 2019. Earnings from both coconut kernel and non-kernel exports also increased in 2024, led by desiccated coconut and coconut fibre exports, while the exports of value-added coconut products categorised under industrial goods also increased notably. The strong performance of coconut under both in raw forms and value-added products suggests that expansion in coconut production along with targeted export promotion could help coconut products to become a prominent export in the medium term. Meanwhile, exports of seafood and minor agricultural products showed subdued performance. Mineral exports continued its declining trend, while some minerals were exported as value added products categorised under industrial exports.

Import Performance

Sri Lanka witnessed a significant increase in merchandise import expenditure in 2024, reflecting the recovery in economic activities and the relaxation of most of the import restrictions. Total merchandise import expenditure in 2024 increased to reach USD 18.8 bn, recording a y-o-y growth of 12.1%. However, import expenditure in 2024 was significantly low compared to the annual average of around USD 20.3 bn in the pre-pandemic period from 2015 to 2019. As the economy regained momentum, demand for imports increased, driven by the gradual relaxation of import restrictions since June 2023, especially for consumer and investment goods. The last category to be relaxed was the restrictions on the imports of motor vehicles, which was carried out in a phased-out manner in three stages. Stage 1, 2 and 3 of the relaxations were related to passenger buses and special

Figure 1.18: **Composition of Imports**



(a) Includes lentils, onions, potatoes, leguminous and other vegetables.

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

1

purpose vehicles, goods transport vehicles, and vehicles for personal usage, respectively. Stage 1 was implemented in December 2024, while Stages 2 and 3 were implemented at the end of January 2025. As a percentage of GDP, import expenditure decreased to 19.0% in 2024 from 20.1% in 2023 and remained below the pre-pandemic average of 22.4% recorded during 2015 to 2019.

The rise in import expenditure in 2024 could be attributed to higher demand across all major categories. Consumer goods imports saw an increase in 2024 compared to 2023, primarily due to increased imports of essential commodities, such as oils and fats, vegetables, as well as imports of rice, which increased mostly towards the end of the year to address domestic supply shortages. Similarly, spending on non-food consumer goods increased, particularly on home appliances, clothing and accessories, and telecommunication devices, supported by the relaxation of import restrictions initiated in 2023. Expenditure on imports of intermediate goods also increased in 2024, driven by higher imports of textiles and textile articles, supporting the growth of garments exports, and other inputs required for manufacturing, such as chemical products, base metals, plastics and related articles, as well as rubber and rubber-based products. However, expenditure on fuel imports, the largest item in the import basket, declined due to a reduction in prices and volumes of imports of crude oil and coal. Despite higher bunkering exports, which entirely rely on imported petroleum products, lower fuel demand for power generation due to higher contribution of hydro power in the energy mix also led to the lower expenditure on fuel imports. Meanwhile, import expenditure on investment goods experienced a notable growth in 2024 across all three subcategories, namely machinery and equipment (mainly engineering equipment), building materials (mainly iron and steel and ceramic products), and transport equipment (such as commercial purpose vehicles), along with most of their subcategories, supported by relaxation of import restrictions.

Terms of Trade

The terms of trade, measured by the ratio of export prices to import prices, improved in 2024 compared to 2023. The volume indices for all major export categories improved, except for mineral exports, while the volume indices for imports in all major categories also showed improvement, indicating that the increased volumes contributed to both higher export earnings and import expenditure in 2024. A decline in the price indices of industrial exports mainly contributed to the reduction in the export price index, while lower prices for the importation of intermediate goods accounted for the decrease in the overall import price index. Accordingly, the export price and import price indices declined by 3.7% and 4.9%, respectively, causing the terms of trade to improve by 1.3% to 86.7 index points in 2024 compared to 85.6 index points in 2023. However, despite the increase in the terms of trade in 2024 over 2023, it remained below 100 index points since 2021, a deterioration compared to the base year of 2010, indicating that the amount of imports that can be purchased from a unit of exports has declined over time.

Table 1.11: **Summary of Terms of Trade (2010=100) (a)(b)**

Category	y-o-y change 2023/ 2024 (%)		
	Value Index	Volume Index	Unit Value Index
Total Exports	**7.2**	**11.3**	**-3.7**
Agricultural exports	8.1	3.2	4.7
Industrial exports	7.2	12.8	-5.0
Mineral exports	-36.2	-35.2	-1.6
Total Imports	**12.1**	**17.9**	**-4.9**
Consumer goods	13.9	12.1	1.5
Intermediate goods	8.2	17.5	-7.9
Investment goods	25.6	21.8	3.1
Terms of Trade			**1.3**

(a) Provisional
(b) in USD terms

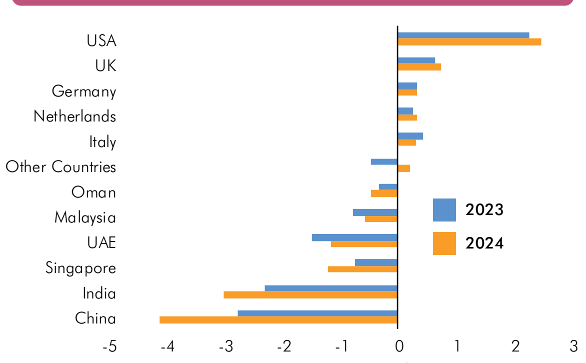
Source: Central Bank of Sri Lanka

Direction of Trade

Sri Lanka's merchandise trade sector witnessed a notable improvement in 2024 compared to the previous year, driven by a multitude of factors including enhanced bilateral trade with major trading partners. The total trade increased, reflecting a recovery in both exports and imports amid easing trade restrictions and stabilising economic conditions. India remained the top trading partner, followed by China and the USA. These top three countries are collectively accounting for approximately 40% of Sri Lanka's total trade in 2024. Total trade with India amounted to about USD 4.8 bn in 2024, supported by robust imports from India, including petroleum products, fabric and rice. Total trade with China also increased reaching USD 4.6 bn in 2024. However, Sri Lanka recorded its highest trade deficit with China, rising significantly from USD 2.8 bn in 2023 to USD 4.1 bn in 2024. The widening deficit was primarily due to increased imports of engineering equipment and construction materials (Iron and Steel), while Sri Lanka's exports to China remained relatively low. The USA remained a vital trading partner for Sri Lanka, with total trade amounting to USD 3.4 bn in 2024. Sri Lanka maintains a trade surplus with the USA, largely due to apparel exports.

Sri Lanka signed its fourth bilateral Free Trade Agreement (FTA) with Thailand (SLTFTA), while negotiations for several other FTAs continued during 2024. The SLTFTA was signed

Figure 1.19: **Bilateral Trade Balances**



Source: Central Bank of Sri Lanka

Table 1.12: **Exports under Preferential and Free Trade Agreements of Sri Lanka**

Trade Agreement	2023 Value (USD mn)	2024 (a) Value (USD mn)	2024 (a) Growth (%)	2024 (a) Share (%)
GSPs	3,803.5	**3,985.7**	4.8	80.2
of which; EU (including GSP+)	2,094.5	**2,108.1**	0.6	42.4
USA (b)	663.4	**741.6**	11.8	14.9
UK	562.4	**601.9**	7.0	12.1
Russian Federation (c)	127.9	**152.7**	19.4	3.1
Australia	93.3	**108.8**	16.6	2.2
Canada	72.9	**89.9**	23.3	1.8
Japan	68.3	**71.1**	4.1	1.4
Turkey	62.6	**54.5**	-13.0	1.1
Other GSP	58.2	**57.2**	-1.7	1.2
ISFTA	536.4	**490.3**	-8.6	9.9
APTA (d)	213.9	**209.9**	-1.9	4.2
GSTP	79.1	**70.1**	-11.4	1.4
PSFTA	46.1	**46.2**	0.3	0.9
SAFTA	93.2	**169.0**	81.3	3.4
SAPTA	1.1	**1.3**	22.0	0.0
Total Exports Under Trade Agreements	4,773.4	**4,972.5**	4.2	100.0
As a Share of Total Exports	40.1	**38.9**		

(a) Provisional
(b) Shows GSP eligible exports since the US-GSP expired on 31 December 2020
(c) Includes Russia, Belarus and Kazakhstan
(d) Earlier known as the Bangkok Agreement (1975)

Sources: Sri Lanka Customs
Department of Commerce

in February 2024, which is a comprehensive FTA covering both trade in goods and services, as well as investments, customs procedures, intellectual property rights, etc. The SLTFTA came into effect on 01 January 2025. Negotiations on the Economic and Technology Cooperation Agreement (ETCA) with India continued and the 13th and 14th rounds of negotiations concluded in January 2024 and July 2024, respectively. Meanwhile, negotiations regarding the Bangladesh and Indonesia Preferential Trade Agreements (PTAs) continued, while the progress of negotiations under China-Sri Lanka Free Trade Agreement was slow. Moreover, exports under the Indo-Sri Lanka Free Trade Agreement (ISFTA) declined, although exports to India under South Asian Free Trade Area (SAFTA) increased. Trade under the Pakistan-Sri Lanka Free Trade Agreement (PSFTA) remained muted, while performance under other regional trade agreements, such as the Global System of Trade Preference (GSTP) and Asia Pacific Trade Agreement (APTA), declined in 2024. Meanwhile,

