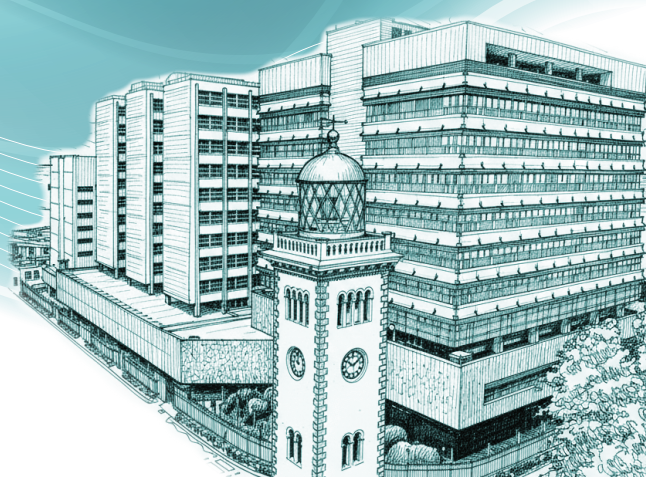


Chapter 1

MACROECONOMIC DEVELOPMENTS



Summary

The Sri Lankan economy continued to record robust growth in 2025, demonstrating increased resilience to both domestic and global shocks. The year was characterised by elevated global uncertainties, particularly related to trade policies, as well as the impact of an extreme weather event towards the end of the year. Despite these challenges, the economy grew by 5% in real terms in 2025, marking the second consecutive year of expansion, supported by post-crisis macroeconomic stabilisation measures and ongoing economic reforms. A drop in the unemployment rate was also observed during the year. Inflation, which had been negative for eleven consecutive months, turned positive in August 2025 and accelerated gradually thereafter, supported by the easing of deflationary pressures in the energy and transport sectors, alongside rising food inflation. Core inflation stayed at lower positive levels in 2025, indicating that demand conditions are still subdued. Supported by benign inflation and anchored inflation expectations, the Central Bank further eased its accommodative monetary policy stance, leading to continued downward adjustments in interest rates and facilitating greater consumption and investment. As a result, lending to the private sector saw a record high and broad-based expansion during the year. This growth was further driven by increased demand for vehicle imports after the complete removal of import restrictions in early 2025. External sector performance improved further in 2025, as reflected by the current account, which recorded a surplus for the third consecutive year. Despite the widened trade deficit, the current account recorded a higher surplus in 2025 than in the previous two years, supported by a stronger services account surplus, a substantial improvement in workers' remittances, and a narrowing of the primary income account deficit. Improved foreign exchange inflows enhanced liquidity in the domestic foreign exchange market, thus enabling the Central Bank to purchase foreign exchange and build external reserves to around USD 6.8 bn by end 2025, despite the highest external debt service payments since 2020. The Sri Lanka rupee experienced some depreciation during the year after two years of appreciation, mainly due to higher merchandise imports, especially in the second half of the year. Such exchange rate movements were consistent with the evolving external conditions under a flexible regime. Fiscal performance improved further during 2025, with the primary balance recording a notable surplus for the third consecutive year. This was largely supported by the

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Government's continued commitment to revenue-based fiscal consolidation, supported by prudent fiscal reforms, including those within the state-owned enterprises sector, and careful expenditure rationalisation under the ongoing macroeconomic stabilisation framework. At the same time, the Government sought to ensure that the benefits of robust economic growth were equitably shared by maintaining and strengthening social safety nets to expand targeted assistance for vulnerable citizens, while facilitating the provision of essential economic and social infrastructure to support sustainable growth. Meanwhile, recent economic shocks and heightened uncertainties have reaffirmed the importance of building buffers to enhance the resilience and stability of the economy amid increased volatility.

1.1 Inflation and Price Developments

1.1.1 Inflation¹

Following eleven consecutive months of deflation, headline inflation returned to positive territory in August 2025 and gradually accelerated thereafter.

Deflationary conditions, which began in September 2024, deepened in early 2025, largely driven by the downward revision to electricity tariffs in January 2025 and statistical base effects from VAT-induced price increases and elevated food inflation in early 2024. Deflationary conditions began to ease from March 2025, driven by the increase in food inflation, particularly in vegetables and fish, along with the upward adjustment to electricity tariffs implemented in June 2025 and the positive contribution that arose from the effect of the statistical base. With the gradual easing of prolonged deflationary pressures in the energy and transport category and the increase in food inflation, along with the continued normalisation of demand conditions, headline inflation returned to positive levels in August 2025 and increased at a gradual pace thereafter. Although there was a temporary uptick in food prices in December 2025, owing to supply disruptions following *Cyclone Ditwah* and festive demand, inflation remained at moderate levels towards the end of the

year. Overall, inflation developments during 2025 were influenced largely by supply-side factors, amid a slow recovery of aggregate demand. Accordingly, year-on-year (y-o-y) headline inflation, measured by the Colombo Consumer Price Index (CCPI, 2021=100),² accelerated to 2.1% by the end of 2025 from -1.7% recorded at the end of 2024, while the annual average CCPI-based headline inflation in 2025 decelerated to -0.5% from 1.2% recorded in 2024. The National Consumer Price Index (NCPI, 2021=100)³-based y-o-y headline inflation, also reflected a similar trend, accelerating to 2.9% by the end of 2025 from -2.0% recorded by the end of 2024, while the annual average NCPI-based headline inflation in 2025 decelerated to 0.2% from 1.6% in 2024. Meanwhile, the CCPI-based headline inflation accelerated to 2.3% in January 2026, contributed by the increase in prices of both food and non-food categories. However, it fell to 1.6% in February 2026 owing to a significant decline in prices of volatile food, especially those of vegetables. Nevertheless, the CCPI-based headline inflation accelerated to 2.2% in March 2026, contributed largely by the increase in the prices of the non-food category, mainly transport. Meanwhile, the NCPI-based y-o-y headline inflation was recorded at 1.6% in February 2026.

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

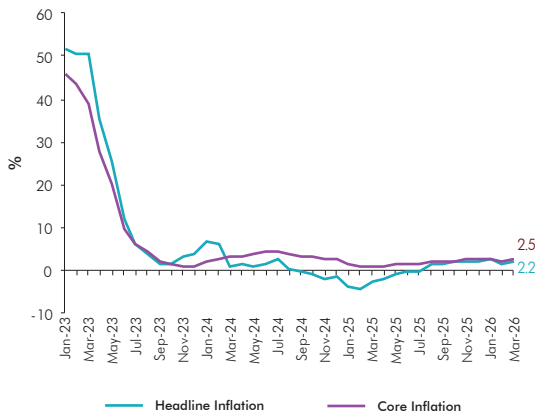
² The CCPI is compiled by the Department of Census and Statistics (DCS) on a monthly basis and demonstrates the price movements of a basket of consumer items in urban households in the Colombo district.

³ The NCPI is compiled by the DCS on a monthly basis and demonstrates the price movements of a basket of consumer items at the national level.



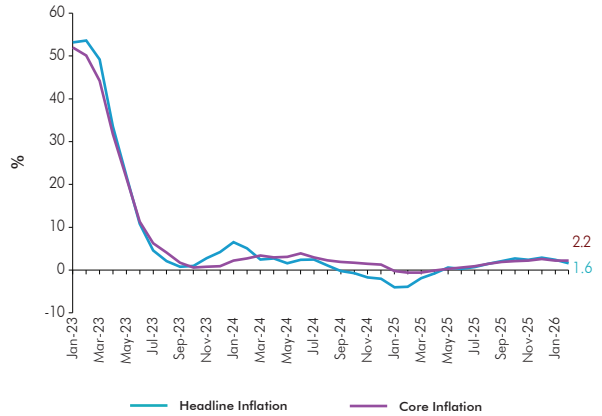
Figure 1.1
Inflation Dynamics in Sri Lanka

Movements in Headline and Core Inflation
(CCPI, 2021=100, y-o-y)



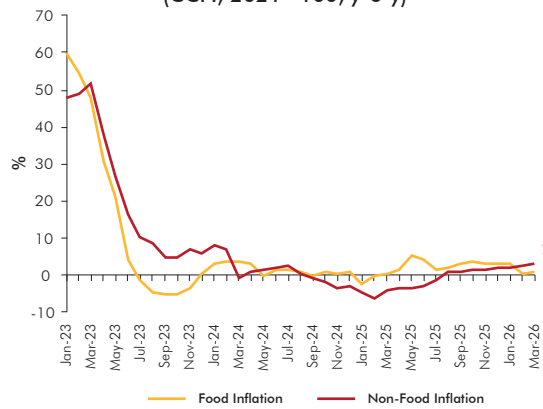
Source: Department of Census and Statistics

Movements in Headline and Core Inflation
(NCPI, 2021=100, y-o-y)



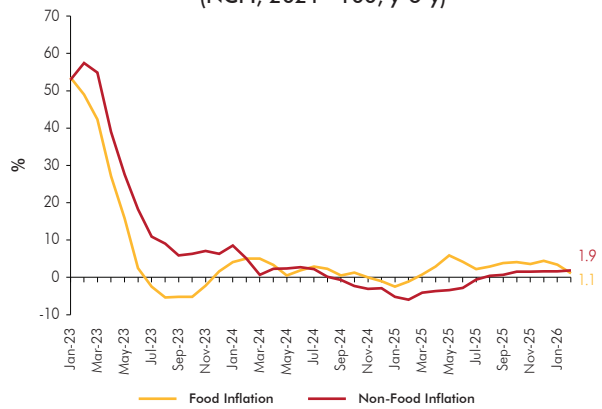
Source: Department of Census and Statistics

Movements in Food and Non-Food Inflation
(CCPI, 2021=100, y-o-y)



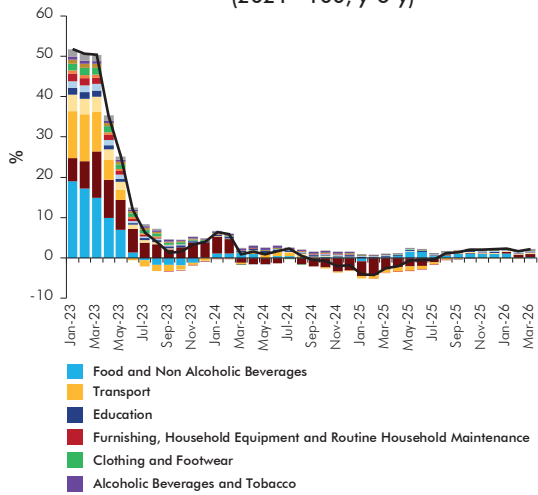
Source: Department of Census and Statistics

Movements in Food and Non-Food Inflation
(NCPI, 2021=100, y-o-y)

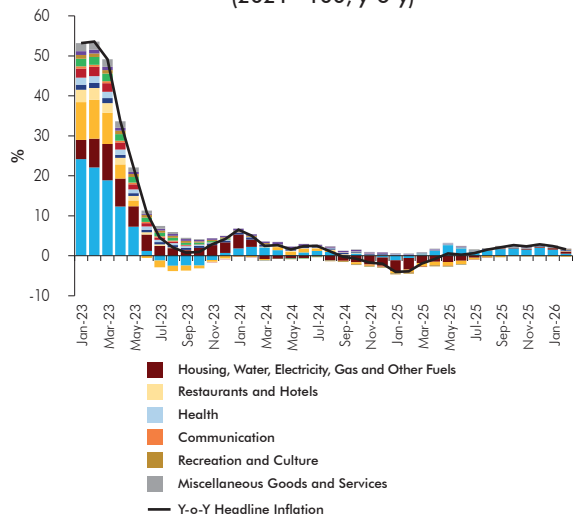


Source: Department of Census and Statistics

Contribution to CCPI-based Headline Inflation
(2021=100, y-o-y)



Contribution to NCPI-based Headline Inflation
(2021=100, y-o-y)



Sources: Department of Census and Statistics
Central Bank Staff Calculations

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

		2013=100				2021=100				
		Dec-2021	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Jan-2026	Feb-2026	Mar-2026	%
Headline Inflation	CCPI	12.1	57.2	4.0	-1.7	2.1	2.3	1.6	2.2	
	NCPI	14.0	59.2	4.2	-2.0	2.9	2.4	1.6		
Core Inflation	CCPI	8.3	47.7	0.6	2.7	2.7	2.3	2.1	2.5	
	NCPI	10.8	57.5	0.9	1.3	2.6	2.2	2.2		
Food Inflation	CCPI	22.1	64.4	0.3	0.8	3.0	3.3	0.2	0.7	
	NCPI	21.5	59.3	1.6	-1.0	4.4	3.4	1.1		
Non-Food Inflation	CCPI	7.5	53.4	5.8	-3.0	1.8	1.8	2.3	2.9	
	NCPI	7.6	59.0	6.3	-2.9	1.6	1.6	1.9		

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

Source: Department of Census and Statistics

Core inflation, which reflects the underlying demand conditions in the economy, showed a gradual acceleration during 2025 while remaining at low positive levels. Core inflation recorded relatively low levels during early 2025, partly owing to the statistical base effect arising from VAT-related price increases in non-food categories in early 2024. A gradual acceleration of core inflation was observed thereafter, reflecting increases in both food and selected non-food categories within the core basket. Despite these dynamics, core inflation remained below the headline inflation target throughout the year. The relatively low levels of core inflation also suggest that the pickup in demand may have been somewhat slower than indicated by other economic indicators, such as the sharp rise in private sector credit growth and the rapid increase in imports. This could also suggest that firms may have largely maintained price levels that were adjusted during the crisis period, rather than increasing prices further, amid the relatively subdued purchasing power of the public. Accordingly, the CCPI-based y-o-y core inflation stood at 2.7% by the end of 2025, which was the same level as by the end of 2024, while the annual average CCPI-based core inflation decelerated to 1.6% in 2025 from 3.3% in 2024. Meanwhile, the NCPI-based y-o-y core inflation accelerated to 2.6% by the end of 2025 from 1.3% at the end of 2024, while

the annual average NCPI-based core inflation decelerated to 0.9% in 2025 from 2.5% recorded in 2024. Developments in early 2026 indicate that core inflation has continued to remain at low positive levels, reflecting a more gradual than expected recovery in domestic demand conditions.

1.1.2 Prices

The general price level recorded a moderate increase during 2025, reversing the decline observed in the previous year, as reflected by both CCPI and NCPI.

Price movements within the year exhibited a combination of seasonal fluctuations in food supply and adjustments in several administered prices. Certain food items recorded price increases during off-season periods and towards the end of the year due to increased festive demand and temporary supply disruptions following *Cyclone Ditwah* in late November 2025, which exerted some upward pressure on food prices in December 2025. Nevertheless, overall price pressures remained contained amid improving macroeconomic conditions, supported partly by periodic downward revisions in fuel prices during the year.

Prices of food items exhibited considerable volatility during 2025, largely reflecting seasonal variations in the supply of food items and adverse weather conditions.



BOX 01
Recent Deflation Episode in Sri Lanka

Introduction¹

After reaching a historic peak in September 2022, headline inflation moderated thereafter, turning negative by September 2024 and remaining in deflation for 11 months until August 2025. This marked the first episode of deflation since March 1995.² While the disinflation process reflected proactive tight monetary policy actions, the subsequent deflationary episode was driven primarily by large price reductions in the energy and transport category. These price reductions were supported by favourable weather conditions, which enabled a larger share of hydroelectricity generation and moderated global energy prices. Statistical base effects also played a role in the deflation process in early 2025, particularly those arising from Value Added Tax (VAT)-induced price increases and elevated food inflation in early 2024. Reflecting these cumulative influences, deflation deepened in February 2025 before gradually easing thereafter. However, some price pressures that heightened in the crisis period, dampened in the deflationary episode, alleviating the burden

on businesses and households and easing cost pressures, to some extent. The accommodative monetary policy stance since June 2023 has supported a gradual recovery in aggregate demand, contributing to an increase in headline inflation. In addition, increases in food inflation, the upward revision of electricity tariffs in mid-June 2025, and the upward contribution from the statistical base, also collectively contributed to the end of the deflationary episode and the gradual acceleration of inflation thereafter.

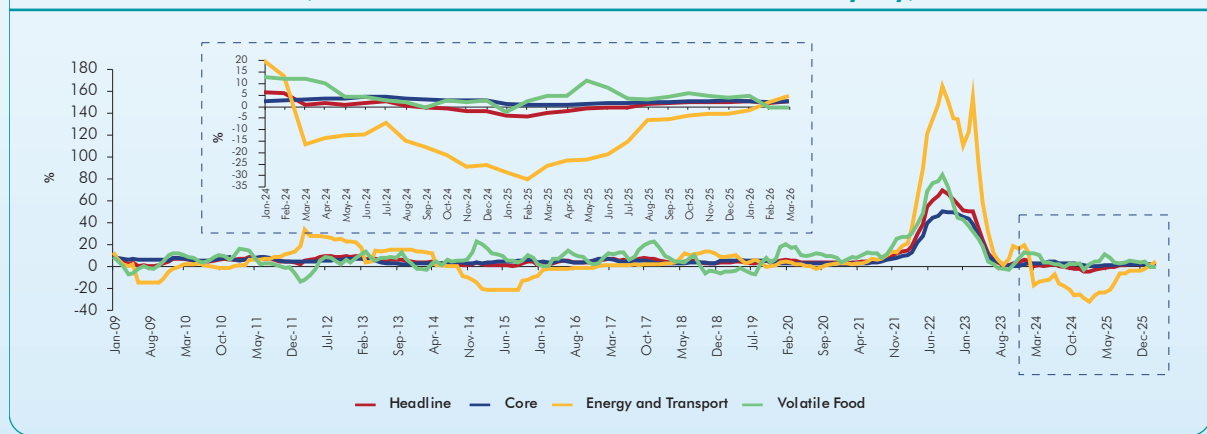
Figure B1.1 illustrates the movements of headline inflation, core inflation, energy and transport inflation and volatile food inflation. Among these, energy and transport inflation display greater volatility, with substantially larger fluctuations than the other components over the recent years.

Developments in Core Inflation

Core inflation, derived by excluding volatile food and energy and transport categories from the Consumer Price Index (CPI), serves as an indicator of underlying inflationary pressures in the economy and is more closely linked to demand conditions and monetary policy transmission. As such, it provides a clearer signal of persistent inflation trends by abstracting from temporary supply-side shocks. Notably, core inflation remained positive

1 This Box Article is broadly based on the Box article published in the Monetary Policy Report - February 2026 of the Central Bank of Sri Lanka under the title *Digging Deeper into the Recent Deflation Episode in Sri Lanka*.
2 Headline Inflation is derived based on the most recent base year series applicable for the respective period, i.e., when splicing, prominence is given to the most recent base year for periods where multiple observations exist. It is noteworthy that when considering the Colombo Consumer Price Index (CCPI) published in the respective month, negative inflation has been published in July-Sep 2015 using 2006/07=100 base. However, when the 2013=100 base is used, such deflation cannot be observed during 2015.

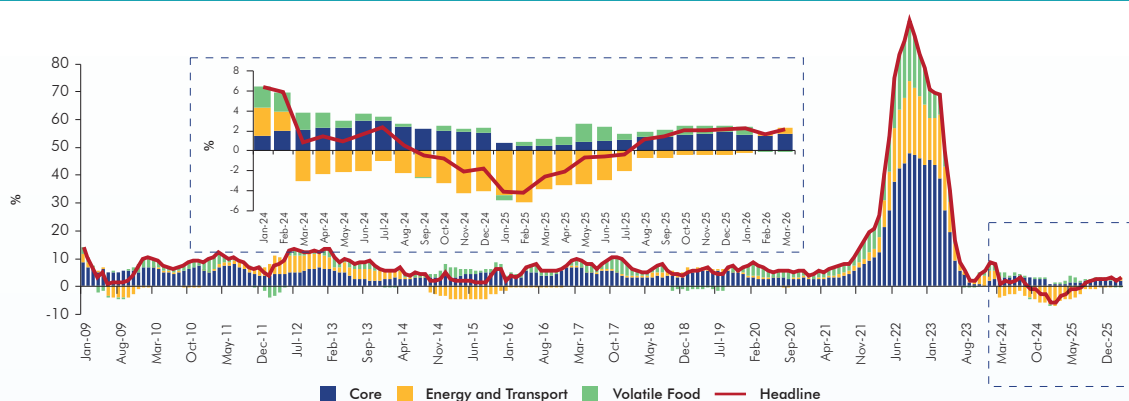
Figure B 1.1
Movements of Headline, Core, Energy and Transport and Volatile Food Inflation (CCPI, 2006/ 07=100, 2013=100, 2021=100, y-o-y)



Note: Inflation rates for each category have been derived based on the respective base year applicable during the period. When splicing, prominence is given to the most recent base year for periods where multiple observations exist.

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

Figure B 1.2
Contribution to Headline Inflation (CCPI, 2006/ 07=100, 2013=100 and 2021=100, y-o-y)



Note: Contribution to y-o-y headline inflation from each category has been derived based on the respective base year applicable during the period. When splicing, prominence is given to the most recent base year for periods where multiple observations exist.

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

throughout the recent deflationary episode, indicating that underlying demand conditions remained steady, albeit subdued, despite the decline in headline inflation. This behaviour suggests that the observed deflation was largely driven by transitory factors, such as easing energy prices and favourable base effects, rather than a broad-based and sustained weakening in underlying inflation. Moreover, this is also reflected in the overall behaviour of inflation expectations, where the expectations of both the corporate and household sectors for horizons of six months or more remained positive throughout the period, as recorded in the Inflation Expectations Survey of the Central Bank.

Meanwhile, Figure B1.2 illustrates the contribution of core inflation, energy and transport inflation and volatile food inflation to headline inflation. In recent periods, energy and transport inflation has made a significant negative contribution to headline inflation. At the same time, the contribution of core inflation, albeit being positive, has remained low relative to pre-crisis periods.

Economic Growth Amid Deflation

The recent deflationary episode did not coincide with a slowdown in economic activity. Instead, growth momentum strengthened following the economic crisis, with real GDP growth of 5% in both 2024 and 2025. Alongside this robust growth, a low unemployment rate and a gradual

increase in labour force participation compared with recent periods, signals a possible expansion of the economy rather than a slowdown. At the same time, leading indicators of economic activity, such as credit to the private sector and import demand, also recorded notable increases, signalling strengthening growth momentum. Accordingly, the deflationary episode can be characterised as transitory and mostly supply-driven rather than reflecting a persistent demand side weakness with risks of a deflationary spiral.

Sustained Low Inflation

Despite returning to positive territory in August 2025, the pace of acceleration in headline inflation remained moderate. This partly reflects the substantial upward reset in the consumer prices in the CPI basket during the high inflation episode of 2022, when prices increased broadly across sectors, as well as compressed disposable incomes from tight fiscal consolidation. Against this backdrop, firms appear to have exercised greater price restraint than in normal times, leading to persistently low inflation despite the economic recovery. Moreover, when countries which have experienced similar inflation dynamics, with substantially high inflation, followed by a quick disinflation episode, are compared, a period of lower-than-average inflation can be observed across several economies.³

³ Such behaviours can be observed in several developing economies, including regional peers such as the Philippines, Indonesia, and Pakistan, although the respective periods and the underlying drivers of the inflation dynamics are not common across the countries.

Conclusion

Following the earlier inflation surge, the economy experienced a deflationary episode driven mainly by significant reductions in energy and transport prices, supported by favourable weather conditions, lower global energy prices, and statistical base effects. As inflation returned to positive territory in late 2025, the pace of increase remained moderate, indicating a gradual and orderly normalisation of price dynamics. Economic growth and core inflation dynamics suggest that underlying demand conditions did not weaken significantly during the deflationary period episode. Moreover, other macroeconomic indicators also suggest that economic activity continued to increase, rather than recording a persistent slowdown. Taken

together, these developments suggest that the recent persistence in inflation largely reflects the gradual normalisation of price dynamics amid a high cost base, rather than a sustained contraction in demand. While the recent deflationary episode and persistently low inflation may suggest scope for a lower inflation target, such considerations need to be viewed in the context of Sri Lanka's structural characteristics. As a small, open economy that is more susceptible to supply-side shocks, including weather-related disruptions and external shocks, Sri Lanka requires a relatively higher inflation target and a wider deviation margin compared to larger and more advanced economies to accommodate such fluctuations and ensure effective policy implementation.



Food prices recorded a slight increase during the first two months of 2025, before declining until April 2025, mainly reflecting improved supply conditions associated with the Maha harvest. Prices of food items subsequently increased notably during May and June 2025 due to off-season supply conditions and adverse weather conditions affecting the production of several volatile food items. However, food prices declined sharply after reaching a peak in June 2025 and remained relatively moderate until November 2025, largely reflecting improved supply conditions associated with the bumper harvest reported in the Yala season. Food prices increased notably in December 2025 due to higher seasonal festive demand and temporary supply disruptions following *Cyclone Ditwah* in late November, which caused transportation difficulties and limited the market supply of several food items.

Prices of non-food items also followed an overall increasing trend in 2025, primarily driven by administrative price revisions.

Non-food prices remained relatively subdued during the early months of the year, largely reflecting the 19.6% reduction in electricity

tariffs,⁴ with effect from 18 January 2025. However, this trend reversed around the middle of the year following a 16.2% upward revision to electricity tariffs, with effect from 12 June 2025, which contributed to a notable increase in non-food prices in July 2025. Thereafter, non-food prices increased moderately before stabilising towards the end of the year. Even though electricity tariffs fluctuated significantly during the year, water tariffs remained unchanged.

The prices of Petrol (Octane 92) and Auto Diesel were subjected to several downward revisions during the year, except for the price increases observed in July 2025 of Rs. 12 and Rs. 15, respectively.

Reflecting these adjustments, the price of Petrol (Octane 92) declined from Rs. 309 per litre in January 2025 to Rs. 294 per litre by December 2025, while the price of Auto Diesel declined from Rs. 286 per litre to Rs. 277 per litre during the same period. Similarly, the price of Kerosene was revised downward in several months during the year, except for the

⁴ Electricity tariff of 90 units in the domestic category is considered in the compilation of the CCPI (2021=100) and N CPI (2021=100).

price increase of Rs. 7 with effect from 01 July 2025. Moreover, the only revision to LP Gas⁵ prices during 2025 was the upward revision with effect from 01 April 2025, increasing the price of Laugfs 12.5 kg cylinder by Rs. 420 to Rs. 4,100, while the price of the

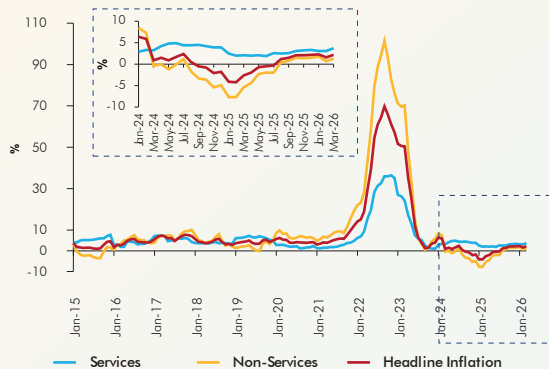
Litro 12.5 kg cylinder remained unchanged at Rs. 3,690 throughout the year. In line with fuel price adjustments during the year, bus fares were reduced by 0.55% with effect from 04 July 2025, following the annual bus fare revision. However, train fares remained unchanged during 2025.

⁵ The price of a 12.5 kg LP Gas cylinder is considered in the compilation of the CCPI (2021=100) and NCCI (2021=100).

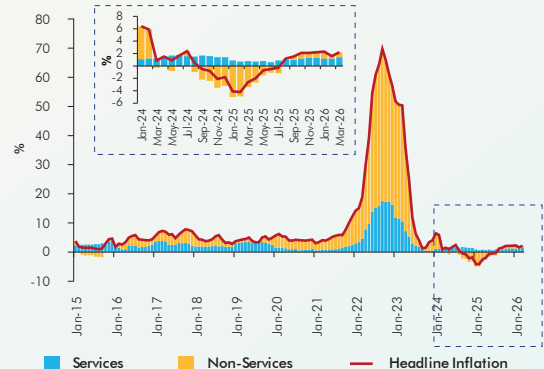
Featured Chart 1.1
Services and Non-Services Inflation Dynamics



Movements of Services, Non-Services and Headline Inflation (CCPI, y-o-y)



Contribution to Headline Inflation (CCPI, y-o-y)



Note: Data preceding January 2023 are based on the CCPI (2013=100), while data commencing January 2023 are based on the CCPI (2021=100).

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

Services inflation refers to the increase in the prices of services over time, such as housing rent, restaurant and hotel services, education, communication, and transport services, among others. Compared to goods prices, services prices tend to be less volatile and adjust more gradually to supply-side disruptions or external shocks, thereby exhibiting greater persistence. Moreover, prices of services depend significantly on domestic factors, including wage dynamics. As a result, services inflation serves as an important indicator of underlying inflationary pressures.

