

Monthly Economic Update (MEU)

April 2025

**Economic Intelligence Unit
The Ceylon Chamber of Commerce**



EIU

Highlights

Sri Lankan Economy

Sri Lanka's Growth Moderates amid Stabilisation Reforms: ADB Outlook- April 2025

Sri Lanka's economy began recovering in 2024 with 5.0% growth, but this momentum is projected to slow, with the ADB forecasting 3.9% growth in 2025 and 3.4% in 2026 as structural challenges persist. While growth across key sectors such as manufacturing, tourism, and construction is expected, subdued domestic demand and weak household consumption will temper the pace of recovery. The outlook hinges on sustained fiscal and structural reforms, with long-term debt sustainability remaining a critical concern despite progress in debt restructuring and public investment resumption.

(Note: Forecasts mentioned above, are finalized by the ADB before the announcement of the New US Tariffs on April 2025)

Inflation Climbs up in March

Inflation, as measured by the NCPI and CCPI, recorded a slight increase in March compared to February 2025. Core inflation remained unchanged from the previous month.

A Small Economy in a Big Trade Dispute: Can Sri Lanka Weather the US Tariff Storm

The imposition of a 44% reciprocal tariff on Sri Lanka by the U.S., one of the highest in the region, poses a major threat to the country's export-oriented sectors—especially apparel—amidst rising production costs and inflation. While Sri Lanka has a 90-day window to diplomatically engage and seek exemptions, the tariffs underscore the urgency for a diversified trade strategy, structural reforms, and enhanced competitiveness. With a projected U.S. recession in 2025 and ongoing global trade uncertainty, Sri Lanka faces compounded risks from weaker demand, sustained tariffs, and reduced investor confidence.

Global Economy

Trade uncertainty Challenges Resilience in the Developing Asia

Developing Asia's growth slowed to 5.0% in 2024, mainly due to decelerations in China and India, although demand for AI-driven products and recovering tourism supported regional activity. Inflation eased below pre-pandemic levels, driven by lower global commodity prices and tighter monetary policies, while remittances remained stable despite some financial market weakening. Looking ahead, growth is projected to moderate slightly to 4.9% in 2025 and 4.7% in 2026 amid rising trade tensions and tariffs, but strong domestic demand in South Asia and continued demand for semiconductors are expected to cushion the slowdown.

(Note: Forecasts mentioned above, are finalized by the ADB before the announcement of the New US Tariffs on April 2025)

Gold Prices Surges as Economic Uncertainty Drive Mrket Demand

Gold prices hit a record high of over USD 3,400 per ounce on April 21, 2025, driven by rising global tensions, a weakening U.S. dollar, and the collapse of the Russia-Ukraine ceasefire. Heightened demand from investors seeking safe-haven assets, along with increased buying by emerging market central banks and policy changes in China, has further fuelled the rally. Citi Research has raised its short-term gold price forecast, citing surging demand, tightening supply, and growing market uncertainty tied to U.S. trade and monetary policy moves.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

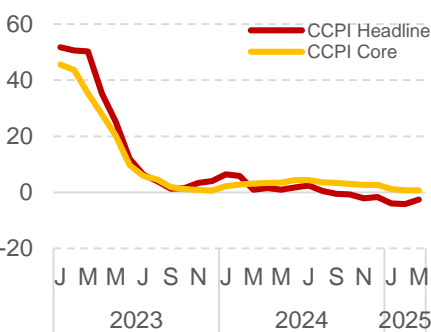
5% Full year 2024
4.5% (2023)

Movement of Purchasing Managers' Index-March 2025

Manufacturing PMI **63.9**
Services PMI **69.8**
Construction PMI (Feb) **55.6**
All three indices recorded an expansion

