PRESS RELEASE
Communications Department, 30, Janadhipathi Mawatha, Colombo 01, Sri Lanka
+94 11 2477424 / +94 11 2477669 +94 11 2346304
communications@cbsl.lk / dcommunications@cbsl.lk www.cbsl.gov.lk

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

Issued By Economic Research Department
Date 29 January 2025

Monetary Policy Review: No. 01 – January 2025

The Central Bank of Sri Lanka maintains the Overnight Policy Rate (OPR) at the current level

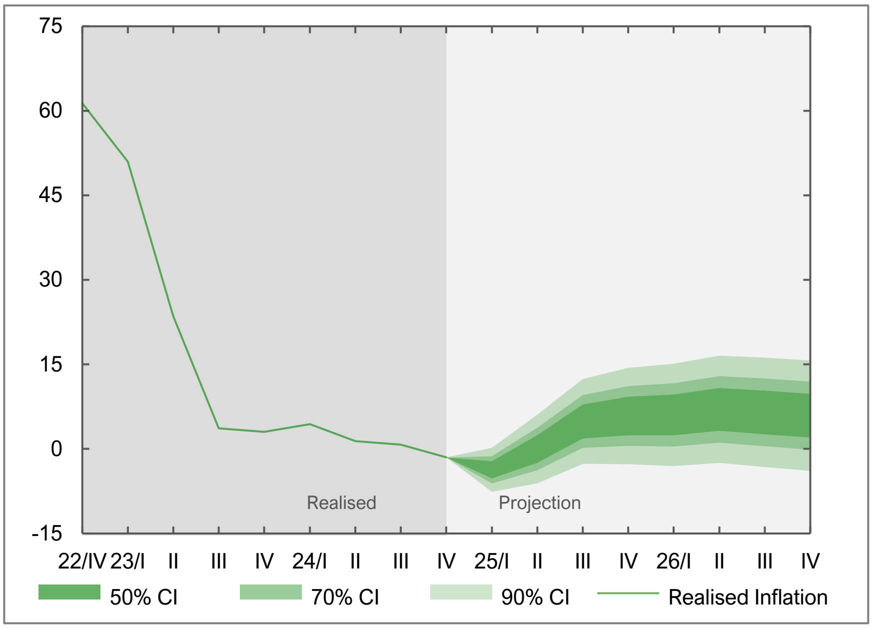
The Monetary Policy Board of the Central Bank of Sri Lanka, at its meeting held on 28 January 2025, decided to maintain the Overnight Policy Rate (OPR) of the Central Bank at its current level of 8.00 per cent. The Board arrived at this decision following a careful analysis of the current and expected macroeconomic developments on the domestic and global fronts. This decision was made with a medium-term view of ensuring that inflation converges to the target of 5 per cent, while supporting the economy to reach its potential. The Board observed that the current period of deflation, as projected earlier, has largely been an outcome of administratively determined energy price reductions. This trend is expected to continue over the next few months before inflation begins adjusting towards the targeted level in the second half of 2025.

Headline inflation is projected to remain negative in the near term, before converging to the target

Headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI), remained in the negative territory for the fourth consecutive month in December 2024. This was mainly driven by the previous downward revisions to electricity tariffs and domestic fuel prices, amidst subdued demand pressures. Latest projections indicate deeper deflation than previously projected, mainly due to the more than anticipated downward adjustment in the electricity tariff announced in January 2025. Inflation is expected to turn positive from mid-2025 and converge towards the targeted level of 5 per cent over the medium term, supported by appropriate policy adjustments. Core inflation, which is currently in lower positive levels, is projected to decelerate further over the next few months, before adjusting upwards thereafter.

Headline Inflation Projections* (Quarterly, CCPI, Y-o-Y, %)

Based on the Projections during the January 2025 Monetary Policy Round



Source: *Central Bank Staff Projections*

* Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100, seasonally adjusted), while data after this period are based on the CCPI (2021=100, seasonally adjusted).

Note: The fan chart illustrates the uncertainty surrounding the baseline projection path using confidence bands of gradually fading colours. The confidence intervals (CI) shown on the chart indicate the ranges of values within which inflation may fluctuate over the medium term. For example, the thick green shaded area represents the 50 per cent confidence interval, implying that there is a 50 per cent probability that the actual inflation outcome will be within this interval. The confidence bands show the increasing uncertainty in forecasting inflation over a longer horizon.

