Chapter 3

REVIEW OF THE CENTRAL BANK'S POLICIES

Summary

The Central Bank's policies in 2024 were focused on sustaining price and financial system stability and thereby creating a conducive environment for high and sustainable economic growth. Amidst the subdued demand and supply side pressures, improved external sector performance and well-anchored inflation expectations, the Central Bank eased its monetary policy stance further during the year, with three policy rate reductions in 2024. In line with the accommodative monetary policy stance and monetary conditions, market interest rates adjusted further downward in 2024, availing credit at reasonable low rates to individuals and businesses, thereby assisting faster private sector credit expansion and the economic rebound. Inflation remained subdued during the year and transitioned to deflationary conditions since September 2024 owing to repeated reductions in energy prices. Accordingly, quarterly headline inflation deviated from the inflation target by more than the margin stipulated in the Monetary Policy Framework Agreement (MPFA) on the lower side for the last three quarters in 2024, prompting the submission of reports to the Parliament through the Hon. Minister of Finance explaining the breach of inflation target and the remedial measures taken, ensuring Central Bank's accountability towards the legislature and the general public. Nevertheless, inflation is expected to converge towards the targeted level in late 2025. Since persistent declines in prices discourage economic activity, a low and stable level of inflation in the long run is beneficial for both businesses and households. Registering a key milestone in the Central Bank's monetary policy framework, in November 2024, the Central Bank shifted from a dual policy rate mechanism to a single policy rate mechanism with the objective of strengthening monetary policy signalling and enhancing monetary policy transmission. The Central Bank published two Monetary Policy Reports and one Market Operations Report during 2024 to enhance the Central Bank's transparency and accountability with regard to monetary policy. Meanwhile, the Central Bank continued to implement the flexible exchange rate regime. Foreign exchange market interventions by the Central Bank were limited to mitigate excessive exchange rate volatilities and to augment external buffers of the country. The administrative measures related to the external sector, such as import restrictions, foreign exchange restrictions and capital flow management measures, which were imposed by the Central Bank and the Government during 2020 – 2022 period as part of the crisis management strategy, were further phased out during 2024 in view of improved foreign exchange liquidity conditions and relatively stable external

sector. With regard to the financial sector, the Banking (Amendment) Act, No. 24 of 2024 was enacted in April 2024, inter alia, reinforcing the legal framework for the governance of licensed banks. The Central Bank introduced a range of regulatory measures for both licensed banks and non-bank financial institutions in relation to risk management and corporate governance. The Masterplan Phase II for the Consolidation of Non-Bank Financial Institutions was introduced in December 2024 envisaging the resilience of the sector. Meanwhile, the Central Bank issued guidelines to licensed banks to establish business revival units, to provide a lifeline to crisis affected businesses and bolster economic revival. As the macroprudential authority of the country, the Central Bank published the Macroprudential Policy Framework to create stakeholder awareness on the policymaking process. The Central Bank made notable efforts during 2024 to strengthen the resolution plans and framework for licensed banks. With a view to fostering financial literacy and capability of all segments of the society, the Financial Literacy Roadmap for Sri Lanka was launched by the Central Bank in May 2024. Further, the Central Bank made numerous efforts to promote digital payments and enhance the security of such payments systems, thereby contributing to the digital drive in the economy for productivity improvements. In addition, the Central Bank fully enforced the financial consumer protection regulations by August 2024, solidifying the framework for upholding the transparency, fairness and accountability of financial services in the country. With the enactment of the Public Debt Management Act, No. 33 of 2024, public debt management functions carried out by the Central Bank are being gradually assigned to the new Public Debt Management Office (PDMO) established under the Ministry of Finance. In order to strengthen the financial sector integrity and resilience, the Financial Intelligence Unit (FIU) continued to function in line with the international anti-money laundering and countering the financing of terrorism (AML/CFT) standards.

3.1 Monetary Policy Framework

The Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA) stipulates achieving and maintaining domestic price stability as the primary objective of the Central Bank and specifies Flexible Inflation Targeting (FIT) as its monetary policy framework. In order to achieve this objective, CBA mandates the Central Bank to formulate monetary policy and implement a flexible exchange rate regime in line with the FIT framework. The inflation target that the Central Bank is required to achieve is agreed between the Central Bank and the Minister of Finance as published in the Monetary Policy Framework Agreement (MPFA). As per MPFA, the Central Bank is required to maintain quarterly headline inflation at the target of 5%. The Central Bank uses its policy instruments to guide short-term market interest rates along the desired path to achieve the inflation target.

As part of the improvements implemented within the monetary policy framework of FIT, the Central Bank shifted to a single policy interest rate mechanism from its dual policy interest rate mechanism in November 2024. Accordingly, the Overnight Policy Rate (OPR) was introduced as the primary monetary policy tool of the Central Bank to enhance the efficiency and effectiveness of monetary policy signalling and transmission to the financial markets and the broader economy.[1] Under the new arrangement, the Average Weighted Call Money Rate (AWCMR) continues to serve as the

1 The Concept Note on Single Policy Rate Mechanism is accessible on https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/otherpub/concept_note_on_opr_e.pdf

operating target of the FIT framework. With the shift to a single policy interest rate mechanism, the Central Bank intends to maintain AWCMR at or around the announced OPR. With this transition, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) no longer serve as policy interest rates of the Central Bank. However, they will continue to remain as interest rates applicable to the Central Bank's standing facilities, thereby functioning as the lower and upper bounds for interbank call money rates. Meanwhile, SDFR and SLFR are linked to OPR with a pre-determined margin, currently set at ±50 bps. Accordingly, with the policy interest rate reduction effected in November 2024, OPR was set at 8.00%, and money market operations were tailored to facilitate the above transition. Consequently, AWCMR gradually aligned with OPR and remained at or closer to OPR thereafter.

