

The Daily News Line by Faraz



THE WORLD LOVES GOLD AND BITCOIN)

It's been a happy few weeks for those who hold stocks of gold and bitcoin in their trading arsenals. The commodities have both reached record highs as investors continue to back them.

Gold smashed through the \$3,900 (€3,334) a troy ounce barrier this week — a troy ounce being the unit of weight for precious metals and equivalent to 31.1 grams.

Meanwhile, on Sunday (October 5), the world's oldest and best-known cryptocurrency, bitcoin, hit a record when it broke through the \$125,000 barrier for the first time, before falling back a little.

It has so far been a bumper 2025 for both commodities. Gold has been on its biggest rally since the 1970s, with the price jumping by more than 50% since January 1. Bitcoin has had some falls during a turbulent 2025, but its value has risen by around a third since the start of the year. In Sri Lanka Bitcoin is not recognized by the CBSL.

Why is it happening?

Long seen as a so-called safe-haven asset which investors back during periods of uncertainty, gold has been on a steep upward curve since late 2018, with its value having increased by more than 300% since then.

Uncertainty has been a factor in the current rally, with US President Donald Trump's reciprocal tariffs in April fuelling concerns over the global economy, the sustainability of US government debt levels and the future viability of the US dollar as the world's reserve currency.

There has also been ongoing geopolitical uncertainty as a result of Russia's war in Ukraine and the war in Gaza.

Another recent factor has been the US government shutdown.

Gold is widely seen by investors as an alternative option to the US dollar, which has fallen sharply in value this year.

Gold has also benefited from a fall in support for the Japanese yen as a safe-haven asset. Japanese stocks surged on Monday after it was confirmed that Sanae Takaichi was elected as leader of the ruling party LDP, setting her up to be the nation's first female prime minister. However, the yen continued to fall back.



"Yen weakness on the back of the Japanese LDP elections has left investors with one less safe-haven asset to go to, and gold was able to capitalise," KCM Trade Chief Market Analyst Tim Waterer told news agency Reuters.

The US situation was adding to the attraction of gold. "The enduring US government shutdown means that a cloud of uncertainty still hangs over the US economy, and the potential size of any GDP impact," he added.

However, experts say there is more to gold's current surge than doubts over the future of the US economy, or indeed, the global economy. Several analysts say there has been a rise in demand for gold-backed exchange traded funds (ETFs), with more and more investors from a wider range of backgrounds seeking to invest.

"The fact that ETF demand has re-entered the scene so forcefully means that there are two forms of 'aggressor' bids for gold, from central banks and ETF investors," wrote Deutsche Bank analysts in a note to clients.

Gold has long been purchased by central banks around the world but the new ETF demand has fuelled the current rally.

Recent data from the US Commodity Futures Trading Commission (CFTC) shows that hedge funds now hold record holdings of \$73 billion worth of gold.

What about bitcoin?

Bitcoin's record rally has been largely driven by the reelection of Donald Trump as US President, with his clear and often-stated support for cryptocurrencies helping to increase demand and trust in the sector. However, there is evidence that more institutional investors are ploughing into bitcoin, similar to the trend seen with gold.

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CRYPTO SURGES – AS DOES CENTRAL BANK REGULATORY OVERSIGHT

INNOVATION VS. INVESTOR PROTECTION

A quiet but significant financial shift is taking root in Sri Lanka as citizens increasingly turn to cryptocurrencies to protect their wealth amid rising inflation and a depreciating rupee. From tech-savvy youth to small business owners, many are exploring digital currencies as a means to preserve value outside the traditional banking system, creating a rapidly expanding but largely unregulated sector.

Recent studies highlight the scale of this trend. The South Asian Journal of Finance estimates that over 320,000 Sri Lankans currently hold cryptocurrency, while international data from Datawallet projects the number could rise to 1.16 million by 2026. For many, cryptocurrencies are no longer speculative bets they are shields against inflation and currency depreciation.

Most activity occurs on offshore exchanges or through peer-to-peer platforms, as no local service providers are yet licensed. This creates a regulatory grey zone, leaving transactions unrecognised by law and beyond

the Central Bank of Sri Lanka's (CBSL) protective reach. Governor Dr. Nandalal Weerasinghe has repeatedly warned the public that only the Sri Lankan rupee is legal tender, clarifying that while crypto holdings are not banned, they are risky and require careful oversight.



In a move to curb potential money laundering, the CBSL has announced that all Virtual Asset Service

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VEHICLE IMPORTS BOOSTS REVENUE - WORRIES FOR IMF TARGET OF USD 7.5 BILLION RESERVES

Sri Lanka's decision to lift a four-year ban on vehicle imports has sparked a surge in demand, delivering a windfall in government revenue while intensifying pressure on the nation's fragile foreign exchange reserves. The move, implemented in early 2025, aims to revive tax income and stimulate economic activity, but it comes with significant external sector implications.

Official data shows that vehicle imports reached US\$918 million during the first eight months of 2025, accounting for nearly 7 percent of total merchandise imports, which stood at US\$13.34 billion.

Meanwhile, Letters of Credit (LCs) opened for vehicles exceeded US\$1.2 billion by the end of August, signalling potential further outflows of dollars as these commitments are settled in the coming months.

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Gold or Bitcoin...

The commodity is becoming favored as an alternative to other bets, such as the US dollar.

Expected interest rate cuts are also apparently luring investors to take greater risks on the asset.

Bitcoin also appears to be strengthening on the back of uncertainty over the US economy, with the ongoing government shutdown driving up demand.

