Monthly Economic Update (MEU)

June 2025

Economic Intelligence Unit
The Ceylon Chamber of Commerce

Highlights

Sri Lankan Economy

The Economy Records 4.8% Growth during the Q1-2025

Sri Lanka's economy grew by 4.8% in Q1 2025, marking the seventh straight quarter of growth. The expansion was led by strong gains in Industry (9.7%) and Services (2.8%), while Agriculture declined by 0.7%. Key contributors included construction, manufacturing, finance, and tourism. Growth was supported by a stable exchange rate, low interest rates, and rising credit and investment imports. Despite a slight slowdown from last year, the near-term outlook remains positive.

Overview of Sri Lanka's Debt Position during Q1-2025

As of March 31, 2025, **Sri Lanka's public debt reached USD 107.5 billion**, a 1.3% rise from end-2024. Central government debt accounts for USD 102.7 billion, with 64% held domestically, mainly in LKR-denominated instruments. External debt rose slightly to USD 37.2 billion, supported by multilateral and bilateral inflows. Most domestic debt carries fixed rates, but upcoming maturities pose rollover risks. In Q1 2025, Sri Lanka serviced USD 9.5 billion in debt, mostly domestic. External repayments resumed under restructured terms with Paris Club and ISB creditors. SOE and local government debt remain small but require continued oversight.

Fiscal Snapshot for the Q1 -2025

In Q1 2025, **Sri Lanka's fiscal performance showed a 14.5% rise in revenue** to Rs. 1,064.7 billion, driven by strong tax collections (up 16.2%), particularly from domestic goods and services. However, expenditure rose by 5.8% to Rs. 1,562.9 billion, led by recurrent spending and a sharp increase in subsidies and transfers. Capital spending declined by 17.8%, while the fiscal deficit widened to Rs. 498.3 billion. Despite positive revenue growth, the deficit underscores the need for better fiscal discipline, enhanced non-tax revenue, and targeted reforms to control recurrent costs and improve long-term budget sustainability.

External Sector Performance

Sri Lanka's external sector remained resilient in April 2025, with the **current account continuing in surplus since January**. Although the trade deficit widened due to higher import growth, driven largely by vehicle imports, the terms of trade improved. Tourism earnings rose by 7%, while workers' remittances increased by 18% in May 2025 compared to the same period in 2024. Gross official reserves remained robust at USD 6.3 billion. Despite a slight outflow from government securities, the Colombo Stock Exchange recorded a marginal inflow, and the rupee depreciated by 2.6% thus far 2025.

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Global Economy

Global Growth under Pressure

The **global economy is expected to grow by only 2.3% in 2025**, amid trade tensions, policy uncertainty, and geopolitical risks. A modest recovery is projected in 2026–27, though below earlier forecasts. Emerging markets, including South Asia, face weak investment and limited poverty reduction, with South Asia's growth expected at 5.8% in 2025. Excluding India, per capita income growth remains low. Sri Lanka's growth is forecast to slow to 3.5% in 2025 and 3.1% in 2026–27, reflecting lingering crisis effects and structural challenges. Urgent domestic reforms and stronger global cooperation are essential to support sustainable growth and resilience.

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Geo Politics, Demand Slowdown and Future of Oil Markets

As per the International Energy Agency, **global oil demand is expected to rise modestly in 2025 and 2026**, while supply is projected to grow mainly from non-OPEC+ countries. Refining activity is increasing, though margins remain volatile. Geopolitical tensions—especially Israel-Iran clashes—caused brief price spikes, but restrained responses helped avoid major disruptions in the Strait of Hormuz. Oil prices later fell over 7%, offering short-term relief for Sri Lanka through lower fuel costs and reduced inflation pressure. However, the outlook remains uncertain. Continued volatility underscores the need for Sri Lanka to diversify energy sources, improve efficiency, and consider building fuel reserves or securing favorable contracts.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

4.8% Q1-2025

5.1% (Q1-2024)

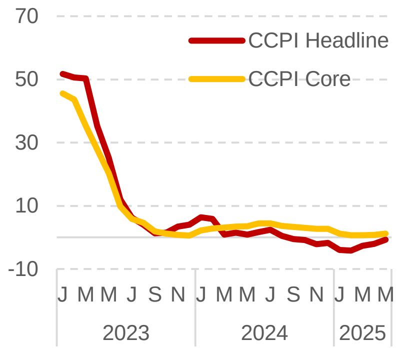
Movement of Purchasing Managers' Index- May 2025

Manufacturing PMI	55.5
Services PMI	57.0
Construction PMI (Apr)	41.4

Manufacturing and Services PMI expanded in May. Construction PMI redocred a contraction in April

