

Other Entrusted Responsibilities

Regulating and Promoting Foreign Exchange Transactions

As the agent of the Government, the Central Bank is responsible for enforcing the Foreign Exchange Act No. 12 of 2017 (FEA) to regulate and promote foreign exchange transactions in the country.

Under this mandate, Central Bank plays a key role in:

- Reviewing the effectiveness of existing policies and identifying the necessity for new policies to be in line with the developments in the foreign exchange market
- Making recommendations to the Minister in charge of Finance to issue regulations and orders under the FEA
- Issuing directions to Authorised Dealers (ADs) on foreign exchange transactions
- Granting permissions to Authorised Money Changers (AMCs) and other entities to engage in foreign exchange dealings
- Granting special approvals for foreign exchange transactions not covered under general permissions
- Monitoring compliance with the FEA and taking actions for violations
- Monitoring export proceeds repatriation into Sri Lanka and residual conversions in compliance with the Rules issued under CBA

Repatriation of Export Proceeds

Central Bank supervises the repatriation of export proceeds into Sri Lanka in accordance with the rules issued under the Central Bank Act No. 16 of 2023. The total export proceeds repatriation and conversion in 2025 amounted to USD 17,103 Mn. and USD 5,207 Mn., respectively.

Monitoring and Enforcement Measures

ADs and AMCs were supervised throughout the year with a predetermined plan to ensure proper compliance with respect to the existing foreign exchange

regulatory framework. Accordingly, a total of 16 inspections were carried out on ADs while 24 onsite inspections were conducted on AMCs followed by initiation of regulatory actions. In strengthening the level of compliance by exporters on country's requirement to repatriate and convert export proceeds, regulatory actions were initiated with respect to 201 exporters on identified non-compliances.

Further, special emphasis was given to initiating regulatory actions with regard to reported cases where goods have not been imported to the country having made payments on advance terms in 2025. During the year penalties totaling a Rs. 34 Mn. were imposed on entities and persons who have violated the foreign exchange regulatory requirements.

Foreign Exchange Licensing and Public Awareness

As part of its regulatory efforts, the Central Bank issued permits for 59 money changers (including one new permit), 06 permits to licensed finance companies and 12 permits to hotels in 2025. In fulfilling the statutory minimum requirement of depositing foreign currency to the banking system, these AMCs all together had deposited USD 171 Mn. in 2025.

To improve stakeholder engagement and public awareness, Central Bank conducted:

- Awareness sessions on Foreign Exchange Regulations, foreign exchange regulation framework and operational compliance requirement.