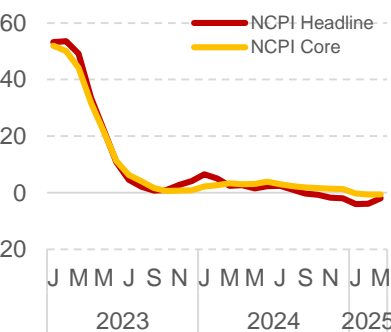
Inflation

CCPI Inflation (%) - Base 2021



Mar 2025
Headline **-2.6%**
Core **0.7%**

NCPI Inflation (%) - Base 2021



Mar 2025
Headline **-1.9%**
Core **-0.6%**

External Sector

Merchandise Trade

Feb 2025

Trade Deficit **USD 411mn**

Exports **USD 1,053mn**
-0.6% y-o-y growth

Imports **USD 1,464mn**
6.2% y-o-y growth

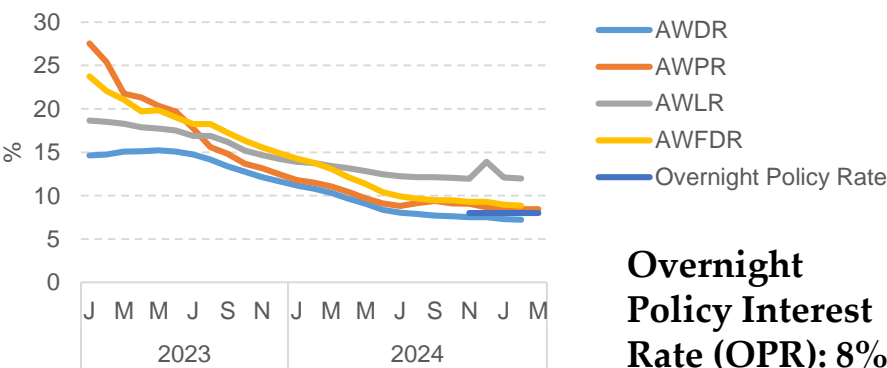
Services Trade **USD 408mn**
6% y-o-y growth

