Monthly Economic Update (MEU)

September 2025

Economic Intelligence Unit
The Ceylon Chamber of Commerce

Highlights

Sri Lankan Economy

Sri Lanka Sustains Strong Growth in Q2: 2025

Sri Lanka's economy expanded by 4.9% in Q2 2025, bringing first-half growth to 4.8%, marking the eighth consecutive quarter of positive performance. Growth was driven largely by Industry (7.9%) and Services (3.3%), with notable gains in construction, textiles, financial services, and tourism, while Agriculture remained subdued due to mixed sectoral outcomes. Supported by easing inflation, stable exchange rates, and stronger investment inflows, Sri Lanka is expected to maintain its positive growth momentum despite agricultural challenges.

Deflations Turned into Positive in August

After 11 consecutive months of deflation, inflation turned positive in August 2025, with CCPI-based headline inflation recording 1.2% compared to the same period last year. The Central Bank expects inflation to increase further in Q4 and gradually move towards the 5% target.

Sri Lanka's External Sector Strengthens Amid Record Exports in July 2025

Sri Lanka's external sector showed notable resilience in July 2025, with the current account maintaining consecutive monthly surpluses. Total exports rose to USD 12.0 billion in the first seven months of 2025, up 6.7% y-o-y, while merchandise exports reached a record-high USD 1.3 billion in July, helping narrow the trade deficit despite higher vehicle imports of USD 668 million during the period. Services sector inflows grew by 3.3% to USD 2.4 billion in January–July, supporting the overall strengthening of the external sector.

Worker Remittances Reach Record Highs in July

Sri Lanka's worker remittances rebounded strongly, rising from a low of USD 3.8 billion in 2022 to USD 6.6 billion in 2024, with inflows already at USD 4.4 billion by July 2025—nearly 20% higher than last year. July 2025 alone recorded USD 697.3 million, one of the highest monthly inflows since 2020, highlighting the sector's resilience. With annual remittances projected at USD 7–7.5 billion, these inflows remain a vital lifeline for foreign exchange stability and household support despite global risks.

Sri Lanka Exits Default as S&P Upgrades Credit Rating

On 19 September 2025, S&P Global Ratings upgraded Sri Lanka's sovereign credit rating to CCC+/C from SD/SD, formally marking its exit from selective default status with a stable outlook. The decision reflects progress in economic recovery, fiscal reforms under the IMF programme, and debt restructuring, alongside stronger reserves, remittances, and external stability. While the move boosts international credibility and investor confidence, Sri Lanka still faces high public debt, unresolved obligations, and vulnerability to external shocks, underscoring the need to sustain reform momentum.

Global Economy

Global Gold Prices Surge Amid Geopolitical and Inflationary Pressures

Gold prices rose sharply in 2025, climbing from USD 2,600 per ounce in January to USD 3,600 by September—a gain of over 40%—driven by inflation, global uncertainty, and heightened geopolitical tensions. Central banks, especially China's, have accelerated gold purchases while reducing dollar holdings, reinforcing gold's safe-haven appeal. Analysts project prices could surpass USD 4,000 by mid-2026 if current trends persist, though easing geopolitical risks or tariff rollbacks could trigger a correction.

Global Economy Shows Cautious Growth Amid Inflation and Trade Tensions – September 2025

In September 2025, the global economy showed mixed signals amid persistent inflation, trade tensions, and cautious optimism. Economic growth forecasts remain modest—around 2.5–3.0% for 2025—down from pre-pandemic levels, reflecting headwinds from tariffs, weakening demand in Europe, and uncertainty around monetary policy. Meanwhile, central banks (notably in China and the U.S.) are leaning toward data-driven policy adjustments, with some easing in interest rates, while AI-driven productivity is being highlighted as a key long-term growth factor.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

4.9% Q2-2025

4.1% (Q2-2024)

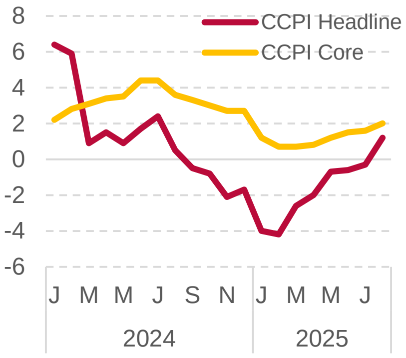
Movement of Purchasing Managers' Index- Aug 2025