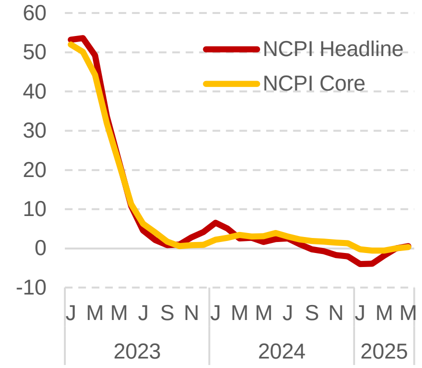
Inflation

CCPI Inflation (%)-*Base 2021*



May 2025	Headline	Core
	-0.7%	1.2%

NCPI Inflation (%)-*Base 2021*



May 2025	Headline	Core
	0.6%	0.3%

External Sector

Merchandise Trade
Apr 2025

Trade Deficit USD 718mn

Exports USD 968mn
10.4% y-o-y growth

Imports USD 1,686mn
17.5% y-o-y growth

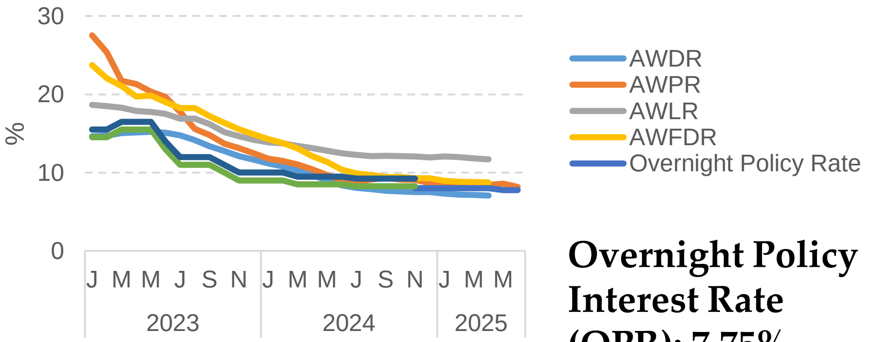
Services Trade USD 368mn
22.% y-o-y growth

Tourist Arrivals 132,919
May 2025
19% y-o-y growth

Tourism Earnings
USD 164mn
7% y-o-y growth

Workers' Remittances
USD 642mn
18% y-o-y growth

Interest Rates



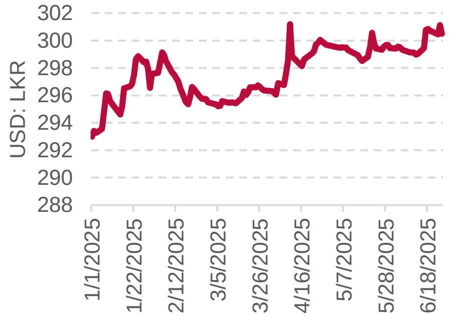
Growth in Credit to Private Sector

Apr 2025

15.2%

Overnight Policy Interest Rate (OPR): 7.75%

Exchange Rate

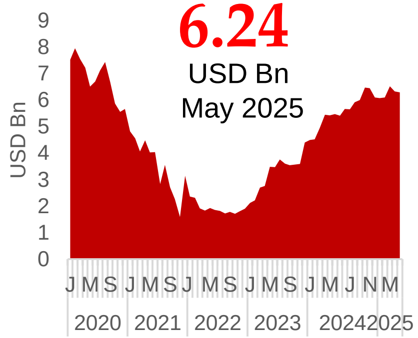


Depreciation of LKR thus far 2025

2.6%

Official Reserves

6.24
USD Bn
May 2025



KEY INSIGHTS

Sri Lankan Economy

The Economy Records 4.8% Growth during the Q1-2025

Sri Lanka's economy grew by 4.8% in the first quarter of 2025, showing continued positive momentum despite a slight slowdown from the 5.1% growth recorded during the same period last year.

According to the Department of Census and Statistics (DCS), GDP at real prices rose to Rs. 3,477 billion from Rs. 3,319 billion, while GDP at current prices increased by 4.5% to Rs. 8,275 billion.

