



Functions of the Central Bank of Sri Lanka

Presentation to the Parliament
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Central Bank of Sri Lanka Act, No.16 of 2023 (CBA) was enacted by the Parliament in September 2023

Section 80(2) of the CBA

The **Governor** of the Central Bank, **the members of the Governing Board and the Monetary Policy Board** and every **Deputy Governor of the Central Bank** shall, at the request of the Parliament, **be heard by the Parliament or any of its committees once in every four months**, regarding the **functions of the Central Bank**.



The Central Bank fulfilled its accountability and transparency requirements under the CBA...

- **Monetary Policy Reports** were published in February and August 2024



Section 80(1) The Central Bank shall, once in every six months and at such additional times as it deems necessary, inform the public regarding the implementation of its monetary policy, and the achievement of its objects.

- **Annual Economic Review** was published and submitted to the Parliament in April 2024



Section 80(3) The Governor of the Central Bank shall ensure that the Central Bank shall, within a period of four months after the close of each financial year, publish, and lay before Parliament through the Minister, a report approved by the Governing Board, on the state of the economy during such financial year emphasizing its policy objectives and the condition of the financial system. The report shall include a review and an assessment of the policies of the Central Bank followed during such financial year.

- **Financial Statements and Operations of the Central Bank** published and submitted to the Parliament in April 2024



Section 99(3) The financial statements shall be laid before Parliament within fourteen days after the receipt thereof by the Minister, if Parliament is then in session, or, if Parliament is not in session, within fourteen days after the commencement of the next ensuing session.

- **Financial Stability Review** was published in 2023



Section 70(1) The Central Bank shall prepare and publish an assessment of the stability of the financial system (in this Act referred to as the "Financial Stability Review") on or before the thirty-first day in the month of October of each year.

- **Governor as well as the members of the Boards** have attended various Parliamentary Standing Committee meetings upon request over the past several months



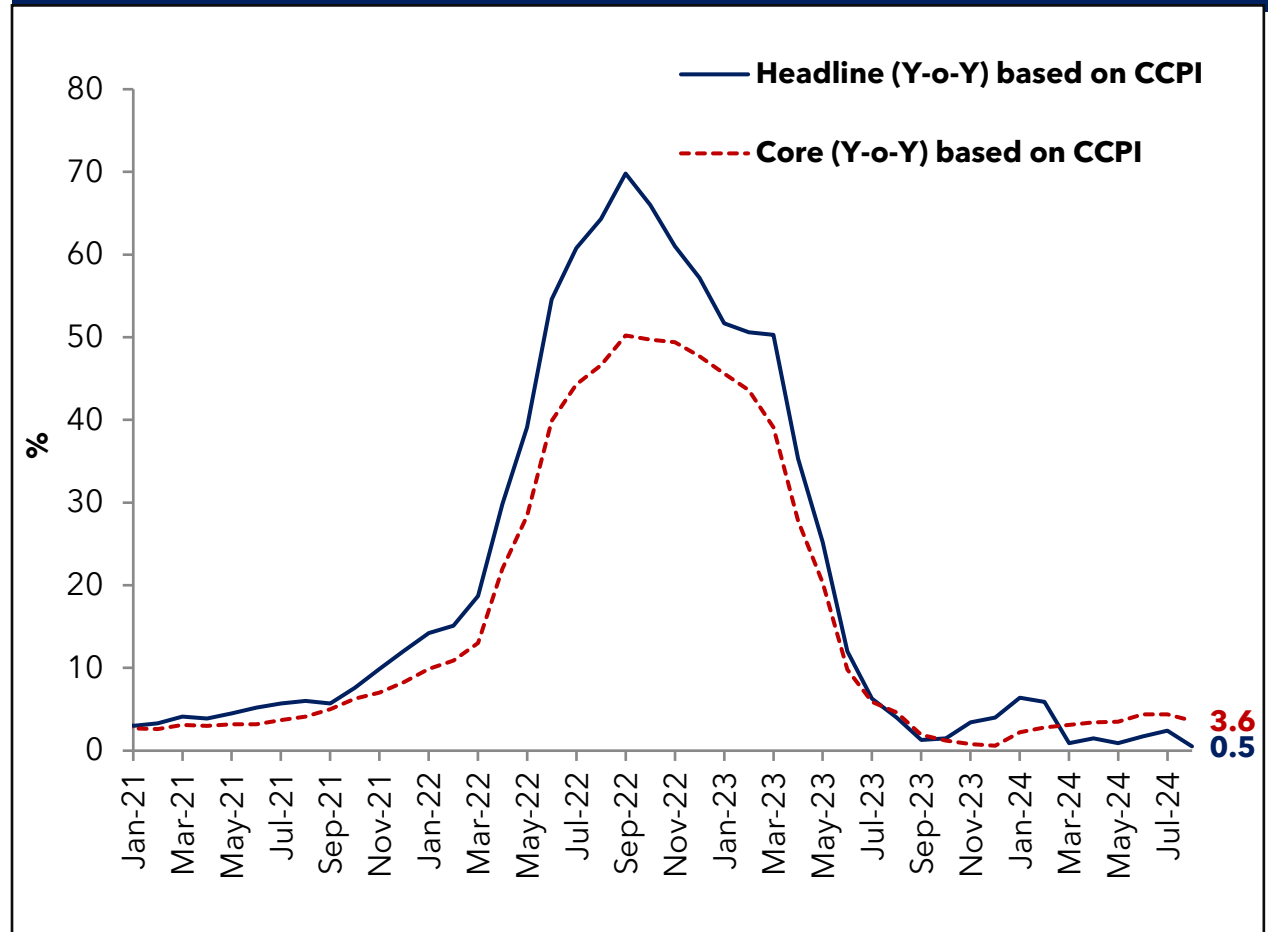
Section 80(2)(a) The Governor of the Central Bank, the members of the Governing Board and the Monetary Policy Board and every Deputy Governor of the Central Bank shall, at the request of the Parliament, be heard by the Parliament or any of its committees once in every four months, regarding the functions of the Central Bank.