Tourist Arrivals **229,298**
Mar 2025
10% y-o-y growth

Tourism Earnings **USD 354mn**
5% y-o-y growth

Workers' Remittances **USD 693mn**
21% y-o-y growth

Interest Rates

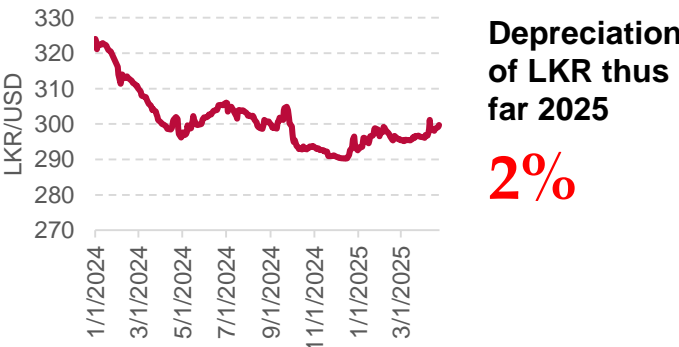


Overnight Policy Interest Rate (OPR): **8%**

Growth in Credit to Private Sector

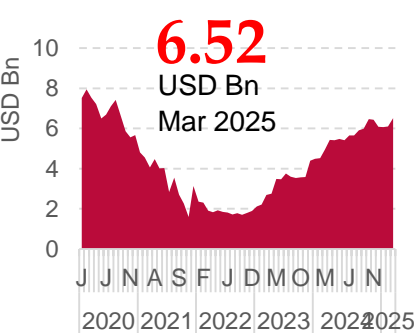
Feb 2025
12.8%

Exchange Rate



Depreciation of LKR thus far 2025
2%

Official Reserves



6.52
USD Bn
Mar 2025

KEY INSIGHTS

Sri Lankan Economy

Sri Lanka’s Growth Moderates amid Stabilisation Reforms: ADB Outlook- April 2025

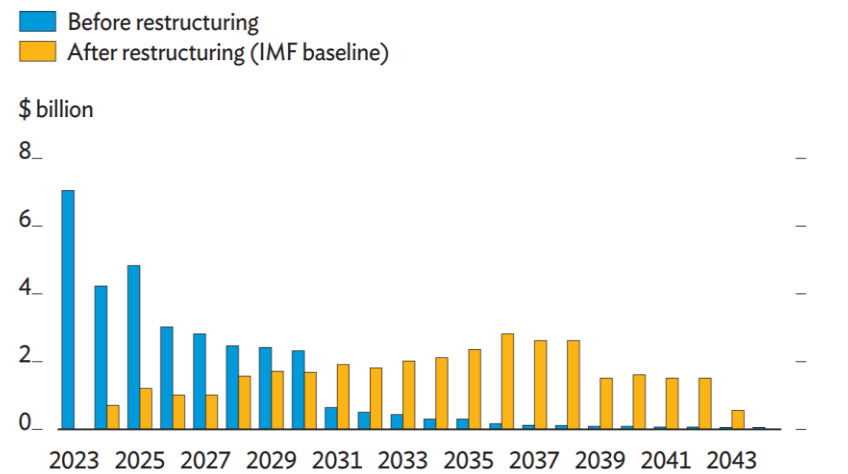
Sri Lanka posted robust growth of 5.0% in 2024, marking the beginning of a recovery phase after two years of deep economic distress. The ADB projects that GDP growth will moderate to 3.9% in 2025 and further ease to 3.4% in 2026 as the rebound stabilises and structural issues continue to weigh on medium-term prospects. Growth across all sectors is expected to persist, although industry is anticipated to slow following a strong recovery in 2024. Manufacturing, particularly textiles and garments, is expected to lead the industrial sector, supported by increasing new orders. The services sector is likely to grow, led by accommodation, food, and transport services, amid rising tourist arrivals. The construction sector will benefit from resumed public investment, particularly in roads and infrastructure, although growth will be more modest compared to the previous year. Agriculture, on the other hand, is expected to see limited progress due to persistent productivity constraints and vulnerability to weather-related shocks.

Domestic demand will remain subdued, despite supportive factors such as lower interest rates, increased public wages, and improved investor confidence. Although private investment will benefit from improved credit conditions and reduced political uncertainty, weak household purchasing power will continue to limit consumption growth. Public investment is projected to rise slightly due to resumed infrastructure projects but will remain constrained by fiscal consolidation measures. Net exports are expected to decline as imports increase with the lifting of import restrictions and the resumption of vehicle imports.

Public debt remains elevated at over 100% of GDP, despite a declining trend supported by nominal GDP growth and exchange rate appreciation. High interest payments continue to absorb a significant portion of government revenue, crowding out space for productive public expenditure. Fiscal efforts are supported by new tax measures including the taxation of service exports, digital transactions, and revisions to capital gains tax. However, maintaining strong revenue performance while managing social and capital expenditure needs remains a key challenge. Although the restructuring of both domestic and external debt has eased near-term repayment obligations, long-term debt sustainability hinges on the consistent implementation of fiscal and structural reforms. Meanwhile, the operationalisation of the Public Debt Management Office under is expected to improve the planning, execution, and monitoring of debt strategy.

Note: Forecasts were finalized before the new US tariffs announced on April 2

ADB Sri Lanka Growth Forecasts for Sri Lanka				
	2023	2024	2025	2026
GDP Growth	-2.3	5.0	3.9	3.4
Inflation	17.4	1.2	3.1	4.5



IMF = International Monetary Fund.
Note: 2023 debt service before restructuring includes arrears in 2022–2023.

