

Sri Lanka's growth momentum is set to continue, with GDP projected to grow by a robust 5.3% by 2025E

Growth driven by strong aggregate demand, investment, infrastructure, and policy stability

We forecast a strong 5.3% GDP growth for Sri Lanka in 2025E, fueled by robust aggregate demand, major infrastructure developments, and a low-interest rate environment that will drive both business investment and consumer spending.

The economy is witnessing a clear revival, supported by rising public and private sector borrowing, with credit disbursement to the private sector exceeding LKR 190Bn in Dec'24—one of the highest monthly figures since the April 2022 crisis, signaling improved consumer demand and business confidence. Additionally, the 2025 budget introduced incentives such as PAYE tax reductions from April 2025 and state sector salary hikes, further enhancing purchasing power. Expanded welfare programs, stable prices, and low interest rates are expected to sustain consumer demand, boosting overall economic activity in our view.

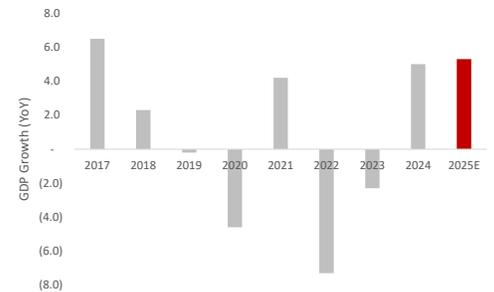
Interest rates meanwhile are anticipated to decline further in 2025, driven by an improving fiscal position, though rising private sector credit demand may partially offset this trend. Following the monetary policy adjustment on November 27, 2024, short-term interest rates declined in line with the reduction in the Overnight Policy Rate. The AWPLR and the 1-year Treasury bill rate saw notable drops, reflecting the CBSL's continued monetary policy easing (AWPLR has dropped by 13% and the 1-year Treasury bill rate falling to 14.6% from the time CBSL started relaxing its monetary policy stance in June'23). Lower borrowing costs are expected to stimulate economic growth by encouraging business investment, enhancing job creation, and expanding the equity market. Key sectors such as consumer goods, retail, construction, tourism, and real estate are set to benefit from increased access to affordable financing, further accelerating economic activity. Inflation is projected to remain in the deflationary zone until mid-2025 before gradually stabilizing within the desired mid-level range.

Policy consistency remains vital for maintaining investor confidence in our view, and the government's commitment to aligning the recent budget with previous measures reinforces economic stability.

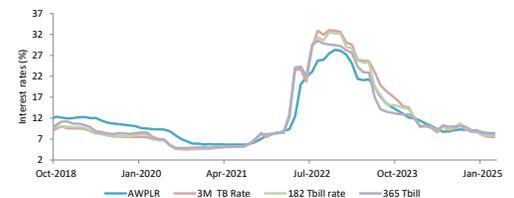
Key economic indicators reflect strong positive momentum too. The Manufacturing and Service Sector PMIs have reached record highs, while the Construction Sector PMI continues to strengthen. The Business Confidence Index has surged to 107 points, a remarkable recovery from below 30 levels during the peak of the crisis. Sectors such as food & beverages, apparel, rubber, and plastics are expected to perform well due to these improving conditions.

The construction sector, in particular, is poised for expansion, supported by major public and private investments, including the Hambantota refinery development, the single largest foreign direct investment in Sri Lanka's history, Sinopec oil refinery in Hambantota (USD 3.7Bn), the airport expansion plan (USD 400Mn), Trincomalee oil tank development, and large-scale road and bridge projects. With 7% of the 2025 budget allocated for capital investments, the sector's contribution to GDP is projected to increase further, following its contribution from 6.2% in 2023 to 7% in 2024.

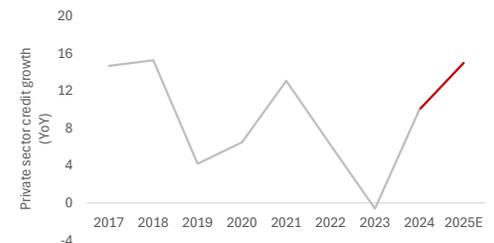
Economy to grow by 5.3%YoY in 2025E, helped mainly by higher aggregate demand



Interest rates to edge down further before picking up by 2H'25 with demand for credit picking up



Private sector credit growth to pick up to 15% in 2025E.



Strategic investments and consistent policies to be key to ensuring long-term economic resilience

Sri Lanka’s services & trade sectors poised for strong growth

The services sector, especially tourism and financial services, is set for long-term growth. Sri Lanka’s tourism industry is witnessing a resurgence, supported by major projects such as The City of Dreams Sri Lanka, new casino operations, The Marina at Port City Colombo, and multiple hotel openings. A national branding campaign in 2025, enhanced air connectivity, and improved transport infrastructure will further strengthen Sri Lanka’s appeal as a cost-competitive destination. With strong demand from India and emerging outbound markets, the sector is expected to exceed pre-crisis levels, with arrivals projected to reach 3Mn and revenue surpassing USD 4Bn, solidifying its position as the third-largest foreign income source after apparel and remittances.