Inflation recorded a rapid disinflation from the historic high levels with aggressive monetary policy measures...

Domestic price stability was restored supported mainly by:

- Tight monetary conditions, complemented by tight fiscal measures
- Normalisation of domestic supply conditions
- Moderation of global commodity prices
- Strengthening of Sri Lanka Rupee

Headline Inflation & Core Inflation



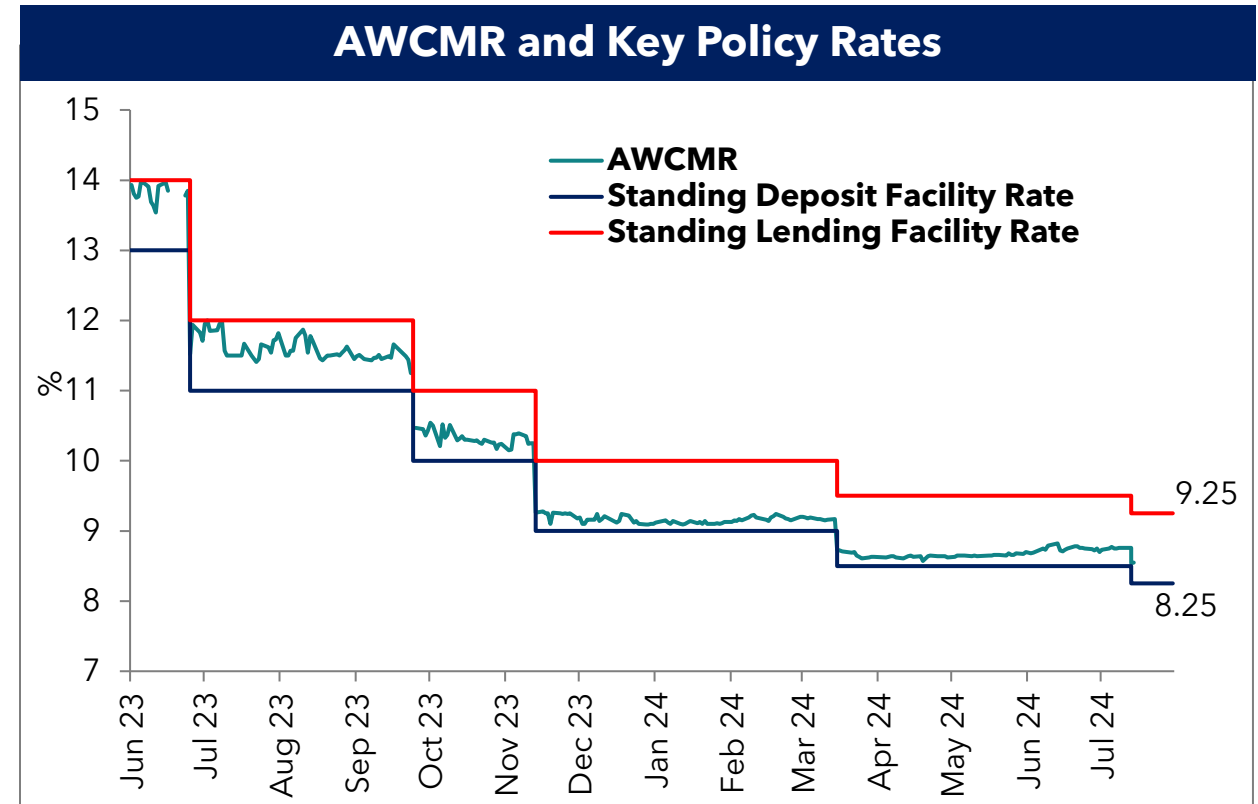
The Central Bank of Sri Lanka adopted an accommodative monetary policy stance in June 2023, and reduced policy interest rates by 7.25% pts since then...

