Monthly Economic Update (MEU)

May 2025

Economic Intelligence Unit
The Ceylon Chamber of Commerce

Highlights

Sri Lankan Economy

Insights from the Monetay Policy Review

The Monetary Policy Board reduced the OPR by 25 basis points to 7.75% to further ease monetary policy, aiming to guide inflation towards the 5% target amid subdued price pressures and global uncertainties. Inflation is projected to turn positive in early Q3 2025, with core inflation and expectations gradually aligning with the target. Domestic economic activity shows sustained recovery, supported by strong private sector credit flows and lower market interest rates, while the external sector remains resilient due to tourism and remittances.

External Sector Review: Q1-2025 Marks Turning Point with Strong Current Account Performance

In Q1 2025, Sri Lanka recorded a current account surplus for the third consecutive month in March—the highest since January 2023—driven by strong remittance inflows and improved services exports, particularly from tourism, transport, and ICT. Merchandise export earnings grew by 5.3% year-on-year, with notable gains in industrial and agricultural exports, including a 146% surge in spice exports. Despite a widening trade deficit to USD 1,540 million, the rise in import volumes reflected recovering domestic demand, while the external sector showed signs of stabilization.

Sri Lanka's 2023 Economic Crisis: How Households are Bearing the Brunt

Sri Lanka's Department of Census and Statistics (DCS) released its 2023 Household Survey on the economic crisis, revealing that over 60% of households saw a decline in monthly income while more than 91% faced rising expenditures. The survey also showed that 54.9% of households are currently in debt, mainly due to mortgages, bank loans, and borrowing from money lenders. Around 7% of the population changed their health treatment methods due to financial difficulties, with most citing lack of funds, transport issues, and fuel shortages. Food insecurity remains a major concern, with only 28% of households classified as food secure and 14% relying on crisis coping strategies. Additionally, the economic crisis disrupted education for 54.9% of children aged 3 to 21 across all sectors—urban, rural, and estate.

Global Economy

IMF World Economic Outlook: April 2025 Update

Global economic growth is projected to slow from 3.3% in 2024 to 2.8% in 2025, before a modest recovery to 3% in 2026, with nearly all countries facing downward revisions due to trade tensions, policy uncertainty, and weaker sentiment. Inflation is expected to ease globally, with advanced economies returning to target levels by 2026, though emerging markets will take longer. Despite some potential upsides such as AI-driven growth and trade reforms, the overall outlook remains cautious, with risks tilted to the downside due to persistent global uncertainties.

US Shifts Trade Strategy, Ceating Global Uncetainty

President Trump has shifted the U.S. trade strategy by pausing efforts to strike multiple trade deals and instead plans to impose tariffs on trading partners, causing global market instability and rising tensions. Despite temporary tariff relief for most countries (excluding China), few agreements have been made, and even allies like the UK face new tariffs, raising doubts among partners like the EU. The uncertainty is heightened by a downgraded U.S. credit rating and rising interest rates, which could hamper economic recovery.

Global Oil Pices Declines May 2025 amid Ovesupply and Geopolitical Tensions

In May 2025, global oil prices declined significantly, with Brent crude around $64.58 per barrel and WTI at approximately $61.25, mainly due to an unexpected rise in U.S. oil inventories. OPEC+, led by Saudi Arabia and Russia, increased production to regain market share, contributing to an oversupply in the market. Global oil stockpiles, both on land and at sea, have risen sharply, signaling that supply is outpacing demand. Geopolitical tensions, including renewed U.S.-Iran nuclear talks and potential Israeli strikes, have added to market uncertainty and volatility.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

5% Full year 2024

4.5% (2023)

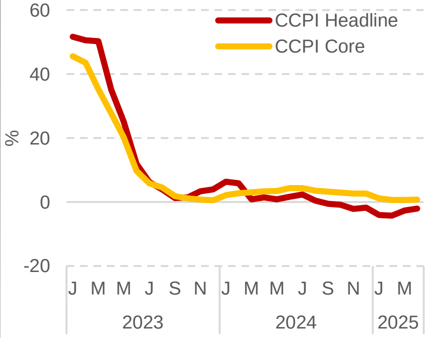
Movement of Purchasing Managers' Index-April 2025

Manufacturing PMI	40.1
Services PMI	60.6
Construction PMI (Mar)	54.3

Munufacturing PMI indicated the seasonal contraction, but the Services PMI recorded an expansion.