Manufacturing PMI	55.2
Services PMI	68.9
Construction PMI (July)	60.0

All three indices recorded an expansion indicating the overall ourlook of three sectors remain positive in the next 3 months

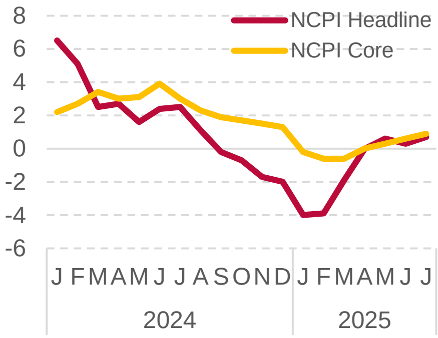
Inflation

CCPI Inflation (%)-*Base 2021*



Aug 2025 — Headline **1.2%** — Core **2%**

NCPI Inflation (%)-*Base 2021*



Jun 2025 — Headline **0.7%** — Core **0.9%**

External Sector

Merchandise Trade
July 2025

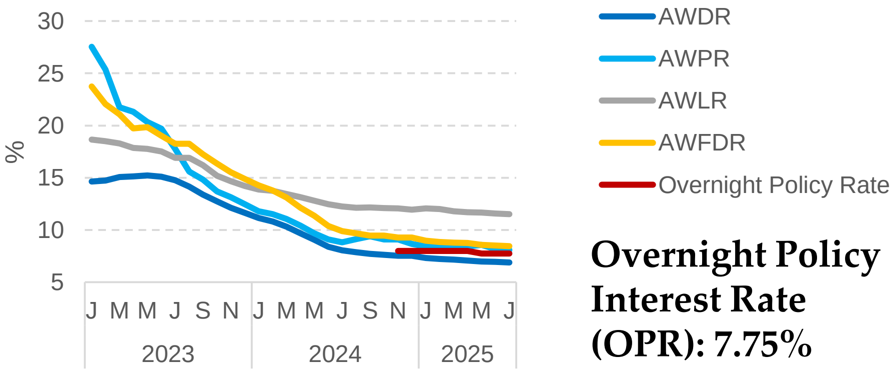
Trade Deficit	USD 580mn
Exports	USD 1,302mn 15.2% y-o-y growth
Imports	USD 1,882mn 8.5% y-o-y growth
Services Trade	USD 317mn 19.8.% y-o-y decline