Total reduction in 2024 was
75 bps

Standing Deposit Facility Rate (SDFR) **8.25%**

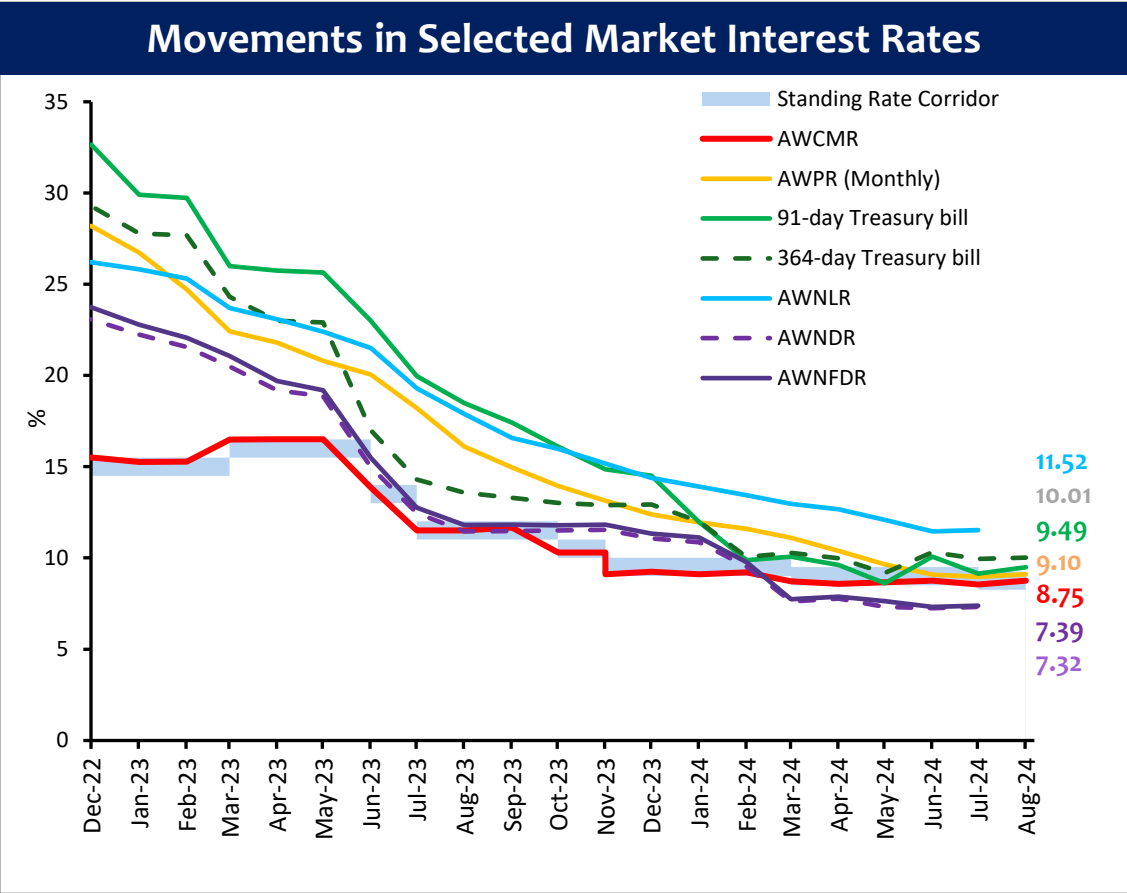
Standing Lending Facility Rate (SLFR) **9.25%**