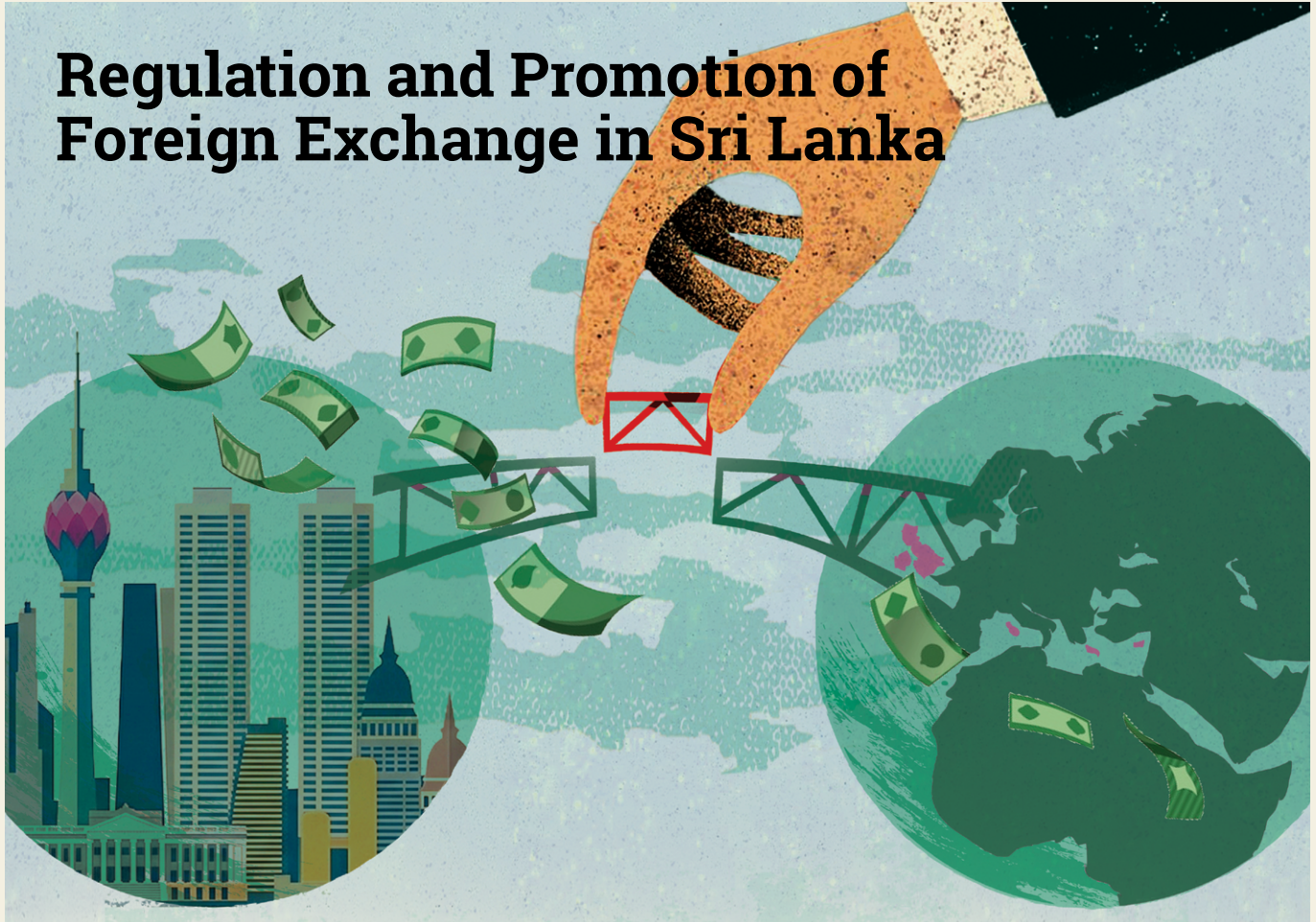


2025 Highlights

- ➔ Orders were issued under the Section 22 of the FEA, easing specified restrictions and limitations on outflows relating to capital transactions, including:
 - i. Companies listed on the Colombo Stock Exchange (CSE) were permitted to invest up to USD 750,000, or 20% of their net assets, whichever is lower, in ordinary shares of companies incorporated abroad via OIAs for the purpose of expanding their business abroad.
 - ii. Non-listed companies were allowed to invest up to USD 200,000 under similar conditions mentioned i. above.
 - iii. The limit on capital transactions via BFCAs was increased to USD 500,000 to facilitate business expansion abroad by enterprises with foreign exchange earnings.
 - iv. The maximum limit permitted for capital transactions through Personal Foreign Currency Accounts (PFCAs) of residents was raised to USD 25,000.
- ➔ Directions were issued to AMCs, by revising existing directions, extending the validity period of their permit for up to three (3) years, requiring them to engage in exclusively in money changing businesses at their premises, bringing changes on capital requirement primarily based on their geographical locations to encourage carrying out money changing business outside the western province and tourist destinations.
- ➔ During 2025, the Central Bank granted 03 special approvals for capital transactions and 82 permissions, and issued 929 clearances on outward investments and remittances by emigrants, etc.

Role of the Bank > Other Entrusted Responsibilities

Regulation and Promotion of Foreign Exchange in Sri Lanka



The Department of Foreign Exchange (DFE) of the Central Bank, is vested with the responsibility for regulating and promoting foreign exchange in Sri Lanka. Acting as the agent of the Government

of Sri Lanka under the Foreign Exchange Act, No. 12 of 2017 (FEA), the DFE plays a pivotal role in regulating foreign exchange in Sri Lanka facilitating the current¹ and capital² transactions of the stakeholders of the country.

