

## Role of the Bank

# Maintaining Domestic Price Stability

Maintaining domestic price stability is the primary objective of the Central Bank. It ensures that the general price level remains stable without undue volatility. Price stability also promotes investor confidence, facilitates efficient economic decision-making, and contributes to overall macroeconomic and financial stability thereby supporting sustainable economic growth.

## Monetary Policy Formulation

As specified in the Central Bank of Sri Lanka Act No.16 of 2023 (CBA), the Bank's Monetary Policy Board (MPB) is responsible for formulating monetary policy and the implementation of a flexible exchange rate regime that is consistent with the Flexible Inflation Targeting (FIT) framework. This framework aims to keep inflation aligned with the target set out in the Monetary Policy Framework Agreement (MPFA)<sup>1</sup> reached between the Minister of Finance, on behalf of the Government, and the Central Bank. The current agreement requires the Central Bank to maintain quarterly headline inflation at 5%.<sup>2</sup>

### Monetary Policy Decision-Making Process

Monetary policy decisions are forward-looking and data-driven. The MPB meets at least once in two months to determine the appropriate monetary policy stance, based on a comprehensive assessment of current and expected macroeconomic conditions. In its deliberations, the MPB evaluates inflation dynamics and its outlook, economic activity and future growth prospects, as well as associated risks and uncertainties, while also taking into account global economic developments and trends.

The policy formulation process begins with staff-level meetings, where sectoral experts analyse granular economic and financial data, including interest rates, monetary aggregates, external sector developments, and other key macroeconomic indicators. This process also evaluate forecasts generated by the Quarterly Projection Model (QPM), along with expert staff judgements.

These assessments are subsequently discussed at the Pre-Monetary Policy Committee (Pre-MPC), which includes both open (Tier I) and closed

(Tier II) sessions, focusing on technical evaluations, risk analysis, and medium-term macroeconomic projections.

Thereafter, the Monetary Policy Committee (MPC), chaired by the Governor and comprising Deputy Governors, relevant Assistant Governors, and relevant Heads of Department, deliberates on the macroeconomic conditions and makes recommendations to the MPB on the appropriate monetary policy stance. Finally, the MPB carefully considers the MPC's recommendations, along with its own assessment of macroeconomic developments, projections, and risks, before deciding on the monetary policy stance.

Once the MPB reaches a decision, the policy announcement is made public through a press release on the Monetary Policy Review, typically issued on the following day at 7.30 am, followed by a press conference chaired by the Governor to provide further clarity on the decision to the media and other stakeholders.



### 2025 Highlights

- ☛ In 2025, the MPB held six meetings to determine the monetary policy stance, issuing announcements on 29 January, 26 March, 22 May, 23 July, 24 September, and 26 November.
- ☛ The quarterly average of the Colombo Consumer Price Index (Base 2021=100) based year-on-year

headline inflation remained below 5% target throughout the year.

- ☛ Detailed reports outlining the reasons for inflation remaining below the target, the remedial measures proposed by the Central Bank, and the estimated timeframe for attaining the target were submitted to Parliament

via the Minister of Finance. These reports were subsequently reviewed by the Committee on Public Finance (CoPF) and made available to the public<sup>3</sup>.

<sup>1</sup> The Minister and the Central Bank may review the inflation target and related parameters every three years or at other intervals if exceptional circumstances arise. Upon such review, the Minister shall publish the updated target and parameters, along with the exceptional circumstances, in the Gazette.

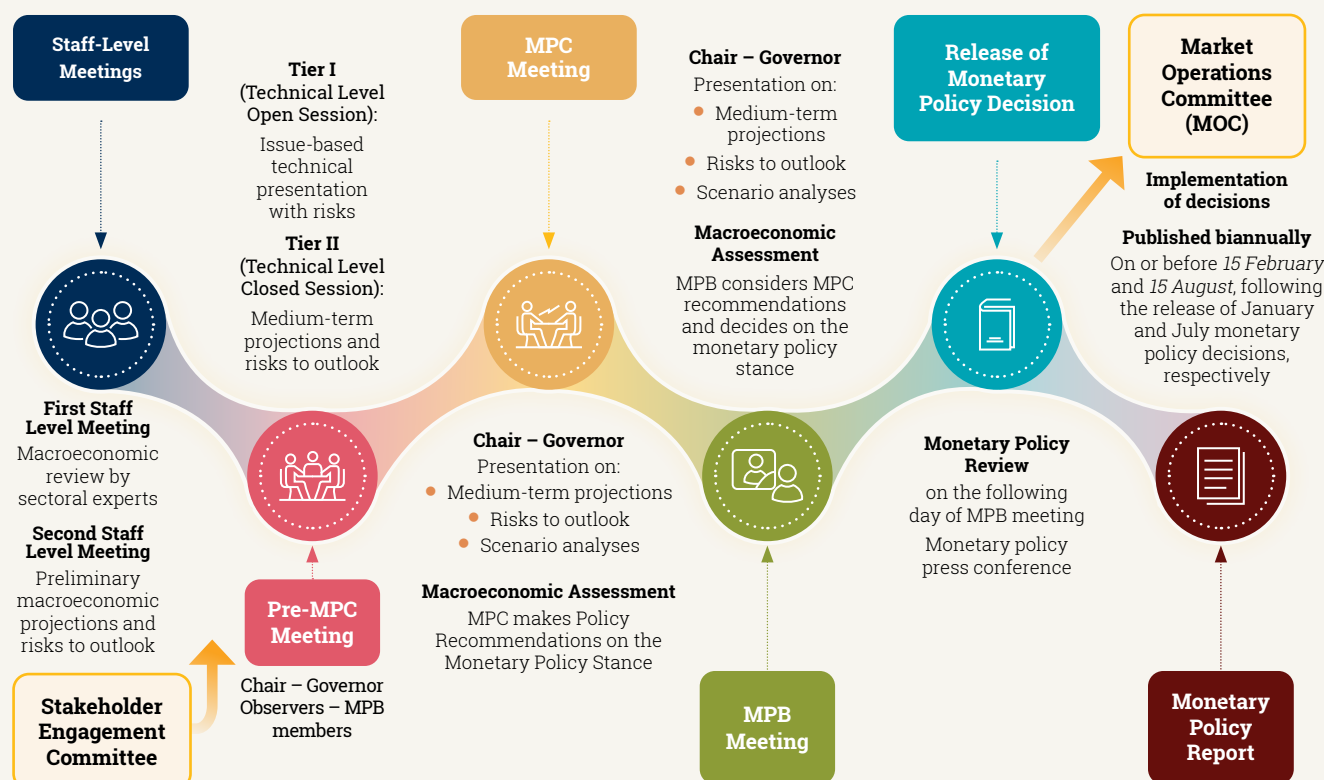
<sup>2</sup> The quarterly headline inflation rate refers to the simple average of the year-on-year percentage changes in the monthly headline Colombo Consumer Price Index (CCPI) for the three months of the corresponding quarter, with a margin of  $\pm 2$  percentage points allowed under the MPFA to measure potential deviations of realised inflation from the target.

<sup>3</sup> <https://www.cbsl.gov.lk/en/monetary-policy/monetary-policy-communication/accountability-to-parliament>

## Role of the Bank &gt; Maintaining Domestic Price Stability

## Monetary Policy Decision-Making Process in Sri Lanka (Six Times a Year)

Figure - 03



MPB – Monetary Policy Board

MPC – Monetary Policy Committee

**Coordination of Fiscal, Monetary, and Financial Stability Policies**

As stipulated under Section 83 of CBA, the Council for the Coordination of Fiscal, Monetary, and Financial Stability (Coordination Council) was established in late 2023 to facilitate detailed deliberations on how the Government's fiscal policy actions

and the Central Bank's monetary and financial stability policy measures could impact one another. The Central Bank and the Ministry of Finance share information and exchange views on recent macroeconomic developments, outlook and risks, with an assessment of the impact of the Government's economic policies on inflation, monetary conditions and fiscal operations.

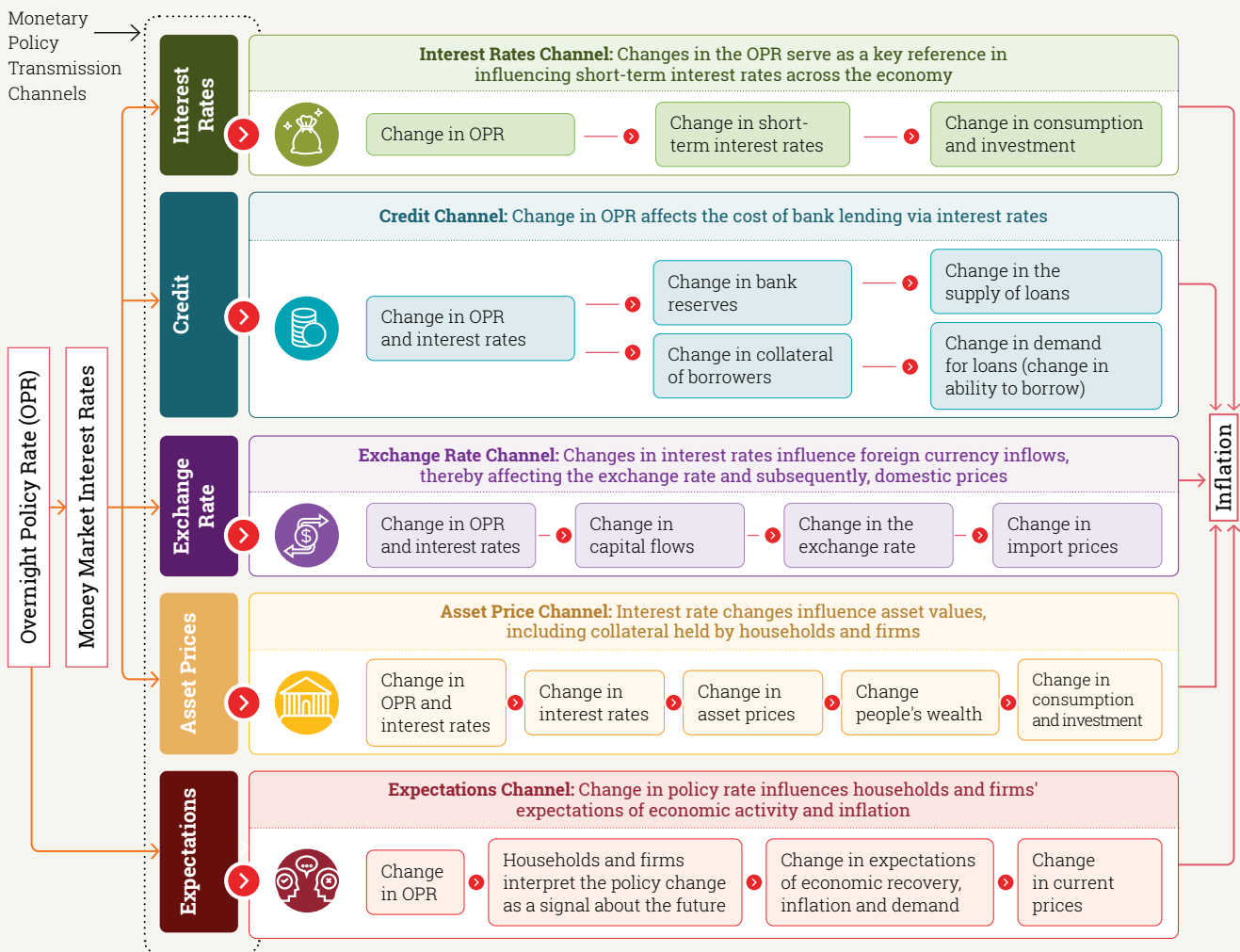
During the year 2025, Coordination Council meetings were held between the Governor of the Central Bank and the Secretary to the Treasury on 27 February, 26 June, 23 September and 16 December 2025.

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Monetary Policy Transmission Mechanism

Figure - 04

Central Bank policy decisions are transmitted to the broader economy via multiple transmission channels. The Overnight Policy Rate (OPR) is the Central Bank's policy rate, that signals its monetary policy stance, which is adjusted from time to time to steer inflation towards the target. The OPR serves as the primary benchmark for influencing short-term interest rates across the economy. Changes in the OPR are transmitted to the broader economy through five key channels: **interest rates, credit, exchange rate, asset prices, and expectations**. Through these channels, changes in the OPR influence consumption and investment patterns, the demand and supply of loans, import prices, and overall price dynamics, thereby ultimately altering the general price level of the economy and inflation.



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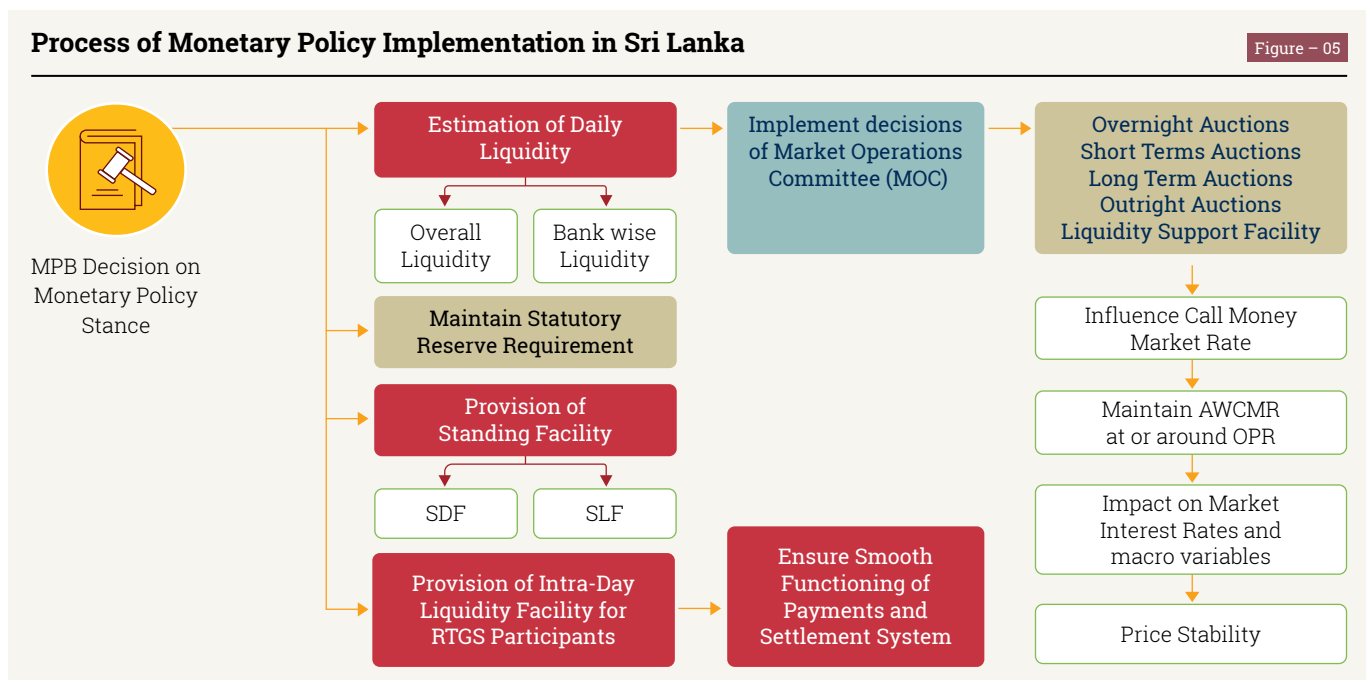
## Monetary Policy Implementation

### Implementing the Central Bank's Monetary Policy under the Flexible Inflation Targeting (FIT) Framework

To achieve domestic price stability, the Central Bank conducts Open Market Operations (OMOs) and deploys other monetary policy instruments to steer the Average Weighted Call Money Rate, the operating target of monetary policy, in line with the Overnight Policy Rate. In parallel, it operationalises a flexible exchange rate regime that allows market forces to determine the exchange rate, with interventions limited to mitigating excessive volatility and building external reserves. These actions are undertaken while ensuring the orderly functioning of money and domestic foreign exchange (FX) markets, the smooth operation of payment and settlement systems, and the overall stability of the financial system.

#### Process of Monetary Policy Implementation in Sri Lanka

Figure – 05



### Open Market Operations

OMOs are used by the Central Bank to manage liquidity in the domestic money market, ensuring that short-term interest rates are steered in line with the OPR.

- Liquidity injection operations, such as Short and Long-term Reverse Repo Auctions (1-7 days and 8-90 days respectively), Outright Purchase Auctions, the Liquidity Support Facility (LSF) for Standalone Primary Dealers (SPDs), and FX Swaps transactions (Buy-Sell) transactions, are employed when liquidity needs to be injected. Liquidity absorption operations, such as Short-term Repo Auctions (1-7 days), Long-term Repo Auctions (8-90 days),

Outright Sales Auctions, and FX Swaps (Sell-Buy), help absorb excess liquidity from the market.

- The Central Bank also sets the Statutory Reserve Requirement (SRR), which is the minimum amount of reserves Licensed Commercial Banks (LCBs) must hold in their reserve accounts with the Central Bank, in proportion to their total rupee deposit liabilities.

In addition, the Central Bank provides the following:

- **Standing Facilities:** Standing facilities are provided to Participating Institutions (PIs) that are unable to fulfill their short-term liquidity

requirements through the money market and the daily OMO auctions. These facilities include the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) at the Standing Lending Facility Rate (SLFR) and Standing Deposit Facility Rate (SDFR) respectively.

- **Intraday Liquidity Facility (ILF):** ILF is provided to the Real Time Gross Settlement (RTGS) participants to ensure the smooth and efficient functioning of the RTGS system.