The wholesale, retail, and transport sectors, contributing 25% of GDP, are expected to expand through higher domestic consumption, trade growth, and logistics efficiency. Increased consumer spending, tourism recovery, and urbanization will drive wholesale and retail trade, while infrastructure upgrades—including the launch of the WCT and ECT terminals in 2025—will enhance logistics and trade activity, further propelling economic growth.

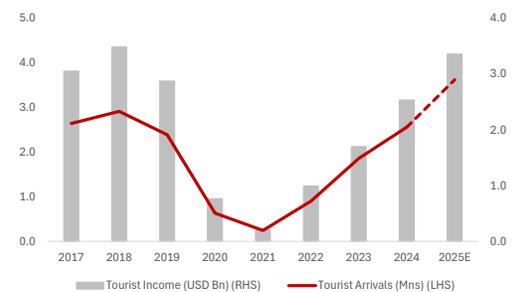
Despite a broadly positive outlook, Sri Lanka faces key risks, including fiscal and debt sustainability challenges, external market fluctuations, and potential inflationary pressures. Favorable weather conditions remain crucial, given that one-third of the workforce depends on agriculture. The government is actively working to address proposed U.S. tariffs while implementing IMF-backed economic reforms to fortify long-term growth, minimizing potential impacts on the apparel sector, country’s top foreign income generator. However, policy uncertainty or deviations could undermine investor confidence, while slower-than-expected recoveries in tourism and exports, geopolitical risks, and trade disruptions could pose external threats.

Managing these risks through prudent fiscal policies, structural reforms, and investor-friendly strategies will be crucial for maintaining economic momentum. As Sri Lanka continues its post-crisis recovery, strategic investments and consistent policies will be key to ensuring sustainable and long-term economic growth, positioning the country for a stronger and more resilient 2025E.

PMI Manufacturing and Service indices picking up



Tourist arrivals in 2025E to comfortably surpass 2018 numbers. Arrivals to hit 3Mn and income to touch USD 4.0Bn mark in 2025E



Sri Lanka's economy saw impressive growth, with GDP rising by 5.4%YoY in 4Q'24 and an

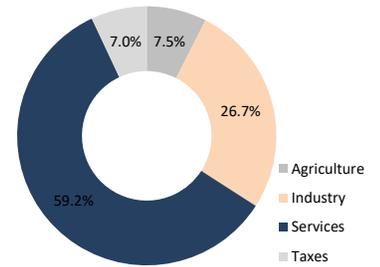
Overall activities jumped by 5%YOY for 2024, signaling a strong and resilient recovery.

According to the latest data from the Department of Census and Statistics, Sri Lanka's GDP growth rate for 2024 stands at 5.0%, marking a strong recovery from the 2.3% contraction in 2023. This follows a sharp 7.3% decline in 2022 due to the economic crisis. Prior to that, GDP had rebounded in 2021 by 4.2% after shrinking by 4.6% in 2020 due to the impact of the COVID-19 pandemic. Notably, Sri Lanka has recorded its sixth consecutive quarter of growth in 4Q 2024, reflecting a sustained economic recovery. GDP for the fourth quarter of 2024 expanded by 5.4%, an improvement from the 4.3% growth recorded in the same period last year.

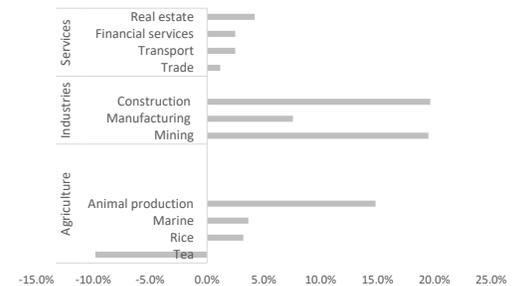
Agriculture, that contributes to 7.5% of GDP expanded by 1.3%YOY while industrial sector that contributes to 26.7% of GDP expanded by 11%YOY and services sector, contributing to 59.2% of GDP increased by 2.4% YoY for 2024 while taxes that contributes to 7.0% of GDP grew by 9.6% YoY.

Key subsectors in agriculture showed mixed performance, with marine fishing and rice cultivation expanding by 3.6% YoY and 3.2% YoY, respectively, while tea production contracted by 9.8% YoY. In the industrial sector, mining, manufacturing, and construction saw strong growth, rising by 19.5% YoY, 7.6% YoY, and 19.6% YoY, respectively. Meanwhile, the services sector recorded steady expansion, with trade growing by 1.2% YoY, transport by 2.5% YoY, financial services by 2.5% YoY, and real estate by 4.2% YoY.

Services sector continued to be the biggest contributor to GDP



Key sectors showed resilience during 2024



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