Tourist Arrivals 198,235
Aug 2025 — 20% y-o-y growth

Tourism Earnings
USD 319mn
3% y-o-y growth

Workers' Remittances
USD 681mn
20% y-o-y growth

Interest Rates



Overnight Policy Interest Rate (OPR): 7.75%

Growth in Credit to Private Sector

June 2025

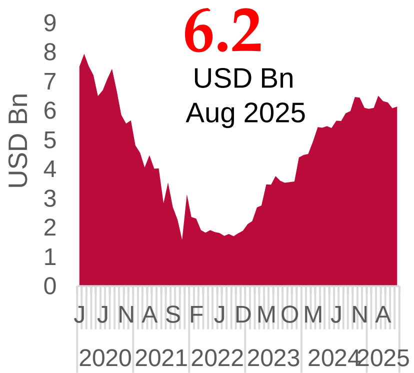
19.6%

Exchange Rate

Depreciation of LKR thus far 2025

3.1%

Official Reserves



KEY INSIGHTS
Sri Lankan Economy

Sri Lanka Records 4.8% Growth during the First Half of 2025

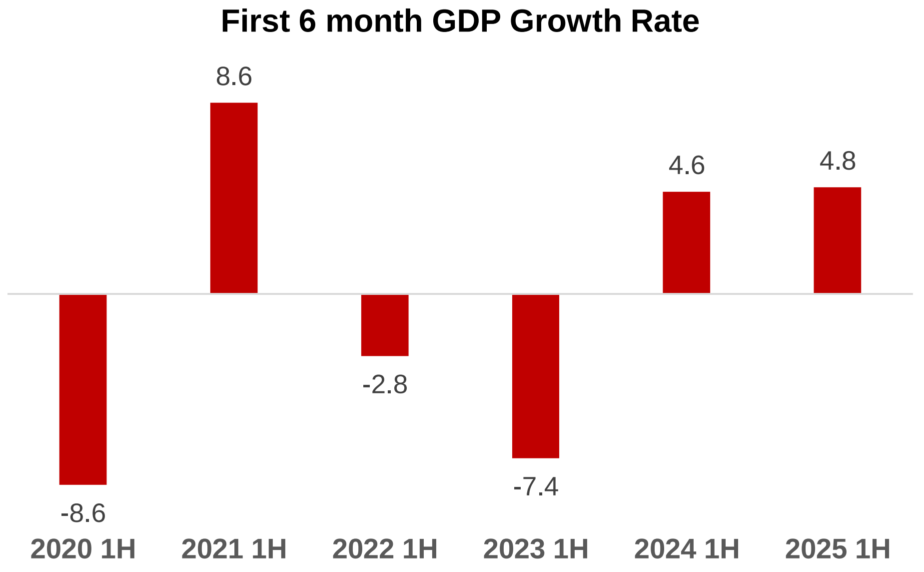
Sri Lanka reported a positive expansion of 4.9& for the second quarter of 2025, pushing the growth rate in the first half of 2025 to 4.8%. At constant prices, GDP reached Rs. 6,361 billion, while at current market prices it increased by 7.2% to Rs. 15,637 billion. This represents the eighth consecutive quarter of positive growth since mid-2023. It has been noticed that lifting vehicle import restrictions coincide with relatively lower interest rates enriched economy to perform as expected through major economic activities. Growth was primarily driven by Industry (7.9%) and Services (3.3%), while Agriculture recorded a modest increase of 0.6%. Taxes less subsidies on products also contributed positively, rising by 10.6%.

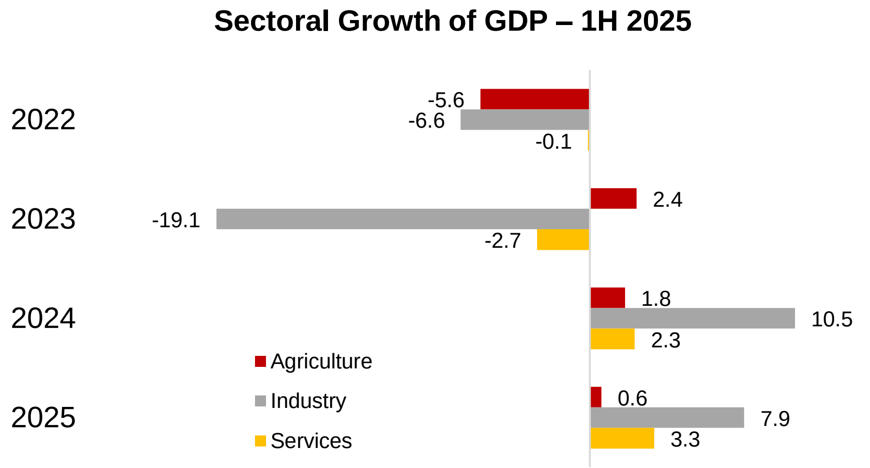
Within Industry, construction grew by 9.6% with strong performances in textiles (13.9%), paper products (14.4%), and non-metallic minerals (20.2%). Mining and quarrying advanced by 14.5%, while electricity and water supply also posted moderate gains. However, some sub-sectors, such as chemical products (-3%) and other manufacturing (-7.3%), saw contractions.

The Services sector benefited from robust growth in financial services (13.4%), insurance and pensions (13.8%), and accommodation and food services (12.7%). Wholesale and retail trade grew modestly by 1.5%, while public administration contracted slightly by 0.6%. Other services, including IT activities, recorded double-digit gains of 12.5%.

Agriculture remained subdued, growing only by 0.6%, with mixed outcomes across sub-sectors. While animal production (16.3%) and marine fishing (5.2%) expanded, rubber (–17.1%) and oleaginous fruits (–12.2%) contracted sharply. Tea production recorded moderate growth (+5.9%).

Overall, Industry, Services, and Agriculture contributed 28.1%, 57.8%, and 7.4% respectively to GDP. The recovery continues to be supported by easing inflation, a stable exchange rate, low interest rates, and stronger investment inflows. Looking ahead, sustained performance in Industry and Services is expected to offset agricultural vulnerabilities and maintain positive growth momentum.