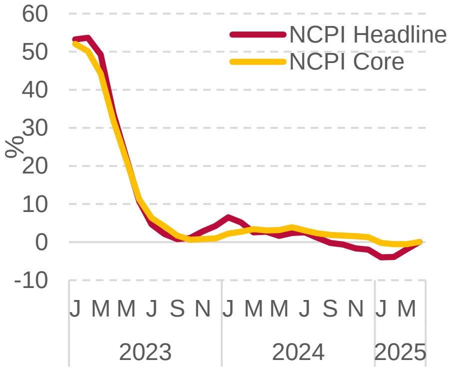
Inflation

CCPI Inflation (%)-*Base 2021*



Apr 2025	Headline	Core
	-2.0%	0.8%

NCPI Inflation (%)-*Base 2021*



Apr 2025	Headline	Core
	-0.8%	-0.1%

External Sector

Merchandise Trade
Mar 2025

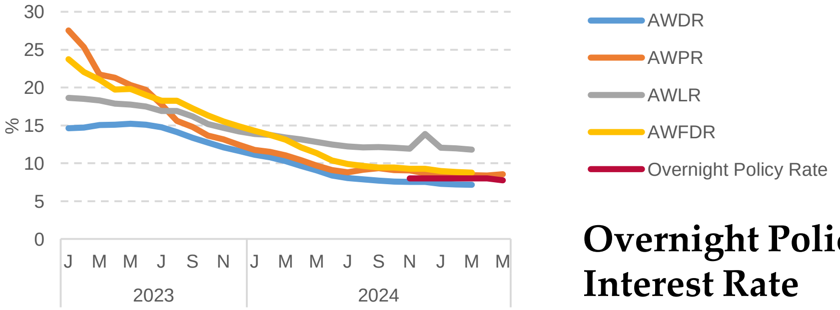
Trade Deficit	USD 396mn
Exports	USD 1,242mn 8.1% y-o-y growth
Imports	USD 1,637mn 8.6% y-o-y growth
Services Trade	USD 393mn 5.% y-o-y growth