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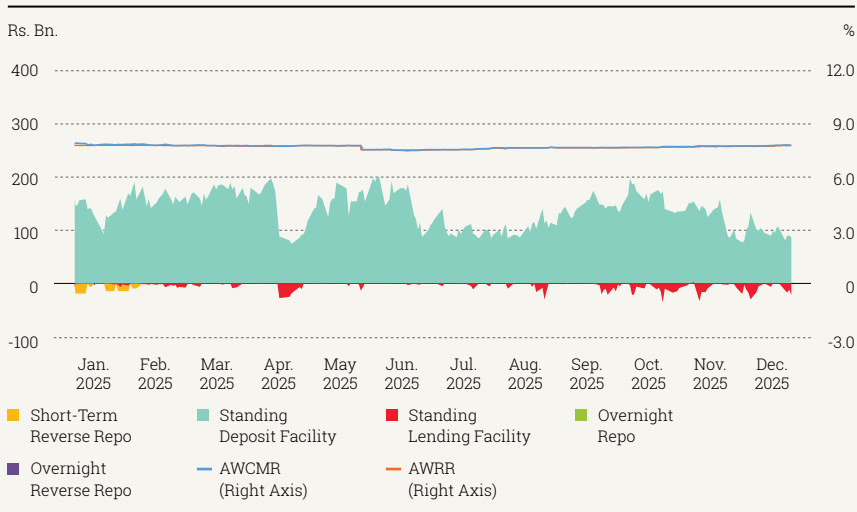


### 2025 Highlights

- Liquidity conditions in the domestic money market remained consistently in a surplus throughout the year 2025. Liquidity surplus stood at Rs. 175.2 Bn. at end December 2025, compared to Rs. 168.1 Bn. reported by end 2024. The surplus liquidity was mainly due to substantial foreign exchange purchases of the Central Bank undertaken to strengthen the foreign reserve position of the Country. However, liquidity surplus was partly absorbed through foreign loan repayments by the Government, utilising foreign exchange obtained from the Central Bank, coupon payments to the Central Bank on account of its Treasury bonds holdings, as well as due to increased currency withdrawals of banks from the Central Bank throughout 2025.
- The usage of interest-free Intra-day Liquidity Facility provided by the Central Bank was Rs. 111,788.0 Bn. with a daily average of Rs. 467.7 Bn. during 2025.
- The AWCMR broadly hovered closer to the OPR during the first half of 2025, but somewhat tightened liquidity conditions in the second half coupled with asymmetric liquidity distribution, and the concentration of liquidity within certain banks resulted in the AWCMR to increase from mid July 2025. As this deviation was considered tolerable, the Central Bank refrained from providing additional liquidity to tame the uptick in short-term rates. The AWCMR realigned with the OPR by January 2026.
- The Central Bank did not intervene in the domestic money market through its OMOs, since end January 2025. However, on a need basis in January 2025, the Central Bank conducted limited number of overnight reverse repo auctions and short-term reverse repo auctions amounting to Rs. 48.4 Bn.
- During 2025, Rs. 33,686.7 Bn. was accepted from Participating Institutions (PIs) under Standing Deposit Facility, while the usage of Standing Lending Facility was Rs. 1,082.3 Bn.
- During 2025, SRR remained unchanged at 2% throughout the year, and the Central Bank continued to monitor the compliance of LCBs with the SRR ratio.

### Monetary Operations and Behaviour of Short-term Interest Rates: 2025

Graph - 01



### Domestic FX Market Operations

The Central Bank monitors the interbank and customer FX transactions via Central Integrated Market Monitor (CIMM), a system that captures both domestic money market and domestic FX market

transactions executed in the interbank market through Authorised Money Brokers or electronic trading platforms. These systems facilitate the Central Bank to identify movements in the exchange rate.

In addition, the Central Bank introduced a matching platform to support enhanced price discovery, promote greater transparency in the domestic FX market and to monitor real-time market conditions.

In line with the overall policy stance, the Central Bank intervenes in the domestic FX market by way of injecting (selling) or absorbing (purchasing) FX in order to curtail the excessive volatility in the exchange rate and to augment FX reserves. In addition, bilateral buy-sell swap transactions are executed with Licensed Commercial Banks (LCBs) and the National Savings Bank (NSB) to temporarily accumulate FX reserves. Similarly, the Central Bank executes sell-buy swap agreements with LCBs and NSB to inject FX liquidity without permanently depleting the FX reserve positions. These swap transactions help banks to manage their liquidity positions and cash flows, in both FX market and domestic money market and to be used for hedging requirements.

## Role of the Bank > Maintaining Domestic Price Stability



### 2025 Highlights

➔ The Sri Lanka rupee recorded a modest depreciation of 5.6% against the USD moving from Rs. 292.58 at end 2024 to Rs. 309.99 at end 2025. Lifting of vehicle import restrictions, geopolitical tensions, and imposition of reciprocal tariffs by the United States created volatility in the exchange rate and exerted depreciation pressure on the exchange rate during the year.

➔ New buy-sell swaps totaling USD 2,045.0 Mn. were executed, while USD 1,442.0 Mn. buy-sell swaps matured and USD 1,320.0 Mn. buy-sell swaps were rolled over by the Central Bank. As a result, the outstanding amount of buy-sell swap transactions increased from USD 1,318.3 Mn. at end-2024 to USD 1,921.3 Mn. by the end-2025, on value date basis. These swap transactions helped banks to manage their liquidity positions and cash flows, in both the FX market and the domestic money market and served for hedging requirements.

➔ The Central Bank purchased USD 2,100.4 Mn. and sold USD 108.0 Mn. during 2025 on value date basis recording a net purchase of USD 1,992.4 Mn. on value date basis. These net purchases helped the country's gross official reserves to reach USD 6,827.2 Mn. by end 2025; is the highest level of reserves recorded during the post-crisis period.

➔ In the year 2025, the FX market of Sri Lanka successfully implemented the FX matching platform, as per the

initiative taken by the Central Bank aimed at developing a deeper and more efficient FX market. This platform, which is accessible to all LCBs, NSB and the Central Bank, has enabled market participants to deal with each other on a common platform aiming at enhanced price discovery, promoting greater transparency and efficiency in the domestic FX market, while modernising Sri Lanka's financial infrastructure.

➔ Measures were taken to improve the accuracy and comprehensiveness of the FX-related data reported by LCBs and NSB via CIMM System, to enhance the accuracy of the calculation of the FX Net Open Position (NOP), and related reporting that enabled the Central Bank to closely monitor market activity and assess FX NOP with greater precision.

➔ As announced in the Governor's Annual Policy Statement – 2026, the Central Bank comprehensively reviewed Sri Lanka's existing SRR framework in 2025 to seek areas to improve effectiveness of SRR framework and to strengthen monetary policy implementation in line with international best practices.

### Providing Provisional Advances to the Government

In terms of Section 127 of the Central Bank of Sri Lanka Act, the Central Bank may provide direct provisional advances to the Government to finance expenditure within the first month of the financial year at the prevailing market interest rate. However, no provisional advances were provided to the Government during the year 2025, as no such request was received from the Government.

### Maintaining Government Accounts

In performing the functions relating to the role of the Central Bank as the banker to the Government, Central Bank continued to provide banking facilities to government departments, agencies, institutions, and certain foreign entities on behalf of the Government. Accordingly, the Central Bank maintained 42 such accounts during 2025. Approximately 90% of the transaction volume of these accounts related to the Deputy Secretary to the Treasury (DST) Account, the Public Debt Current Account, the Inland Revenue Commissioner's VAT Refund Account, and the President's Fund Account.

### Maintaining Accounts of Financial Institutions

In performing the functions relating to its role as the banker to the banks, the Central Bank continued to maintain current accounts facilitating payment and settlement services to Licensed Banks. With respect to settlement facilities provided to such banks, settlements were made in relation

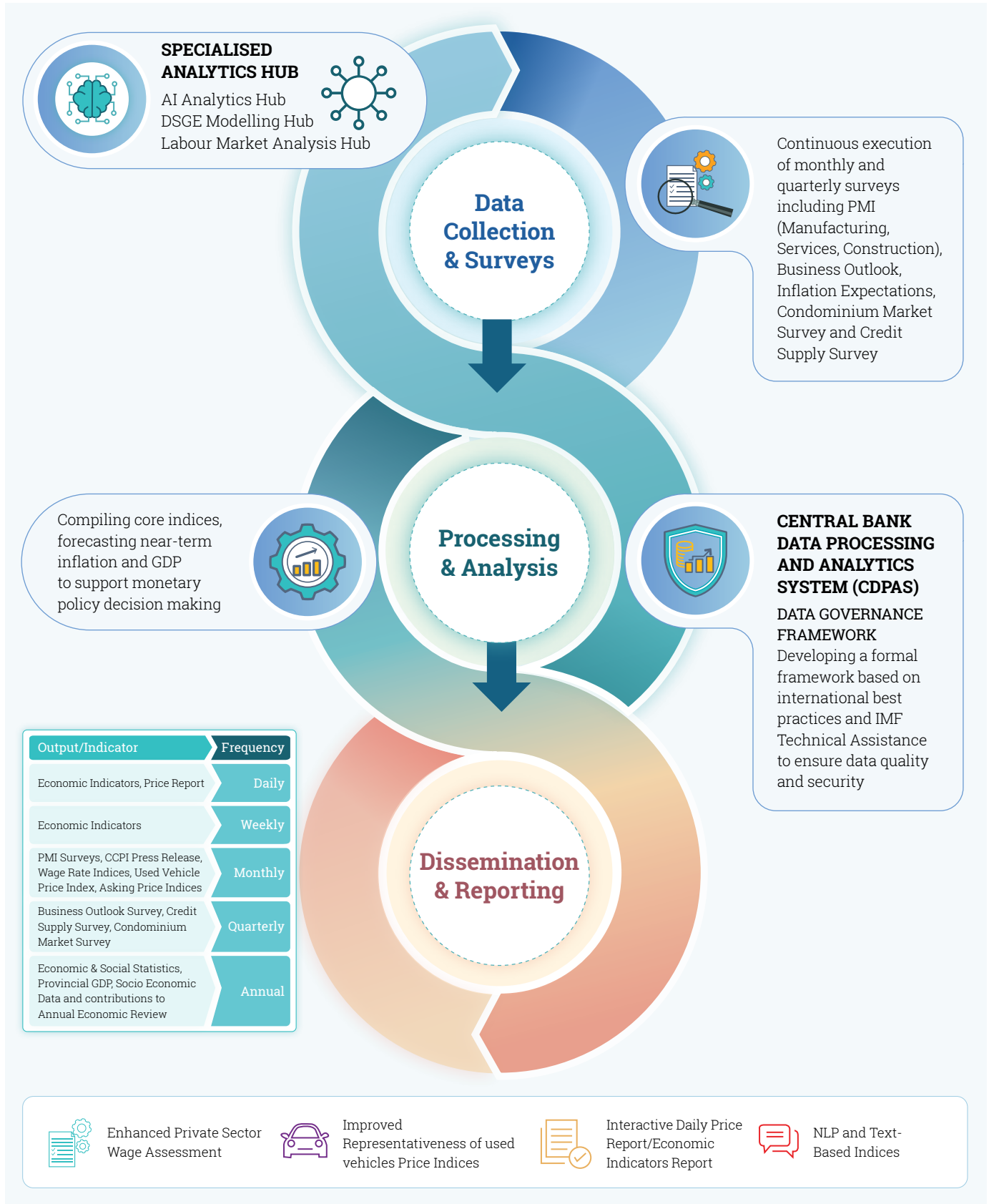
to the key payment and settlement systems, i.e., Cheque Imaging and Truncation System (CITS), Sri Lanka Inter-bank Payment System (SLIPS), via the RTGS System. As at end 2025, the Central Bank maintained General Ledger (GL) accounts for 24 LCBs, National Savings Bank,

and 7 SPDs to facilitate the payments and settlements among the RTGS participants.

Role of the Bank > Maintaining Domestic Price Stability

Statistics for Monetary Policy

Figure - 06



## Role of the Bank > Maintaining Domestic Price Stability

### Monetary Policy Communication

In 2025, the Central Bank strengthened its monetary policy communication framework to enhance transparency, accountability, and credibility in support of price stability. This was achieved through targeted initiatives, including awareness campaigns on the monetary policy, technical engagements with media professionals, dissemination of multilingual digital content, and a range of outreach programmes. Monetary policy decisions were announced according to the Advance Release Calendar published at the beginning of the year, and each of the six MPB meetings was followed by a Monetary Policy Review press release and a press conference explaining the rationale for the decision and the outlook for the economy.

These announcements were complemented by a structured communication effort designed to improve accessibility and public understanding. In addition to trilingual press releases and press conferences,

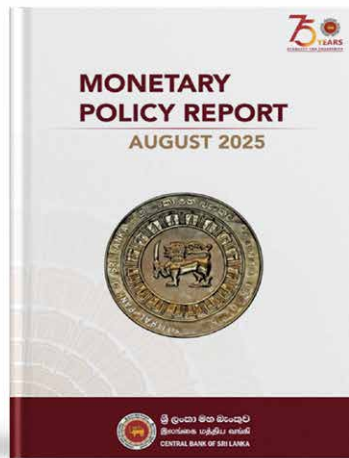
the Bank disseminated layered communication products such as Monetary Policy At a Glance flyers and video snippets highlighting key messages from the press conference across digital and social media platforms.

The statutory Monetary Policy Report (MPR), published in February and August continues to serve as one of the Bank's flagship publications, presenting an assessment of key macroeconomic developments, underlying drivers, medium-term projections, and associated risks, together with an overview of monetary policy implementation, within the FIT framework, with a focus on maintaining price stability and supporting a flexible, market-determined exchange rate with interventions limited to curbing excessive volatility.

The Market Operations Report (MOR) is a bi-annual publication that enhances transparency and strengthens stakeholder understanding of monetary operations and developments in the domestic money market. It provides comprehensive insights into the

monetary and foreign exchange operations undertaken by the Central Bank in implementing monetary policy under the FIT framework, supported by a flexible exchange rate regime. By clearly outlining these operations, the MOR promotes greater awareness of how market activities are aligned with the prevailing monetary policy stance.

With inflation remaining below the 5% target in 2025, the Central Bank submitted reports on breach of the agreed inflation target under the FIT framework as the provisions of the CBA, to Parliament outlining the reasons for the deviation, the expected time frame for a return to the target, and the policy measures undertaken to restore price stability.



## Role of the Bank > Maintaining Domestic Price Stability

### Management of International Reserves

Under the CBA, the Central Bank of Sri Lanka is responsible for managing the international reserves of the country, in accordance with internationally accepted best practices and policies approved by the Governing Board (GB).

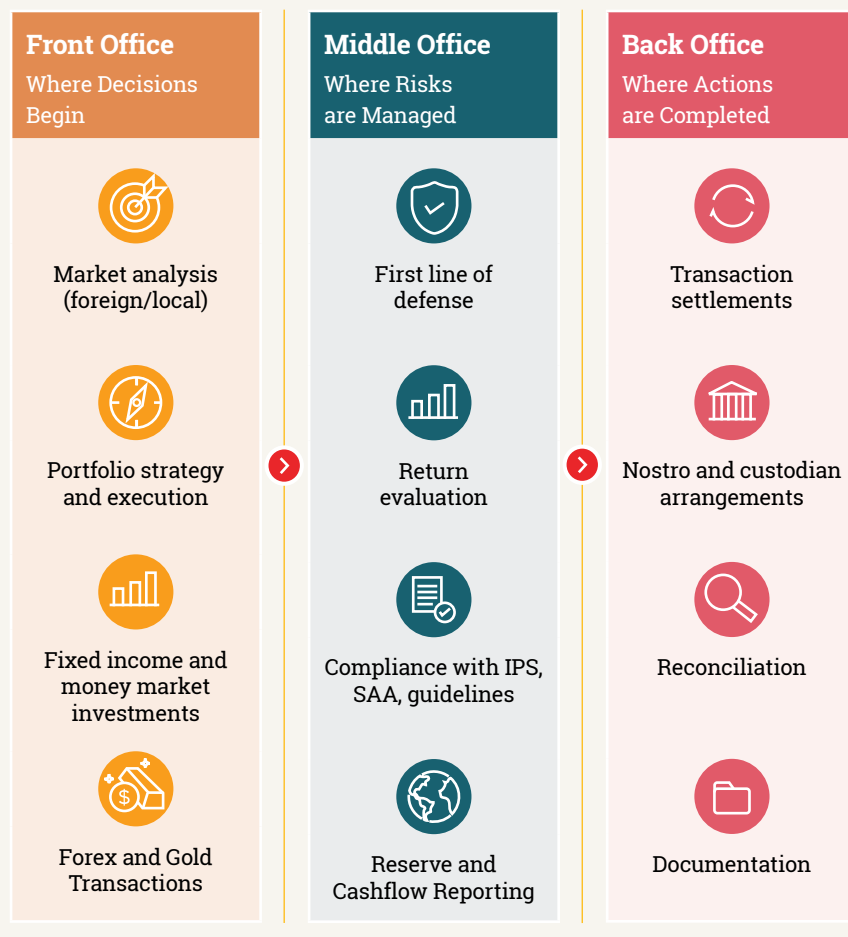
The international reserve investment portfolio of the Central Bank comprises foreign fixed-income securities, money market instruments, gold investments, securities lending activities (managed by the custodians on behalf of the Central Bank), repurchase and reverse repurchase transactions, foreign exchange swaps and forwards, and other derivative instruments.

International reserves are managed in accordance with a scientific model-based Strategic Asset Allocation (SAA) framework. Under the SAA, foreign reserves are objectively divided mainly into three tranches for better management purposes, and each tranche is assigned with an investment horizon, currency composition and benchmarks. Investment decisions are taken following a comprehensive analysis of liquidity requirements and market conditions at the Dealers' meeting.

Performance and the risk aspects of the international reserves are reported to the GB, through quarterly board papers, subsequent to monthly presentations made to the International Reserves Investment Oversight Committee (IRIOC), following the daily/weekly discussions executed as deemed necessary. Additionally, certain information such as breach of approved limits for trading, counterparty credit rating downgrades, premature withdrawal of deposits, if any, are reported to the management as and when necessary.

#### Operational Structure

Figure – 07



#### Risk Management and Business Continuity

The investment management team operates under a rigorous Code of Conduct, with all team members required to formally confirm their adherence to ethical and professional standards on an annual basis, reinforcing a culture of integrity and accountability.

To ensure uninterrupted operations, business continuity is maintained through a dedicated disaster recovery site, which provides continuous

access to critical trading systems for any unexpected disruptions such as system failures, natural disasters, cyber incidents or other unforeseeable operational emergencies. This is further supported by secured off-site provisions, enabling the team to execute essential tasks seamlessly, even under exceptional or emergency circumstances in line with international best practices, thereby safeguarding the resilience and reliability of the operations.

**Role of the Bank > Maintaining Domestic Price Stability****2025 Highlights**

- Established the Investment Management Department by amalgamating investment activities of international reserves, internal investment funds and deposit insurance funds into a single department within the Central Bank.
- Generated a total rate of return of 5.5% by investing the Central Bank's international reserves in 2025, which amounted to USD 260 Mn.
- With the increase of international reserves, re-established the investment tranche after four years, aiming at enhancing portfolio returns.
- Re-joined the Reserve Advisory and Management Partnership (RAMP) of the World Bank by appointing the World Bank as an external manager, following the withdrawal in 2021.
- Established an Early Warning Framework (EWF) to monitor movements of international reserves.
- Re-entered the international gold market with the objective of rebuilding core gold reserves, in line with the portfolio diversification strategy.
- Signed the second addendum to the special swap agreement with the Reserve Bank of India, with a reduction of the interest cost by 50 basis points.