While facilitating enhanced operational and financial independence to carry out its mandate effectively, CBA requires increased levels of transparency and public accountability by the Central Bank. In relation to price stability, if the Central Bank fails to meet the inflation target,[2] CBA necessitates the Monetary Policy Board of the Central Bank to submit a report to the Parliament, which shall also be made available to the public. The report needs to set out the reasons for the failure to achieve the inflation target, the remedial actions proposed to be taken by the Central Bank, and an estimate of the time within which the inflation target shall be achieved.[3] Further, CBA requires the Central Bank to publish a biannual report explaining recent movements in inflation, sources of inflation, medium-term projections for inflation, and key risks to such projections, along with the implementation of monetary policy and the achievement of its objects. To fulfil this requirement, the Central Bank publishes the Monetary Policy Report in February and August each year. Further, the Governor, members of the Governing and Monetary Policy Boards, and the Deputy Governors can be called upon by the Parliament or its committees to deliberate on the functions of the Central Bank. In fulfilling this requirement, the Board members and the senior management of the Central Bank sought an opportunity to apprise the Parliament and/or its committees in September 2024 and January 2025 of the functions of the Central Bank, in addition to the officials attending Parliamentary committees at the request of such committees. Moreover, enhanced coordination between fiscal, monetary and financial stability policies is facilitated by establishing the Coordination Council under CBA. Coordination Council meets quarterly to exchange views on recent macroeconomic developments, outlook, and risks and also coordinate and complete matters involving the Central Bank and the Ministry of Finance.

3.2 Monetary Policy Stance and Measures

The monetary policy stance of the Central Bank was further eased in 2024, building upon the significant easing effected in the latter half of 2023. Subdued inflation amidst below par economic activity, well-anchored inflation expectations, continuation of tight fiscal measures and the appreciated Sri Lanka rupee provided sufficient space for further easing of the monetary policy stance during the year. Following the notable reduction of policy interest rates by 650 bps in the latter part of 2023 and broader guidance issued to LCBs requiring downward adjustments in excessive lending interest rates, the overall interest rate structure declined. But the pace of adjustment particularly in market lending rates showed some moderation. Considering the availability

2 If quarterly average (y-o-y) headline inflation (CCPI-based) misses the target rate by a margin of ±2 pps for two consecutive quarters

3 The reports required under Section 26(5) of CBA, with reference to deviations of headline inflation from the inflation target are accessible through the Central Bank website.

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BOX 03
Transition to a Single Policy Interest Rate Mechanism

Introduction

The Central Bank of Sri Lanka shifted to a single policy interest rate mechanism from the dual policy interest rate mechanism on 27 November 2024 as a part of the improvements implemented under the Flexible Inflation Targeting Framework (FIT).[1] Accordingly, the Central Bank introduced the Overnight Policy Rate (OPR) as its primary monetary policy tool for signalling and implementing its monetary policy stance. This transition to a single policy interest rate mechanism aims to simplify monetary policy communication and enhance the efficiency of monetary policy transmission.

Need for a Single Policy Interest Rate

Sri Lanka's monetary policy framework has evolved from the currency board system to the current monetary policy framework of FIT, which is formally recognised under the Central Bank of Sri Lanka Act No.16 of 2023 (CBA). This Act also recognises maintaining domestic price stability as the prime objective of the Central Bank. The success of FIT relies largely on the effective transmission of policy changes and anchored expectations on inflation. Both of these are influenced by the clear signalling of the Central Bank's monetary policy stance to the market and other stakeholders. A policy tool with a single interest rate serves this purpose well.

Prior to the introduction of the single policy interest rate mechanism, the Central Bank conducted monetary policy operations under a corridor system with dual policy interest rates: the Standing Lending Facility Rate (SLFR) as the upper bound and the Standing Deposit Facility Rate (SDFR) as the lower bound. This corridor guided the Average Weighted Call Money Rate (AWCMR),[2] which serves as the operating target of the Central Bank's monetary policy framework. However, the dual policy interest rate mechanism faced some drawbacks, primarily due to its complexity and the lack of transparency in conveying the Central Bank's monetary policy stance to the market. Announcing the monetary policy stance using two policy interest rates and the movements of interbank money market rate, i.e., AWCMR, within the standing rate corridor, created some uncertainty among market participants. Also, there was a lack of clarity on where AWCMR should be positioned within the standing rate corridor and whether the changes in AWCMR can be considered as changes in the monetary policy stance of the Central Bank. This lack of transparency may have made it complicated for market participants to accurately interpret the Central Bank's monetary policy intentions.

Moreover, having multiple policy interest rates might have led to complexities in the pricing of financial products, as policy interest rates serve as key benchmarks for setting deposit and lending interest rates across financial institutions. These complexities in the dual policy interest rate approach could have led to slow adjustments in the market interest rates in response to policy rate changes, thereby reducing the effectiveness of monetary policy in influencing the economy.

Accordingly, considering the need for improving the signalling and communication of the monetary policy stance, the Central Bank embarked on exploring the introduction of a single policy interest rate mechanism in line with the roadmap for the adoption of FIT. As the initial step of the progression towards the single policy interest rate mechanism, the Central Bank gradually reduced the size of the standing rate corridor formed by the dual policy interest rates. Further, AWCMR was kept around a desired rate through effective liquidity management, which supported the Central Bank to seamlessly transit to a single policy interest rate mechanism. Thereafter, in keeping with international best practices, the Central Bank introduced a single policy interest rate framework in November 2024, following policy deliberations and consultations with the stakeholders.

1 For more information on this transition, refer the Press Release on "The Central Bank of Sri Lanka moves to a Single Policy Interest Rate Mechanism by Introducing the Overnight Policy Rate" and the underlying Concept Note, which can be accessed on https://www.cbsl.gov.lk/sites/default/files/concept_note_on_opr_e.pdf

2 AWCMR is the weighted average interest rate of overnight unsecured interbank call money transactions among Licensed Commercial Banks (LCBs) on a given date

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Merits of a Single Policy Interest Rate

The shift to a single policy interest rate mechanism offers multiple advantages, thereby significantly enhancing the effectiveness of monetary policy. By providing a clear and consistent signal to financial markets, it lowers the uncertainty in policy direction, facilitating market participants to make informed decisions with greater confidence. This improved transparency strengthens the transmission of monetary policy, ensuring that changes in the monetary policy stance translate effectively into short-term interest rates, and thus to the economy.

Furthermore, with a single policy interest rate serving as the benchmark interest rate, financial institutions can accurately price their financial products, ensuring consistency in market interest rates. This improves the mobility of funds within the financial system, facilitates better liquidity management, and fosters a more predictable interest rate environment, which is crucial for investor confidence.