Tourist Arrivals 174,608
Apr 2025 17% y-o-y growth

Tourism Earnings
USD 257mn
14% y-o-y growth

Workers' Remittances
USD 646mn
19% y-o-y growth

Interest Rates



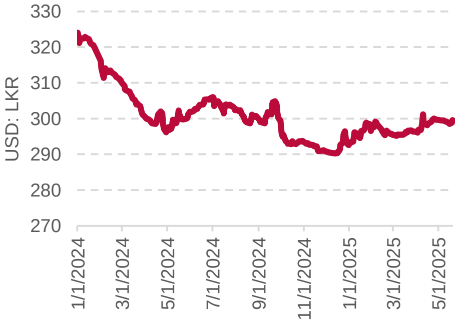
Growth in Credit to Private Sector

Mar 2025

14%

Overnight Policy Interest Rate (OPR): 7.75%

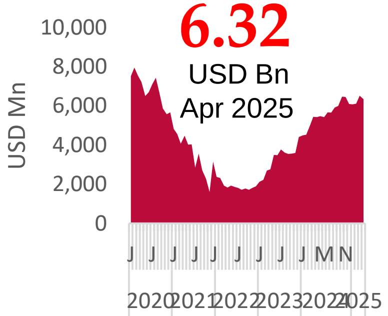
Exchange Rate



Depreciation of LKR thus far 2025

2%

Official Reserves



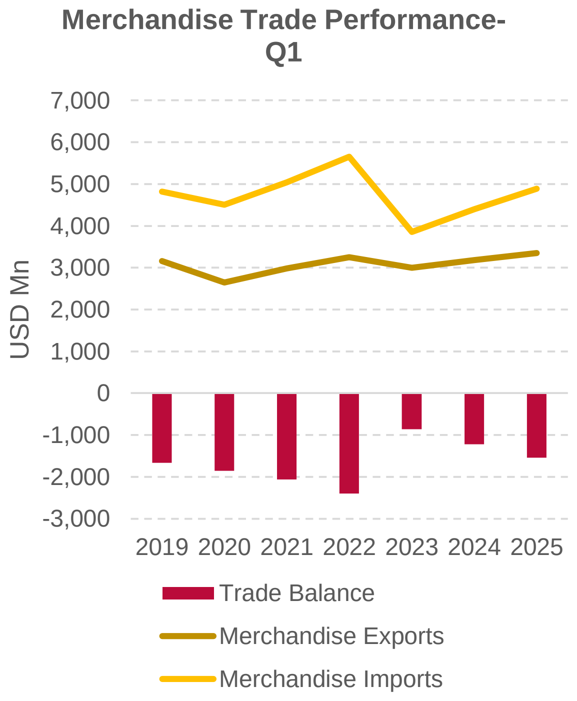
6.32
USD Bn
Apr 2025

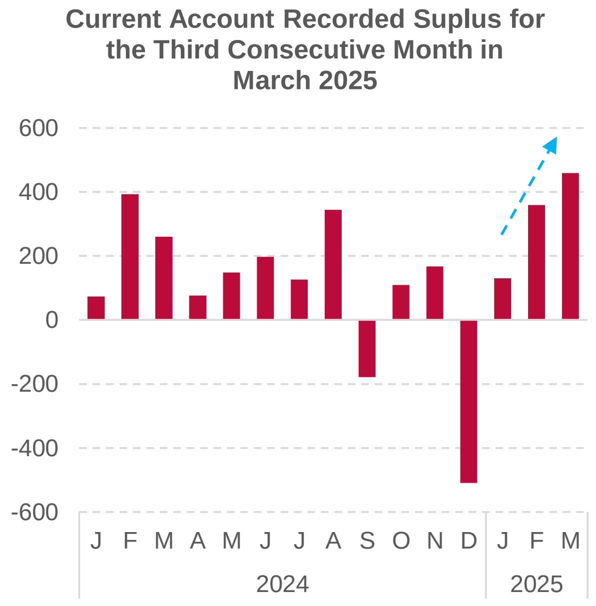
KEY INSIGHTS
Sri Lankan Economy

External Sector Review: Q1-2025 Marks Turning Point with Strong Current Account Performance

The current account recorded surplus for the third consecutive month in March 2025. It has been the highest monthly current account figure recorded since January of 2023.This improvement was driven by the substantial inflows of worker remittances.
During the first quarter of 2025, Sri Lanka trade deficit expanded to USD 1,540 million from USD 1,219 million in the corresponding period of 2024. However, it showed a modest improvement over February 2025 showing a stabilizing trend.
Merchandise export earnings in the first quarter of 2025 grew by 5.3% compared to the same period in 2024 reaching USD 3347 million. This growth was largely attributed to increased exports of textiles and garments, food, beverage and tobacco, spices and coconuts. In March 2025, export earnings showed an 8.1% increase year on year reaching USD 977 million. This growth was primarily driven by industrial exports with textiles contributing the highest value in absolute terms. However, in terms of percentage growth, the food, beverages and tobacco category recorded the most significant increase highlighting a strong performance within the industrial export segment. Moreover, agriculture exports also performed well with spices exports showing a notable 146% year on year increase totaling USD 41.4 million. Coconut based products recorded a significant 16.5% increase in export earnings due to the higher volumes of favorable global prices.
On the import side, expenditure reflected a gradual recovery in domestic demand and production related activities. March 2025 saw an 8.6% year on year increase in import spending driven by higher volumes despite a slight decline in prices. The volume index for import rose suggesting increased demand for both consumer and intermediate goods. Intermediate goods made up the largest share of imports including fuels, textile and chemical inputs while imports of food and beverages and non-food consumer goods also saw moderate growth.
The services sector, especially in March demonstrated resilience and growth driven by tourism, transport, ICT services and high remittances. These inflows developed offset the merchandise trade deficit and contributed to a historic current account surplus.