Evolution of the Foreign Exchange Regulatory Framework in Sri Lanka

Sri Lanka's foreign exchange regulatory framework has undergone a significant transformation over the past seven decades. The foundation was laid under the Monetary Law Act, No. 58 of 1949, with the establishment of the Central Bank of Ceylon. A comprehensive legal structure subsequently emerged under the Exchange Control Act, No. 24 of 1953 (ECA), which implemented a control-oriented regime to administer scarce foreign exchange resources of the country.

¹ Current Transactions – include everyday international payments such as payments related to foreign trade and services, interest payments and investment income, loan repayments and family remittances for living expenses.

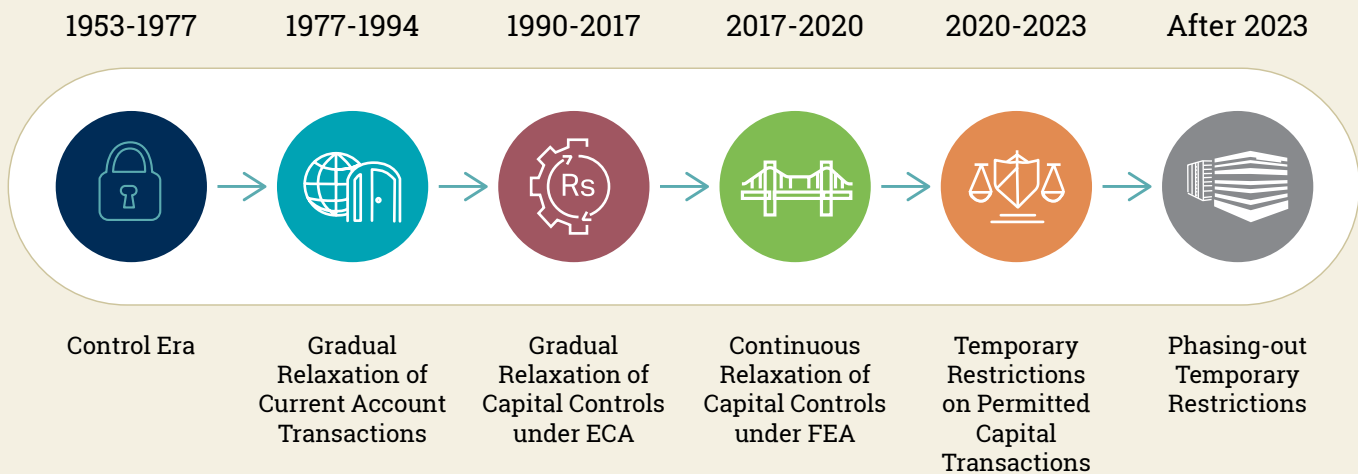
² Capital Transactions – involve cross-border foreign exchange transactions related to investments or asset transfers. (E.g. Investments made in Sri Lanka by non-residents, overseas investments made by residents and migrant fund transfers).

Role of the Bank > Other Entrusted Responsibilities

Open-Economy Reforms and Partial Liberalisation

The liberalisation reforms initiated in 1977 marked a fundamental structural shift. Trade reforms gradually eased exchange controls, with Sri Lanka's acceptance of the Article VIII obligations of the International Monetary Fund in 1994, thereby advocating full current account convertibility. While certain inflows relating to capital transactions were progressively liberalised, outflows relating to capital transactions remained subject to significant controls and special approvals.

Evolution of the Foreign Exchange Regulatory Framework in Sri Lanka



The regulatory journey has progressed from strict controls to a more liberalised framework reflecting a structural shift in regulating and promoting foreign exchange in Sri Lanka.

Transition to the Foreign Exchange Act No. 12 of 2017

Foreign Exchange Act, No. 12 of 2017 (FEA) was enacted in 2017, repealing the previous ECA, aiming to regulate and promote foreign exchange in Sri Lanka which marked an important milestone in the evolution of foreign exchange policy.