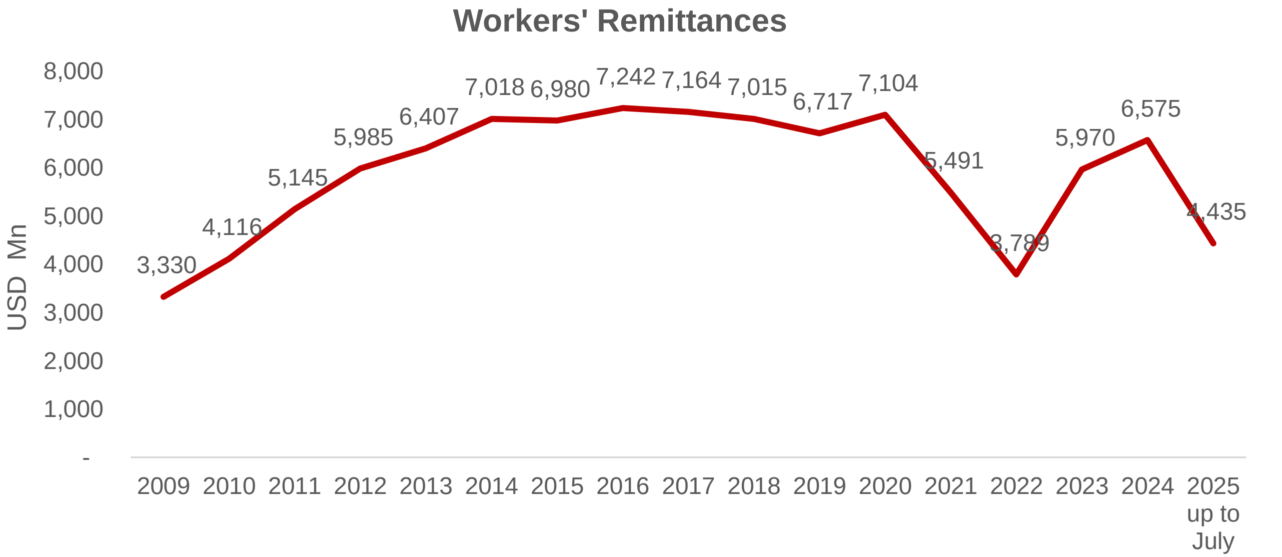
Data Source: Department of Census and Statistics

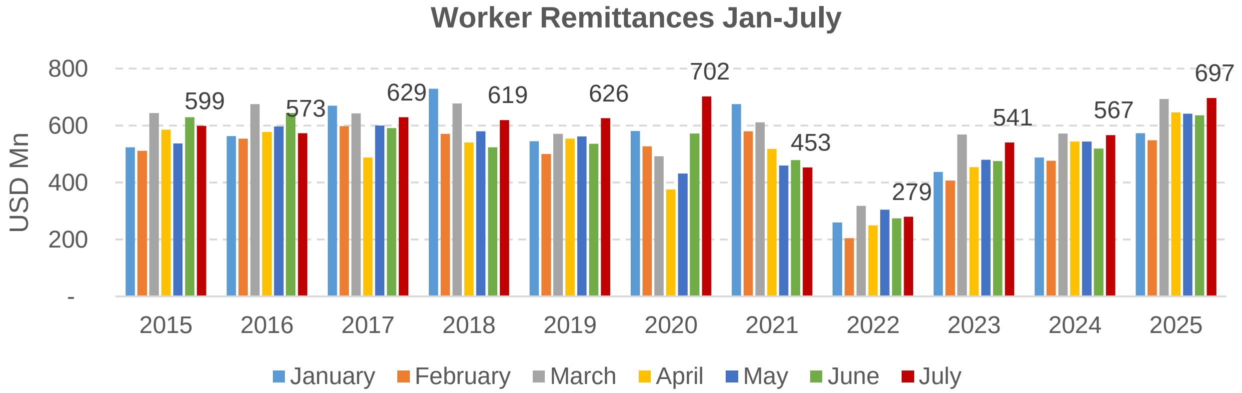
KEY INSIGHTS
Sri Lankan Economy

July 2025: Remittances Hit Year's Peak, Near Record High

Sri Lanka's worker remittances have shown a strong recovery after dropping to just USD 3.8 billion in 2022, reaching USD 6.6 billion in 2024 and already USD 4.4 billion by July 2025. Monthly inflows now average around USD 600–650 million, which is almost 19% higher than the same period last year. If this pace continues, total remittances in 2025 could reach about USD 7–7.5 billion, close to the highest levels recorded in 2016–17. This steady inflow of money from migrant workers is one of Sri Lanka's most reliable sources of foreign exchange, helping to ease pressure on the balance of payments, strengthen reserves, and support household consumption across the country. The growth has been supported by higher numbers of workers leaving for foreign employment and more remittances coming through official banking channels, encouraged by favorable exchange rates. However, risks remain if global demand for Sri Lankan workers slows, costs of living abroad rise, or more funds shift back to informal transfer methods. Even with these challenges, remittances are expected to remain a key lifeline for the economy in the coming months of 2025, providing critical stability during a period of economic adjustment.