# Ensuring Financial System Stability

## Macroprudential Authority

With the enactment of the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA), the Central Bank of Sri Lanka was designated as the country's macroprudential authority. Accordingly, the Central Bank is empowered to formulate and implement macroprudential policies aimed at strengthening the resilience and stability of the financial system.

### Strengthened Macroprudential Oversight of Systemically Important Financial Sector Participants

As the macroprudential authority, the Central Bank is mandated to adopt and apply enhanced macroprudential oversight over systemically important financial sector participants. In this context, during 2025, the Central Bank designated five Licensed Banks (LBs) as Domestic Systemically Important Banks (D-SIBs). These banks are required to maintain an additional capital surcharge to enhance their resilience to adverse shocks. Furthermore, the Central Bank conducts bi-annual risk assessments to identify risks and vulnerabilities arising from D-SIBs and to formulate policy recommendations

aimed at safeguarding overall financial system stability. The first bi-annual risk assessment for the year was conducted in September 2025.

### Loan-to-value (LTV) caps

In July 2025, revisions were introduced to the LTV caps applicable to credit facilities granted in respect of motor vehicles. This revision is intended to enhance the effectiveness of LTV caps as a macroprudential policy tool by aligning their application solely with macroprudential objectives. Further, considering the significant growth in credit facilities granted in respect of motor vehicles by LBs and Finance Companies (FCs), the Central Bank further revised the LTV limits in November 2025 by tightening those applicable to certain categories of unregistered vehicles and registered vehicles that have been used in Sri Lanka for less than one year.

### Macroprudential Surveillance to Monitor the build-up of Systemic Risks

During 2025, the Central Bank continued to undertake macroprudential surveillance to monitor the build-up of systemic risks. Accordingly, the Central Bank conducted quarterly risk analyses of the financial sector through the Quarterly Risk Assessment (QRA),

comprehensively covering key areas such as macro-financial conditions, financial institutions, and financial markets, with a view to identifying potential vulnerabilities in the financial system. In addition, the Central Bank continued to conduct stress testing of the banking sector to assess its resilience to adverse shocks. The analysis to evaluate interlinkages among financial institutions was further enhanced by incorporating bilateral and bidirectional exposures of FCs with the banking sector. These exercises support the early identification of systemic vulnerabilities, strengthen policy preparedness, and facilitate timely macroprudential interventions to safeguard overall financial system stability.

### Financial Stability Review 2025

In line with the CBA, the Central Bank published Financial Stability Review 2025<sup>1</sup> in October together with summary reports issued in Sinhala, Tamil and English. This publication provides an assessment of the stability and resilience of Sri Lanka's financial system by analysing macro-financial conditions, financial institutions, and financial markets. It identifies key risks and vulnerabilities, evaluates the system's capacity to absorb shocks, and outlines policy measures to safeguard overall financial stability.



## 2025 Highlights

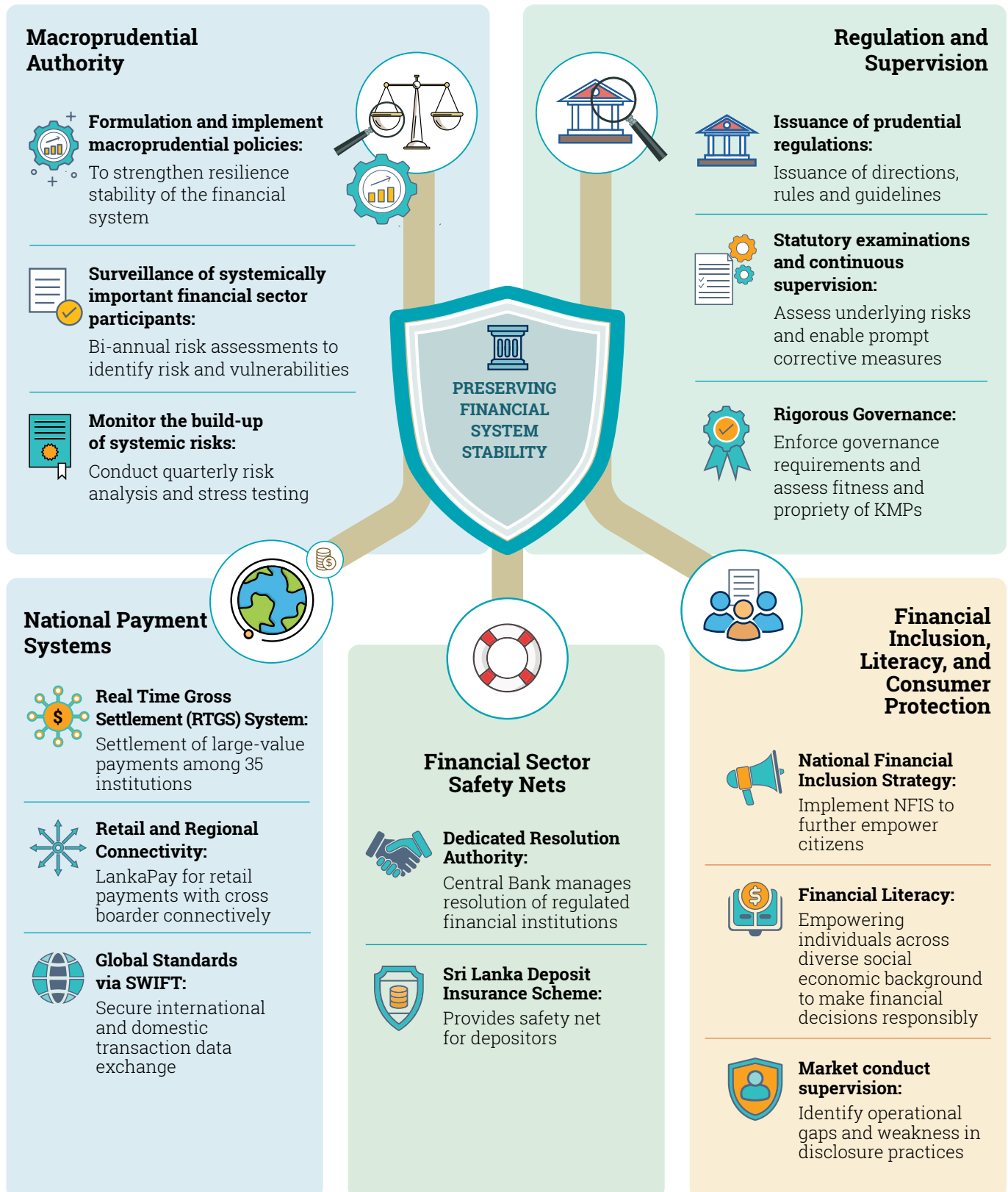
- Five LBs were identified as D-SIBs and additional capital surcharge requirements were imposed.
- The first bi-annual risk assessment of D-SIBs for 2025 was completed in September 2025.
- LTV caps on motor vehicle financing were revised in July 2025 and further tightened in November 2025 in response to rising credit growth.
- QRAs and stress testing exercises were conducted to monitor systemic risks and assess the resilience of financial institutions.
- Financial sector interlinkage analysis was strengthened by incorporating bilateral and two-way exposure data between FCs and LBs.
- The Financial Stability Review 2025 was published in October 2025.

<sup>1</sup><https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/financial-system-stability-review>

## Role of the Bank &gt; Ensuring Financial System Stability

## Preserving Financial System Stability

Figure – 08



## Role of the Bank > Ensuring Financial System Stability

### Regulation and Supervision of Banks

In terms of the provisions of the Central Bank of Sri Lanka Act, No. 16 of 2023 and the Banking Act No. 30 of 1988, as amended, the Central Bank of Sri Lanka carries out its functions to ensure the safety and soundness of the banking system in Sri Lanka and to safeguard the interests of depositors and other stakeholders of licensed commercial banks (LCBs) and licensed specialised banks (LSBs) (hereinafter referred to as licensed banks (LBs)). Accordingly, the Central Bank carries out the following key functions:

- **Licensing and regulation:** the Central Bank issues licences to conduct banking business, formulates and issues prudential regulations.
- **Continuous supervision and statutory examinations of LBs:** conducts continuous surveillance and statutory examinations of LBs.
- **Governance oversight:** assesses and approves the fitness and propriety of Directors, Chief Executive Officers (CEOs) and Officers Performing Executive Functions in LBs.
- **Regulatory approvals:** grants regulatory approvals in terms of the Banking Act, initiating regulatory actions, where necessary.
- **Awareness and capacity building:** the Central Bank enhances awareness and capacity in the banking sector through continuous training and guidance.

The Sri Lankan banking sector comprised of 24 LCBs and 6 LSBs as at end 2025.

#### Issuance of Prudential Regulations

During 2025, the Central Bank issued several Banking Act Directions, Determinations, and Circulars on prudential and regulatory requirements

to enhance the resilience of LBs. The key regulations include the Banking (Special Provisions) Act Directions on Recovery Plans for LBs, Circular on Reporting of Information Technology and Cybersecurity Incidents of LBs, an Addendum to the Banking Act Directions on Corporate Governance for LBs, Amendments to the Banking Act Determination on Approved Securities for Accommodation Granted to Related Parties of LBs and Circular on Guidelines for the Establishment of Mobile Banking Units (MBUs), Banking Act Determination on Annual Licence Fee for LBs, and relief measures to individuals and businesses whose income or business has been directly affected due to recent cyclonic and flood disasters.

The Central Bank entered into a Memorandum of Understanding (MoU) with the Nepal Rastra Bank on 20 February 2025, for the purpose of sharing information and enhancing cooperation in the areas of supervision, regulation, crisis management, and resolution of financial institutions and providing capacity building and technical assistance.

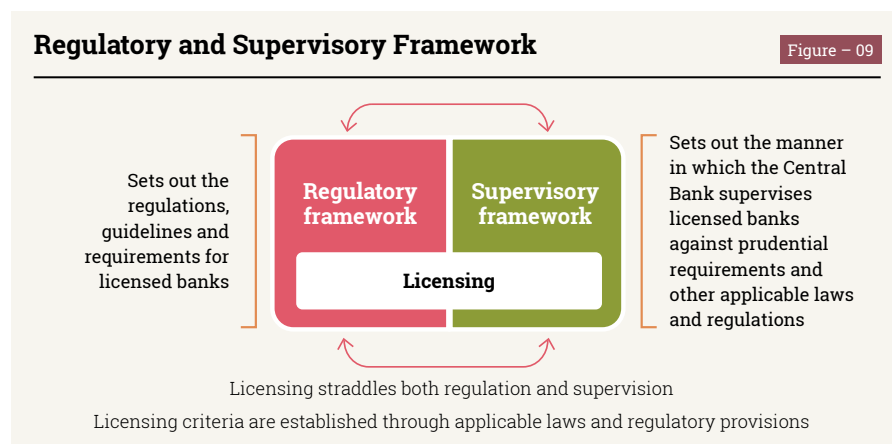
Further, the Central Bank and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) entered into an MoU on 01 December 2025, for the purpose of sharing relevant information between the two parties with respect to non-compliances with the applicable regulations/standards and other concerns of regulated financial institutions.

Further, in order to facilitate the offshore banking activities in Colombo Port City, while strengthening the regulatory and supervisory framework relating to such activities, the Central Bank provided observations and suggestions to the Ministry of Finance, Planning and Economic Development on the draft Bill to amend the Colombo Port City Economic Commission Act No. 11 of 2021.

Moreover, the Central Bank contributed to the formulation of the Sustainable Finance Roadmap 2.0 by providing observations whilst participating in several discussions and proceeded with further development related to the new Banking Act Directions on sustainable finance activities of LBs.

#### Conduct of Continuous Supervision

During 2025, continuous supervision was further strengthened to assess the underlying risks of the banking sector and to enable prompt corrective measures to safeguard depositors' funds. During the year, the process of granting regulatory approvals was further streamlined, and the process of automating workflows was initiated.



## Role of the Bank > Ensuring Financial System Stability

### Regulatory Approvals

During 2025, regulatory requests relating to 3,627 branches, banking outlets, and agents were processed, of which 3,555 approvals were granted.

#### Approvals Relating to Branches and Other Banking Outlets

Table: 01

Types of approvals	No. of branches/banking outlets/agents	
	Processed	Granted
Opening and installation of branches, self-service machines (SSMs), student saving units (SSUs), other banking outlets and agents of LBs	130	103
Relocation of branches, SSMs and others	83	64
Closures and cancellation of approvals granted for branches and other service outlets	37	28
Discontinuation and cancellation of approvals granted for ATMs and Other Automated Machines	62	45
Discontinuation and cancellation of approvals granted for agents of LBs	3,315	3,315
<b>Total number of branches/banking outlets/agents</b>	<b>3,627</b>	<b>3,555</b>

In addition to the approval granted for branches and other banking outlets, the Central Bank granted the following regulatory approvals to LBs in 2025.

#### Other Regulatory Approvals Granted

Table: 02

Type of approval	No. of approvals
Assessing fitness and propriety for appointment of KMPs including CEOs	130
Assessing fitness and propriety for appointment of Directors	47
Outsourcing arrangement – concurrence	12
Disposal of property below market value	3
Inclusion of debentures in Tier 2 capital	7
Abandoned property reimbursements	1
Expatriate staff visa recommendations/renewals	13
Other approvals/assessments	86
<b>Total</b>	<b>299</b>

In case of a refusal of a request made by an LB, the decision was communicated to LBs with justifications/reasons. During 2025, the Central Bank facilitated the process of appointing new directors to State-Owned Banks (SOBs) as a part of SOB reforms related to governance, risk management, and oversight of such banks, as approved by the Cabinet of Ministers.

Further, the Central Bank, with a view to facilitating the present economic recovery path of the country by promoting resilience and financial stability, introduced the Banking Sector Consolidation Framework, requiring locally incorporated LBs with assets less than Rs. 400 Bn. to submit self-assessments bi-annually which will be evaluated based on specific scoring criteria.

The Central Bank continuously facilitated the on-going restructuring process of the Housing Development Finance Corporation Bank of Sri Lanka (HDFC) and the State Mortgage and Investment Bank (SMIB), during 2025.

Furthermore, the Central Bank facilitated the consolidation of LBs by overseeing the absorption of the Sri Lanka Savings Bank by the National Savings Bank and two foreign banks in the disposal of their retail portfolios and purchase of the same by two LBs.

### Regulatory Actions

During 2025, instructions on corrective measures were issued on 08 occasions in relation to non-compliances with the Banking Act and related Directions.

### Conduct of Periodic Examinations

The Central Bank conducted 17 statutory examinations of LBs, 6 examinations on full scope including 2 consolidated supervision, 6 examinations on limited scope and 5 examinations on follow-up basis, covering statutory examinations of 5 Domestic systemically Important Banks (D-SIBs), 4 foreign banks, 1 large bank and 7 medium and small sized banks in 2025.

6 Spot Examinations were conducted on several LBs, *inter-alia*, to verify matters relating to core banking system failures, data breaches, credit governance, market risk and offshore lending of 5 banks.

Onsite examinations were conducted jointly with Financial Intelligence Unit (FIU) and on a standalone basis, as well as off-site supervision to assess the compliance of each LB's Money Laundering (ML), Terrorist Financing (TF) Proliferation Financing (PF) risks, and informs the concerns, if any, to FIU to effect enforcement actions under Financial Transactions Reporting Act (FTRA) as may be deemed appropriate.

## Role of the Bank > Ensuring Financial System Stability

During 2025, 10 joint supervision examinations were conducted with FIU and 5 standalone examinations.

Further, the Central Bank carried out prudential supervision of 5 Primary Dealer Units of LCBs in 2025.

### Stakeholder Communication and Engagement

With a view to having effective communication with stakeholders, monthly meetings chaired by the Governor were conducted with CEOs. In addition, two meetings were held with bank chairpersons to apprise on the banking sector performance and developments in the economy. As a part of the supervisory mechanism, several discussions were held with the Board of Directors and senior management of certain banks on key supervisory

concerns/findings. Moreover, several meetings were held with the external auditors to discuss matters related to the audit of financial statements of LBs. Further, with a view to building a secure financial ecosystem, two meetings were held in 2025 with the Chief Information Officers of LBs to discuss the latest developments in the information security landscape and to assess the readiness of the banking system to mitigate such potential risks and challenges. The Chief Information Security Officers of LBs also participated to one of such meetings. In addition, several meetings were held with external parties, including discussions on the implementation of relief measures for Small and Medium-sized Enterprises (SMEs) by LBs.

During 2025, the Central Bank coordinated and participated in several missions of the International Monetary Fund, World Bank, and Asian Development Bank with respect to implementing financial sector stabilisation measures to ensure the resilience of the banking sector. In addition, the Central Bank continued to contribute to capacity building in the banking sector by providing resource persons for training programmes, while also offering training and development opportunities for its staff.

The Central Bank regularly updated selected financial information and indicators related to the banking sector to the Central Bank website to facilitate informed decision-making of the public. Further, the Central Bank provided banking industry-related data requirements to external parties as and when required, with necessary approvals.



### 2025 Highlights

- Signed MoUs with Nepal Rastra Bank and SLAASMB to enhance cooperation, information sharing, and supervisory coordination.
- Strengthened continuous supervision, including streamlined regulatory approvals and initiation of workflow automation.
- Processed 3,627 regulatory requests for branches, outlets, and agents, granting 3,555 approvals.
- Granted 299 additional regulatory approvals, including assessments of Directors and CEOs, outsourcing concurrences, capital instruments, property disposals, and expatriate staff visas.
- Facilitated governance-related reforms in State Owned Banks, including director appointments and oversight improvements.
- Implemented the Banking Sector Consolidation Framework, requiring smaller locally incorporated banks to submit bi-annual self-assessments.
- Oversaw the restructuring of HDFC and SMIB, and facilitated consolidation activities including the absorption of Sri Lanka Savings Bank by National Savings Bank and the exit of two foreign banks from retail operations.

## Role of the Bank &gt; Ensuring Financial System Stability



**For decades, the banking sector has focused on building a reliable and secure environment through steady expansion and a commitment to global standards. Having navigated significant economic hurdles, the industry has reached a level of maturity where financial stability is**

**now a well-established baseline. Today, this established foundation continues to drive the future of finance, as the main financial intermediary.**

### **Evolution of the Banking Sector**

The banking sector in Sri Lanka has evolved over decades underpinned by legal, institutional, and policy frameworks that strengthened financial intermediation and system stability. The Central Bank of Sri Lanka, established in 1950 under the Monetary Law Act No. 58 of 1949 (MLA), provided the legal foundation for regulation and supervision of banks, while the Department of Bank Supervision was established as one of its two statutory departments under the MLA.