The main changes introduced in the FEA included,

- Statutory assurance on full current account convertibility
- Freedom for foreign currency earners to use their earnings for all current and capital transactions

- Empowerment of the Minister of Finance to issue Regulations and Orders, to prescribe permitted class of capital transactions with the approval of the cabinet of ministers
- All violations under FEA are considered as non-compliances as contrary to the offences under the ECA
- Establishment of a Board of Inquiry as an appealing authority to ensure administrative fairness
- Introducing measures to restrict or regulate foreign exchange remittances in instances where the remittance of foreign exchange into or out of Sri Lanka is deemed to constitute a potential threat to the financial stability

Accordingly, DFE as the implementing authority of the provisions of FEA, operates with the vision of facilitating the development of efficient, effective and an orderly managed foreign exchange market that would contribute to the economic prosperity of the country.

The Foreign Exchange Act, No. 12 of 2017 (FEA), enacted in 2017 marked an important milestone in the evolution of foreign exchange policy in Sri Lanka, with a focus on regulating and promoting foreign exchange.

Role of the Bank > Other Entrusted Responsibilities

DFE as the implementing agency of the FEA,

- Recommends to the Government, the capital classes to be liberalised to ensure sequential liberalisation of capital transactions supported by data driven analysis
 - Issues directions to License Banks (LBs) and Authorised Money Changers (AMCs) on the conduct of foreign exchange transactions
 - Grants permissions to LBs, AMCs and other entities to engage in foreign exchange dealings
 - Collects data and information on foreign exchange transactions through foreign exchange reporting systems
 - Carries out continuous oversight of foreign exchange transactions through on-site and off-site inspections as per a pre-determined plan and take enforcement actions where necessary which include suspension or revocation of licenses, and the imposition of monetary penalties
 - Conducts investigations on unauthorised foreign exchange dealings on public information and takes actions under FEA
- Introduction of the Special Deposit Accounts (SDAs) to encourage foreign exchange inflows
 - Facilitation of certain domestic foreign exchange transactions between resident entities allowing them to effectively manage their import requirement without disturbing foreign exchange market (E.g. Energy and power generating sector)

These measures which were introduced on temporary basis, and action has been initiated to gradually relax with favourable developments in the foreign exchange market. Accordingly, Central Bank is currently committed to easing capital flow management measures, with a priority placed on facilitating the global expansion of Sri Lankan enterprises reflecting a more market-oriented framework intended to deepen the country's global integration and to improve external stability.

Provisions for Crisis Management

FEA provides adequate tools to immediately deploy interventions with foreign exchange crisis situations. These were proven in the middle of recent foreign exchange crisis. Foreseeing the emerging difficulties, the DFE was empowered to introduce effective policy measures in a timely manner supporting country's effort in its path to recovery, including,

- Implementation of capital flow management measures temporarily suspending liberalised capital transactions in order to moderate outflows
- Repatriation of export proceeds within stipulated time and conversion of proceeds uplifting foreign exchange liquidity in the domestic market

Role of the Bank > Other Entrusted Responsibilities

Employees' Provident Fund

Employees' Provident Fund (EPF) managed by the Central Bank in partnership with the Department of Labour, continues to fortify its position as the nation's premier superannuation fund. By the close of 2025, the Fund's asset base reached an unprecedented level of Rs. 5 Tn., reflecting its scale and systemic importance to the financial system.

The Central Bank's commitment to disciplined fund management is evidenced by the competitive returns delivered to its members. By prioritising the long-term wealth of its contributors, the Fund successfully navigated shifting economic landscapes to declare interest rates that consistently outperformed market benchmarks. For the year 2025, Central Bank expects to declare 10.75% interest, subject to the concurrence of the respective ministers.

Throughout 2025, the EPF executed a strategic portfolio rebalancing. This involved diversifying into corporate debentures and ESG-themed bonds, alongside a proactive approach to the equity market. By capitalising on bullish market trends while simultaneously divesting from underperforming assets, the Fund has enhanced its risk-adjusted performance and ensured long-term sustainability.

Through these combined efforts in prudent financial stewardship and member centric operational reforms, the EPF remains steadfast in its mission to provide a secure and dignified retirement for the Sri Lankan workforce.