In July 2025, Sri Lanka received USD 697.3 million in worker remittances, the highest monthly inflow so far in 2025 and one of the strongest since the peak of July 2020 (USD 702.1 million). This marks a sharp increase from USD 566.8 million in July 2024 and shows a strong rebound from the low of USD 279.5 million in July 2022. With this boost, total remittances for January–July 2025 have reached USD 4.4 billion, almost 20% higher than the same period last year. This steady rise confirms the growing importance of remittances as Sri Lanka's main source of foreign exchange and a key support for the economy.





Data Source: CBSL

KEY INSIGHTS
Sri Lankan Economy

Agri Sector Performance – A Gradual Recovery Amid Persistent Challenges

Sri Lanka's agriculture sector has demonstrated resilience over the past three months (May, June and July), showing signs of recovery while grappling with long-standing structural challenges. The latest Central Bank of Sri Lanka highlights encouraging growth in paddy and coconut, but also underlines volatility in tea and fisheries.

Paddy cultivation remains the backbone of agricultural output. For the 2025 Yala season, production is estimated at 2.19 million metric tons, a 10.8% increase compared to the previous Yala. This improvement, aided by favourable weather and better fertiliser availability, has lifted projected national production for 2025 to 4.8 million metric tons, up 2.3% year-on-year. This positive trend is expected to help stabilise rice supplies and ease pressure on consumer prices.

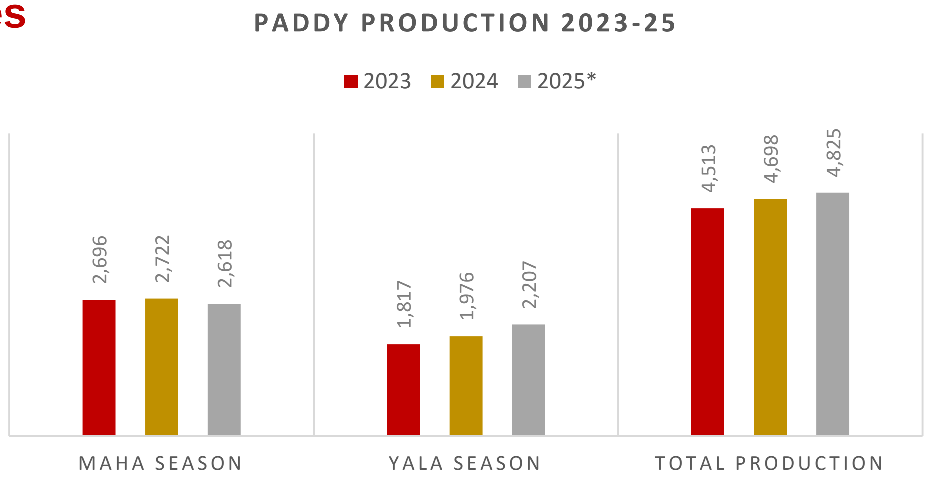
In the plantation sector, performance has been uneven. Tea production contracted by 6.3% in June 2025 due to adverse weather. However, over the first half of the year, output grew 5.5% compared to 2024, reflecting resilience in high, medium, and low-grown teas. Coconut production rose sharply by 18.3% year-on-year in June, although cumulative output for January–June 2025 was down by 12.8% from last year, signalling that recent gains remain fragile.

