



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

24 September 2019

MONETARY LAW ACT ORDER

No. 02 of 2019

**ENHANCING EFFICIENCY OF THE TRANSMISSION OF RECENT POLICY DECISIONS
TO RUPEE DENOMINATED MARKET LENDING RATES**

Issued under Section 104(1)(b) of the Monetary Law Act, No. 58 of 1949, as amended.

The Central Bank of Sri Lanka (CBSL) has adopted several policy measures in the recent past such as reduction of policy interest rates and the statutory reserve ratio, and imposition of maximum interest rates on Sri Lanka Rupee (LKR) deposits to reduce cost of funds of licensed commercial banks (LCBs) and licensed specialised banks (LSBs), thereby reducing interest rates of lending products in the banking sector. However, due to the unduly long time lag observed in transmitting the reduction of policy and deposit rates broadly and equitably to interest rates of lending products, the Monetary Board hereby issues an Order on the interest rates applicable on LKR denominated loans and advances granted by LCBs and LSBs, while taking cognisance of differences in their funding structures.

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| 1. Empowerment under the Monetary Law Act | 1.1 | In terms of Section 104(1)(b) of the Monetary Law Act, the Monetary Board may from time to time fix the maximum rates of interest which LCBs and LSBs may charge for different types of loans or other credit operations. |
| 2. Interest rates on LKR denominated loans and advances | 2.1 | Every LCB and LSB shall reduce the annual nominal interest rate applicable for all LKR denominated loans and advances, excluding credit facilities mentioned in Order 2.3 and credit facilities exempted under Order 5 below, by at least 200 basis points by 15.10.2019, in comparison to the interest rate applicable to the respective loans and advances as at 30.04.2019. |
| | 2.2 | However, if the annual nominal interest rate applicable to any LKR denominated loan or advance as at the date of this Order or anytime thereafter is 12.5 per cent or lower, it shall not be mandatory to give effect to the reduction required under Order 2.1 above. Further, in cases where the applicable annual nominal interest rate as at the date of this Order or anytime thereafter is 12.5 per cent or less, the bank shall not increase the interest rates of such loans and advances from the level maintained as at the date of this Order. |



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- 2.3 Every LCB shall reduce the following product-wise lending rates to the maximum levels outlined herein, by 01.11.2019:
- (i) Interest rates on credit card advances to 28 per cent per annum.
 - (ii) Interest rates on pre-arranged temporary overdrafts to 24 per cent per annum.
- 2.4 Every LCB and LSB shall reduce the penal interest rates charged on all loans and advances, including credit facilities already granted, to a level not exceeding 400 basis points per annum, for the amount in excess of an approved limit or in arrears, during the overdue period, with effect from 15.10.2019.
3. Maximum Average Weighted Prime Lending Rate (AWPR)
- 3.1 (i) Every LCB shall reduce its weekly AWPR by at least 250 basis points by 27.12.2019, compared to its AWPR published by CBSL as at 26.04.2019 in the Weekly Economic Indicators publication.
- (ii) In the interim, every LCB shall reduce its weekly AWPR by at least 150 basis points by 01.11.2019, compared to its AWPR published by CBSL as at 26.04.2019.
- 3.2 If the Weekly Economic Indicators published by CBSL as at 26.04.2019 does not contain AWPR of an LCB, such LCB shall maintain an AWPR not exceeding 9.5 per cent per annum.
- 3.3 Order 3.1 above shall not apply to LCBs, whose AWPR reaches or falls below 9.5 per cent per annum as at the date of this Order or anytime thereafter. However, such LCB shall not increase its weekly AWPR above 9.5 per cent.
- 3.4 Upon complying with Order 3.1 above, any LCB shall not increase its AWPR from the reduced level.
4. Monitoring
- 4.1 All LCBs and LSBs shall ensure the accuracy of interest rate data submitted to CBSL and maintain internal documented records electronically or manually, in relation to the reductions in interest rates in respect of each loan and advance to which this Order applies.



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5. Exemptions 5.1 Following categories of loans and advances shall be exempted from the requirements in Order 2 above.
- (i) Loans and advances granted before 15.10.2019 on fixed term interest rate contracts, until the end of the contracted fixed rate period. For avoidance of doubt these will include, leases and facilities collateralized by gold where applicable. However, the provisions of this Order shall apply to any revision to the annual nominal interest rate effected on or after 15.10.2019.
- (ii) Loans and advances collateralized by LKR deposits maintained with LCBs and LSBs, provided that the margin over the deposit rate is not increased above the margin applied by the bank to such advances as at the date of this Order.
- (iii) Loans and advances granted under a refinance scheme supported by the Government of Sri Lanka or CBSL or on concessionary terms under a general restructuring arrangement where the applicable interest rate or the basis of its determination is stipulated in such scheme or arrangement.
6. Implementation 6.1 These Orders shall be effective from the date of the Order.

Dr. Indrajit Coomaraswamy
*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*