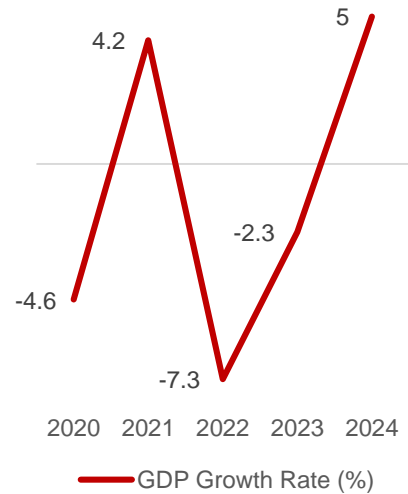
KEY INSIGHTS

Sri Lankan Economy

10 Key Takeaways from the Central Bank Annual Economic Review- 2024

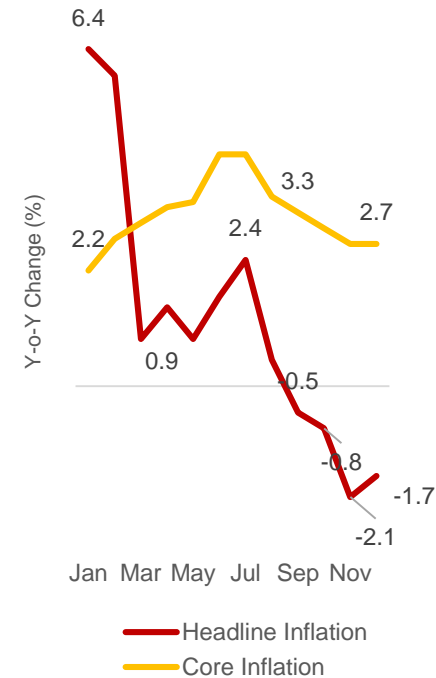
1. Steady Economic Recovery

The Sri Lankan economy rebounded in 2024 after two years of annual contraction. This recovery was steady throughout the year, with all four quarters posting positive Gross Domestic Product (GDP) growth rates for the first time since 2017.



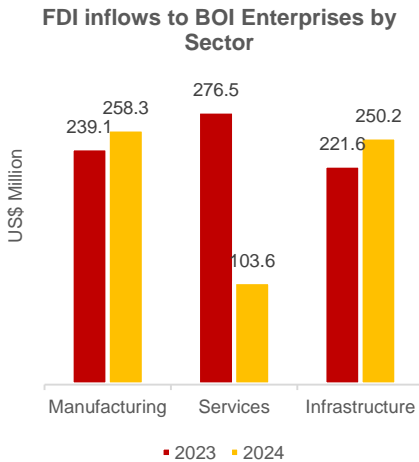
2. Inflation Moderation and Deflationary Turn

After an initial uptick, inflation followed an overall decreasing trend during 2024 and reached deflationary levels from September.



3. Investor Confidence and Debt Progress

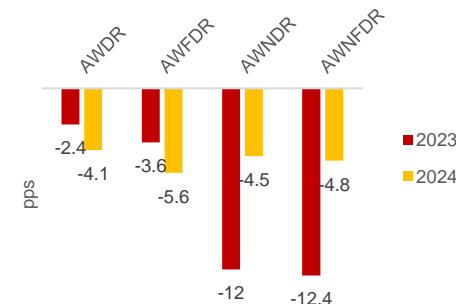
Debt restructuring nearly complete and exit from restricted default rating enhanced market confidence. FDI inflows remained relatively modest in 2024. The sectoral flows of FDI were primarily directed towards Diversified Holdings, Telephone and Telecommunication Networks, Hotels and Restaurants, and Port Container Terminals.



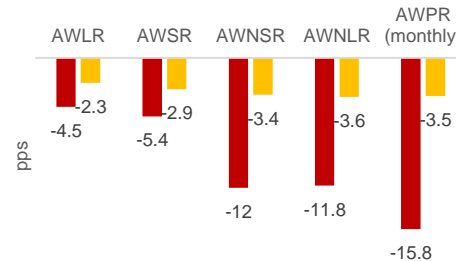
4. Supportive Monetary Environment

Market interest rates continued their downward momentum in 2024 driven by accommodative monetary policy measures implemented since June 2023.

Deposit Rates

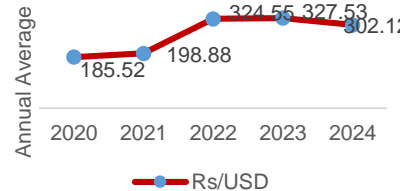
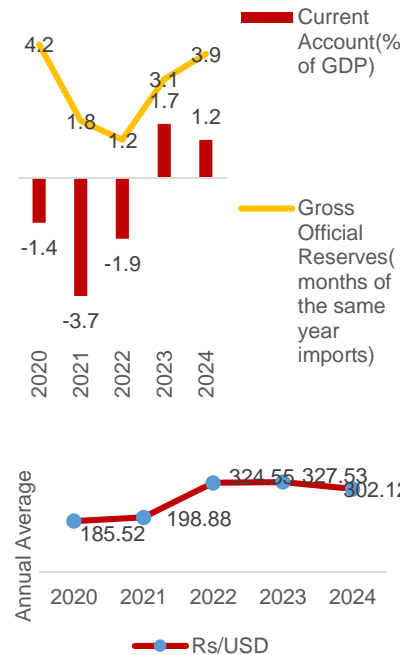


Lending Rates



5. Strengthened External Sector

Current account surplus, stronger reserves, increased forex inflows, and LKR appreciation.