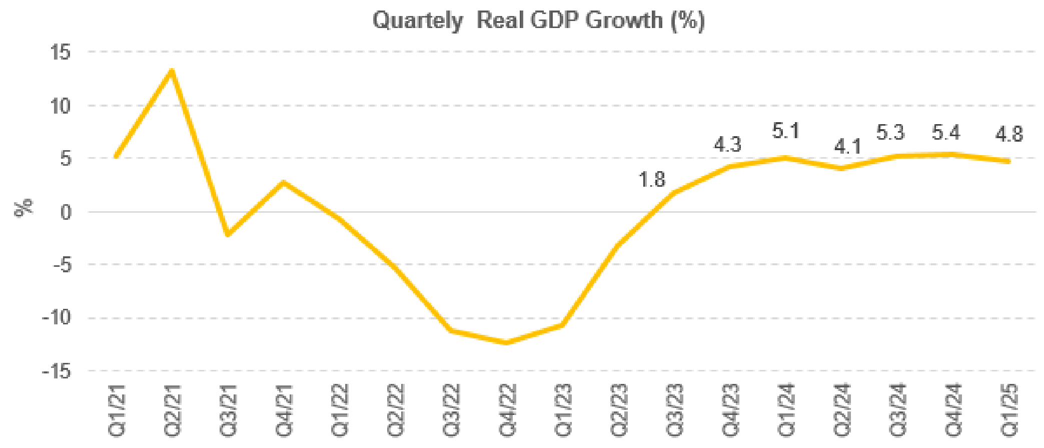
This marks the seventh consecutive quarter of positive growth since Q3 2023. Growth was mainly driven by strong performances in the Industry (9.7%) and Services (2.8%) sectors, whereas Agriculture contracted by 0.7%.

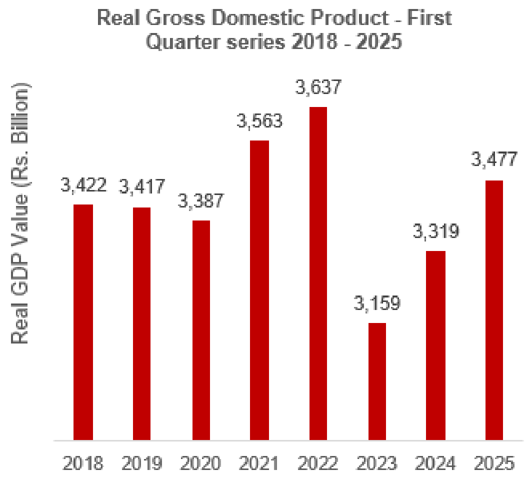
Within **Industry**, the construction sector grew by 10.7%, mining and quarrying rose by 12.6%, and overall manufacturing increased by 9.6%. Notable gains were recorded in the manufacture of furniture (23.9%), paper products (23.2%), and textiles (16.5%). However, water supply declined by 3.2%, and certain segments like machinery repair fell.

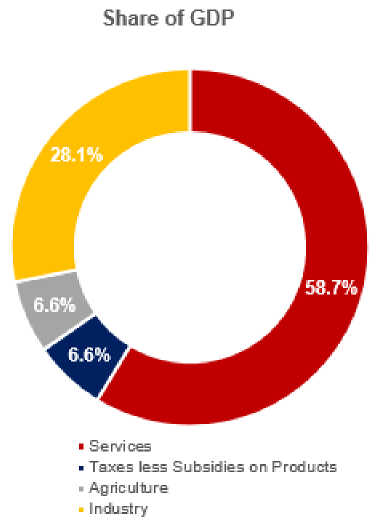
The **Services** sector saw strong growth in financial services (14.6%), insurance and pensions (17.4%), and accommodation and food services (14%), while most other services also improved. Public administration was the only sub-sector to contract, by 2.9%.

In contrast, **agriculture**'s overall decline was driven by sharp drops in freshwater fishing (–57%), growing of rubber (–22.2%), and growing of oleaginous fruits (–27.6%). Still, areas like animal production (+18.8%), marine fishing (+14.5%), and tea growing (+5.6%) showed healthy growth.

As of Q1 2025, Industry, Services, and Agriculture accounted for 26.7%, 57.4%, and 7.6% of GDP respectively, while taxes less subsidies on products made up 8.3%. A stable exchange rate, low interest rates, and a rise in domestic credit and investment imports supported this recovery, which is expected to continue in the near term.







Data Source: Department of Census and Statistics

KEY INSIGHTS

Sri Lankan Economy

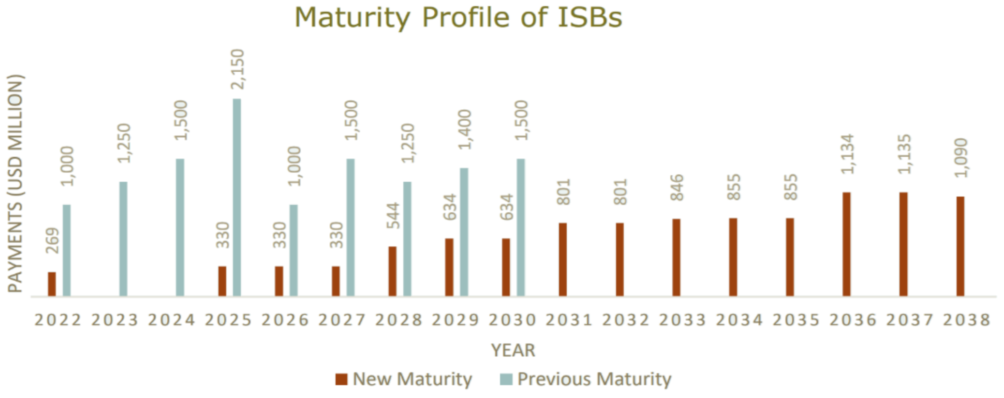
Overview of Sri Lanka's Public Debt Position- Q1 2025