## Role of the Bank > Ensuring Financial System Stability

During 1950-1976, the banking sector expanded considerably with the extension of the branch networks of the two state-owned banks (SOBs), into rural areas aligned with the Government vision, gradually asserting their dominance in the banking sector over foreign banks which primarily served foreign trade and capital requirements of the plantation sector. The limited presence of private banks with weak competitive dynamics within the sector constrained improvements in efficiency and sophistication in the financial system.

Following the 1977 liberalisation measures, the banking sector further broadened in terms of scale, complexity and sophistication with the establishment of branches of foreign banks and incorporation of new domestic private banks with the introduction of new financial instruments, emerging financial requirements and technological developments. Furthermore, Foreign Currency Banking Units were established, facilitating lending in designated foreign currencies to non-residents and resident corporates under Board of Investment. In addition, Regional Rural Development Banks were established with a view to facilitating rural development via financing of regional entrepreneurs and small and medium enterprises.

Marking a significant milestone in the evolution of the banking industry, the Banking Act No. 30 of 1988 was enacted in response to the increasing complexity of the financial system and the need for a more robust regulatory framework. The Act conferred explicit authority on the Central Bank to license,

regulate and supervise institutions carrying on banking business, thus promoting safety and soundness of the banking sector and safeguarding the interests of depositors and other stakeholders.

Furthermore, upon the enactment of the Central Bank of Sri Lanka Act No. 16 of 2023, securing the financial system stability was identified as a objective of the Central Bank, emphasising the need to maintain a resilient and sound banking sector.

### Evolution of Regulatory Landscape

The regulatory framework of Sri Lankan banking sector has continued to evolve in line with international standards to strengthen supervision, prudential regulations, risk management, and governance practices across the sector. Accordingly, the Central Bank initially adopted capital adequacy requirements aligned with Basel I in 1993, establishing minimum capital standards for credit risk, and subsequently moved to Basel II in 2008, which introduced a more comprehensive and risk-sensitive framework incorporating a three-pillar approach of minimum capital requirements, supervisory review, and market discipline. A major milestone in regulatory reforms was the introduction of the Banking Act Directions on Capital Requirements under Basel III in 2016, in line with post-global financial crisis standards implemented by the Basel Committee on Banking Supervision aimed at strengthening global banking sector's resilience to financial shocks.

Furthermore, the Central Bank issued Directions from time to time to strengthen the regulatory and

supervisory framework, ensuring continued alignment with evolving market conditions and developments in aspects including:

- Corporate Governance
- Integrated Risk Management Framework
- Leverage Ratio under Basel III
- Directions on Statutory Liquidity Ratios of LBs including Liquidity Coverage Ratio and Net Stable Funding Ratio
- Classification, recognition and measurement of credit facilities and other financial assets in line with SLFRS 9: Financial Instruments
- Directions on Regulatory Framework on Technology Risk Management and Resilience for LBs
- Directions on Large Exposures of LBs
- Regulations on Approved Securities and Limits for Accommodation granted to Related Parties of LBs

### Banking Sector Resilience

Total asset base of the banking sector surpassed Rs. 24.9 Tn. by the end of 2025. The sector comprises 30 LBs, with 24 Licensed Commercial Banks including 11 branches of foreign banks, and 6 Licensed Specialised Banks, operating through a network of 3,642 branches to support financial intermediation by enhancing access to banking services. Country's banking density (number of branches per 100,000 people) stood at 17.37 as at end 2025.

Over the past few years Sri Lanka faced multifaceted economic and financial challenges, including the Easter Sunday attacks, the Covid-19 pandemic, post pandemic disruptions accompanied by a slow recovery of economic activities, political uncertainties and

## Role of the Bank > Ensuring Financial System Stability

extraordinarily adverse economic conditions. However, despite these challenges, the banking sector of Sri Lanka continued to remain resilient, largely supported by proactive key regulatory reforms implemented in the banking sector by the Central Bank.

Maintenance of strong capital and liquidity buffers based on Basel III standards and sufficient impairment provisions for expected credit losses in terms of SLFRS 9 accounting standards by the banks largely contributed in ensuring the stability of the banking sector during this period.

In view of the continuous economic challenges faced by the banking sector, the Central Bank initiated several crisis preparedness measures including the enactment of Banking (Special Provisions) Act No. 17 of 2023, establishing the Financial Sector Crisis Management Committee, developing a framework for providing emergency loans and advances to LBs and developing the Bank Recapitalisation Strategy, in order to minimise the spillover effects to the economy and to enhance the resilience.

In addition, the Central Bank fortified supervision of LBs by strengthening risk based supervision, ensuring intensified supervision for D-SIBs. Further, the Central Bank adopted consolidated supervision for banking groups and entered into a Memorandum of Understanding with the Securities and Exchange Commission of Sri Lanka and the Insurance Regulatory Commission of Sri Lanka to conduct effective consolidated risk-based supervision, thereby strengthening the resilience of the banking system against systemic risks.

### The Banking (Amendment) Act, No. 24 of 2024

Considering the developments in regulatory framework, economic and market conditions, and changes in international best practices, the Central Bank formulated the Banking (Amendment) Act, No. 24 of 2024, to reinforce the legal and regulatory framework applicable to LBs on several key areas, *inter alia* minimum requirements in bank licensing, shareholder suitability, bank ownership, corporate governance, related party transactions, consolidated supervision, capital and liquidity framework, and large exposures.

Based on the amendments introduced to the Banking Act, revised Directions on Large Exposures of LBs were issued to mitigate credit concentration risk arising from *inter alia* sovereign bank nexus, which caused stress on banks' credit and liquidity risk profiles in the past. Accordingly, LBs are required to reduce exposures to the Government on a staggered basis.

Governance of SOBs has improved through merit-based and transparent board appointments under a Cabinet-approved framework for SOBs and in this regard, the Central Bank facilitated appointing independent directors to the respective LBs.

The Central Bank implemented various relief measures to assist businesses and individuals adversely affected by Easter Sunday attacks and the COVID-19 outbreak since 2019 to overcome their difficulties by way of debt moratoria, provision of credit facilities at concessionary interest rates and COVID-19 revival

units to revive the viable borrowers. Furthermore, to facilitate sustainable economic revival of businesses affected by the extraordinary macroeconomic circumstances and to improve assets quality of LBs, the Central Bank issued guidelines on establishing Business Revival Units (BRUs) in March 2024. Having considered the need to grant effective relief to those affected by the recent cyclonic and flood disasters, the Central Bank issued a Circular to all LBs in December 2025.

Additionally, the Central Bank launched the Sustainable Finance Roadmap 2.0 to foster a climate resilient and socially inclusive financial system, conducted Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) examinations to strengthen the processes and controls within the banks to identify and mitigate financial crime risks.

The Central Bank also contributed to drafting of Colombo Port City Economic Commission Act No. 11 of 2021 and subsequent amendments thereto with a view to facilitating off-shore banking activities under robust regulatory standards.

## Role of the Bank > Ensuring Financial System Stability

### Digital adoption is rapidly reshaping banking in Sri Lanka, enhancing efficiency, accessibility, and resilience while demanding stronger cybersecurity governance.

#### Digital Transformation of the Banking Sector

The COVID-19 pandemic accelerated digital adoption in banking while reshaping customer behaviour and service delivery. To meet evolving expectations amidst intense competition, banks have leveraged technology to enhance efficiency, accessibility, and resilience.

Innovations such as digital and mobile banking platforms with enhanced user experience, real time interbank payments, digital onboarding (eKYC, vKYC), cloud infrastructure, and AI-driven automation including digital assistants and chatbots are being rapidly adopted, transforming how banking is delivered. These developments have improved decision-making and customer experience, while also heightening cybersecurity risks, requiring robust governance and operational controls.

#### Regulatory Framework on Technology Risk and Cyber Resilience

With a view to enhancing the resilience of the financial sector to technology related risks, the Central Bank issued a regulatory framework on technology

risk management and resilience for LBs in 2021 setting minimum regulatory requirements covering the technology risk governance, information security, information system availability and disaster recovery, staff competencies and use of third-party infrastructure. Furthermore, to strengthen the operational resilience of LBs and safeguard customer information and assets, a circular was issued in 2025, on reporting of information technology and cybersecurity incidents of LBs, requiring prompt reporting of IT and cybersecurity incidents, and online and digital scams. Additionally, the Central Bank recently conducted a survey to assess current status for AI adoption by LBs, to facilitate the formulation of guidelines on AI that ensure responsible AI deployment in the banking sector.

The Central Bank will continue to enhance the stability and resilience of the banking sector through timely adoption of prudential measures in line with regulatory and market developments and international best practices while enhancing the effectiveness of supervision through the introduction of technology-driven supervisory tools.

## Role of the Bank > Ensuring Financial System Stability

### Regulation and Supervision of Non-Bank Financial Institutions

The Central Bank is entrusted with regulating and supervising Finance Companies (FCs), Specialised Leasing Company (SLC), and Licensed Microfinance Companies (LMFCs) under the Finance Business Act (FBA) No. 42 of 2011, Finance Leasing Act (FLA) No. 56 of 2000<sup>1</sup>, and Microfinance Act No. 06 of 2016 respectively, read with Section 61 of the Central Bank of Sri Lanka Act No. 16 of 2023. The Bank also supervises Primary Dealer Companies (PDCs) under the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 as amended and Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009 as amended. Related key functions are;

- **Licensing and regulation:** The Central Bank issues licenses/registrations for Non-Bank Financial Institutions (NBFIs) and formulates prudential regulations.
- **Continuous supervision and statutory examinations of NBFIs:** The Central Bank conducts continuous monitoring and statutory examinations, including AML/CFT supervision to ensure regulatory compliance and assess sustainability of NBFIs.
- **Governance oversight:** The Central Bank assesses and approves the fitness and propriety of Directors, Chief Executive Officers (CEOs), and Other Key Responsible Persons (KRPs) of NBFIs.
- **Regulatory actions:** The Central Bank has the authority to initiate actions with respect to NBFIs.
- **Investigations:** The Central Bank conducts investigation of unauthorised finance businesses, to ensure that institutions are not illegally accepting deposits or operating without proper authorisation.

Beyond direct regulation and supervision, The Central Bank plays a broader role in capacity building of stakeholders of NBFIs sector, conducting public awareness programmes, facilitating court proceedings, and attending to public complaints.

#### Issuing Directions, Rules and Guidelines

Prudential regulations were issued to further streamline and strengthen the existing regulatory framework of NBFIs in line with the current market developments and international best practices. A list of major prudential measures introduced during 2025 are directions on maximum interest rates on deposits and debt instruments and liquidity risk management for FCs<sup>2</sup>, credit risk management for LMFCs and minimum core capital requirements for PDCs.

#### Regulatory Approvals

The Central Bank granted 1,121 regulatory approvals to NBFIs to issue debt instruments, enhance/reduce share capital, ownership transfers, amend the Articles of Associations, formation of subsidiaries, annual branch expansion plans and matters related to KRPs, such as their appointments, continuation, resignations and retirements.

#### Statutory Examination and Continuous Supervision

The Central Bank conducted statutory examinations on 16 FCs, three PDCs, and two LMFCs. Spot examinations were carried out for four FCs to investigate irregularities. Further, AML/CFT supervision on FCs and PDCs were conducted, focusing mainly on assessment of AML/CFT related policies/procedures and the compliance with the relevant provisions of applicable laws, rules and regulations, including Financial Transactions Reporting Act,

No.6 of 2006. At the same time, joint AML/CFT examinations were conducted with Financial Intelligence Unit (FIU), where necessary.

The Central Bank continued off-site surveillance using its FinNet reporting system, analysing financial information, audit reports, external ratings, and media reports. Identified risks were escalated to the Governing Board, ensuring informed decision making. Internal supervisory ratings, were prepared to group FCs into varying risk categories ranging from very high to very low to facilitate continuous supervision. The Bank also engaged in monitoring of FCs under the phase II of the Masterplan for Consolidation of FC sector and addressed 354 public complaints, primarily concerning policy issues and cancelled licenses of FCs.

#### Restrictions and Other Regulatory Actions

The Central Bank took swift action against non-compliant FCs under the Prompt Corrective Action Framework and other applicable legal/regulatory provisions:

- Restrictions on deposit-taking, lending, and borrowing were imposed on FCs that did not meet capital requirements and were lifted for FCs that achieved compliance.
- Resolution actions were initiated on an FC considering the continuous non-compliance with regulatory requirements on capital and liquidity.
- Meetings were held with boards and senior management to address regulatory concerns.
- Efforts were made to collaborate with liquidators of failed FCs to expedite liquidation processes.

<sup>1</sup> Central Bank is in the process of making necessary amendments to the FBA to enhance the supervision and regulation and resolution framework of FCs and FLA to address the concerns identified in the finance leasing business.

<sup>2</sup> <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-non-banks>

## Role of the Bank > Ensuring Financial System Stability

### Communication and Data Dissemination

To enhance market transparency, the Central Bank publicly disclosed the names of NBFIs that failed to meet prudential capital requirements and with regulatory restrictions on its website<sup>3</sup>.

The Bank also intensified stakeholder engagement, by holding discussions with:

- CEOs of FCs, SLC, LMFCs and PDCs on regulatory developments
- Boards of directors, senior management, industry associations, external auditors, and
- International agencies to address sector-wide concerns

To improve accessibility to sectoral insights, the Central Bank published quarterly financial information of the FCs sector<sup>4</sup> and shared data with global institutions such as World Bank, International Monetary Fund, Asian Development Bank and government entities.

The Central Bank implemented a comprehensive series of awareness programmes mainly relating to regulatory and supervisory framework of NBFIs and unauthorised deposit taking/finance businesses, targeting a broad range of stakeholders, including the general public, law enforcement officers, government officials, journalists, staff of regional offices of the Central Bank, and other sector participants.

These initiatives were delivered through number of platforms, including media programmes, online sessions, training programmes, and stakeholder discussions.

Accordingly, the Central Bank conducted several structured training programmes with the objective of enhancing the knowledge and professional standards of stakeholders, particularly in relation to the directions and regulatory requirements applicable to FCs. These programmes were facilitated by qualified and experienced resource persons of the Central Bank.

Furthermore, several awareness sessions were organised with a strong focus on educating the public on the risks associated with unauthorised deposit-taking and illegal financial business activities, while simultaneously promoting financial literacy.

Meanwhile, specialised capacity building sessions were conducted for police officers and government officials, with emphasis on the relevant legal framework, regulatory requirements, and enforcement mechanisms pertaining to unauthorised financial activities.

Outreach initiatives in rural areas, with the engagement with community leaders, enabled the extension of awareness to vulnerable segments in society, thereby supporting financial inclusion and strengthening consumer protection.



### 2025 Highlights

- ➔ Strengthened the regulatory framework through licensing, prudential regulation, continuous supervision (including AML/CFT oversight), statutory examinations, and governance assessments of Directors, CEOs, and KRPs.
- ➔ Granted 1,121 regulatory approvals covering debt issuances, capital changes, ownership transfers, branch expansion plans, subsidiary formation, and matters relating to KRPs.
- ➔ Enhanced transparency by publicly disclosing NBFIs that failed to meet prudential capital requirements or were under regulatory restrictions.
- ➔ Strengthened stakeholder engagement through regular discussions with CEOs, Boards, senior management, external auditors, industry associations, and international agencies on regulatory matters and sector developments.
- ➔ Implemented comprehensive awareness program series relating to strengthen the compliance and control unauthorised deposit taking/financial business

### Regulation of the Money Broking Companies

The Central Bank regulates the money broking sector under the Money Broking Regulations No. 1 of 2018 and No. 1 of 2019. Central Bank's regulatory role includes:

Issuing certificates of authorisation to eligible money broking companies.

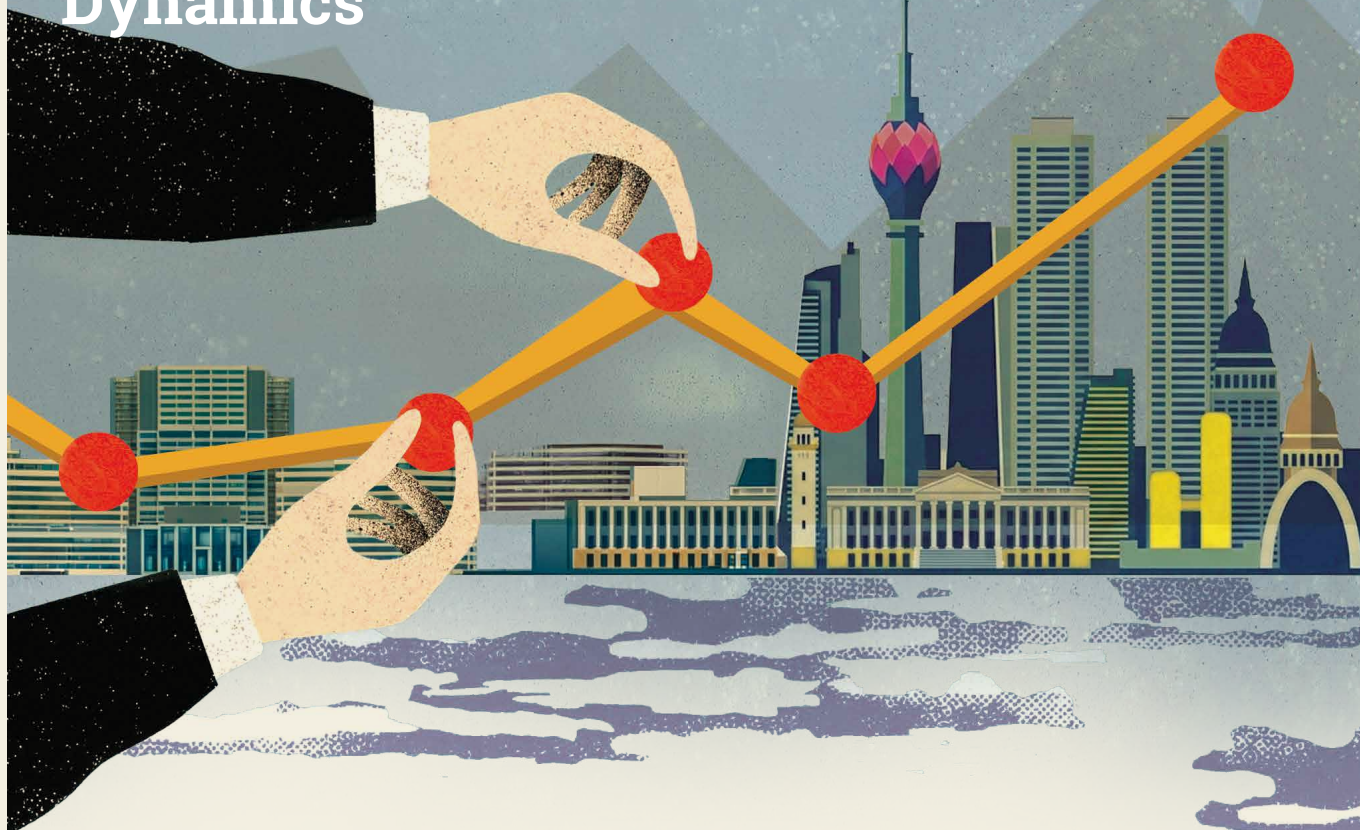
Imposing an annual certificate fee for Authorised Money Broking Companies (AMBs).