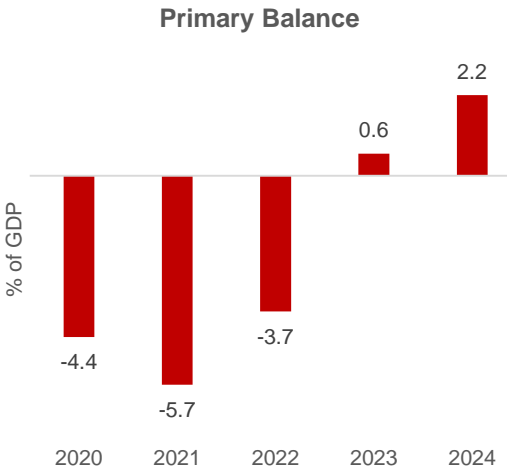
KEY INSIGHTS

Sri Lankan Economy

10 Key Takeaways from the Central Bank Annual Economic Review- 2024

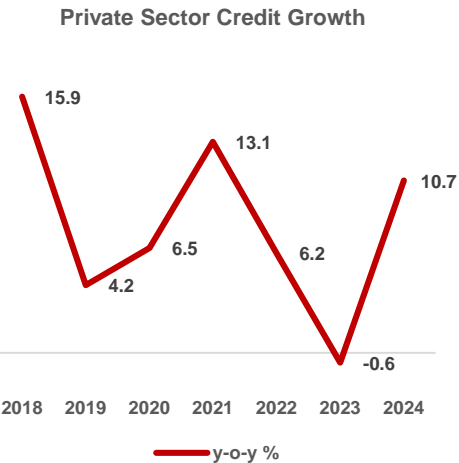
6. Fiscal Discipline

Recording primary surpluses for two consecutive years is a commendable achievement amid a challenging socio-political environment. Maintaining a positive primary balance is essential for fostering fiscal and debt sustainability and preserving hard-earned macroeconomic stability.



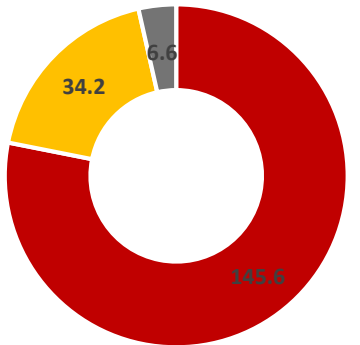
7. Financial Sector Stability

Legal and regulatory enhancements, including MSME revival units and better governance frameworks. Credit to the private sector by LCBs in early 2024 displayed an uneven trend. Since mid-2024, private sector credit witnessed a steady and notable expansion, driven the continued relaxation of the monetary policy



8. Structural Reform Momentum

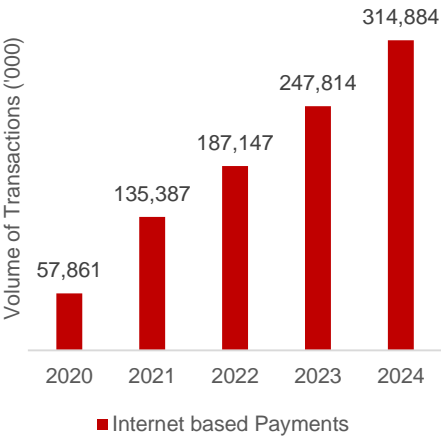
Reforms addressing deep-rooted issues and support to the poor through expanded social safety nets.



- cash transfer benefits to beneficiary families (including arrear payments)
- individual allowances to differently abled individuals, CKDu patients, and elderly citizens
- financial assistance for the purchase of stationery

9. Focus on Digital and Inclusive finance

The Central Bank's nationwide advances on financial inclusion resulted in a higher level of Internet based Payments*



*Transactions carried out through Internet based payments includes payments made using credit card, debit card, instant payments (CEFTS), SLIPS and other methods through internet.

10. Risks and Roads Ahead

Heightened global protectionism and geoeconomic fragmentation could increase Sri Lanka's external sector risks. To strengthen resilience, the country must diversify exports, boost global and regional integration, and enhance foreign exchange earnings. Sustaining post-crisis recovery also hinges on attracting foreign investment into productive, forex-generating sectors. Urgent reforms are needed to ensure a fair, corruption-free business environment and an efficient legal system.