Sri Lanka's public debt stood at USD 107.5 billion as of March 31, 2025, marking a modest increase of 1.3% (USD 1.4 billion) from end-2024 levels (USD 106.2 billion). This stock comprises three main segments: central government borrowings (USD 102.7 billion), State-owned enterprise (SOE) debt guaranteed by the Treasury (USD 4.8 billion), and Provincial Council & Local Government liabilities (USD 0.02 billion).

Central government debt rose from USD 101.3 billion to USD 102.7 billion in Q1 2025. Domestic debt accounted for 64% of government borrowings (USD 65.4 billion) and grew by USD 0.9 billion, driven by increased Treasury bill and bond issuances to meet budgetary needs. External debt climbed by USD 0.6 billion to USD 37.2 billion, reflecting modest new multilateral and bilateral disbursements despite ongoing debt-service obligations. Within the domestic portfolio, LKR-denominated instruments dominate (97%), insulating government finances from direct FX-rate shocks but exposing debt service to inflation and interest-rate volatility in local markets. External obligations remain predominantly in US dollars, with multilateral creditors (36%), commercial bonds (35%) and bilateral lenders (29%) shaping the creditor mix.

On the domestic side, most Treasury bonds carry fixed coupons, while short-term bills roll over at market-determined yields, implying significant rollover risk if rates rise. Maturity concentrations are noteworthy as substantial domestic bonds mature through mid-2025, requiring careful cash-flow management, and international sovereign bonds restructured in late 2024 have new maturities extending to 2038. This staggered profile eases near-term pressures but underscores the need for sustained market access.

In Q1 2025, the government serviced USD 9.5 billion, of which USD 7.3 billion was domestic principal and USD 1.8 billion domestic interest; external service (principal and interest) amounted to USD 0.4 billion. While domestic service dominates current outflows, successful external restructuring, including Paris Club and ISB agreements, has resumed external payments under more manageable terms. Contingent liabilities from SOE guarantees (USD 4.8 billion) and local-government debt (USD 0.02 billion) remain small relative to total public debt but warrant ongoing monitoring, particularly for infrastructure and utilities sectors.



	End December 2024		End March 2025	
	USD million	LKR billion	USD million	LKR billion
Domestic Debt	64,571	18,892	65,429	19,390
LKR Denominated	62,413	18,261	63,271	18,750
FX Denominated	2,158	631	2,158	640
External Debt	36,680	10,732	37,242	11,036
Bilateral	10,753	3,146	10,924	3,237
Multilateral	12,897	3,773	13,286	3,937
Market Borrowings	13,030	3,812	13,032	3,862
Total Debt of the Government	101,251	29,624	102,671	30,426
Total PC & LG Debt	20	6	17	5
SOE Guaranteed Debt	4,896	1,432	4,831	1,452
LKR Denominated	1,857	543	1,799	541
FX Denominated	3,039	889	3,032	911
Total Public Debt (Gross)	106,166	31,062	107,519	31,883