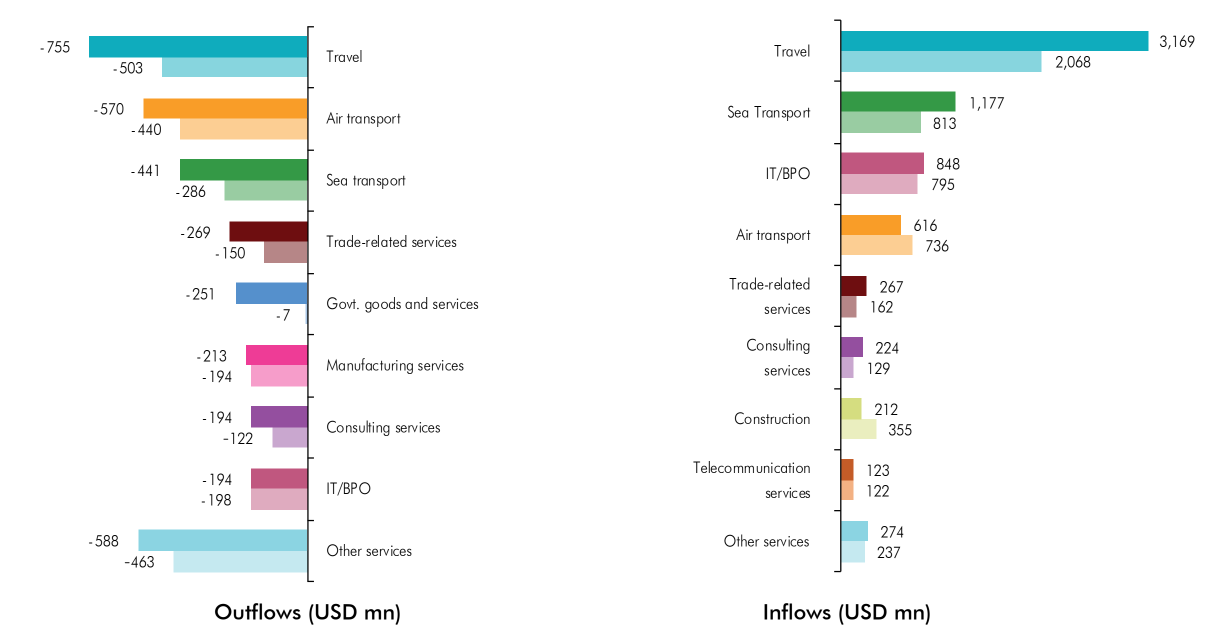
1

the Charter of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) entered into force in May 2024. The BIMSTEC Charter will help to expand its reach and influence, while promoting technical and economic co-operation among the member countries. Moreover, Sri Lanka continued to benefit from the Generalised System of Preference (GSP) schemes offered by its key trading partners, such as the EU and the UK. To ensure continuity, the EU-GSP scheme was extended in September 2023 by the European Commission (EC) for the period 2024-2027. As a result, Sri Lanka continued to benefit under GSP+ Scheme of the EU during 2024 and recorded a moderate growth. Moreover, negotiations among the EU countries on the terms of a new GSP scheme continued during 2024. Meanwhile, the EU adopted the Regulation on Deforestation-Free Products (EUDR) in June 2023. As a beneficiary of the EU GSP+ concessions, Sri Lanka's rubber exports to the EU market must comply with this regulation by 30 December 2025, for large/medium operators, and by 30 June 2026, for micro/small operators. In addition, Sri Lanka continued to benefit under the Enhanced Preferences Scheme of the new GSP Scheme of the UK named "Developing Countries Trading Scheme" (DCTS), which came into effect in June 2023. The US-GSP scheme, which expired in December 2020, has not yet been reinstated by the US Government, although it is expected to be reinstated on a retroactive basis as per the general practice, unless there is a major policy shift introduced by the new US Government. Export performance under other GSP schemes showed mixed performance during 2024. Total trade under preferential and free trade agreements grew in 2024 compared to 2023, although exports under preferential trade as a share of total exports declined, indicating an increase in exports outside preferential trade agreements during 2024.

Services Account

The services account surplus recorded a notable increase in 2024. The surplus in the services account rose to USD 3.4 bn in 2024, compared to USD 3.1 bn in 2023. This growth was driven by strong inflows to key services sectors, including tourism, sea transport, and computer and information technology (IT)/

Figure 1.20: **Services Inflows and Outflows**



Note: The darker shaded bars represent values for the year 2024, while the lighter shaded bars represent 2023.

Source: Central Bank of Sri Lanka

1

BOX 01

Refining External Sector Statistics: Key Insights on Services Trade

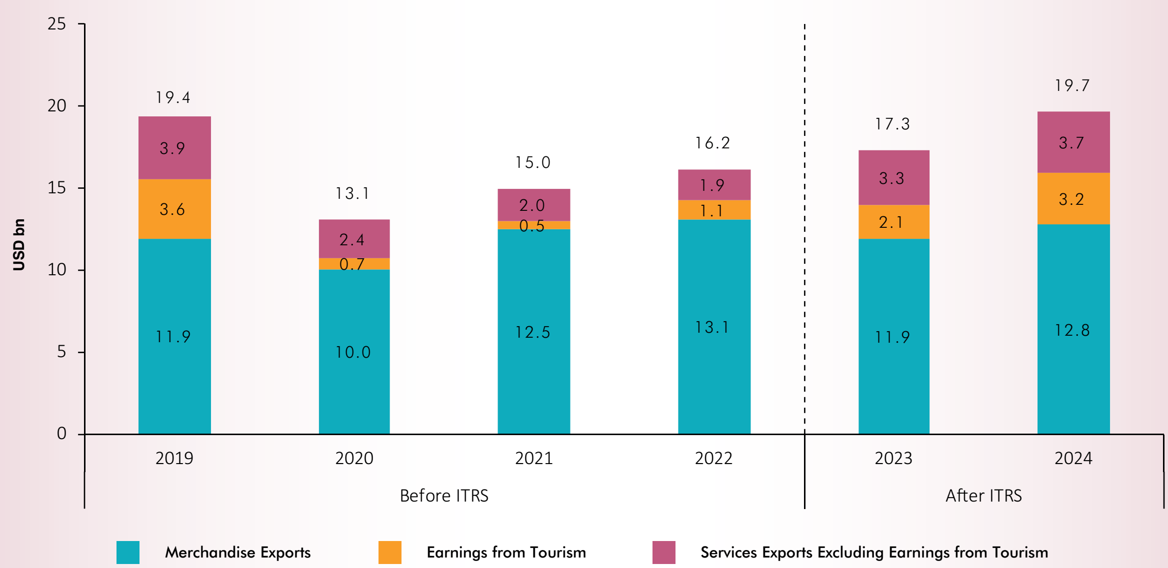
Introduction

Sri Lanka's services trade, a crucial component in the current account of the country's balance of payments (BOP), has grown significantly, outpacing the expansion of merchandise exports in recent years. As a key contributor to foreign exchange earnings, the growth in services exports is driven by sectors such as tourism, computer and information technology (IT)/business process outsourcing (BPO), and port and airport services. However, unlike merchandise trade where physical products are traded across borders, capturing cross-border data on services trade with precision is generally considered more challenging. While merchandise trade statistics are primarily reported through Sri Lanka Customs, the compilation of services trade statistics requires detailed transaction level reporting via the banking system, adding complexity to data collection processes.

International transactions in the services sector, as defined in the System of National Accounts 2008 (SNA 2008),[1] encompass a heterogeneous range of intangible products and activities, broadly classified into two forms, namely, 'change effecting services' and 'margin services'. Change effecting services are produced on demand and can directly alter the conditions of the consumer. These services are inseparable from their production. For instance, the service involved in delivering a software product by a Sri Lankan software development firm cannot be detached from the final product and sold separately. Margin services, on the other hand, involve the value added by intermediaries in distributing goods, such as transport services provided by Sri Lankan container terminals to facilitate merchandise imports and exports. Globally, the most comprehensive method for collecting data on international transactions in the services sector is through payment flows between residents and non-residents via the banking system. However, in the absence of such an advanced and sophisticated system, compilation of services sector trade statistics in the BOP would be based on direct surveys of identified companies. However, the effectiveness of the direct survey methodology in compiling services sector statistics was debatable due to numerous challenges, including the difficulties in identifying

1 The System of National Accounts (SNA) is an internationally agreed framework for measuring a country's economic activity, such as Gross Domestic Product (GDP) in accordance with strict accounting conventions based on economic principles (SNA 2008).

Figure B 1.1: **Statistics on Merchandise and Services Exports**



Sources: Sri Lanka Customs, Sri Lanka Tourism Development Authority, Central Bank of Sri Lanka such service providers, low survey response rates, human resource constraints in BOP compilation and severe limitations in engaging with companies, especially during the COVID-19 pandemic and the subsequent economic crisis. In an attempt to enhance the accuracy and granularity of external sector statistics, the Central Bank commenced developing the International Transactions Reporting System (ITRS) in 2019, which collects and classifies cross border transactions based on actual foreign exchange inflows and outflows reported in the banking system. Despite the obstacles posed by the COVID-19 pandemic and the economic crisis, the ITRS project was successfully completed through extensive online collaboration between the Central Bank and licensed banks. After four years of development, data collection through ITRS commenced in January 2023. Based on this data, the Central Bank commenced dissemination of services sector statistics on a monthly basis in January 2024.[2]

Key Takeaways on Sri Lanka's Services Trade based on ITRS Data

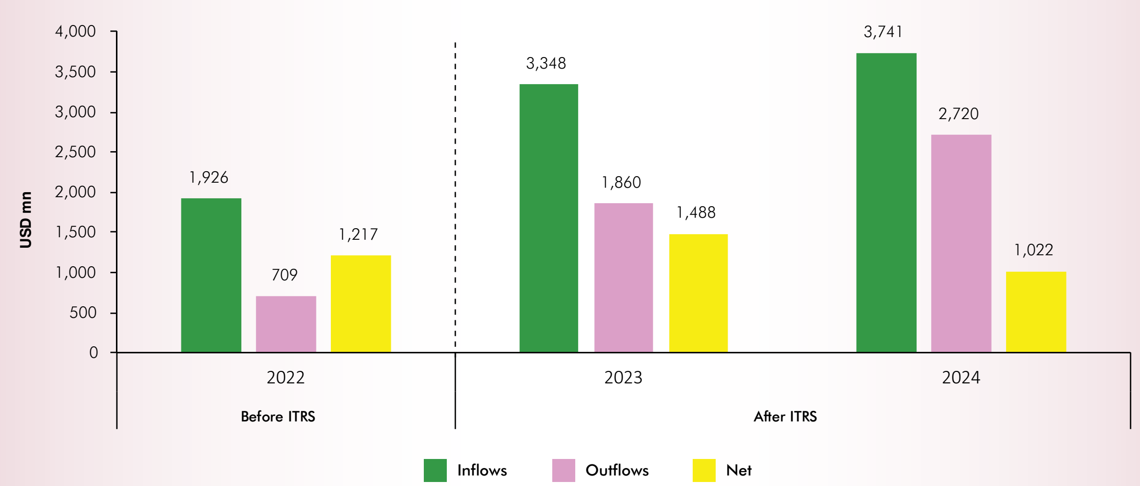
The implementation of the ITRS enabled the Central Bank to report monthly services trade statistics, which were previously available only on a quarterly basis, along with the release of quarterly BOP. Additionally, a more detailed categorisation was introduced with data reported under new categories, while data on existing categories was improved with accuracy, enabling better sectoral analysis.

The impact of changes in the services sector data collection methodology on BOP statistics before and after the implementation of the ITRS is illustrated in Figure B 1.2 below. All services sector data, other than tourism inflows and tourism outflows, in 2023 and 2024 were based on the ITRS. Hence, post 2022 services sector data collection has transitioned from a sample-based approach, which relied on statistical inference based on sample survey data, to a census-based methodology under the ITRS. However, there was no overlap between methodologies from 2023 onwards as direct surveys were discontinued.

For comparison purposes, tourism inflows and outflows were excluded, as tourism outflows are partially based on the ITRS data and tourism inflows are based on an estimation by the Sri Lanka Tourism Development Authority (SLTDA). As illustrated in Figure B 1.2 below, gross inflows recorded under services exports other than tourism inflows and outflows show a notable deviation between the periods before and after the implementation of the ITRS. Gross inflows in 2023 and 2024 are significantly higher than those in 2022. This increase was driven not only by statistical improvements but also by the continued

2 Monthly services sector statistics are available at: https://www.cbsl.gov.lk/en statistics/statistical-tables/external-sector → Services Sector

Figure B 1.2: **Statistics on Services Account Other than Tourism Inflows and Outflows**



Source: Central Bank of Sri Lanka

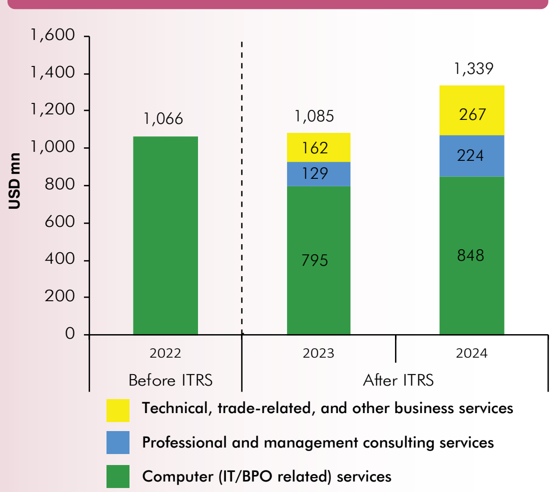
economic recovery. However, this deviation in reported gross inflows has not substantially impacted the current account estimates, as the net inflows reported by the ITRS for 2023 and 2024 remain broadly in line with the 2022 net inflow estimates, despite higher gross inflows and outflows after the ITRS implementation compared to that of 2022.