KEY INSIGHTS

Global Economy

Trade uncertainty Challenges Resilience in the Developing Asia

According to the Asian Development Outlook – April 2025 Update, Developing Asia’s growth eased slightly to 5.0% in 2024, down from 5.5% in 2023, primarily due to slowdowns in China and India. Strong external demand for artificial intelligence-driven products supported growth across much of the region in 2024, while domestic demand remained solid.

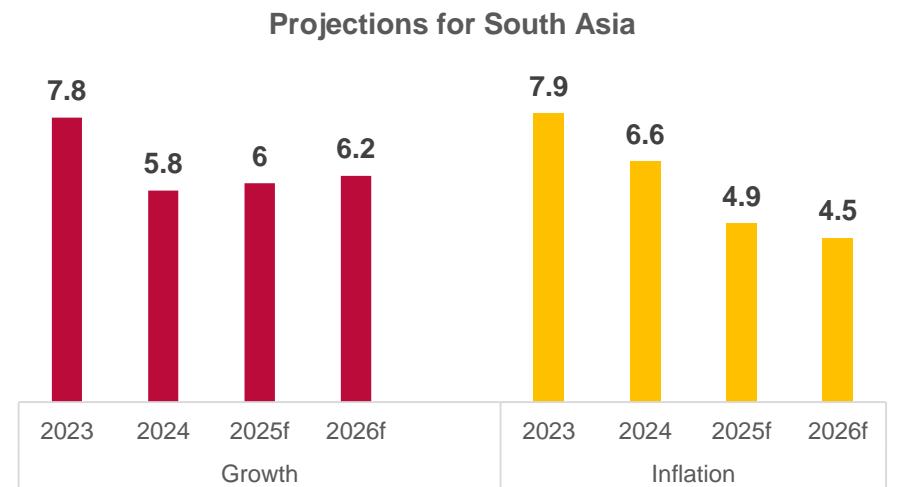
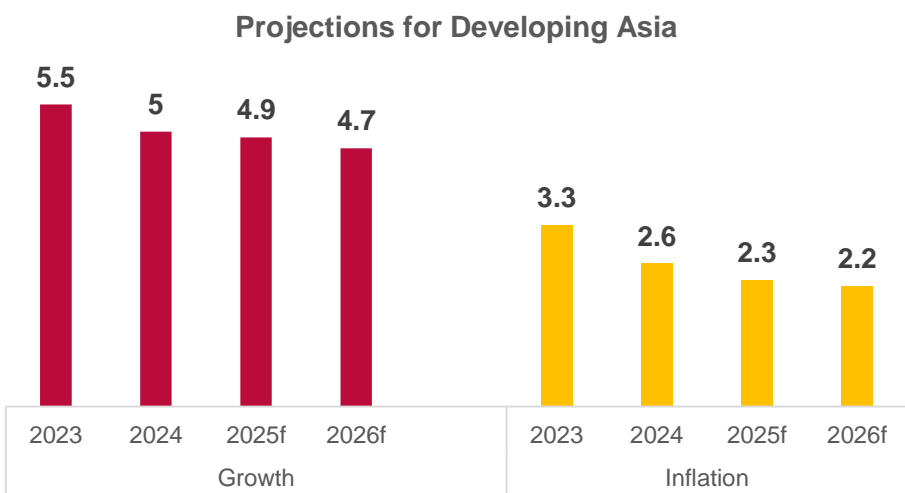
India’s economic slowdown—driven by delayed public investment and tighter credit conditions—weighed on South Asia’s performance, pulling its growth down to 5.8% in 2024 from 7.8% in 2023, despite economic expansions in Pakistan and Sri Lanka.

Disinflation in the region progressed further, with headline inflation in early 2025 falling below pre-pandemic levels. A combination of declining global commodity prices, the lagged effects of tighter monetary policies, and easing supply-side pressures in some economies helped lower both energy and core inflation.

However, trade tensions impacted regional exports during the second half of 2024. On a positive note, tourism continued to recover, although visitor arrivals remained below pre-pandemic levels. Total arrivals in 2024 reached 90% of pre-pandemic levels. Remittance inflows remained a stable source of income, though financial market conditions have weakened slightly since October 2024.