In Sri Lanka, the available sub-categories within the Consumer Price Index (CPI) basket can be used to derive services inflation. Accordingly, as categorised by the Central Bank, services related items account for nearly half of the Colombo

Consumer Price Index (CCPI) basket.¹ As such, movements in service prices exert a substantial influence on headline inflation and the overall cost of living. Monitoring services inflation is therefore essential for understanding its drivers and assessing the inflationary environment.

The chart illustrates the y-o-y behaviour of services inflation alongside non-services and headline inflation over the period 2015 to early 2026. In contrast to the pronounced volatility in non-services inflation, services inflation remained relatively stable throughout the period. Notably, even during the recent episode of headline deflation where non-services deflation prominently deepened, services inflation remained positive, continuing to exert upward pressure on overall inflation.

¹ Central Bank staff have extracted service-specific components from the available sub-categories of the overall (Headline) CPI baskets of goods and services (2013=100 and 2021=100) using the Classification of Individual Consumption According to Purpose (COICOP) 2018. Please refer to 'Box B: Understanding Services Inflation: Why Does It Matter?' in Monetary Policy Report - August 2025 for more details on Services Inflation.



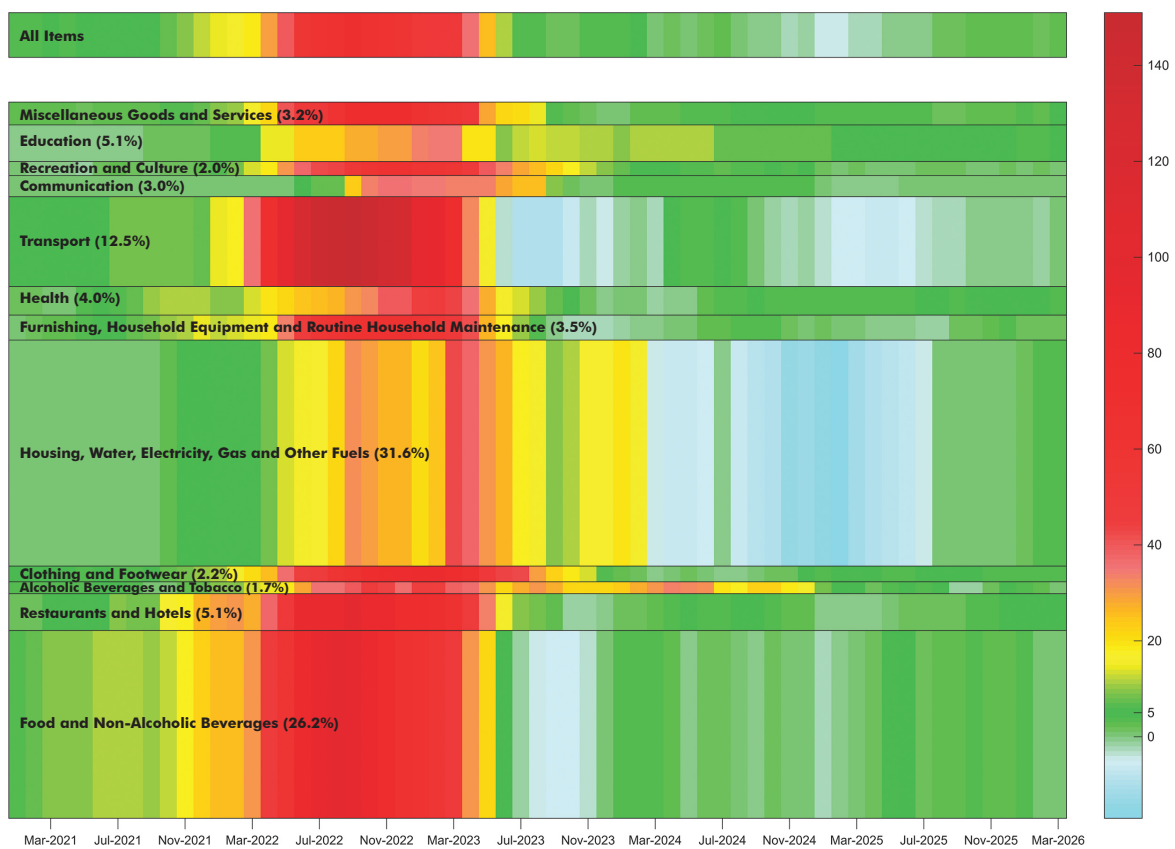
Featured Chart 1.2
Distribution of Price Pressures Across CCPI Components



The chart presented here, in the form of a heat map, illustrates the evolution of year-on-year inflation across major categories of the Colombo Consumer Price Index (CCPI) since 2021. The colour gradient represents the intensity of price movements, with warmer colours (yellow to dark red) indicating higher inflationary pressures, green denoting inflation broadly around the inflation target of 5%, and light blue representing periods of deflation. Meanwhile, the height of each category indicates its relative base weight. This form of presentation allows reading inflation across three dimensions; it shows the direction and intensity of categorical price pressures, reveals which items matter more for overall inflation, and illustrates whether inflation is broad-based or concentrated.

In early 2021, inflation remained largely contained near the 5% target across most categories. However, from early 2022 to mid 2023, inflation surged sharply, and across most categories, with 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels', and 'Transport' recording the most intense pressures amid the economic crisis. Category-wise responses varied in timing and magnitude, yet the subsequent period shows a gradual, broad-based disinflation as macroeconomic conditions improved. On the contrary, the 2024-2025 deflation episode seems to be driven mainly by large-weight items, particularly 'Housing, Water, Electricity, Gas and Other Fuels', along with 'Transport', rather than by economy-wide price declines. More recently, the reappearance of green across most categories signals a normalisation of price pressures and a return to greater overall price stability.

Headline Inflation Heatmap (CCPI, y-o-y, %)



Note :

1. Data preceding January 2023 are based on the CCPI (2013=100), while data commencing January 2023 are based on the CCPI (2021=100).
2. Base weights are given in parentheses, based on the CCPI (2021=100). The height represents the relative base weight of the category (excluding in the case of All Items).
3. The right-side scale represents y-o-y inflation, where values close to the inflation target of 5% are shown in green. As inflation increases, the colour transitions from green to yellow, and further to light red and dark red, indicating increasingly higher inflation. Inflation levels below 5% are indicated by the transition of colour from green to blue, with more intense blue shades indicating deeper deflation.

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

1.1.3 Consumer Price Indices and Cost of Living

Both official Consumer Price Indices (CPIs) exhibited an overall increase during 2025.

Accordingly, the CCPI increased at a slower pace from 191.7 index points in December 2024 to 195.8 index points in December 2025. Similarly, the NCPI also increased from 204.6 index points in December 2024 to 210.5 index points in December 2025.

As reflected by the annual average change in CPIs, cost of living⁶ exhibited mixed outcomes in 2025 compared to 2024.

The estimated average monthly consumption expenditure for a household,⁷ based on the CCPI, decreased marginally by 0.5% from Rs. 178,438 in 2024 to Rs. 177,545 in 2025, following the elevated increases observed during 2023 and 2024. In contrast, based on the NCPI, the estimated average monthly household⁸ consumption expenditure increased marginally by 0.2% from Rs. 105,063 in 2024 to Rs. 105,230 in 2025. In terms of the distribution of estimated average monthly consumption expenditure for a household in both CCPI and NCPI baskets, the

6 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.
 7 An average household in Colombo district consists of 3.8 persons based on HIES (2019) conducted by DCS.
 8 An average household in Sri Lanka consists of 3.7 persons based on HIES (2019) conducted by DCS.

Figure 1.2
CCPI vs. Headline Inflation

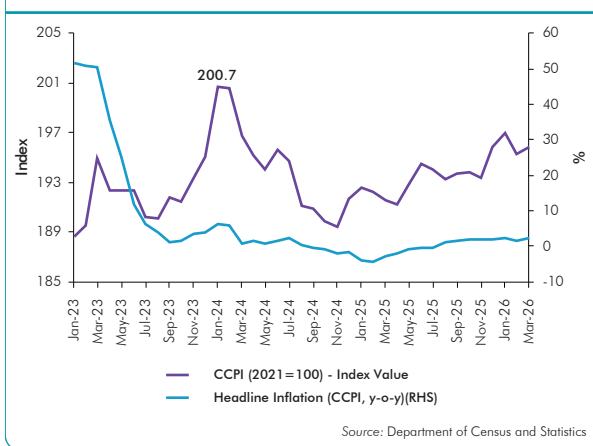
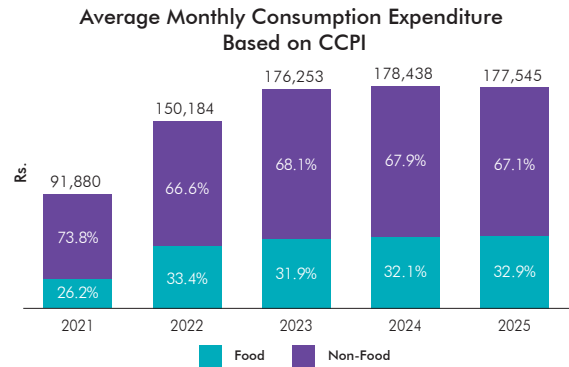
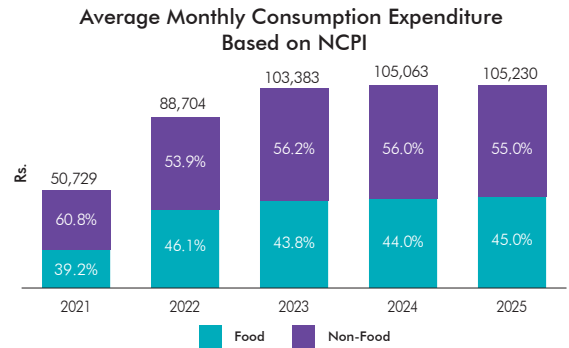


Figure 1.3
Cost of Living



Note : The Cost of Living is estimated by the annual average of the monthly consumption expenditure value of the consumption basket of an average household in the urban areas of Colombo district, considered under compilation of CCPI. The weights assigned to the various consumption items in this basket are derived from expenditure patterns observed in the Household Income and Expenditure Survey (2019).



Note : The Cost of Living is estimated by the annual average of the monthly consumption expenditure value of the consumption basket of an average household in Sri Lanka, considered under compilation of NCPI. The weights assigned to the various consumption items in this basket are derived from expenditure patterns observed in the Household Income and Expenditure Survey (2019).

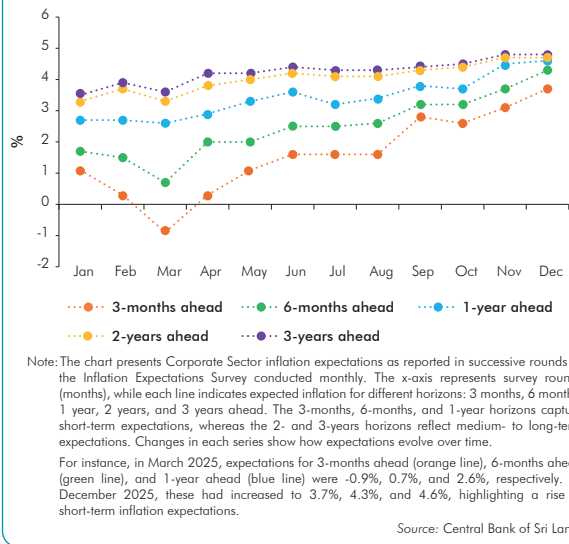
Sources: Department of Census and Statistics
Central Bank of Sri Lanka

share allocated to the food category remained elevated following the economic crisis in 2022, while the non-food category continued to account for the majority of household expenditure.

1.1.4 Inflation Expectations

Inflation expectations of both corporate and household sectors, as reflected in the Inflation Expectations Survey conducted by the Central Bank, increased gradually during 2025, with variations observed across different tenors. For the corporate sector, near-term inflation expectations, covering the 3-months ahead and 6-months ahead horizons, remained below the lower bound of the margin of ± 2 pps from the 5% inflation target at the beginning of the year, consistent with the low inflation environment

Figure 1.4
Inflation Expectations (Corporate Sector) - 2025



that prevailed during the period. Thereafter, these expectations recorded a gradual increase from mid-2025 onwards, moving closer towards the targeted level, in line with the anticipated normalisation of inflation. Inflation expectations for the 1-year ahead horizon followed a similar pattern, increasing steadily over the year, while remaining within the margin of ± 2 pps from the targeted level from May 2025 onwards. Inflation expectations of the households also exhibited a similar upward movement over the year but remained at a lower level compared to the corporate sector, reflecting their tendency to adjust expectations based on past inflation, along with the effects of the low-inflation environment. Meanwhile, medium to long-term inflation expectations of the corporate sector, covering the 2-years ahead and 3-years ahead horizons, remained well anchored around the inflation target, with only a marginal upward adjustment observed towards the latter part of the year. Overall, the evolution of inflation expectations during 2025 indicates that while the corporate sector anticipated a gradual pick-up in inflation over the near to medium-term, expectations across all horizons remained broadly consistent with the inflation target, reflecting continued confidence in the medium-term inflation objective and the effectiveness of the monetary policy framework.

1.1.5 Wages

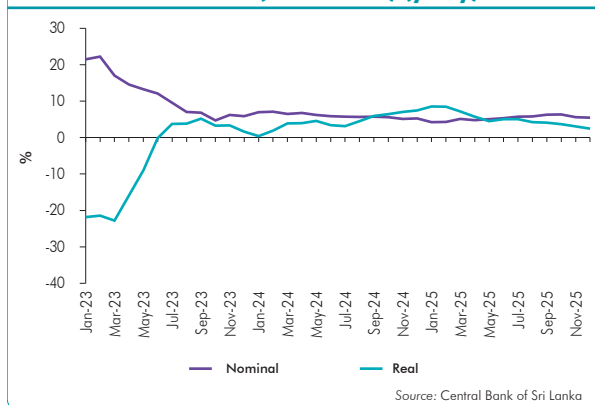
Available data reveal⁹ that nominal wages of employees in both the private and public sectors recorded an increase in 2025 compared to the previous year, reflecting evolving labour market conditions and administrative wage adjustments. In the informal private sector, wage growth was primarily underpinned by persistent labour shortages and heightened demand for workers across several economic activities. Tight labour market conditions, particularly in sectors experiencing supply constraints, exerted upward pressure on daily wage rates and contract-based remuneration. In the public sector, the rise in nominal wages was primarily driven by salary adjustments for public sector personnel. These revisions, which were introduced as part of the Government's policy initiatives, played a crucial role in the notable increase in the public sector wage bill throughout the year. In real terms, wage developments exhibited positive outcomes. Real wages in the public sector, the informal private sector and the formal private sector improved in 2025, supported by nominal wage increases and relatively contained inflationary pressures. However, this assessment should be interpreted with caution, as available data may not fully capture various forms of compensation and allowances received by employees.

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 2025. Nominal wages of informal private sector employees, as reflected in the IPSWRI, grew moderately during 2025, following the stronger increases observed in the preceding year. Accordingly, this index

⁹ Information in this section is primarily based on the public sector wage rate index (2016=100) and informal private sector wage rate index (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 for employees governed by wage boards. However, available wage indices have certain limitations in fully capturing the overall wage trends across the economy.

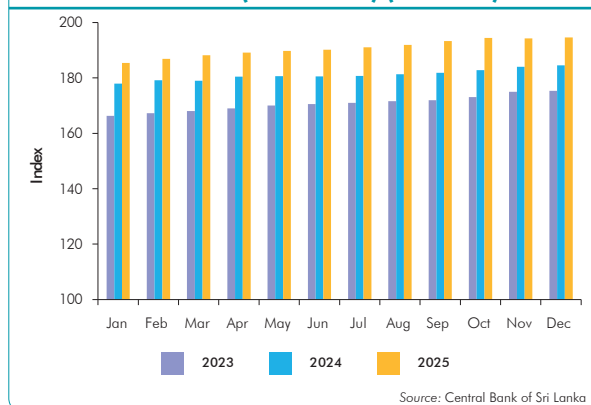
Figure 1.5
Movements of the Informal Private Sector Wage Rate Index (2018=100) (y-o-y)



recorded a 5.3% increase in nominal terms on an annual average basis in 2025 compared to the 6.0% increase in 2024. The deceleration of the pace of growth reflected the easing of inflationary pressures and a gradual normalisation of labour market conditions. The increase was evident across all three major economic activities, namely, Agriculture, Industry, and Services, with the highest wage growth observed in Agriculture activities. In terms of sub-activities, the IPSWRI, measured on an annual average basis, increased in nominal terms by 5.8%, 5.6%, and 4.0% in Agriculture, Industry, and Services, respectively, in 2025 compared to 2024.

Nominal wages of formal private sector employees, as measured by the minimum wage rate index (1978 December=100), compiled by the Department of Labour, recorded an increase in 2025. Accordingly, the nominal minimum wage rate index increased by 29.8% on an annual average basis in 2025 compared to a marginal increase of 0.1% in 2024. The real minimum wage rate index measured on an annual average basis also increased by 30.3% in 2025, compared to the decline of 1.1% recorded in 2024, as the percentage increase in nominal wage rate indices remained significant during the period. In line with Budget 2025, the Government increased

Figure 1.6
Movements of the Informal Private Sector Wage Rate Index (2018=100) (Nominal)



the monthly minimum wage for private sector employees from Rs. 21,000 to Rs. 27,000 in April 2025 and to Rs. 30,000 in January 2026, as previously agreed upon with the Employers' Associations, and implemented under the National Minimum Wage of Workers (Amendment) Act, No. 11 of 2025. Additionally, as part of the Budget 2026 proposals, the Government proposed to increase the daily wage of plantation sector workers from Rs. 1,350 to Rs. 1,750, comprising a base wage of Rs. 1,550 and an attendance-based incentive of up to Rs. 200, with effect from January 2026.

Public Sector Wages

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), recorded a marked increase during 2025, reflecting the implementation of the comprehensive public sector salary revision announced in Budget 2025.

Under this revision, the Government introduced a restructuring of the public sector salary framework, aimed at enhancing base pay while rationalising existing allowances. Accordingly, the minimum basic salary was increased by Rs. 15,750, from Rs. 24,250 to Rs. 40,000, with effect from 01 April 2025, through the consolidation of the ad hoc

BOX 02

Addressing Data Gaps in Private Sector Wage Dynamics Using EPF Based Formal Sector Wage Rate Index

1

Monitoring wage behaviour is essential for monetary policy decision making as it represents a key channel through which labour market conditions influence inflation and overall macroeconomic stability. Wage fluctuations that are aligned with changes in labour productivity can support sustainable economic growth while maintaining price stability.¹ Hence, for this purpose, the Central Bank of Sri Lanka (CBSL) refers to different indices where the Formal Private Sector Minimum Wage Rate Index compiled by the Department of Labour on a monthly basis is used to assess the wage dynamics of the formal private sector. A key advantage of this index is its monthly availability, which facilitates timely monitoring of minimum wage trends, supporting analysis related to inflation and labour market conditions. However, this index has several limitations. This index, which was introduced with December 1978 as the base period and covers minimum wages for 21 wage boards, has not been updated despite the number of wage boards increasing to 44. As a result, the index fails to reflect wage developments in wage boards established subsequently. In addition, employees covered by wage boards represent only a segment of the overall private sector workforce, implying that the index does not reflect the minimum wage structure of the entire formal private sector. Furthermore, the index is constructed using statutory minimum wages rather than actual earnings. Minimum wages are not revised frequently, whereas total earnings comprising basic wages, variable payments, and various allowances may adjust more regularly in response to labour market conditions, limiting the index's ability to capture the true dynamics of wage adjustments. In view of these limitations, the CBSL has initiated the development of an alternative private sector wage rate index using data from contributions to the Employees' Provident Fund (EPF), with the objective of constructing a more representative indicator of wage movements in the private sector.²

¹ Bank for International Settlements (2010), Monetary policy and the measurement of inflation: prices, wages and expectations, BIS Papers No. 49, Basel: Bank for International Settlements. Available at: <https://www.bis.org/publ/bppdf/bispap49.pdf> (Accessed: 20 March 2026).

² CBSL initiated researching and compiling a new wage rate index for the Formal Sector in collaboration with the Faculty of Science, University of Colombo. In addition, CBSL sought expert guidance from the International Labour Organization (ILO) and the Faculty of Arts, University of Colombo to validate the methodology used in compiling the index.

Rationale for Using Superannuation Contribution Data

Given the limitations of existing wage statistics and the need for a timely indicator to assess private sector wage dynamics, administrative data sources were considered. Among these, superannuation contribution records were identified as a suitable basis for developing a high-frequency private sector wage rate index to enhance the monitoring of labour cost developments relevant for macroeconomic and monetary policy analysis. The analysis is based on aggregated EPF administrative data, and no individual level information is used, ensuring confidentiality of contributors.

Data Source and Methodological Approach

The wage rate index is constructed using administrative data obtained from the EPF, covering the period from January 2017 to December 2025. The dataset comprises employer-reported contribution records submitted through manual, online, and e-media platforms, with online and e-media channels accounting for many contribution values, ensuring broad coverage of formal sector employment. It includes key variables such as employer identifiers, number of employees, contribution values, and reporting periods, enabling the compilation of a high-frequency wage indicator. Given differences in reporting lags, more timely partial datasets can be utilised for policy analysis, while finalised datasets are used for official publication.

The index is compiled using January 2017 as the base period, reflecting relatively stable wage conditions. Among alternative index number approaches evaluated, the Laspeyres method was selected based on its empirical performance and consistency. This approach, which uses fixed base-period weights, is widely adopted in international practice and provides a stable measure of wage movements over time.

Administrative data differs from survey-based wage statistics in terms of frequency, coverage, and compilation. Superannuation contribution records are generated through mandatory reporting and reflect payroll information, making

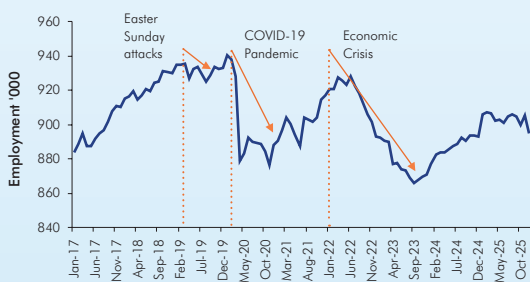
them less affected by sampling variability. In contrast, survey-based wage statistics are compiled periodically and require additional time for data collection and processing. While surveys provide insights into employment structures and income distribution, their lower frequency makes them less suitable for capturing short-term wage movements. Accordingly, administrative and survey data serve complementary purposes.

Superannuation contribution records cover around 60% of formal sector employment across sectors, enhancing the representativeness of the wage rate index. Focusing on the formal private sector remains appropriate given its role in driving aggregate demand and transmitting wage pressures to prices. A key advantage of this data is its availability in a monthly frequency, enabling timely monitoring of wage movements and early identification of emerging trends. Without such data, policy analysis may rely on lagged information, limiting the timely assessment of wage-price dynamics.

The index is constructed using aggregated superannuation contribution records, with a fixed base period to ensure consistency and comparability over time. Employer-wise records are aggregated to derive an index reflecting overall wage movements within the formal sector. The approach is kept simple and transparent to support regular monitoring, while detailed methodological aspects are documented separately.

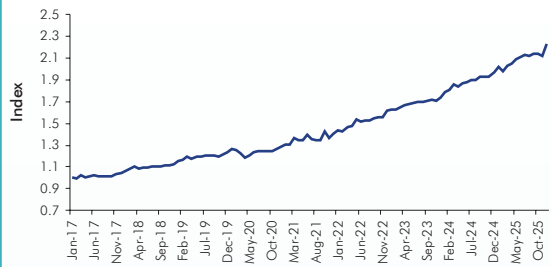
Developments in formal private sector employment provide a useful context for interpreting wage movements. Figure B 2.1 presents the movement of formal sector employment, highlighting the importance of considering broader labour market dynamics when assessing wage developments and

Figure B 2.1
Movement of Employment Based on EPF Data



Source: Central Bank Staff Calculations

Figure B 2.2
Movement of EPF Based Formal Sector Wage Rate Index



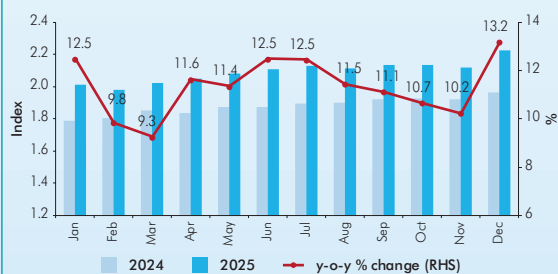
Source: Central Bank Staff Calculations

labour cost pressures. Employment data presented here are based on establishments that continuously reported EPF contributions and satisfy the criteria used for index compilation; hence, these figures are not directly comparable with official labour force estimates.

Figure B 2.2 illustrates a gradual upward trend in formal sector wages, with a more pronounced increase following the inflationary period during 2022–2023. Figure B 2.3 illustrates sustained wage growth with some moderation during mid-2025, followed by a pickup towards the end of the year, reflecting changes in economic activity, seasonal factors, and wage-setting practices.

Superannuation contributions are calculated as a fixed proportion of employee earnings, establishing a direct link between reported wages and contribution amounts. As a result, changes in aggregate contributions broadly reflect movements in earnings, supporting their use as a proxy for tracking private sector wage developments over time.

Figure B 2.3
Movements of EPF Based Formal Sector Wage Rate Index



Source: Central Bank Staff Calculations

Conceptual Framework of the New Wage Rate Index

The wage rate index is designed to measure changes in formal sector wages over time rather than absolute wage levels. By focusing on relative movements, the index provides an indicator of wage growth dynamics that can be assessed across periods and considered alongside other macroeconomic indicators, including inflation and output measures.

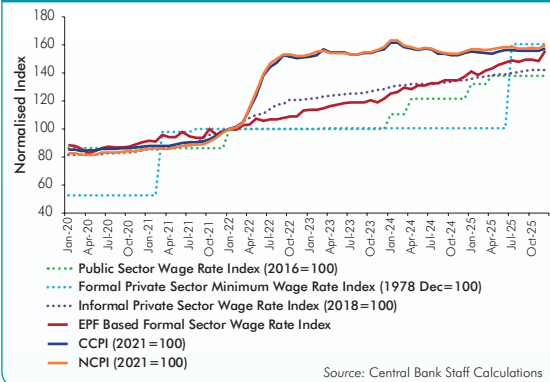
The resulting wage rate index provides a stable time series suitable for macroeconomic analysis. The use of administrative data enhances comparability over time and reduces volatility associated with sampling variation. Wage adjustments tend to occur with a delay relative to price movements, reflecting wage-setting mechanisms and institutional arrangements. In this context, the availability of a high-frequency wage rate index improves the monitoring of labour cost pressures and complements existing wage indicators derived from survey data and institutional wage adjustments.

Implications for Monetary Policy and Labour Market Analysis

The new index offers timely and robust insights into the interplay between private sector wage growth, inflationary pressures, and broader macroeconomic conditions. Analysis of the index shows that wage growth responds not only to underlying economic activity but also to changes in the price level. Figure B 2.4 indicates that the new wage index has been catching up with the increase in price indices. For example, the pronounced increase in average wages during 2022–2023 reflects the impact of elevated inflation, underscoring the potential for second-round effects in wage-setting behaviour. By capturing these dynamics more accurately than traditional indicators, the new wage index enhances the CBSL's capacity to anticipate and respond to emerging inflationary pressures.

High-frequency administrative data are particularly valuable for forward-looking policy. With online and e-media submissions accounting for roughly 80% of EPF contributions, the monthly aggregation of this information enables more responsive monitoring of labour cost developments. The new wage index complements existing indicators, including the long-standing Formal Private Sector Minimum Wage Rate Index, by providing a broader, more representative measure of formal private sector wages, covering over 800,000 employees. This expanded coverage allows

Figure B 2.4
Movements of Wage Rate Indices and Price Indices (Jan 2022=100)

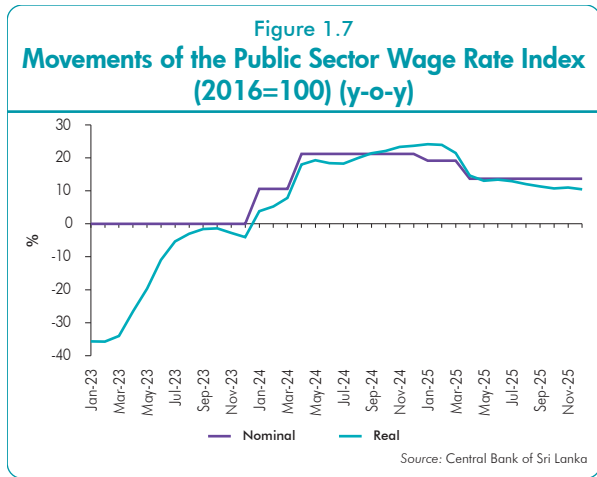


policymakers to track structural labour market trends with greater precision, supporting evidence-based decisions on monetary policy and wage-related interventions.