Some of the key findings on the services sector based on ITRS data are detailed below.

i. Computer and IT/BPO and Related Services

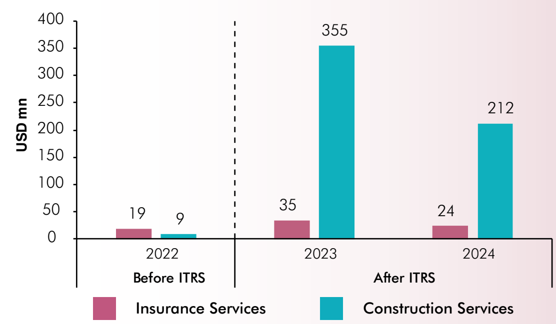
Prior to the implementation of the ITRS, statistics on computer and IT/BPO related services were estimated based on information received through a limited number of survey responses and statistical inference based on sample survey data. As per the survey-based estimates, inflows to computer and IT/BPO related services amounted to around USD 1 bn per annum. However, the ITRS data currently reports the inflow of forex from IT/ BPO related services at approximately USD 800 mn. Nevertheless, the ITRS data revealed that inflows from some of the emerging services sub-sectors, such as professional and management consulting services and technical services, which have not been reported previously, have made a significant contribution to the BOP. Accordingly, these categories are now separately identified and reported, improving the classification of services sector related flows. As shown in Figure B 1.3,

Figure B 1.3: **Inflows to Computer and IT/BPO Sector and Other Business Services**



Source: Central Bank of Sri Lanka

Figure B 1.4: **Construction and Insurance Services (Inflows)**



Source: Central Bank of Sri Lanka

the combined total of computer and IT/BPO related services along with other business services approximately aligns with previous estimates, demonstrating that the ITRS has enabled more accurate and detailed classification of services sector transactions.

ii. Construction and Insurance Services

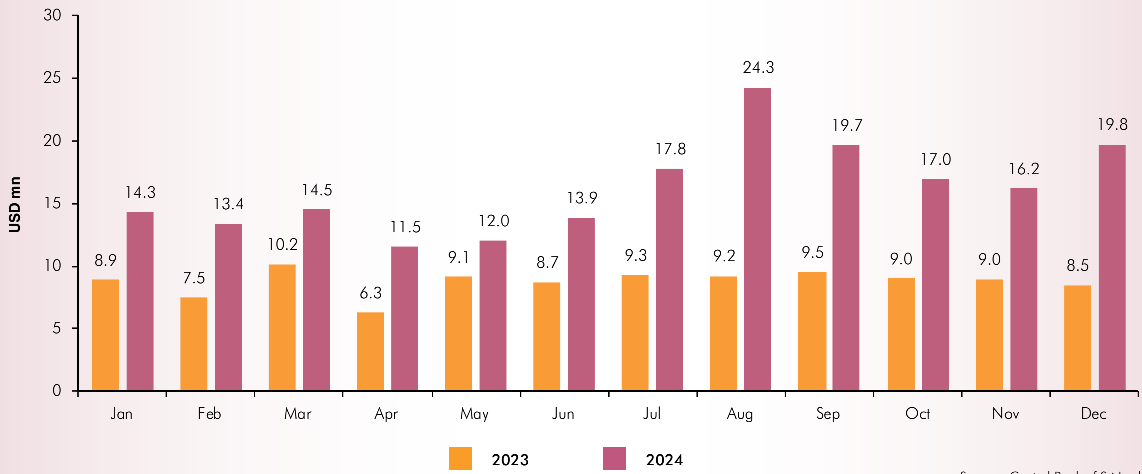
Some services sectors, such as construction and insurance services, were revealed to be underreported based on survey-based estimates, primarily due to low response rates. Based on ITRS data, construction services inflows in particular are significant, and data indicates that these services industries have tremendous potential to grow in the coming years (Figure B 1.4). This is partly due to the recent enthusiasm shown by the Sri Lankan construction companies to seek overseas opportunities for expansion, given the slower recovery in the domestic construction industry.

iii. Expenditure on Education Abroad by Sri Lankan Students

In recent years, cross-border outflows related to overseas education have been a major topic of discussion in policy circles. However, the lack of reliable data on such outflows has hindered the policy debate. Since the introduction of the ITRS, cross-border payments for education services are reported on a monthly basis, promoting greater transparency and data-driven policy decision making (Figure B 1.5). Nevertheless, it must be noted that due to the use of non-bank channels of payments for such services, the value captured through the ITRS may be incomplete.

1

Figure B 1.5: **Expenditure on Education Abroad by Sri Lankan Students**



Source: Central Bank of Sri Lanka

Usefulness of Services Sector Statistics

As highlighted in the examples above, accurate data on the services sector is essential for effective policymaking. Services sector statistics are now included in the monthly current account data, which the Central Bank began publishing in January 2025. The more frequent and accurate reporting of current account statistics offers valuable insights for policymakers in shaping monetary and fiscal policies. Additionally, monthly updates on the current account, including services sector data, provide early indicators of potential shifts in the external sector. This data can serve as a key signal for forecasting possible BOP challenges in the future.

Way Forward

Going forward, the Central Bank aims to work closely with stakeholders involved in the ITRS project, including the banking sector, to further improve the external sector statistics. Further, the Central Bank is keen to discuss with the key services sector industries and related trade associations to iron out differences in their self-estimates and the official data to further enhance the coverage and the quality of the service sector statistics. Additionally, the Central Bank plans to conduct in depth sectoral policy studies based on the ITRS data, focusing on emerging services sectors to better understand their growth potential. Such analyses will provide valuable insights for informed policymaking, supporting the development of strategies to nurture the emerging services sector and maximise its potential.

References

1. United Nations, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development and World Bank (2009) *System of National Accounts 2008*, New York: United Nations.

2. Wijayawardhana A (2024) 'Capturing Services Sector Cross Border Transactions: The Central Bank of Sri Lanka's Long Endeavour to Establish an International Transactions Reporting System', Information Series Note, Central Bank of Sri Lanka.

business process outsourcing (BPO) sectors. The tourism sector continued its momentum further by recording 2.05 mn tourist arrivals in 2024, compared to arrivals of 1.49 mn recorded in 2023. Accordingly, earnings from tourism in 2024 were estimated at USD 3.2 bn, compared to USD 2.1 bn in 2023, recording a y-o-y growth of 53.2%. The peak in tourist arrivals was recorded in 2018, with 2.3 mn tourist arrivals generating USD 4.4 bn in earnings.

Meanwhile, services other than tourism also contributed notably to the current account surplus. As per the data from the International Transactions Reporting System (ITRS), total inflows to the services sector in 2024, excluding earnings from tourism, amounted to USD 3.7 bn, compared to USD 3.3 bn in 2023. Main contributors to the services sector were transport and computer and IT/BPO services. Professional and management consulting services, technical and trade-related services also contributed to higher services inflows in 2024. Also, total outflows from the services sector in 2024 amounted to USD 3.5 bn, compared to USD 2.4 bn in 2023. Major contributors to the recorded outflows from the services sector were overseas travel, transport services, outflows related to other business services and payments made as legal and professional fees related to the Government's debt restructuring process.

Primary Income Account

The deficit in the primary income account in 2024 remained broadly unchanged compared to the previous year. A significant portion of the outflows in the primary income account stemmed from interest payments on government loans, including arrears accumulated as a result of the debt standstill, as well as interest payments made by the Central Bank on its outstanding liabilities related to the IMF and the special swap arrangement with the RBI. One key development in 2024 was the increase in dividends paid by direct investment enterprises (DIEs), reflecting higher profit distributions to their foreign investors. However, reinvested earnings outflows declined. This is also recorded as an inflow in the financial account, and resulted in lower direct investments in the financial account. Interest payments related to debt securities, which included accrued interest in the first three quarters of 2024 and actual interest payments in the last quarter of 2024, increased compared to 2023. Going forward, interest payments on debt securities are expected to be considerably low with the conclusion of the external debt restructuring process on International Sovereign Bonds (ISBs). In the meantime, a substantial increase in government interest payments on foreign loans was observed in 2024 compared to the previous year as a result of the increased outstanding multilateral debt owed by the Government and the increase in accrued interest of bilateral debt, some of which is still under the debt restructuring process. Meanwhile, earnings from investments in reserve assets by the Central Bank increased in 2024, which can be attributed to the notable rise in GOR. However, the interest income of the banking sector reduced modestly in 2024 compared to 2023. Accordingly, the deficit in the primary income account amounted to USD 2.6 bn in 2024.

Secondary Income Account

The surplus in the secondary income account increased notably in 2024, driven primarily by the steady improvement in workers' remittances. This positive trend was largely supported by the continued departures of Sri Lankan workers seeking foreign employment, which contributed to higher workers' remittance inflows through official banking channels during the year. The highest ever departures for foreign employment were recorded in 2024. As a result, workers' remittances increased by 10.1%, reaching USD 6.6 bn in 2024, compared to USD 6.0 bn in 2023. This surge in remittances contributed to a sharp rise in the surplus of the secondary income account, which amounted to USD 6.4 bn in 2024.

Capital Account

The capital account surplus moderated in 2024. Capital transfers to both the Government and private sector decreased in 2024, as a result of capital grants to the Government remaining modest. Accordingly, the capital account recorded a modest surplus of USD 12 mn in 2024, compared to a surplus of USD 37 mn in 2023.

Financial Account

In 2024, both the net incurrence of liabilities and the net acquisition of financial assets in the financial account of the BOP increased, albeit at a slower pace. The net incurrence of liabilities increased by USD 1.0 bn, compared to the increase of USD 2.2 bn in 2023. Key financial account inflows during

1

Table 1.13: Financial Account

USD mn

Item	2023 (a)	2024 (b)
Financial Account (net)	**1,483**	**892**
Net Acquisition of Financial Assets	3,655	1,910
Net Incurrence of Liabilities	2,172	1,018
Direct Investment: Assets	51	110
Equity	47	106
Debt Instruments	5	4
Direct Investment: Liabilities	713	761
Equity	497	499
Debt Instruments	216	262
Portfolio Investment: Assets	173	180
Debt Securities	173	180
Portfolio Investment: Liabilities	931	301
Equity	8	2
Debt Securities	923	299
General Government	910	286
Short Term (Treasury Bills)	132	-217
Long Term	778	504
Treasury Bonds	78	39
Sri Lanka Development Bonds	-27	-
Sovereign Bonds	727	465
Other Sectors	13	13
Long-term	13	13
Financial Derivatives	-	-
Other Investment: Assets	972	-3
Currency and Deposits	114	-73
Trade Credit and Advances	136	111
Other Accounts Receivable	721	-42
Other Investment: Liabilities	528	-44
Currency and Deposits	-134	-868
Loans	751	993
Trade Credit and Advances	-260	-170
Other Accounts Payable	171	-
Special Drawing Rights (SDRs)	-	-
Reserve Assets	2,458	1,622
Net Errors and Omissions	6	-325

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

the year included the third tranche received from the IMF-EFF programme, as well as disbursements from the World Bank and the Asian Development Bank.

