



Issued By Economic Research Department

Date 30 September 2026

Monetary Policy Review: No. 05 – September 2026

The Central Bank of Sri Lanka maintains the policy rate at the current level

The Monetary Policy Board, at its meeting held yesterday, decided to maintain the Overnight Policy Rate (OPR) at the current level of 8.75%. The Board arrived at this decision after carefully considering the evolving conditions and outlook on the domestic and global fronts. The Board paid particular attention to the effects of the proactive monetary policy tightening in May 2026 alongside other measures that had already materialised to a large extent. The Board also recognised the uncertainty arising from evolving geopolitical tensions in the Middle East and potential risks associated with El Niño conditions on the economy.

Domestic economic activity remained resilient, recording a real growth rate of 4.7% (y-o-y) in the first half of 2026. Leading economic indicators point towards continued momentum, although global and climate-related uncertainties could weigh on the outlook. Although growth of credit to the private sector is gradually moderating in response to recent policy measures, credit flows are expected to remain sufficient to support economic activity.

Headline inflation rose to 8.0% (y-o-y) in August 2026, reflecting the pass-through of the energy shock across multiple sectors of the economy. Headline inflation is projected to remain in high single digits through Q1-2027, before easing towards the 5% target. Core inflation also increased as a result of spillovers from higher energy prices. In spite of the current spike in inflation, medium-term inflation expectations remain broadly anchored around the target.

Amid ongoing tensions in the Middle East, the external sector has remained resilient. The current account is estimated to have recorded a surplus in August 2026 after four consecutive months of deficits. This was supported by moderated merchandise imports, along with improved earnings from tourism and workers' remittances. Gross Official Reserves rose to USD 6.9 bn¹ at the end of August 2026, supported by net foreign exchange purchases by the Central Bank. The Sri Lanka rupee, having

¹ This includes the swap facility from the People's Bank of China.

appreciated against the US dollar in July and August 2026, witnessed mixed movements in September. The recent Sovereign rating upgrade is expected to further strengthen market sentiments.

The Central Bank will remain forward-looking and data-dependent in its policy decisions. Should inflationary pressures intensify or inflation expectations show signs of de-anchoring, the Central Bank stands ready to take timely and appropriate measures to ensure that inflation stabilises around the target, while supporting the economy to operate around its potential over the medium term.

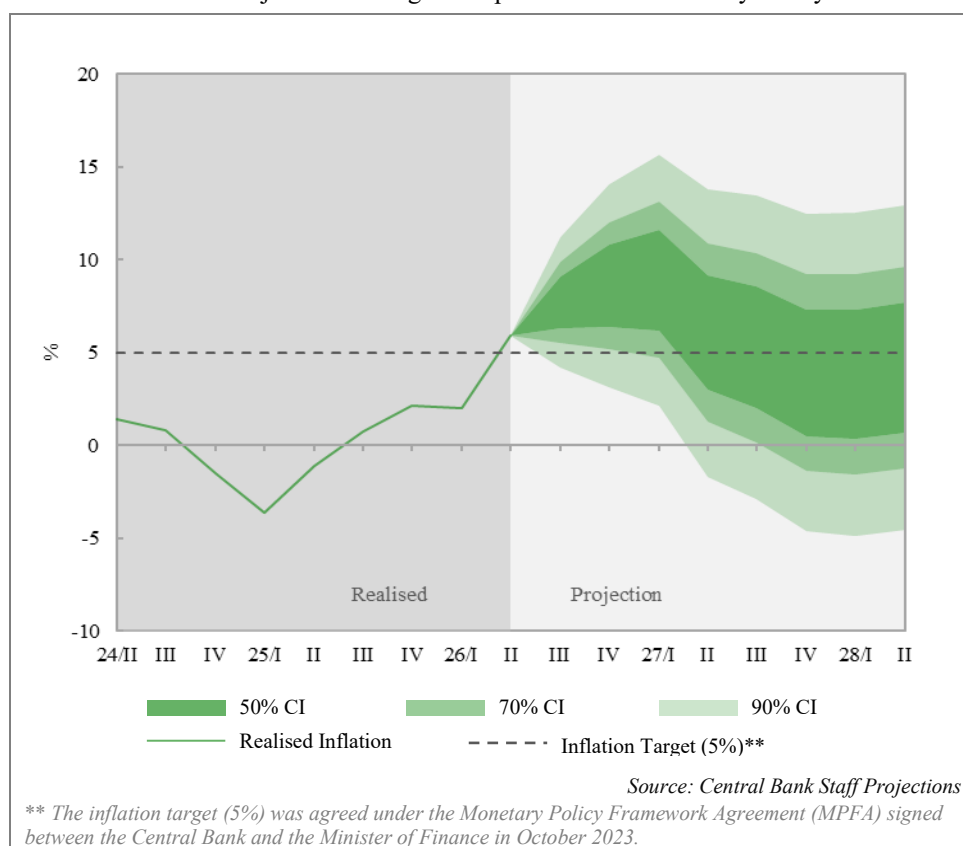
The release of the next regular statement on the monetary policy review will be on 20 November 2026.

Data Annexure is accessible at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/mpr05_2026_e.pdf

Annexure 01:

The projections presented below are based on information available as of 29 September 2026. Amid the fluid nature of the prevailing tensions in the Middle East and its wide-ranging spillovers across both global and domestic economic activity, the present inflation outlook remains subject to elevated uncertainty. Accordingly, any significant changes in underlying conditions could lead to notable deviations from these projections.

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



* Realised data in the fan chart are based on the CCPI (2021=100, seasonally adjusted). Projections are based on all available data at the forecast round in September 2026.

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% confidence interval, implying that there is a 50% 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 September 2026. They are conditional on the forecasts of global energy and food prices, the expected growth path of Sri Lanka's major trading partners, the anticipated fiscal path of the Government, expected developments in the external sector, including the external current account balance, and global financial conditions implied by the US Fed Funds rate. Further, the projections are conditional on the model-consistent interest rate path and the resulting macroeconomic responses. Any notable changes in these assumptions could lead to the realised inflation path deviating from the projected path.

There are upside risks to the realisation of inflation projections stemming from factors such as a further escalation or prolongation of geopolitical tensions, potentially resulting in higher-than-anticipated domestic energy and transport costs, and fertiliser prices; larger-than-anticipated adverse weather events associated with El Niño conditions, which could have implications on agricultural production; and any depreciation of the Sri Lanka rupee at higher levels arising from adverse market sentiment and external shocks. Meanwhile, downside risks to the realisation of inflation projections include larger-than-anticipated declines in global energy and commodity prices, which could reduce imported inflation and domestic energy and transport costs; and lesser-than-anticipated impact due to El Niño conditions.