Looking ahead, the growth outlook for Developing Asia—based on forecasts finalized before the new US tariffs announced on April 2—projects a slight moderation to 4.9% in 2025 and 4.7% in 2026, due to heightened trade uncertainty and increased tariffs. Nevertheless, strong growth in South Asia, supported by robust domestic demand, is expected to partly offset the slowdown in China, which continues to face challenges in its property sector and trade environment. Exports will continue to support growth, driven by sustained global demand for semiconductors. Additionally, easing inflation and a continued recovery in tourism are set to bolster aggregate demand across the region.

Inflation in Developing Asia is projected to moderate further—to 2.3% in 2025 and 2.2% in 2026—as falling global oil and commodity prices continue to alleviate price pressures.



KEY INSIGHTS

Global Economy

Gold Prices surges as economic uncertainty drive market demand

On Monday, April 21, 2025, gold prices soared to a new record high, surpassing USD 3,400 per ounce. Spot gold surged more than 3%, reaching USD 3,436.01 in overnight Asian trading. Gold has now exceeded its inflation-adjusted 1980 peak of USD 850 per ounce. This jump was driven by the heightened demand for safe-haven assets due to global tensions, a weakening U.S. dollar, and the collapse of the Russia-Ukraine ceasefire.

The metal's appeal has grown stronger among international investors, as the dollar's decline has made gold relatively more affordable in other currencies. Ongoing geopolitical instability including increased Israeli military action in Palestinian territories and rising U.S.-China trade tensions has also fuelled the surge of the gold price.

Adding to market uncertainty, President Trump has launched an investigation into tariffs on all U.S. imports of base metals and is considering a restructuring of the Federal Reserve. These moves have stoked fears of a global economic slowdown and instability in future U.S. monetary policy.

Citi Research responded by raising its gold price target for the next three months to USD 3,500 per ounce, from USD 3,200. The bank also revised its second-quarter average gold forecast to USD 3,250, citing surging demand and tightening supply. Emerging market central banks are accelerating purchases, and investor interest through ETFs and OTC markets continues to rise. Meanwhile, Chinese insurers are now allowed to allocate up to 1% of their assets to gold, potentially generating 255 metric tons of new annual demand. Furthermore, China's approval of fresh import quotas and the reopening of the gold arbitrage window are also expected to boost demand, further supporting higher prices in the months ahead.

Gold Price Movement



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.

A Small Economy in a Big Trade Dispute: Can Sri Lanka Weather the US Tariff Storm?

The recent imposition of reciprocal tariffs by the United States on several countries, including Sri Lanka, marks a significant moment in global trade relations. While such measures are more commonly directed at larger economies with substantial trade surpluses, Sri Lanka’s inclusion in this policy shift signals broader changes in the US’s approach to trade equity. Sri Lanka, which now faces a 44% reciprocal tariff, is among the highest-impacted countries in the region. Within South Asia, Pakistan (30%) and India (26%) are also targeted, though at lower rates. Similarly high tariffs have been placed on other smaller economies, including Cambodia (49%), Vietnam (46%), and Turkey (31%). The economic impact of these tariffs is expected to be most pronounced in key export-oriented sectors. The apparel industry, which comprises a substantial portion of Sri Lanka’s exports to the US, is particularly vulnerable. Higher tariffs on garments could reduce the competitiveness of Sri Lankan products in a price-sensitive market, further strained by inflationary pressures and rising production costs. Other sectors such as rubber-based products, seafood, tea, coconut and emerging ICT services may also face indirect consequences, particularly if supply chains become disrupted or if buyers seek alternatives in lower-cost jurisdictions. The broader economic implications also include potential reductions in foreign exchange earnings and employment, especially among small and medium-sized enterprises (SMEs) that are more exposed to market fluctuations and less equipped to absorb additional trade costs. In a context of economic recovery and fiscal consolidation, any decline in export performance would be particularly concerning. Beyond economics, this development brings to light important strategic and diplomatic considerations. Sri Lanka has historically maintained a non-aligned trade posture, engaging with a variety of partners from both the Global North and South. However, the imposition of tariffs by a major trading partner like the US underscores the need for enhanced diplomatic engagement and better alignment with international trade norms. In the short term, Sri Lanka should prioritize diplomatic engagement with the US to seek clarification on the tariffs and explore potential exemptions, while offering targeted support to affected industries through measures like export incentives and technical assistance. The government has already signaled its willingness to