	Jan-Mar 2024 (USD mn)	Jan-Mar 2025 (USD mn)	Change (%)
Current Account Balance	727.6	948.9	30.4
Trade Balance	-1,219.40	-1,539.60	26.0
Merchandise Exports	3,178.50	3,347.40	5.3
Merchandise Imports	4,397.90	4,887.00	11.1
Services Account Balance	373.10	393.3	5.4





Data Source: CBSL

KEY INSIGHTS
Sri Lankan Economy

Key Takeaways from the DCS Household Survey on Impact of Economic Crisis - 2023

The Department of Census and Statistics (DCS) released its Household Survey on Impact of Economic Crisis in year 2023, earlier this month covering all 25 districts in the country. In 2023, Sri Lanka faced one of its most challenging economic crises since gaining independence in 1948. The beginning of this can be traced back to the Easter Sunday attack in 2019, which was further exacerbated by the COVID – 19 pandemic. The economic downturn trickled down to households, where the real impact of the crisis was most evident.

The key findings of the survey indicate that 60.5 % of households have decreased their total household average monthly income and 33.9 % experienced no change. Only a minor 5.6 % of households reported increases of their income.

The Household Survey on Impact of Economic Crisis revealed that 91.1 % households experienced an increase in their total household average monthly expenditure. Approximately, 5.3 % of households reported that their aggregate expenditure remained unchanged despite the impact of the economic crisis. Whereas, only 3.6 % of households were found to have decreased their total expenditure.

Due to the economic crisis 22 % of total households have incurred debt. Survey findings indicated that 54.9 % of total households are currently in debt. Highest proportion of indebtedness is due to mortgage matters (31.0 %), followed by banks (21.9%), and money lenders (9.7 %).

According to the survey result, an estimated 7.0 % of total population changed their health treatment procedure due to the economic crisis. Among those who altered their treatment a majority reported various issues: insufficient funds (81.7 %), transport issue (33.8 %), unavailability of servicers or resources (23.3 %), fuel issues (19.0 %).

Further, it was revealed that 28 % of households are food secure, while 58 % are marginally food secure in Sri Lanka according to CARI index. Additionally, 14 % of households experienced food consumption gaps and they have relied on crisis coping strategies to meet their food requirements. Only 0.4 % of households are severe food insecure. The survey revealed that 54.9 % of individuals (aged 3 -21years) have had their schooling affected by the economic crisis at the national level. The rates for the urban, rural, and estate sectors are 54.2 %, 55.1 %, and 55.1 % respectively.

Percentage distribution of household by the status of income change due to the impact of the economic crisis from March 2022

	Increase(%)	Decrease(%)	No change(%)
Sri Lanka	5.6	60.5	33.9
Urban	6.6	56.8	36.5
Rural	5.1	61.2	33.7
Estate	9.9	62.9	27.2

Percentage distribution of household by the status of expenditure change due to the impact of the economic crisis from March 2022

	Increase(%)	Decrease(%)	No change(%)
Sri Lanka	91.1	3.6	5.3
Urban	94.2	2.4	3.4
Rural	90.4	3.7	5.9
Estate	90.3	7.3	2.4