Monitoring compliance through guidelines, circulars, and supervisory examinations (both on-site and off-site).

<sup>3</sup> <https://www.cbsl.gov.lk/authorized-financial-institutions/licensed-finance-companies>

<sup>4</sup> <https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector>

# Evolution of the Non-Bank Financial Institutions Sector and Regulatory Dynamics



**The evolution of the NBFIs sector reflects the long-standing commitment of the Central Bank to safeguarding financial stability as a foundation for sustainable and inclusive economic growth. Over nearly a century, NBFIs sector has undergone a remarkable evolution, and played**

**a vital role in providing financial services beyond the traditional banking system, catering to the underserved segments of the population while supporting economic growth and financial inclusion.**

The transformation of NBFIs sector has been closely tied to regulatory reforms along with stability measures taken by the Central Bank, institutional developments and technological advancements.

## **Early beginnings: 1940s–1970s**

The origins of the NBFIs sector date back to the 1940s, with the emergence of FCs marking the beginning of a formal NBFIs sector to meet credit demands that were not adequately served by the banking sector. During this formative period, the sector expanded largely in the absence of a formal regulatory framework. Although the Central Bank and its Department of Bank Supervision were established in the 1950s, FCs remained outside the scope of a systematic regulatory oversight until the 1980s.

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The existence of this regulatory vacuum that prevailed until late 1970's led to the increase in unregulated FCs, many of which failed, particularly during the pre-1977 period. These failures highlighted the risks posed by unregulated financial intermediation and reinforced the need for a formal regulatory framework to protect depositors, maintain public confidence and preserve financial stability.

### Introduction of Formal Regulation: 1979–1999

#### Enactment of the Control of Finance Companies Act, No. 27 of 1979 (CFCA)

A major regulatory milestone was achieved with the enactment of the CFCA, which introduced formal regulatory oversight of FCs for the first time. This Act marked the beginning of structured regulatory intervention by the Central Bank, aimed at monitoring sector activities, protecting depositors, and ensuring compliance with prudential regulatory requirements. Initially, the responsibility of implementing the provisions of CFCA has been assigned to the Department of Bank Supervision of the Central Bank.

#### Enactment of the Finance Companies Act, No. 78 of 1988 (FCA)

Consequently, the regulatory framework was further strengthened with the enactment of FCA, which replaced CFCA and modernised the supervisory and regulatory framework by enhancing the authority of the Central Bank to issue prudential regulations. Following this Act, the Central Bank established a dedicated department for the supervision of NBFIs, named as Department of Supervision of Non-Bank Financial Institutions (DSNBFI), in 1988. This institutional separation of supervision process of NBFIs from supervision of banks resulted in an effective sector specific supervisory and regulatory framework.

#### Restructuring Initiatives of Finance Companies in the 1980s

By the late 1980s, several FCs faced serious financial difficulties leading to their inability to repay the obligations to depositors largely due to poor governance and risk management practices. In response, restructuring initiatives were undertaken to rationalise the industry. The number of active FCs, which stood at approximately 72 at end 1988, was reduced to around 40 by end 1990 through regulatory intervention and consolidation measures.

#### Expansion of the Regulatory Scope, Regulatory Reforms and Stability Measures: 2000–2025

##### Enactment of the Finance Leasing Act No. 56 of 2000 (FLA)

The 2000s marked a phase of expanded regulatory coverage to encompass new categories of NBFIs. The FLA was enacted to bring the entities offering finance leasing facilities under the supervisory and regulatory scope of the Central Bank.

##### Enactment of the Finance Business Act, No. 42 of 2011 (FBA)

A landmark reform occurred with the enactment of FBA, which replaced the earlier FCA. The FBA further strengthened licensing, regulation and supervision of FCs and provided enhanced authority to investigate and prosecute unauthorised finance business. This legislation modernised the regulatory architecture governing finance businesses in Sri Lanka.

##### First program on the Consolidation of NBFIs

Amid growing concerns regarding structural weaknesses and vulnerabilities in the sector, the Central Bank introduced the first program on the Consolidation of NBFIs in January 2014. At the time, the sector comprised 58 NBFIs. Following the implementation of this plan, the number of NBFIs was reduced to 42 by the end of November 2020.

#### Strengthening Supervision of Primary Dealer Companies (PDCs)

With a view to strengthening and enhancing the supervisory framework applicable to PDCs, w.e.f. 03 June 2016, the Central Bank transferred the supervision, examination and investigation of PDCs to DSNBFI under the provisions of the Local Treasury Bills (Primary Dealers) Regulations No.01 of 2009 and the Registered Stock and Securities (Primary Dealers) No.01 of 2009, from the Public Debt Department.

#### Supervision of Licensed Micro Finance Companies (LMFCs)

In addition, Central Bank commenced supervision of LMFCs with effect from 01 January 2018.

#### Second Program on the Consolidation of NBFIs

Subsequently, in 2020, the Central Bank introduced the second consolidation programme named as Masterplan for Consolidation for NBFIs Sector (the Masterplan) with the objective of fostering a stronger and more stable NBFIs sector. This programme was structured in two phases. Phase I of the Masterplan focused on the consolidation of FCs with capital shortfalls, entities operating within the same group, and stand-alone SLCs. Upon completion of Phase I, the number of FCs declined to 32 by end 2025. The revised framework for Phase II of the Masterplan is currently in operation, with an implementation period spanning from 2025 to 2028.

#### Improving Sectoral Resilience

Based on lessons learned from past financial crises and institutional failures, the Central Bank introduced regulatory directions and guidelines to strengthen corporate governance, capital requirements, and risk management frameworks within NBFIs sector. These measures addressed key weaknesses observed during periods of stress,

## Role of the Bank > Ensuring Financial System Stability

including deficiencies in board oversight, governance practices, and internal controls, while reinforcing fit-and-proper requirements for key responsible persons to enhance accountability and transparency. The enhanced frameworks for core capital, capital adequacy, credit, liquidity, and operational risk management were designed to improve resilience and shock-absorption capacity across NBFIs.

By end 2025, NBFIs sector comprised of 32 FCs, 1 SLC, 4 LMFCs and 5 PDCs regulated by Central Bank.

### Combating Unauthorised Deposit-taking and Finance Business Activities

The Central Bank continued to conduct investigations relating to unauthorised deposit-taking and finance business activities with a view to detecting, preventing, and taking enforcement action against such activities, thereby protecting the interests of the public.

### From Fragmentation to Stability

The evolution of Sri Lanka's NBFIs sector clearly demonstrates the Central Bank's enduring pursuit of stability as a prerequisite for prosperity from an initially unregulated landscape of credit providers, the sector has progressively transformed into a well-regulated and integral pillar of the financial system. Successive legislative reforms have strengthened supervisory capacity, enhanced governance and risk management standards, and enabled timely regulatory intervention, while consolidation initiatives have mitigated structural vulnerabilities and improved the overall soundness of the sector.

As the Central Bank marks its 75<sup>th</sup> anniversary under the theme *"Stability for Prosperity"*, the NBFIs sector stands as a testament to how regulatory foresight, institutional strengthening, and proactive supervision contribute to sustained financial stability. Looking forward, continued regulatory responsiveness, risk-based supervision, and forward-looking policy measures will ensure that NBFIs effectively support inclusive economic development, financial deepening, and national prosperity, while preserving the stability of the financial system.

**The NBFIs sector has now transformed into a well regulated financial pillar, demonstrating how regulatory foresight and institutional strengthening have enhanced system-wide stability.**



## Role of the Bank > Ensuring Financial System Stability

### The Role of Regional Offices in Promoting Financial Literacy and Inclusion

In 2025, the Regional Offices conducted over 635 financial literacy awareness programmes across the island, reaching approximately 70,000 participants and reinforcing the Central Bank's commitment to broad-based financial empowerment.

### Conducting Regional Forums

During the year, three Regional Forums were convened, underscoring Central Bank's strategic commitment to advancing financial literacy and financial inclusion at the regional level, and further strengthened and broadened the Central Bank's institutional presence across the country. These Forums were successfully held in Hambantota, Nuwara Eliya and Matale, in close collaboration with the Regional Offices in Matara, Nuwara Eliya and Matale, respectively.

All forums were attended by the Governor, together with the senior management of the Central Bank and senior representatives from key government institutions, licensed banks, the Police, the Armed Forces and prominent regional entrepreneurs.

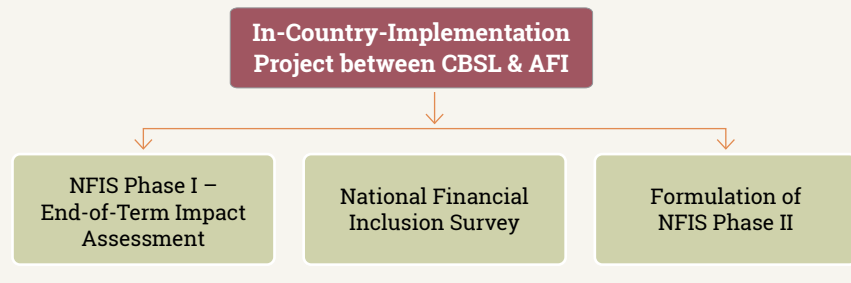
### Towards NFIS Phase II

Following the successful conclusion of NFIS Phase I, a series of preparatory initiatives were undertaken to support the formulation of NFIS Phase II. In this context, the Central Bank secured both technical and financial assistance from the Alliance for Financial Inclusion (AFI) under its In-Country Implementation (ICI) Programme. This support is being utilised:

- i. to conduct a comprehensive End-of-Term Evaluation of NFIS Phase I.
- ii. implement a nationally representative Financial Inclusion Survey; and
- iii. provide specialised technical assistance to underpin the evidence-based design and formulation of NFIS Phase II.

#### In-Country-Implementation Project Between CBSL & AFI

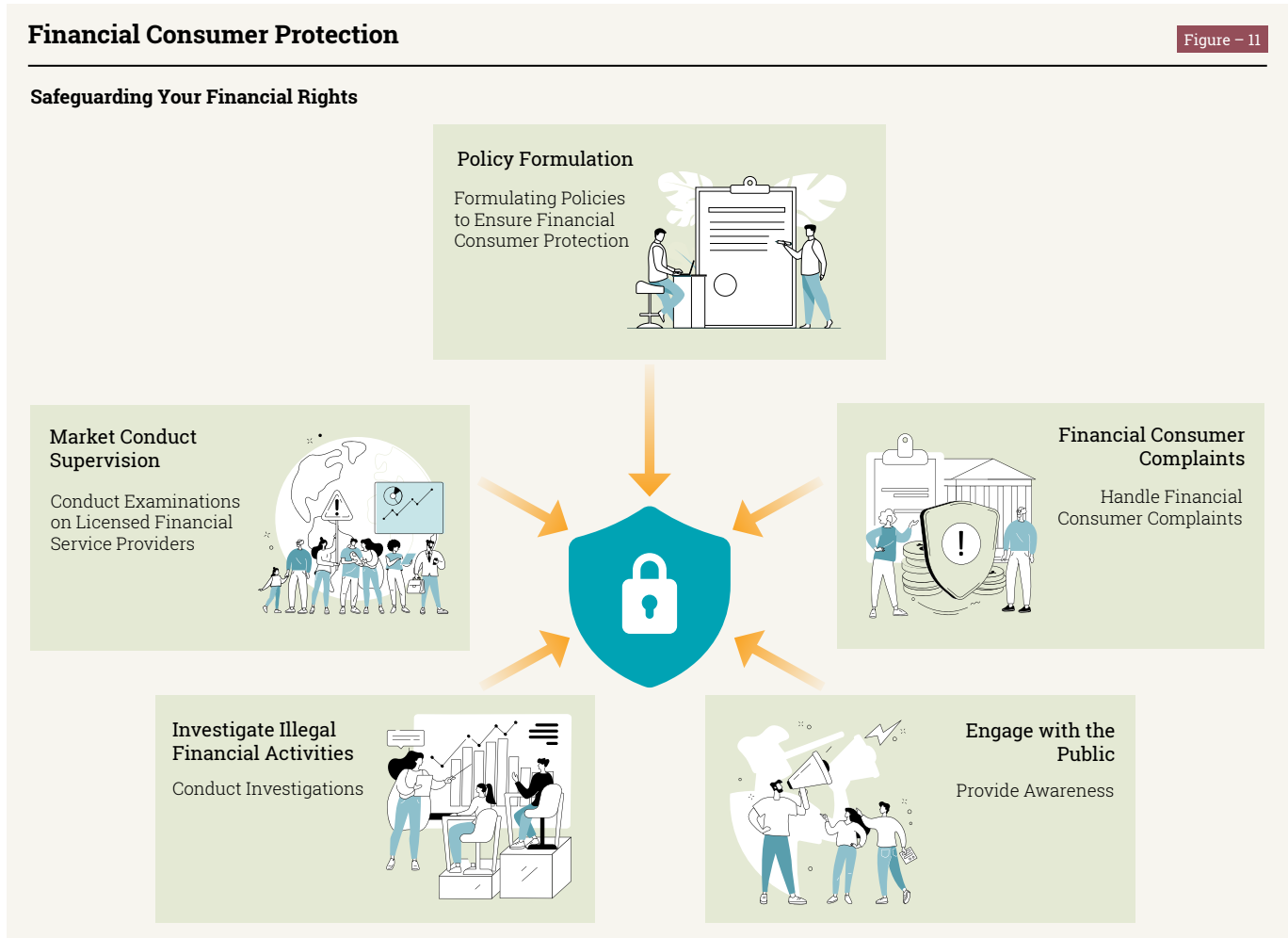
Figure - 10



With a view to more accurately reflect its core mandate and functional responsibilities, aligning with the international practices adopted by comparable central banking institutions globally and further strengthening the strategic role of Central Bank in advancing financial inclusion, the Regional Development Department (RDD) of Central Bank was formally renamed as the Department of Financial Inclusion (DFI) with effect from 01 January 2026.

## Role of the Bank > Ensuring Financial System Stability

# Financial Consumer Protection



During 2025, the Central Bank focused on the practical implementation of the Financial Consumer Protection Regulations No. 01 of 2023, with emphasis on supervisory execution, complaint handling, investigations, and public engagement. Operational efforts as well as policy initiatives during the year were directed at strengthening market conduct oversight, responding to financial consumer complaints, addressing prohibited schemes, and improving consumer awareness through targeted outreach.

### Market Conduct Supervision

Central Bank carried out four full-scope market conduct examinations and three thematic reviews during the year to assess compliance with financial consumer protection requirements. These supervisory activities covered minor accounts, digital financial products, and credit card operations. The examinations enabled supervisors to identify operational gaps, weaknesses in disclosure practices, deficiencies in complaint handling processes, and conduct-related risks. Findings were communicated to

institutions with specific supervisory directions and follow-up actions to address identified issues.

### Financial Consumer Complaints Handling

Operational enhancements were made to strengthen handling of financial consumer complaints. During 2025, the Central Bank received 5,610 complaints, of which 4,252 were related to financial consumer protection matters. Of these, 2,226 complaints were resolved during the year, while 2,026 cases remained

**Role of the Bank > Ensuring Financial System Stability**

under review as at end 2025. Complaint handling efforts focused on verifying institutional responses, obtaining clarifications from financial service providers, facilitating corrective actions, and ensuring compliance with redress obligations. The increase in complaints reflected greater public awareness and utilisation of the Central Bank’s complaint handling mechanisms.

**Public Awareness**

Efforts were undertaken to improve public awareness of financial risks through targeted outreach programmes. A nationwide Anti-Pyramid Week was implemented across schools, administrative divisions, and armed forces, involving a series of coordinated awareness sessions and dissemination of educational materials. In addition, 43 public awareness programmes were conducted during the year to improve financial literacy, enhance awareness of consumer rights, and strengthen the public’s ability to identify and avoid fraudulent financial schemes.

**Institutional Development and International Cooperation Related to Consumer Protection**

To support operational improvements, the Central Bank conducted a detailed assessment of existing financial consumer protection processes with technical assistance from the Asian Development Bank. The assessment focused on identifying operational gaps in supervision, complaint handling, and enforcement processes. During the year, the Central Bank also became a full member of the International Financial Consumer Protection Organisation, enabling operational staff to access practical supervisory tools, peer experiences, and international case studies relevant to day-to-day market conduct supervision.

Operational activities undertaken during 2025 strengthened the Central Bank’s capacity to supervise market

conduct, handle financial consumer complaints, investigate prohibited schemes, and engage directly with the public. These actions contributed to improved supervisory responsiveness, enhanced consumer confidence, and more effective implementation of financial consumer protection requirements across the financial sector.



**2025 Highlights**

- Strengthened implementation of Financial Consumer Protection Regulations No. 01 of 2023 focusing on supervision, complaint resolution, investigations, and public engagement.
- Conducted four full-scope examinations and three thematic reviews (minor accounts, digital products, credit cards), resulting in corrective supervisory actions.
- Received 5,610 complaints (4,252 on financial consumer protection); of which 2,226 were resolved, with the remainder under review as at year-end.
- Conducted targeted public awareness efforts, including "Anti-Pyramid Week", campaign with 43 programmes on consumer rights and financial risks.
- Completed an operational assessment of consumer protection processes with Asian Development Bank support, to identify gaps in supervision, complaint handling, and enforcement.