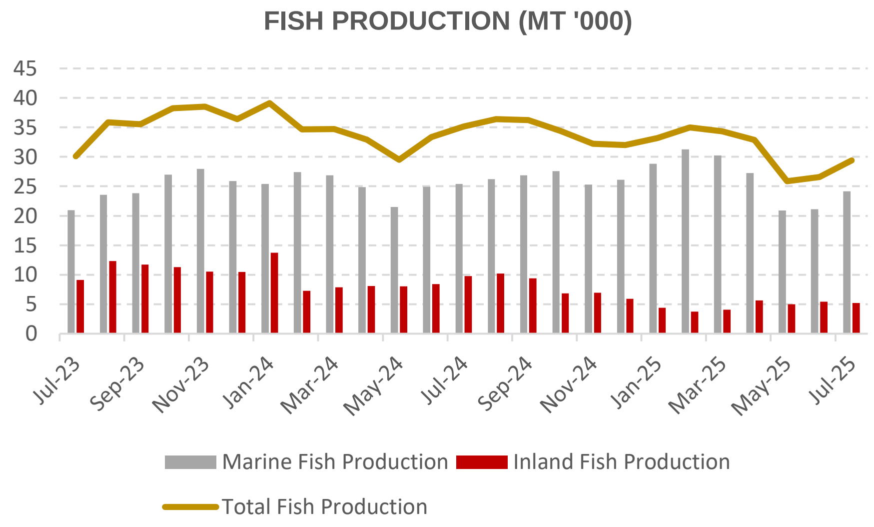
The fisheries sector continues to struggle. Overall fish production fell by 20.6% in June, with marine fishing declining 15.4% and inland fishing plunging 35.8% year-on-year. Rising fuel costs, erratic weather, and logistical constraints remain key obstacles to recovery.

Meanwhile, livestock, particularly poultry, showed modest improvements as feed supplies stabilised and farm mortality rates eased, though dairy and other livestock segments recorded only marginal progress.

Despite encouraging signs in paddy and plantation crops, the sector's trajectory is constrained by high input costs, climate variability, and gaps in policy implementation. Fertiliser, fuel, and feed imports remain vulnerable to exchange rate movements, while smallholder farmers who form the sector's backbone face delays in accessing credit and inputs.

Looking ahead, sustaining this recovery will require consistent policy execution, investment in irrigation, storage, and cold-chain infrastructure, and targeted support for vulnerable farming communities. With steady demand for staples and potential in export-oriented crops, the sector holds promise. Yet, without addressing cost pressures and climate risks, recovery may remain gradual and uneven.





Data Source: CBSL

KEY INSIGHTS
Global Economy

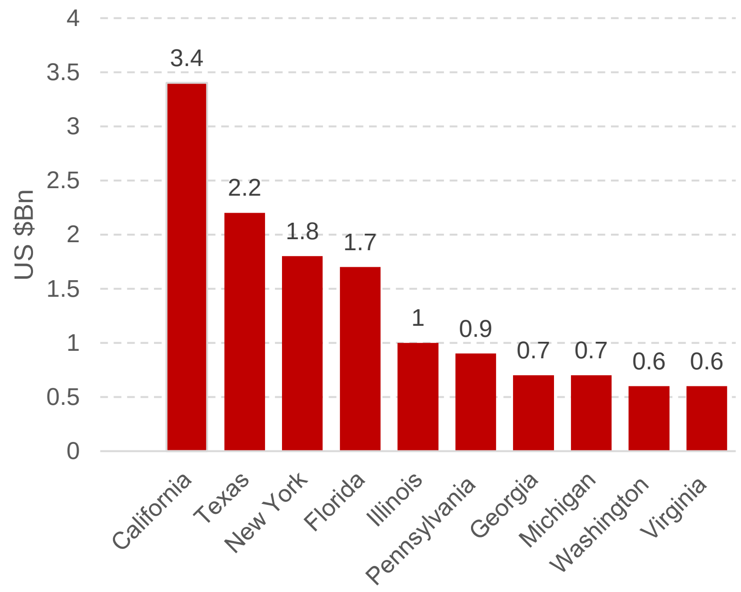
TikTok Ownership Shift: U.S.-China Deal Reached

The agreement secures U.S. control of TikTok, eases trade tensions, and has implications for global digital markets

On September 15, 2025, the United States and China reached a framework agreement to transfer TikTok's U.S. operations from its Chinese parent company, ByteDance, to a U.S.-controlled entity. The deal addresses national security concerns and complies with legislation requiring certain foreign-owned apps to be divested from U.S. operations. Under the agreement, ByteDance will retain less than 20% ownership, while American investors, including prominent business leaders, will lead the new U.S. entity, with corporate investment vehicles facilitating the transition. The board will predominantly consist of U.S. nationals to ensure strong oversight on security and privacy, while ByteDance will lease a copy of TikTok's algorithm to allow the platform to continue operating in the U.S. The agreement keeps TikTok running in the United States and is expected to ease tensions in the ongoing trade and technology standoff between the two countries. President Donald Trump said that he and Chinese President Xi Jinping both agreed on the framework, describing the discussions as "productive," while China's state news agency Xinhua noted that Beijing "welcomes negotiations over TikTok."