Operationalisation of the Single Policy Interest Rate

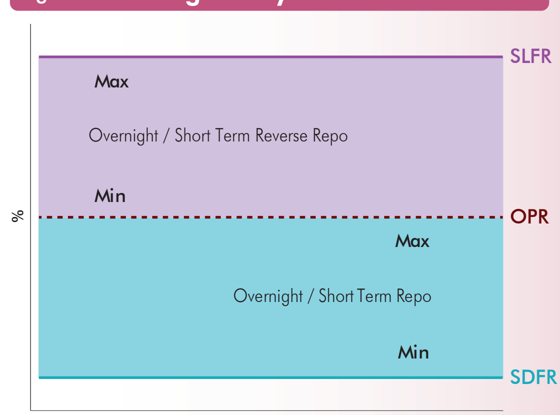
The operational framework of the single policy interest rate mechanism is designed to streamline monetary policy implementation by anchoring short-term interest rates. With the introduction of OPR, the Central Bank targets to maintain AWCMR at or around the announced OPR. Further, the OPR would be periodically reviewed and adjusted by the Monetary Policy Board as necessary to reflect changes in the Central Bank's monetary policy stance.

Following the transition to the single policy interest rate mechanism, SDFR and SLFR, which were considered key policy interest rates of the Central Bank under the dual policy interst rate system, no longer serve that role. However, SDFR and SLFR will continue to serve as the rates applicable for the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF), respectively, for the Participatory Institutions (PIs) for overnight transactions with the Central Bank.[3] In addition, SDFR and SLFR are linked to OPR with pre-determined margins set by the Central Bank and serve as the lower and upper bounds for interbank call money transactions, and overnight and short-term OMOs.

Accordingly, for overnight and short-term repurchase (repo) auctions, OPR serves as the upper limit for bidding rates, while SDFR serves as the lower bound. The Central Bank conducts repo auctions as a means of absorbing excess liquidity from the market. When PIs experience surplus liquidity, they are presented with two alternatives. They may either deposit their excess funds with the Central Bank at SDFR or choose to participate in the repo auctions. To ensure that repo auctions remain attractive to participating institutions, the Central Bank establishes a minimum bidding rate equivalent to SDFR, and a maximum bidding rate capped at OPR. Given that participatory institutions always have the option of depositing their excess funds at SDF, SDFR forms an effective floor rate for the conduct of overnight and short-term repo auctions.

On the other hand, for overnight and short-term reverse repurchase (reverse repo) auctions, SLFR serves as the upper bound while OPR defines the lower bound. The Central Bank conducts reverse repo auctions to inject liquidity into the market. When PIs face liquidity shortages, they too have two alternatives. They can either borrow funds from the Central Bank at SLFR or participate in the announced reverse repo auctions, where they can

Figure B 3.1: **Single Policy Interest Rate Structure**



Source: Central Bank of Sri Lanka

3 SDFR is the rate at which PIs get remunerated on their deposits of excess funds with the Central Bank on an overnight basis under the Standing Deposit Facility, while the SLFR is the rate at which PIs can borrow funds from the Central Bank on an overnight basis under the Standing Lending Facility.

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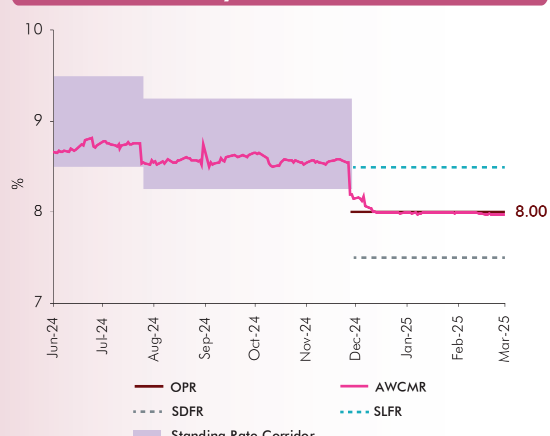
obtain liquidity by pledging eligible securities. To maintain the competitiveness of reverse repo auctions, the Central Bank sets a minimum bidding rate equivalent to OPR, while the maximum bidding rate is capped at SLFR. Since PIs have the alternative of borrowing from the SLF, SLFR forms an effective ceiling rate for the conduct of overnight and short-term reverse repo auctions.

Post-implementation Outcomes in the Money Market

As envisaged, with the introduction of the single policy interest rate mechanism, AWCMR gradually adjusted towards OPR and continued to remain

Figure B 3.2: OPR, AWCMR and Standing Facility Rates



Source: Central Bank of Sri Lanka

closer to OPR since the second week of December 2024. This swift adjustment of AWCMR towards OPR was largely supported by increased activity in the interbank call money market. Currently, AWCMR remains at or close to OPR exhibiting a smooth transition to the single policy interest rate mechanism. Also, adjustments in short-term market interest rates have already been transmitted to other benchmark interest rates, reflecting the swift alignment of the market to the new system.

The transition to a single policy interest rate marks a significant step in strengthening the Central Bank's monetary policy framework. This is expected to enhance transparency and efficiency of monetary policy implementation, while enabling improved market predictability. With improved clarity in the monetary policy operations alongside streamlined liquidity management, monetary policy communication will also be strengthened. This shift is also expected to enhance the credibility of the Central Bank's policy actions. Further, it would ensure the efficiency and effectiveness of monetary policy signalling and transmission across markets and the economy. Overall, enhancing monetary policy effectiveness helps create a stable economy, improves investor sentiments and ultimately supports achieving the objective of maintaining price stability of the economy.

of space for further downward adjustments in market lending interest rates, compatible with the low inflation environment and outlook, the Central Bank reduced policy interest rates by 50 bps in March 2024, which was followed by an additional reduction in policy interest rates by 25 bps in July 2024. These policy actions enabled continued downward adjustments in the cost of borrowing, thereby facilitating a faster expansion of credit to the private sector and supporting the revival of domestic economic activity. Subsequently, slowing adjustment in market interest rates, subdued inflation outlook and inflation expectations prompted the Central Bank to cautiously ease monetary policy further in November 2024. This policy easing of effectively around 50 bps,[4] came along with the introduction of OPR, reflecting the transition to a single policy interest rate mechanism. Accordingly, the cumulative adjustment in the policy rate during the current monetary policy easing cycle amounted to around 775 bps by end 2024.

While overall liquidity in the domestic money market remained at surplus levels during 2024, its asymmetric distribution led the Central Bank to continue with Open Market Operations (OMOs) to provide

4 Measured by the difference between pre-policy AWCMR and OPR

funds to LCBs in keeping with the eased monetary policy stance. Restrictions imposed on LCBs since January 2023 on the usage of standing facilities of the Central Bank to address the issue of heavy reliance of LCBs on such facilities, were removed in early 2024. This was in consideration of improved market liquidity conditions and market activity. Accordingly, effective 16 February 2024, the restriction imposed on the usage of the Standing Lending Facility (SLF) was removed, while that on the Standing Deposit Facility (SDF) was relaxed from five times to ten times during a calendar month and subsequently removed effective 01 April 2024. Although overall domestic money market liquidity increased gradually to sizeable surplus levels during the year, the Central Bank continued to conduct liquidity injecting operations (reverse repo auctions) to minimise the impact that asymmetric distribution of liquidity among participatory institutions on the trajectory of easing market interest rates. Towards the latter part of 2024, domestic money market activity improved alongside the buildup of liquidity surplus, partly supported by the sovereign rating upgrades that enabled foreign banks to enhance the counterparty limits on money market activities. Increased liquidity and reduced asymmetries provided space for the Central Bank to gradually scale down its OMOs, including curtailing liquidity injections through the conduct of overnight reverse repo auctions.