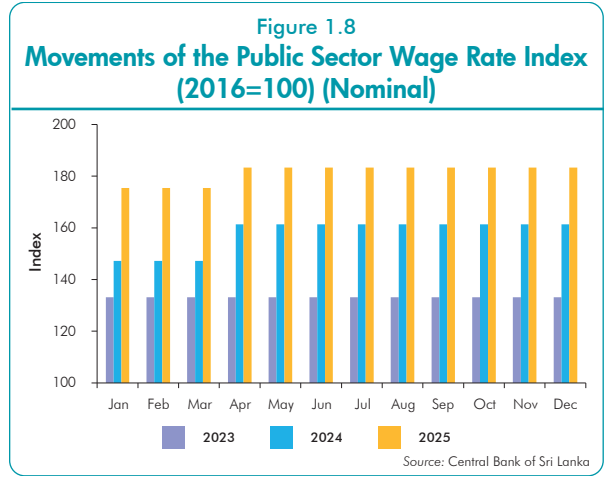
Strengthening Wage Monitoring and Future Directions

The compilation of the index represents a major enhancement in Sri Lanka's macroeconomic data infrastructure. Leveraging over 6 mn individual observations received over a period of 9 years, analysed using big data analytics techniques, the index establishes a foundation for regular, high-frequency monitoring of private sector wages. Moving forward, priority will be given to institutionalising data sharing, ensuring seamless integration of monthly contributions for policy analysis while maintaining semi-annual updates for the full dataset.

Beyond aggregate wage tracking, the administrative dataset offers significant analytical potential. Planned refinements include the development of sectoral indices to provide industry-specific insights into wage dynamics. In the longer term, integrating supplementary administrative datasets could allow the construction of a multi-dimensional framework for wage analysis, improving transparency and equipping policymakers and researchers with a comprehensive tool to assess evolving labour market conditions. Collectively, these initiatives position the index not only as a critical instrument for monitoring wages and inflation but also as a cornerstone for strengthening evidence-based macroeconomic policy in Sri Lanka. Going forward, the Central Bank intends to disseminate EPF-based Formal Sector Wage Rate Index statistics through its annual and semiannual publications.



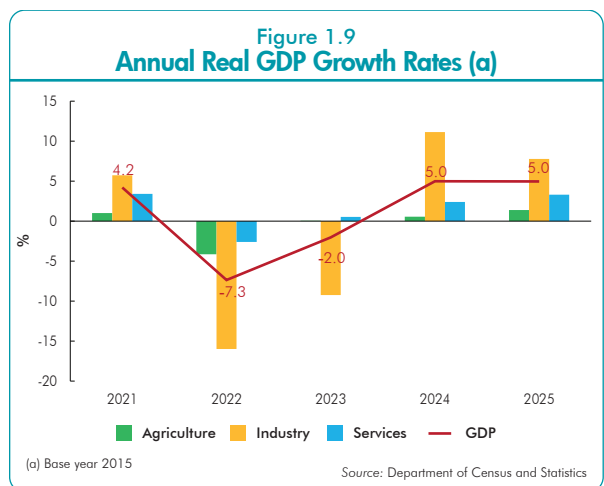
interim allowance of Rs. 2,500 and the special allowance of Rs. 5,000 into basic salary, resulting in a net increase of Rs. 8,250. Given the prevailing fiscal constraints, salary revision was implemented in a phased manner, commencing with a minimum net salary increase of Rs. 5,000, together with 30% adjustment from April 2025. The remaining portion of the approved salary increase was disbursed in phases, with public sector employees receiving Rs. 5,000 together with 65% of the balance amount from January 2026, thereby contributing to a further increase in nominal wages during 2026, with the full adjustment scheduled to be realised by January 2027. In addition, the Government proposed a significant improvement to the salary progression mechanism by increasing the minimum annual salary increment by 80%, from Rs. 250 to Rs. 450, with effect from 01 April 2025, while standardising the annual increment structure across all categories of public sector employees. Despite these adjustments, nominal wages of public sector employees increased by 14.9% in 2025, on an annual average basis, compared to 18.5% in 2024, indicating a moderation in nominal wage growth. Meanwhile, real wage growth decelerated to 14.7% in 2025 from 16.8% in 2024, reflecting the slowdown in nominal wage adjustments relative to price developments.



1.2 Real Sector Developments

1.2.1 Economic Growth

The Sri Lankan economy recorded a robust growth in 2025, with Gross Domestic Product (GDP) at constant prices increasing by 5.0%, despite the impact of Cyclone *Ditwah*. All four quarters contributed positively to this growth. The overall economic expansion was mainly driven by Industry activities, with notable contributions from manufacturing and construction activities. In addition, Services activities made a substantial contribution to growth, primarily supported by continued expansion in financial services and transport activities. Meanwhile, Agricultural activities also made a notable contribution to overall economic growth during the year, with the sector’s performance in 2025 outpacing the growth recorded in 2024.



GDP at current market prices rose to Rs. 32,750.8 bn in 2025, from Rs. 30,095.8 bn in 2024. Meanwhile, the GDP deflator was recorded at 3.7% in 2025. Further, Gross National Income (GNI), estimated by adjusting GDP at current market prices for net primary income from the rest of the world, increased to Rs 32,142.2 bn in 2025. In USD terms, the GDP at current market prices increased to USD 108.8 bn in 2025 from USD 99.6 bn in 2024.

The GDP per capita increased to Rs. 1,505,371 in 2025 from Rs. 1,373,235 in 2024, supported by the expansion in nominal GDP, alongside a decline in the mid-year population. Meanwhile, GNI per capita also increased to Rs. 1,477,395 in 2025, compared to Rs. 1,337,426 in 2024. In USD terms, GDP per capita rose to USD 5,003 in 2025 compared to USD 4,546 in 2024, while GNI per capita increased to USD 4,910 compared to USD 4,428 in 2024.

1.2.2 Production

Agriculture

Agriculture activities grew by 1.4% in 2025, compared to the 0.6% growth recorded in 2024. This growth was mainly driven by animal production, along with the growing of coconut and rice. Moreover, forestry and logging, agricultural supporting activities, and the growing of fruits, tea and spices also contributed positively to growth. However, fishing, growing of vegetables, rubber, other perennial and beverage crops contracted during the year, dampening the overall growth.

Industry

Building on the strong 11.1% expansion in 2024, Industry activities continued to grow in 2025 at 7.8%, underpinned by manufacturing, construction and mining and quarrying activities. The growth in manufacturing activities was mainly contributed by the sustained expansion in the manufacture

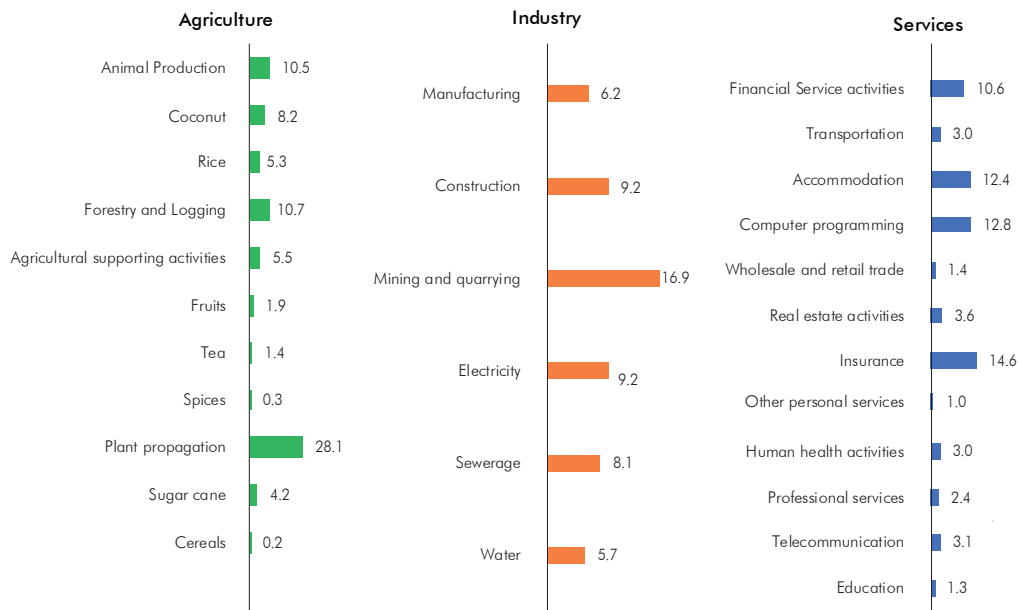
Table 1.2
Gross National Income by Industrial Origin at Constant (2015) Prices (a)(b)

Economic Activity	Rate of Change %		Contribution to Growth %		As a Percentage of GDP %	
	2024 (c)	2025	2024 (c)	2025	2024 (c)	2025
Agriculture, Forestry and Fishing	0.6	1.4	0.0	0.1	7.3	7.1
Industry	11.1	7.8	2.8	2.1	26.7	27.4
Manufacturing, mining and quarrying and other industry	8.2	7.3	1.6	1.4	19.6	20.1
Of which: Manufacturing activities	7.7	6.2	1.2	1.0	16.4	16.6
Construction	20.1	9.2	1.2	0.7	7.1	7.3
Services	2.4	3.3	1.5	2.0	59.4	58.5
Wholesale and retail trade, transportation and storage, accommodation and food service activities	3.7	3.0	1.0	0.8	27.6	27.1
Information and communication	5.1	8.6	0.2	0.3	3.4	3.5
Financial and insurance activities	0.2	11.2	0.0	0.5	4.6	4.9
Real estate activities (including ownership of dwelling)	4.2	3.6	0.2	0.2	4.3	4.3
Professional, scientific, technical, administration and supporting service activities	3.5	2.4	0.1	0.1	2.1	2.1
Public administration, defense, education, human health and social work activities	- 1.1	0.3	- 0.1	0.0	9.2	8.8
Other services (excluding own-services)	1.3	1.0	0.1	0.1	8.1	7.8
Equals Gross Value Added (GVA) at Basic Price	4.6	4.4	4.3	4.1	93.4	93.0
Taxes less subsidies on products	10.9	12.3	0.7	0.8	6.6	7.0
Equals Gross Domestic Product (GDP) at Market Price	5.0	5.0	5.0	5.0	100.0	100.0
Net primary income from rest of the world	7.4	22.6				
Gross National Income at Market Price	5.4	5.7				

(a) Base year 2015
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

Figure 1.10
Growth in Economic Activities at Constant Prices in 2025 (a)



(a) Base year 2015

Source: Department of Census and Statistics

of food, beverages and tobacco products, along with the manufacture of textiles, wearing apparel, leather and other related products. Further, construction activities continued to expand during the year, supported by a steady increase in construction projects. This momentum reflected strong growth in the construction sector, underpinned by the resumption of previously stalled projects and the gradual strengthening of investment and development activities.

Services

Services activities recorded a growth of 3.3% in 2025, compared to 2.4% growth in 2024, supported by the steady improvement in economic conditions. Financial services activities remained the main contributor to the Services growth, supported by accommodative economic conditions. Further, transportation, accommodation services, and computer programming consultancy and related activities also made significant contributions to the growth in Services activities.

1.2.3 Expenditure

In 2025, domestic demand expanded by 10.2% at current prices, driven by a 5.9% increase in consumption expenditure and a 22.4% increase in investment expenditure. The growth in consumption expenditure, the principle contributor to aggregate demand, was driven by a 6.0% growth in private consumption expenditure alongside a 5.6% increase in government consumption expenditure. Further, Gross Fixed Capital Formation, the main component of investment expenditure, grew during the period mainly due to the increase in expenditure on transport equipment and construction. Moreover, the expansion in import expenditure outpaced the growth in exports, resulting in a contraction in net external demand.

At constant prices, domestic demand grew by 6.4%, largely supported by the 5.3% expansion in consumption expenditure,

alongside a 9.8% increase in investment expenditure. Furthermore, the expansion in consumption expenditure was driven by private consumption, while the growth in investment expenditure was supported by gross fixed capital formation. However, the growth in import expenditure exerted downward pressure on net external demand during the period.

National savings recorded a growth of 23.2% at current prices in 2025, primarily supported by the 18.1% increase in domestic savings. Net primary income and net secondary income receipts from the rest of the world strengthened in 2025, providing additional support to the expansion of national savings. Reflecting this improvement in the savings position, the national savings–investment balance remained in surplus during the year, indicating a continued reduction of external imbalances in the economy.

1.2.4 Income

Based on the estimates compiled under the income approach, **Gross Mixed Income, the major income generator which accounts for 36.9% of Gross Value Added (GVA) at current market price in 2025, grew by 5.0%.** Gross Operating Surplus, the second largest income generator, grew by 5.4% in 2025. In terms of other major sources of income, Compensation of Employees and Other Taxes less Subsidies on Production increased in 2025, recording growths of 5.1% and 24.2% respectively. Considering the institutional sector classification of GVA, Non-Financial Corporations was the largest income-generating sector, followed by Households and Non-Profit Institutions Serving Households, Financial Corporations, and General Government, respectively.

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 %	
	2024 (c)	2025	2024 (c)	2025	2024 (c)	2025
1. Domestic Demand	30,880.6	34,019.7	9.8	10.2	102.6	103.9
1.1 Consumption	22,951.4	24,310.6	7.0	5.9	76.3	74.2
Private	20,859.6	22,102.3	6.5	6.0	69.3	67.5
Government	2,091.8	2,208.3	12.6	5.6	7.0	6.7
1.2 Investment (Gross Capital Formation)	7,929.3	9,709.1	18.6	22.4	26.3	29.6
Gross Fixed Capital Formation	5,743.1	6,803.2	14.8	18.5	19.1	20.8
Changes in inventories and Acquisitions less Disposals of Valuables	2,186.2	2,905.9	30.0	32.9	7.3	8.9
2. Net External Demand	-784.8	-1,268.8	-32.6	-61.7	-2.6	-3.9
Export of Goods and Services	5,945.7	6,212.0	4.8	4.5	19.8	19.0
Import of Goods and Services	6,730.5	7,480.8	7.4	11.1	22.4	22.8
3. Total Demand (GDP) (1+2)	30,095.8	32,750.8	9.3	8.8	100.0	100.0
4. Domestic Savings (3-1.1)	7,144.5	8,440.3	17.3	18.1	23.7	25.8
Private	8,453.6	8,223.3	9.2	-2.7	28.1	25.1
Government (d)	-1,309.1	217.0	20.7	116.6	-4.3	0.7
5. Net Primary Income from Rest of the World (e)	-784.8	-608.6	5.9	22.4	-2.6	-1.9
6. Net Secondary Income from Rest of the World (e)	1,942.7	2,394.5	1.9	23.3	6.5	7.3
7. National Savings (4+5+6)	8,302.4	10,226.1	15.9	23.2	27.6	31.2
8. Savings Investment Gap						
Domestic Savings - Investment (4-1.2)	-784.8	-1,268.8			-2.6	-3.9
National Savings - Investment (7-1.2)	373.1	517.0			1.2	1.6
9. External Current Account Balance (2+5+6) (e)	373.1	517.0			1.2	1.6

(a) 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

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

Item	2024 (c)					2025					Percentage Share (%)
	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	54.2	7.6	20.3	18.0	100.0	54.1	7.1	21.1	17.6	100.0	
Gross Operating Surplus	81.7	16.1	2.2	-	100.0	83.0	14.8	2.2	-	100.0	
Gross Mixed Income	-	-	-	100.0	100.0	-	-	-	100.0	100.0	
Other Taxes less Subsidies on Production	66.5	13.8	-	19.7	100.0	67.5	12.5	-	20.1	100.0	
Gross Value Added at basic price	43.5	7.7	6.5	42.3	100.0	44.0	7.1	6.7	42.1	100.0	

(a) Base year 2015
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

1.2.5 Population, Labour Force, and Employment

According to estimates from the Census of Population and Housing 2024, Sri Lanka's total population was reported at 21,781,800, of which 51.7% were female and 48.3% were male. The mid-year population, estimated by the Registrar General's Department based on the Census of Population and Housing, declined by 0.7%¹⁰ to 21.8 mn¹¹ in 2025, from 21.9 mn¹² in 2024. In line with this decline, the country's population density also decreased marginally to 349 persons per sq. km in 2025, compared to 352 persons per sq. km recorded in 2024.

As reflected by the Sri Lanka Labour Force Survey¹³ conducted by the DCS, the economically active population (labour force) increased to 8.554 mn in 2025 from 8.316 mn recorded in 2024. The Labour Force Participation Rate (LFPR), which is the ratio of the labour force to the household population, also increased to 49.4% in 2025, compared to 47.4% recorded in 2024. In 2025, female LFPR stood at 32.5%, less than

half of male LFPR 69.1%. Low female labour force participation remains a key issue for the economy, reflecting the underutilisation of labour resources that hinders the country reaching a higher growth potential. However, LFPR among females in 2025 increased in comparison to the level of 29.8% recorded in 2024. Considering sectoral employment shares, the services sector accounts for around 50% of total employment in 2025. Meanwhile, nearly a quarter of the employed population remains in the agriculture sector.

The unemployment rate declined to 3.9% in 2025 from 4.4% in 2024. The employed population increased, while the unemployed population declined during the year, indicating a gradual absorption of workers into economic

Table 1.5
Household Population, Labour Force and Labour Force Participation

Item	2024	2025 (a)
Household Population '000 Persons (b)	17,548	17,307
Labour Force '000 Persons	8,316	8,554
Employed	7,950	8,219
Unemployed	366	335
Unemployment Rate	4.4	3.9
Male	3.0	2.8
Female	7.1	6.1
Labour Force Participation Rate (c)	47.4	49.4
Male	67.4	69.1
Female	29.8	32.5

(a) Average of four quarters
(b) Aged 15 years and above
(c) Labour force as a percentage of household population

Source: Department of Census and Statistics

¹⁰ Provisional

¹¹ Provisional. Mid-Year population 2025 estimated by the Registrar General's Department available as at 31.03.2026 is based on the Census of Population and Housing 2024.

¹² Provisional. Mid-Year population 2024 estimated by the Registrar General's Department available as at 31.03.2026 is based on the Census of Population and Housing 2012.

¹³ Annual values for 2025 are computed as the average of its four quarterly values.

activities. However, the youth unemployment remains relatively high in 2025, at around 18% and 11% for the 20–24 and 25–29 age groups, respectively. In addition, the unemployment rate among females with educational attainment of G.C.E. A/L or above stands around 8.3%, further reflecting structural issues in female labour force participation.

Meanwhile, total departures for foreign employment decreased by 1.1% to 311,223 in 2025 as per the Sri Lanka Bureau of Foreign Employment. Skilled labour migration recorded a decrease of 3.0% during the year. Male workers accounted for 61.3% of total departures, while female workers represented 38.7%.

1.2.6 Economic Infrastructure Power and Energy Petroleum

In general, global crude oil prices remained on a downward trend throughout 2025, with intermittent volatility stemming from geopolitical conflicts. Concerns over excess supply, particularly following output increase by the alliance between the Organisation of the Petroleum Exporting Countries (OPEC) and key non-OPEC oil producers (OPEC+), along with concerns over subdued global growth amid uncertainties surrounding US trade policy, largely contributed to this declining trend. Consequently, the annual average Brent crude oil price declined by 14.5% to USD 68.25 per barrel in 2025 from USD 79.79 per barrel in 2024. Accordingly, the annual average import price of crude oil for the Ceylon Petroleum Corporation (CPC) declined by 13.5% from USD 84.69 per barrel in 2024 to USD 73.22 per barrel in 2025. Meanwhile, reflecting moderating global energy prices, domestic petroleum prices gradually declined from early 2024, despite a moderate depreciation of the Sri Lanka rupee. However, supply disruptions

caused by the current war in the Middle East led the crude oil prices to spike during March 2026.¹⁴

Cost-reflective pricing adjustments were implemented for domestic retail petroleum products throughout the year, allowing global price volatility to be reflected in domestic retail petroleum prices.

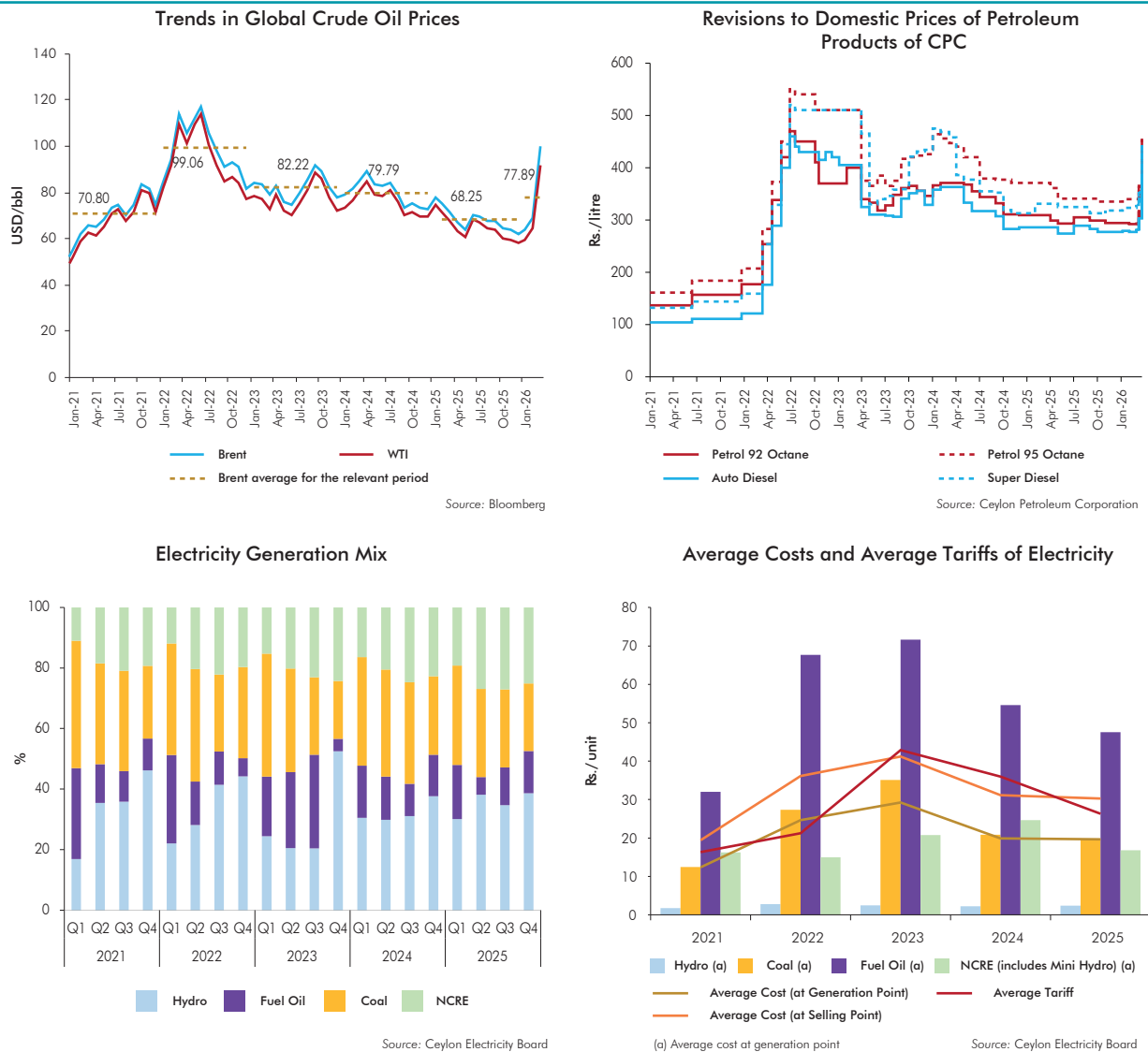
Accordingly, the prices of Petrol 92, Auto Diesel, and Kerosene traded by the CPC recorded overall reductions by Rs. 15.00, Rs. 9.00, and Rs. 8.00, respectively, by the end of 2025 compared to the end of 2024. Meanwhile, the petroleum sector experienced notable growth in sales during 2025, reflecting the improved economic activity, with the sales volume of petroleum products recording a y-o-y increase of 7.4%. In March 2026, significant upward price adjustments were implemented outside the regular monthly pricing mechanism in response to emerging geopolitical developments caused by the current war in the Middle East.

Continuation of the cost-reflective pricing mechanism supported the CPC to maintain a strong financial performance in 2025 for the third consecutive year. The CPC recorded a profit of Rs. 36.4 bn in 2025, subsequent to the profit of Rs. 34.2 bn recorded in 2024. The outstanding foreign currency-denominated loans and import bills of the CPC stood at USD 252.0 mn at the end of 2025. Meanwhile, to restrict fuel consumption amid the current war in the Middle East, a Quick Response (QR) code and vehicle registration number-based fuel quota system was introduced in mid-March 2026.

¹⁴ With the beginning of the Middle East war from end February 2026, crude oil prices showed a significant volatility during a very shorter period and remained elevated. This instability was caused by uncertainty emanated as a result of attacks to petroleum production facilities and disruptions to supply chains. Thus, price of Brent crude oil increased from USD 70.48 per barrel as at end of February 2026 (beginning of the conflict) to USD 105.79 on 31 March 2026 with intermittent price volatilities. Accordingly, reflecting global price movements, domestic retail prices per litre of Petrol 92 and Auto Diesel increased from Rs. 293.00 to Rs. 398.00 and Rs. 281.00 to Rs. 382.00, respectively as end of 31 March 2026.



Figure 1.11
Energy and Power Sector Developments



Electricity

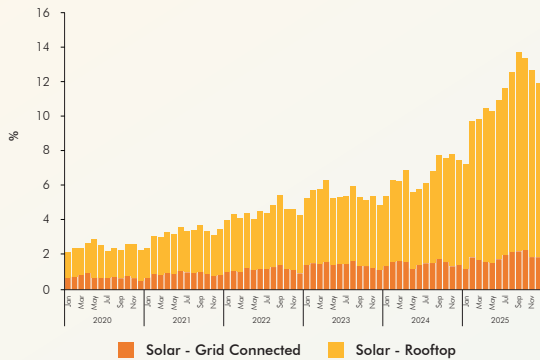
Electricity demand continued to rise in 2025, along with the improvement in economic activity. Accordingly, electricity sales recorded an overall increase of 5.8% during the year, with growth observed across all major consumer categories. Notably, demand in the Domestic category, which is the largest category, recorded stronger growth from the second quarter onwards. However, despite remaining higher than the previous year, electricity demand declined temporarily across most categories towards the latter part of the year due to disruptions caused by Cyclone Dityah.

In line with rising electricity demand, electricity generation recorded an annual growth of 5.8% in 2025, amid favourable conditions in hydropower generation. Reservoir levels remained relatively stable during the year, averaging 69.6%, while the lowest level recorded was above 50% in October 2025. In addition, solar power generation expanded notably, with rooftop solar generation increasing by nearly twofold, driven by rapid growth in rooftop installations. During the year, the contribution of hydro, fuel, coal, and Non-Conventional Renewable

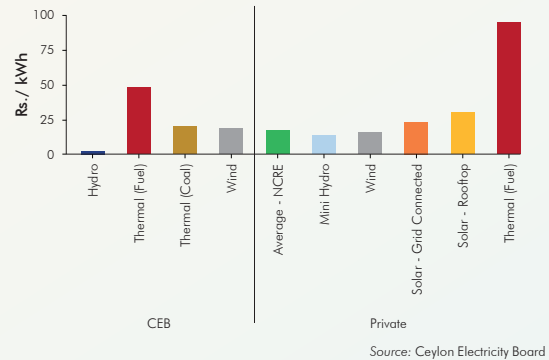
Featured Chart 1.3
Expansion in Solar Power Generation



Share of Total Electricity Generation¹



Average Cost of Electricity at Generation Point - 2025



Note: Grid-connected solar refers to large-scale, ground-mounted systems, whereas rooftop solar denotes typically small-scale installations on building rooftops

The increasing adoption of renewable energy, particularly solar and wind, is reshaping electricity markets globally. In Sri Lanka, although the transition towards such non-conventional renewable energy sources commenced nearly a decade ago, it has only gained significant momentum following the removal of energy subsidies through the Government’s efforts in moving towards a more cost-reflective pricing mechanism for utilities in 2022. This policy decision created financial incentives for both the private sector and households to invest in their own renewable energy sources, thereby fulfilling energy needs with low-cost options and supporting the growing demand for electricity.

Accordingly, capacity expansions were seen in the renewable sector, particularly in solar energy, driven by the rapid investments in rooftop solar panels which accounted for nearly 9.4% of total electricity generation¹ in 2025. This growing adoption of rooftop solar panels has reduced the reliance on relatively costly thermal generation amidst rising electricity demand.

However, this rapid expansion in solar power presents several challenges. Particularly, the mismatch between daytime solar power generation and nighttime peak demand creates complications

in grid management and grid stability. This shortcoming can be resolved to a greater extent through battery storage systems. Offering higher feed-in tariff for the battery installed solar systems which supply electricity to the grid at peak hours and gradual transition into Net Plus System² and Time of Use tariffs³ are several solutions to promote investments in battery storage. Exploration of novel business models such as aggregators or community energy cooperatives to procure rooftop solar energy could be useful in grid management amidst rapid expansion in small scale solar energy producers. Meanwhile, with the rapidly increasing tendency towards solar power generation, it is prudent to make futuristic plans on safe disposal/recycling of solar panels as well as batteries at the end of their life span.