The talks in Spain also come ahead of a key deadline for ByteDance to divest its U.S. operations or face a potential ban. Trump has delayed enforcement of the ban three times since legislation was passed last year with strong bipartisan support. U.S. and Chinese officials previously met in Stockholm in July, following earlier meetings in London and Geneva. At the most recent talks, both sides agreed to extend a pause on high tariffs for another 90 days, with the U.S. currently charging a 30 percent duty on Chinese goods, while Chinese tariffs on U.S. products stand at 10 percent. Analysts note that neither side has a strong incentive to fully back down, as China holds critical rare earth resources and manufacturing capacity, while the U.S. provides a market China cannot easily replace. A potential summit between Trump and Xi, possibly during October's APEC meeting in South Korea, is expected to focus on TikTok and broader trade issues, aiming to prevent escalation and create a framework for resolving ongoing disputes over tariffs, digital platforms, and other trade matters.

Contribution to GDP supported by SMB activity on TikTok, top ten states in US



In 2024, Small and Medium Business activity on TikTok contributed a total of USD 13.6 billion to GDP in the top ten states, with California (3.4 $B), Texas (2.2 $B), and New York (1.8 $B) leading. This highlights the strong economic impact of social media-driven commerce concentrated in major U.S. states.

Data Source: Central Bank of Sri Lanka

KEY INSIGHTS
Global Economy

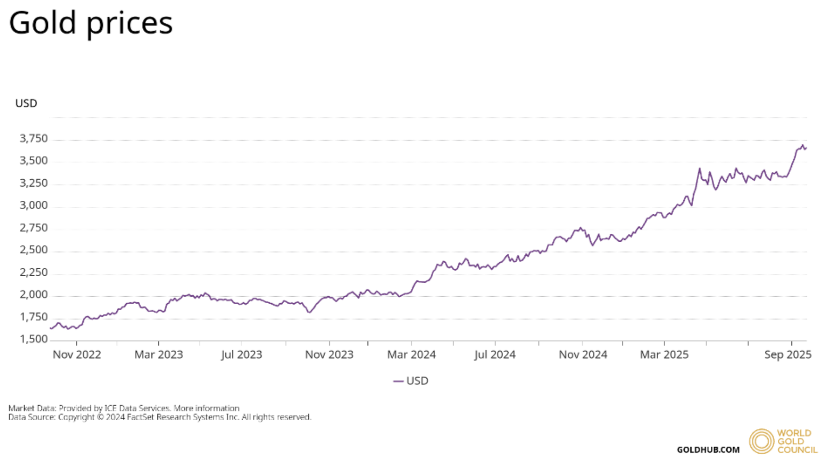
Why gold prices are soaring in 2025

The global gold price in 2025 has shown a strong upward trend throughout the year, with prices rising significantly. The spot rate of gold, recorded at USD 2,600 per ounce in January 2025, has increased to USD 3,600 per ounce by September, indicating nearly more than 40% rise within the time period. This continuous increase can be attributed to a combination of factors such as persistent inflation, heightened geopolitical tensions, and the prevailing global uncertainty.

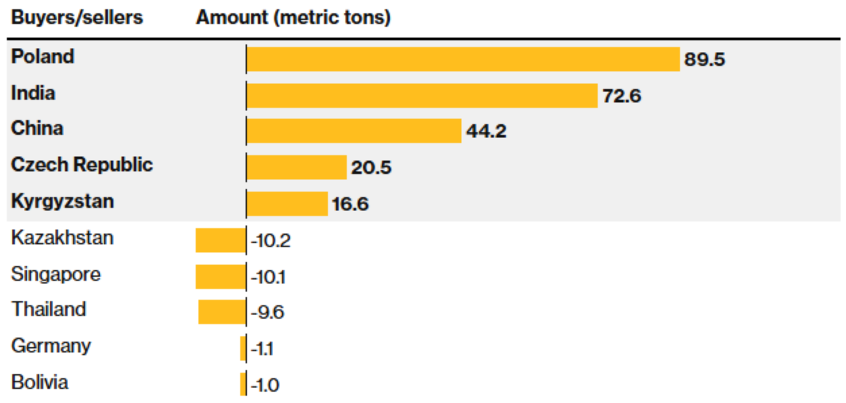
While gold has served as a safe haven asset during periods of political and economic instability, for modern investors it is primarily due to its liquidity and stability that remains constant. Central banks have been the net buyers of gold across times. However, their purchases doubled as central banks across the world, particularly Chinese central bank has reduced their dollar holdings and increased their gold holdings. In 2023, an uptick was recorded in central bank gold demand in the wake of Russia’s invasion of Ukraine. In 2024, central banks bought more than 1,000 tons of bullion for the third year in a row, according to the World Gold Council, and they hold around a fifth of all the gold that’s ever been mined. Moreover, the US inflation in particular has prompted investors to increase their demand for gold due to Trumps’ unpredictable trade agenda ensuring further the safe haven status of gold.