Direct Investments

FDI inflows, including foreign loans to Direct Investment Enterprises (DIEs), remained relatively modest in 2024. Although there was a rise in equity investments and intercompany loans to DIEs, reinvestment in earnings and shareholder advances to DIEs saw a notable decline. Meanwhile, foreign loans inflows from unrelated parties to Board of Investment (BOI) companies also recorded an increase in 2024. Accordingly, FDI, inclusive of foreign loans, was recorded at USD 846 mn in 2024, from USD 759 mn in 2023. FDI excluding loans stood at USD 761 mn in 2024, compared to USD 713 mn in the previous year. The sectoral flows of FDI were primarily directed towards Diversified Holdings, Telephone and Telecommunication Networks, Hotels and Restaurants, and Port Container Terminals. Direct investments to the BOI companies remained notably low in 2024, compared to the previous year. However, there was a significant inflow related to a change in share ownership of a major publicly listed company, but not registered with BOI, as its parent company delisted from the Colombo Stock Exchange (CSE).

Portfolio Investment

Net incurrence of liabilities as well as net acquisition of financial assets in portfolio investments increased in 2024. Portfolio investment in the form of equity and investment fund shares in the CSE recorded a marginal net inflow, while foreign investment in government securities recorded a net outflow. Also, reflecting the recovery in the CSE and the companies listed there, some companies successfully completed rights issues, strengthening their balance sheets with fresh equity, including that from foreign investors. Meanwhile, the non-resident investments in government securities reduced substantially during the year. In terms of transactions in debt securities under portfolio investment, the successful completion of the external debt restructuring process and the repayment of the first tranche of the past due interest (PDI) bond resulted in a reduction in liabilities of debt securities issued by the Government.

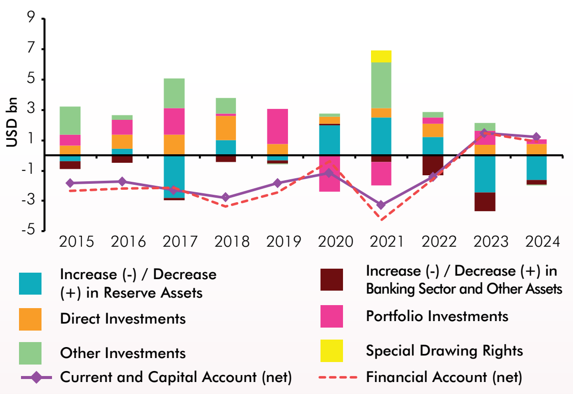
Other Investment and Reserve Assets

Both the net incurrence of liabilities and the net acquisition of financial assets in other investments decreased in 2024. Trade credits and advances recorded a reduction in liabilities as the CPC continued to reduce its existing trade

1

Featured Charts 1.4
Financing of the Pre-Crisis Current Account Deficit and Post-Crisis Dynamics of the Financial Account

Financing of Current Account Deficit



Source: Central Bank of Sri Lanka

Financing the current account deficit prior to the crisis reveals some interesting facts. Sri Lanka's persistent current account deficits over the years prior to 2023, have been mostly financed by other investments (which are predominantly net foreign loans), portfolio investments and direct investments as observed from 2015-2019. However, from 2020 to 2022, there was a net outflow of portfolio investments and significantly low direct investments. This had to be compensated by the significant draw down of reserves from 2020 to 2022. However, post-crisis, with the stabilisation of the external sector, the current account recorded a surplus in 2023 and 2024, resulting in a notable increase in reserves. Further, the banking sector was able to build up their foreign assets notably in 2022 and 2023.

credit liabilities including the Iranian credit facility. Further, the CPC did not enter into new trade credit facilities during the year. Meanwhile, the banking industry's foreign loan liabilities recorded a marginal net increase in 2024. Borrowing by the corporate sector remained limited, leading to a notable net outflow in the sector during the year. The increase in the net acquisition of financial assets was primarily due to the rise in GOR. The Central Bank's substantial net purchases of foreign exchange from the domestic foreign exchange market, along with receipts from the IMF, World Bank, and ADB, largely contributed to the increase in GOR. Additionally, the banking sector saw a reduction in net acquisition of financial assets in currency and deposits, while a net increase was recorded in trade credits and advances in 2024.

1.4.2 International Investment Position, Reserve Assets, and Overall Balance

International Investment Position (IIP)

Sri Lanka's net IIP reflected a higher net liability position in 2024, compared to the previous year. Both total external liabilities and total external assets increased by the end of 2024, but the rise in liabilities outpaced the increase in assets. The Central Bank's outstanding external liabilities declined during the year, primarily due to the gradual settlement of the special swap arrangement with the RBI and repayments under the IMF-EFF programme obtained in 2016. Direct investment liabilities recorded an increase, despite FDI net inflows remaining moderate, mainly due to market prices of some publicly listed companies recording a notable increase towards the end of the year. Further, portfolio investment liabilities recorded a significant increase, driven by higher market prices of new debt securities issued by the Government after debt restructuring, compared to significantly lower market prices of previous debt securities as at end 2023. This was despite the face value of the newly issued bonds being significantly lower compared to the face value of previously issued ISBs. Additionally, foreign loan liability position increased, mainly reflecting foreign loan inflows to the Government from the IMF, World Bank, and ADB, along with a rise in accrued interest on the Government's unpaid foreign loans.

1

Table 1.14: International Investment Position (Summary) (a)

USD mn
(End period position)

Item	2023 (b)		2024 (c)	
	Assets	Liabilities	Assets	Liabilities
Direct Investment	1,589	14,833	1,699	16,556
Equity and Investment Fund Shares	1,539	8,668	1,645	10,130
Debt Instruments	50	6,164	54	6,427
Portfolio Investment	174	7,744	353	10,457
Equity and Investment Fund Shares	-	484	-	762
Debt Securities	174	7,260	353	9,694
Other Investment	6,370	40,832	6,367	41,012
Currency and Deposits	1,770	7,941	1,697	7,051
Loans	-	30,847	-	32,133
Trade Credit and Advances	1,629	760	1,741	590
Other Accounts Receivable / Payable	2,971	-	2,930	-
Special Drawing Rights (SDRs)		1,285		1,239
Reserve Assets	4,392		6,122	
Total Assets / Liabilities	12,525	63,410	14,542	68,025
Net International Investment Position (IIP)		-50,885		-53,484
Memorandum Items				
IIP- Maturity-wise Breakdown	12,525	63,410	14,542	68,025
Short Term	9,280	5,811	9,075	5,915
Long Term	3,244	57,599	5,467	62,110

(a) Refer Appendix Table 12 for a detailed breakdown of the IIP
(b) Revised
(c) Provisional

Source: Central Bank of Sri Lanka

Consequently, the country's total external liabilities rose from USD 63.4 bn at the end of 2023 to USD 68.0 bn at the end of 2024.

Sri Lanka's external asset position also increased during 2024, with increases in both reserve assets and banking sector external assets. As a result, the country's total external assets increased from USD 12.5 bn at the end of 2023 to USD 14.5 bn at the end 2024. The growth in external assets was outpaced by the increase in total liabilities, leading to a higher net liability position. Accordingly, the country's net liability position increased to USD 53.5 bn at end 2024, compared to USD 50.9 bn at end 2023.

Reserve Asset Position

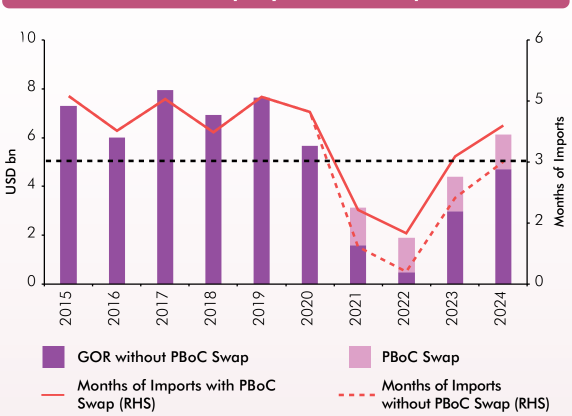
Sri Lanka's GOR improved significantly, reaching USD 6.1 bn by end 2024, from USD 4.4 bn at end 2023. This increase was driven by the highest ever net purchases of

Featured Charts 1.5
Improving Sri Lanka's Reserve Adequacy Indicators

Sri Lanka's Gross Official Reserves have increased steadily following the sharp reduction in 2021/22, while short-term debt has decreased. This has led to a higher ratio of GOR as a percentage of short term liabilities, meaning the country is better prepared to meet its financial obligations in the near-term.

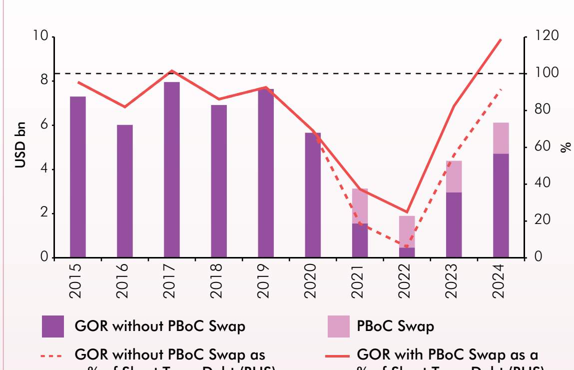
Meanwhile, import coverage, expressed in GOR availability as months of imports, also improved steadily, signaling a gradual recovery in the external sector. These gains in reserve adequacy indicators show the strengthening of external buffers and country's macroeconomic stability and creditworthiness along with a boost in investor confidence.