Timely and coordinated actions remain essential for this transition to continue and fully harness the potential of solar energy. Further, advancing this transition and supporting the growth of renewable generation is essential in light of growing volatility in costs for thermal based electricity generation and to meet the targets under Sri Lanka’s Carbon Net Zero 2050 Roadmap and Strategic Plan.

² A rooftop solar arrangement where total generation is supplied to the national grid and paid for by the utility company while the electricity consumption of the solar energy producer is billed separately.
³ Tariff is determined based on the time of use.

¹ Does not include rooftop solar connected to Lanka Electricity Company.



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Energy (NCRE) sources to overall electricity generation amounted to 35.5%, 12.5%, 27.4%, and 24.7%, respectively.

The Ceylon Electricity Board (CEB) undertook two rounds of tariff adjustments during 2025, followed by another in March 2026.

Following several downward revisions in 2024, electricity tariffs were further revised downward by an average of 20% in January 2025. These tariff reductions, combined with higher generation costs with relatively high thermal-based electricity generation amid the usual dry spell, imposed a significant strain on the CEB's financial performance in the first quarter of 2025. To address these accumulated financial losses, 15% upward tariff revision on average was implemented in June 2025. While this revision contributed to some improvement in CEB's financial position, the CEB recorded an overall loss of Rs. 38.7 bn in 2025, partly due to this tariff hike was not sufficient to cover the losses in the first quarter. With these developments, CEB's short-term borrowings and liabilities increased to Rs. 206.2 bn by end of 2025 from Rs. 174.3 bn by the end of 2024, while long-term liabilities increased to Rs. 411.2 bn from Rs. 409.0 bn during the same period. Meanwhile, a further upward electricity tariff revision of 10.3% on average was implemented with effect from April 2026, taking into account the cost and revenue projections of electricity provisioning of the second quarter.

The Government introduced key structural reforms to guide the development of Sri Lanka's electricity industry. During the year, the Sri Lanka Electricity (Amendment) Act, No. 14 of 2025, was enacted following the Sri Lanka Electricity Act, No. 36 of 2024. In March 2026, the CEB was restructured under this Act to form four state-owned entities responsible for generation, transmission, distribution, and system operations, aimed at improving efficiency and governance. Further, two additional institutions were established to

handle residual functions and assets of CEB.¹⁵ In addition, the National Electricity Policy, including the tariff policy for the electricity sector were also approved by the Cabinet of Ministers in March 2026. The National Electricity Policy provides an overall framework for the transition in the industry, outlining the fundamental and concurrent policies. It also sets principles for fair, cost-reflective, and sustainable electricity tariffs while supporting the transition to a competitive electricity market. Together, these measures are expected to strengthen governance, improve operational efficiency, and promote greater transparency and competition in Sri Lanka's electricity sector.

In addition to structural reforms for CEB, infrastructure development initiatives were implemented to expand CEB's services.

Accordingly, development of a hydro power plant at Moragalla, Sahasdhanavi combined cycle plant, solar power plant at Siyambalanduwa, Mullikulam wind power plant and phase-I extension of Mannar wind power plant were continued in 2025. Moreover, progress was made in line with long-term plans for generating green electricity. Accordingly, funding has been secured from the Asian Development Bank (ADB) to establish a renewable energy control centre at the national system control centre and a 100 MW Battery Energy Storage System (BESS) at Kolonnawa.

Transport Sector

In 2025, the road and rail transport activities marginally declined compared to 2024. The operated kilometrage and passenger kilometrage of the Sri Lanka Transport Board (SLTB) declined in 2025, which can be attributed to limitations in the SLTB's bus fleet. Moreover, rail transportation activities also declined in 2025, especially towards the end

¹⁵ Entities established under the restructuring of the CEB in March 2026 comprise Electricity Generation Lanka (Private) Limited, National Transmission Network Service Provider (Private) Limited, Electricity Distribution Lanka (Private) Limited, National System Operator (Private) Limited, CEB Employees Fund (Private) Limited, and Energy Ventures Lanka (Private) Limited, with the latter two responsible for residual functions and assets.

Table 1.6
Performance of the Transport Sector

Sector	2024(a)	2025(a)	Change 2024/2025 (%)
Road Transport (Sri Lanka Transport Board)			
Operated kilometrage (mn)	364	358	-1.6
Passenger kilometrage (mn)	12,855	11,888	-7.5
Rail Transport (Sri Lanka Railways)			
Passenger kilometrage (mn)	6,000	5,990	-0.2
Goods kilometrage (mt mn)	172	162	-6.0
Air Transport			
Passenger movements (in mn) (b)	8.8	10.1	15.2
Of which SriLankan Airlines	3.5	4.1	17.2
Freight (mt '000)	195.4	188.8	-3.4
Of which SriLankan Airlines	93.0	80.4	-13.6
Sea Transport			
Port of Colombo			
Container handling (TEUs '000)	7,792	8,301	6.5
Number of Ship arrivals	3,968	4,102	3.4
Port of Hambantota			
Container handling (TEUs '000)	53	428	707.5
Number of Ship arrivals	472	881	86.7

(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

of the year due to severe disruptions caused by *Cyclone Ditwah*. Several railway lines which were damaged by the Cyclone were repaired and operationalised by early 2026. However, some parts of the upcountry and northern railway lines remain closed due to the extensive damage caused by the Cyclone. Meanwhile, air passenger transport experienced a healthy growth during the year supported by the initiation of new scheduled operations and new charter flights, along with an increase in frequency of regular operations. However, air freight recorded a marginal negative growth in 2025. Port sector exhibited a significant growth, recording the historically highest container handling volume. Commencement of operations at the Colombo West International Terminal (CWIT)-phase I also supported the increase in container handling volumes. Operations at the Hambantota Port exhibited significant growth supported by the increase in domestic vehicle handling after the relaxation of restrictions on vehicle imports since January 2025.

Other Developments

The development of other economic infrastructure continued during 2025. The Port Access Elevated Highway Project is nearing its final stages, and the project is expected to be completed in 2026. Land acquisition and civil work related to several sections of the Central Expressway, including Section I, Kadawatha to Meerigama, and Section III Pothuhera to Galagedara, continued during the year with the expected dates of completion in September 2028 and June 2029, respectively. Several foreign-aided road development projects, including the Integrated Road Investment Program, Inclusive Connectivity and Development Project, and the Badulla-Chenkaladi Road Improvement Project, were in progress during 2025, strengthening the road network of the country. Further, renovation of the Colombo Central Bus Stand, aimed at improving the commuter experience, commenced during the year. In early March 2026, the Ministry of Transport, together with the Clean Sri Lanka Programme, launched a dedicated, low-floor, air-conditioned priority bus service, enabling easy access for persons with disabilities. This was initiated as a pilot project and based on its success, the Government plans to expand the service to cater to the transport needs of persons with disabilities and the general public. In line with this project, plans are in progress to renovate bus stops to upgrade accessibility standards.

Several new projects related to housing and urban development were initiated during 2025.

The National Housing Development Authority initiated Thamangema Thenak-Lassana Jeewithayak Housing Grant Programme to build over 70,000 housing units in 5 years for poor and low-income families without homes. Meanwhile, projects under Semata Sevana and Sevana Grant programme continued during the year. Further, Grama Shakthi Northern and Southern province programmes under the Indian Grant Programme also progressed during 2025.

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Construction of 1,996 housing units under a foreign aid programme, which is focused on improving housing for underserved communities, continued during the year under the purview of the Urban Development Authority (UDA). Siyak Nagara urban infrastructure and township development programme, tourism promotion and city branding programme for transforming Kataragama, Kandy, and Anuradhapura as model cities, development of sanitary facilities in tourist destinations under the Clean Sri Lanka programme, Urban Regeneration Programme, Middle Income Housing Programme and Affordable Housing Programme are among several other housing programmes continued by the UDA during the year. Meanwhile, Colombo Port City took initial steps of the Marina Development project featuring state-of-the-art facilities, including the latest utilities, technology, amenities, and entertainment spaces.

Key capacity expansion projects at the Port of Colombo, the Colombo East Container Terminal (CECT) and the West Container Terminal (WCT) made significant progress during 2025. In view of the projected increase in the volume of cargo handling, preliminary works of extension of the Breakwater for WCT-II in Colombo Port Expansion Project - phase-II commenced during 2025. Meanwhile, the Colombo North Port development project is in the pipeline upon completion of the aforementioned projects. While rehabilitating the Kankesanthurai Port, the Government also attempted to identify solutions to the sand sedimentation issue, which hinders the development of Olivil Port as a commercial and fisheries harbour.

1.2.7 Social Infrastructure

Education

The education sector continued its recovery during 2025, building on the momentum observed in 2024 after headwinds impacted

the sector during the COVID-19 pandemic and economic crisis. While free education from primary to tertiary level remains a national priority, efforts were undertaken to address issues in the education sector, including delays in national examinations, which have continued since the pandemic, and structural issues such as regional disparities, teacher shortages, and data gaps. The Government implemented a New Education Policy Framework starting from 2026, transitioning from an examination-centred model to a competency-based modular curriculum, emphasising continuous assessment. The revised curriculum was initially introduced for Grade 1 in 2026, and the implementation of the Grade 6 curriculum is scheduled to commence in 2027. Curriculum revisions are essential to keep education relevant, up-to-date, and aligned with the evolving global standards and technological advancements, though careful consideration is needed with regard to resource disparities across schools and regions to ensure all students benefit from the curriculum changes. Further, the five pillars of the New National Education Policy Framework include Curriculum Development, Assessment and Evaluation, Infrastructure Development and Administration Reforms, Human Resource Development, and Public Awareness. During 2025, key student welfare programmes were maintained, including the distribution of school uniforms and textbooks, alongside the expansion of the school meal programme. Scholarship schemes were also maintained, while introducing additional provisions to enhance financial assistance for vocational and university students. Meanwhile, delays in administering General Certificate of Education (GCE) Ordinary Level (O/L) and Advanced Level (A/L) examinations still persist due to previous disruptions caused by COVID-19 and the economic crisis. Further, the GCE A/L examination in 2025 was disrupted midway by the impact of *Cyclone Ditwah*. However, these national examinations are scheduled to be held on time from 2026. The education sector suffered significantly due

to *Cyclone Ditwah*, where more than 1,300 schools were affected, while several universities also reported damages that were estimated to be around Rs. 3 bn.

Health

The health sector continued to deliver essential healthcare services during 2025 despite resource constraints. Efforts were sustained to strengthen disease prevention, early detection, and healthcare infrastructure while addressing emerging challenges such as population ageing, increasing Non-Communicable Diseases (NCDs), workforce migration, and climate-related health risks. In strengthening policy direction, the Ministry of Health commenced the formulation of the National Policy on Health and Well-being (2026–2035) with the support of the World Health Organization (WHO), succeeding the National Health Policy (2016–2025). Development of Maternal and Child Health Policy is also under review, while the draft School Health Policy (2025–2030) has been finalised. Addressing malnutrition remained a priority in 2025 through the implementation of district-level nutrition initiatives, the dissemination of updated dietary guidelines, and the declaration of June 2025 as National Nutrition Month to promote healthy dietary practices.

Infrastructure development in the health sector continued to enhance efficiency and quality of healthcare services across the country during the period under review.

Key infrastructure developments in the health sector during 2025 included the resumption of previously suspended projects and the approval of new large-scale investments, particularly in the construction and expansion of hospital facilities and specialised care units. Further, under the 2026 Public Investment Programme, the Cabinet approval has been received for additional initiatives, including the National Oral Health Census, new multi-storey hospital

buildings, the expansion of radiology facilities, and the establishment of Sri Lanka's National Heart Centre.

Despite progress made in the health sector during 2025, regional disparities in infrastructure and human resources, shortages in skilled healthcare professionals, and limitations in laboratory and surveillance capacity continued to remain as challenges in the sector. Further, the health sector was significantly affected due to *Cyclone Ditwah*, requiring substantial expenditure on renovation, relocation and resilient reconstruction of government health infrastructure. Strengthening primary healthcare, expanding preventive programmes, improving digital health systems, ensuring sustainable health financing, and enhancing regulatory oversight of private healthcare services remain essential to improve resilience and equity in the health sector as well as better health outcomes.

Social Safety Nets

In ensuring the welfare of vulnerable communities, the Government continued to provide its social safety nets to broaden targeted assistance for citizens in need.

Accordingly, in 2025, the Aswesuma programme assisted 2.0 mn beneficiary families, whereas total disbursements amounted to Rs. 148.4 bn. This is in comparison to Rs. 145.6 bn cash transfer benefits provided to 1.8 mn beneficiary families in 2024. Further, with the aim of expanding the social safety nets, amendments were introduced to the Aswesuma scheme in December 2024 and March and December 2025 to improve the coverage and enhance the benefits. As per the Extraordinary Gazette issued in December 2025, the scheme targets to support 1.92 mn beneficiary families and aims to provide allowances to 1.27 mn individuals, covering persons with disabilities, patients of Chronic Kidney Disease of unknown aetiology (CKDu), and elderly citizens during 2026 and in the first half of 2027. Further, the benefits

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paid under the welfare benefits programme were revised upwards. Accordingly, the monthly allowance per family unit for 'poor' and 'extremely poor' categories was increased from Rs. 8,500 to Rs. 10,000 and from Rs. 15,000 to Rs. 17,500, respectively, from January 2025. Further, payments for persons with disabilities and CKDu patients were increased from Rs. 7,500 to Rs. 10,000, while the monthly allowance granted for elderly citizens was increased from Rs. 3,000 to Rs. 5,000.

To ensure systematic consolidation of information on individuals receiving categorical payments through multiple institutions, steps have been taken to record relevant data in a unified social registry.

In order to further strengthen this process, arrangements are underway to link the social registry with the Integrated Welfare Management System (IWMS) to facilitate centralised disbursements of categorical payments. This system is expected to be implemented by mid-2026. Further, a mobile application has been developed for enumeration and recertification activities, enabling faster data collection and timely updating of beneficiary information required for payment processing. In addition, under the national disaster response framework, a Shock-Responsive Social Protection (SRSP) mechanism is currently being developed to enable timely support for affected communities during emergencies. Currently, the Ministry of Women and Child Affairs is in the process of drafting a new Bill on Gender Responsive Budgeting with the collaboration of the Department of National Budgeting. During 2025, the Ministry implemented programmes to strengthen entrepreneurship endeavours among women by empowering women-headed households in vulnerable communities. Meanwhile, nutrition and food allowance programmes for pregnant and lactating mothers, morning meals programme for pre-school children and early childhood development centres, programme for providing

benefits to pre-school teachers and financial support for children in child development centres were also continued during 2025.

Although significant efforts have been made to enhance the coverage and benefits of social safety nets, there remains scope for improvement, particularly in strengthening the targeting of beneficiaries. Regular reviews of beneficiary eligibility, along with effective and transparent grievance redress mechanisms, are critical to ensure that all vulnerable groups are adequately covered. At the same time, empowering beneficiaries and introducing well-designed, gradual exit mechanisms are crucial to minimise undue long-term dependence on government support and enhance the effectiveness of social protection programmes

1.3 Monetary Sector Developments

1.3.1 Market Interest Rates

Overall market interest rates continued to adjust downwards in 2025, although a modest uptick was observed towards the latter part of the year due to temporary increases in short-term interest rates. The overall decline in market interest rates in 2025 was driven by the continuation of the accommodative monetary policy stance, a low-inflation environment, well-anchored inflation expectations, and a reduction in risk premia, amid improvements in the country's credit ratings. Monetary policy, which was eased significantly from June 2023 through 2024 by a total of around 7.75 pps, was eased further through the reduction in the Overnight Policy Rate (OPR) by 0.25 pps in 2025. In line with the reduction in the OPR, the Average Weighted Call Money Rate (AWCMR) declined and remained aligned with the OPR until mid-July 2025. While the monetary policy stance remained unchanged, persistent asymmetries in the distribution of domestic money market liquidity across participatory institutions led to a gradual increase in the



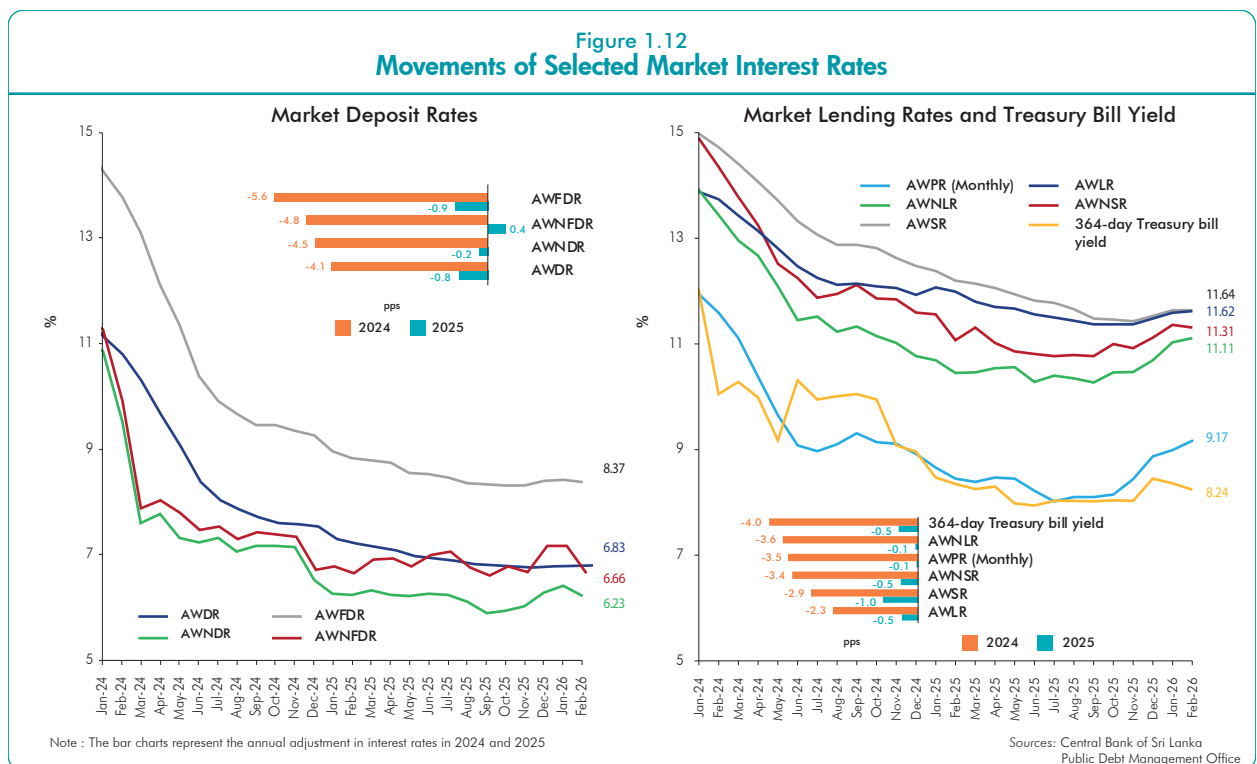
AWCMR, reaching 0.29 pps above the OPR by end 2025. This deviation was subsequently corrected in early 2026 as asymmetries in liquidity distribution eased with further increases in the liquidity surplus. During 2025, other market interest rates for both deposits and lending also declined overall, although some anomalies were observed in interest rate adjustments during the latter part of the year with the temporary increase in short-term interest rates and yields on government securities.

Interest rates based on the outstanding stock of interest-bearing rupee deposits held with Licensed Commercial Banks (LCBs), namely the Average Weighted Deposit Rate (AWDR) and the Average Weighted Fixed Deposit Rate (AWFDR), declined during 2025 by 0.75 and 0.86 pps, respectively. Both rates exhibited a consistent downward trajectory throughout the year, with only a slight uptick observed in December 2025. New deposit rates adjusted swiftly downwards during the first half of 2025 but displayed some upward movements since September 2025. This reflects increased competition among banks

for deposit mobilisation, aimed at supporting the significant credit expansion observed in the second half of the year, which has exerted upward pressure on the cost of deposits. Accordingly, the Average Weighted New Fixed Deposit Rate (AWNFR) recorded an increase of 0.45 pps during 2025. Although interest rates on new deposits rose towards the latter part of the year, the Average Weighted New Deposit Rate (AWNDR) ended the year recording an annual decline of 0.23 pps.

The Average Weighted Prime Lending Rate (AWPR), an interest rate for short-term rupee lending to prime customers by LCBs, which remained broadly stable at lower levels during the first half of 2025, witnessed some upward pressure in the latter part of the year. Consequently, weekly AWPR, which witnessed slightly over a percentage point reduction, year-to-date, by mid-July 2025, ended the year recording an annual increase of 0.17 pps. Meanwhile, the Average Weighted Lending Rate (AWLR), based on outstanding stock of rupee loans and advances extended by LCBs, and the Average Weighted New Lending

Figure 1.12
Movements of Selected Market Interest Rates



1 Rate (AWNLR), based on new rupee loans and advances extended by LCBs during a particular month, declined by 0.45 and 0.08 pps, respectively, in 2025, compared to the sharper declines of 2.28 and 3.61 pps, respectively, in 2024.

Meanwhile, the interest rates applicable to loans extended to Micro, Small, and Medium Enterprises (MSMEs) also registered a cumulative decline during the year.

Accordingly, interest rates based on the new rupee loans and advances extended by Licensed Banks during a particular month to the MSME sector (Average Weighted New SME Lending Rate (AWNSR)), as well as on its outstanding stock (Average Weighted SME Lending Rate (AWSR)), declined by 0.47 and 0.95 pps, respectively, during the year. However, the AWSR, which declined throughout the year, recorded an increase in December 2025, mainly reflecting upward adjustments in rates in line with other market lending and deposit interest rates, discussed above. Meanwhile, interest rates applicable to micro and small-scale borrowers remained relatively downward rigid compared to other market lending rates, reflecting their inherent risk profile and structural characteristics of such lending. Despite the cumulative decline in nominal market interest rates, real interest rates measured against realised inflation remained positive during 2025, owing to deflationary and low inflation conditions.

Yields on Government Securities

Yields on government securities declined moderately during 2025 compared to the notable downward adjustment observed in 2024, notwithstanding the transitory upticks observed, particularly towards the end of the year. Overall, Treasury bill yields across all maturities declined moderately by 0.50-0.88 pps at primary auctions in 2025, with a sizeable reduction occurring following the policy rate reduction in May 2025. This was also supported by improved fiscal performance during the

Table 1.7
Movements of Interest Rates

Interest Rate	End 2024	End 2025	Change in pps
% per annum			
Policy Interest Rate of the Central Bank			
Overnight Policy Rate (OPR) (a)	8.00	7.75	-0.25
Standing Facility Rates (a)			
Standing Deposit Facility Rate (SDFR)	7.50	7.25	-0.25
Standing Lending Facility Rate (SLFR)	8.50	8.25	-0.25
Average Weighted Call Money Rate (AWCMR)	8.00	8.04	0.04
Yields on Government Securities			
Primary Market (b)			
Treasury bills			
91-day	8.62	7.74	-0.88
182-day	8.77	8.27	-0.50
364-day	8.96	8.45	-0.51
Treasury bonds			
2-year	13.83 (c)	-	-
3-year	11.63 (c)	8.85 (d)	-2.78
4-year	10.42 (c)	9.55 (d)	-0.87
5-year	10.75 (c)	9.80 (d)	-0.95
10-year	-	10.67 (d)	-
Secondary Market			
Treasury bills			
91-day	8.43	7.61	-0.82
182-day	8.61	7.84	-0.77
364-day	8.81	8.07	-0.74
Treasury bonds			
2-year	9.31	8.66	-0.65
3-year	9.87	9.15	-0.72
4-year	10.30	9.54	-0.76
5-year	10.61	9.79	-0.82
10-year	11.27	10.70	-0.57
Interest Rates on Deposits			
Licensed Commercial Banks (e)			
Savings Deposits	0.25-9.00	0.25-9.00	-
1-Year Fixed Deposits (f)	2.50-18.39	2.50-12.00	-
AWDR	7.53	6.78	-0.75
AWFDR	9.27	8.41	-0.86
AWNDR	6.52	6.29	-0.23
AWNDR	6.57	7.02	0.45
Other Financial Institutions (g)			
National Savings Bank			
Savings Deposits	3.00	3.00	-
1-Year Fixed Deposits	7.00	6.75	-0.25
Finance Companies (h)			
Savings Deposits	3.91-6.03	3.99-6.06	-
1-Year Fixed Deposits	9.23-11.00	8.68-10.36	-
Interest Rates on Lending			
Licensed Banks (i)			
AWSR	12.48	11.53	-0.95
AWNSR	11.59	11.12	-0.47
Licensed Commercial Banks (e)			
AWPR - Monthly	8.92	8.87	-0.05
AWLR	11.93	11.48	-0.45
AWNLR	10.77	10.69	-0.08
Licensed Specialised Banks (g)			
National Savings Bank	12.75-18.00	6.75-13.50	-
State Mortgage and Investment Bank (j)	9.00-20.00	9.00-18.50	-
Finance Companies (h)			
Finance Leasing	10.99-31.75	12.76-33.98	-
Corporate Debt Market			
Debentures	12.00-15.25	9.75-13.15	-
Commercial Papers	12.00-13.75	11.00-12.20	-

(a) With effect from 27 November 2024, the OPR is defined as the policy interest rate of the Central Bank. SDFR and SLFR are linked to the OPR with a pre-determined margin as decided by the Central Bank. Sources: Central Bank of Sri Lanka; Respective Financial Institutions; Colombo Stock Exchange; Public Debt Management Office

(b) Weighted average yield rates at the latest available auction

(c) Last Primary Auction during 2024: 2 yr-11 Jan | 3 yr-12 Nov | 4 yr-30 Dec | 5 yr-12 Dec

(d) Last Primary Auction during 2025: 3 yr-29 May | 4 yr-11 Dec | 5 yr-30 Dec | 10 yr-11 Dec

(e) Based on the rates quoted by LCBs

(f) Maximum rates are special rates offered by certain LCBs

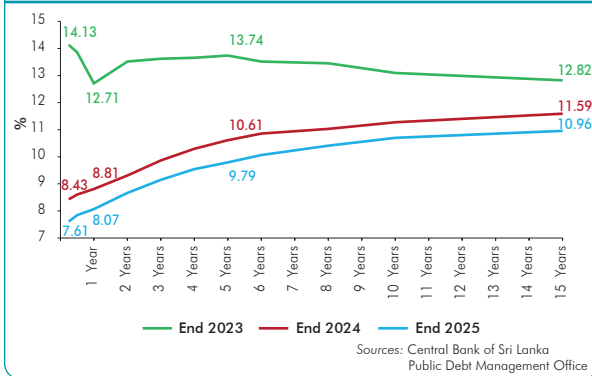
(g) Based on the rates quoted by other selected Financial Institutions

(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 2025 are provisional

(i) Based on the rates quoted by LCBs and LSBs

(j) Lending for housing purposes only

Figure 1.13
Secondary Market Yield Curve
for Government Securities



year. However, yields rose notably in December 2025, partly reflecting market expectations of higher government borrowings to finance post-cyclone recovery efforts. Nevertheless, Treasury bill yields showed some overall easing in early 2026. In line with this trend, Treasury bond yields also adjusted downwards despite some transitory volatilities. In 2025, the majority of Treasury bond issuances were concentrated in the medium to longer-term tenors, reflecting strong investor appetite for longer-duration instruments and improved investor confidence in macroeconomic conditions. Overall, yields have dropped by approximately 0.7-2.8 pps across maturities during the year. Accordingly, the secondary market yield curve shifted downwards compared to the end of 2024, reflecting improved macroeconomic conditions and declining risk premia.

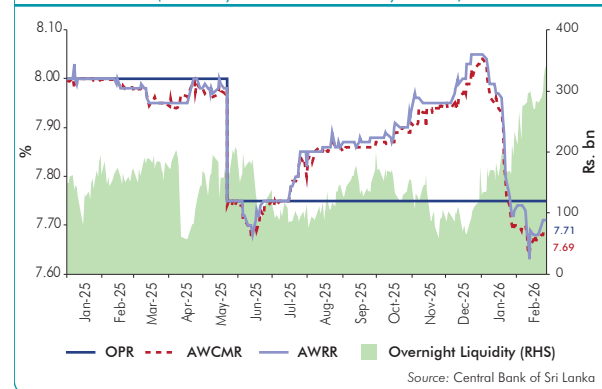
1.3.2 Domestic Money Market Liquidity

Domestic money market liquidity remained in surplus throughout 2025, in line with the accommodative monetary policy stance. The surplus liquidity was mainly due to liquidity injections through net foreign exchange purchases by the Central Bank in an effort to strengthen foreign reserves and reduce undue volatility in the exchange rate, while the Central Bank's foreign currency buy-sell swap transactions with LCBs also contributed

to the liquidity surplus. However, liquidity in the domestic money market was partially absorbed by cash withdrawals, coupon payments to the Central Bank on account of its holdings of Treasury bonds, and use of rupee liquidity by the Government to obtain foreign exchange from the Central Bank to service its foreign currency debt. Accordingly, the average liquidity surplus amounted to Rs. 136.4 bn during 2025 compared to the average surplus of Rs. 93.2 bn recorded in 2024. Despite the overall surplus during the year, some transitory volatilities were observed during the year. Persistent surplus liquidity in the domestic money market eliminated the need for liquidity injections through Open Market Operations (OMOs), resulting in the pause of Reverse Repo auctions in January 2025.