Market experts project that gold could reach and possibly exceed USD 4,000 per ounce by mid-2026 if current trends persist such as inflationary pressures, central bank policies and the geo political tensions. However, in the event of a de- escalation of Trump’s tariffs and a peace deal between Russia and Ukraine could spur a price decline of gold.

Increase in Gold Prices 2023- 2025



Largest increase and decrease in central bank gold reserves 2024



Data Source: World Gold Council / Bloomberg

Evolving Landscape

S&P's CCC+ Upgrades Sri Lanka's Credit Ratings

On 19 September 2025, S&P Global Ratings upgraded Sri Lanka's long- and short-term foreign currency sovereign credit ratings to CCC+/C from SD/SD (Selective Default), while maintaining a stable outlook. This marks Sri Lanka's formal exit from selective default status under S&P, signaling that the country has made tangible progress in addressing its external vulnerabilities and debt restructuring process. The decision comes after more than two years of economic turbulence, where the nation faced its most severe balance of payments and debt crisis in decades.

S&P justified the upgrade by citing a combination of economic recovery, fiscal reform, and external sector stability. The Sri Lankan economy has posted steady growth over the past year, with GDP expanding by nearly 5% in the first half of 2025. This recovery is underpinned by improved industrial output, stronger services activity, and a rebound in tourism. At the policy level, the government's commitment to fiscal consolidation under the IMF programme has been a central driver. Tax reforms have bolstered revenue collection, while tighter expenditure controls have reduced fiscal imbalances. Importantly, the government has also made progress in external debt restructuring, covering the bulk of bilateral and commercial obligations, which has eased the immediate liquidity crunch.

The rating action also reflects improvements in Sri Lanka's foreign exchange reserves and external position. Reserves have gradually rebuilt with support from multilateral inflows, stronger remittances, and lower import pressures. Although risks remain elevated, the upgrade acknowledges that the economy is no longer in freefall. Still, S&P cautioned that the public debt burden remains unsustainably high, and some debt obligations—particularly government-guaranteed bonds such as those linked to Sri Lankan Airlines—are still unresolved. These legacy issues could continue to weigh on investor perceptions.

Comparing across agencies, the move brings S&P closer in line with Fitch and Moody's. Fitch Ratings upgraded Sri Lanka to CCC+ in December 2024, shortly after creditors approved a $12.55 billion debt restructuring package. Fitch argued that the restructuring would ease debt service pressures during the IMF programme period, while cautioning that fiscal consolidation and revenue growth needed close monitoring. Similarly, Moody's raised Sri Lanka's rating to Caa1 in December 2024, highlighting reduced external vulnerability and lower government liquidity risks. While Fitch and S&P now place Sri Lanka at the same speculative-grade level, Moody's assessment remains marginally higher, but all three continue to flag the country as high-risk and far from investment grade.

For Sri Lanka, the implications are both symbolic and practical. The upgrade helps to rebuild international credibility, signalling that the country is regaining the confidence of global credit watchers. This in turn can lower borrowing costs, as creditors are more willing to engage with a sovereign that is no longer deemed in default. While Sri Lanka will not immediately regain full access to international bond markets, improved ratings support investor confidence in domestic debt instruments and could attract foreign direct investment, particularly as reforms in taxation, trade, and state-owned enterprises progress. The move also places pressure on policymakers to sustain reform momentum. Credit rating agencies will be watching closely whether Sri Lanka maintains fiscal discipline, improves its revenue base, and resolves the outstanding defaulted obligations. Any reversal of reforms, slippage in IMF targets, or renewed external stress could quickly undermine these gains. At the same time, Sri Lanka remains vulnerable to external shocks, including volatile global commodity prices, higher global interest rates, or weakening demand for its exports.

Data Source: S&P Global

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Economic Intelligence Unit of The Ceylon Chamber of Commerce

The Ceylon Chamber of Commerce

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