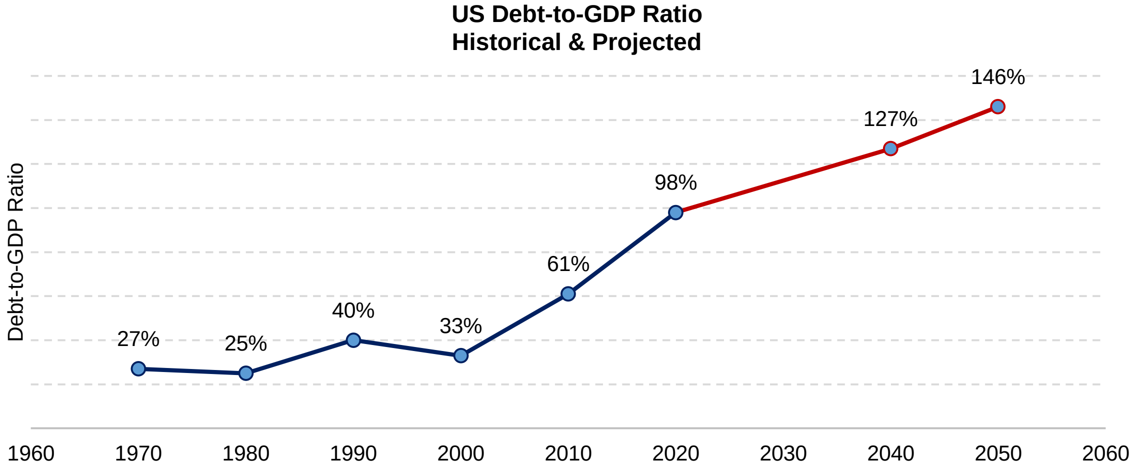
Data Source: Department of Census and Statistics, Sri Lanka

KEY INSIGHTS
Global Economy

US Shifts Trade Strategy, Creating Global Uncertainty

President Donald Trump has announced a major change in how the U.S. handles trade with other countries. After setting a goal to make trade deals with over 50 countries by July, he now admits that it’s not possible to talk to that many nations so quickly. Instead, the U.S. will soon send letters to trading partners, telling them how much they will have to pay in tariffs to do business with America. Back in April, Trump introduced high tariffs some up to 50% on goods from many countries. This caused global markets to drop and sparked trade tensions. Although he gave most countries a 90-day pause from these new tariffs (except China), not enough deals have been made in that time. Talks with important countries like Japan and South Korea have slowed down. A recent trade deal with the United Kingdom showed that even friendly countries may still face a 10% tariff. This has made other trading partners, like the European Union, question what they will gain from deals with the U.S. Trump also mentioned that the U.S. is working on a deal with China. The two countries agreed to lower the high tariffs they had placed on each other, but only for 90 days. If no full agreement is made by August, the higher tariffs could return. These changes in trade policy add more pressure to the global economy and increase uncertainty for businesses and investors. Making quick, one-sided decisions may protect some U.S. industries in the short term, but it could hurt international partnerships and long-term growth. Adding to the market stress, Moody’s downgraded the U.S. credit rating from Aaa to Aa1 on May 16, after markets closed. Following the news, the 10-year Treasury yield which influences interest rates on mortgages and loans spiked to 4.56% on Monday before easing to 4.45%. This rise in borrowing costs could make economic recovery even more challenging.

April 2	Trump announced 10% global and reciprocal tariff on all major trading partners
April 4	China hits US with 34% tariffs, banned firms
April 7	Trump threatens 50% more tariffs on China
April 9	Trump pauses tariffs for most, not China
	China retaliates with 84% tariffs on US goods
April 10	White House says China tariffs reached 145%
	EU pauses its reciprocal tariffs after Trump move
April 11	Trump exempted smartphones, chips from new tariffs
May 8	US and UK agree to cut tariffs
May 12	US,China agreed to reduce mutual tariffs



Data Source: Times of India, CBO, Fedeal Reserve

KEY INSIGHTS
Global Economy

IMF World Economic Outlook: April 2025 Update

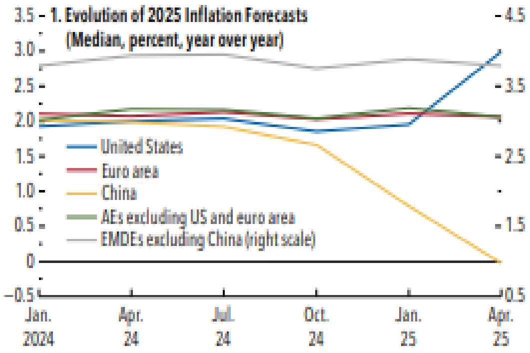
In 2024, global economic growth was estimated at 3.3%. Growth in advanced economies reached 1.8%, while emerging market and developing economies recorded a stronger 4.3%. After a marked slowdown in 2024, growth in emerging and developing Asia is expected to decline further to 4.5 % in 2025 and 4.6 % in 2026.