For comprehensive details, please refer to the EPF Website¹

Public Debt Management

The public debt management function of the Central Bank during 2025 was carried out within a clearly defined transitional legal framework established under the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA). In terms of Section 132 of the Act, Central Bank was authorised to continue to act as the agent of the Government in respect of the issuance of Government securities and the management of public debt, only on an interim basis, until the relevant law establishing a separate public debt management authority came into operation. Accordingly, pending the full operationalisation of the Public Debt Management Act, No. 33 of 2024, the Central Bank continued to perform public debt agency functions until December 2025. All of these responsibilities were transferred to the Public Debt Management Office (PDMO) established under the Ministry of Finance, effective from 01 January 2026.

In terms of the relevant provisions of the Public Debt Management Act and the CBA, the Central Bank will continue to operate the Scripless Securities Settlement System and the Central Depository System for government securities under the Central Bank. The supervision of Primary Dealers will also remain at the Central Bank.

In addition, the Central Bank facilitated the process of obtaining international sovereign credit ratings for the country.

For comprehensive details, please refer to the Public Debt Management Office Website²

Financial Intelligence Unit

The Financial Intelligence Unit (FIU) functions as an operationally independent department within the administrative structure of the Central Bank of Sri Lanka since February 2007, in terms of the Order made by H E the President under Financial Transactions Reporting Act, No. 6 of 2006 (FTRA).

The operational scope of the FIU is derived from the FTRA. The FIU facilitates the prevention, detection, and investigation of the offence of money laundering, financing of terrorism and related unlawful activities.

In 2025, the FIU further strengthened the national Anti-Money Laundering, Countering the Financing of Terrorism and Countering the Proliferation Financing of Weapons of Mass Destruction (AML/CFT/CPF) framework through the dissemination of proactive and reactive financial intelligence, strengthened supervisory and enforcement activities, enhanced stakeholder coordination and facilitated legislative reforms relating to AML/CFT/CPF.

Under the leadership of the AML/CFT National Coordinating Committee, the FIU has taken a series of comprehensive and strategic measures to strengthen the country's AML/CFT/CPF framework in preparation for the Mutual Evaluation-2026.

The FIU continued to carry out its core function of producing actionable financial intelligence through the collection, analysis, and timely dissemination of high-quality financial intelligence to law enforcement and competent authorities demonstrating operational effectiveness.

For comprehensive details, please refer to the FIU Annual Report available at FIU Website³

¹ <https://epf.lk/>

² <https://www.treasury.gov.lk/web/public-debt-management-office/section/public%20debt%20management%20office>

³ https://fiusrilanka.gov.lk/annual_reports.html

Role of the Bank > Other Entrusted Responsibilities

A Synopsis of the Central Bank's Public Debt Management Agency Function and Its Cessation



The Central Bank's Traditional Role in Public Debt Management

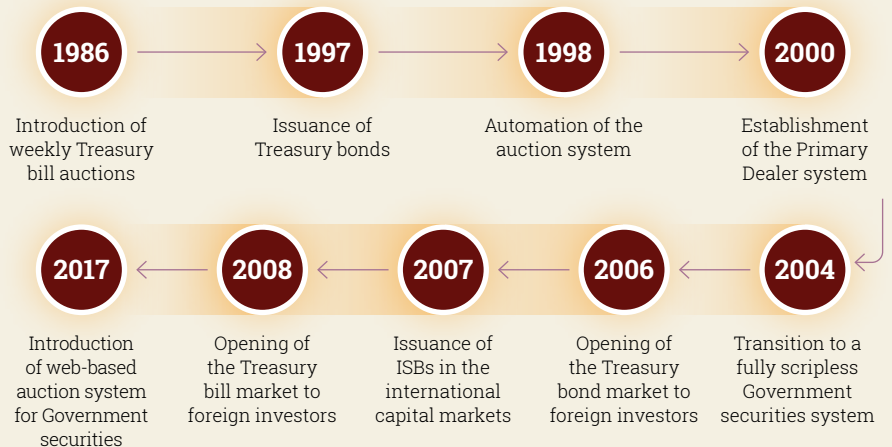
Debt Management Agency Function

Since its establishment in 1950, the Central Bank had played a limited debt management function as the Government's Agent under Section 113 of the repealed Monetary Law Act (MLA).