Despite the overall surplus, an asymmetry in liquidity distribution was observed among participatory institutions during most part of 2025, which resulted in some volatility in liquidity levels, thereby causing the AWCMR to deviate from the OPR, particularly in the second half of 2025. During the year, foreign banks recorded a notable liquidity surplus, while most of the domestic private banks continued to experience liquidity shortages. In the latter part of 2025, State banks' liquidity level declined owing to the increase in government funding requirements resulting from relief measures

Figure 1.14
Key Short-term Interest Rates and
Money Market Liquidity
(January 2025 – February 2026)



1

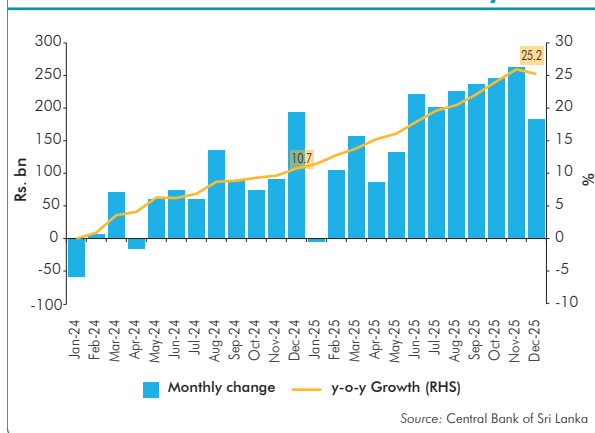
related to *Cyclone Dityah*, while the liquidity level of domestic private banks improved somewhat. In early 2026, the overall surplus in the domestic money market rose significantly, supported by the continued net purchases of foreign exchange by the Central Bank, easing the asymmetry in liquidity distribution. In response, the AWCMR moderated and fell below the OPR, prompting the Central Bank to activate Repo auctions through OMOs to absorb excess liquidity from the domestic money market starting from February 2026.

1.3.3 Credit Aggregates

Credit extended to the private sector by LCBs recorded a notable expansion in 2025. The momentum of credit expansion observed in 2024 continued into 2025, with private sector credit growth accelerating significantly from June 2025 onward. Accordingly, monthly credit expansion exceeded Rs. 200 bn for six consecutive months before moderating slightly in December 2025. This nominal expansion was largely supported by the low interest rate environment, reflecting the continued accommodative monetary policy stance, the gradual recovery in domestic economic activity, the increased nominal value of transactions following the earlier high inflation episode, and stronger demand for financing, particularly for vehicle imports

following the relaxation of import restrictions in early 2025. In addition, the slowdown in credit extended to the public sector, reflecting the Government's fiscal consolidation efforts, created additional space for banks to expand lending to the private sector, thereby generating a crowding-in effect. Accordingly, outstanding credit to the private sector by LCBs increased by around Rs. 2.1 tn during 2025, recording the highest annual expansion on record. The y-o-y growth reached 25.2% by the end of December 2025, compared to 10.7% at the end of 2024. In real terms, y-o-y growth of credit to the private sector by LCBs was recorded at 22.6% by the end of December 2025, rising from 12.7% at the end of 2024. Despite the notable expansion of private sector credit in nominal terms, its share as a percentage of GDP stood at 31.2% as of end 2025, remaining below its pre-crisis level. Consequently, at the end of 2025, domestic credit by LCBs, which also accounts for the Net Credit to the Government and Credit to State Owned Business Enterprises (SOBEs), stood at 58.1% as a share of GDP. Meanwhile, credit extended to the private sector by Licensed Specialised Banks (LSBs) increased by a tepid Rs. 39.0 bn during 2025, recording a y-o-y growth of 3.4% by the end of 2025. In contrast, private sector credit extended by Finance Companies (FCs) expanded by Rs. 788.9 bn during the year, registering a notable y-o-y growth of 49.3% by the end of 2025, largely reflecting increased financing for vehicle-related purchases and gold-backed loans.

Figure 1.15
Credit Extended to the Private Sector by LCBs

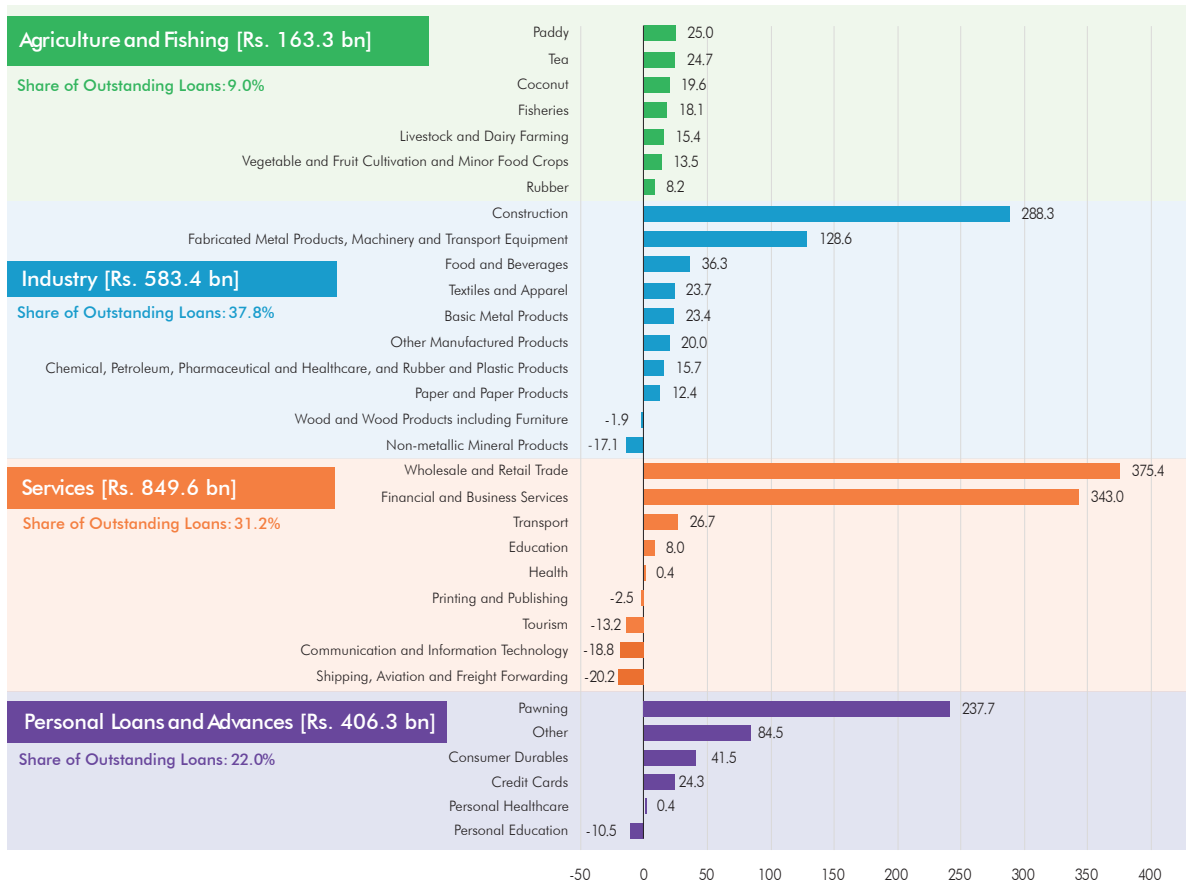


A broad-based expansion in credit across key sectors¹⁶ of the economy was observed in 2025, reflecting the ongoing recovery in economic activity. Accordingly, the credit extended to the Services sector (which accounts for 31% of outstanding credit) recorded the largest expansion in credit during

¹⁶ Findings are based on the "Monthly Survey of Loans and Advances to the private sector by LCBs", introduced in April 2025, which replaced the earlier survey, "Quarterly Survey of Loans and Advances to the private sector". With this shift, information between the new Monthly Survey data and the earlier quarterly series are not strictly comparable, as observed variations in loan volumes and growth patterns across subsectors during the transition period primarily reflect reclassifications at the bank level rather than underlying trends.



Figure 1.16
Annual Private Sector Credit Expansion in Sub-sectors (Rs. bn) - 2025
(As per the Monthly Survey of Loans and Advances by LCBs)



Note : Annual expansion of credit volume in major sectors is given in parentheses

Source: Central Bank of Sri Lanka

2025, increasing by around Rs. 850 bn and accounting for 42% of the total expansion. Within the Services sector, notable credit growth was observed in the wholesale and retail trade; financial and business services; transportation; and education subsectors, reflecting the recovery following the crisis. Credit extended to the financial and business services sector, which includes lending by LCBs to FCs, reflects their increased reliance on banks for their funding requirements in a low-interest-rate environment and the use of such funding to expand lending activity, particularly vehicle financing and gold-backed loans. This was followed by the expansion in the credit extended to the Industry sector (which accounts for around 38% of outstanding credit), which amounted to around

Rs. 583 bn, contributing 29% to the overall credit expansion. Within the Industry sector, credit to the construction subsector expanded by 18.9% (y-o-y), indicating a gradual recovery in construction-related activities. Credit expansion was also observed in other industrial subsectors, including fabricated metal products, machinery and transport equipment; food and beverages; textiles and apparel; and basic metal products. Meanwhile, Personal Loans and Advances (which account for around 22% of outstanding credit) also rose significantly by around Rs. 406 bn during the year, accounting for about a fifth of the total credit expansion. Within this category, the expansion was mainly driven by increased gold-backed lending, credit extended for consumer durables, and higher credit

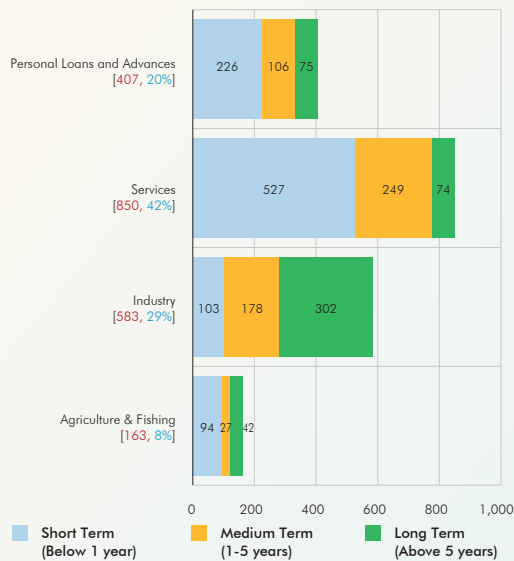
Featured Chart 1.4

Tenor-wise Distribution of Private Sector Credit by LCBs

(Based on Monthly Survey of Loans and Advances to the Private Sector by LCBs)



Tenor-wise Credit Expansion during 2025 (Rs. bn)



- Note: 1. Annual expansion in volume for each sector is presented in parentheses, along with its corresponding share of total expansion.
2. The distribution of outstanding private sector credit by sector at end 2025 was as follows: Agriculture (9%), Industry (38%), Services (31%), and Personal Loans and Advances (22%). Over the same period, the tenor-wise credit distribution of credit comprised short-term (42%), medium-term (22%), and long-term (36%).

Source: Central Bank of Sri Lanka

Private sector credit expansion in 2025 was largely broad-based. A majority of the credit expansion in the Services sector and in the form of Personal Loans and Advances was concentrated in short-term lending. This reflects increased financing requirements by service-oriented businesses for working capital purposes. Moreover, household borrowing increased to support consumption and manage short-term liquidity needs.

In contrast, credit expansion in the Industry sector was predominantly driven by long-term loans, indicating funding obtained for capital investment and business expansion projects, particularly during the recovery phase following the economic crisis.

Meanwhile, credit expansion in the Agriculture and Fishing sector remained mainly short-term, reflecting the seasonal nature of agricultural production process and the associated financing needs for inputs such as seeds, fertiliser, labour, and other cultivation-related expenses.

card-related exposures, reflecting a gradual pickup in consumer spending amid rising economic activity. Lastly, the credit extended to the Agriculture sector (which accounts for around 9% of outstanding credit) expanded by Rs. 163 bn during the year, contributing to around 8% of the total credit expansion. Within the Agriculture sector, credit extended to key subsectors, including paddy; tea; coconut; and fisheries, recorded notable growth during the year. In terms of maturity composition, the expansion of private sector credit by LCBs indicates that the annual increase during 2025 was largely driven by short-term lending, which accounted for nearly half of the total expansion, followed by medium-term and long-term lending, respectively.

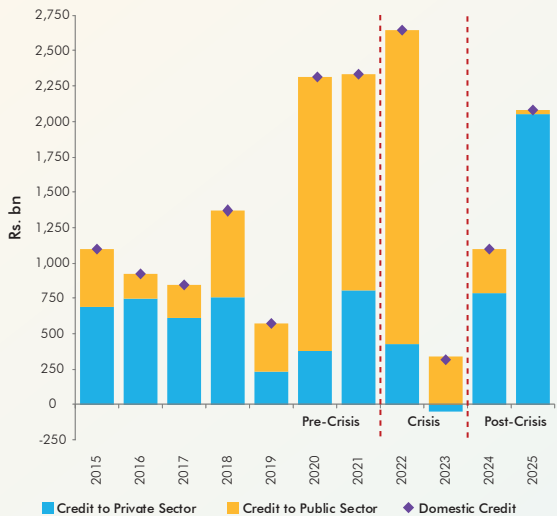
Net Credit to the Government (NCG) by the banking system increased marginally by Rs. 15.1 bn in 2025. The increase observed during 2025 was primarily driven by the expansion in NCG by the Central Bank, reflecting fair value adjustments to the Central Bank's holdings of government securities amid the decline in bond yields. However, the Central Bank's holdings of government securities, on a face value basis, declined by Rs. 6.7 bn during the year. Accordingly, NCG by the Central Bank increased by Rs. 54.5 bn in 2025. In contrast, NCG by LCBs recorded a cumulative contraction of Rs. 39.4 bn during the year. This decline was largely attributable to the notable reduction in their investments in government securities, with investments in both Treasury bills and Treasury bonds declining in 2025



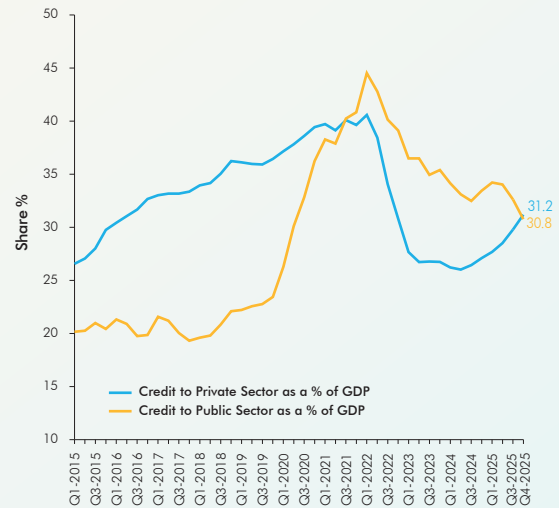
Featured Chart 1.5
Rebalancing Domestic Credit: Public vs. Private Sector Dynamics



Domestic Credit Expansion
(Private vs Public)



Private and Public Sector Credit
as a Share of GDP



Note: 1. Domestic credit refers to the total gross loans and advances extended to both the private and public sectors by the banking system. The public sector component includes credit extended to the Government, including investments in government securities and credit extended to State-Owned Business Enterprises (SOBEs).

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

2. Credit-to-GDP ratio is derived as the ratio of total outstanding credit to the annualised nominal GDP of the corresponding quarter.

In the years preceding the economic crisis, persistent structural imbalances in the fiscal sector led the Government to increasingly rely on financing from the domestic banking sector, including borrowings from the Central Bank, to meet its growing financing requirements. This contributed to a crowding-out effect on private sector credit, irrespective of changes in the monetary policy stance. These pressures intensified during the crisis period as sovereign credit rating downgrades and debt distress constrained the Government’s access to external financing, forcing it to rely almost entirely on domestic sources. However, fiscal consolidation efforts and legislative reforms aimed at improving the institutional autonomy of the CBSL, including the prohibition of

monetary financing, following the recent economic crisis have yielded favourable results in the post-crisis economy.

The resulting moderation in public sector credit has created space for private sector borrowing, giving rise to crowding-in effect in private sector credit. Accordingly, private sector credit-to-GDP, having declined during the crisis, gradually recovered to 31.2% by end 2025, supported by the recovery in economic activity and the lower cost of borrowings under an accommodative monetary policy stance. However, the private sector credit-to-GDP ratio remains below pre-crisis levels. Meanwhile, the public sector credit-to-GDP ratio continued to exhibit a downward trend during this period.

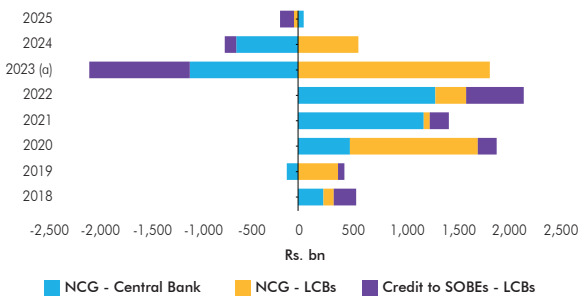
compared to 2024. Further, strong revenue mobilisation efforts by the Government led to the accumulation of government deposits, thus reducing LCBs’ exposure to the Government. Meanwhile, investments by LCBs in the Government’s Domestic Dollar Bond issuance

of USD 50 mn¹⁷ in late 2025 were also reflected in NCG by LCBs during the year. Further, the expansion of NCG based on the Financial Survey (M_4)¹⁸ amounted to Rs. 24.3 bn

17 In terms of Face Value.

18 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.

Figure 1.17
Annual Change in Credit to the Public Sector
by the Banking System



(a) CPC's outstanding foreign currency guaranteed debt was absorbed into central government debt effective December 2022, implemented in 2023 via state banks' balance sheet adjustments, reducing credit to SOBEs and increasing NCG by LCBs.

Source: Central Bank of Sri Lanka

in 2025. This included an expansion of Rs. 53.6 bn in NCG by LSBs, driven by increased investments in government securities, alongside a contraction of Rs. 44.4 bn in NCG by FCs.

Continuing the trend observed in 2023 and 2024, net credit extended to SOBEs by LCBs contracted notably by Rs. 137.0 bn in 2025, largely reflecting net repayments by major SOBEs amid improved financial performance and ongoing reform measures. This development contributed to a notable reduction in their reliance on bank financing. Among the major SOBEs, the Road Development Authority (RDA) and the National Water Supply and Drainage Board (NWSDB) recorded net repayments of Rs. 79.3 bn and Rs. 12.0 bn, respectively, while net repayments were also observed by the Ceylon Fertilizer Corporation and the Ceylon Electricity Board (CEB), among others, during the year.

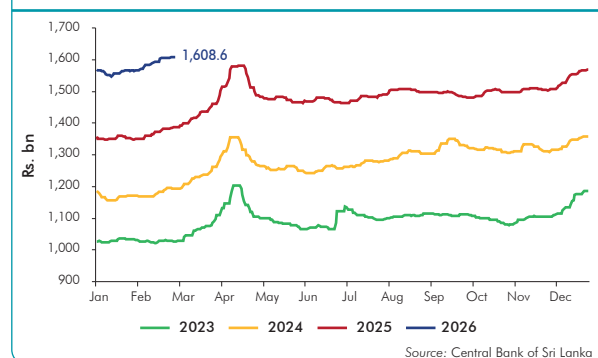
1.3.4 Money Aggregates

Reserve money recorded a notable expansion in 2025, continuing the momentum observed in the previous year, largely driven by the continued increase in currency in circulation (CIC). CIC remained at an elevated level during the year, reflecting public's continued preference for cash-based transactions, relatively low opportunity cost of

holding currency amid low deposit interest rates, and withdrawals associated with government cash subsidy payments. A renewed increase in CIC was observed towards the end of 2025, largely driven by heightened currency demand following *Cyclone Ditwah* and seasonal festive-related demand. Accordingly, CIC increased by Rs. 210.2 bn in 2025 compared to the expansion of Rs. 172.2 bn in 2024. Meanwhile, the growth in LCBs' rupee deposit liabilities during the year led to an increase in their reserve balances held with the Central Bank relative to the previous year, thereby contributing to the expansion of reserve money. Accordingly, reserve money increased notably by Rs. 257.1 bn to Rs. 1,796.5 bn by end-2025, recording a y-o-y growth of 16.7%.

From the assets side of the Central Bank's balance sheet, the expansion in reserve money in 2025 was entirely driven by the increase in Net Foreign Assets (NFA), which offset the contraction observed in Net Domestic Assets (NDA). The Central Bank's NFA position further strengthened in 2025, recording an expansion of around Rs. 491 bn compared to the previous year. This increase was largely driven by the increase in foreign assets and the decline in foreign liabilities during the year. The rise in foreign assets primarily reflected the accumulation of official reserves through net purchases from the domestic foreign exchange market, together with the net proceeds arising from the conversion

Figure 1.18
Daily Currency in Circulation



Source: Central Bank of Sri Lanka

Table 1.8
Developments in Monetary Aggregates

Item	Rs. bn				
	End 2021	End 2022	End 2023	End 2024	End 2025 (a)
1. Reserve Money (M_0)	1,306	1,349	1,329	1,539	1,796
(% change y-o-y)	35.4	3.3	-1.5	15.8	16.7
Net Foreign Assets of the Central Bank	-387	-1,614	-837	222	713
Net Domestic Assets of the Central Bank	1,693	2,963	2,166	1,317	1,083
2. Narrow Money (M_1)	1,460	1,454	1,658	1,926	2,288
(% change y-o-y)	24.0	-0.4	14.1	16.1	18.8
3. Broad Money (M_{2b})	10,647	12,290	13,189	14,322	15,975
(% change y-o-y)	13.2	15.4	7.3	8.6	11.5
3.1 Net Foreign Assets (NFA)	-982	-1,767	-456	573	1,067
Monetary Authorities (b)	-387	-1,614	-837	222	713
Licensed Commercial Banks (LCBs)	-595	-153	381	351	353
3.2 Net Domestic Assets (NDA)	11,629	14,056	13,645	13,749	14,908
Domestic credit	14,002	16,632	16,421	17,083	19,017
Net Credit to the Government (NCG)	5,832	7,471	8,285 (c)	8,270	8,285
Central Bank	2,094	3,432	2,376	1,774	1,828
Licensed Commercial Banks (LCBs)	3,738	4,039	5,909	6,497	6,457
Credit to Public Corporations/ SOBEs	1,188	1,750	770 (c)	657	520
Credit to the Private Sector	6,981	7,411	7,366	8,156	10,212
(% change y-o-y)	13.1	6.2	-0.6	10.7	25.2
Other Items (net)	-2,373	-2,576	-2,776	-3,334	-4,109
4. Broad Money (M_2)	12,985	14,840	15,829	17,261	19,177
(% change y-o-y)	13.3	14.3	6.7	9.0	11.1
4.1 Net Foreign Assets (NFA)	-999	-1,767	-456	552	1,003
Monetary Authorities (b)	-387	-1,614	-837	222	713
Licensed Commercial Banks (LCBs)	-595	-153	381	351	353
Licensed Specialised Banks (LSBs)	-17	-	-	-21	-64
4.2 Net Domestic Assets (NDA)	13,984	16,607	16,285	16,709	18,174
Net Credit to the Government (NCG)	6,769	8,469	9,507 (c)	9,470	9,494
Central Bank	2,094	3,432	2,376	1,774	1,828
Licensed Commercial Banks (LCBs)	3,738	4,039	5,909	6,497	6,457
Licensed Specialised Banks (LSBs)	845	881	1,022	1,078	1,132
Finance Companies (FCs)	92	116	200	121	77
Credit to Public Corporations/ SOBEs by LCBs	1,188	1,750	770 (c)	657	520
Credit to the Private Sector	9,339	9,917	9,815	10,910	13,794
(% change y-o-y)	12.7	6.2	-1.0	11.2	26.4
Licensed Commercial Banks (LCBs)	6,981	7,411	7,366	8,156	10,212
Licensed Specialised Banks (LSBs)	1,094	1,159	1,126	1,154	1,193
Finance Companies (FCs)	1,264	1,347	1,323	1,600	2,389
Other items (net)	-3,312	-3,529	-3,807	-4,327	-5,634
Memorandum Items:					
Money Multiplier (M_{2b})	8.15	9.11	9.93	9.30	8.89
Velocity (M_{2b} average) (d)	1.73	2.04	2.18 (e)	2.20 (e)	2.16

Source: Central Bank of Sri Lanka

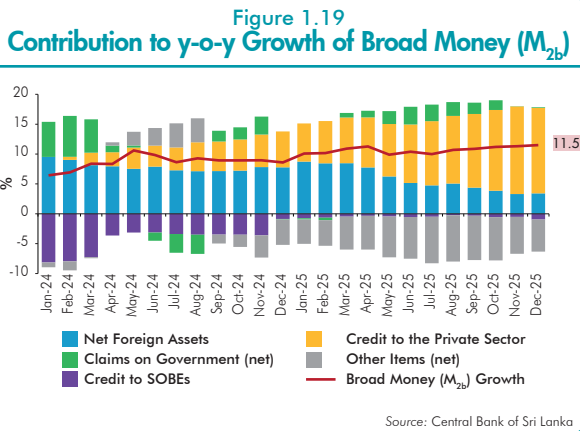
(a) Provisional

(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. The Government's Crown Agent's balance has not been reported since February 2025, following the discontinuation of Crown Agent's operations and the Government's decision to close the account.

(c) CPC's outstanding foreign currency guaranteed debt was absorbed into central government debt effective December 2022, implemented in 2023 via state banks' balance sheet adjustments, reducing credit to SOBEs and increasing NCG by LCBs.

(d) Based on rebased GDP estimates (base year 2015) by the Department of Census and Statistics

(e) Revised



of foreign currency swap facilities. Meanwhile, the continued servicing of the Central Bank's external debt obligations, including the settlement of the swap facility with the Reserve Bank of India (RBI), contributed to a gradual decline in foreign liabilities. In contrast, the NDA of the Central Bank declined by Rs. 234 bn in 2025. Although net credit to the Government increased, primarily reflecting valuation gains on the fair value of the Central Bank's holdings of government securities amid declining bond yields, this upward effect was more than offset by the significant expansion in other liabilities of the Central Bank. The increase in other liabilities was largely attributable to the build-up of reserves, driven by higher retained earnings and valuation gains.

Meanwhile, the expansion of broad money supply (M_{2b}) during 2025 was primarily driven by the notable growth of credit to the private sector by LCBs, together with the improvement in the NFA of the banking system. NFA of the banking system comprising both the Central Bank and LCBs improved by around Rs. 494 bn during the year, largely reflecting the strengthening of the Central Bank's NFA position. Despite revaluation effects stemming from the depreciation of the Sri Lanka rupee, NFA of LCBs recorded a marginal increase during 2025, as the expansion in foreign assets more than offset the increase in foreign liabilities. The increase in foreign assets of LCBs was mainly supported by increased credit extended

to non-residents, notwithstanding a decline in foreign currency placements and the maturity of foreign securities holdings. At the same time, foreign liabilities of LCBs increased, primarily due to the expansion in foreign currency deposit liabilities. Overall, these developments resulted in a modest improvement in the NFA position of LCBs during the year. Furthermore, the build-up of reserves driven by higher retained earnings and valuation gains contributed negatively to broad money growth as reflected in the increase in negative value of other items (net).¹⁹ Driven by these developments, the growth of broad money (M_{2b}) accelerated to 11.5% (y-o-y) in 2025, compared to 8.6% (y-o-y) in 2024. In line with this trend in M_{2b} , the growth of broad money M_4 , as measured by the Financial Survey, also accelerated at a similar pace. Meanwhile, the money multiplier, measured as the ratio of M_{2b} to reserve money, declined to 8.89 in 2025 from 9.30 in 2024, reflecting the strong expansion in reserve money.