Data Source:Ministry of Finance

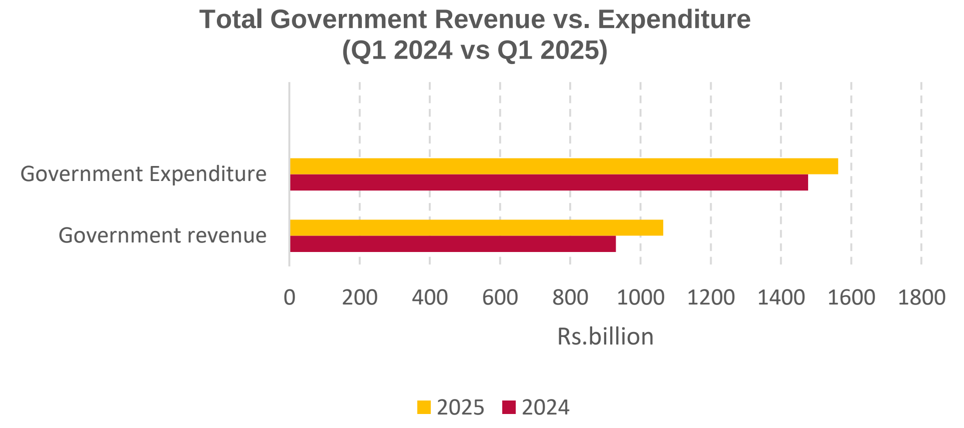
KEY INSIGHTS
Sri Lankan Economy

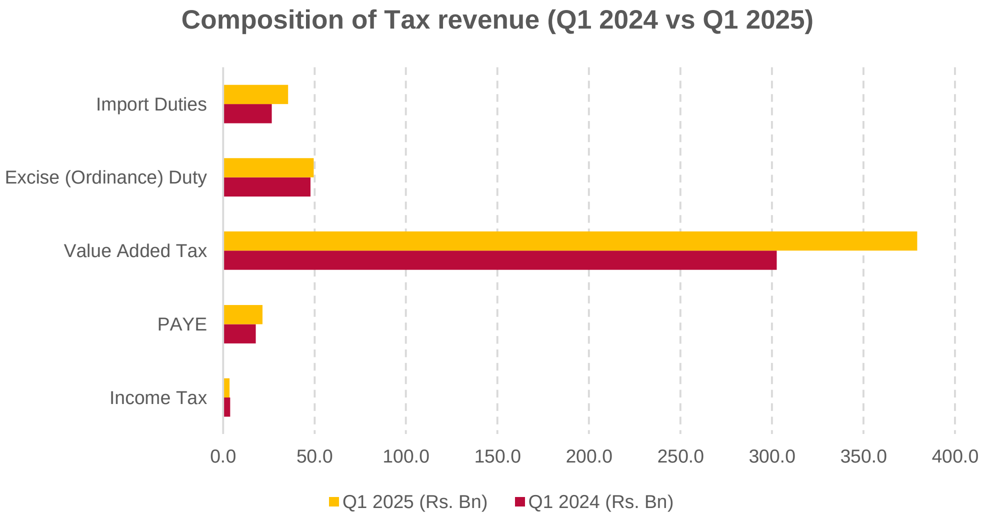
Fiscal Snapshot for Q1 2025: Revenue Gains amidst Persistent Deficit Pressures

Sri Lanka's fiscal performance during the first quarter of 2025 demonstrates a modest improvement in government revenue alongside increasing expenditure pressures. For the period ending 31st March 2025, total revenue amounted to Rs. 1,064.7 billion, marking a 14.46% increase compared to Rs. 930.2 billion recorded in the same period of 2024. Tax revenue remained the dominant contributor, totaling Rs. 970.6 billion, which reflects a 16.21% year-on-year growth. Within this, income tax (both corporate and non-corporate) brought in Rs. 265.4 billion (up 10.89%), taxes on domestic goods and services contributed Rs. 577.4 billion (up 19.28%), and taxes on international trade amounted to Rs. 127.8 billion (up 14.32%). Non-tax revenue and other sources accounted for Rs. 87.3 billion, representing a modest 4.76% growth. However, capital revenue declined significantly by 45.92% to Rs. 5.8 billion, and grants received stood at Rs. 1.06 billion, up by 3.77%.

On the expenditure front, total government spending rose to Rs. 1,562.9 billion, reflecting a 5.82% increase from Rs. 1,477.0 billion in Q1 2024. Recurrent expenditure made up the bulk, totaling Rs. 1,226.6 billion, with key components including salaries, wages, and employment benefits at Rs. 183.0 billion (up 8.77%), other goods and services at Rs. 84.5 billion (up 3.38%), and subsidies, grants, and transfers at Rs. 327.1 billion (a notable increase of 33.82%). Interest payments reached Rs. 631.9 billion, growing by 5.81%. Capital expenditure, however, contracted by 17.84% to Rs. 100.6 billion, and public debt repayments declined by 10.31% to Rs. 235.8 billion.

As a result, Sri Lanka recorded a fiscal deficit of approximately Rs. 498.3 billion for the first quarter of 2025, as total expenditure outpaced revenue significantly. While the increase in tax revenue is encouraging, the widening deficit highlights the continuing need for prudent fiscal management, improved capital allocation, and reforms aimed at enhancing non-tax revenue and curbing recurrent expenditure growth to support long-term economic stability.





