PRESS RELEASE

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Monetary Policy Review: No. 02 – March 2026

The Central Bank of Sri Lanka keeps the Overnight Policy Rate (OPR) unchanged

The Monetary Policy Board, at its meeting held yesterday, decided to maintain the Overnight Policy Rate (OPR) at the current level of 7.75%. The Board arrived at this decision after carefully considering evolving developments and outlook on the domestic and global fronts, with particular attention to uncertainties arising from the ongoing Middle East conflict.

The sharp increase in global energy prices and trade disruptions amidst heightened uncertainty due to the escalation of geopolitical tensions necessitated a significant upward adjustment in domestic energy prices. The current low level of inflation, at 1.6% (y-o-y) in February 2026, relative to the target of 5%, provides sufficient space to accommodate the impact of higher energy prices and their spillovers on inflation. Given the latest available data and prevailing uncertainties, inflation is now expected to reach the target of 5% in Q2-2026, earlier than previously anticipated. Inflation is projected to remain around the target thereafter.

The economy recorded a strong real growth of 5.0% in 2025, despite the disruptions caused by Cyclone Ditwah towards the end of the year. Leading economic indicators point to a strong post-Cyclone recovery during early 2026. However, spillovers from the ongoing conflict could weigh on domestic economic activity in the period ahead, should the conflict be prolonged.

The external sector remained robust in the first two months of 2026, supported by stronger export earnings compared to imports, along with higher remittances and tourism earnings. Gross Official Reserves increased to USD 7.3 bn[1] at end February 2026 and the Central Bank purchased a substantial amount of foreign exchange from the market in the first two months of the year. However, the ongoing conflict in the Middle East poses risks to Sri Lanka's external sector outlook, particularly through energy, tourism, trade, and remittance flows, although the overall magnitude of the impact remains uncertain. While the Sri Lanka rupee remained relatively stable in early 2026, some depreciation pressures were observed following the onset of the Middle East conflict, similar to the exchange rates of regional peers.

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

The Board remains prepared to implement appropriate policy measures to ensure that inflation stabilises around the target, while supporting the economy to reach its potential.

The release of the next regular statement on the monetary policy review will be on 26 May 2026.

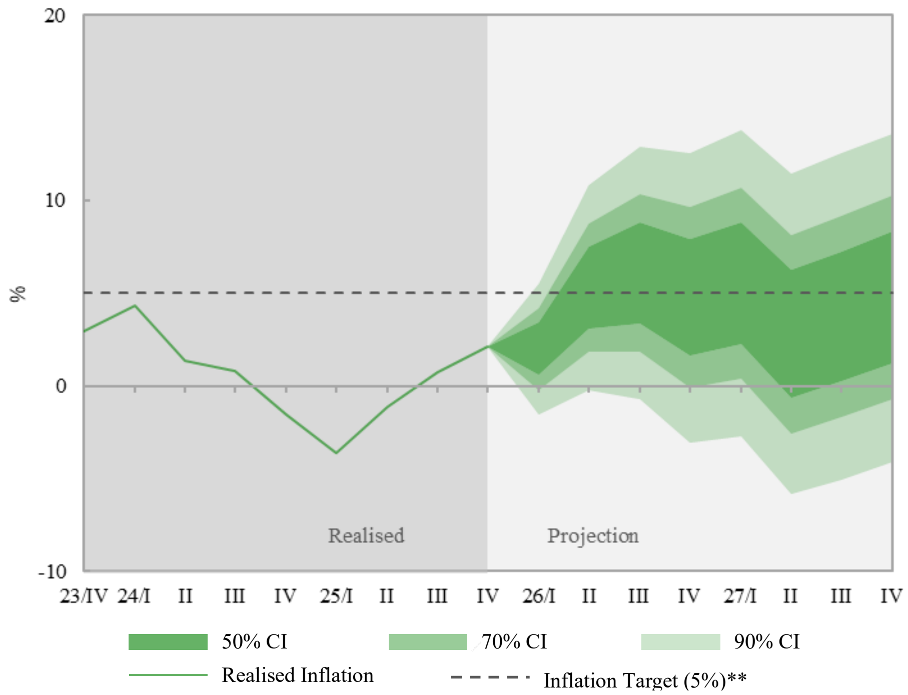
Data Annexure is accessible at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/mpr02_2026_e.pdf

Annexure 01:

The projections presented below are based on information available as of 24 March 2026. Amid the fluid nature of the prevailing crisis in the Middle East and its wide-ranging spillovers across both global and domestic economic activity, the present inflation outlook remains subject to elevated uncertainty. Accordingly, any significant changes in underlying conditions could lead to notable deviations from these projections.

Headline Inflation Projections* (Quarterly, CCPI, Y-o-Y)

Based on the Projections during the March 2026 Monetary Policy Round



Source: Central Bank Staff Projections

*** The inflation target (5%) was agreed under the Monetary Policy Framework Agreement (MPFA) signed between the Central Bank and the Minister of Finance in October 2023.*

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

Note: The fan chart illustrates the uncertainty surrounding the baseline projection path using confidence bands of gradually fading colours. The confidence intervals (CI) shown on the chart indicate the ranges of values within which inflation may fluctuate over the medium term. For example, the thick green shaded area represents the 50% confidence interval, implying that there is a 50% probability that the actual inflation outcome will be within this interval. The confidence bands show the increasing uncertainty in forecasting inflation over a longer horizon.

***Note:* A forecast is neither a promise nor a commitment.**

The projections reflect the available data, assumptions, and judgements made at the forecast round in March 2026. They are conditional on the forecasts of global energy and food prices, the expected growth path of Sri Lanka's major trading partners, the anticipated fiscal path of the Government, expected developments in the external sector, including the external current account balance, and global financial conditions implied by the Fed Funds rate. Further, the projections are conditional on the model-consistent interest rate path and the resulting macroeconomic responses. Any notable changes in these assumptions could lead to the realised inflation path deviating from the projected path.

There are upside risks to the realisation of inflation projections stemming from factors such as intensified geopolitical tensions, which could disrupt global commodity markets, energy supplies, and shipping routes, potentially leading to higher-than-anticipated increases in domestic energy and transport costs, and fertiliser prices; possible depreciation of the Sri Lanka rupee at higher levels; higher-than-anticipated demand pressures fuelled by the lagged impact of strong credit growth; and possible repeated adverse weather events affecting the agriculture and energy sectors, thereby exerting upward pressure on food and energy inflation. Meanwhile, downside risks to the realisation of inflation projections include the possibility of demand conditions remaining weaker than expected, leading to a more gradual recovery in core inflation, and any possibility of improved agricultural production helping to ease pressures on food prices.