In this capacity, the Central Bank was responsible for mobilising government financing through the issuance of marketable securities in both domestic and foreign currency including Treasury bills, Treasury bonds, International Sovereign Bonds (ISBs), and Sri Lanka Development Bonds (SLDBs).

Key Reforms and Modernisation of Debt Markets

Over the decades, the Central Bank progressively strengthened the institutional and market infrastructure for public debt management. Key milestones included;



Role of the Bank > Other Entrusted Responsibilities

These instruments enabled the Government to raise funds for public expenditure while supporting the development of local capital markets.

Development of Government Securities Market Infrastructure

Over the decades, the Central Bank progressively strengthened the institutional and market infrastructure for public debt management. Key milestones included the introduction of weekly Treasury bill auctions in 1986, the issuance of Treasury bonds in 1997, and the automation of the auction process in 1998.

These reforms were followed by the establishment of the Primary Dealer system in 2000, the transition to a scripless government securities system in 2004, and the gradual opening of the domestic government securities market to foreign investors first for Treasury bonds in 2006 and subsequently for Treasury bills in 2008. In line with its commitment to transparency and market-based practices, the Central Bank introduced web-based platforms for the primary issuance of Treasury bonds and Treasury bills in 2017 and 2023, respectively.

Fund Raising and Debt Servicing

Throughout this period, the Central Bank pursued the objective of meeting the Government's financing requirements at the lowest possible cost, subject to prudent risk management considerations. Meanwhile, under its role as the Government's fiscal agent, the Central Bank also maintained an unblemished record of timely public debt servicing until the Government announced its Interim Policy Regarding the Servicing of Sri Lanka's External Public Debt in April 2022, consequent to the then ongoing economic crisis.

Facilitation of Government's Debt Restructuring Initiatives

Under the Extended Fund Facility arrangement with the International Monetary Fund (IMF-EFF), the Central Bank provided extensive technical and operational support to the Government throughout the debt restructuring process. This support initially focused on the domestic debt optimisation initiative and later extended to the external debt restructuring process. In this context, the Central Bank participated in the implementation of the Government's domestic debt optimisation programme announced in July 2023, including through the restructuring of its Treasury bill holdings and provisional advances to the Government.

In addition, the Central Bank facilitated the restructuring of Treasury bonds, Sri Lanka Development Bonds, and local-law foreign currency-denominated bank loans by operationalising the agreed payment arrangements and the issuance of re-structured Treasury bonds in line with agreements reached between the Government and respective creditors.

Establishment of the Public Debt Management Office

In line with commitments under the IMF-EFF arrangement and in accordance with international best practices, the Public Debt Management Office (PDMO) was established in December 2024 under the Public Debt Management Act, No. 33 of 2024.

The PDMO consolidated debt management functions that had previously been dispersed across the Ministry of Finance, Planning and Economic Development (MoF) and the Central Bank's Public Debt Department. To ensure a smooth transition, the Central Bank provided extensive

on-the-job training to PDMO staff, drawing on its institutional experience accumulated over more than seven decades.

During the transition phase, debt management operations were carried out at the Central Bank initially under its oversight, and subsequently under the approval of the MoF. This phased approach ensured continuity, operational stability, and knowledge transfer, culminating in the full operationalisation of the PDMO in December 2025.

Reforms in Public Debt Management Governance

Effective coordination between fiscal and monetary authorities remains essential for macroeconomic stability. To this end, a Coordination Council, chaired by the Governor of the Central Bank and including the Secretary to the Treasury as a member, has been established to facilitate high-level policy coordination, as per the CBA.

At the operational level, a Public Debt Coordinating Committee, chaired by the Deputy Secretary to the Treasury and comprising representatives from the Central Bank, supports ongoing collaboration on debt management matters.

The establishment of a fully functional PDMO under the Ministry of Finance has further eliminated the long-standing conflict of interest arising from the Central Bank's dual role in monetary policy formulation and public debt management. This institutional separation enables the Central Bank to focus exclusively on its core mandates, maintaining price stability as its primary objective and safeguarding financial system stability as its other objective in line with international best practice.