Throughout the year, the Central Bank undertook several initiatives to enhance monetary policy communication, aiming to improve the transmission of its relaxed monetary policy stance and manage stakeholder expectations in a deflationary environment that entailed inflation target misses. While continuing to use traditional policy tools, greater emphasis was placed on shaping the behaviour among households and businesses, the key stakeholders in the monetary policy transmission mechanism. To achieve this, the Central Bank focused on raising awareness about monetary policy decisions, the underlying rationale and economic outlook, especially inflation projections. These efforts were particularly important in managing expectations, especially as deflationary conditions seen during the latter half of the year were not due to lack of demand or economic activity but were from supply-driven, transitory factors. The press releases and live-streamed press conference, chaired by the Governor remained central to the monetary policy communication strategy, providing real-time insights into monetary policy decisions. Media engagement improved consistently, fostering critical and insightful discussions on monetary policy and macroeconomic trends. Additionally, to ensure wider public reach, the Central Bank expanded its use of social media and simplified communication formats, including single-page briefs and short video clips, produced in national languages to enhance accessibility. Stakeholder engagement was further strengthened through targeted awareness programmes, frequent internal and external webinars and public outreach initiatives encompassing students, teachers and government officials.

In line with CBA, the Central Bank remained committed to transparency and accountability through the publication of legally mandated reports. The Monetary Policy Reports published in February and August 2024 not only documented preceding monetary policy decisions and underpinning analyses but also provided forward looking insights such as inflation projections and the risks to the projections. To encourage critical dialogue and awareness, the Central Bank held technical discussion sessions, engaging journalists, academics and sectoral experts in an interactive feedback loop. Thus, this initiative aimed to reduce information asymmetries that could hinder the effective anchoring of inflation expectations.

BOX 04
Monetary Policy Accountability and Inflation Targets

Introduction

Monetary policy accountability necessitates a central bank to explain and justify its monetary policy decisions and their impacts to its stakeholders. This justification is important because it confirms that the central bank remains independent while being transparent and trustworthy. Central bank accountability strengthens the trust among people, businesses, and investors, confirming that its decisions are guided by economic reasoning rather than political or external influences. This trust helps keep inflation expectations anchored and inflation stable. That, in turn, strengthens the confidence in economic policymaking. Conversely, a weak accountability framework can undermine confidence, leading to inflationary risks and economic instability.

Effective accountability measures involve clear oversight, transparency, and performance evaluation. Central banks are increasingly required to publish reports on the economic outlook and the rationale for monetary policy decisions, along with the external factors influencing outcomes. Greater accountability of central banks results in improvements in their governance arrangements, policies, operations and interaction with key stakeholders. In this regard, research shows that countries with accountable and transparent central banks generally have low and stable inflation rates and better economic performance (Mishkin, 1997). However, too much scrutiny can sometimes make decision-making slow or overcautious, preventing a central bank from taking bold but necessary actions during economic crises (Goodhart, 2010).

Central bank independence and greater accountability are intrinsically linked with each other (Adrian and Khan, 2019). Transparency and accountability are prerequisites for central bank independence, providing the basis for sound monetary policy. Transparency requires central banks to regularly provide information about their decisions to the government, the public and other policymakers through channels, such as publishing reports or testifying before legislative bodies.

Importance of Central Bank Accountability During Inflation Target Breaches

Inflation targeting is a monetary policy framework, where a central bank is provided with a specific inflation target to be achieved within a given period of time. By conducting monetary policy, mainly by adjusting its policy interest rates, central banks attempt to keep inflation within a targeted level, and that reduces uncertainty and smoothes business cycle fluctuations. However, central banks are not always able to keep inflation within the agreed targeted levels. This could be due to various reasons, including administered price adjustments and supply-side disruptions arising from domestic sources or globally. Strong accountability is essential, particularly when inflation deviates from its target, for enhancing public confidence and bringing inflation back to its target level. Central banks must explain the causes of deviation, take corrective actions, and maintain transparency in their policy decisions. Legal frameworks are often in place to guide these actions, ensuring that central banks remain responsive and effective (Adrian and Khan, 2019).

Understanding the causes of inflation target breaches helps both central banks and governments design more effective policies to restore stability. Considering historical experiences, external shocks like oil price hikes, supply chain disruptions, and global uncertainties are among the common factors for inflation to deviate from its target, but it can occur due to domestic factors as well. For example, the Bank of Canada cited commodity price rises as the leading cause for an inflation hike in 2008 and noted the effects of global financial turmoil on inflation control (Bank of Canada, 2008). Similarly, the Reserve Bank of New Zealand explained how supply-side factors, including a hike in consumption taxes, caused a hike in inflation in 2011, and further went on to explain how inflation was expected to be affected in the aftermath of an earthquake

(Reserve Bank of New Zealand, 2011). Some central banks, such as the Czech National Bank, even allow temporary deviations in their mandates when faced with major economic shocks (Rusnok, 2018). Moreover, in the context of developing economies, supply shocks are often large and more frequent than in developed economies. Therefore, supply-related factors can commonly account for inflation deviations from the respective targets in developing economies.

The speed at which inflation returns to target depends on the economic context and the effectiveness of the policy measures taken. For instance, researchers have found that changes in interest rates, in general, take 18–24 months to influence inflation. This could be longer or shorter depending on a country's economic and financial market context. Central banks must also be prepared to use additional tools, such as liquidity management and forward guidance, especially when inflation is driven by supply-side factors. Some policies from the government side are also complementary to managing inflation, especially on the supply side factors. Short-term policies, such as taxes and administered prices, as well as long-term policies to address weather-related issues, play a crucial role in addressing the temporary volatility of food and energy inflation. However, it should also be noted that supply-side issues are transient in general and will naturally correct over time. On the other hand, if inflation deviations are persistent, irrespective of the drivers of such deviations, central banks are bound to act to re-anchor inflation expectations and bring inflation back to the target levels as early as possible. Accordingly, central bank communications play an important role in conveying these messages to various economic stakeholders.