Data Source: Central Bank of Sri Lanka

KEY INSIGHTS
Global Economy

Global Growth Under Pressure: Implications for South Asia and Sri Lanka

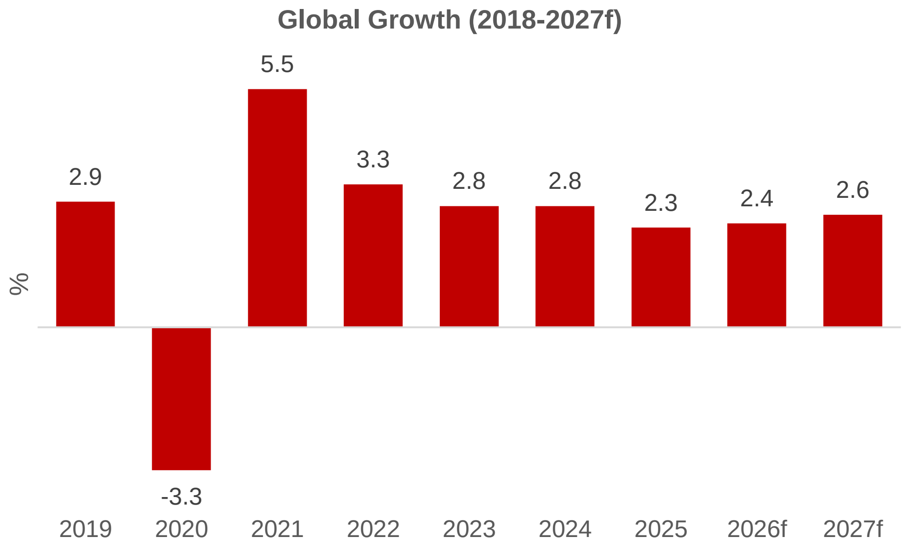
The **global economy** continues to face significant headwinds following years of shocks. Heightened trade tensions, persistent policy uncertainty, and rising geopolitical risks are weakening global growth prospects. Growth is projected to slow to 2.3% in 2025, marking one of the weakest performances since the global financial crisis. A modest recovery is expected in 2026–27, but output will remain below earlier projections.

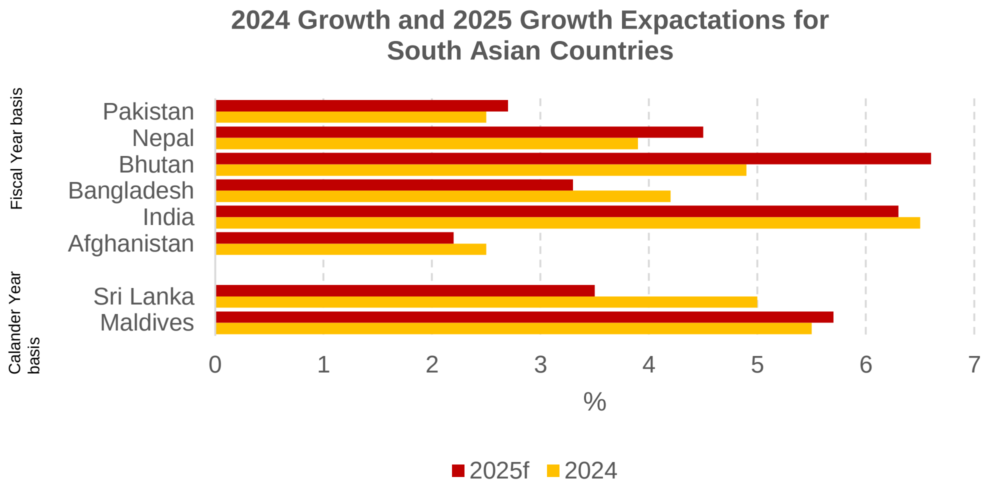
Emerging Market and Developing Economies (EMDEs) are under pressure. Efforts to narrow income gaps, create jobs, and reduce poverty remain insufficient. Foreign direct investment has dropped to less than half its 2008 peak, and climate-related disruptions and debt burdens further threaten resilience. Downside risks—such as escalating trade barriers, financial instability, and extreme weather—predominate.

South Asia is projected to remain the fastest-growing EMDE region, with growth expected at 5.8% in 2025 and averaging 6.2% in 2026–27. However, this remains below pre-pandemic levels and limits job creation potential. Excluding India, per capita income growth in the region is weak, posing challenges for poverty reduction. Risks include tighter global financial conditions, reduced aid, and climate events.

In **Sri Lanka**, growth is forecast to slow to 3.5% in 2025 and further to 3.1% over 2026–27, reflecting the lingering effects of the economic crisis, structural constraints, and a subdued investment climate. While reforms are expected to ease some of these pressures, the growth path remains fragile.

In this environment, strong domestic reforms,focused on institutional quality, revenue mobilization, and private sector development are vital. Simultaneously, global cooperation is needed to reduce uncertainty, support vulnerable economies, and build resilience in a more transparent and sustainable global economy.