Reserve Adequacy: Months of Imports



Source: Central Bank of Sri Lanka

Reserve Adequacy: as a % of Short Term Debt



Source: Central Bank of Sri Lanka

1

Table 1.15: **Gross Official Reserves, Total Foreign Assets and Overall Balance**

USD mn
(End period position)

Item	2020	2021	2022	2023	2024 (a)
1. Government Foreign Assets	155	177	39	875	**368**
2. Central Bank Foreign Assets	5,510	2,962	1,858	3,517	**5,754**
3. Gross Official Reserves (1+2)	**5,664**	**3,139**	**1,898**	**4,392**	**6,122**
4. Foreign Assets of Deposit-taking Corporations	2,856	2,983	3,976	4,981	**5,108**
5. Total Foreign Assets (3+4) (b)	**8,521**	**6,122**	**5,874**	**9,373**	**11,230**
6. Reserve Related Liabilities (c)	2,121	3,562	5,127	4,796	**3,635**
7. Net International Reserves (NIR) (3-6)	**3,543**	**-423**	**-3,229**	**-404**	**2,487**
8. Overall Balance (d)	**-2,328**	**-3,967**	**-2,806**	**2,826**	**2,890**
9. Gross Official Reserves in Months of Imports of Goods	4.2	1.8	1.2	3.1	**3.9**
10. Total Foreign Assets in Months of Imports of Goods	6.4	3.6	3.9	6.7	**7.2**

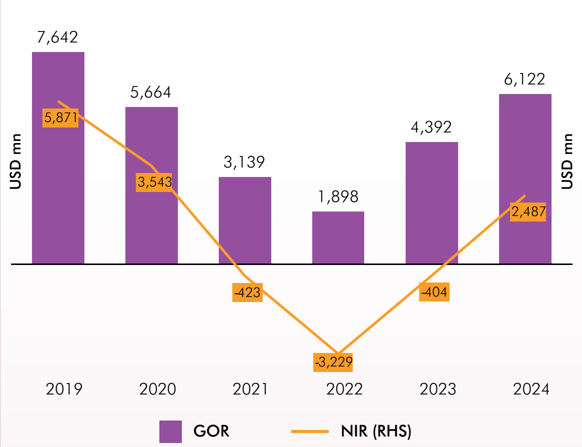
(a) Provisional
(b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'
(c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)
(d) Change in NIR position during the period

Source: Central Bank of Sri Lanka

foreign exchange by the Central Bank from the domestic foreign exchange market, the receipt of the third tranche of the ongoing IMF-EFF programme, and financing support from the World Bank and ADB. The buildup of GOR through direct foreign exchange absorption from the domestic foreign exchange market enabled the Central Bank to exceed the net international reserve targets for 2024 under the IMF-EFF programme. The GOR which stood at USD 6.5 bn at end November 2024 declined to USD 6.1 bn at end December 2024 due to one-off charges and interest payments related to restructuring of ISBs. Additionally, the banking sector's net foreign asset position improved in 2024, as the increase in foreign assets outpaced the rise in foreign liabilities. By the end of 2024, the foreign asset position of the banking sector increased to USD 5.1 bn, compared to USD 5.0 bn at end 2023. As a result, total international

Featured Charts 1.6
Post-Crisis Turnaround of International Reserves

Gross Official Reserves and Net International Reserves



Source: Central Bank of Sri Lanka

Sri Lanka's Gross Official Reserves (GOR) and the Net International Reserves (NIR) recorded a notable turnaround. GOR, including the PBOC swap since 2021, declined to a bare minimum in 2022, prompting the announcement of a debt standstill by the Government. The country's NIR position, which also considers the reserve related liabilities, was negative and at a historical lowest during 2022. However, the Central Bank was able to increase the assets over and above the requirements under the IMF-EFF by way of direct purchases, while IMF-EFF related multilateral funding also supported this process. Reserve related liabilities also declined with servicing of the special swap arrangement with the Reserve Bank of India (RBI). Hence, the reserve related V-shaped recovery post-crisis was a combined effect of a notable increase in GOR as well as the continuous reduction of the Central Bank liabilities.

1

reserves, which include both GOR and the foreign assets of the banking sector, recorded a significant increase, reaching USD 11.2 bn by the end of 2024, compared to USD 9.4 bn as at end 2023.

Overall Balance

The overall balance of the BOP, which reflects changes in net international reserves, recorded a higher surplus by end 2024. GOR increased significantly to USD 6.1 bn by end 2024 from USD 4.4 bn at the end of 2023. This includes the swap facility from the People's Bank of China (PBOC), which was renewed for a further three years in December 2024 and is subject to conditionalities on usability. Meanwhile, reserve related liabilities declined, primarily due to the repayments of the RBI special swap facility and the settlement of obligations related to the IMF-EFF obtained in 2016 during the year. As a result, the net international reserve position improved by the end of 2024 compared to the previous year, leading to a surplus in the overall balance of around USD 2.9 bn, compared to a surplus of USD 2.8 bn in 2023.

1.4.3 External Debt and Debt Service Payments

External Debt

Sri Lanka's external debt reduced in 2024, in terms of face value, after the external debt restructuring process. There was a large deviation between market value and face value of external debt in 2023. However, after the debt restructuring, this difference reduced considerably. The difference between market value and face value of external debt in 2023 was USD 5,374 mn, which has reduced to USD 62 mn in 2024. Accordingly, total external debt in terms of face value amounted to USD 57.2 bn as at end 2024 compared to USD 59.6 bn as at end 2023. This reduction in total external debt was a direct consequence of restructuring of outstanding ISBs and major component of bilateral debt held by the Government. In this context, after the debt restructuring process, the outstanding value of Sri Lanka's ISBs held by non-residents, in face value, reduced from USD 10.8 bn as at end 2023 to USD 9.3 bn by end 2024. Overall, in terms of face value, Government external debt stood at approximately USD 37.6 bn as of end 2024, compared to USD 38.4 bn as at end 2023. This was a combined result of notable reduction of face value of new ISBs issued by the Government, and a significant increase in higher outstanding credit with the IMF[21] and other multilateral lenders. Overall, the country's external debt-to-GDP ratio (in terms of face value) declined to 57.8% by the end of 2024, compared to 71.2% in 2023.

Meanwhile, the Government's external debt in terms of market value rose in 2024 compared to 2023. As a result, the Government's outstanding external debt, expressed at market value for tradable debt instruments, amounted to USD 37.6 bn by the end of 2024, compared to USD 33.1 bn at the end of 2023, primarily due to an increase in market prices of outstanding ISBs[22] compared to end 2023. The Central Bank's external debt declined notably due to the gradual repayment of the special swap arrangement with the RBI and the repayments of the IMF-EFF programme obtained in 2016. The banking sector's external debt increased slightly, mainly due to a rise in outstanding short-term loans.

Foreign Debt Service Payments

Sri Lanka's external debt service payments increased in 2024, compared to the previous year, with the resumption of repayment of most government debt previously under debt standstill, towards the latter part of 2024. The external debt service payments increased in 2024,

21 The current IMF-EFF is considered a liability of the Government as it was obtained primarily for budget support. Previous IMF facilities were considered as liabilities of the Central Bank as they were primarily for BOP support.

22 Accrued interest of unpaid ISBs at end of a particular period was included in the outstanding liability of the ISBs, both in terms of market value and face value.

1

Table 1.16: Outstanding External Debt Position

USD mn
(End period position)

Item	2023 (a)	2024 (b)
Based on Market Value		
General Government	**33,117**	**37,599**
Treasury Bills and Bonds (based on book value)	334	**223**
International Sovereign Bonds (based on market price including accrued interest)	6,794	**9,315**
Outstanding Foreign Loans (including accrued interest)	25,988	**28,061**
Central Bank	**6,081**	**4,874**
Currency and Deposits (short term)	0.3	**0.1**
Special Drawing Rights (SDRs) Allocation	1,285	**1,239**
RBI Special Swap	2,471	**1,563**
PBOC Swap Arrangement	1,420	**1,406**
Credit and Loans with the IMF	904	**667**
Deposit-taking Corporations	**4,933**	**4,980**
Currency and Deposits (c)	4,050	**4,082**
Loans	883	**897**
Other Sectors (d)	**3,963**	**3,254**
Trade Credit and Advances (e)	760	**590**
Debt Securities (based on market price and including accrued interest)	132	**156**
Loans by Private Sector and State Owned Business Enterprises	3,071	**2,508**
Direct Investment: Intercompany Lending (f)	**6,164**	**6,427**
Gross External Debt Position by Market Value	**54,257**	**57,133**
Gross External Debt Position by Market Value - As a % of GDP	**64.8**	**57.7**
Based on Face Value		
General Government	**38,428**	**37,610**
Treasury Bills and Bonds (based on face value)	363	**234**
International Sovereign Bonds (based on face value including accrued interest)	12,078	**9,315**
Outstanding Foreign Loans (including accrued interest)	25,988	**28,061**
Central Bank	**6,081**	**4,874**
Currency and Deposits (short term)	0.3	**0.1**
Special Drawing Rights (SDRs) Allocation	1,285	**1,239**
RBI Special Swap	2,471	**1,563**
PBOC Swap Arrangement	1,420	**1,406**
Credit and Loans with the IMF	904	**667**
Deposit-taking Corporations	**4,933**	**4,980**
Currency and Deposits (c)	4,050	**4,082**
Loans	883	**897**
Other Sectors (d)	**4,024**	**3,304**
Trade Credit and Advances (e)	760	**590**
Debt Securities (based on face value and including accrued interest)	194	**207**
Loans by Private Sector and State Owned Business Enterprises	3,071	**2,508**
Direct Investment: Intercompany Lending (f)	**6,164**	**6,427**
Gross External Debt Position by Face Value	**59,631**	**57,195**
Gross External Debt Position by Face Value - As a % of GDP	**71.2**	**57.8**
Memorandum Items		
Face Value of Total Outstanding ISBs	**12,550**	**10,585**
Outstanding ISBs Held by Non-Residents	10,800	**9,315**
Outstanding ISBs Held by Residents (g)	1,750	**1,270**

(a) Revised
(b) Provisional
(c) Includes deposits of personal foreign currency account holders
(d) Includes private sector and State Owned Business Enterprises
(e) Includes trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies
(f) Includes inter-company borrowings and shareholder advances of BOI registered companies
(g) Excluded from External Debt Statistics from December 2019 onwards

Source: Central Bank of Sri Lanka

reaching USD 4.2 bn, compared to USD 2.8 bn in 2023. The increase in 2024 was primarily driven by higher debt servicing by the Central Bank and private sector corporations, although Government's external debt repayments remained around the same level. A major development of Government's external debt repayment was the commencement of payments in relation to restructured ISBs. This includes the first capital repayment of the PDI bond, and ISB interest payments. Although Government's external debt service payments remained at a similar level compared to 2023, there was a notable increase in interest payments and a reduction in capital repayments. In contrast, the Central Bank's external debt service payments rose significantly

1

Table 1.17: External Debt Service Payments

USD mn

Item	2023 (a)	2024 (b)
1. Debt Service Payments	2,751	4,152
1.1 Amortisation	2,125	3,020
General Government	1,043	693
Project Loans	1,041	589
Debt Securities	2	104
Central Bank	522	1,110
IMF	172	210
International Swaps	350	900
Private Sector and Deposit-taking Corporations	560	1,217
Foreign Loans	560	1,217
1.2 Interest Payments	627	1,132
General Government	405	749
Project Loans	377	532
Debt Securities	28	217
Central Bank	118	276
IMF	57	83
International Swaps	60	192
Private Sector and Deposit-taking Corporations	92	107
Foreign Loans	92	107
Intercompany Debt of Direct Investment Enterprises	12	-
2. Earnings from Export of Goods and Services	17,327	19,682
3. Receipts from Export of Goods, Services, Income and Current Transfers	23,776	26,877
4. Debt Service Ratio		
4.1 As a % of 2 above		
Overall Ratio	15.9	21.1
Excluding IMF Transactions	14.6	19.6
4.2 As a % of 3 above		
Overall Ratio	11.6	15.4
Excluding IMF Transactions	10.6	14.4
5. Government Debt Service Payments		
5.1 Government Debt Service Payments (c)	1,448	1,443
5.2 As a % of 1 Above	52.6	34.7

(a) Revised
(b) Provisional
(c) Excludes transactions with the IMF

Source: Central Bank of Sri Lanka

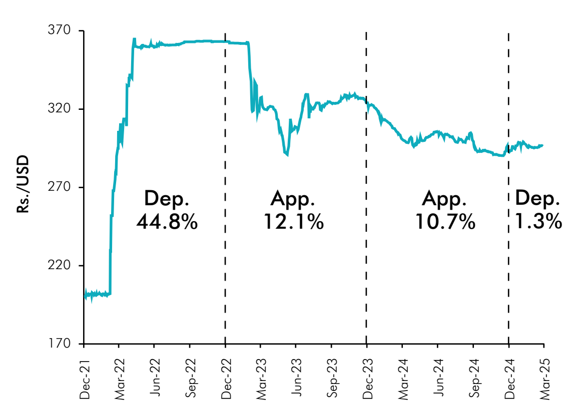
in 2024. Furthermore, private sector corporations recorded a notable increase in external debt service payments in 2024 compared to the previous year, contributing to the increase in the country's external debt service payments.