## Role of the Bank > Ensuring Financial System Stability

### Strengthening Financial Sector Safety Nets

#### Resolution Authority

A robust and credible resolution framework is essential for maintaining public confidence in the regulated financial institutions and safeguarding financial system stability. The Central Bank ensures its effective functioning under the Banking (Special Provisions) Act, No. 17 of 2023 (BSPA) while extending its resolution powers to the finance companies licensed by the Central Bank which marked a significant milestone in strengthening Sri Lanka's financial safety net and resolution framework.

The Central Bank, in 2025, continued to focus on advancing the operationalisation of the framework, with particular emphasis on planning, institutional preparedness and stakeholder awareness. These efforts were undertaken in line with statutory requirements and international best practices.

During the year, the Central Bank obtained technical assistance under the Financial Sector Stability and Reforms Programme of the Asian Development Bank, and the International Monetary Fund on effective resolution execution. These technical assistance contributed to strengthening planning methodologies, enhancing staff capacity and further aligning Sri Lanka's resolution framework with internationally accepted standards.

During 2025 the Central Bank developed institution specific resolution plans complying with international

standards and best practices focusing on identifying appropriate strategies, assessing operational and financial feasibility, and identifying potential impediments to resolvability, thereby enhancing resolution preparedness across different segments of the financial system.

Following the development of resolution triggers for licensed banks, the Central Bank completed resolution triggers for Finance Companies (FCs) in 2025. These triggers are intended to provide an objective, transparent and timely basis for the initiation of resolution actions in respect of FCs, consistent with the application of the BSPA.

In accordance with Section 15 of the BSPA, the Financial Stability Fund (FSF), which was established on 03 October 2024, continued to be operationalised during 2025. The Ministry of Finance allocated initial corpus of Rs. 1,000 Mn., with the agreement of providing additional funding to build up the fund through subsequent budgetary allocations.

During 2025, Central Bank appointed a Panel of Independent Professional Valuers and initiated the process to appoint a Panel of Administrators, thereby strengthening the Central Bank's operational readiness to execute any resolution action.

The Central Bank conducted a series of awareness programmes on the resolution framework under the BSPA, targeting Chief Executive Officers of LBs and FCs, Chairpersons and Boards of Directors of LBs, and key management personnel of LBs. In addition, a programme on the Directions and data templates relating to resolution planning was conducted for relevant officers of LBs.

#### Sri Lanka Deposit Insurance Scheme

The Sri Lanka Deposit Insurance Scheme (SLDIS) continued to function as a financial sector safety net in the country contributing to the stability of Sri Lanka's financial sector. During 2025, several measures were initiated to strengthen the financial and institutional capacity of the SLDIS.

The Central Bank ensured the smooth implementation of the Financial Sector Safety Net Strengthening Project (FSSNP) of the World Bank (WB) during the year 2025, which is a four year project commenced in 2024. The cumulative loan proceeds received under the Project increased to USD 130 Mn. as at end 2025 with the completion of Performance Based Conditions targeted for the year.

Further, during 2025, a nationwide baseline survey was conducted to measure the level of public awareness on SLDIS in order to develop and implement a long-term public awareness strategy for SLDIS.

Directions were issued to the Member Institutions (MIs) of the SLDIS on 15 December 2025 on the "Display of Membership with the Sri Lanka Deposit Insurance Scheme and Availability of Deposit Insurance Coverage", with the intention of enhancing public awareness on the SLDIS.

Further, under the FSSNP, measures were taken to strengthen policy-driven enhancements and alignment of the SLDIS with the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers. Developing a risk-based premium methodology, a target funding model for the SLDIS and a policy for SLDIS in providing financial

## Role of the Bank > Ensuring Financial System Stability

assistance to facilitate the transfer of assets and liabilities of an MI as a resolution measure, were among such key policy improvements that were initiated during the year.

With the objective of enhancing the operational efficiency and the payout infrastructure of SLDIS, the Central Bank is currently engaged in implementing a fully-fledged integrated Management Information System for SLDIS as an improvement to the existing IT infrastructure.

In 2025, the Central Bank continued to carry out compensation payment related activities under the SLDIS and disseminated relevant information to the necessary stakeholders. In addition, with the aim of ensuring the operational efficiency of the SLDIS in managing large scale or simultaneous payouts during times of crises, the Central Bank developed a contingency plan for the SLDIS as a Performance Based Condition of FSSNP. Further, in order to minimise the overreliance on a single Agent Bank and ensure the effective disbursement of compensation payments, the Central Bank initiated measures to establish a pool of accredited Agent Banks, comprising LBs with wider branch networks and adequate resources.

The Central Bank continued the administration and management of the SLDIS, while ensuring the timely submission of the Annual Financial Statements of the Sri Lanka Deposit Insurance Fund, as required under the BSPA.

### Investigations into Prohibited and Fraudulent Schemes

The Central Bank conducts investigations into prohibited and fraudulent schemes by gathering information, verifying financial flows, coordinating with relevant authorities, and issuing determinations to support timely intervention and risk mitigation.

During the year, two investigations into such activities were concluded, bringing the total number of determined prohibited schemes to 23. As at end-2025, two investigations were ongoing, while 21 fact-finding inquiries had been completed.

### Ensuring Institutions are Not Illegally Accepting Deposits or Operating Without Proper Authorisation

In response to complaints and information regarding unauthorised deposit-taking and finance business, the Central Bank has initiated 119 investigations by end 2025 under Section 42 of FBA.

These investigations aimed to determine whether entities or individuals were engaged in finance business or accepting deposits in violation of FBA provisions.

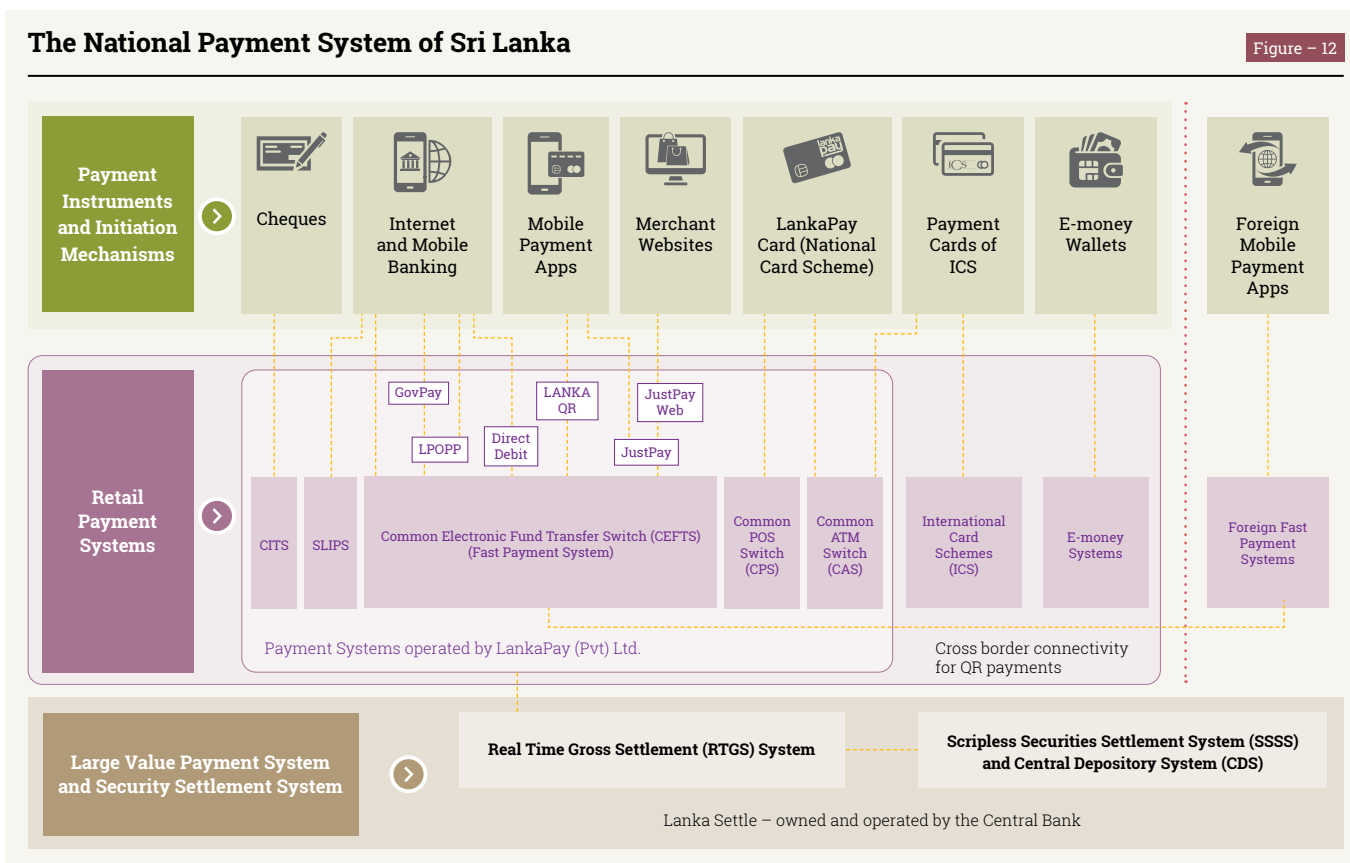
In 2025, the Central Bank obtained 23 extensions from the High Court of Colombo for freezing orders under Section 44 of FBA, preventing the

alienation of assets of entities and individuals under investigation. Further, three individuals were subject to travel bans, with orders from Magistrate Courts under Section 45 (3) of FBA.

Central Bank published the notices in Sinhala, Tamil, and English in daily and weekend newspapers in terms of Section 42 (10) to inform the public on determinations of entities/individuals, which/who have carried on/are carrying on finance business or have accepted/are accepting deposits in contravention of the provisions of FBA.

# Payments and Settlements

The national payment system of Sri Lanka is regulated by the Central Bank and comprises of a large value payment system, retail payment systems and payment services offered by Licensed Service Providers (LSPs). The large value payment system of the country is the Real Time Gross Settlement (RTGS) system owned and operated by the Central Bank. Retail payment systems primarily include Fast Payment Systems (FPS) and batch payment systems operated by LankaPay (Pvt) Ltd (operator of the national retail payment network), e-money systems operated by telecommunication service providers, and payment card networks operated by International Card Schemes (ICS). RTGS supports high-value interbank payments while retail payment systems support instant payments, enhancing accessibility, convenience and safety for individuals, businesses, and government entities.



## Regulation, Oversight, and Supervision of the Payment System

The Central Bank shapes the country's payment landscape by guiding its development through a regulatory framework and policy implementation as defined in the Payment and Settlement Systems Act, No. 28 of 2005.

The Central Bank is empowered to oversee the payment systems operating in the country to ensure their safety and efficiency while identifying and mitigating associated risks. In addition, the Central Bank licenses and supervises payment services provided by LSPs, which include payment card issuers, financial acquirers, and e-money system operators. Risk-based regulations are adopted to ensure safety and efficiency, while encouraging innovation and

industry development. Third party financial technology (Fintechs) services are guided by directions and guidelines for payment related mobile applications and card based electronic commerce transactions specifying requirements for Fintechs. The Credit Card Guidelines set out the requirements applicable to credit card issuers, with a particular focus on consumer protection aspects. To promote innovations in the financial sector, the Central Bank introduced

Role of the Bank > Payments and Settlements

regulatory sandbox framework in 2020. It provides controlled live environment for testing innovative fintech products, with temporary relaxations of applicable Central Bank directions, circulars, guidelines, and rules, while ensuring full compliance with Acts of Parliament and related regulations.

**Operations of the Large Value Payment System (RTGS System)**

The RTGS system operated by the Central Bank is a Systemically Important Payment System (SIPS). This facilitates real-time settlement of large-value payments among the participating institutions in a secure and irrevocable manner. Thus any failure of RTGS system may disrupt critical operations, threatening the stability of the financial system and the wider macroeconomy. Following the upgrade of the RTGS with a new system (LankaRTGS) in 2024, which brought the system in line with ISO 20022, the Central Bank continued to strengthen, its operational efficiency and risk management processes.

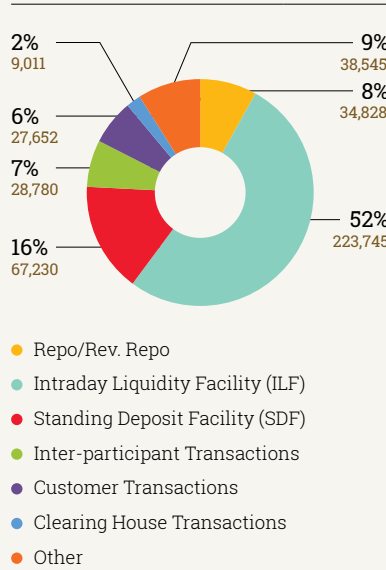
The participants of the RTGS system include the Central Bank, 24 Licensed Commercial Banks (LCBs), 1 Licensed Specialised Bank (LSB), 7 Authorised Primary Dealers (PDs), the Employees' Provident Fund (EPF), and the Central Depository System of the Colombo Stock Exchange.

The RTGS system supports the settlement of funds with respect to various types of transactions including, interbank call money transactions, government securities transactions, open market operations, the domestic leg of foreign exchange transactions, clearing house (LankaPay) net settlement of retail transactions, other inter-participant fund transfers and customer transactions. To ensure uninterrupted transaction settlement, the Central Bank provides collateralised

Intraday Liquidity Facility to RTGS System participants with government securities serving as eligible collateral.

**Value and Types of Transactions Settled in the RTGS System in 2025 (Rs. Bn.)**

Graph - 02



In 2025, the RTGS system processed 597,859 transactions representing a value of nearly Rs. 430 Tn.

**Operations of Retail Payment Systems**

Digital payments adoption by the public has continued to grow, driven by the safe, reliable, and efficient operation of the country's retail payment systems.

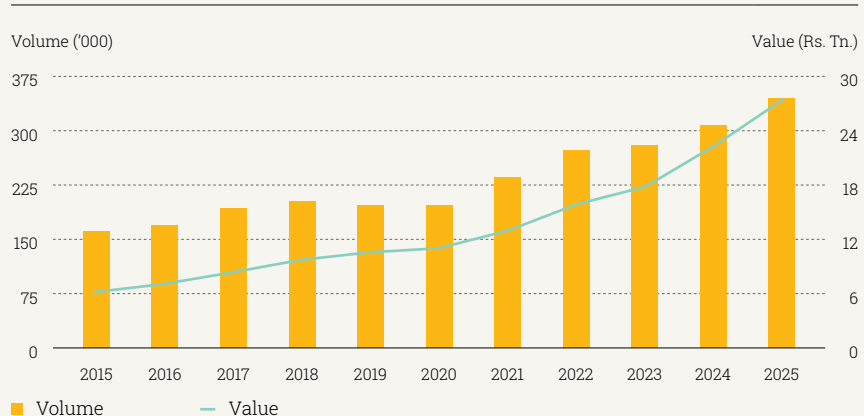
The major retail payment systems operated by LankaPay include the Common Electronic Fund Transfer Switch (CEFTS), the Fast Payment System, Common ATM Switch (CAS), Common Point-of-Sale Switch (CPS), Sri Lanka Interbank Payment System (SLIPS) and the Cheque Imaging and Truncation System (CITS).

The FPS enables customers to conduct real-time online fund transfers through payment channels such as internet banking, mobile banking, ATMs, Kiosks and over the counter in financial institutions. LANKAQR, LankaPay Online Payment Platform (LPOPP), JustPay, GovPay and Direct Debit are operating on the FPS infrastructure.

The FPS has shown a growth of 34.1% in value during 2025 compared to the previous year with a total transaction value of Rs. 23.13 Tn. This indicates a high level of adoption of the FPS based payment channels for retail payments.

**Growth of Customer Transactions in RTGS System: 2015 - 2025**

Graph - 03



## Role of the Bank > Payments and Settlements

The LANKAQR mechanism is used by merchants as the National Quick Response(QR) code standard to accept digital payments from customers who are using supporting mobile payment applications.

LPOPP facilitates online real-time payments to government institutions such as Sri Lanka Customs, Inland Revenue Department, Sri Lanka Ports Authority, Employees' Provident Fund

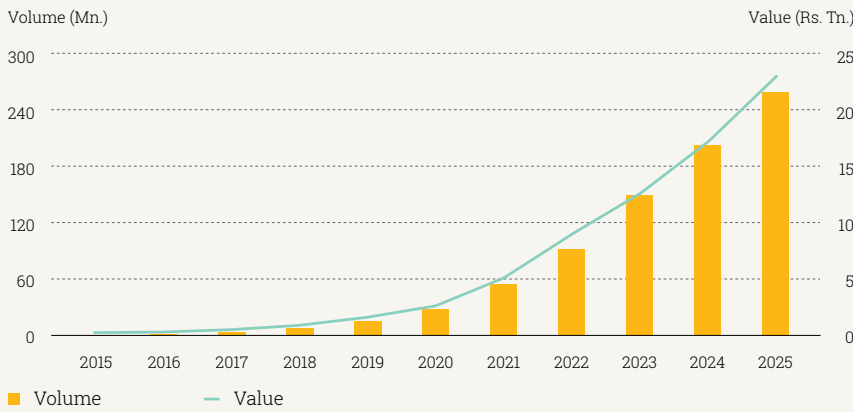
and allows customers of member financial institutions to transfer money instantly from their current or savings account to a government institution conveniently and securely.

In 2025, the LPOPP processed payments with a total transaction value of Rs. 3.40 Tn., representing a growth exceeding 90% compared to 2024.

GovPay was launched in February 2025 and enables government institutions, which do not have their own IT systems to accept instant digital payments from the public, for the services they provide. This mechanism further expands the coverage of government institutions accepting digital payments, while improving their efficiency and accessibility to the public. As of December 2025, 254 institutions have been onboarded to GovPay, and the aggregate value of transactions processed through the platform in 2025 amounted to Rs. 2.27 Bn.

**Growth of Fast Payments: 2015 – 2025**

Graph – 04

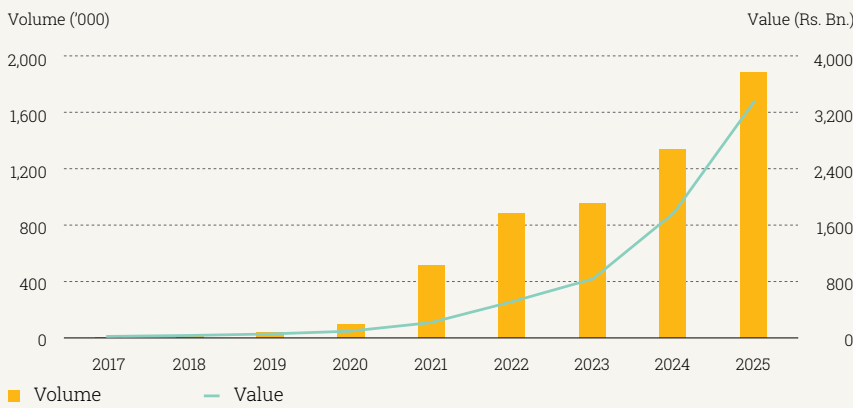


### Operations of the SWIFT System

The Central Bank uses SWIFT financial communication network for transmitting and receiving both cross border and domestic payment messages. In line with global standards and international implementation timelines, the Central Bank successfully completed the migration of all SWIFT-based systems to the ISO 20022 messaging standard by 22 November 2025. This transition reinforces Sri Lanka's payment infrastructure, ensuring continued compliance with international best practices and enhances the efficiency and security of financial messaging.