Data Source: World Bank

KEY INSIGHTS
Global Economy

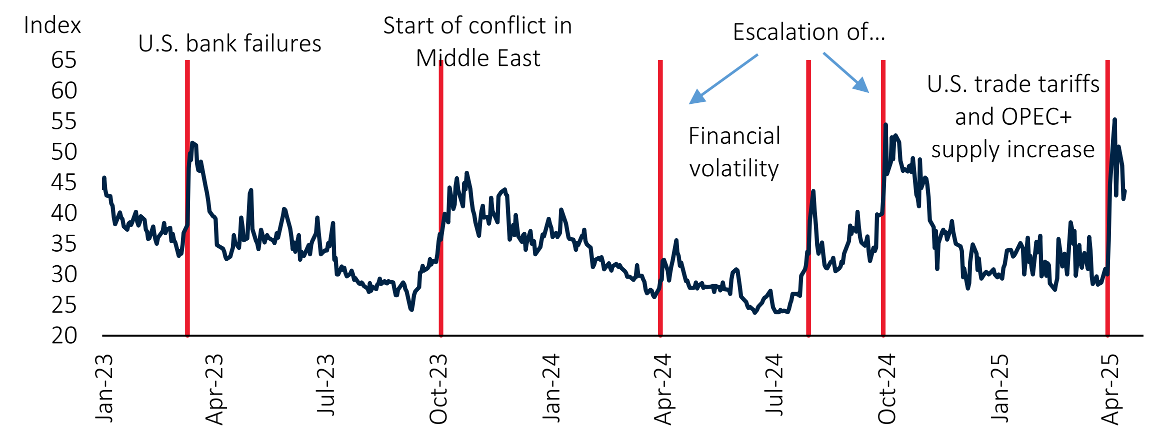
Geopolitics, Demand Slowdown, and the Future of Oil Markets

Global oil demand is expected to rise by 720,000 barrels per day (kb/d) in 2025, slightly below earlier forecasts due to weaker deliveries in the US and China. Demand in 2026 is projected to increase by 740 kb/d, constrained by a weaker global economy and wider adoption of clean energy. Global oil supply rose by 330 kb/d in May, reaching 105 million barrels per day (mb/d)—1.8 mb/d higher than the same time last year. Both OPEC+ and non-OPEC+ producers contributed as some voluntary cuts were lifted.

Overall, supply is forecast to rise by 1.8 mb/d in 2025 and by 1.1 mb/d in 2026, mainly from non-OPEC+ countries. Refining activity is expected to grow by 460 kb/d in both 2025 and 2026. May saw the highest refining margins since early 2024, though early June's crude rally squeezed profits. Russian oil exports fell by 230 kb/d in May, while global oil stocks grew for a third month by 32.1 million barrels in April and by an estimated 93 million barrels in May. Tensions flared mid-June as Israel launched airstrikes on Iran, followed by Iran targeting a US base in Qatar. However, Iran avoided disrupting oil shipments. This restrained response helped calm fears of an immediate crisis in the Strait of Hormuz, which handles around 25% of global oil flows. Oil prices had surged initially but then fell sharply over 7% in a day, marking the steepest drop since 2022, as traders viewed the move as a controlled escalation. Despite rising supply and stockpiles, recent events highlight the ongoing geopolitical risks to oil markets.

The recent drop in global oil prices, driven by Iran's limited retaliation that avoided disrupting shipping routes, may offer short-term relief to Sri Lanka by reducing fuel import costs and easing pressure on inflation and foreign reserves. However, the situation remains fragile, as any escalation affecting the Strait of Hormuz could sharply push prices up again, increasing Sri Lanka's energy and transport costs. With oil markets remaining volatile due to geopolitical tensions and supply shifts, Sri Lanka faces uncertainty in budgeting and economic planning. This also highlights the importance of diversifying energy sources and improving energy efficiency to reduce vulnerability. If prices stay low temporarily, Sri Lanka could explore options to build reserves or secure favorable short-term contracts.

Oil Price Volatility and Key Events



Total Indigenous production of crude oil, NGL and refinery feedstocks
Thousand metric tons

	2023	2024	1Q2025	Mar-24	Mar-25	Year to date 2024	Year to date 2025	%Change current month[2]	%Change year to date[3]
OECD Americas	1 194 137	1 227 980	301 923	103 840	105 522	299 333	301 923	1.6	0.9
OECD Asia Oceania	17 887	17 474	3 962	1 492	1 421	4 528	3 962	-4.8	-12.5
OECD Europe	148 904	145 778	36 668	12 947	12 602	37 296	36 668	-2.7	-1.7
Total OECD	1 360 929	1 391 232	342 553	118 280	119 545	341 157	342 553	1.1	0.4

Data Sources: World Bank, International Energy Agency

Evolving Landscape

With the aim of keeping our members updated on latest global trends, especially those influencing Sri Lanka, ‘Evolving Landscape’ section was added to the MEU. This section guide our members in strategic planning, innovation and competitiveness and helping them identify sector-specific opportunities and challenges.

