



# CBSL'S POLICY AGENDA FOR 2025

## FLASH NOTE

### CBSL PRESENTS ITS POLICY AGENDA FOR 2025 EMPHASIZING THE THEME OF THE YEAR: "MAINTAIN STABILITY FOR PROSPERITY"

#### Overview

The Central Bank of Sri Lanka (CBSL) presented its Policy Agenda for the year on the 8<sup>th</sup> of Jan-25. During the presentation it was highlighted that implementation of corrective measures dominated CBSL's focus through 2022 and 2023. In 2024 a conspicuous shift was evident as restoring stability emerged as the primary focus of the Central Bank. It was emphasized that in 2025 policies would prioritize facilitating growth to drive the economy towards further prosperity while preserving the country's hard-earned stability. The theme of the year was declared as "Maintain Stability for Prosperity", and it was highlighted that securing sustainable and inclusive growth would remain key priorities in 2025.

#### Key Milestones of 2024

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|---|
| Completion of the debt restructuring efforts except for a marginal portion under the IMF-EFF programme, leading to improved sovereign ratings |
| Inflation remained largely contained, entering deflationary territory in the latter part of 2024  |
| Domestic economy rebounded strongly with a projected real GDP growth of 5.0%, driven primarily by supply side factors                         |
| An increasingly accommodative monetary policy was adopted, easing rates three times   |
| The Central Bank shifted to a single policy interest rate mechanism, introducing the "Overnight Policy Rate (OPR)"                            |
| A record USD 2.8Bn in foreign exchange was purchased by CBSL, increasing gross official reserves to USD 6.1Bn                                 |
| Financial Sector's regulatory framework was developed as well as a Bank Recapitalisation strategy   |

#### Policies for 2025 and Beyond

The policies that were presented fell under three dominant areas:

1. Policies Supporting Price Stability

2. Policies Aimed at Financial System Stability

3. Other Policies and Functions of CBSL

##### Policies Supporting Price Stability:

- ❖ **INFLATION:** Monetary policy would focus on maintaining inflation around the target rate of 5%. Inflation is expected to return to positive territory in mid-2025.
- ❖ **CREDIT:** The broad-based recovery of private credit is expected to continue. CBSL aims to work with financial institutions to contain anomalies in market rates seen across MSME and other marginal lending to ensure equitable access to the low-interest rate landscape.
- ❖ **LIQUIDITY:** Money Market liquidity to remain pronounced in 2025 with the expected buildup of foreign reserves. CBSL also aims to gradually phase out its holding of restructured bonds.
- ❖ **SRR FRAMEWORK:** CBSL is in the process of reviewing the current Statutory Reserve Requirement (SRR) Framework and a revamping of it remains possible.
- ❖ **OMOs:** CBSL plans to transition to a more market-friendly system for Open Market Operations (OMOs) in 2025.
- ❖ **EXTERNAL SECTOR:** CBSL expects to manage the current account carefully in the medium term amidst a projected current account deficit in 2025. Inflows from services trade and workers' remittances are expected to reach record levels in 2025. The Central Bank will continue purchasing foreign exchange from the market to rebuild external buffers.

#### Policies Aimed at Financial System Stability:

- ❖ **BANKING SECTOR:** Progress will be monitored, and further steps will be taken to ensure the successful implementation of the recapitalization strategy and a framework for market-driven consolidation of licensed banks will be established.
- ❖ **NBFI SECTOR:** CBSL strives to implement the “Masterplan for the Consolidation of Finance Companies” to facilitate stability in the sector. The revised phase II of this is set to be executed from Mar-25 to Mar-28. Amending and strengthening regulatory oversight of the sector is also stated to remain a key priority.
- ❖ **MACROPRUDENTIAL POLICIES:** The reassessment of Domestic Systemically Important Banks (DSIBs) with required capital buffers has been completed, and the announcement of DSIBs and their capital buffers is expected in 2025.
- ❖ **SUSTAINABLE FINANCE:** The Sustainable Finance Roadmap for Sri Lanka - Version 2.0 is to be launched in 2025.
- ❖ **PAYMENT AND SETTLEMENT SYSTEM:** CBSL has initiated a 3-year comprehensive plan to foster the growth of digital payments. The Government Digital Payment Platform (GDPP) is set to be operationalized in 2025. Moreover, The Merchant Discount Rate (MDR) for LANKAQR was restored to 1%, up from 0.5% from 1<sup>st</sup> Jan-25.