Statutory Reserve Ratio (SRR) **2.00%**



Low inflation environment, low inflationary pressures and anchored inflation expectations, and stable external sector allowed to maintain an accommodative monetary policy since June 2023.

With the accommodative monetary policy stance, market interest rates declined substantially...

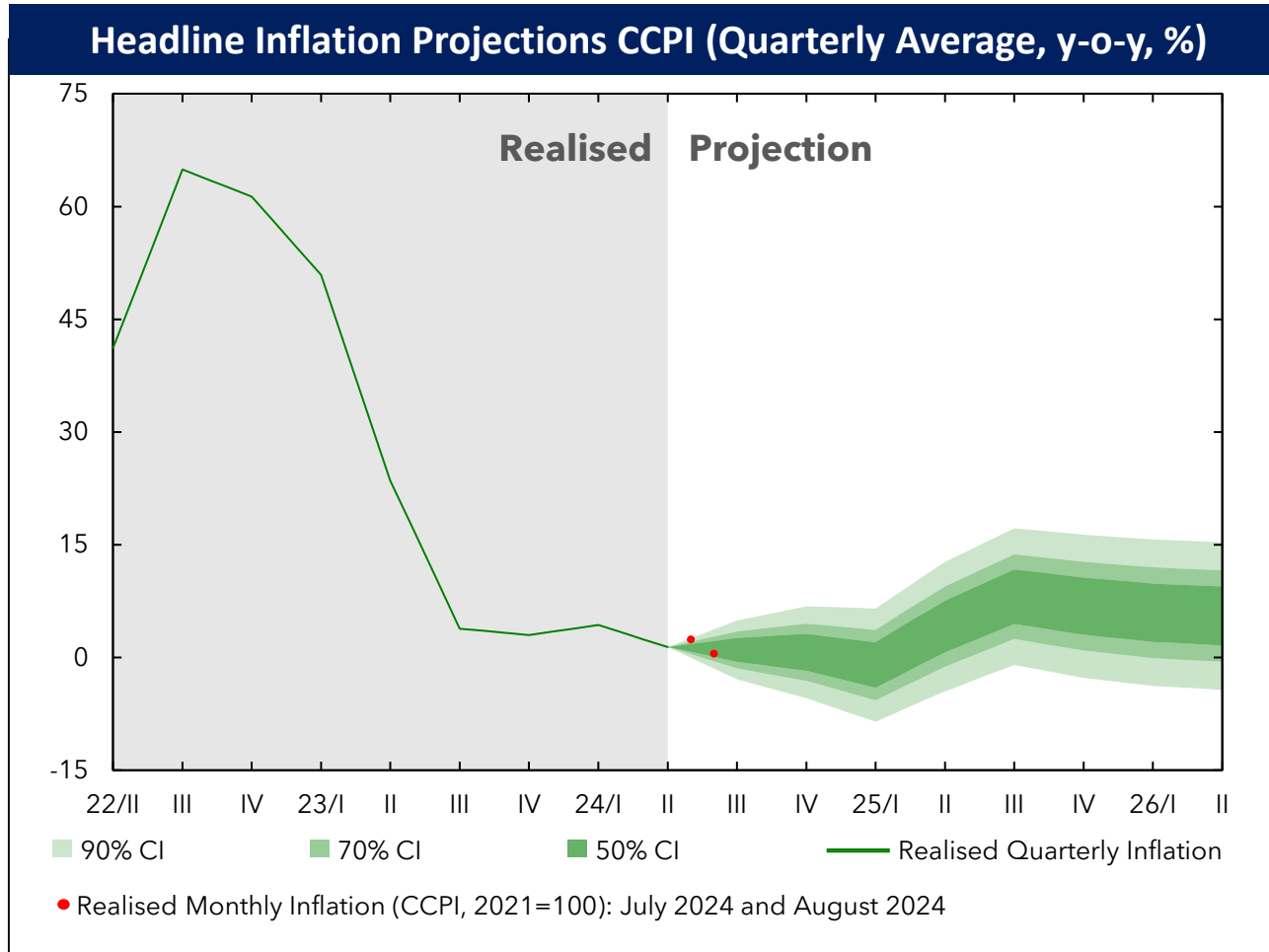


Interest Rate	Reduction in 2023 (% pts)	Reduction in thus far during 2024* (% pts)	Current level (%) *
Key Policy Interest Rates	-5.5 (+1.0,-6.5)	-0.75	8.25-9.25
AWCMR	-6.3	-0.5	8.75
91-day Treasury bill**	-18.1	-5.0	9.49
1 Year Treasury bill**	-16.3	-2.9	10.01
Weekly AWPR	-15.1	-3.0	9.13
AWNLR	-11.8	-2.9	11.52
AWNDR	-12.0	-3.7	7.32
AWNFDR	-12.4	-3.9	7.39

*Up to end August 2024 **Primary market yields