In the near term, global growth is projected to fall from an estimated 3.3 % in 2024 to 2.8 % in 2025, before recovering to 3 % in 2026. This is lower than the projections in the January 2025 WEO Update, by 0.5 percentage point for 2025 and 0.3 percentage point for 2026. Nearly all countries faced downward revisions, reflecting the direct and indirect effects of recent trade measures, weakened sentiment, and policy uncertainty. For advanced economies, growth is projected to drop from an estimated 1.8 % in 2024 to 1.4 % in 2025 and 1.5 % in 2026. For emerging market and developing economies, growth under the reference forecast is projected to drop to 3.7 % in 2025 and 3.9 % in 2026.

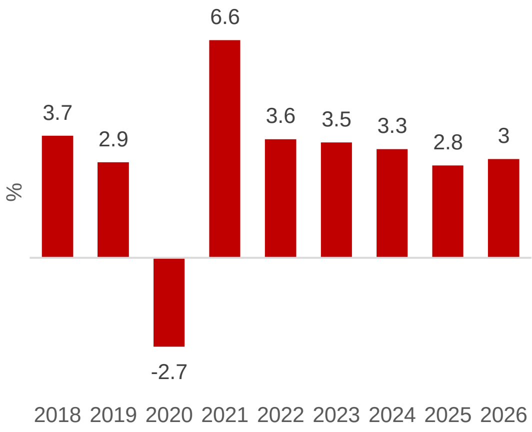
Global headline inflation is expected to decline to 4.3 % in 2025 and to 3.6 % in 2026. Inflation is projected to converge back to target earlier in advanced economies, reaching 2.2 % in 2026, compared with emerging market and developing economies, for which it declines to 4.6 % over the same time horizon. Compared with that in the January 2025 WEO Update, the global inflation forecast is slightly higher. For advanced economies, the inflation forecast for 2025 has been revised upward by 0.4 percentage point since January. In emerging and developing Asia, inflationary pressures are expected to be even more muted, with a downward revision of 0.5 percentage point to 2025 forecasts relative to those in January. After a series of downward surprises, inflation in China is expected to remain subdued.

Risks to the outlook are tilted to the downside, with potential triggers including prolonged trade policy uncertainty, elevated financial market volatility, rising long-term interest rates, and social unrest. A reversal in global economic integration and challenges to international cooperation could further undermine growth. While next-generation trade agreements, mitigation of conflicts, structural reform momentum and growth engine powered by Artificial Intelligence (AI) present upside risks, the baseline outlook remains cautious.

Figure 1.17. Inflation Forecasts



Global Growth



IMF World Economic Growth Projections			
	2024	**2025**	**2026**
World Output	***3.3***	***2.8***	***3***
Advanced economies	***1.8***	***1.4***	***1.5***
United States	2.8	1.8	1.7
United Kingdom	1.1	1.1	1.4
Japan	0.1	0.6	0.6
Canada	1.5	1.4	1.6
Germany	-0.2	0.0	0.9
France	1.1	0.6	1.0
Italy	0.7	0.4	0.8
EMDEs	***4.3***	***3.7***	***3.9***
China	5.0	4.0	4.0
India	6.5	6.2	6.3
Russia	4.1	1.5	0.9
Brazil	3.4	2.0	2.0
Mexico	1.5	-0.3	1.4
Saudi Arabia	1.3	3.0	3.7

Data Source: IMF World Economic Outlook, April 2025

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.