#### Other Policies and Functions of CBSL:

- ❖ **FINANCIAL INCLUSION:** In 2025, a national-level demand-side financial inclusion survey will be conducted, followed by the development of Phase-II of the National Financial Inclusion Strategy (NFIS), focusing on expanding the usage and quality of formal financial services for excluded population segments.
- ❖ **PUBLIC DEBT MANAGEMENT:** In 2024, the Public Debt Management Act was enacted to create a separate office under the Ministry of Finance for managing public debt, resolving the conflict of interest between monetary policy and debt management. The Public Debt Management Office (PDMO) is expected to be operational by the end of 2025.
- ❖ **FINANCIAL INTELLIGENCE:** Sri Lanka’s third Mutual Evaluation on its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework, coordinated by the Asia Pacific Group on Money Laundering (APG), is rescheduled to commence in Mar-26.
- ❖ **MANAGEMENT OF THE EMPLOYEES’ PROVIDENT FUND:** Several solutions are set to be implemented including the digitalization of records and setting up of an online payment mechanism. The EPF is also exploring opportunities to diversify its investment portfolio and achieve a higher risk adjusted rate of return.



**First Capital**  
A Janashakthi Group Company

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

|                  |                 |                         |                 |
|------------------|-----------------|-------------------------|-----------------|
| Dimantha Mathew  | +94 11 2639 853 | Zaeema Jihan            | +94 11 2639 866 |
| Ranjan Ranatunga | +94 11 2639 863 | Anjali Mathews          | +94 11 2639 866 |
| Akna Tennakoon   | +94 11 2639 866 | Manusha Kandanaarachchi | +94 11 2639 866 |

## GOVERNMENT SECURITIES SALES

|                     |                 |                |                 |
|---------------------|-----------------|----------------|-----------------|
| Anjelo Simmons      | +94 77 3031 636 | Arun Kandasamy | +94 75 4861 506 |
| Anushka Dissanayake | +94 77 2220 021 |                |                 |
| Anushi Ranawaka     | +94 77 3876 819 |                |                 |

## CORPORATE DEBT SALES

|                    |                   |
|--------------------|-------------------|
| Tharusha Ekanayake | + 94 77 7 809 154 |
|--------------------|-------------------|

## EQUITY SALES

|                      |                  | Equity Branches     |  |
|----------------------|------------------|---------------------|--|
| <b>CEO</b>           | Jaliya Wijeratne | +94 71 5329 602     |  |
|                      |                  | <b>Negombo</b>      | Priyanka Anuruddha +94 77 4546 070<br>Priyantha Wijesiri +94 77 9065 779 |
| <b>Colombo</b>       |                  |                     |  |
| Rasika Vidanalage    | +94 77 7072 698  |                     |  |
| Isuru Jayawardana    | +94 76 7084 953  |                     |  |
| Nishantha Mudalige   | +94 77 3204 929  |                     |  |
| Anushka Buddhika     | +94 71 4310 600  | <b>Agents</b>       |  |
| Thushara Pathiraja   | +94 77 0076 314  | <b>Colombo</b>      | Kithsiri Jayasinghe +94 77 7790 657                                      |
| Anjelo LaBrooy       | +94 77 7546 645  | <b>Anuradhapura</b> | Amila Luwishewa +94 71 0628 195  |
| Dillon Lowe          | +94 76 6160 647  | <b>Galle</b>        | Nuwan Abeynayake +94 77 7288 274   |
| Evelyn John          | +94 77 779 2452  | <b>Kandy</b>        | Ajith Ihalawatta +94 77 8477 530   |
| Yudheshan Kannadasan | +94 77 415 5809  | <b>Embilipitiya</b> | Ruwan Wanniarachchi +94 77 3877 734                                      |

## UNIT TRUST SALES

|                     |                 |                       |                 |
|---------------------|-----------------|-----------------------|-----------------|
| Kavin Karunamoorthy | +94 77 0328 060 | Imali Abeygunawardena | +94 77 1764 799 |
|---------------------|-----------------|-----------------------|-----------------|

## BRANCHES

| Kandy  | Kurunegala  | Matara  | Negombo   |
|--|---|---|---|
| CSE Branch Office,<br>No. 88,<br>Dalada Veediya,<br>Kandy 20000. | No.174/B2,<br>Negombo Road,<br>Kurunegala.<br>Kurunegala 60000. | CSE Branch Office,<br>1st Floor, E.H.Cooray Tower,<br>No.24, Anagarika Dharmapala Mawatha,<br>Matara 81000. | Colombo Stock Exchange<br>Negombo Branch Office,<br>No. 72 A, 2/1, Old Chilaw Road,<br>Negombo 11500. |
| <b>Manager: Salinda Samarakoon</b><br>Tel: +94 81 2236 010       | <b>Manager:</b><br>Tel: +94 37 2222 930                         | <b>Manager: Rohana Jayakody</b><br>Tel: +94 41 2222 988   | <b>Manager:</b><br>Tel: +94 31 4937 072   |

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