"The shutdown matters this time around," Geoffrey Kendrick, head of digital assets research at Standard Chartered Bank, wrote in a note to investors.

"This year, bitcoin has traded with 'US government risks,' as best shown by its relationship to US Treasury term premium," he added, referring to the metric which measures the extra yield investors demand in order to hold long-term government bonds — which reflects the extent of their faith in long-term economic stability.

Another factor in bitcoin's current strength may be related to its annual cycle. October has historically been one of its strongest months, with the price having only fallen twice during the month of October since 2013.

Vehicle imports...

Analysts warn that simultaneous LC settlements could reduce foreign reserves by several hundred million dollars, threatening the Central Bank's US\$7.5 billion reserve accumulation target under the IMF-supported programme.

Despite these pressures, Sri Lanka continues to record strong forex inflows. Exports, remittances, and tourism have contributed nearly US\$19 billion in 2025, pushing official reserves up only marginally by US\$55 million to US\$6.2 billion by August.

Deputy Treasury Secretary Ajith Abeysekera defended the current policy, asserting that the LC volume remains "within expected parameters" and does not threaten external stability, while noting that the IMF's Colombo mission maintains close oversight.

The fiscal impact has been significant. Vehicle imports generated Rs. 700 billion in customs revenue, an unexpected boost after years of stagnation.

Yet economists caution that while the government earns in rupees, the imports are settled in dollars, creating a mismatch that heightens external vulnerability. "We are earning in rupees but spending in dollars. That mismatch is where the pressure begins," one analyst noted.

Can the rally continue?

Many observers see gold and bitcoin continuing to rise in value, with new milestone breakthroughs expected.

"I suspect bitcoin will rise throughout the shutdown and will soon reach \$135,000," Geoffrey Kendrick predicted. The fact that the Trump administration is likely to continue pursuing favorable policies for cryptocurrencies adds to the sense of optimism.

As for gold, few see it losing value anytime soon.

"Rallies can continue into 2026 aided by official sector buying; institutional demand for gold as a diversifier can stay robust," HSBC said in a note to investors on Friday.

The London, UK-based bank said it expected central banks to continue buying gold in large quantities as an ongoing hedge against geopolitical risk.

That chimes with what the World Gold Council said in its last quarterly statement in late July, that its annual central bank survey showed that "95% of reserve managers believe that global central bank gold reserves will increase over the next 12 months."

That, along with the growing demand around ETFs from hedge funds and other institutional investors, suggests the commodity is likely to breach the \$4,000 mark soon.

Commercial banks and leasing companies have also seen renewed activity in vehicle financing. Central Bank-imposed loan-to-value (LTV) limits of 50-80 percent have curbed excessive credit growth, but market participants warn of rising liquidity risks as more LCs mature. Consumer interest is particularly strong in hybrid and electric vehicles, reflecting renewed confidence and easier credit access.



Looking ahead, the government projects total vehicle imports in 2025 could reach US\$1.5-1.8 billion.

Officials emphasize that coordinated management with the Central Bank ensures this outflow will not compromise reserves. Still, market observers caution that any weakening in foreign inflows from exports or tourism could necessitate tighter monetary controls or even renewed import restrictions.

For now, Sri Lanka navigates a delicate balance: reaping immediate fiscal benefits from vehicle taxes while testing the resilience of its external accounts amid continued global and domestic pressures. The coming months will reveal whether this strategy strengthens public finances or strains foreign reserves.

CRYPTO SURGES

Providers (VASPs) will soon be required to register with the Financial Intelligence Unit (FIU). The Bank has proposed amendments to the Financial Transactions Reporting Act (FTRA), currently with the Legal Draftsman's Department, which will bring crypto service providers under the Act's remit. The amendments are expected to pass Parliament soon, aligning Sri Lanka with international anti-money laundering and counter-terror financing (AML/CFT) standards ahead of its scheduled mutual evaluation next year.

"After they register with the FIU, these providers must report all transactions conducted through virtual currencies, just as banks do," Dr. Weerasinghe explained. He emphasised that the measures target service providers facilitating crypto trades, not individuals holding crypto privately. Penalties will apply if providers are found complicit in money laundering. The initiative mirrors global approaches in countries that have not recognised crypto as legal tender but seek to prevent its illicit use.

Despite regulatory caution, global crypto markets continue to surge. Bitcoin trades around US\$109,000, up 62.7 percent since late 2024, while Ethereum, Tether, and other cryptocurrencies have also seen substantial gains. Analysts attribute the rally to favourable international regulations, including the United States' recent Genius Act, which formalised national cryptocurrency oversight, and rising institutional investment.

In Sri Lanka, the growing adoption of crypto reflects a broader desire for financial autonomy amid economic uncertainty. Young professionals and small investors are quietly exploring it to safeguard value, but without domestic legal recognition, they remain exposed. Victims of hacked wallets or failed offshore exchanges have limited recourse, creating a high-risk environment.

The CBSL's regulatory push represents a critical step toward transparency and accountability. By bringing VASPs under FIU supervision, Sri Lanka aims to curb misuse of crypto while maintaining the flexibility to monitor emerging financial trends. However, the lack of recognition of crypto as a legal asset means the market remains inherently volatile and risky.

As adoption grows, Sri Lanka faces a pivotal choice: regulate and integrate cryptocurrencies responsibly, or allow the sector to remain unregulated, potentially turning a financial innovation into a cautionary tale of unchecked risk. The coming months will reveal whether the nation can balance innovation with investor protection.