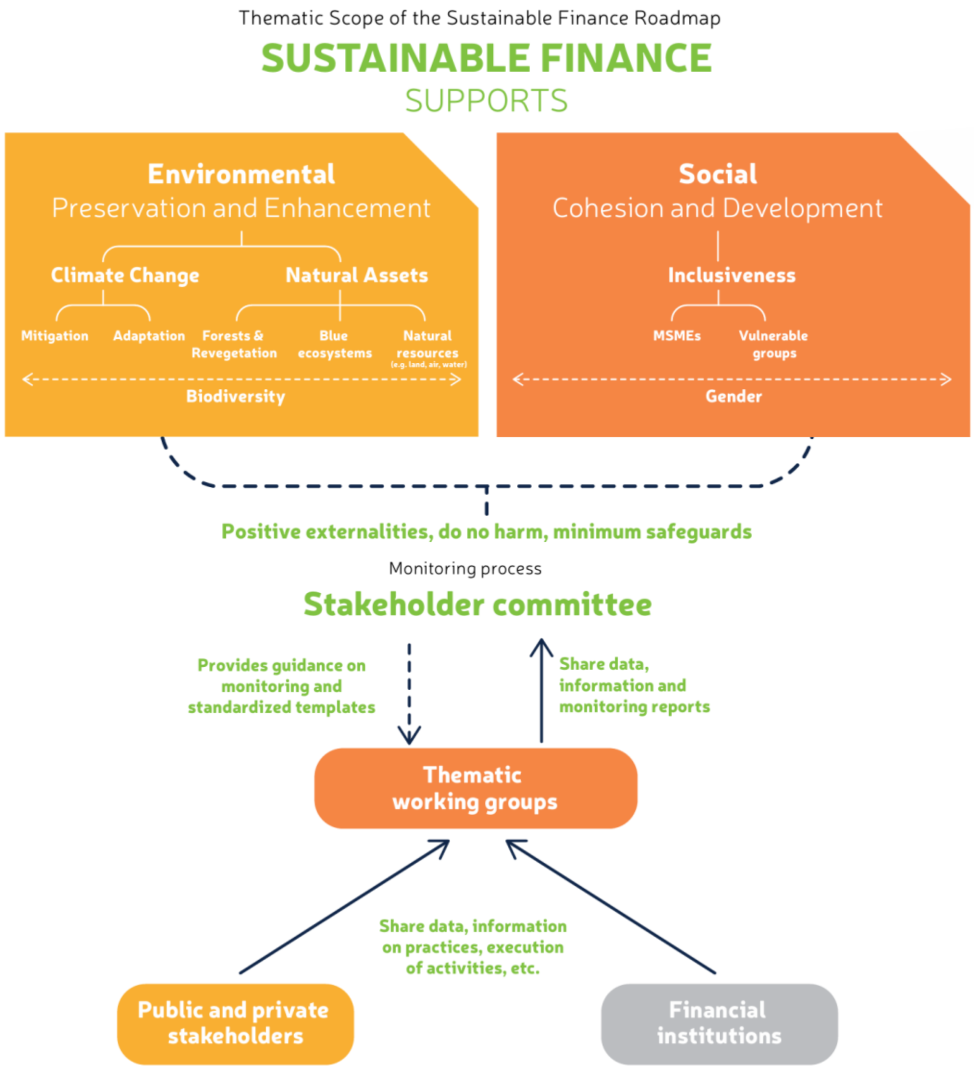
Strengthening Resilience and Inclusion through Sri Lanka’s Sustainable Finance Roadmap 2.0

The Central Bank of Sri Lanka (CBSL) launched its Sustainable Finance Roadmap 2.0 earlier this month, marking a significant milestone in mainstreaming environmental, social, and governance (ESG) considerations within the financial sector. Building upon the foundational 2019 roadmap, this second iteration responds to emerging global sustainable finance trends and incorporates lessons from Sri Lanka’s own economic, social, and environmental shifts. While the original roadmap focused primarily on green finance, Roadmap 2.0 integrates a broader scope that includes financial inclusion, gender equity, biodiversity, climate adaptation, and resilience-building for vulnerable groups and micro, small, and medium enterprises (MSMEs).

One of the most notable advancements is the explicit inclusion of social sustainability as a pillar of sustainable finance. The roadmap prioritizes expanding access to finance for underserved communities and MSMEs, reinforcing the CBSL’s commitment to financial system stability and inclusive economic growth. This aligns with provisions under the new CBSL Act of 2023, which elevates financial inclusion to a statutory mandate. The roadmap proposes a wide array of financial tools to support this agenda, such as sustainable loans, green bonds, and inclusive insurance products. Special emphasis is placed on channeling credit to sectors like agriculture, fisheries, and tourism, where climate-smart innovations can yield both economic and ecological dividends.