Monetary Policy Accountability Provisions under the Central Bank of Sri Lanka Act No. 16 of 2023 (CBA)

The Central Bank of Sri Lanka Act No.16 of 2023 (CBA) provides for strong monetary policy accountability, as well as operational independence for the Central Bank. Section 26 of CBA states that the Minister of Finance and the Central Bank shall sign a Monetary Policy Framework Agreement (MPFA) setting out the inflation target to be achieved by the Central Bank. As per the MPFA, if the Central Bank fails to maintain the Colombo Consumer Price Index (CCPI)-based quarterly average inflation within a margin (±2 pps) around the inflation target of 5% for two consecutive quarters, it must submit a report to the Parliament through the Hon. Minister of Finance. This report needs to be made available to the public and must include an explanation of the reasons for the deviation, corrective actions to be taken by the Central Bank, and an estimated timeframe for bringing inflation back to the target range. Further, according to Section 27 of CBA, the Central Bank needs to publish a report once in six months, explaining recent movements in inflation, sources of inflation and medium-term projections for inflation and key risks to such projections. In addition, under Section 80 of CBA, the Central Bank should inform the public regarding the implementation of its monetary policy and the achievement of its objects at least once in every six months. The Monetary Policy Report is published in fulfilment of the requirements in Sections 27 and 80 above. Accordingly, CBA marks a historic milestone in economic policymaking in Sri Lanka, as the Central Bank has been granted the necessary operational independence to maintain price stability, while making it accountable for its actions and achieving the price stability objective.

Sri Lanka's Experience with the Recent Inflation Target Breach and Accountability Measures

Sri Lanka's inflation fell below the target by more than two pps in the second, third and fourth quarters of 2024, mainly due to supply-side factors, such as reduced electricity and fuel prices, and lower food inflation. Further, appreciation of the Sri Lankan rupee also contributed to low inflation. This prompted the Central Bank to submit reports for deviation of inflation from its target to the Parliament

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and make them available to the public, as required by CBA. The first such report, relevant for the second and third quarters of 2024, is now publicly available on the Central Bank Website, while the report relevant for the third and fourth quarters of 2024 has been submitted to the Hon. Minister of Finance and will be available for public access in the period ahead. Moreover, since inflation continued to remain below the target by more than two pps during the first quarter of 2025 for the same reasons mentioned above, the Central Bank will submit a similar report relevant for the fourth quarter of 2024 and the first quarter of 2025 as well. As per the latest projections, the Central Bank, while observing that the deflationary conditions have commenced easing from March 2025, expects the ongoing deflation to be transitory and inflation to return to ±2 pps within the target by the third quarter of 2025, unless there are substantial deviations in economic conditions underpinned by the data, assumptions and judgments used in arriving at these projections.

Global Experiences with Inflation Target Breaches and Accountability Measures

Examples of accountability measures regarding inflation target breaches can be observed among various central banks worldwide. As mandated in the Bank of England Act 1998, the Remit for the Monetary Policy Committee of the Bank of England requires that the Governor write to the Chancellor of the Exchequer if inflation deviates by more than 1% on either side of the target. In 2022, inflation in the UK exceeded 10% due to the Russia-Ukraine conflict and rising energy prices, prompting a series of communiques by the Governor to the Chancellor. Similarly, the Reserve Bank of New Zealand Act 2021 necessitates regular publication of Monetary Policy Statements, which as specified in the Monetary Policy Committee Charter, need to explain reasons for inflation deviations. In 2022, when inflation recorded a steep increase, surpassing 7%, the Reserve Bank of New Zealand explained inflation trends, deviations from the target, and the policy response in its Monetary Policy Statements. The Reserve Bank of India Act 1934 (amended 2016) requires the central bank to submit a report to the government if inflation remains outside the target range for three consecutive quarters. Inflation in India exceeded the target in 2022 with the global inflation surge. This prompted the Reserve Bank of India to submit a report to the government explaining the reasons and outlining corrective measures. The Federal Reserve regularly reports to Congress on its policy actions, despite not being legally required to justify breaches. These accountability measures not only ensure transparency but also reinforce trust in central banks' efforts to control inflation.

Concluding Remarks

Accountability in monetary policymaking is essential for maintaining price stability and improving public confidence in monetary policymaking. By establishing clear targets for inflation, explaining deviations, and taking corrective actions, central banks can enhance their credibility and maintain price stability and support economic growth. Whether dealing with external shocks or internal policy missteps, central banks must remain transparent and responsive to ensure achieving and maintaining price stability. In Sri Lanka, medium-term inflation expectations remain broadly aligned with the 5% target, reflecting the confidence among economic agents over monetary policymaking. Communication strategies like publishing semi-annual monetary policy reports, and the accountability measures mandated in CBA, have been instrumental in establishing such public confidence.

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A similar stakeholder-inclusive approach was adopted ahead of the introduction of the OPR in November 2024. Accordingly, the Central Bank implemented a multi-pronged communication strategy to ensure financial institutions and other stakeholders, including the general public, were well-informed about the transition. These efforts included pre-implementation awareness sessions with participatory institutions, issuance of press releases ahead of implementation, publication of a comprehensive concept note explaining the transition, and newspaper articles in all three languages breaking down the relevance of the transition to different stakeholder groups. In compliance with Section 26(5) of CBA, the Central Bank submitted reports to the Parliament through the Hon. Minister of Finance, following quarterly headline inflation falling below the inflation target by more than 2 pps for two consecutive quarters in the second and third quarters of 2024, as well as the third and fourth quarters of 2024.[5] The ensuing discussions and deliberations with the Government reinforced the commitment of the Central Bank to enhanced public accountability and transparency, particularly amid increased institutional independence. As part of its broader monetary policy communication strategy, the Central Bank also commenced publishing the bi-annual Market Operations Report in 2024. This publication provides information on monetary operations, including OMOs, liquidity management, short-term interest rates, and the statutory reserve requirement.