1.4 External Sector Developments

1.4.1 Balance of Payments

Current Account

Sri Lanka's external sector strengthened further in 2025, with the current account recording a surplus for the third consecutive year. The merchandise trade deficit widened notably in 2025, reflecting a significant expansion in import expenditure that outpaced growth in export earnings. Merchandise imports increased by 14.0% to USD 21.5 bn, while merchandise exports grew by 6.3% to a historically high level of USD 13.6 bn in 2025. As a result, the trade deficit widened to USD 7.9 bn in 2025, compared to USD 6.1 bn in 2024. Expenditure on motor vehicle imports of USD 2.0 bn primarily contributed to the expansion in

¹⁹ Other items (net) includes the net value of all assets and liabilities that are not explicitly classified elsewhere when calculating standard money supply measures

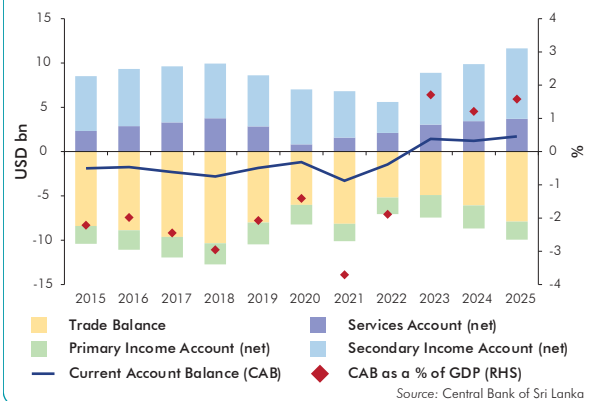
Table 1.9
Current and Capital Account

Item	2024 (a)	2025 (b)
	USD mn	
Current Account (net)	1,207	1,719
Receipts	26,877	29,304
Payments	25,669	27,584
Trade Balance	-6,069	-7,899
Exports	12,772	13,581
Agricultural	2,774	3,072
Industrial	9,947	10,461
Mineral	25	24
Other	26	24
Imports	18,841	21,480
Consumer	3,466	5,518
Intermediate	11,915	11,859
Investment	3,448	4,090
Other	13	13
Services (net)	3,435	3,707
Receipts	6,910	7,066
Of which;		
Transport	1,794	1,883
Travel	3,169	3,219
Computer Services	848	800
Construction Services	212	132
Payments	3,475	3,359
Of which;		
Transport	1,017	996
Travel	755	829
Computer Services	194	263
Construction Services	127	37
Primary Income (net)	-2,598	-2,036
Receipts	609	580
Compensation of employees	146	229
Investment Income	463	350
Direct Investment	73	78
Portfolio Investment	-	-
Other Investment	271	125
Reserve Assets	119	148
Payments	3,207	2,616
Compensation of employees	20	28
Investment Income	3,187	2,587
Direct Investment	940	1,137
Portfolio Investment	877	449
Other Investment	1,369	1,002
Secondary Income (net)	6,439	7,947
Receipts	6,585	8,077
Of which;		
Workers' Remittances (c)	6,575	8,076
Payments	146	130
Capital Account (net)	12	-7
Receipts (d)	20	2
Payments	8	9
Current and Capital Account (net)	1,219	1,712
As a % of GDP		
Trade Balance	-6.1	-7.3
Goods and Services Balance	-2.6	-3.9
Current Account Balance	1.2	1.6

(a) Revised
(b) Provisional
(c) Workers' remittances may include other remittances, such as those received following Cyclone Ditrwah.
(d) Data on capital transfers to the General Government for 2025 are available only up to first half of 2025.

Source: Central Bank of Sri Lanka

Figure 1.20
Annual External Current Account



Source: Central Bank of Sri Lanka

import expenditure. Despite the widened trade deficit, the current account recorded a higher surplus in 2025 than in the previous two years, supported by a stronger services account surplus, a substantial improvement in workers' remittances, and a narrowing of the primary income account deficit. The current account surplus is estimated to have increased to USD 1.7 bn in 2025, from USD 1.2 bn in 2024.

Merchandise Trade Account

The merchandise trade deficit widened in 2025 compared to the preceding year, largely reflecting a sharper expansion in import expenditure than in export earnings. Export earnings recorded a positive y-o-y growth trajectory during most of 2025, primarily supported by the expansion in industrial exports, including garments and food, beverages, and tobacco, underpinned by improved external demand conditions. However, the improvement in export performance was outweighed by a substantial increase in import expenditure, driven mainly by a notable surge in vehicle imports following the relaxation of import restrictions in January 2025, alongside higher imports of investment goods. Consequently, the deficit in the merchandise trade account widened to USD 7.9 bn in 2025, compared to USD 6.1 bn in 2024. As a percentage of GDP, the trade deficit widened to 7.3% in 2025 from 6.1% in the previous year.

Table 1.10
Summary of Merchandise Trade Performance

Category	2024		2025 (a)	
	Value (USD mn)	Value (USD mn)	Value (USD mn)	Growth (%)
Exports	12,772.0	13,581.4		6.3
Industrial	9,946.9	10,460.8		5.2
Agricultural	2,774.5	3,072.0		10.7
Mineral	24.5	24.2		-1.4
Unclassified	26.1	24.4		-6.7
Imports	18,841.4	21,479.9		14.0
Consumer	3,465.7	5,518.3		59.2
Food and beverages	1,914.3	2,115.9		10.5
Non-food consumer	1,551.4	3,402.3		119.3
Intermediate	11,914.5	11,858.9		-0.5
Investment	3,448.2	4,089.9		18.6
Unclassified	13.0	12.9		-0.7
Trade Balance	-6,069.4	-7,898.6		
Total Trade	31,613.4	35,061.3		10.9

(a) Provisional

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

The increase in both export earnings and import expenditure in 2025 was mainly driven by higher trade volumes, indicating a recovery in real trade flows rather than price-led effects. The total trade, encompassing both export earnings and import expenditure, increased by 10.9% (y-o-y) in 2025, mirroring the broad-based recovery in economic activity. Meanwhile, Sri Lanka’s terms of trade, measured as

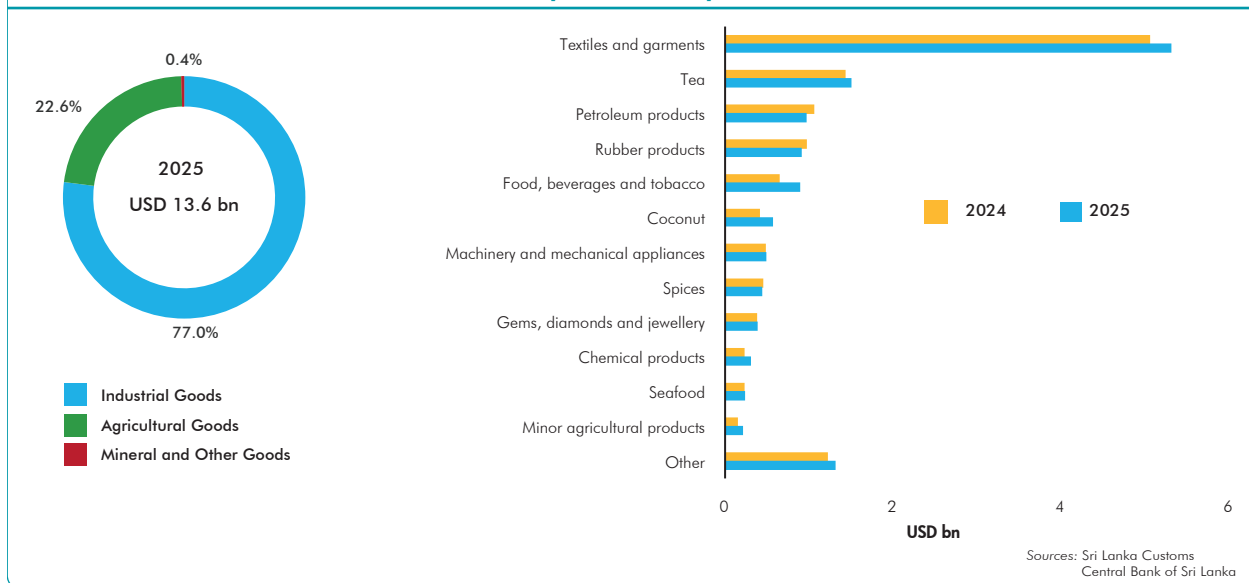
the ratio of export prices to import prices, deteriorated marginally in 2025 due to rising import prices and falling export prices.

Export Performance

The merchandise exports recorded a notable expansion in 2025, reaching the highest annual export level on record at USD 13.6 bn, surpassing the previous peak of USD 13.1 bn achieved in 2022. This performance reflects a 6.3% y-o-y growth in export earnings, underpinned by improved external demand conditions and a recovery in industrial and agricultural exports, signalling a strengthening of Sri Lanka’s export sector momentum. As a percentage of GDP, export earnings in 2025 amounted to 12.5%.

Tariff measures imposed by the United States on imported goods of trading partners underwent several revisions since 2025. Accordingly, the initial announcement in April 2025 of a 44% tariff on Sri Lankan exports to the United States was subsequently reduced through negotiations to 30% and then to 20%. In February 2026, the United States Supreme Court invalidated this tariff regime, prompting a policy shift. Under the new proclamation,

Figure 1.21
Composition of Exports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

the United States imposed, for a period of 150 days, a 10% ad valorem duty on articles exported to the United States, with indications that this could be adjusted under alternative legal provisions. Despite these tariff shocks and policy uncertainties, Sri Lanka's textiles and garments exports to the United States have remained resilient, recording a marginal increase on y-o-y basis in 2025. Further, overall exports to the United States increased to USD 3.0 bn recording a growth of 3.1% in 2025 compared to 2024.

The rise in industrial exports was a key factor driving overall export earnings in 2025.

Exports of textiles and garments, Sri Lanka's single largest export category, rose by 5.0% in 2025 compared to 2024, reaching USD 5.3 bn. This growth was supported by higher exports to key markets, including the European Union (12.4%), the United States (2.1%), and the United Kingdom (0.7%). Meanwhile, exports of food, beverages, and tobacco surged to USD 0.9 bn, marking a remarkable 37.4% growth over 2024. Additionally, notable increases were recorded in exports of chemical products, animal fodder, and base metals and articles. Notwithstanding higher export volume, earnings from petroleum products declined in 2025 primarily due to lower bunkering and aviation fuel prices. Exports of rubber products also fell primarily driven by a reduction in rubber tyre exports.

Meanwhile, earnings from agricultural exports exceeded USD 3 bn for the first time in history in 2025, marking a 10.7% increase over 2024, largely driven by strong performances in coconut-related products, tea, and minor agricultural products. Earnings from both kernel and non-kernel coconut exports increased, led by coconut oil and coconut fibre, while exports of value-added coconut products, classified under industrial goods, also rose notably. The growth trajectory in raw and processed coconut products highlights the sector's increasing contribution to export diversification and value

addition. Tea exports also recorded higher earnings, supported by both elevated export prices and increased volumes, reflecting sustained demand in key international markets. In contrast, spice exports declined in 2025, mainly due to lower pepper exports. Mineral exports remained on a downward trend, with some minerals exported in value-added form under industrial exports.

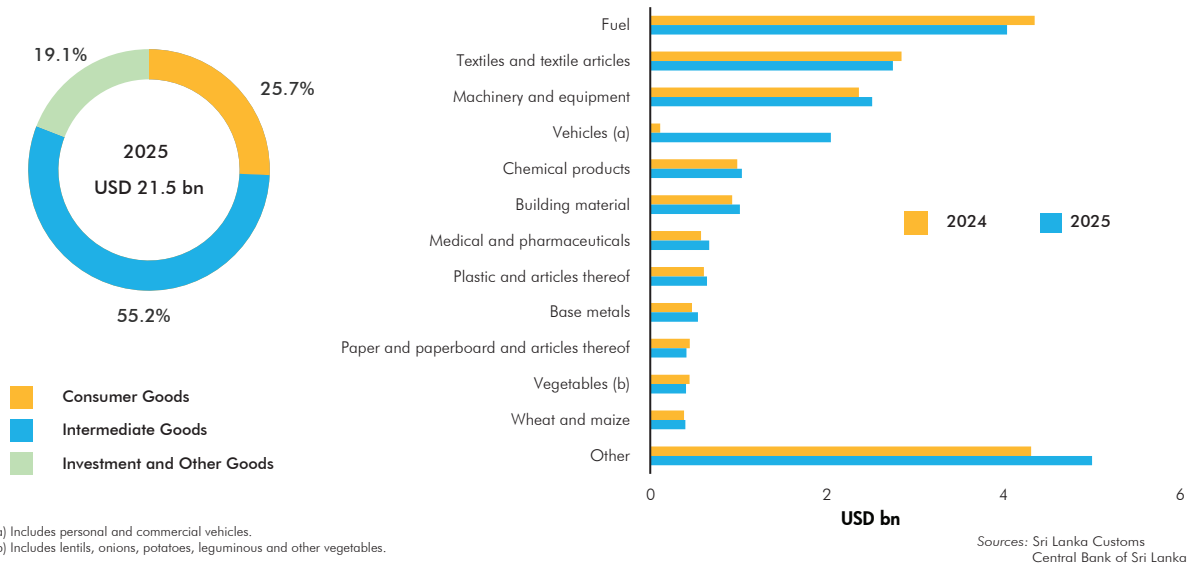
Import Performance

Sri Lanka's merchandise import expenditure expanded notably in 2025, reflecting both policy-induced and macroeconomic developments during the year. The relaxation of restrictions on vehicle imports, alongside the gradual recovery in domestic demand and investment activity, contributed to the rise in imports. Total merchandise import expenditure increased to USD 21.5 bn in 2025, recording a y-o-y growth of 14.0% and marking the second-highest level on record, following the peak of USD 22.2 bn in 2018. As a share of GDP, import expenditure rose to 19.7% in 2025 from 18.9% in 2024.

The increase in import expenditure in 2025 was primarily driven by higher imports of consumer goods and investment goods, despite lower imports of intermediate goods. Consumer goods imports increased in 2025 compared to 2024, primarily due to higher imports of non-food consumer goods, mainly personal vehicles, consistent with the pent-up demand accumulated during the period of import controls. Imports of medical and pharmaceutical products and telecommunication devices also increased under non-food consumer goods. Similarly, expenditure on food items increased, particularly on dairy products and oils, and fats. In contrast, expenditure on imports of intermediate goods declined in 2025, mainly driven by lower fuel imports, due to a reduction in prices of refined petroleum products, crude oil, and coal. Imports of textiles and textile



Figure 1.22
Composition of Imports



Featured Chart 1.6
Expenditure on Fuel Imports

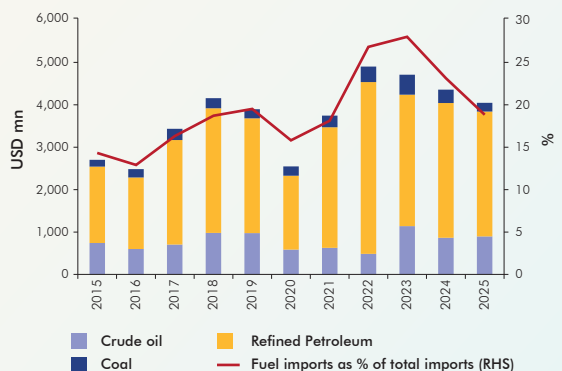


Expenditure on fuel imports is the largest item in Sri Lanka’s import basket, comprising around 20% of the total import bill on average annually over the past 10 years. Despite higher import volumes of crude oil and refined petroleum in 2025, the fuel import bill declined to USD 4 bn in 2025 from USD 4.4 bn in 2024, primarily driven by lower unit prices of crude oil, refined petroleum, and coal. In line with the price movements in the international

market, the average price of crude oil imports declined to USD 73.2 per barrel in 2025 from USD 84.7 per barrel in 2024.

However, global oil prices are expected to remain elevated and volatile amid heightened geopolitical tensions following the Middle East war. This is expected to increase Sri Lanka’s fuel import bill notably in 2026.

Annual Fuel Imports



Sources: Sri Lanka Customs, Central Bank of Sri Lanka, Ceylon Petroleum Corporation, Lanka IOC PLC

Annual Average Import Price of Crude Oil



Sources: Sri Lanka Customs, Central Bank of Sri Lanka, Ceylon Petroleum Corporation, Lanka IOC PLC



articles and diamonds also declined notably in 2025 compared to 2024. Meanwhile, imports of fertiliser and food preparations increased during 2025. Import expenditure on investment goods experienced a notable growth in 2025 across all three subcategories, namely machinery and equipment, building materials, and transport equipment (commercial vehicles), along with most of their subcategories. With the relaxation of restrictions on vehicle imports in January 2025, vehicle imports increased markedly from April 2025 onwards. Accordingly, expenditure on vehicle imports, including both personal and commercial vehicles, surged to USD 2.0 bn in 2025, thereby exerting upward pressure on import expenditure and widening the trade deficit.

Terms of Trade

The terms of trade, measured by the ratio of export prices to import prices, deteriorated slightly in 2025 compared to 2024. Volume indices for all major export and import categories improved, indicating that higher trade volumes contributed to growth in both export earnings and import expenditure in 2025. The decline in the Export Price Index was primarily driven by lower prices for industrial exports, while the increase in the overall Import Price Index reflected higher prices for consumer goods. Consequently, the Export Price Index declined by 0.4%, while the Import Price Index increased by 0.4%, resulting in a 0.8% decline in the terms of trade to 86.1 index points in 2025, compared to 86.7 index points in 2024.

Featured Chart 1.7
Relaxation of Motor Vehicle Import Restrictions and Import Trends

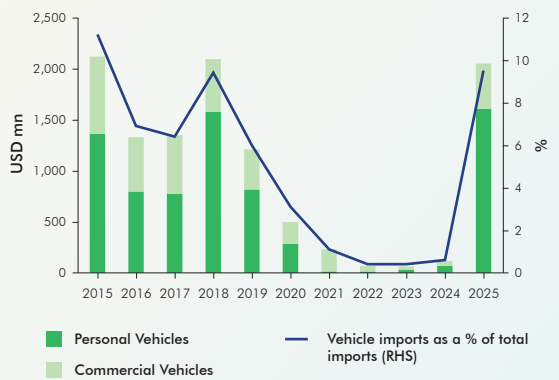


The motor vehicle import restrictions were relaxed in a phased manner, with all remaining restrictions on personal vehicles removed by January 2025. With the relaxation of motor vehicle import restrictions, the Government introduced several tariff and non-tariff measures to mitigate a potential surge in demand following the prolonged period of restrictions.

Despite these measures, vehicle imports increased markedly in 2025, reflecting a strong pent-up

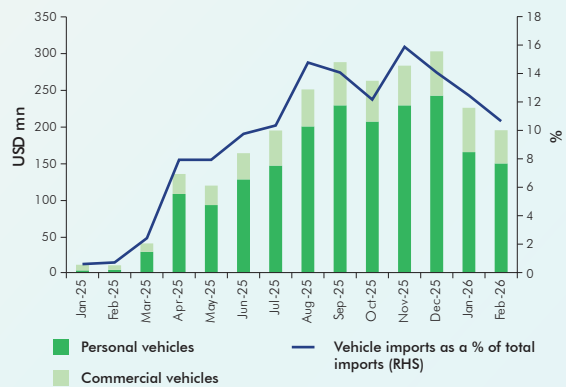
demand accumulated during the years of import restrictions and improvements in economic activity. A notable acceleration in imports was observed from April 2025 onwards. Consequently, expenditure on vehicle imports, including both personal and commercial vehicles, rose significantly to USD 2.04 bn in 2025, marking the third-highest annual total after USD 2.12 bn in 2015 and USD 2.09 bn in 2018.

Annual Vehicle Imports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

Monthly Vehicle Imports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

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

Category	y-o-y change 2024/ 2025 (%)		
	Value Index	Volume Index	Unit Value Index
Total Exports	6.3	6.8	-0.4
Agricultural exports	10.7	1.3	9.3
Industrial exports	5.2	7.6	-2.3
Mineral exports	-1.4	3.9	-5.1
Total Imports	14.0	13.6	0.4
Consumer goods	59.2	38.8	14.7
Intermediate goods	-0.5	8.2	-8.0
Investment goods	18.6	11.9	6.0
Terms of Trade			-0.8

(a) Provisional
(b) in USD terms

Source: Central Bank of Sri Lanka

Direction of Trade

Sri Lanka's merchandise trade showed clear signs of recovery in 2025, with exports growing steadily and imports rising sharply as the economy stabilised and restrictions on vehicle imports eased. In 2025, China emerged as Sri Lanka's largest trading partner in value terms, surpassing India, which had previously held the leading position during 2021–2024. Meanwhile, the United States ranked as the third-largest trading partner. Together, these three countries accounted for around 41.1% of Sri Lanka's total merchandise trade. Total trade with China and India amounted to approximately USD 5.5 bn and USD 5.4 bn, respectively, in 2025, supported largely by vehicle imports following the relaxation of import restrictions. However, Sri Lanka recorded its highest trade deficit with China, which widened significantly to USD 4.9 bn in 2025 from USD 4.1 bn recorded in 2024. The expansion of the deficit with China was primarily driven by increased imports of electric and hybrid vehicles, as well as construction materials such as iron and steel, while exports remained relatively low. The trade deficit with India also widened in 2025, largely due to the increase in motor vehicle imports. Meanwhile, the United States remained a vital trading partner, with total bilateral trade amounting to about USD 3.5 bn in 2025. Sri Lanka continued to maintain a

trade surplus amounting to USD 2.5 bn with the United States, mainly supported by apparel exports.

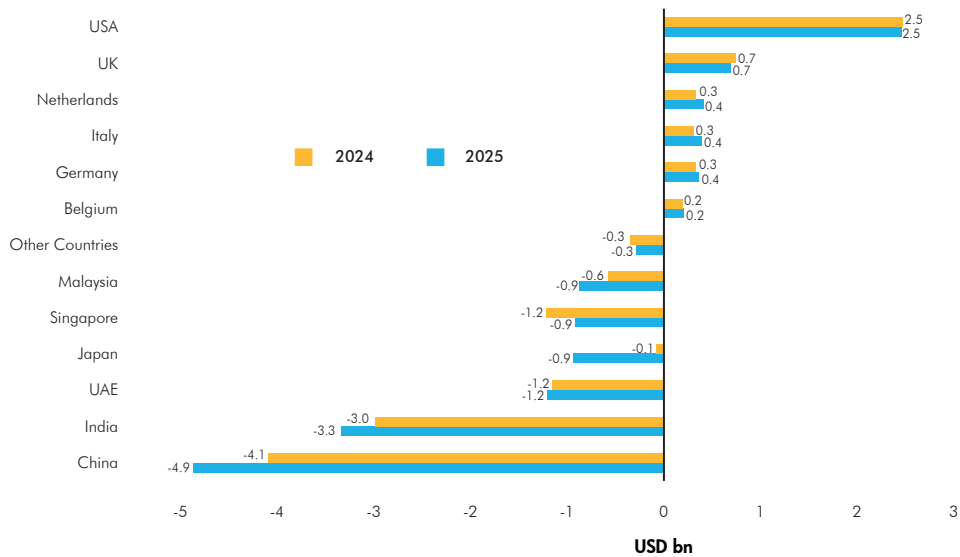
Despite a challenging global trade environment, total trade conducted under preferential and free trade agreements increased in 2025 compared to 2024, with exports under such arrangements increasing during the year as a share of total exports. Bilateral trade discussions with Australia, China, the European Union, Pakistan, Turkey, and Vietnam were held during 2025 and early 2026, underscoring the importance of diversified trade diplomacy in a volatile global environment. Meanwhile, exports under existing bilateral Free Trade Agreements (FTAs) with India and Pakistan increased in 2025, compared to the previous year. In contrast, imports under these agreements remained relatively low during the year, resulting in a continued export-oriented utilisation of bilateral preferences. While the Singapore-Sri Lanka Free Trade Agreement (SSLFTA) remains in force currently, export utilisation has been limited. The FTA between Sri Lanka and Thailand (SLTFTA) was signed in February 2024 and became effective on 1 January 2025, no exports have been recorded under this agreement in 2025. The export performance under regional trade agreements was mixed during 2025. Exports under the Asia Pacific Trade Agreement (APTA) improved in 2025, whereas exports under the South Asian Free Trade Area (SAFTA) and the Global System of Trade Preferences (GSTP) declined significantly.

Sri Lanka also continued to benefit from Generalised System of Preference (GSP) schemes offered by key trading partners.

Export earnings under the EU's GSP+ scheme, which was extended in September 2023 for the period 2024–2027, recorded a notable growth



Figure 1.23
Bilateral Trade Balances



Source: Central Bank of Sri Lanka

in 2025 compared to 2024, while remaining relatively stable over the past five years. In December 2025, the European Commission, the Council, and the European Parliament reached a provisional agreement on a revised GSP framework for developing countries. The revised regulation is expected to be formally endorsed in early 2026 and to enter into force on 1 January 2027. Under the new framework, all current GSP+ beneficiary countries, including Sri Lanka, will be required to reapply to continue receiving preferences. In addition, Sri Lanka continued to benefit from the United Kingdom’s enhanced preferences under the Developing Countries Trading Scheme (DCTS), which came into effect in June 2023. With effect from 1 January 2026, further relaxations were introduced under the DCTS, including enhanced flexibility in rules of origin for apparel exports and expanded cumulation provisions with 18 Asian countries. These enhancements are expected to strengthen Sri Lanka’s integration into regional value chains and improve preference utilisation, particularly in the apparel sector. Meanwhile, the United States GSP scheme, which expired in December 2020, has not yet been reinstated. Given Sri Lanka’s extensive engagement in bilateral and regional trade agreements over several decades, ensuring

their effectiveness and alignment with national economic priorities has become increasingly important. Accordingly, the Cabinet appointed a committee in late 2025 to comprehensively

Table 1.12
Exports under Preferential Trade Arrangements (PTAs) and Free Trade Agreements of Sri Lanka

	2024	2025 (a)		
	Value (USD mn)	Value (USD mn)	Growth (%)	Share (%)
GSPs	3,985.7	4,330.6	8.7	80.4
of which, EU (including GSP+)	2,108.1	2,407.0	14.2	44.7
USA (b)	741.6	779.6	5.1	14.5
UK	601.9	605.2	0.5	11.2
Russian Federation (c)	152.7	128.6	-15.8	2.4
Australia	108.8	105.0	-3.5	1.9
Canada	89.9	104.4	16.1	1.9
Japan	71.1	75.1	5.6	1.4
Turkey	54.5	63.7	16.8	1.2
Other GSP	57.2	62.1	8.5	1.2
ISFTA	490.3	634.4	29.4	11.8
APTA (d)	209.9	234.1	11.6	4.3
GSTP	70.1	35.7	-49.0	0.7
PSFTA	46.2	47.5	2.7	0.9
SAFTA	169.0	100.9	-40.3	1.9
SAPTA	1.3	1.9	41.9	0.04
Total Exports under PTAs and FTAs	4,972.5	5,385.2	8.3	100.0
As a Share of Total Exports	38.9	39.7		

(a) Provisional
(b) Shows exports that would have been eligible under US-GSP which expired on 31.12.2020
(c) Includes Russia, Belarus and Kazakhstan
(d) Earlier known as the Bangkok Agreement (1975)

Sources: Sri Lanka Customs Department of Commerce

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review existing FTAs and evaluate their economic impact, with particular emphasis on their contribution to export diversification, both in terms of expanding the product basket and broadening export market diversification and providing strategic recommendations for future trade negotiations. In addition, Sri Lanka has initiated steps to explore accession to the Regional Comprehensive Economic Partnership (RCEP), comprising 15 Asia-Pacific economies, including China and Japan.