**Growth of Payments to Government Institutions Through LPOPP: 2017 – 2025**

Graph – 05



### Operations of the Asian Clearing Union

As a member of the Asian Clearing Union (ACU), the Central Bank continued fulfilling its role in 2025 within this multilateral settlement system.

ACU enables participating central banks to settle intra-regional payments on a net basis, reducing the use of foreign exchange reserves and transfer costs, while promoting trade and banking relations among its members: Bangladesh, Belarus, Bhutan, Iran, India, Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka.

## Role of the Bank > Payments and Settlements



### 2025 Highlights

- Implemented policy measures to promote digital payments, enhancing inclusiveness, efficiency, and safety. This included lowering transaction fees of LPOPP and CEFTS, mandating a maximum per transaction fee for GovPay and raising the SLIPS per-transaction limit from Rs. 5 Mn. to Rs. 10 Mn. for bulk retail payments.
- Directed Mobile Payment Application Providers (MPAPs) to verify that the mobile number of the devices on which the payment application is installed matches the mobile number registered with the customer's bank account, reducing scams and frauds in digital payment systems.
- Approved LankaPay to link with AliPay+ for the acceptance of LANKAQR transactions made by tourists through AliPay+ enabled mobile applications at LANKAQR merchants, boosting cross-border compatibility and strengthening the national payment infrastructure.
- Revised the FinTech Regulatory Sandbox framework by relaxing the qualifying conditions to provide greater accessibility for FinTech firms.
- Developed the National Payment System Roadmap 2026–2027 in collaboration with the members of the National Payments Council, to provide strategic guidance to transform Sri Lanka into a less-cash economy and to enable the financial well-being of people through the development of a secure, efficient, inclusive, and globally connected payment system.
- Conducted targeted digital payments promotion campaigns in Hambantota, Nuwara Eliya, Dambulla, and at the Central Bank premises to increase awareness among the general public.

### Regulation and Supervision of Money or Value Transfer Services

The Central Bank commenced regulating and supervising Money or Value Transfer Service (MVTS) providers in Sri Lanka, under the Payment and Settlement Systems Act No. 28 of 2005 through the Money or Value Transfer Service Providers Regulations No. 1 of 2024 (MVTS Regulations).

This regulation mandates all MVTS providers to register with the Central Bank, allowing unregistered providers to formalise their operations and provide a safe and efficient service to customers under a regulated environment.

Amendments to the MVTS Regulations were issued with effect from 31 December 2025 as Money or Value Transfer Service (MVTS) Providers Regulations No. 01 of 2025, requiring overseas money transfer service providers to register under the regulatory and supervisory framework of the MVTS Regulations.

### Settlement of Forex, Gold and Foreign Securities

The Central Bank performs international operations related to foreign exchange, gold and foreign securities, as empowered by the Central Bank of Sri Lanka Act, No. 16 of 2023 to conduct foreign exchange operations. As part of this activity, the Central Bank manages the settlement and reconciliation of all transactions which are related to the foreign reserve management and domestic foreign exchange operations of the Central Bank, promptly and accurately, upholding the safety and efficiency of the settlement process.

In addition, the Central Bank also handles the opening and closing of Nostro and custodian accounts and addresses policy matters pertaining to their maintenance and management, specifically for the purpose of foreign reserve management.

### Maintenance of LankaSecure System and Its Services

The LankaSecure System, which comprises the Central Depository System (CDS) and the Scripless Securities Settlement System (SSSS), operated with 100% availability throughout 2025. The CDS records ownership of scripless government securities, while the SSSS facilitates the settlement of transactions relating to such securities.

During the year, LankaSecure has facilitated 649,629 number of transactions, including primary issuances, secondary market trades (outright, repurchase and pledge transactions), Open Market Operations, the Intra-Day Liquidity Facility, and other related transactions.

Periodic electronic statements of security holdings, transactions, interest and maturity payments were issued to CDS account holders during the year. In addition, real-time notifications for every debit and credit transaction involving securities were provided via SMS and/or email alerts to CDS account holders who have registered for such facilities.

Furthermore, registered CDS account holders are able to view their securities account details online through the LankaSecureNet facility. Facilities were also provided to obtain statements of outstanding securities balances for specific purposes such as annual or periodic audits, visa applications, and regulatory submissions, among other services introduced to further enhance the safety and transparency of government securities investments.

## Role of the Bank > Payments and Settlements

# The Evolution of the Payment and Settlement Systems



The evolution of Sri Lanka's payment and settlement systems reflects a continuous journey of modernisation and innovation. The Central Bank has proactively steered the development of the national payment system from manual, paper-based processes into a fast, interoperable and internationally connected digital ecosystem that enables safe and efficient payment mechanisms, built on a foundation of stability, and inclusion which continues to support the evolving needs of the economy through innovation.

### Building the Foundation: From Cheque Clearing to Instant Payments

The establishment of Central Bank marked a turning point in formalising interbank payments. Assuming its role as the banker to banks, the Central Bank commenced the operation of cheque clearing for commercial banks.

### Establishment of Sri Lanka Automated Clearing House

With the increasing volume of cheques presented for daily clearing, it became necessary to automate the process. Accordingly, the Sri Lanka Automated Clearing House (SLACH) was established in 1988, which significantly reduced the time required to clear cheques.

### Introduction of Sri Lanka Interbank Payment System

The Sri Lanka Interbank Payment System (SLIPS) was introduced in 1993 to facilitate electronic fund transfers between banks, enabling payments from one account to another or to multiple accounts without the use of paper instruments such as cheques or pay orders, marking a new era of electronic payments among banks.

SLIPS was upgraded in 2010 to an online interbank payment platform, enabling same day receipt of funds for retail electronic transfers and significantly improving the speed, efficiency, and reliability of low value payment processing.

### Modernisation of the Payment Systems Infrastructure

In 2002, Central Bank embarked on a holistic modernisation of the national payment system, supported by legal and institutional reforms to promote financial market development and innovation.

### Strategic Divestment in Clearing Operations – Establishment of LankaClear

Under the modernisation program, Central Bank divested its clearing operations to LankaClear (Pvt) Ltd (currently renamed as LankaPay (Pvt) Ltd (LPPL)), an entity jointly owned by Central Bank and licensed commercial banks in Sri Lanka.

The governance model of LPPL facilitated the rapid advancement in the retail payment space in Sri Lanka. Key achievements included the launch of Cheque Imaging and Truncation System (CITS) in 2006 which enabled the island-wide receipt of funds on the following business day for cheques presented for clearing.

## Role of the Bank > Payments and Settlements

### Launch of the Real-Time Gross Settlement (RTGS) System

Launch of the RTGS System in 2003, which made Sri Lanka the first South Asian country to adopt real-time settlement of high-value and time-critical payments was one of the key milestones in advancing the national payment system. Upgraded to the ISO 20022 messaging standard in 2024, the RTGS System remains the backbone of the financial system of the country, settling transactions exceeding Rs. 400 Tn. in 2025, with a daily average of Rs. 1.8 Tn.

### Strengthening of the Legal and Regulatory Framework

The Payment and Settlement Systems Act, No. 28 of 2005 (PSSA) further strengthened Central Bank's role as the regulator and the overseer of payment systems, while ensuring safety and promoting innovation.

### Establishment of National Payment Council

The National Payments Council (NPC) was established in 2006 to guide the strategic direction of the payment industry as a consultative body comprising public authorities and financial market participants.

### Introduction of an Interoperable Payment Infrastructure

#### Common Card and Payment Switch

The launch of the Common Card and Payment Switch (CCAPS) in 2013 accelerated digital adoption and payment service innovation in the country. The CCAPS connected banks to interoperable payment systems, creating a new era of interoperable instant payments in Sri Lanka. Under CCAPS, the Common ATM Switch (CAS) which was launched in 2013, enabled the public to withdraw cash from any ATM in the country while the Common Electronic Fund Transfer Switch (CEFTS) which was launched in 2015, enabled the public to perform fund transfers to customers of any financial institution in the country, removing the need for customers having to visit their own banks to access such payment services.

### LankaPay National Card Scheme

Furthermore, the LankaPay National Card Scheme, introduced in 2018, facilitated the issuance of payment cards, where local transactions are routed through the local Common POS Switch (CPS), while international transactions are routed via a co-branded international card network.

### Instant Payment System

Sri Lanka's Instant Payment System, CEFTS, is a landmark development that ushered in a new era for digital payments in Sri Lanka, forming the foundation for innovative and inclusive digital payments for the public.

### CEFTS Enabled Innovations: LANKAQR, JustPay, LPOPP, and GovPay

The interoperable and versatile architecture of CEFTS enabled the introduction of multiple features that propelled the creation of new digital payment instruments and fund transfer methods enabling account-to-account instant payments. LANKAQR (2018) for interoperable Quick Response (QR) code payments, JustPay (2019) for linking customer's bank accounts to any mobile payment app, and JustPay Web (2024) for e-commerce transactions using their bank accounts, are key innovations built on the CEFTS infrastructure, significantly expanding access, convenience and efficiency of digital payments in Sri Lanka.

CEFTS facilitated the introduction of the LankaPay Online Payment Platform (LPOPP), launched in 2017 and the GovPay arrangement, launched in 2025 to facilitate instant payments to government institutions.

### Paving the Path for a Competitive and Secure Digital Payments Ecosystem

The Central Bank created a conducive environment enabling competition, innovation and safety in the payments landscape of the country. Such environment facilitated the introduction of multiple digital payment instruments, including payment cards, QR-enabled payment apps, e-money systems and

payment wallets. Payment cards, which have been introduced to Sri Lanka in 1989, were brought under a licensing framework in 2009 and 2013. Similarly mobile phone-based e-money service providers were also licensed since 2012.

Currently, Sri Lanka has over 30 JustPay and LANKAQR enabled mobile payment apps, with over 400,000 LANKAQR merchants accepting QR payments, reducing reliance on cash for small value retail payments. Financial Technology (FinTech) innovations were further encouraged through the FinTech Regulatory Sandbox introduced in 2020, which provides FinTech firms with a controlled environment, supervised by the regulator, to test their solutions under relaxed regulatory measures before full commercial deployment.

### Global Integration of Sri Lanka's Payment System

Central Bank has facilitated the international connectivity of Sri Lanka's payment system by integrating LANKAQR with UnionPay – China in 2023, NIPL – India in 2024 and AliPay+ International in 2025. The internationally standardised, interoperable design of LANKAQR has been instrumental in enabling these successful integrations.

The evolution of Sri Lanka's payment and settlement systems demonstrates a progressive transformation from manual cheque clearing to internationally connected digital payment ecosystem available today.

This transformation continues to evolve, driven by the dynamic nature of technology and the payments industry, which creates a continuous need for a supportive regulatory framework and ongoing industry innovation. Recognising these imperatives, the Central Bank actively promotes the adoption of emerging technologies to enhance the safety and efficiency of payment systems while encouraging cross-border integrations, ensuring that Sri Lanka's payment and settlement systems remain at the forefront of technological advancement and operational excellence.

# Currency Operations

Under the provisions of Central Bank of Sri Lanka Act No. 16 of 2023 (CBA) the Central Bank is entrusted with the responsibility of issuing and managing the full lifecycle of currency notes and coins.

In fulfilling this mandate, the Central Bank oversees the entire cash cycle, ensuring the availability of clean, secure and adequate currency in circulation (CIC), thereby supporting public confidence in the Sri Lankan Rupee and the effective functioning of cash transactions across the country.

## Liability for Currency and Recent Trends

The Central Bank supplies currency notes and coins to Licensed Commercial Banks (LCBs) based on their requirements and accepts surplus currency returned by them. Through this continuous process of issuance and withdrawal, Central Bank manages the level of CIC, which represents the value of notes and coins held by the public and serves as a key operational indicator of currency demand in the economy. Currency issued by Central Bank remains a liability of the Bank until it is withdrawn from circulation and extinguished.

In 2025, a significant increase in the demand for currency notes was observed with CIC growing by 15.5% to Rs. 1,568.94 Bn., compared to Rs. 1,358.72 Bn. in 2024.

## Currency Management

Currency management at the Central Bank encompasses currency design, printing and minting, order placement, stock management, replacement of unfit currency, counterfeit prevention, currency processing, and public awareness.

## Designs of Currency

Central Bank periodically introduces new currency designs, new series, and commemorative issues based on operational and national requirements. In August 2025, to mark the 75<sup>th</sup> Anniversary of the Central Bank, a Rs. 2000 Circulation Standard Commemorative Currency Note was issued, designed in line with the 75<sup>th</sup> Anniversary theme, "Stability for

Prosperity," reflecting the Central Bank's unwavering commitment to maintaining economic stability as the foundation for national progress. This is the fifth commemorative currency note issued by the Central Bank and was released as a limited issue of 50 million notes.

## Printing and Minting

As the sole issuer of currency in Sri Lanka, Central Bank is responsible for ensuring an adequate supply of currency notes and coins through systematic planning, accurate forecasting, continuous monitoring, and timely placement of orders.

## Order Placement

Annual currency orders are placed based on projected issuance requirements, replacement needs for unfit currency, contingency stock levels, and prevailing economic conditions. Based on order quantities and supplier readiness, consignments are delivered according to the agreed delivery schedule.

## Stock Management

The Central Bank maintains adequate stocks of currency notes and coins to ensure a stable and uninterrupted supply, supported by systematic demand forecasting. Safe stock levels are maintained to mitigate risks arising from unforeseen events such as supply delays, natural disasters, or sudden increases in demand, particularly during festive seasons. This forms part of a broader contingency strategy to ensure the Bank's ability to meet the country's currency needs under all circumstances.

## Replacement of Unfit Currency

The Central Bank ensures the quality of currency in circulation by systematically withdrawing soiled, mutilated, and otherwise unfit notes and coins and replacing them with fit currency.

## Combating Counterfeit Currency

To prevent counterfeiting and maintain public confidence, Central Bank works closely with the Counterfeit Currency Bureau of the Criminal Investigation Department (CID).

## Awareness

The Bank also conducts awareness programmes on the security features of genuine currency for law enforcement officers, cash handlers, students, and the general public. These programmes enhance the ability to identify genuine currency and detect counterfeits.

## Currency Exchange

The Central Bank facilitates currency exchange through a dedicated public exchange counter at the Pettah branch of Bank of Ceylon (BOC) and a damaged notes exchange counter at the Central Bank Head Office.

## Revamping Currency Operations (RCO)

In response to increase in CIC, the growing volume of currency operations, and the capacity constraints within existing currency processing infrastructure, Central Bank initiated a comprehensive revamp of its currency operations in December 2025.



## 2025 Highlights

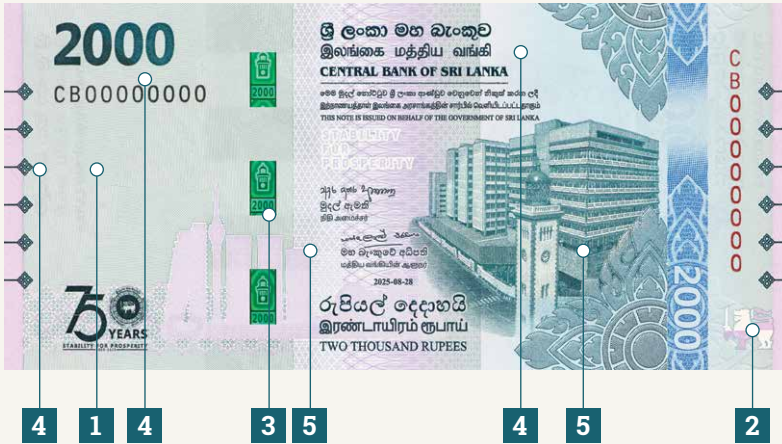
- ➔ Issued a total of Rs. 496.95 Bn. to LCBs, which Rs. 496.29 Bn. in currency notes and Rs. 0.66 Bn. in coins and total deposits acceptance from LCBs accounted to Rs. 287.08 Bn. in currency notes.
- ➔ Issued of 83 certificates for determining of counterfeit notes cases as evidence of imitating the currency notes for court proceedings and attended 13 court cases relating to counterfeited notes.
- ➔ Exchanged Rs. 1,139 Mn. in notes and Rs. 11.84 Mn. coins through the Currency Exchange Counters at the Central Bank while damaged notes exchanged stood at Rs. 196.46 Mn.
- ➔ Removed 141.55 Mn. pieces of currency notes from the circulation amounting to Rs. 91.23 Bn.

Role of the Bank > Currency Operations

Specimen of the 5<sup>th</sup> Commemorative Currency Note

Figure – 13

FRONT



Commemorative Currency Note Rs. 2000

The Central Bank of Sri Lanka issued this Rs. 2000 commemorative currency note on 28 August 2025 to mark its 75th anniversary.