Credit to the private sector showed a gradual expansion, on year-on-year basis, since February 2024

Headline inflation is expected to stay notably below the target in the near term and is expected to gradually align with target level over the medium term...



- Quarterly average headline inflation is likely to remain below the inflation target by more than the margin of 2.0 percentage points stipulated in the Monetary Policy Framework Agreement (MPFA)
- The considerably below-target headline inflation in the recent months was underpinned by
 - the downward revisions to the electricity tariff, and fuel and LP gas prices
 - relatively weak demand conditions
- A sustained acceleration of core inflation is not anticipated

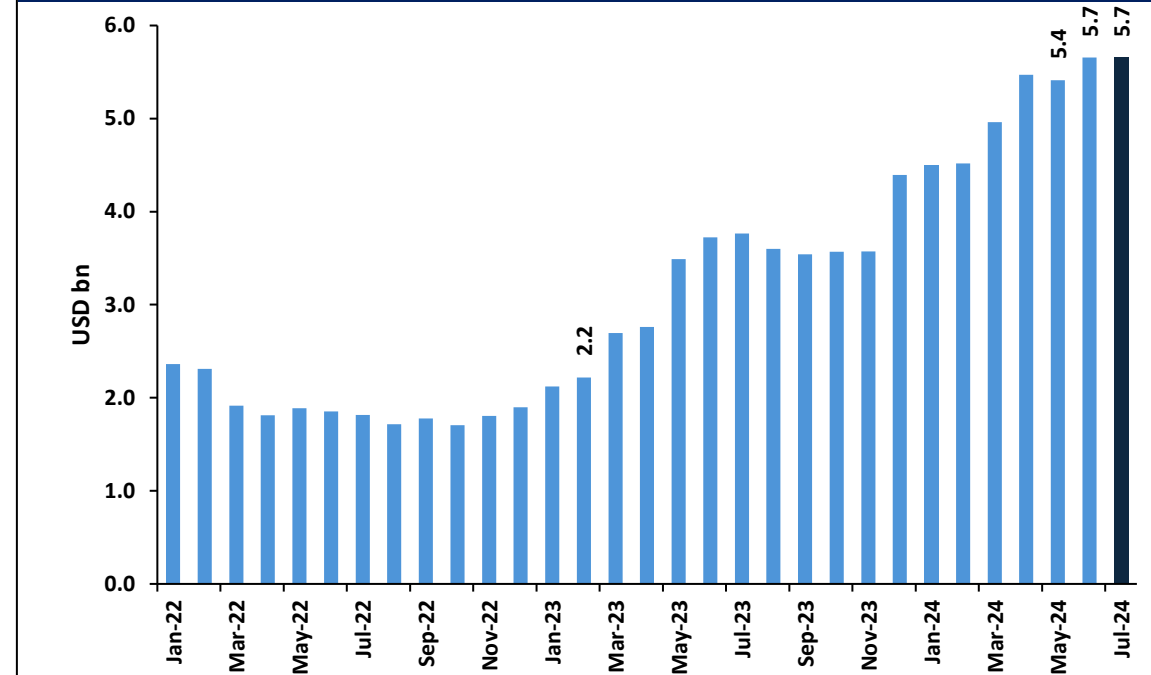
The CBSL adopts flexible exchange rate policy under the CBA...