In 2024, the Central Bank implemented several key initiatives to strengthen the foreign exchange market, enhance transparency, and bolster external stability. The Central Bank continued to maintain a flexible exchange rate regime in line with the FIT framework during the year while the interventions were limited only to mitigate excessive volatility in the exchange rate and build up reserves through purchases of foreign exchange from the market. A flexible exchange rate acts as a shock absorber for the economy by adjusting automatically in response to economic shocks, eventually preserving external sector stability through the Balance of Payments (BOP) adjustments. It also provides greater autonomy to the Central Bank to conduct monetary policy without being constrained by the need to maintain the exchange rate at a predetermined level. In view of strengthening the foreign exchange market, the adoption of the FX Global Code in 2024 improved market integrity and aligned practices with global standards, while the implementation of an FX matching platform by March 2025 enhanced market depth and transparency, strengthening the Central Bank's regulatory oversight. A policy and operational framework that is conducive to price discovery process in the domestic foreign exchange market will ensure that the exchange rate will largely reflect the market fundamentals, boosting confidence and fostering a deeper and liquid market.

5 The first 'Report on the Deviation of Headline Inflation from the Inflation Target Set Out in the Monetary Policy Framework Agreement (Reference Period: Quarter 2 and Quarter 3 of 2024)' is now available for public access via: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/monetary_policy/report_on_deviation_of_inflation_target_Q2_and_Q3_2024_e.pdf. The latter report will also be made available in the period ahead.

3.3 External Sector Policies

Exchange Restrictions and Capital Flow Management Measures (CFMs)

In line with the gradual improvement in liquidity conditions in the domestic foreign exchange market and greater stability observed in the external sector in 2024, the Government, in consultation with the Central Bank, continued to phase out the administrative measures imposed during the pandemic and the economic crisis. The measures that were gradually relaxed include restrictions on imports, exchange restrictions, and capital flow management (CFM) measures. In this context, the Minister of Finance and the Central Bank issued necessary regulations and directions under the provisions of the Foreign Exchange Act, No. 12 of 2017 (FEA) to remove certain restrictions on the conversion of Sri Lanka rupees into foreign exchange for current international transactions. Accordingly, resident companies were allowed to pay, to non-residents, any income or maturity proceeds of listed debt securities or listed shares (denominated in designated foreign currency), and to repay the loans which were obtained for acquiring International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs) by way of converting Sri Lanka rupees in cases of insufficient foreign exchange balances/ cashflows. In addition, resident companies which hold Business Foreign Currency Accounts (BFCAs), were also allowed to repay, to non-residents, existing short-term loans, by way of converting Sri Lanka rupees in cases of insufficient foreign exchange balances/ cashflows. Further, with effect from September 2024, the time period for mandatory conversion requirement for the residual of export proceeds after permitted deductions was extended to the 10th day of the month following the expiration of three calendar months from the date of receipt, allowing exporters to retain foreign exchange for an extended period for better cashflow management and minimise exchange losses. Further, improvements were made to the Export Proceeds Monitoring System (EPMS), to increase the efficiency of the reconciliation of export values and the export proceeds repatriated to the country.

Certain suspensions and restrictions on capital transactions, previously implemented as CFM measures, were gradually eased in 2024 with the improvement in the BOP conditions. Accordingly, the temporary suspension of payments made by persons resident in Sri Lanka through Outward Investment Accounts (OIAs) to make overseas investments and temporary limits on outward remittances for capital transactions made via BFCAs were substantially relaxed during 2024, prioritising the requirements of local businesses to expand globally. However, temporary limits imposed on outward remittances for capital transactions made via Personal Foreign Currency Accounts (PFCAs) held by persons resident in Sri Lanka continue. Additionally, limitations on the outward fund transfers by emigrants under the migration allowance were further relaxed. Moreover, allowance available for Sri Lankans with overseas temporary resident visa to transfer funds outside Sri Lanka was reinstated to the limit stipulated in Foreign Exchange Regulations issued in February 2021. The Central Bank expects a gradual phase-out of the prevailing CFMs implemented under FEA in line with the BOP conditions and developments in the domestic foreign exchange market.

The Central Bank introduced several policy measures in 2024 to encourage more foreign exchange inflows to the country. Accordingly, new regulations were introduced under the provisions of FEA to allow non-residents to acquire, hold, divest or pledge any securities listed in the Colombo Stock Exchange (CSE) under 'Securities Borrowing and Lending transactions' for the purpose of enabling regulated short selling of such securities which is an initiative of CSE. In addition, directions were issued under the provisions of FEA to facilitate the transactions of foreigners who obtain resident visa under special visa programmes implemented by the Department of Immigration and Emigration. However, permission for resident companies to invest in ISBs utilising the proceeds of loans obtained from non-residents was repealed during the year.

Relaxation of Import Restrictions

In consultation with the Central Bank, the Government relaxed most of the restrictive measures on imports further during 2024 and early 2025. The Government prepared an initial roadmap in consultation with the Central Bank to fully relax the importation of motor vehicles by 2025. This was in consideration of meeting the requirements under the IMF-EFF programme, given improved external sector resilience to withstand such relaxations. The lifting of vehicle import restrictions was planned to be effective in three stages beginning with the allowing the imports of public passenger and special purpose vehicles and non-motorised goods in the first stage in the third quarter of 2024, followed by commercial or goods transport vehicles in the fourth quarter of 2024 and personal use motor vehicles in the first quarter of 2025. Accordingly, the Cabinet of Ministers approved the stage-wise relaxation plan in September 2024. Stage 1 relaxations were initiated with a delay in December 2024, while Stages 2 and 3 were implemented in January 2025. The Central Bank provided its observations and recommendations, while highlighting the possible risks linked to each relaxation stage. In line with this, appropriate tariff and non-tariff measures have been taken by the Government to curtail any excessive pent up demand for motor vehicles, since the importation of motor vehicles remained restricted for almost 5 years. Despite these restrictive measures, a considerable increase in import expenditure is likely in 2025 due to motor vehicle imports, widening the trade deficit. However, motor vehicle imports are expected to stimulate economic activities (primarily through commercial vehicles) and increase government revenue.

3.4 Financial Sector Policy Measures

Macroprudential Policies

The Central Bank continued its macroprudential surveillance to identify potential systemic risks, strengthen financial stability and implement necessary macroprudential policies. In accordance with Section 63(2) of the CBA, the Central Bank published the Macroprudential Policy Framework during the year to enhance stakeholder awareness of the policy making process and to highlight the vital role of macroprudential policy in safeguarding financial stability. This framework outlines key objectives, systemic risk surveillance, policy tools, and the integration of macroprudential measures with broader Central Bank policies. Further, the existing framework for the designation of Domestic Systemically Important Banks (DSIBs) and the calibration of the DSIB buffer was reviewed to ensure that the classification of DSIBs reflects the current dynamics of the banking system. The revised list of DSIBs is expected to be announced in the near future.