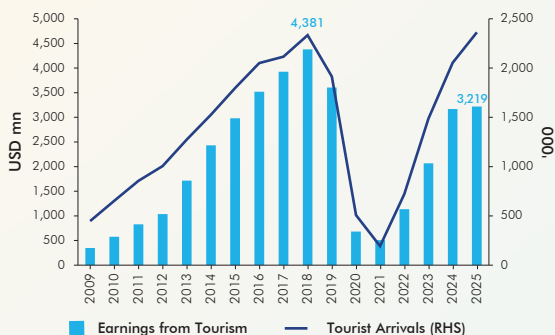
Services Account

The surplus in the services account increased further in 2025. The services account recorded a surplus of USD 3.7 bn in 2025, compared to USD 3.4 bn in 2024. Total services inflows increased to USD 7.1 bn in 2025 from USD 6.9 bn in 2024. Tourism earnings amounted to USD 3.2 bn in 2025, registering a marginal growth of 1.6% compared to 2024. Tourist arrivals in 2025 surpassed the peak recorded in 2018, growing by 15.1% y-o-y. However,

Featured Chart 1.8
Sri Lanka's Earnings from Tourism

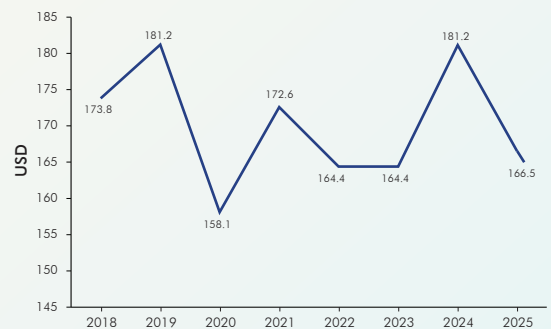


Earnings from Tourism and Tourist Arrivals



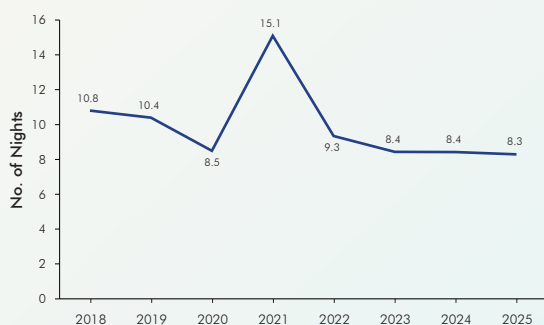
Sources: Central Bank of Sri Lanka
Sri Lanka Tourism Development Authority

Average Expenditure per Day



Source: Sri Lanka Tourism Development Authority

Average Duration of Stay



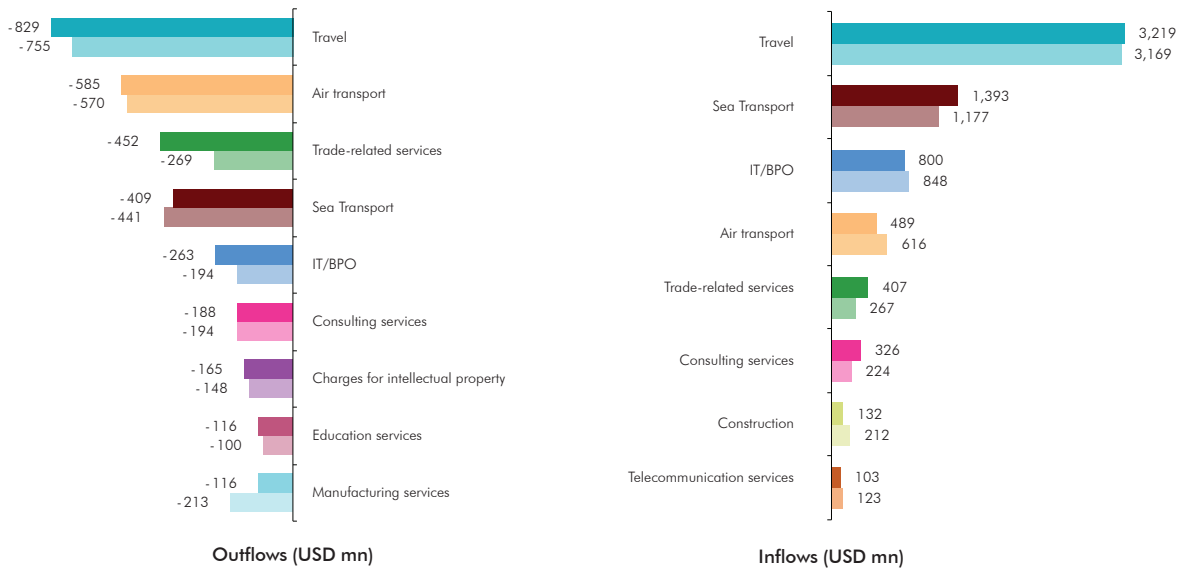
Source: Sri Lanka Tourism Development Authority

Tourist arrivals recorded a significant improvement in 2024 and 2025, following the pandemic and domestic economic crisis. Despite tourist arrivals in 2025 reaching almost the same level as in 2018,

the recovery in earnings from tourism has been lower compared to the peak tourist earning level recorded in 2018. This divergence between arrivals and earnings can largely be attributed to the downward revision in average duration of stay and average expenditure per day¹ by a tourist as per the estimates provided by SLTDA in 2025 compared to 2018. Amid capacity constraints in handling high tourist volumes, attracting high-value tourists to Sri Lanka is essential to boost tourism earnings in the long run. In this regard, diversification into non-traditional sectors such as eco-tourism, health tourism, and wellness experiences that attract higher-spending travellers is paramount.

¹ Average expenditure per day by a tourist has been revised downwards from USD 171.74 (January - July 2025) to USD 148.26 from August 2025 based on the Departing Survey conducted by the SLTDA.

Figure 1.24
Services Inflows and Outflows



Note: The darker shaded bars represent values for the year 2025, while the lighter shaded bars represent 2024.

Source: Central Bank of Sri Lanka

earnings remained below the 2018 peak due to a downward revision in average daily spending and average duration of stay by the Sri Lanka Tourism Development Authority (SLTDA) in 2025. Sea and air transport services continued to contribute positively, with inflows increasing to USD 1.9 bn in 2025. Meanwhile, inflows from computer and IT/BPO services moderated slightly compared to 2024. Services outflows declined to USD 3.4 bn in 2025 from USD 3.5 bn in 2024. While outflows related to travel abroad and other business services increased, payments for transport services declined. The combined effect of higher inflows and moderated outflows led to an improved services surplus in 2025.

Primary Income Account

The deficit in the primary income account narrowed in 2025 compared to 2024. The primary income account deficit amounted to USD 2.0 bn in 2025, compared to USD 2.6 bn in 2024. Primary income account outflows declined by 18.4% to USD 2.6 bn in 2025. Notable reductions were observed in portfolio investment-related interest payments and other investment-related interest payments.

These reductions were mainly due to the coupon payments on restructured International Sovereign Bonds (ISBs) and interest payments on government foreign loans in 2025, which were lower compared to the accrued coupon and interest obligations that prevailed in 2024. Also, the interest payments made by the Central Bank on its outstanding liabilities related to the International Monetary Fund (IMF) and the special swap arrangement with the RBI also decreased during 2025. Meanwhile, direct investment-related outflows increased, reflecting higher dividend payments and reinvested earnings of direct investment enterprises. Primary income account inflows decreased marginally to USD 580 mn in 2025. The overall improvement in the primary income account contributed to strengthening the current account balance in 2025.

Secondary Income Account

The surplus in the secondary income account increased substantially in 2025, driven mainly by a sharp rise in workers' remittances.²⁰ The secondary income account

²⁰ Workers' remittances may include other remittances, such as those received following Cyclone Ditwah.

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surplus rose to USD 7.9 bn in 2025, compared to USD 6.4 bn in 2024. Workers' remittances recorded a historic high in 2025, increasing by 22.8% y-o-y to USD 8.1 bn, compared to USD 6.6 bn in 2024. The continued improvement in official remittance inflows and sustained migrant worker departures supported this strong performance. The significant increase in remittances played a key role in offsetting the widened merchandise trade deficit and strengthening the overall current account balance.

Capital Account²¹

The capital account is estimated to have recorded a deficit in 2025. Capital transfers to both the Government and the private sector were limited during the year.

Financial Account

In the financial account of the Balance of Payments (BOP), both the liabilities and financial assets recorded net increases during 2025. Net incurrence of liabilities amounted to USD 0.5 bn in 2025 compared to USD 1.0 bn in 2024. Main inflows to the financial account during 2025 included foreign direct investments (FDIs), two tranches under the IMF-EFF programme, proceeds from the Rapid Financing Instrument (RFI) of the IMF and disbursements from other multilateral institutions such as the ADB.

Direct Investments

FDI inflows, including foreign loans from unrelated parties to Board of Investment (BOI) companies, remained modest in 2025. Although reinvestment of earnings, shareholder advances, and intercompany loans to Direct Investment Enterprises (DIEs) increased in 2025, equity investments in DIEs declined notably compared to the previous year. Meanwhile, foreign loan inflows from unrelated parties to

Table 1.13
Financial Account

Item	USD mn	
	2024 (a)	2025 (b)
Financial Account (net)	965	904
Net Acquisition of Financial Assets	1,970	1,431
Net Incurrence of Liabilities	1,005	527
Direct Investment: Assets	110	98
Equity	106	94
Debt Instruments	4	4
Direct Investment: Liabilities	759	1,044
Equity	497	352
Debt Instruments	262	692
Portfolio Investment: Assets	180	-259
Debt Securities	180	-259
Portfolio Investment: Liabilities	302	-267
Equity	3	-184
Debt Securities	299	-83
General Government	286	-95
Short Term (Treasury Bills)	-217	-24
Long Term	504	-71
Treasury Bonds	39	272
Sovereign Bonds	465	-343
Other Sectors	13	12
Long-term	13	12
Financial Derivatives	-	-
Other Investment: Assets	-3	973
Currency and Deposits	-73	-374
Trade Credit and Advances	111	369
Other Accounts Receivable	-42	978
Other Investment: Liabilities	-56	-250
Currency and Deposits	-868	-498
Loans	981	446
Trade Credit and Advances	-170	-199
Other Accounts Payable	-	-
Special Drawing Rights (SDRs)	-	-
Reserve Assets	1,682	618
Net Errors and Omissions	-254	-808

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

BOI companies increased in 2025. Accordingly, FDI, including foreign loans, amounted to USD 1,154 mn in 2025, compared to USD 845 mn in 2024. FDI, excluding loans, amounted to USD 1,044 mn in 2025, compared to USD 759 mn in 2024. On a sectoral basis, FDIs were primarily directed to port container terminals, rubber products manufacturing, and textiles and garments sectors in 2025.

21 Data on capital transfers to the General Government for 2025 are available only up to the first half of 2025.

Portfolio Investment

Portfolio investment recorded a net reduction in foreign liabilities and assets in 2025.

Although portfolio investment in the form of equity and investment fund shares in the Colombo Stock Exchange (CSE) recorded a net outflow, non-resident investments in the government securities market, including Treasury bills and Treasury bonds, recorded a net inflow during the year. However, overall non-resident investments in government debt securities reduced during the year as the repayment of the second installment of the past due interest (PDI) bond resulted in a reduction in liabilities of debt securities issued by the Government, offsetting the net inflow to the Treasury bills and Treasury bonds.

Other Investment and Reserve Assets

Other investment liabilities recorded net outflows during 2025, mainly due to significant repayments of liabilities by the Central Bank, Government, and the corporate sector. The Central Bank's liabilities declined with continued repayments in relation to the international swap with the Reserve Bank of India and the IMF-EFF programme obtained in 2016. Meanwhile, the banking industry's exposure to foreign loans increased during 2025 as a result of obtaining new foreign borrowings. However, foreign loans to the Government recorded a net increase as a result of higher disbursements, including several multilateral loans from the IMF and ADB that surpassed the foreign loan repayments during the year. Meanwhile, trade credits and advances recorded a reduction in liabilities as the CPC continued to reduce its existing trade credit liabilities.

A net increase was recorded in financial assets in 2025, mainly due to the buildup of Gross Official Reserves (GOR) and increase in other accounts receivable. The substantial net purchases of foreign exchange from the domestic foreign exchange market by the Central

Bank, along with receipts from the IMF and the ADB, largely contributed to the increase in GOR. Meanwhile, net reduction of financial assets of the banking sector in terms of currency and deposits was recorded, while other accounts receivable, trade credits and advances increased during the year. Moreover, trade credits and advances given by the corporate sector increased in 2025.

1.4.2 International Investment Position, Reserve Assets, and Overall Balance

International Investment Position (IIP)

Sri Lanka's net IIP reflected a marginally lower net liability position in 2025, compared to the previous year. Both total external liabilities and total external assets increased by the end of 2025, but the rise

Table 1.14
International Investment Position (Summary) (a)

Item	USD mn (End period position)			
	2024 (b)		2025 (c)	
	Assets	Liabilities	Assets	Liabilities
Direct Investment	1,699	16,598	1,797	18,228
Equity and Investment Fund Shares	1,645	10,128	1,739	11,066
Debt Instruments	54	6,470	58	7,162
Portfolio Investment	353	10,459	95	9,297
Equity and Investment Fund Shares		764		1,116
Debt Securities	353	9,695	95	8,181
Other Investment	6,367	39,050	7,341	39,464
Currency and Deposits	1,697	7,051	1,323	6,556
Loans		30,170		31,215
Trade Credit and Advances	1,741	590	2,110	391
Other Accounts Receivable/ Payable	2,930	-	3,908	-
Special Drawing Rights (SDRs)		1,239		1,301
Reserve Assets	6,122		6,838	
Total Assets / Liabilities	14,542	66,107	16,070	66,989
Net International Investment Position		-51,565		-50,918
Memorandum Items				
IIP - Maturity-wise Breakdown	14,542	66,107	16,070	66,989
Short Term	9,075	5,917	10,258	6,667
Long Term	5,467	60,190	5,813	60,322

(a) Refer Statistical Appendix Table 12 for a detailed breakdown of the IIP

(b) Revised

(c) Provisional

Source: Central Bank of Sri Lanka

1

in assets outpaced the increase in liabilities. The Central Bank's outstanding external liabilities decreased over the year, mainly due to the gradual settlement of the special swap arrangement with the RBI and repayments of the IMF-EFF programme obtained in 2016. Direct investment liabilities increased despite FDI inflows remaining moderate, mainly due to notable increases in the market prices of some publicly listed companies towards the end of the year. Further, portfolio investment liabilities recorded a decline, primarily due to the repayments related to the PDI bond made during the year after the successful completion of the ISB debt restructuring process. However, the outstanding position of non-resident holdings of Treasury bonds increased, supported by improved market sentiment, while the outstanding position of non-resident holdings of Treasury bills declined compared to the previous year. Additionally, foreign loan liability position increased, mainly reflecting foreign loan inflows to the Government from the IMF, including EFF and RFI facilities and ADB. Consequently, the country's total external liabilities rose from USD 66.1 bn at the end of 2024 to USD 67.0 bn at the end of 2025.

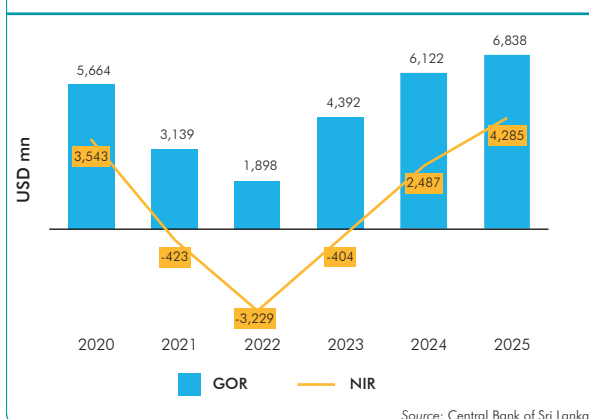
Sri Lanka's external asset position improved during 2025. The external asset position, comprising reserve assets and banking sector external assets, increased during the year. Further, both outstanding trade credits given by Sri Lankan exporters and the outstanding position of other accounts receivable increased during 2025. Accordingly, the country's total external assets increased from USD 14.5 bn at the end of 2024 to USD 16.1 bn at the end 2025. As a result, the country's net liability position reduced marginally to USD 50.9 bn at end 2025, compared to USD 51.6 bn at end 2024.

Reserve Asset Position

GOR²² improved and reached USD 6.8 bn as at end 2025 compared to USD 6.1 bn as at end 2024, amid the foreign currency debt

²² GOR includes the international swap facility from the People's Bank of China (PBoC), which was valued in US dollar terms at USD 1.4 bn.

Figure 1.25
Gross Official Reserves and Net International Reserves



service payments. The buildup of GOR was primarily due to the net purchases of foreign exchange amounting to USD 2.0 bn (on value date basis) by the Central Bank from the domestic foreign exchange market, the receipt of the fourth and fifth tranches of the ongoing IMF-EFF programme, emergency financing under the RFI and financing from the ADB. Major outflows from the GOR were foreign currency debt service payments of the Government and the Central Bank. By the end of 2025, the foreign asset position of the banking sector increased to USD 5.5 bn, compared to USD 5.1 bn at the end of 2024. As a result, total international reserves, which include both GOR and the foreign assets of the banking sector, reached USD 12.3 bn by the end of 2025, compared to USD 11.2 bn at the end of 2024.

Overall Balance

The overall balance of the BOP, which reflects changes in net international reserves, remained in surplus by the end of 2025.

During the year, significant inflows in terms of funding from international financial institutions and the Central Bank's net forex purchases from the domestic foreign exchange market resulted in an increase in reserves to USD 6.8 bn by end 2025 from USD 6.1 bn by end 2024. Meanwhile, reserve-related liabilities declined from USD 3.6 bn at end 2024 to USD 2.6 bn

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

Item	USD mn (End period position)				
	2021	2022	2023	2024	2025 (a)
1. Government Foreign Assets	177	39	875	368	531
2. Central Bank Foreign Assets	2,962	1,858	3,517	5,754	6,307
3. Gross Official Reserves (1+2)	3,139	1,898	4,392	6,122	6,838
4. Foreign Assets of Deposit-taking Corporations	2,983	3,976	4,981	5,108	5,467
5. Total Foreign Assets (3+4) (b)	6,122	5,874	9,373	11,230	12,306
6. Reserve Related Liabilities (c)	3,562	5,127	4,796	3,635	2,553
7. Net International Reserves (NIR) (3-6)	-423	-3,229	-404	2,487	4,285
8. Overall Balance (d)	-3,967	-2,806	2,826	2,890	1,798
9. Gross Official Reserves in Months of Imports of Goods	1.8	1.2	3.1	3.9	3.8
10. Total Foreign Assets in Months of Import of Goods	3.6	3.9	6.7	7.2	6.9

(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

at end 2025, primarily due to the repayments of the RBI special swap facility and the settlement of obligations related to the IMF-EFF obtained in 2016. Consequently, net international reserve position improved to USD 4.3 bn by end 2025, compared to USD 2.5 bn by end 2024. As a result, the overall balance recorded a surplus of USD 1.8 bn in 2025, in comparison to the surplus of USD 2.9 bn recorded in 2024.

1.4.3 External Debt and Debt Service Payments

External Debt

Sri Lanka's total external debt in terms of face value increased during 2025. In face value terms, it increased to USD 56.2 bn by end 2025 compared to USD 55.3 bn by end 2024. In face value terms, government external debt increased to USD 36.7 bn at end 2025 from USD 35.6 bn at end 2024. However, the total external debt position of the country, in terms of market value, declined to USD 54.8 bn by end 2025. The Government's outstanding external debt, expressed at market value for tradable debt instruments, amounted to USD 35.4 bn by the end of 2025, down from USD 35.6 bn at the end of 2024, primarily due to the decline in the market prices of outstanding ISBs. Meanwhile, the Central Bank's outstanding

external debt declined to USD 3.9 bn at end 2025 from USD 4.9 bn at end 2024. This reduction was mainly attributable to the gradual repayments made towards the special swap arrangement with the RBI, as well as the repayments under the IMF-EFF programme obtained in 2016. The banking sector's external debt increased due to the increase in currency and deposit liabilities and outstanding loans. Overall, the country's external debt-to-GDP ratio (in terms of market value) declined to 50.4% by the end of 2025, compared to 55.4% in 2024.

Foreign Debt Service Payments

Sri Lanka's external debt service payments increased in 2025 compared to the previous year, reflecting the resumption of repayments on most government external debt following the completion of debt restructuring.

Accordingly, total external debt service payments in 2025 amounted to USD 5.1 bn, compared to USD 4.3 bn in 2024. There was a notable increase in the Government's external debt service payments, mainly driven by payments related to restructured ISBs, Indian credit line repayments to the State Bank of India, and repayments to other bilateral agencies, compared to 2024. Capital repayments by the Government during 2025 amounted to

Table 1.16
Outstanding External Debt Position

Item	USD mn (End period position)	
	2024 (a)	2025 (b)
Based on Market Value		
General Government	35,635	35,422
Treasury Bills and Bonds (based on book value)	223	439
International Sovereign Bonds (based on market price)	9,316	7,574
Outstanding Foreign Loans	26,096	27,410
Central Bank	4,874	3,854
Currency and Deposits (short term)	0.1	0.1
Special Drawing Rights (SDRs) Allocation	1,239	1,301
RBI Special Swap	1,563	656
PBoC Swap Arrangement	1,406	1,416
Credit and Loans with the IMF	667	481
Deposit-taking Corporations	4,980	5,520
Currency and Deposits (c)	4,082	4,485
Loans	897	1,035
Other Sectors (d)	3,256	2,848
Trade Credit and Advances (e)	590	391
Debt Securities (based on market price and including accrued interest)	156	169
Loans by Private Sector and State Owned Business Enterprises	2,510	2,289
Direct Investment: Intercompany Lending (f)	6,470	7,162
Gross External Debt Position by market value	55,215	54,807
Gross External Debt Position by market value - As a % of GDP	55.4	50.4
Based on Face Value		
General Government	35,646	36,721
Treasury Bills and Bonds (based on face value)	234	456
International Sovereign Bonds (based on face value)	9,316	8,855
Outstanding Foreign Loans	26,096	27,410
Central Bank	4,874	3,854
Currency and Deposits (short term)	0.1	0.1
Special Drawing Rights (SDRs) Allocation	1,239	1,301
RBI Special Swap	1,563	656
PBoC Swap Arrangement	1,406	1,416
Credit and Loans with the IMF	667	481
Deposit-taking Corporations	4,980	5,520
Currency and Deposits (c)	4,082	4,485
Loans	897	1,035
Other Sectors (d)	3,307	2,898
Trade Credit and Advances (e)	590	391
Debt Securities (based on face value and including accrued interest)	207	219
Loans by Private Sector and State Owned Business Enterprises	2,510	2,289
Direct Investment: Intercompany Lending (f)	6,470	7,162
Gross External Debt Position by face value	55,276	56,156
Gross External Debt Position by face value - As a % of GDP	55.5	51.6
Memorandum Items		
Face Value of Total Outstanding ISBs	10,585	10,255
Outstanding ISBs Held by Non-Residents	9,316	8,855
Outstanding ISBs Held by Residents (g)	1,269	1,400

(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



Table 1.17
External Debt Service Payments

Item	USD mn	
	2024 (a)	2025 (b)
1. Debt Service Payments	4,254	5,149
1.1 Amortisation	3,122	3,761
General Government	693	1,361
Project Loans	589	1,077
Debt Securities	104	284
Central Bank	1,110	1,115
IMF	210	215
International Swaps	900	900
Private Sector and Deposit-taking Corporations	1,319	1,285
Foreign Loans	1,319	1,285
1.2 Interest Payments	1,132	1,388
General Government	749	1,063
Project Loans	532	677
Debt Securities	217	386
Central Bank	276	168
IMF	83	73
International Swaps	192	95
Private sector and Deposit-taking Corporations	107	157
Foreign Loans	107	157
2. Earnings from Export of Goods and Services	19,682	20,647
3. Receipts from Export of Goods, Services, Income and Current Transfers	26,877	29,304
4. Debt Service Ratio		
4.1 As a % of 2 above		
Overall Ratio	21.6	24.9
Excluding IMF Transactions	20.1	23.5
4.2 As a % of 3 above		
Overall Ratio	15.8	17.6
Excluding IMF Transactions	14.7	16.6
5. Government Debt Service Payments		
5.1 Government Debt Service Payments (c)	1,443	2,424
5.2 As a % of 1 Above	33.9	47.1

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

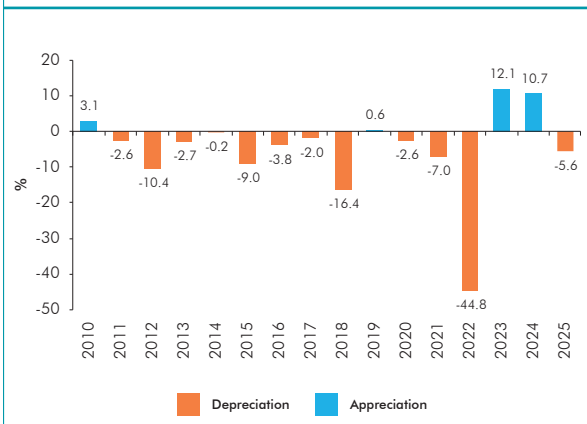
Source: Central Bank of Sri Lanka

USD 1.4 bn, compared to USD 0.7 bn in 2024. Further, interest payments by the Government during 2025 amounted to USD 1.1 bn, compared to USD 0.7 bn in 2024. On the other hand, the Central Bank’s external debt service payments declined marginally in 2025, reflecting lower interest payments on the RBI special swap arrangement compared to the previous year.

1.4.4 Exchange Rate Movements

Following two consecutive years of appreciation, the Sri Lanka rupee recorded a depreciation against the US dollar during 2025. The exchange rate, which

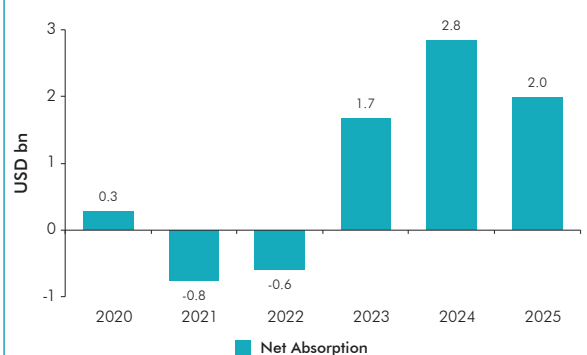
Figure 1.26
Appreciation / Depreciation of LKR against USD



Source: Central Bank of Sri Lanka

stood at Rs. 292.58 per US dollar by the end of December 2024, reached Rs. 309.99 per US dollar by the end of December 2025. Accordingly, the rupee depreciated by 5.6% in 2025. Higher merchandise imports, primarily due to substantial vehicle imports following the full relaxation of vehicle import restrictions, exerted depreciation pressure on the exchange rate. Continued inflows to the external current account, particularly from tourism earnings and workers’ remittances, together with export earnings and inflows to the financial account, supported foreign exchange liquidity in the domestic foreign exchange market. In this context, the Central Bank was able to

Figure 1.27
Central Bank Intervention (a)



(a) The Central Bank foreign exchange intervention data are based on value date. Past data in the figure have been corrected since the initial publication on 20 April 2026.

Source: Central Bank of Sri Lanka

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	
	2023	2024	2025	2023	2024	2025	2024	2025	2024	2025
Euro	358.75	304.56	363.96	354.11	327.05	340.59	17.79	-16.32	8.28	-3.97
Indian Rupee	3.90	3.42	3.45	3.97	3.61	3.45	13.94	-0.96	9.82	4.59
Japanese Yen	2.29	1.87	1.98	2.34	2.00	2.01	22.51	-5.61	17.01	-0.70
Pound Sterling	412.61	367.38	417.31	407.07	386.25	397.21	12.31	-11.97	5.39	-2.76
US dollar	323.92	292.58	309.99	327.53	302.12	300.95	10.71	-5.62	8.41	0.39
Special Drawing Rights (SDRs)	434.60	381.57	424.54	436.88	401.07	406.55	13.90	-10.12	8.93	-1.35

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

Source: Central Bank of Sri Lanka

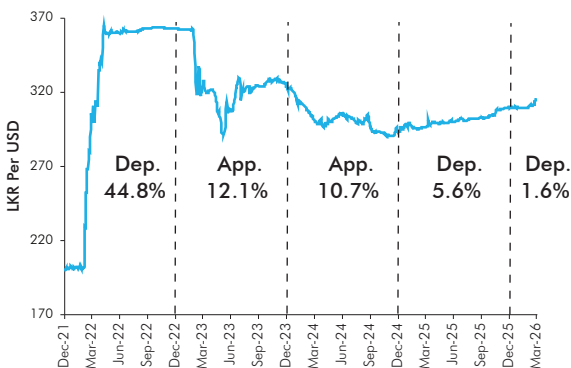
purchase around USD 2.0 bn (on value date basis) from the domestic forex market on a net basis, thereby strengthening GOR.

The Sri Lanka rupee depreciated against all major currencies in 2025, while major currencies exhibited mixed movements against the US dollar. Accordingly, the Sri Lanka rupee depreciated against the Euro (16.3%), the Pound sterling (12.0%), the Japanese yen (5.6%), the Chinese yuan (9.6%), the Indian rupee (1.0%) and the Australian dollar (12.2%) during 2025. With the combined effect of the depreciation of the Sri Lanka rupee against major currencies, it also depreciated against the Special Drawing Rights (SDR) by 10.1% during the year.