1.4.4 Exchange Rate Movements

The Sri Lanka rupee appreciated in 2024. Two consecutive years of appreciation coincided with current account surpluses and a steady net inflow of foreign currency into the domestic foreign exchange market that augmented the foreign exchange liquidity. These inflows primarily consisted of workers' remittances, earnings from tourism, other services to the services sector, and merchandise exports. Meanwhile, outflows in terms of merchandise imports, services sector outflows and other outflows in the current account, remained moderate. The Central Bank purchased USD 2,846 mn, on a net basis (based on the trade date), from the domestic foreign exchange market in 2024 to strengthen the country's official reserves. This was the historically highest net annual purchases from the domestic foreign exchange market. The rupee could have appreciated further if not for the purchases from the Central Bank.

Despite the overall appreciation in 2024, the Sri Lanka rupee remained volatile in some parts of the year. Overall, the Sri Lanka rupee ended the year at Rs. 292.58 per USD, recording an annual appreciation of 10.7%. Though major currencies depreciated against the USD in 2024, Sri Lanka rupee continued its appreciation against these currencies. Accordingly, the Sri Lanka rupee appreciated against the euro (17.8%), the pound sterling (12.3%), the Japanese yen (22.5%), Chinese yuan (13.9%), the Indian rupee (13.9%) and the Australian dollar (21.7%) during 2024. The Central Bank continued the market-based exchange rate policy and intervened in the domestic foreign exchange market on the selling side only when there was excessive intraday volatility. The interventions were regular on the purchase side to build official reserves.

Figure 1.21: Daily Exchange Rate Movements



Source: Central Bank of Sri Lanka

1

Table 1.18: Exchange Rate Movements

Currency	In Rupees per Unit of Foreign Currency						% Change over Previous Year (a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2022	2023	2024	2022	2023	2024	2023	2024	2023	2024
Euro	386.93	358.75	**304.56**	339.04	354.11	**327.05**	7.86	**17.79**	-4.26	**8.28**
Indian Rupee	4.39	3.90	**3.42**	4.11	3.97	**3.61**	12.57	**13.94**	3.63	**9.82**
Japanese Yen	2.74	2.29	**1.87**	2.44	2.34	**2.00**	19.53	**22.51**	4.54	**17.01**
Pound Sterling	437.35	412.61	**367.38**	396.89	407.07	**386.25**	5.99	**12.31**	-2.50	**5.39**
US dollar	363.11	323.92	**292.58**	324.55	327.53	**302.12**	12.10	**10.71**	-0.91	**8.41**
Special Drawing Rights (SDRs)	483.24	434.60	**381.57**	431.91	436.88	**401.07**	11.19	**13.90**	-1.14	**8.93**

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. The minus sign indicates depreciation of Sri Lanka rupee against each currency.

Source: Central Bank of Sri Lanka

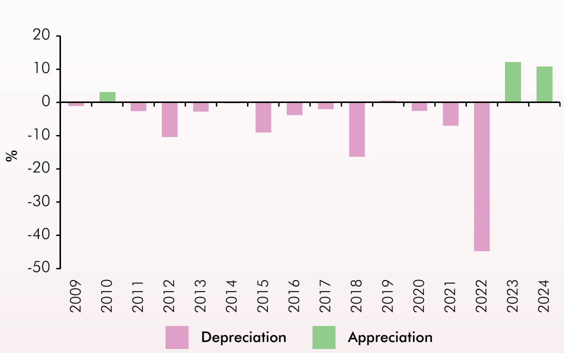
Nominal and Real Effective Exchange Rates

Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) increased during the year 2024, reflecting an appreciation. Reflecting the nominal appreciation of the Sri Lanka rupee against selected major currencies together with the movements in cross currency exchange rates, NEER indices increased. Accordingly, the 5-currency and 24-currency NEER indices increased by 14.6% and 14.9%, respectively. The REER indices, which consider the variation in nominal exchange rates in the baskets

Featured Charts 1.7
Exchange Rate Dynamics Under the Flexible Exchange Rate

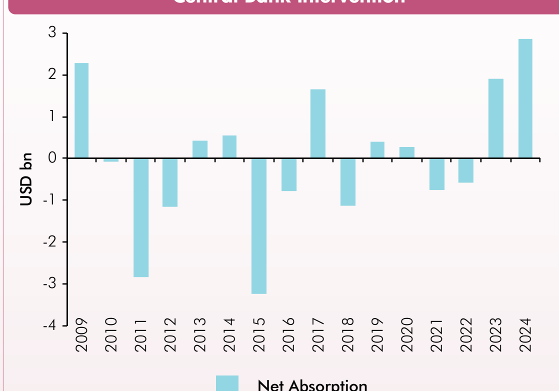
The appreciation of the Sri Lanka rupee recorded over the past two years was mainly due to the improved fundamentals as measured by the external current account surplus given limited forex outflows. This appreciation would have been more prominent if the Central Bank did not intervene in the domestic foreign exchange market to purchase record levels of foreign exchange. The general perception that an appreciation of currency is a reflection of better economic performance is a myth. Like currency depreciation, appreciation also has its own merits and demerits, and persistent appreciation could harm external competitiveness of the country. Thus, under the flexible exchange rate arrangement, as stipulated under the Central Bank Act (CBA), the exchange rate movements would be determined largely by demand and supply conditions in the foreign exchange market. Persistent depreciation or appreciation of the exchange rate is less likely under this arrangement, unless the economic fundamentals drive such trends.

Exchange Rate Appreciation / Depreciation



Source: Central Bank of Sri Lanka

Central Bank Intervention



Source: Central Bank of Sri Lanka

1

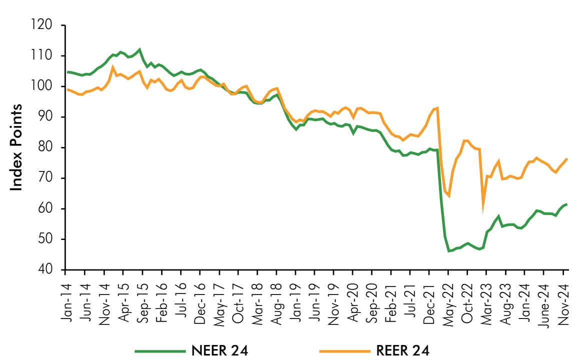
Table 1.19: **Nominal and Real Effective Exchange Rates**

Effective Exchange Rate Indices (a)(b) (2017=100)	End Year Index			Annual Average Index			% Change over Previous Year Index			
							End Year Index		Annual Average	
	2022	2023	2024	2022	2023	2024	2023	2024	2023	2024
NEER - 24 currencies	47.32	53.66	**61.63**	53.99	53.30	**58.56**	13.39	**14.86**	-1.28	**9.87**
REER - 24 currencies	79.74	70.24	**76.98**	77.49	71.73	**74.77**	-11.91	**9.59**	-7.44	**4.25**

(a) The Nominal Effective Exchange Rate (NEER) is a weighted average of nominal exchange rates of 24 trading partner and competitor countries. Weights are based on the trade shares reflecting the relative importance of each currency in each of the currency baskets. The Real Effective Exchange Rate (REER) is computed by adjusting NEER for inflation differentials with respect to each currency in the basket. A minus sign indicates depreciation. CCPI was used for REER computation.
(b) The exchange rate has been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices, respectively.

Source: Central Bank of Sri Lanka

Figure 1.22: **Effective Exchange Rate Indices 24 - Currency (2017=100)**



Source: Central Bank of Sri Lanka

of currencies and the inflation differentials among countries in the currency basket, increased. Accordingly, the 5-currency and 24-currency REER indices increased by 8.9% and 9.6%, respectively. However, the REER indices remained well below the base year level (2017=100), reflecting improved* external competitiveness compared to the base year.

1.5 Fiscal Sector Developments

1.5.1 Key Fiscal Balances

The continuation of rigorous revenue enhancements and expenditure rationalisation measures led to notable improvements in key fiscal balances during 2024. Accordingly, the primary balance, which excludes interest payments from the overall deficit, further improved and recorded a notable surplus of 2.2% of GDP (Rs. 650 bn) in 2024 compared to the surplus of 0.6% of GDP (Rs.173 bn) recorded in 2023. This surpassed the Rs. 300 bn primary balance target for the year 2024 stipulated under the IMF-EFF programme. Recording primary surpluses for two consecutive years is a commendable achievement amid a challenging socio-political environment. Maintaining a positive primary balance is essential for fostering fiscal and debt sustainability and preserving hard-earned macroeconomic stability. In the meantime, the current account deficit narrowed to 4.4% of GDP (Rs. 1,309 bn) in 2024 compared to 6.0% of GDP (Rs. 1,651 bn) in 2023, while the overall budget deficit narrowed to 6.8% of GDP (Rs. 2,040 bn) in 2024, in comparison to 8.3% of GDP (Rs. 2,282 bn) recorded in 2023 and the budget estimate of 9.1% of GDP (Rs. 2,851 bn).[23]

1.5.2 Government Revenue, Expenditure, and Net Lending

Government Revenue

With the implementation of revenue enhancement measures and the revival of economic activities, government revenue recorded a significant increase in 2024, both in nominal terms and as a percentage of GDP, compared to the previous year. Accordingly, in nominal terms, government revenue recorded a y-o-y growth of 32.2% in 2024. With an annual increment of more than 2 pps each consecutively during 2023 and 2024, revenue as a percentage of GDP increased to 13.5% of GDP in 2024. This

* This has been corrected in the online version.