Compared to the 2019 roadmap, this updated version presents a more structured, actionable implementation plan for 2025–2029. It outlines a phased approach for regulators and financial institutions to improve ESG disclosures, enhance risk management, and introduce sustainability-linked financial instruments. The roadmap’s action framework includes the development of guidelines for sustainable lending and leasing, capacity-building initiatives, and the use of incentive schemes—ranging from regulatory incentives to reward and recognition mechanisms—to catalyze market uptake.

Another significant enhancement is the broadened scope of the Green Finance Taxonomy introduced in 2022. While the earlier taxonomy focused on environmental sectors, Roadmap 2.0 proposes revisiting and expanding it to encompass social dimensions such as gender equity and support for vulnerable groups. It also emphasizes improving the taxonomy’s interoperability with global systems, including the EU Sustainable Finance Taxonomy, to improve data consistency and attract international capital flows.



Data Source: Central Bank of Sri Lanka

Evolving Landscape

The roadmap places strong emphasis on enhancing non-financial disclosure and reporting standards. Recognizing that credible data is essential for market confidence and to avoid greenwashing, the CBSL recommends alignment with the IFRS Sustainability Disclosure Standards (SLFRS S1 and S2), which will come into effect in January 2025. Financial institutions are encouraged to tag assets by sustainability attributes to enhance ESG performance tracking. This data-driven approach also supports the development of sustainability indices and the measurement of impact across portfolios—critical for Sri Lanka to present itself as investment-ready in the post-debt-restructuring period.

Environmental and social risk management is another cornerstone of Roadmap 2.0. It calls for mainstreaming ESG risk assessments into the operations of banks, finance companies, and insurers. Financial institutions are expected to develop Environmental and Social Management Systems (ESMS), informed by international best practices such as the IFC Performance Standards and Equator Principles. Special attention is given to building the capacity of supervisors and financial institutions on climate risk modelling and scenario analysis, which are essential for macroprudential oversight.

Moreover, the roadmap explores innovative financing mechanisms such as debt-for-nature swaps, blended finance, and sustainable insurance. These tools are particularly relevant for Sri Lanka given its fiscal constraints and vulnerability to climate shocks. The roadmap notes that Sri Lanka requires an estimated USD 4 billion annually until 2050 to achieve its net-zero commitments, making the role of private capital even more critical. By positioning the financial sector as a key enabler, Roadmap 2.0 aims to unlock investments that align with both national development goals and international sustainability benchmarks.

In essence, Sustainable Finance Roadmap 2.0 provides a forward-looking, inclusive, and actionable strategy to realign Sri Lanka's financial system with the country's sustainable development priorities. Its success will depend on continuous stakeholder engagement, capacity development, and the ability to attract both domestic and international sustainable capital.

	Actions	Responsible	Due date	Level of completion	Assessment	Further actions
1	Conduct a situational study on E&S risk management within FIs and identify capacity-development needs	CBSL	2025		The study has been conducted, leading to useful insights on existing ESG practices and the gaps that remain to be addressed.	None
2	Conduct trainings on climate change data, risks and modelling for FIs (with support from relevant partners/ network)	CBSL	2027		A clear capacity-building plan on climate risks has not been developed and trainings not scheduled yet.	Identify key capacity building needs from the situational study.
3	Conduct training on the implementation of E&S tools and procedures, such as Environmental and Social Management Systems (ESMS) within FIs	CBSL	2028		Only one training has been conducted so far, while the capacity-building plan indicated two per year.	Prepare an adjusted capacity-building plan incorporating the missing trainings.

The signification of the colour codes are detailed below:

- The action is on track and no issues/challenges have been identified.
- The action has started but there is a need to address specific issues to ensure it can be completed as planned.
- The action should have started but hasn't. Quick action is needed to ensure completion on time.
- The action has not been conducted. The taskforce must assess if there is a need to postpone/reprogram, or if it must be dropped.

Data Source: Central Bank of Sri Lanka

EIU

Economic Intelligence Unit of The Ceylon Chamber of Commerce

The Ceylon Chamber of Commerce

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