Recent Movement of USD/LKR Spot Exchange Rate



Exchange rate has appreciated by **12% in 2023** and by **more than 8% so far this year**.

Gross Official Reserves (GOR)



The Central Bank purchased **USD 1.9 billion in 2023** and **over USD 2 billion so far in 2024** from the domestic FX market

With the easing of foreign exchange liquidity conditions, several foreign exchange restrictions were removed.

Financial system stability was preserved during the crisis and several legislative amendments were made to further strengthen financial system...

Banking (Amendment) Act, No. 24 of 2024 came into effect in June 2024

Improving regulatory standards in several areas, including bank licensing, ownership, supervision, capital and liquidity, corporate governance, large exposures, related party transactions, and accounts and audit.

Banking (Special Provision) Act, No.17 of 2023 came into effect in September 2024

Strengthening the resolution authority mandate of the CBSL
Enhancing the deposit insurance framework.

In addition, the Central Bank took several initiatives to strengthen the financial system stability and support crisis-affected businesses and individuals...

Liquidity Support including establishment of a robust policy framework on emergency lending

Banking Act Directions were issued on "Large Exposures of Licensed Banks", to be implemented effective from 01.01.2026.

Circular was issued on "Guidelines for the Establishment of Business Revival Units in Licensed Banks"

A consultation paper on strengthening corporate governance of Licensed Banks in line with global practices was issued to the industry in May. CBSL is in the process of finalising new Banking Act Directions on Corporate Governance