As the economy recovered and stabilised, the Central Bank introduced stringent limits on large exposures, particularly those involving public corporations, to mitigate concentration risks in the banking sector. This measure aims to incorporate stringent prudential limits in line with Basel requirements and strengthened criteria for determining interconnectedness between borrowers covering the control relationship and economic interdependence to mitigate potential credit concentration risks, ensure safety and soundness, and preserve public confidence in the banking sector. In line with this initiative, a directive was issued in March 2024, capping large exposures for Licensed Banks (LBs) at 25% of their Tier 1 capital, effective from 01 January 2026. This cap applies to borrowers including individual companies, public corporations, firms, associations of persons, and individuals both on an individual basis and in aggregate as a group of connected borrowers under Direction No. 01 of 2024. The regulation will take effect on a standalone basis from 01 January 2026, and on a consolidated basis from 01 January 2030. Given the prevailing macrofinancial conditions and the continued need to support economic recovery, these exposure limits will be phased in gradually over a three-year period, ensuring full implementation by 2028. LBs shall gradually reduce the exposures to public corporations to meet the maximum exposure limit with respect to aggregate exposures to all public corporations by 2030. This measured approach is intended to facilitate a smooth transition, maintaining financial stability while supporting economic growth. Further details on macroprudential policies could be obtained from the Financial Stability Review[6] 2024.

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Policies Related to Licensed Banks

During 2024, the Central Bank persisted to introduce prudential policy measures including the issuance of regulations and strengthening the supervisory approach to maintain the resilience of the banking sector. The enactment of the Banking (Amendment) Act No. 24 of 2024 marked a significant milestone in strengthening the legal framework governing the LBs. In support of its implementation, the Central Bank issued several new regulations/guidelines to LBs during the year. Accordingly, a Banking Act Determination was issued determining Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as the statutory liquidity ratios of LBs, while discontinuing the maintenance of Statutory Liquid Asset Ratio (SLAR). In addition, several other regulations were also introduced to facilitate the implementation of the Banking (Amendment) Act, including the Banking Act Directions on Off-Shore Banking Business (OSBB) for Licensed Commercial Banks (LCBs) and Banking (Off-Shore Banking Business) Order designating foreign currencies for OSBB. Further, Directions and Determinations were issued on assessment of fitness and propriety of Directors, Chief Executive Officers (CEOs) and officers performing executive functions of LBs. Moreover, Regulations were issued specifying related parties of LBs, approved securities and limits in respect of accommodation granted to such related parties.

6 https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/fssr/fsr_2024e.pdf

The corporate governance framework of LBs has been further strengthened to align with current market developments, international best practices, and evolving regulatory requirements. Banking Act Directions were issued to further strengthen corporate governance processes and practices, and these Directions mainly focus on enhancing the composition and independence of the Board of Directors (BODs), emphasising the competency and professional integrity of Directors, CEOs, and key management personnel (KMP), ensuring the effective functioning of Board sub-committees whilst improving risk oversight and control mechanisms including the oversight of related party transactions.

With a view to prudentially managing increased impaired assets, curbing the credit risk and facilitating the sustainable economic revival of businesses affected by the extraordinary macroeconomic circumstances, a circular on "Guidelines for the Establishment of Business Revival Units in LBs" was issued. Further, the Banking Act Directions on Capital Requirements Under Basel III for LBs were amended providing a concessional risk weight to the exposures guaranteed by the National Credit Guarantee Institution Limited (NCGIL) and including NCGIL in the indicative list of Financial Institutions (FIs). The Central Bank continued its efforts to support economic sectors by outlining relief measures for Small and Medium Enterprises (SMEs) affected by the Easter Sunday attack, the COVID-19 pandemic, and recent extraordinary macroeconomic conditions and accordingly issued a Circular on Relief Measures to Assist the Affected SMEs.

Further, the Central Bank has introduced a range of regulatory measures from time to time to ensure the smooth functioning of the banking system. These policy measures include specifying publication formats for the quarterly and annual financial statements of

LBs, issuing a Banking Act Determination on the minimum number of BODs of selected LBs and issuing guidelines for the establishment of mobile banking units by LCBs.

Policies Related to Finance Companies

In pursuit of strengthening the risk management framework within the Finance Companies (FCs), the Central Bank issued two directions addressing credit risk and operational risk management. These frameworks covered critical aspects, including the formulation of risk management strategies, policies and procedures, governance structures and systems to manage the potential risks that could arise to the sector. Further, to uphold the data quality, FCs were mandated to ensure timely, accurate, consistent and complete reporting of information through the issuance of a Direction on "Periodic Reporting Requirements".

To enhance financial stability and ensure fair market practices, key regulatory measures were implemented to strengthen deposit solicitation practices and remuneration policies within FCs. As stipulated in the Direction on "Deposit Solicitation by FCs", it is envisaged to safeguard the depositors through promoting fair competition among FCs by distinctively addressing the conditions for acceptance of deposits, publishing advertisements and offering incentive schemes for deposit solicitation. Moreover, several actions were undertaken during the year to ensure the consistency, fairness and transparency of remunerating the directors and senior management of FCs, through the guideline on "Remuneration Polices and Disclosure Requirements".

The consolidation and regulatory oversight of Non-Bank Financial Institutions (NBFIs) progressed with the successful completion of Phase I and the introduction of Phase II, alongside enforcement actions to address non-compliances and financial stability concerns. The Masterplan Phase I for the Consolidation of NBFIs which was commenced in 2020 was concluded by accomplishing the desired outcomes stipulated therein, and the revised framework for the Phase II was introduced to FCs in December 2024 with a three-year execution period. Regulatory actions continued during the year on FCs that were non-compliant with capital requirements, in line with prompt corrective action framework and other regulatory requirements. Restrictions imposed on deposits and accommodation were lifted for certain FCs after they complied with prudential directions. Further, resolution actions for failed FCs were pursued, with several discussions held with liquidators of such companies to expedite the liquidation process.

Public Debt Management Policies

The implementation of the Public Debt Management Act, No. 33 of 2024 (PDM Act) marks a significant transition in the management of public debt in the country. The PDM Act was enacted on 18 June 2024, and came into operation on 25 November 2024, as declared by the Minister of Finance through a Gazette notification. In accordance with the provisions of the PDM Act, the Public Debt Management Office (PDMO) was established on 02 December 2024 under the Ministry of Finance. As per Section 132 of CBA, the Central Bank shall continue to issue securities of the Government for the account of the Government and manage public debt, until such date as the relevant law relating to the public debt management agency or office comes into operation. As per Section 37 of the PDM Act, the applicability of Section 132 of the CBA shall come into operation on such date as the Minister may apoint by an Order published in the Gazette, within a period of 18 months from the appointed date of the PDM Act, providing leeway of 18 months for the PDMO to be fully operational. Thus, the Public Debt Department of the Central Bank is required to discharge its functions as defined in the relevant legislation, up to a maximum of 18 months from the date of appointment of the PDM Act, i.e., 25 November 2024.