1 LOOK

Look for the extra small text hidden in the note's design

Hold the currency note to the light to see the Lion with Sword Watermark



See the complete Lion with Sword image in the See-Through security feature when you hold the currency note to light

REVERSE



3 TILT

Tilt the note up and down to see the colour change in the security thread from blue to green and vice versa, and see the Colombo Lighthouse Clock Tower and 2000 in the security thread



4 FEEL

Feel the raised print in the 2000 denomination and the Bank's title



Also feel along the six bars with a diamond shape on each bar. This tactile feature helps visually impaired people identify the value of the currency note

FRONT:

The Central Bank Head Office Building and the Colombo Lighthouse Clock Tower, together with a stylised Colombo skyline showcasing recent urban developments and the 75th anniversary logo. The image is overlaid with numbered markers (1, 2, 3, 4, 5) pointing to the security features

REVERSE:

The note presents a stylised map of Sri Lanka, a water lily, and the Central Bank's vision statement, symbolising the Central Bank's commitment to economic resilience and progress. It also overlaid with numbered markers (1, 2, 5)



5 INSPECT

Inspect the currency note under ultraviolet light and see the fluorescent dual colours appear in the anniversary theme as well as the Colombo skyline on the front



The denomination also appears under ultraviolet lighting. This feature can be machine readable

## Role of the Bank &gt; Currency Operations

# Evolution of Currency Management



**Over the past 75 years, currency management in Sri Lanka has evolved significantly, in response to shifting economic conditions, technological advancements, enhanced security requirements, and increasing public expectations.**

**This progression reflects the Central Bank's continued commitment to maintaining confidence in the Sri Lankan currency and upholding the integrity and stability of the national cash cycle.**

### **Origin of the Legal Framework: Governing Currency Management**

The formal framework for currency management in Sri Lanka was originated with the establishment of the Currency Board System under the Paper Currency Ordinance of 1884. This framework prevailed until the enactment of the Monetary Law Act, No. 58 of 1949,

## Role of the Bank > Currency Operations

which provided the legal foundation for the establishment of the Central Bank of Ceylon on 28 August 1950, making a pivotal milestone in the nation's monetary history. Since then, the Central Bank has assumed sole responsibility for issuing, managing, and safeguarding Sri Lanka's legal tender.

The responsibility of currency management was initially assigned to the Currency Division of the Banking and Currency Department of the Central Bank.

### Establishment of Currency Department at the Central Bank

The institutional capacity related to currency management was further strengthened with the establishment of the Currency Department (CRD) in 1978, thereby significantly expanding currency operations. The CRD is entrusted with managing the entire lifecycle of currency, from design and production to circulation and final disposal. The key currency management functions of the CRD are outlined below.

- Assess currency note printing and coin minting requirement
- Design and Production (procurement)
- Supply and distribution (while ensuring quality and quantity)
- Timely withdrawal of unfit currency from circulation
- Currency authentication and counterfeit deterrence

With the enactment of the Central Bank of Sri Lanka Act No. 16 of 2023, replacing the Monetary Law Act, the legal framework for currency management was further strengthened, enhancing the Central Bank's independence, accountability and governance, while reflecting its exclusive authority over currency issuance and management.

All currency notes and coins issued by the Central Bank are legal tender, except for Rs. 50 and Rs. 100 notes bearing dates prior to 26 October 1970, which ceased to be legal tender following their demonetisation in 1970.

### Evolution in Currency Denomination Structure



Central Bank issued its first series of banknotes in 1951 under the King George VI series featuring Re. 1/- and Rs. 10/- denominations. Since then, Sri Lanka's currency denomination structure has evolved steadily in response to economic growth, inflation, and advances in currency management. Early post-independence issues included smaller denominations; Re. 1/-, Rs. 2/-, Rs. 5/-, Rs. 10/-, Rs. 50/-, and Rs. 100/- reflecting the purchasing power of the era. Over the following decades, denominations were progressively increased to accommodate rising economic activity: Rs. 20/- was introduced in 1979, followed by Rs. 500/- and Rs. 1000/- in 1981, Rs. 200/- in 1998, and higher-value Rs. 2000/- and Rs. 5000/- notes in the 2000s to facilitate large-value transactions.

The latest series, the eleventh series, introduced in 2011—feature denominations from Rs. 20/- to Rs. 5000/-, supported by enhanced security features to deter counterfeiting and accommodate higher transaction needs in a growing economy. This evolving structure reflects the Central Bank's continuous adaptation of the currency management system to meet economic realities, technological change, and public usage patterns.

Similarly, coinage has evolved through changes in denominations, sizes, and metal compositions to enhance durability, ease of handling, and cost efficiency. The most recent circulation coin series, introduced in 2017, comprises four denominations, all minted in stainless steel.

### Establishment of CVCS System

In response to the gradual evolution of currency operations, currency handling processes have transited from labour intensive manual methods to technology based operations aligned with international best practices. Manual counting, sorting, authentication, and destruction processes were gradually replaced by high-speed Currency Note Verification, Counting, and Sorting Systems, first introduced in 1992, followed by several upgrades to more advanced Currency Note Processing systems. These systems facilitate fitness sorting, authentication, packing, shrink-wrapping, automated accounting, and secure destruction through briquetting. The existing Currency Note Processing machines were introduced into operation in 2013.



Damaged currency notes that cannot be processed through machines are handled manually and destroyed using controlled shredding systems under strict supervisory controls. These improvements have resulted in a highly automated, efficient, and secure operational framework, strengthening internal controls, reducing operational risks, and enhancing service delivery across the currency lifecycle.

## Role of the Bank > Currency Operations

### Issuance of Commemorative Notes and Coins

The Monetary Law Act (Amendment) No. 6 of 1998 introduced Section 52A, explicitly empowered the Central Bank to issue commemorative currency notes and coins and to sell them at a price higher than their face value. The provision is deemed to have taken effect from 04 February 1998, and any commemorative currency note, or coin issued or sold before that date is legally recognised as having been lawfully issued or sold.

The first commemorative coin was issued in 1957 and so far the Central Bank has released 76 commemorative currencies, comprising 71 coins and 5 notes. While these issues retain legal tender status, they are primarily intended for numismatic, educational, and collection purposes.

### Currency Museum

Public education is further supported through the Currency Museum, first established in 1982 and expanded over time. The modern Economic History Museum at the Central Point Building, opened in 2011, provides interactive displays and educational content on the evolution of currency, security features, and the Central Bank's role, serving as a key platform for public outreach and financial literacy.

### Revamping Currency Operations

In response to emerging operational requirements, CRD is implementing a Revamping Currency Operations (RCO) project aimed addressing medium-term operational constraints. The project focuses on expanding processing capacity while streamlining operational workflows, minimising manual intervention, strengthening safety and security standards, and enhancing the resilience of the Central Bank's cash management operations.

### Towards a Future-Ready Currency Management System

Over its 75-year journey, the Central Bank has continuously strengthened the nation's currency system to ensure resilience, reliability, and public confidence, even in times of economic and operational stress. Drawing on decades of experience, the Bank has built robust business continuity arrangements, secure storage infrastructure, and efficient cash distribution frameworks that safeguard uninterrupted public access to currency nationwide. The ongoing enhancements in contingency planning, operational flexibility, and modern infrastructure demonstrate the Central Bank's commitment to preserving the quality, integrity, and trustworthiness of the national currency under all circumstances.

As the payments landscape continues to evolve, cash remains a vital and inclusive component of the economy. Going forward, the future of currency management will be shaped by greater automation, data-driven demand forecasting, advanced security features, and sustainable practices. Building on 75 years of institutional knowledge and public service, the Central Bank remains committed to ensuring that cash continues to function as a secure, resilient, and trusted medium of exchange, supporting economic stability and prosperity for generations to come.



# International Engagements

The Central Bank has long played a pivotal role in representing the country in its financial and economic engagements with the global community. In 2025, the Bank continued to strengthen its international presence by fostering strategic partnerships with multilateral agencies and bi-lateral partners, foreign central banks, international financial organisations, and other global stakeholders. Through active participation in international forums, collaborative initiatives, and knowledge-sharing platforms, the Central Bank further enhanced policy coordination, technical cooperation, and institutional capacity.

## Multilateral and Bi-Lateral Engagements

The Central Bank continued to play a key role in supporting the implementation of Sri Lanka's Extended Fund Facility (EFF) programme with the International Monetary Fund (IMF) in 2025. In close coordination with the Government and other relevant stakeholders, the Central Bank engaged actively in policy consultations, programme reviews, and technical discussions with IMF staff to ensure the successful implementation of agreed reforms and macroeconomic policy measures.

During 2025, the bilateral currency swap agreement between the Central Bank and the People's Bank of China was extended. Further, the Central Bank signed a Second Addendum to the Special Swap Agreement with the Reserve Bank of India (RBI) and conducted high level comprehensive and constructive discussions on a range of matters of mutual interest.

In 2025, the Central Bank strengthened its collaboration with several international partners to advance the financial system including enhancing financial literacy and inclusion and strengthening the financial sector safety net and resolution framework. The United Nations Development Programme (UNDP) and the Japan International Cooperation Agency (JICA) provided technical and financial assistance to develop and launch the financial literacy curriculum and awareness materials.

Engagement with the Alliance for Financial Inclusion (AFI) facilitated financial and technical support for assessing the impact of the National Financial Inclusion Strategy (NFIS) and developing its next phase. The Central Bank was also recognised as an AFI Gender Inclusive Finance Ambassador Institution in 2025. In addition, under the Financial Sector Safety Net Strengthening Project (FSSNP) supported by the World Bank, significant progress was made in strengthening the institutional capacity and governance framework of the Sri Lanka Deposit Insurance Scheme (SLDIS), alongside financial assistance extended through performance-based financing. In addition, the Central Bank strengthened its regional collaboration through active participation in SEACEN's capacity-building and policy dialogue initiatives.

The Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka extensively engaged with the international organisations focusing primarily on preparing for the Asia/pacific Group of Money Laundering (APG) 3rd Mutual Evaluation scheduled for 2026.

The Central Bank participated in several policy related meetings with international institutions such as International Finance Corporation (IFC), UNDP, SAARCFINANCE, French Development Agency, Banque de France etc. on areas such as monetary policy, financial sector stability and reforms, Small and Medium-sized Enterprises (SME) sector Programs, macrofinancial supervision and sustainable finance. In addition, the Central Bank launched an interview in collaboration with India to strengthen Central Bank's digital presence in economic policy discourse and institutional thought leadership among domestic and global stakeholders.

## Alternate Executive Director of the IMF

The Central Bank officers continued to serve as Alternate Executive Director at the IMF, reflecting the strong recognition of their expertise in macroeconomic policy and international economic affairs. The officer is well positioned

to represent the interests of the constituency comprising Sri Lanka, India, Bangladesh, and Bhutan at the global level.

## Capacity Building

Parallel to policy-focused engagements, capacity building and knowledge sharing formed a core part of Central Bank's international activities. Central Bank officers participated for training programmes, technical assistance programmes, peer learning initiatives, international forums and international conferences, organised mainly by the institutions such as IMF, IMF SARTTAC, Deutsche Bundesbank, and SEACEN Centre. Technical Assistance were received to enhance analytical capabilities of the Central Bank staff on investments, and development of models and frameworks.

The Central Bank also shared its knowledge and experience with peer central banks. A peer learning exchange hosted by the Reserve Bank of Fiji covered several areas of consumer protection, sustainable finance, digital financial services, and market conduct supervision. The Central Bank played a dual role by hosting and conducting training sessions for officers of the Nepal Rastra Bank. The Central Bank participated in the 18th annual Central Bank Risk Managers Forum as a panel presenter on the topic "Managing Balance sheet Risk amidst Crisis and recovery – A Risk Indicator Approach".

## Credit Ratings and Regulatory Agreements

To maintain Sri Lanka's financial credibility, the Central Bank continued its collaboration with credit rating agencies i.e., Fitch, Moody's, and Standard & Poor's (S&P) throughout 2025.

## Role of the Bank > International Engagements

### Governor's International Engagements – 2025

The Governor's international engagements in 2025 focused on strengthening relationships with multilateral institutions, enhancing financial system resilience, advancing financial inclusion, and supporting investor confidence. These engagements allowed for deeper policy dialogue, progress reviews under ongoing reform programmes, and broad collaboration with development partners, regulators, and regional counterparts.

#### Engagements with Multilateral Institutions

Strengthening cooperation with the IMF and the World Bank remained central throughout the year. The Governor participated in the IMF–JICA Regional Conference in Tokyo in February and served as a panellist at the session on 'What is Next for Economic Policy makers in Emerging and Frontier Asia?' which facilitated extensive knowledge sharing. This was followed by the IMF High Level Event in Tokyo in March, focusing on regional resilience through cooperation corporation and the Governor contributed as the panellist at the session on 'A Reinforced GFSN and the IMF's Role at its Core'.

Furthermore, participation in both the IMF–World Bank Spring Meetings in April and the Annual Meetings in October provided platforms to review progress under the IMF supported EFF programme, discuss policy priorities, identify technical assistance and training needs, and conduct extensive bilateral meetings with development partners, international financial institutions, and investor groups.

#### Regional Collaboration and Knowledge Sharing

The Governor actively contributed to regional policy dialogue through participation in the 6th South Asia Leaders' Roundtable organised by Nepal Rastra Bank and the Alliance

for Financial Inclusion. These discussions strengthened capacities in managing cyber risks in digital payments, improving consumer protection for vulnerable groups, and enhancing resilience of digital financial infrastructure across South Asia.

Governor's engagements in the AFI Global Policy Forum in Namibia and the Kautilya Economic Conclave in New Delhi further reinforced Sri Lanka's commitment to global and regional level knowledge exchange and policy development.

#### Financial Stability and Regulatory Engagements

Ensuring financial system stability continued to be a high priority. The Governor's participation in the Financial Stability Board Plenary Meetings and Conference in Madrid facilitated discussions on emerging global risks to financial stability and the policy measures required to mitigate them. These engagements helped strengthen Sri Lanka's alignment with global regulatory standards and enhance surveillance of system wide risks.

#### Advancing AML/CFT Commitments

A significant milestone in 2025 was the Governor's participation in the Asia/Pacific Group on Money Laundering (APG) Annual Meeting in Tokyo. Several high level bilateral discussions reaffirmed Sri Lanka's strong commitment to AML/CFT standards and focused on preparations for the Mutual Evaluation scheduled to commence in March 2026.

These engagements also facilitated enhanced cooperation with the APG secretariat, donors, and technical support providers, securing access to several targeted technical assistance programmes.

#### Trade and Investor Outreach

In support of Sri Lanka's external sector and investment climate, the Governor with other government officials engaged with the United States Trade Representative, where discussions contributed towards progress on negotiating tariff reductions, a process that remains ongoing.

In August, the Governor also participated in the 'Invest Sri Lanka' Investor Forum in Singapore, organised by the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. The forum served as a key platform for promoting Sri Lanka to international investors, strengthening market confidence, and supporting investment outreach.

Governor's participation across all international engagements, contributed towards strengthened relationships with key global and regional stakeholders, advanced reform priorities, supported macroeconomic stability objectives, and enhanced investor and development partner confidence. These engagements also contributed significantly to improving readiness for external evaluations, reinforcing financial stability frameworks, and promoting greater resilience and inclusiveness in the financial sector.

#### "A" Grade Central Bank Governors Award – 2025

The Governor, Dr. Nandalal Weerasinghe, was honoured with the prestigious 'A' Grade Central Bank Governors award in 2025, by Global Finance magazine in recognition of his exceptional leadership and outstanding contributions to economic management. This accolade acknowledges not just the outcomes delivered, but the independence, discipline and strategic vision that underpinned them.

# 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 &gt; 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 current<sup>1</sup> and capital<sup>2</sup> 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.

<sup>1</sup> 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.

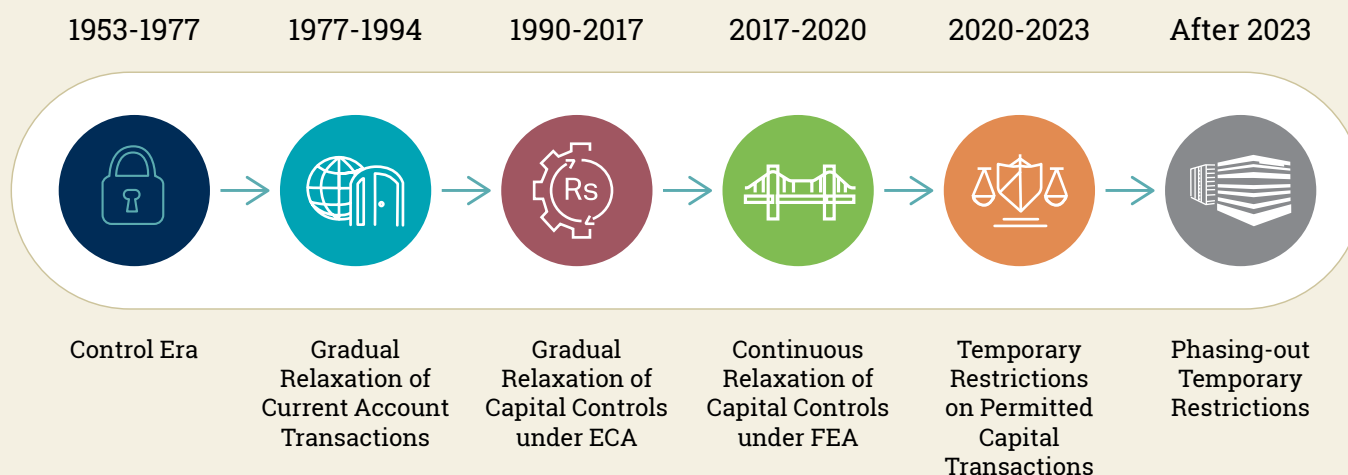
<sup>2</sup> Capital Transactions – involve cross-border foreign exchange transactions related to investments or asset transfers. (E.g. Investments made in Sri Lanka by non-residents, overseas investments made by residents and migrant fund transfers).

## 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 &gt; 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 Website<sup>1</sup>

## 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 Website<sup>2</sup>

## 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 Website<sup>3</sup>

<sup>1</sup> <https://epf.lk/>

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

<sup>3</sup> [https://fiusrilanka.gov.lk/annual\\_reports.html](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

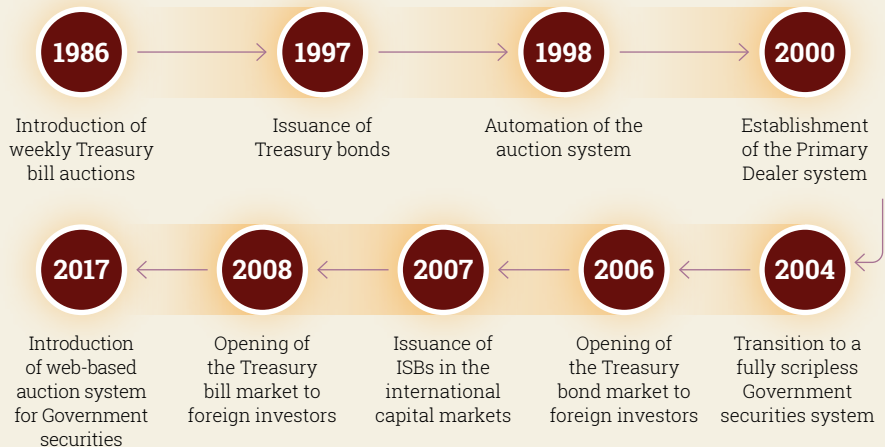
### Debt Management Agency Function

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.