Nominal and Real Effective Exchange Rates

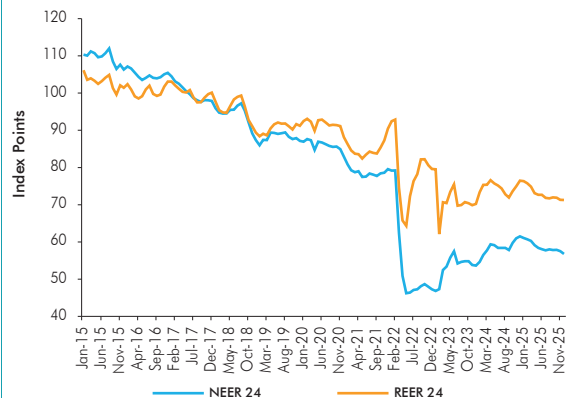
The 5-currency and 24-currency Nominal Effective Exchange Rate (NEER) indices, which measure the value of the Sri Lanka rupee against a basket of currencies, declined during 2025, reflecting the nominal depreciation of the Sri Lanka rupee against selected major currencies together with the movements in cross-currency exchange rates. Accordingly, the 5-currency and 24-currency NEER indices decreased by 9.00% and 8.33%, respectively. The Real Effective Exchange Rate (REER) indices, which consider the variation in nominal exchange rates in the basket of currencies and the inflation differentials among countries in the

Figure 1.28
Daily Exchange Rate Movements



Source: Central Bank of Sri Lanka

Figure 1.29
Effective Exchange Rate Indices
24 - Currency (2017 = 100)



Source: Central Bank of Sri Lanka



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				
						End Year Index	Annual Average Index			
	2023	2024	2025	2023	2024	2025	2024	2025	2024	2025
NEER - 24 currencies	53.66	61.63	56.50	53.30	58.56	58.57	14.86	-8.33	9.87	0.02
REER - 24 currencies	70.24	76.98	70.84	71.73	74.77	72.87	9.59	-7.99	4.25	-2.54

(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 the 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

Featured Chart 1.9
Progress on the International Monetary Fund’s Extended Fund Facility (IMF-EFF) Programme



Sri Lanka’s 4-year IMF Extended Fund Facility (EFF) was approved in March 2023, and continues successfully. The programme’s core objectives are to restore macroeconomic stability, debt sustainability, rebuild external buffers, safeguard financial sector resilience, strengthen governance, and enhance growth-oriented reforms.

The IMF committed SDR 2.286 bn (approximately USD 3 bn) under the EFF. Through the successful completion of four reviews to date, Sri Lanka has received SDR 1.27 bn (approximately USD 1.74 bn, in five tranches). Achievements thus far include significant fiscal consolidation, improved inflation outcomes, stronger reserve position, and

structural reforms in governance and cost-reflective pricing. Sri Lanka expects to receive the sixth and the seventh tranches under the programme together with the conclusion of the fifth¹ and sixth reviews during the upcoming months, and the overall programme is expected to conclude in 2027. Further, the IMF Executive Board approved emergency financing under the Rapid Financing Instrument (RFI), allowing Sri Lanka immediate access to SDR 150.5 mn (approximately USD 206 mn). The RFI helped the country address urgent needs arising from the severe impacts of *Cyclone Ditwah* while maintaining macroeconomic stability.

Significant Progress has been made on the IMF-EFF Programme



- Total EFF disbursements to date: SDR 1.27 bn (approximately USD 1.74 bn).
- SDR 150.5 mn (approximately USD 206 mn) was disbursed in December 2025 under RFI to address urgent BOP and fiscal pressures from *Cyclone Ditwah*.

¹ The fifth review of the programme, which was due to be completed by December 2025, was deferred owing to the Cyclone Ditwah, to allow for an assessment of its economic impact and the appropriate policy response.

currency basket, also decreased. Accordingly, the 5-currency and 24-currency REER indices decreased by 8.98% and 7.99%, respectively. The REER indices remained well below the base year level (2017=100), reflecting improved external competitiveness compared to the base year.

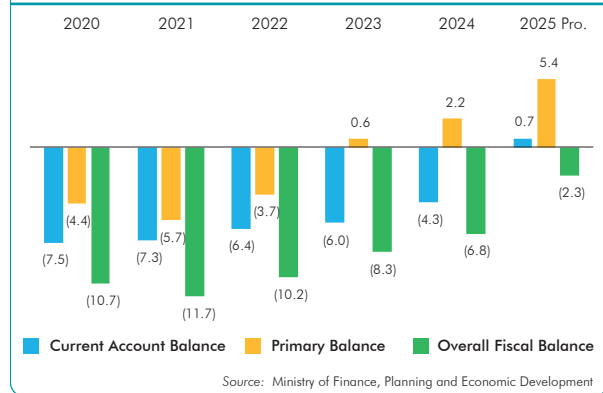
1.5 Fiscal Sector Developments

1.5.1 Key Fiscal Balances

The Government remained committed to strengthening fiscal performance and discipline by sustaining the momentum of revenue-enhancing measures, fiscal reforms and expenditure rationalisation, leading to notable improvements in key fiscal balances during 2025. The primary balance, which excludes interest payments from the overall deficit, recorded a notable surplus for the third consecutive year since 2023, reaching 5.4% of GDP (Rs. 1,755.8 bn) in 2025, compared to a deficit of 3.7% of GDP (Rs. 894.8 bn) in 2022. Both the primary surplus and central government tax revenue in 2025 significantly exceeded the year-end Quantitative Performance Criteria (QPC) of Rs. 730 bn and Rs. 4,350 bn, respectively, under the IMF-EFF programme, as well as the Government's initial budget estimates for 2025.²³ The current account balance, which reflects the gap between government revenue and recurrent expenditure, recorded a surplus of 0.7% of GDP (Rs. 217.0 bn) in 2025, a first since 1987, compared to a deficit of 4.3% of GDP (Rs. 1,309.1 bn) in 2024. Reflecting these developments, the overall budget deficit narrowed significantly to 2.3% of GDP (Rs. 744.9 bn) in 2025, in comparison to 6.8% of GDP (Rs. 2,039.9 bn) recorded in 2024.

²³ A Vote on Account was presented to the Parliament in December 2024, covering government expenditure for the first four months of 2025. Subsequently, the initial Budget estimates for 2025 were presented to the Parliament in February 2025.

Figure 1.30
Key Fiscal Balances (% of GDP)

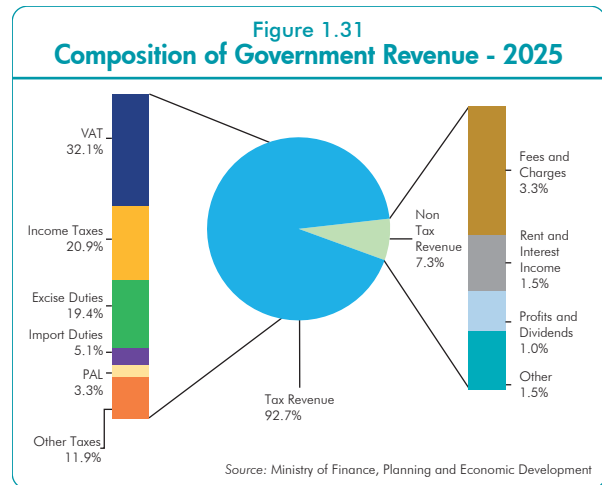


1.5.2 Government Revenue, Expenditure, and Net Lending

Government Revenue

With the implementation of revenue enhancement measures coupled with the revival of economic activities, government revenue continued to record a significant increase in 2025, 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 35.2%, while in GDP terms, revenue increased steadily in recent years, rising from 8.2% of GDP in 2022 to 16.6% of GDP in 2025. The substantial increase in government revenue during 2025 was mainly attributed to higher collection from vehicle import-related taxes following the relaxation of import restrictions. The vehicle-related taxes alone accounted for more than 60% of the increase in total revenue in 2025. The revenue performance was further strengthened by the continued implementation of tax reforms and enhanced tax administration measures. In particular, the significant growth in tax revenue was mainly due to higher revenue mobilisation from Value Added Tax (VAT), income taxes, excise duties, Social Security Contribution Levy (SSCL), import duties and Special Commodity Levy (SCL). The increase in income tax revenue was supported by key

policy measures implemented during the year, including public sector upward salary revisions and private sector minimum wage adjustments as well as the upward revision of Corporate Income Tax (CIT) rate from 40% to 45% for the liquor and tobacco manufacturing and betting and gaming industries, the upward revision of Withholding Tax (WHT) rate from 5% to 10% and the imposition of a 15% tax on the export of services with effect from 01 April 2025, which collectively broadened the tax base and strengthened revenue collections. With these positive developments, the income tax collection increased by 11.0% (by Rs. 113.2 bn) in 2025 compared to 2024. Meantime, Value-Added Tax (VAT) revenue collection increased significantly by 33.4% to Rs. 1,746.8 bn (5.3% of GDP) in 2025 compared to the previous year. VAT revenue from both domestic and import activities increased mainly due to full-year realisation of the VAT rate increase from 15% to 18% and the reduction of the VAT registration threshold from Rs. 80 mn to Rs. 60 mn, the expansion of domestic economic activities and the removal of import restrictions on all categories of vehicles effective from February 2025. In October 2025, the Simplified Value Added Tax (SVAT) scheme was replaced with a new VAT refund system. Under this system, refunds are issued within 45 days after checking the taxpayer's risk level and eligibility, including any necessary field inspections. This risk-based approach ensures timely and accurate refunds and aims to strengthen tax compliance, minimise revenue leakages, and enhance overall tax collection. Similarly, the revenue from excise duty recorded an increase of 76.9% (by Rs. 460.2 bn) in 2025 compared to 2024, mainly attributed to the higher revenue collection from motor vehicles and liquor-related duties. Excise duty on motor vehicles surged to Rs. 471.8 bn, marking a 705.6% y-o-y increase in 2025 and contributing 44.6% of total excise duty revenue. Revenue from excise duty on liquor increased by 8.5% in 2025 compared to 2024, reaching Rs. 231.5 bn. This increase was mainly



attributed to the 5.9% upward adjustment in excise duty on liquor based on inflation-adjusted indexation and the increased liquor production in 2025. Following the removal of import restrictions on the majority of imported items and the imposition of a 20% Customs Import Duties (CID) and a 50% surcharge on CID on motor vehicles in 2025, revenue from CID increased substantially to Rs. 275.9 bn, recording a y-o-y growth of 148.2%, compared to 2024. Revenue from SCL significantly increased to Rs. 164.6 bn, recording a y-o-y growth of 42.9% in 2025. Similarly, revenue from para-tariff also showed a notable increase in 2025, largely reflecting higher import activity and adjustments in applicable tariff rates. Accordingly, revenue collected from the Commodity Export Subsidy Scheme (CESS) increased by 11.4% to Rs. 90.4 bn, while the revenue collected from the Ports and Airports Development Levy (PAL) surged by 6.4% to Rs. 180.9 bn in 2025, compared to 2024. Moreover, revenue from SSCL, which was introduced in late 2022 as part of the revenue enhancement measures, recorded a growth of 17.4% in 2025 compared to 2024, driven by the expansion of economic activities and the improved tax administration measures. Overall, revenue from taxes on external trade increased in 2025 primarily due to the rise in import volumes and the liberalisation of vehicle imports. Meanwhile, the ratio of direct to indirect taxes declined further to 23:77 in 2025 from 28:72

Table 1.20
Summary of Government Fiscal Operations

Item	Rs. billion		2024/2025	
	2024	2025 (a)	Absolute Change	% Change
Total Revenue and Grants	4,090.8	5,485.6	1,394.7	34.1
Total Revenue	4,030.8	5,449.4	1,418.6	35.2
Tax Revenue	3,704.6	5,049.2	1,344.6	36.3
Non Tax Revenue	326.3	400.2	73.9	22.7
Grants	60.0	36.1	-23.8	-39.7
Expenditure and Net Lending	6,130.7	6,230.4	99.7	1.6
Recurrent	5,339.9	5,232.4	-107.6	-2.0
Capital and Net Lending	790.8	998.0	207.2	26.2
o/w Public Investment	817.1	1,015.8	198.7	24.3
Current Account Balance	-1,309.1	217.0		
Primary Balance	649.6	1,755.8		
Overall Fiscal Balance	-2,039.9	-744.9		
Total Financing	2,039.9	744.9	-1,295.1	-63.5
Foreign Financing	333.2	142.4	-190.8	-57.3
Domestic Financing	1,706.7	602.5	-1,104.2	-64.7
As a Percentage of GDP (b)(c)				
Total Revenue and Grants	13.6	16.7		
Total Revenue	13.4	16.6		
Tax Revenue	12.3	15.4		
Non Tax Revenue	1.1	1.2		
Grants	0.2	0.1		
Expenditure and Net Lending	20.4	19.0		
Recurrent	17.7	16.0		
Capital and Net Lending	2.6	3.0		
o/w Public Investment	2.7	3.1		
Current Account Balance	-4.3	0.7		
Primary Balance	2.2	5.4		
Overall Fiscal Balance	-6.8	-2.3		
Total Financing	6.8	2.3		
Foreign Financing	1.1	0.4		
Domestic Financing	5.7	1.8		

(a) Provisional Source: Ministry of Finance, Planning and Economic Development
(b) Figures for 2024 have been revised
(c) GDP estimates (base year 2015) released by the Department of Census and Statistics on 17 March 2026 have been used

in 2024, largely driven by higher revenue from vehicle import-related indirect taxes, following the relaxation of vehicle import restrictions in 2025.

These tax reforms were further reinforced by the efforts of the Inland Revenue Department (IRD) and Sri Lanka Customs to strengthen tax administration and improve compliance, thereby enhancing overall tax revenue collection. In particular, the IRD implemented several measures to boost revenue mobilisation, with the High Wealth Individuals (HWI) Unit playing a pivotal role by achieving full Individual Income Tax (IIT) return compliance

across all 100 assigned HWI files in 2025. In addition, the revenue collected from Large Taxpayers Offices (LTOs) reached 96.8% of the estimated revenue target, while regional revenue collection offices exceeded their targets, achieving 110.9% of expected revenue. In addition, the launch of National Tax Week 2025 aimed to enhance tax literacy, broaden the tax base and encourage voluntary tax compliance. Strengthening tax crime investigations through capacity building and international cooperation remains a strategic priority for the IRD. These initiatives were reflected in the rise in the number of registered income taxpayers, both corporate and non-corporate, from 1.1 mn in 2024 to 1.3 mn by the end of 2025. Initiatives undertaken by Sri Lanka Customs to strengthen tax administration and improve revenue collection also contributed to the growth of revenue from taxes on external trade. Sri Lanka Customs continues to maintain the ASYCUDA World and ASYHUB systems with a target of zero downtime, ensuring uninterrupted customs clearance operations and facilitating smooth trade activities. In line with its digital transformation agenda, Sri Lanka Customs also initiated the pilot implementation of a fully paperless clearance process aimed at improving efficiency and transparency in customs procedures. In addition, the establishment of the Internal Affairs Units (IAUs) within the IRD and Sri Lanka Customs represents a significant step toward strengthening institutional integrity, accountability and good governance within the national tax administration.

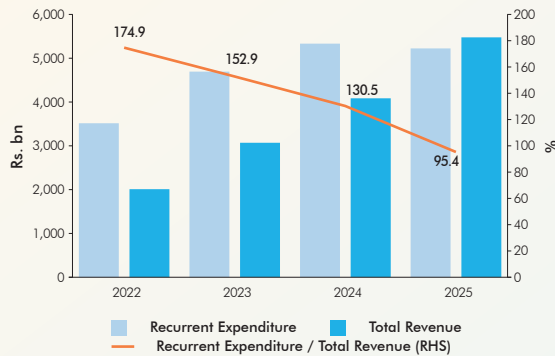
Meanwhile, non-tax revenue increased significantly both in nominal and GDP terms in 2025, mainly driven by higher income from fines, fees and charges, interest income, social security contributions, profits and dividends and rent. Revenue from fees and charges increased due to the upward revision of fees and charges that had not been revised over the past three years. Social security

Featured Chart 1.10 Improving Fiscal Performance Reflected in Key Indicators

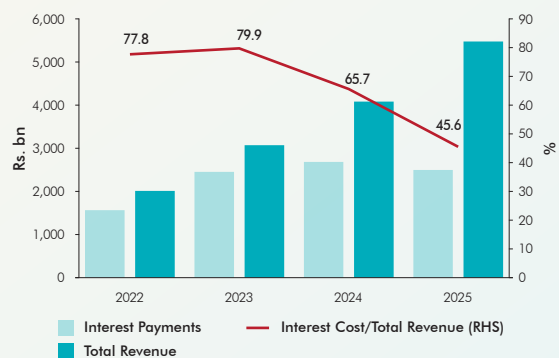


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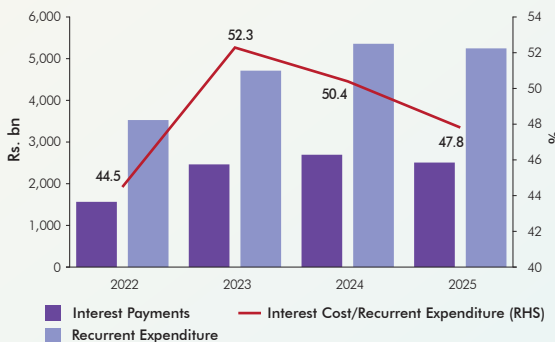
Recurrent Expenditure as a % of Total Revenue



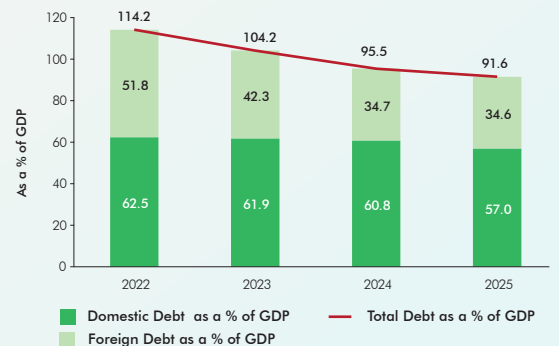
Interest Payments as a % of Total Revenue



Interest Payments as a % of Recurrent Expenditure



Central Government Debt to GDP Ratio



In general, the period preceding the economic crisis was a phase of fiscal stagnation with limited progress in addressing structural imbalances. During the pandemic and subsequent economic crisis, fiscal indicators weakened notably, with interest payments as a percentage of total revenue and debt-to-GDP ratios rising significantly, highlighting the increased burden on public finances. In the post-crisis period, the implementation of revenue-based fiscal consolidation measures has contributed to a notable easing of fiscal pressures. Total revenue has exceeded recurrent expenditure, bringing the

recurrent expenditure as a percentage of total revenue ratio down to 95.4%, the lowest level in the recent period. Interest payments, which had absorbed more than half of total revenue during the crisis declined, while the debt-to-GDP ratio also fell, reflecting an overall improvement in fiscal conditions. These indicators show the ongoing fiscal consolidation programme has been effective, reducing the likelihood of future adverse macroeconomic consequences arising from fiscal imbalances, as experienced during the recent crisis.

contributions also increased mainly due to the public sector salary revisions and the upward revision to the social security contribution rate. In addition, revenue from profits and dividends increased mainly due to the improved performance of State-Owned Enterprises (SOEs).

Expenditure, and Net Lending

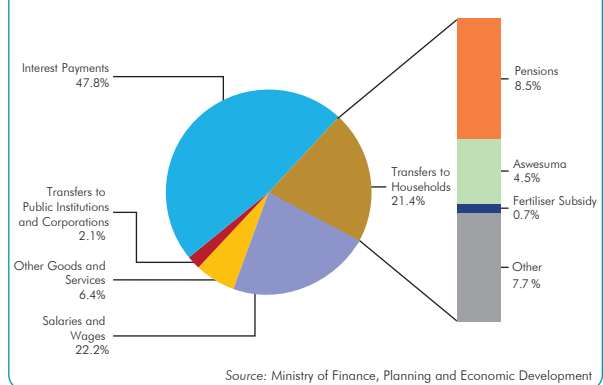
In 2025, total expenditure and net lending of the Government increased marginally by 1.6% in nominal terms compared to 2024, while as a percentage of GDP declined

1

to 19.0% in 2025 from 20.4% recorded in the previous year. Meanwhile, recurrent expenditure declined by 2.0% (by Rs. 107.6 bn) in 2025 compared to 2024, reflecting the Government's continued commitment to fiscal consolidation and expenditure rationalisation. Interest expenditure, the largest component of recurrent expenditure, accounting for 47.8% of total recurrent expenditure, declined by 7.0% to Rs. 2,500.7 bn in 2025 from Rs. 2,689.5 bn in 2024. This reduction was mainly supported by the overall decline in yields on government securities amid the accommodative monetary policy stance during the year. Accordingly, domestic interest payments of the Government declined by 5.7% during the year. Meanwhile, foreign interest payments decreased significantly by 14.5% compared to 2024, reflecting the one-off payments associated with external debt restructuring in 2024, which led to comparatively low payments in 2025.

Meanwhile, reflecting the Government's continued focus on strengthening social safety net programmes and providing relief to vulnerable and marginalised segments of society, expenditure on subsidies and transfers amounted to Rs. 1,233.1 bn in 2025. This was mainly attributed to spending on pension payments, social safety net programmes and the provision of free medicine. Accordingly, expenditure on pension payments recorded a notable y-o-y increase of 12.3% to Rs. 444.5 bn in 2025, accounting for 36% of total subsidies and transfers, largely reflecting the upward pension revisions implemented under the 2025 Budget. Furthermore, social spending by the Central Government surged by 27.7% in 2025 compared to the previous year, reaching Rs. 238.0 bn. This included cash transfers to 1,682,278 selected low-income families during the year and enabled the Government to successfully meet the year-end social spending Indicative Target (IT) of Rs. 237 bn set under the IMF-EFF programme. Expenditure on salaries and wages increased by 9.2% to Rs. 97.9 bn

Figure 1.32
Composition of Government
Recurrent Expenditure - 2025



in 2025 in comparison to the preceding year, mainly due to the increase in the basic salaries of public servants during 2025.

Capital expenditure and net lending increased by 26.2% to Rs. 998.0 bn in 2025 compared to the previous year, supporting economic recovery and strengthening long-term growth prospects through increased public investment.

Accordingly, capital expenditure amounted to 3.0% of GDP in 2025, compared to 2.6% of GDP in 2024. This increase was mainly driven by higher public investment in key infrastructure development projects, including roads and expressways, water supply and irrigation schemes, railway rehabilitation, electricity infrastructure, improvements to education and health sector facilities, as well as equity contributions to public enterprises.

The fiscal sector also faced the challenge of restoring livelihoods and rebuilding infrastructure affected by Cyclone Ditwah.

In response, the Government implemented several relief measures, alongside initiatives to reconstruct damaged infrastructure across the country. The anticipated overperformance of the primary surplus in 2025 provided the fiscal space to support these disaster relief efforts. In addition, a Supplementary Estimate of Rs. 500 bn has been approved by the Parliament for Budget 2026 and the Government intends to finance

these Rs. 500 bn allocations in 2026 by utilising the existing cash buffer, without affecting the annual borrowing limit for 2026.

1.5.3 Financing the Budget Deficit

Ongoing fiscal reforms helped reduce the budget deficit, leading to a significant decline in the Government's overall financing requirements and marked a notable reduction in both domestic and foreign financing during 2025. The Government continued to rely primarily on domestic sources, which accounted for 81% of the total government financing during 2025. Accordingly, net domestic financing decreased to Rs. 602.5 bn in 2025, compared to Rs. 1,706.7 bn recorded in 2024. This reduction reflects the narrowing of the fiscal deficit driven by revenue-based fiscal consolidation measures, and the Government's use of a part of its existing cash buffers to moderate borrowing requirements, with the cash buffer standing around Rs. 915.0 bn at end 2025. Under domestic financing, reflecting the Government's plans to reduce short term borrowings, net financing from Treasury bills recorded a repayment of Rs. 932.5 bn, while net financing from Treasury bonds amounted to Rs. 1,428.6 bn in 2025. Similarly, foreign financing also declined to Rs. 142.4 bn in 2025 from Rs. 333.2 bn recorded in 2024. Under foreign financing, the Government received USD 680 mn under the IMF-EFF programme in the form of budget support. In addition, the Government received financial assistance from bilateral and multilateral creditors as loans, including the funding from ADB, OPEC as well as other multilateral agencies. Further, Sri Lanka received about USD 206 mn from the IMF through RFI to address urgent BOP and fiscal needs following the catastrophic *Cyclone Ditwah* in late 2025. 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 Debt²⁴

Central government debt as a percentage of GDP declined to 91.6% by end 2025 from 95.5% in 2024, primarily driven by robust growth in nominal GDP. By the end of 2025, domestic debt fell to 57.0% of GDP from 60.8% in 2024, while foreign debt remained almost unchanged at 34.6% (34.7% in 2024). However, in nominal terms, total central government debt increased to Rs. 30.0 tn in 2025 from Rs. 28.7 tn in 2024. Accordingly, the domestic debt increased to Rs. 18.7 tn in 2025 from Rs. 18.3 tn in 2024, while total foreign debt increased to Rs. 11.3 tn in 2025 compared to Rs. 10.4 tn in 2024. Benefitting from the ongoing revenue-based fiscal consolidation measures, as well as the utilisation of cash buffers, the Government reduced net issuances of government securities compared to the previous year, thereby moderating the increase in domestic debt during 2025. Although the successful implementation of external debt restructuring contributed to reducing foreign debt, the depreciation of the domestic currency against the US dollar coupled with foreign loan inflows received during 2025, led to an overall increase in foreign debt during the year. As a positive step toward strengthening long-term fiscal health, the guaranteed debt of SOEs reduced significantly to Rs. 1,079.4 bn in 2025 from Rs. 1,359.3 bn in 2024.

Sri Lanka marked a significant achievement by successfully completing most of its external debt restructuring, with only a small portion remaining outstanding.

Following the successful signing of the Memorandum of Understanding (MoU) with the Official Creditor Committee (OCC) in June 2024 and the successful completion of the ISB exchange in December 2024, Sri Lanka achieved several pivotal milestones in its external debt restructuring process in 2025 by finalising restructuring agreements across bilateral, commercial, and multilateral creditor categories.

²⁴ Central Government Debt Statistics are presented net of bank deposits of the Government.

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

Item	Rs. billion	
	2024	2025 (c)
Domestic Debt (d)	18,309.7	18,675.3
By Maturity Period		
Short Term (e)	3,220.1	2,134.4
Medium and Long Term (f)	15,089.6	16,540.9
By Institution (g)		
Bank (g)	9,411.2	9,183.5
Non Bank (g)	8,158.5	8,490.8
Repurchase Transaction Allocations (g)(h)	739.9	1,001.1
Foreign Debt (i)(j)	10,429.0	11,319.4
Multilateral	3,773.5	4,374.0
Bilateral and Commercial	6,655.6	6,945.4
Total Outstanding Central Government Debt	28,738.7	29,994.7
As a percentage of GDP (k)		
Total Outstanding Central Government Debt	95.5	91.6
Domestic Debt	60.8	57.0
Foreign Debt	34.7	34.6

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 compiles and present this table based on data received from MOF to ensure the data continuity.

- (a) As per the guidelines of compiling government debt statistics based on the Public Sector Debt Statistics Framework published by 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 MOF. 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) Includes security holdings under Repurchase agreements for which absolute ownership could not be established.
- (h) Holdings under repurchase transactions with respect to Open Market Operations, have been allocated to the respective Licensed Commercial Bank or Standalone Primary Dealer.
- (i) Foreign loan debt statistics and classification of foreign debt are prepared based on the data sourced from the CS-DRMS maintained by the MOF. The data for 2024 and 2025 are extracted on 27 February 2025 and 06 March 2026, respectively.
- (j) The 2024 and 2025 data reflects the impact of external debt restructuring.
- (k) GDP estimates (base year 2015) released by the Department of Census and Statistics on 17 March 2026 have been used and figures for 2024 have been revised.

Building on the momentum gained in 2024, the Government successfully executed bilateral restructuring agreements with the governments of Japan, India, and the French Republic during the first half of 2025, while in the second half of the year Sri Lanka finalised agreements with Hungary, the United Kingdom, and Australia, bringing the country's external debt restructuring programme close to completion, with approximately 95%²⁵ of the process concluded. Furthermore, SriLankan Airlines and the Government of Sri Lanka officially announced the successful completion of the restructuring of

the USD 175 mn guaranteed bonds in March 2026. Consequently, the completion of the restructuring agreements enabled Sri Lanka to resume regular debt servicing to the respective creditor partners, thereby restoring international fiscal credibility. Following the successful near completion of external debt restructuring and the Government's continued commitment to fiscal sustainability, leading international rating agencies upgraded Sri Lanka's foreign currency ratings. In December 2024, Fitch and Moody's raised Sri Lanka's ratings to CCC+ and Caa1 from RD and Ca, respectively, while S&P upgraded its rating to CCC+ from SD in September 2025.

As mandated by the Public Debt Management Act (PDMA) No. 33 of 2024, the Public Debt Management Office (PDMO) was established and fully operationalised in December 2025.

This transition authorised the PDMO as the sole entity to manage government debt, including issuances, servicing and the oversight process. This institutional realignment is consistent with international best practices, as it eliminates potential conflicts of interest by separating debt management from the Central Bank's monetary policy functions, thereby strengthening policy credibility, transparency, and accountability in both fiscal and monetary operations.

Following the economic recovery and positive domestic market developments, the Government resumed issuing dollar-denominated bonds to the domestic market in December 2025 under a new mechanism, namely Domestic Dollar Bonds (DDBs), replacing the previous issuance of Sri Lanka Development Bond (SLDB). Accordingly, USD 50 mn of DDBs were issued in December 2025, featuring maturities of 1, 2, and 3 years. Unlike SLDBs, which were open to individuals and foreign investors, this DDB issuance was restricted to locally incorporated LCBs.

25 Based on the Fourth Quarter 2025 Statistical Debt Bulletin, published by PDMO.