Policies for Financial Inclusion

Following the enactment of the CBA, the advancement of financial inclusion in Sri Lanka has emerged as a key policy priority of the Central Bank, aligned with the priority for a more equitable and sustainable financial ecosystem. The National Financial Inclusion Strategy (NFIS) Action Plan, initiated in 2021, continued to operate successfully through collaborative efforts with stakeholders. The Financial Literacy Roadmap for Sri Lanka, launched in May 2024, aims to cultivate a financially literate and capable society.

In continuation of the policy established in 2023, the discontinuation of Central Bank funded loan schemes for Micro, Small, and Medium Entreprises (MSMEs) remained in effect throughout 2024. This aligns with the Governing Board's decision to suspend loan schemes funded by the Government and Donor Agencies, with the strategic intention of gradually phasing out the Central Bank's MSME lending activities. Nevertheless, the Central Bank maintains an active role in MSME policy formulation processes led by the Government.

Payments and Settlements related Policies

The Central Bank implemented a range of policy measures during the year to promote digital payments while ensuring the safety and stability of payment systems. As part of its ongoing initiatives, the Central Bank implemented ISO 20022 messaging standard for domestic high value payments in line with the international best practices. Further, to promote retail digital payments, the maximum per transaction limit of LANKAQR was increased from Rs. 200,000 to Rs. 500,000 and the Merchant Discount Rate (MDR) for LANKAQR transactions was set at a maximum limit of 1% of the transaction amount.

With the aim of enabling online payments to government institutions and enhancing efficiency and accessibility for the public, the Central Bank facilitated the implementation of GovPay, by directing all LBs to offer this facility in their internet banking platforms and mobile payment applications. GovPay enables government institutions without their own IT systems to accept instant digital payments from the public, particularly at the local government level.

Several measures were implemented by the Central Bank to strengthen the security of digital payments, enhance the quality of digital transactions, and increase customer confidence in digital payment methods. Payment authorisation was strengthened by requiring all JustPay enabled mobile applications to request a One-Time Password (OTP) for transactions equal to or exceeding Rs. 10,000. To safeguard Current Account/Savings Account (CASA) of customers linked to mobile payment applications from unauthorised access, the Central Bank directed Mobile Payment Application Providers (MPAPs) to enhance customer identification by verifying customer information during registration. In addition to the above, Money or Value Transfer Service (MVTS) Providers Regulations No. 01 of 2024 was issued to register MVTS providers, to provide the opportunity to formalise their operations and engage in the money transfer business through formal channels.

Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT)

The Financial Intelligence Unit (FIU) of Sri Lanka has commenced the update of the National Risk Assessment (NRA) after which the National AML/CFT policy will be updated. The update will include new modules on Tax and Proliferation Financing and is scheduled to be completed by mid-2025. The findings of the previous NRA 2021/22 played a significant role in shaping Sri Lanka's National AML/CFT Policy for 2023-2028. Aiming at effective implementation of the policies, the FIU developed Stakeholder-wise Action Plans for 24 relevant institutions/authorities, reinforcing Sri Lanka's compliance with global AML/CFT standards. The Cabinet appointed AML/CFT Task Force conducted 39 stakeholder meetings during the year to track implementation progress of the Action Plan, ensuring alignment with National AML/CFT Policy objectives and regulatory expectations. Additionally, in preparation for the third Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG) due to commence in March 2026, the Central Bank as a prudential supervisor continued to strengthen regulatory frameworks and enhance compliance oversight across FIs.

As part of its regulatory oversight, the FIU issued several key circulars in 2024 to enhance compliance with the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), Customer Due Diligence (CDD) obligations for FIs and insurance companies, and compliance requirements for restricted dealers and dealers in precious metals and stones. These measures form part of a broader strategy to strengthen the regulatory policies of the Central Bank, reinforce financial sector integrity, and ensure adherence to international AML/CFT best practices. Collectively, these initiatives reflect the Central Bank's ongoing commitment to maintaining financial stability, enhancing risk management, and safeguarding the economy from illicit financial flows.

Policies for Financial Consumer Protection

The Central Bank has taken decisive steps in 2024 to bolster financial consumer protection within the country's financial sector. A major milestone in this effort was the full enforcement of Financial Consumer Protection (FCP) Regulations on August 9, 2024. These regulations serve as a critical framework for promoting fairness, transparency, and accountability in financial services, ensuring that consumers are treated equitably and have access to clear, accurate information.

One of the key aspects of these regulations is the empowerment of the Central Bank to conduct comprehensive market conduct supervision. This initiative enables the Central Bank to actively monitor FI's adherence to FCP regulations and assess their effectiveness in safeguarding consumer rights. By conducting systematic evaluations, the regulatory body can identify potential gaps or challenges in implementation and use these insights to refine and enhance future regulations on market conduct.

Policies on Deposit Insurance and Resolution of Financial Institutions

In 2024, the Central Bank made significant strides in strengthening the resolution framework for LBs under the Banking (Special Provisions) Act, No. 17 of 2023 (BSPA). The resolution policy was developed in line with the BSPA, laying the groundwork for effective resolution strategies. Resolution triggers for LBs were successfully established to enable early intervention and manage financial distress proactively. The Central Bank also issued Directions for gathering primary

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data from LBs to support resolution planning purposes. Additionally, resolution plans for selected LBs are being developed to ensure an orderly process in case of distress. The Central Bank issued the Banking (Special Provisions) Act Direction No. 02 of 2024 to Member Institutions (MIs) of the Sri Lanka Deposit Insurance Scheme (SLDIS) to strengthen the deposit insurance function.

As part of the Financial Sector Safety Net Strengthening Project (FSSNP) and in line with international best practices, new Guidelines on the Reimbursement of Insured Deposits under SLDIS were introduced. These guidelines aim to streamline and expedite the claims filing and processing procedures, offering greater benefits to insured depositors. Additionally, to further refine and effectively address the limitations, the Central Bank issued Operating Instructions No. 01 of 2024 on the Mandatory Recording of Unique Identification Numbers (UINs) of Depositors by LBs and FCs. This directive aims to enhance the efficiency and effectiveness of the compensation payment process while simplifying the process of identifying depositors.