Note: A forecast is neither a promise nor a commitment.

The projections reflect the available data, assumptions, and judgements made at the forecast round in January 2025. They are conditional on the forecasts of global energy and food prices; the expected growth trajectory of Sri Lanka's major trading partners; the anticipated domestic fiscal path in line with the IMF-EFF programme under the debt restructuring scenario; and global financial conditions implied by the monetary policy stance of the USA. Further, the projections are conditional on the model-consistent interest rate path and the resulting macroeconomic responses. Any notable change in these assumptions could lead to the realised inflation path deviating from the projected path.

There are upside risks to inflation projections stemming from factors such as possible upward pressures on global food and energy prices amidst geopolitical uncertainty; possible realisation of demand for higher wages; possible adverse weather conditions affecting agricultural production; any deviation from the envisaged fiscal consolidation path; possible rupee depreciation at higher levels; possible sticky global inflation due to the policy changes in the USA. Meanwhile, downside risks to inflation projections include, among others, possible price reductions of essentials; and the sustained impact of diminished purchasing power of people.

The recovery in domestic economic activity continues

As per the GDP estimates published by the Department of Census and Statistics (DCS), the economy is estimated to have grown by 5.5 per cent (year-on-year) in Q3 2024, following an expansion of 4.7 per cent (year-on-year) recorded in Q2 2024. The latest economic indicators suggest that robust economic growth is likely to have continued, resulting in higher growth for 2024 than initially projected.

The downward adjustment in overall market lending interest rates continued

With further easing of monetary policy during the last Monetary Policy Review, the short-term money market interest rates adjusted downward, while the Average Weighted Call Money Rate (AWCMR) remained aligned with OPR. Market lending and deposit interest rates also continued to decline, reflecting the accommodative monetary policy stance. Supported by lower market lending interest rates and reflecting the recovery in economic activity, the growth of credit extended to the private sector by Licensed Commercial Banks (LCBs) continued to accelerate. The expansionary momentum of credit to the private sector is expected to persist. Meanwhile, yields on government securities continued to decline, reflecting improved fiscal performance and reduced sovereign risk premia.

The external sector remained robust

The merchandise trade deficit widened during 2024 compared to the previous year, due to a larger expansion in import expenditure relative to export earnings. However, improvements in earnings from tourism and workers' remittances contributed positively to the external current account during this period. Following an appreciation of 10.7 per cent in 2024, the Sri Lanka rupee recorded a year-to-date depreciation of around 2.0 per cent against the US dollar thus far in 2025. The external debt restructuring process, except for a small portion, was completed successfully in December 2024, strengthening the external sector outlook of the country. The Gross Official Reserves (GOR) stood at US dollars 6.1 billion at end 2024. This includes the Bilateral Currency Swap facility from the People's Bank of China, which was renewed for a further period of three years in December 2024.

The current monetary policy stance is maintained

In consideration of the current and expected macroeconomic developments, the Monetary Policy Board of the Central Bank of Sri Lanka decided to maintain the Overnight Policy Rate (OPR) at its current level of 8.00 per cent. The Board noted that the economic recovery is gaining momentum supported by the improving business confidence and market sentiments as well as the robust expansion of private sector credit, reflecting relaxed monetary conditions. While the ongoing period of deflation is likely to deepen in the immediate future due to supply side factors, a gradual convergence towards the inflation target is expected by the second half of 2025. The Monetary Policy Board will continue to closely observe incoming data and assess risks to the inflation outlook, among others, and stand ready to take appropriate measures to maintain domestic price stability in the period ahead while supporting the economy to reach its potential.

Monetary Policy Decision	**Overnight Policy Rate (OPR)**	**8.00%** [1]
	Statutory Reserve Ratio (SRR)	*2.00%*

INFORMATION NOTE:

A press conference, chaired by Governor Dr. P Nandalal Weerasinghe, will be held on 29 January 2025 at 11.30 am at the Atrium of the Central Bank of Sri Lanka, and proceedings will be livestreamed on official social media channels.

The release of the next regular statement on monetary policy review will be on 26 March 2025.

* **Data Annexure** is accessible at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/mpr01_2025_e.pdf

[1] Standiong Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), which are linked to OPR with pre-determined margins of ± 50 basis points, remain unchanged at 7.50 per cent and 8.50 per cent, respectively.