23 Budget Deficit estimates for 2024 includes provision of Rs 450 bn made for bank re-capitalisation

1

Table 1.20: **Summary of Government Fiscal Operations**

Item	2023	2024 (a)	2023/2024	
			Absolute Change	% Change
Rs. billion				
Total Revenue and Grants	3,074.3	4,090.8	1,016.5	33.1
Total Revenue	3,048.8	4,030.8	982.0	32.2
Tax Revenue	2,720.6	3,704.6	984.0	36.2
Non Tax Revenue	328.3	326.3	-2.0	-0.6
Grants	25.5	60.0	34.5	135.2
Expenditure and Net Lending	5,356.6	6,130.7	774.1	14.5
Recurrent	4,699.7	5,339.9	640.3	13.6
Capital and Net Lending	656.9	790.8	133.9	20.4
of which; Public Investment	932.7	817.1	-115.7	-12.4
Current Account Balance	-1,650.9	-1,309.1		
Primary Balance	173.3	649.6		
Overall Fiscal Balance	-2,282.3	-2,039.9		
Total Financing	2,282.3	2,039.9	-242.3	-10.6
Foreign Financing	494.7	333.2	-161.4	-32.6
Domestic Financing	1,787.6	1,706.7	-80.9	-4.5
As a percentage of GDP (b)(c)				
Total Revenue and Grants	11.2	13.7		
Total Revenue	11.1	13.5		
Tax Revenue	9.9	12.4		
Non Tax Revenue	1.2	1.1		
Grants	0.1	0.2		
Expenditure and Net Lending	19.5	20.5		
Recurrent	17.1	17.9		
Capital and Net Lending	2.4	2.6		
of which; Public Investment	3.4	2.7		
Current Account Balance	-6.0	-4.4		
Primary Balance	0.6	2.2		
Overall Fiscal Balance	-8.3	-6.8		
Total Financing	8.3	6.8		
Foreign Financing	1.8	1.1		
Domestic Financing	6.5	5.7		

(a) Provisional
(b) Revised
(c) GDP estimates (base year 2015) released by the Department of Census and Statistics on 18 March 2025 have been used.

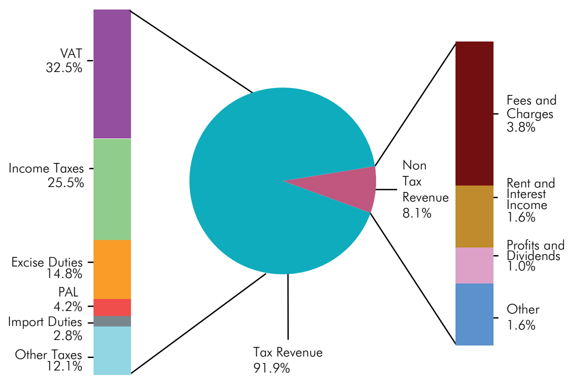
Source: Ministry of Finance, Planning and Economic Development

substantial increase of government revenue in 2024 was mainly due to the increased tax revenue collections from income taxes, Value Added Tax (VAT), excise duties, import duties, Special Commodity Levy (SCL) and Social Security Contribution Levy (SSCL). The increase in income taxes in 2024 was driven by the full impact of policy changes implemented in 2023 on personal and corporate income taxes and gradual normalisation of economic activities.

Ongoing revenue administration improvements by the Inland Revenue Department (IRD) have contributed to increased tax collection in 2024. Key initiatives include the establishment of the High Wealth Individual Unit and the Advance Income Tax Monitoring Unit, as well as the mandatory tax registration requirement to enhance compliance. Additionally, institutions such as the Registrar General's Department, the Department of the Registrar of Companies, the Department of Motor Traffic, all financial institutions including banks and non-banking financial institutions regulated by the Central Bank of Sri Lanka and the CSE are now required to share information with the IRD supporting the expansion of the tax base. These efforts were reflected in the rise in the number of registered income taxpayers, both in corporate and non-corporate categories, from 879,778 in 2023 to 1,485,777 by the end of 2024. Accordingly, income tax collection increased by 12.6% (by Rs. 114.8 bn) in 2024 compared to 2023. Meanwhile, the removal of the majority of VAT exemptions, reduction of the VAT registration threshold from Rs. 80 mn per annum to Rs. 60 mn per annum and the upward revision in the standard VAT rate to 18% along with the removal of import restrictions as well as the revival of economic activities has significantly contributed to the increase in VAT revenue collection in 2024. As a result, VAT revenue collection registered 88.6% growth (by Rs. 615.2 bn) in 2024 compared to the preceding year. These reforms were further augmented by the efforts of the IRD in initiating the VAT Compliance Improvement Project (VCIP) aimed at increasing the VAT collection. Meanwhile, revenue from Excise duty recorded an increase of 27.4% (Rs. 128.9 bn) in 2024 in comparison to the previous year. This increase was mainly attributed to the 14% upward revision of the excise duty on liquor at the beginning of the year, following the introduction of an annual inflation-adjusted indexation since June 2023. Further, the rise in excise duty collection on petroleum also contributed to this increase. Revenue collected from international trade related taxes including Customs Import Duties (CID) and SCL grew by 5.7% and 124.4%, respectively, during 2024. The increase was driven by the realisation of the impact of CID revision that took place in March 2023, upward revision of SCL rates for sugar and potatoes alongside the higher import volumes.

1

Figure 1.23: **Composition of Government Revenue - 2024**



Source: Ministry of Finance, Planning and Economic Development

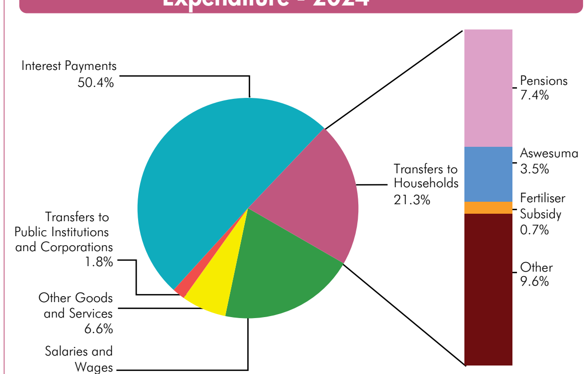
In the meantime, CESS revenue also increased significantly, showing 41.9% growth, y-o-y, due to the increased imports and the upward revision of CESS rates on the importation of selected imported items. However, revenue collected from PAL recorded a 3.1% decline due to the policy decision taken in 2023 of phasing out of PAL within 5 years to rationalise para-tariffs. Moreover, SSCL, the new tax introduced as part of the revenue enhancement package during late 2022, recorded a growth of 16.0% in 2024 compared to the previous year. This was mainly attributed to the reforms taken related to the SSCL by lowering the registration threshold effective January 2024. Despite the significant increase recorded in 2024, the tax revenue collection fell short of the revenue estimate (Rs. 3,820 bn) in the National Budget 2024 by Rs. 115 bn (3%). Nevertheless, the central government tax revenue exceeded the target set at Rs. 3,700 bn under the IMF-EFF programme. Even though the ratio of direct to indirect taxes had shifted towards direct taxes in 2023, reaching a ratio of 33:67 following the income tax reforms implemented in 2023, the tax structure once again tilted towards indirect taxes with the major VAT reforms introduced in 2024, recording a ratio of 28:72. Measures currently being considered to expand the tax base and the compliance are expected to gradually improve this ratio going forward.

Meanwhile, non-tax revenue slightly decreased both in nominal terms and as a percentage of GDP mainly due to the reduction in revenues from profits and dividends from State Owned Enterprises (SOEs). The impact of this reduction was moderated by the y-o-y growth recorded in the non-tax revenue from interest income, fines, fees and charges and social security contributions received by the Government during 2024.

Expenditure, and Net Lending

The total expenditure and net lending recorded a notable decrease compared to the estimated expenditure in the Budget 2024, both in nominal terms and as a percentage of GDP. While the total expenditure and net lending for 2024 only accounted for 88% of the budget estimate, the total expenditure and net lending increased by 14.5% in nominal terms when compared to the previous year. Meanwhile, expenditure, in GDP terms, increased marginally to 20.5% in 2024. Interest expenditure remained elevated in 2024 as well, with a share of 50.4% of the total recurrent expenditure in 2024. This is a slight improvement in comparison to the share of 52.3% recorded in the previous year. While the domestic interest expenditure marginally declined by 1.8% (by Rs. 43.1 bn) in 2024 adjusting for lower interest rates prevailed in government securities market during 2024,

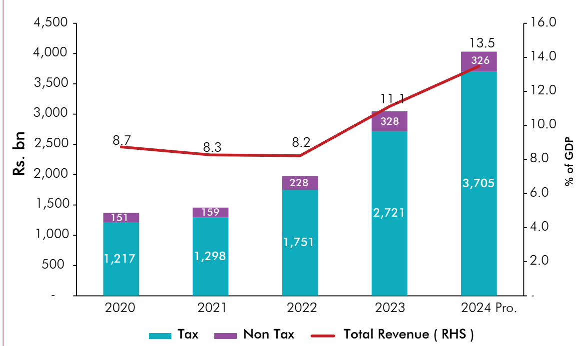
Figure 1.24: **Composition of Government Recurrent Expenditure - 2024**



Source: Ministry of Finance, Planning and Economic Development the foreign interest expenditure increased by Rs. 277.0 bn in 2024. The increase in foreign interest payment was recorded during the latter part of the year and was associated with the near completion of external debt restructuring. Meanwhile, with a special focus on the vulnerable segments in the economy at times of economic difficulties, subsidies and transfers by the Government increased by 22.8% (by Rs. 228.6 bn) in 2024, on account of higher expenditure incurred on pension payments, social safety nets and free medicine. In 2024,

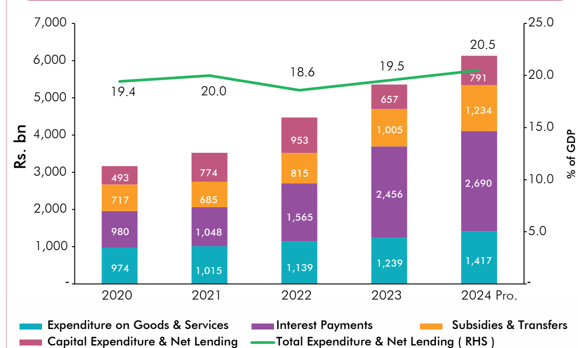
Featured Charts 1.8
Government Revenue, Expenditure and Key Fiscal Balances

Government Revenue



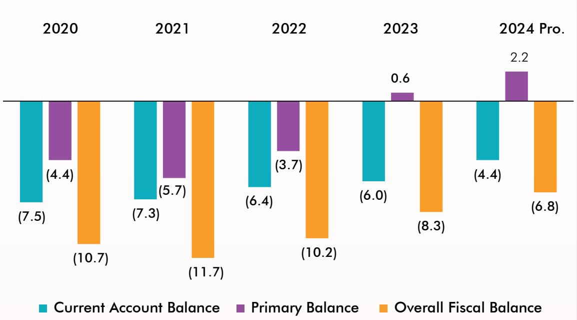
Source: Ministry of Finance, Planning and Economic Development

Government Expenditure



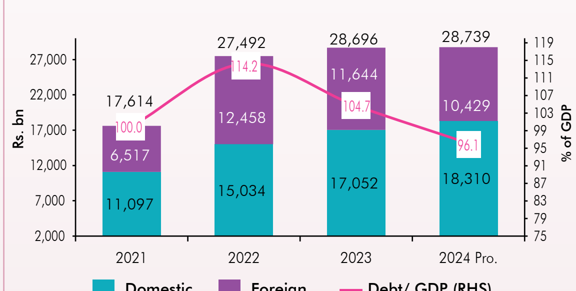
Source: Ministry of Finance, Planning and Economic Development

Key Fiscal Balances (% of GDP)



Source: Ministry of Finance, Planning and Economic Development

Outstanding Central Government Debt*



Sources: Ministry of Finance, Planning and Economic Development
Central Bank of Sri Lanka

* Refer footnotes of Table 1.21 of Annual Economic Review 2024

Fiscal sector imbalances that persisted for decades, including chronic budget deficits, reached a tipping point in 2022. The crisis was driven by persistent fiscal slippages, policy missteps, and the economic fallout from the COVID-19 pandemic. In response, the Government implemented consolidation efforts under the IMF-EFF programme since mid-2022, with a focus on revenue-based fiscal adjustments. These efforts have led to a significant turnaround, marked by strong revenue growth, controlled expenditures, and notable improvements in key fiscal balances.