Region	Countries with Reciprocal Tariff Rates
South Asia	Sri Lanka (44%) Pakistan (30%) India (26%)
Southeast Asia	Cambodia (49%) Vietnam (46%) Indonesia (32%)
East Asia	China (34%) Taiwan (32%) South Korea (25%)
Africa	South Africa (30%)
Europe	EU (20%) UK (10%) Switzerland (31%)
Americas	Brazil (10%) Canada (25%)
Middle East	Israel (17%) Turkey (31%)

Evolving Landscape cont'd

- engage in bilateral talks, as announced on April 4, 2025. Over the medium to long term, a broader trade strategy is needed one that includes diversifying export markets, deepening regional integration, and promoting higher value-added exports. Strengthening logistics, regulatory processes, and digital trade infrastructure will be key to enhancing competitiveness. While the US tariffs present immediate risks, they also underscore the need for structural reforms and offer a chance to pivot toward a more resilient and diversified trade model.

- While the tariffs have been announced, the US has provided a 90-day implementation window, which means the real economic effects are likely to begin materializing from the second quarter of 2025 onwards. This gives countries like Sri Lanka a narrow window to respond diplomatically and strategically. The rollback of some reciprocal tariffs has offered a modest boost to growth expectations across parts of Asia especially for Southeast Asian economies like Vietnam and Cambodia, which had previously faced some of the highest tariff rates and are deeply tied to US consumer demand. In fact, earlier projections had anticipated a significant downward revision in growth by as much as five percentage points in 2025 for these countries. However, the relief is only partial. A baseline tariff of 10% remains in place, alongside sector-specific duties. More critically, the uncertainty surrounding future US trade policy including the potential for sudden tariff increases continues to weigh on business and investor confidence. Moreover, the underlying demand conditions in the US are weakening. A recession is expected in 2025, with only sluggish recovery projected for 2026. As a result, US import demand is likely to soften, dampening export prospects for countries that rely heavily on the American market. For Sri Lanka, this presents a triple-layered challenge. First, as a small and export-dependent economy, any slowdown in US demand directly impacts key sectors such as apparel, rubber, and seafood. Second, the persistence of a baseline and sectoral tariff regime, even after partial rollbacks, limits the potential for full recovery in trade volumes. Third, policy uncertainty and global volatility create an unpredictable environment for investment and forward planning both for exporters and for the government's fiscal and growth strategies.

- According to the WTO's latest report, global goods trade volume is now projected to decline by 0.2% in 2025 under the current tariff environment.

Retaliated	
Threatened Retaliation	
Seeking Negotiations but Ready to Retaliate	  
Seeking Negotiations	                 
Made Concessions	    
Refusing to Take Further Actions	 

Source: Global Trade alert



Source: WTO

EIU

Economic Intelligence Unit
of The Ceylon Chamber
of Commerce

Make Better Informed Strategic Decisions.

Leverage the wide business network of The Ceylon Chamber of Commerce to gain a more comprehensive understanding of the Sri Lankan economy.



Our Services Include:

- Policy Advocacy
- Macroeconomic and Sector Reports/Presentations
- Curated Trade and Sector Data Analysis and Updates
- Bilateral / Regional Trade and Investment Reports
- Industry and Sector Surveys
- Consultancy for Donor/Development Agency Related Projects
- Economic Business Consultancy Services

Reach us at +94 11 558 8809 | eiuc@chamber.lk

THANK YOU

DISCLAIMER:

All information collected and analyzed is derived from sources, which we consider reliable and a sincere effort is made to report accurate information. The EIU does not warrant the completeness or accuracy of information derived from secondary sources. Details published herein are intended for information purposes only.



EIU



Unlock the power of foresight for your firm's success.

When it comes to navigating the ever-changing landscape of economic indicators, including currency and interest rates, look no further than our expert services. Experience the difference with our meticulously crafted presentations and reports, tailored exclusively for your business needs. Don't miss out on the invaluable insights that could shape your strategic decisions.

Reach out to us
and embark on a journey towards informed,
data-driven decision making.



eiuf@chamber.lk



011-55 888 09/68/83/96