The Impact of War on Markets and Economies: Israel- Iran Conflict

The recent escalation between Israel and Iran has once again brought the economic consequences of war into sharp focus. Beyond the immediate human cost, conflicts of this scale have significant implications for global markets, supply chains, and financial flows. For businesses and policymakers alike, understanding how wars reshape economic activity has become increasingly important in today’s interconnected global economy.

For nations that experience war within their borders, the economic impact is typically much more severe. A report by the European Bank for Reconstruction and Development (EBRD), covering over 700 conflicts since the 1800s found that countries directly affected by war saw a drop of 9% on average in GDP per capita. Ukraine’s recent experience is a case in point, with the economy contracting by nearly a third in just one year, alongside rising poverty and widespread disruption.

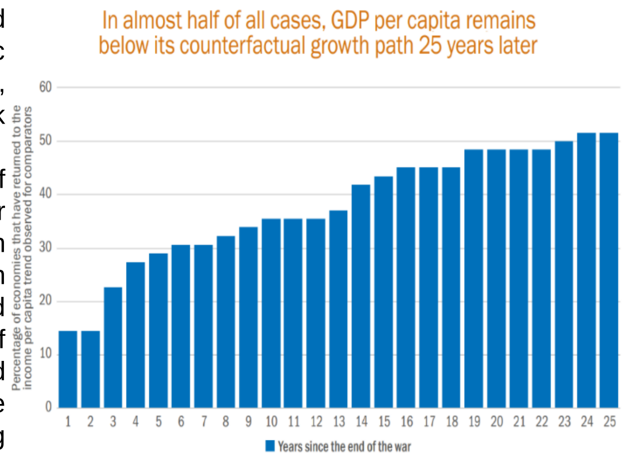
Post-war recovery is often long, uneven, and far from guaranteed. While some countries do manage to rebound due to international support, structural reforms, or innovation sparked during conflict, many struggle to return to their pre-war economic trajectory. Data from the EBDR shows that in half the wars studied, countries were still producing less economic output even 25 years after the conflict had ended. Only 29% of cases saw GDP per capita return to the level of peer countries within five years. Factors such as damaged infrastructure, reduced population growth, lingering political instability, and high public debt often weigh heavily on the pace of recovery. Even when GDP begins to improve, underlying vulnerabilities such as weakened institutions or capital flight can hold back sustained, broad-based development.

These historical patterns are now being replayed, and potentially amplified in the wake of the Israel-Iran conflict. Following Israel’s targeted strikes on Iranian military and nuclear figures, Iran responded with ballistic attacks on key Israeli sites. The US intervention on June 22, targeting Iran’s underground nuclear facilities, has deepened the stakes. In response, global oil prices surged nearly 18%, approaching USD 80 per barrel, and analysts warn of prices exceeding USD 100 if Iran disrupts flows through the Strait of Hormuz which is a critical conduit for 20% of global oil trade. Central banks, which had signalled interest rate cuts to stimulate sluggish post-pandemic growth, may now be forced to delay easing or even tighten policy again. This stagflationary risk (slowing growth combined with rise in inflation) is particularly acute for energy-importing developing economies, such as Sri Lanka.

Structural Economic Consequences

The long-term economic implications of war extend beyond short-term GDP and market fluctuations. Four key structural issues warrant particular attention in the current context:

- **Inflationary Pressures**: Elevated energy prices cascade into higher costs for consumer goods, transport, and agricultural production. This adds pressure on central banks globally, many of which had been preparing to lower interest rates. Instead, they may need to reverse course—tightening policy even as growth slows.
- **Trade & Investment Volatility**: Heightened geopolitical risk suppresses investor confidence, particularly in vulnerable regions. Asia, which depends heavily on Middle Eastern energy flows, faces increased exposure to both price and supply shocks. Foreign direct investment may be delayed or diverted to perceived safer regions.
- **Shipping & Logistics Risks**: Conflict-linked instability in key maritime corridors like the Red Sea and the Strait of Hormuz threatens to disrupt global trade flows. Insurance premiums for freight are already rising, and any prolonged interruption could lead to delays, shortages, and cost-push inflation across multiple sectors.



Recent developments offer a window into how recovery might unfold once hostilities ease. On June 23, a ceasefire announcement triggered relief across markets—oil prices dropped, U.S. futures climbed, and the dollar softened, showing the immediate economic benefit of de-escalation. Yet beneath this initial optimism, the road to rebuilding remains deep and uneven. Israel’s economy, for example, continues to bear the cost of daily military operations and rebuilding critical infrastructure amid ongoing uncertainty. Meanwhile, global spot markets remain sensitive to risks such as disruptions in the Strait of Hormuz and precision strikes on energy assets, signalling that full economic normalization will take time.

Data Sources: European Bank for Reconstruction and Development, Reuters

EIU

Economic Intelligence Unit of The Ceylon Chamber of Commerce

The Ceylon Chamber of Commerce

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