By 2024, the fiscal sector achieved a positive primary balance for the second consecutive year.

Sustaining this momentum without policy reversals is critical, as any unexpected deviations from the envisaged fiscal consolidation and debt reduction efforts could undermine the hard-earned macroeconomic stability.

1

Rs. 186.4 bn was spent for the *Aswesuma* Welfare Benefit Scheme, accounting for 15.1% of total subsidies and transfers. This included cash transfers to 1,717,262 selected low-income families and categorical payments made for elderly, differently abled persons and kidney patients. Expenditure on salaries and wages increased by 13.5% (Rs. 126.6 bn) in 2024 in comparison to the preceding year, due to the increase in the cost of living allowance during 2024. Although capital expenditure and net lending recorded a y-o-y increase of 20.4% in 2024, capital expenditure declined by 15.0% (Rs.137.0 bn) compared to the preceding year. Capital expenditure in 2024 fell significantly short of the budget estimate of Rs. 1,260 bn, as the spending was limited to only 61.6% of the budget allocation due to non-receipt of some expected foreign financing. Accordingly, capital expenditure amounted to only 2.6% of GDP. Sustained low spending on capital projects due to fiscal constraints may have long-term adverse effects on the country's economic growth potential and social development.

1.5.3 Financing the Budget Deficit

In 2024, the Government continued to rely primarily on domestic sources to finance the budget deficit, largely due to constraints in accessing foreign financing. Total net domestic financing was predominantly sourced through government securities. Accordingly, net financing from Treasury bills amounted to Rs. 266.1 bn in 2024, recording[24] a marked reduction from Rs. 2,058.6 bn recorded in 2023. At the same time, net financing from Treasury bonds increased to Rs. 1,544.3 bn[24] in 2024, up from Rs. 692.3 bn recorded in 2023. Meanwhile, in relation to foreign financing, the Government received Rs. 101.5 bn (approximately USD 336 mn) under the IMF-EFF programme in the form of budget support, in addition to Rs. 465.4 bn (approximately USD 1.5 bn) received from bilateral and multilateral creditors as loans, including funding from the ADB, the International Bank for Reconstruction and Development (IBRD), Government of Japan, and International Development Association (IDA). These funds were provided to support the Government's economic stabilisation programme, strengthen social safety nets, and facilitate the implementation of development projects.

1.5.4 Central Government Debt[25]

Central government debt as a percentage of GDP declined to 96.1% by end 2024 from 104.7% in 2023, primarily driven by robust growth in nominal GDP and due to the impact of appreciation of the Sri Lanka rupee on foreign currency denominated debt. Accordingly, by end 2024, domestic debt and foreign debt as a percentage of GDP decreased to 61.2% and 34.9%, respectively, compared to 62.2% and 42.5%, respectively, as at end 2023. However, in nominal terms, total debt remained broadly unchanged, standing at approximately Rs. 28.7 tn in 2024, as the increase in domestic debt offset the decline in foreign debt during the review period. The nominal increase in total domestic debt was primarily due to the Government's heightened reliance on the domestic market to finance its budget deficit amidst the limited access to foreign financing. With the dissipation of uncertainties on the political and the fiscal fronts, the market appetite for longer tenor government securities improved. This was in line with the Government's preference for raising debt through instruments with longer maturities with the decline in market interest rates during 2024. Supported by extended maturities, the share of medium and long term domestic debt as a percentage of total domestic

24 Figures related to Government Securities for 2023 excluding the impact of the transactions in relation to domestic debt optimisation operation.

25 Government Debt Statistics are presented net of bank deposits of the Government, and the outstanding central government debt excludes several debt service payments that became overdue after 12 April 2022, the date of which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Planning and Economic Development. These debt service payments comprise of overdue interest payments of affected debt which are deemed to be capitalised as per the Interim Policy.

1

Table 1.21: Outstanding Central Government Debt (a)(b) (End Year)

Item	2023	2024 (c)
Rs. billion		
Domestic Debt (d)	17,051.9	18,309.7
By Maturity Period		
Short Term (e)	3,616.2	3,220.1
Medium and Long Term (f)(g)	13,435.6	15,089.6
By Institution		
Bank	9,102.8	9,411.2
Non Bank	7,506.3	8,158.5
Repurchase Transaction Allocations (h)(i)	442.7	739.9
Foreign Debt (j)(k)(l)	11,644.1	10,429.0
Multilateral	3,817.0	3,773.5
Bilateral and Commercial	7,827.1	6,655.6
By Currency		
SDR	1,737.1	1,651.1
US Dollars	7,943.9	7,133.4
Japanese Yen	819.4	678.6
Euro	396.6	334.2
Other	747.1	631.7
Total Outstanding Central Government Debt	28,695.9	28,738.7
As a percentage of GDP (m)		
Total Outstanding Central Government Debt	104.7	96.1
Domestic Debt	62.2	61.2
Foreign Debt	42.5	34.9

Sources: Ministry of Finance, Planning and Economic Development
Central Bank of Sri Lanka

Note: With the establishment of the Public Debt Management Office (PDMO) under the Ministry of Finance, Planning and Economic Development (MOF), the responsibility for recording and publishing Sri Lanka's public debt now falls under the PDMO, as mandated by the provisions of the Public Debt Management Act, No. 33 of 2024. Accordingly, the Quarterly Statistical Debt Bulletin, published by the PDMO, serves as the official source for debt statistics. The Central Bank compiled and presented this Table based on data received from MOF to ensure data continuity.

(a) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics 2014 of the IMF, resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt. Further, debt statistics are presented on net basis (net of deposits).
(b) The outstanding central government debt excludes several debt service payments that became overdue after 12 April 2022, the date of which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Planning and Economic Development. These debt service payments comprise overdue interest payments of affected debt which are deemed to be capitalised as per the Interim Policy.
(c) Provisional
(d) From 2023 onwards, domestic debt compilation method was changed and is based on the data confirmed by MOF.
(e) Excludes Treasury bills held by non resident investors
(f) Excludes Treasury bonds held by non resident investors
(g) Data from 2023 includes outstanding balance of the government guaranteed foreign currency debt of the Ceylon Petroleum Corporation that was absorbed into central government debt and data for 2024 includes an outstanding balance of Rs.16,267 mn classified as Development Project Loans as per the Quarterly Statistical Debt Bulletin for 2024 Q4 published by MOF.
(h) Includes security holdings under Repurchase agreements for which absolute ownership could not be established
(i) Holdings under repurchase transactions with respect to Open Market Operations, have been allocated to the respective Licensed Commercial Bank or Standalone Primary Dealer
(j) Foreign loan debt statistics and classification of foreign debt for 2023 and 2024 are prepared based on the data sourced from the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) maintained by MOF, and extracted on 26 February 2024 and 27 February 2025, respectively.
(k) From December 2022 onwards, several outstanding project loans which were previously classified under Ceylon Electricity Board, Airport and Aviation Services Ltd. and Sri Lanka Ports Authority were absorbed into central government debt.
(l) The 2024 data reflects the impact of external debt restructuring.
(m) GDP estimates (base year 2015) released by the Department of Census and Statistics on 18 March 2025 have been used and GDP estimates for 2023 are revised based on the GDP estimates released on 18 March 2025.

debt improved to 78.9% by the end of 2024, compared to 74.2% at the end of December 2023. Meanwhile, the decrease in foreign debt in nominal terms by end 2024 compared to end 2023 was primarily driven by the appreciation of the Sri Lanka rupee against major foreign currencies. As a result, the share of outstanding foreign debt in total central government debt decreased to 36.3% by end 2024 from 40.6% at the end 2023, reflecting a shift towards a more balanced debt composition and reduced external vulnerability.

The year 2024 marked a significant milestone for Sri Lanka as it nearly completed its debt restructuring process, ending its debt standstill status. A key milestone of this process was marked in June 2024, when Sri Lanka signed a Memorandum of Understanding (MoU) with the Official Creditor Committee (OCC) co-chaired by Japan, France and India, and finalised a debt treatment agreement with the Export-Import Bank of China, concluding close to two years of negotiations. Since then, discussions have continued on a bilateral basis to complete country-wise agreements to commence debt servicing. The agreement with official creditors includes debt relief measures such as maturity extensions, capital repayment grace periods until 2028, reduced interest rates, and a progressive amortisation structure, with final repayments due in 2043. Further progress was made in external debt restructuring with the successful completion of the ISB exchange in December 2024, followed by the restructuring of China Development Bank (CDB) liabilities. The ISB restructuring provided Sri Lanka with significant financial relief,[26] including an upfront debt stock reduction of USD 3.0 bn, potentially increasing to USD 4.3 bn in the event of economic downturn or decreasing to USD 1.8 bn in the case of economic overperformance relative to the IMF baseline as per the conditionality of the macro-linked bond[27] features. Additionally, the ISB restructuring provides Sri Lanka with a USD 9.6 bn reduction in debt service payments over the four-year IMF-EFF programme period, a 33% reduction in the coupon rate of Sri Lanka's bonds to 4.3%, and an extension of the average maturity profile by approximately

26 As per the presentation "Sri Lanka's Public Debt Restructuring: The Need, Overall Outcome, and Future Policy Direction to Ensure Fiscal and Debt Sustainability" by the Secretary to the Treasury, dated 02nd January 2025.

27 A macro-linked bond is a debt instrument for which its payments are tied to the economic performance of the issuer. More details on this can be obtained from the press release of the Ministry of Finance on "Sri Lankas's International Sovereign Bonds Restructuring – Frequently Asked Questions", dated 4th October 2024.

six years. Following the successful execution of ISB restructuring and recognition of Sri Lanka's progress in addressing fiscal sustainability, leading international rating agencies upgraded the country's foreign currency sovereign credit ratings in December 2024. Accordingly, Fitch Ratings raised Sri Lanka's rating to CCC+ from RD, while Moody's Ratings upgraded its ratings to Caa1 from Ca. With these positive developments and the Government's ongoing commitment to the IMF-EFF supported reform programme, Sri Lanka is advancing towards the debt sustainability targets outlined in the said programme.