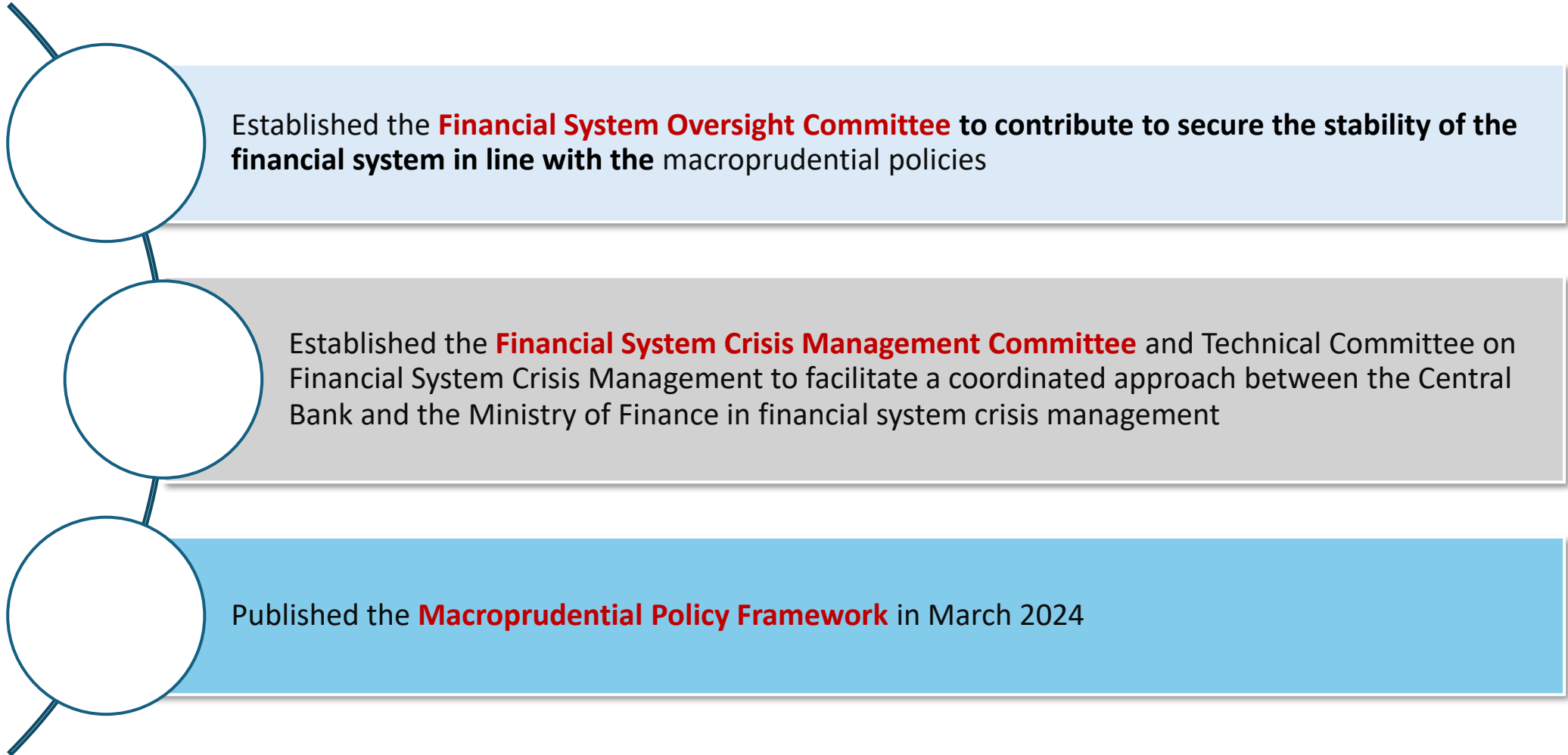
Intensified supervision of financial institutions

Facilitated the availability of moratoriums during the crisis period

Completed the **Asset Quality Review** of 9 large banks and developed a Roadmap for the restructuring and recapitalization of such banks and to support compliance with the roadmap, the bank recapitalization strategy was developed



Macroprudential surveillance has been strengthened...



Central Bank launched the Financial Literacy Road Map

Support the implementation of Sri Lanka's **National Financial Inclusion Strategy (NFIS)** by offering evidenced based guidance to all stakeholders engaged in financial literacy initiatives targeted to achieve the common objective of improving financial behaviour and financial resilience of Sri Lankans.



Central Bank plays a pivotal role for the successful implementation of the current IMF programme...

As per our records, the performance against targets applicable to the CBSL for June 2024 are as follows:

Programme Net Credit to Government (NCG) targets have been achieved

supported by concerted efforts to unwind monetary stimulus to the Government

Programme Net International Reserves (NIR) targets have been achieved

supported by building up of adequate reserve levels by the Central Bank

Monetary policy consultative clause (MPCC) was not met as inflation target was breached from the lower bound

Completed Structural Benchmarks

- Banking (Amendment) Act, No. 24 of 2024 was approved by the Parliament and guidelines/instruction on this have been issued to banking sector and other stakeholders
- Detailed recapitalisation plan for four banks were completed by 29.12.2023

Other key functions of the Central Bank, and Agency functions were carried out successfully...

Other key functions

1. Issue and manage the currency of Sri Lanka
2. Administer, supervise and regulate payment systems
3. Collect and produce statistics
4. Act as financial advisor and banker to the Government
5. Act as fiscal agent of the Government
6. Cooperate with and participate in international organizations
7. Establish deposit insurance and liquidity support schemes as means of securing the financial system stability
8. Financial Intelligence

Agency Functions

1. Employees' Provident Fund
2. Public Debt Management



Thank you