



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

26 April 2019

FINANCE BUSINESS ACT DIRECTIONS

No. 01 of 2019

MAXIMUM INTEREST RATES ON DEPOSITS AND DEBT INSTRUMENTS

Issued under Section 12 of the Finance Business Act, No. 42 of 2011

Considering the high real interest rates on deposits and lending products prevailing in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, and for Licensed Finance Companies (LFCs) to reduce its interest rates on lending and thereby enhance credit flows to the real economy, the Monetary Board hereby issues Directions on maximum interest rates to be paid in respect of deposit products and debt instruments of LFCs.

1. Maximum interest rates
- 1.1 Except as provided for in this Direction, the maximum interest rates that may be offered or paid by an LFC on Sri Lanka Rupee (LKR) deposits shall;
- (i) not exceed the interest rates derived in accordance with Table 01 below, and
 - (ii) be based on the Standing Deposit Facility Rate (SDFR) or the Weighted Average Yield Rate (WAYR) of 364 days Treasury Bills (T-bill rate)

Table 01

Maximum Interest Rates at Maturity for deposits of LFCs

Tenure of Deposit	Maximum Interest Rate Per annum
Savings and other deposits of a tenure of less than 01 month or maturity is not specified	SDFR
Term Deposits	
01 month and less than 03 months	T-bill rate – 0.50%
03 months and less than 06 months	T-bill rate
06 months and less than 01 year	T-bill rate + 0.50%
01 year and less than 02 years	T-bill rate + 2.25%
02 years and less than 03 years	T-bill rate + 3.00%
03 years and less than 05 years	T-bill rate + 3.50%
05 years	T-bill rate + 4.00%



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- (iii) Further, the rate at which any periodic interest payments are made on term deposits during the tenure of the deposit should be computed so that the Annual Effective Rate (AER) does not exceed the specified maximum interest rates stipulated above.
- (iv) Notwithstanding the provisions in 1.1 (i) above, the maximum rate payable by an LFC for savings deposits of children under the age of 18 years and for term deposits with a tenure of 01 year or more of senior citizens shall be 50 basis points (0.5%) higher than rates given in Table 01. With respect to joint accounts of senior citizens, all account holders shall be senior citizens in order for the enhanced rate Direction 1.1 (iv) to apply.
- 1.2 The maximum interest rates that may be offered or paid by an LFC on debt instruments shall not exceed the rates derived in accordance with Table 02 below,

**Table 02
Maximum Interest Rates at Maturity for debt instruments of LFCs**

Tenure of debt instruments	Maximum Interest Rate
Less than 01 year	T-bill rate + 0.50%
01 year and less than 02 years	T-bill rate + 2.25%
02 years and less than 03 years	T-bill rate + 3.00%
03 years and less than 05 years	T-bill rate + 4.00%
05 years or more	T-bill rate + 4.50%

2. Applicable
SDFR and
Yield Rate

- 2.1 The maximum interest rate in Direction 1.1(i) in respect of savings and other deposits of tenure less than 01 month to be based on SDFR and to be reviewed quarterly. Accordingly, the reference rate of SDFR for the quarter will be the SDFR as at the end of the immediately preceding quarter.



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- 2.2 The limits in Direction 1.1 (i) in respect of term deposits of tenure of 01 month and above and Direction 1.2 in respect of debt instruments will be reviewed quarterly based on the simple average WAYR of last 04 primary auctions for 364 days T-bills in the preceding quarter.
- 2.3 Applicable SDFR and WAYR of 364 days T-bills referred to in Directions 1.1(i) and 1.2 shall be announced by the Director at the end of the months of March, June, September and December of each year.
3. Interest rate applicable to early withdrawals
- 3.1 In the case of an early withdrawal of any term deposit prior to its original contracted maturity date, the interest payable on the deposit up to the date of withdrawal shall be computed on the basis of the lower of, the published interest rate of the LFC applicable to the completed period prevailing at the time of withdrawal or at a rate of 100 basis points less than the contracted rate. The LFC shall at the time of early withdrawal recover any excess interest that may have been paid above the interest amount so computed during the period the deposit was held. However, LFCs may apply a different formula that would result in the interest and any benefit paid on the early withdrawal of the deposit not exceeding the amount of interest that would have been paid from the application of the formula given in this Direction provided that the basis of calculation is made known to the depositor at the time of making the deposit.
4. Regulatory reporting
- 4.1 Every LFC shall submit details of the interest rates in accordance with the monthly web based return on 'NBD-MF-06-ID-Rate of Interest/Deposits'.
5. Interpretations
- 5.1 Term deposit products shall mean any deposit other than savings deposits accepted or renewed by an LFC with an agreement to repay after a specified period of time;



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- 5.2 Debt instruments shall mean a bond, debenture, commercial paper, promissory note or any other instrument used for borrowing as may be determined by the Director.
- 5.3 Senior Citizens shall mean persons who are over sixty (60) years of age at the time of accepting or renewal of a deposit.
- 5.4 Director shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
6. Implementation 6.1 These Directions shall come into effect commencing 26 April 2019 and shall be applicable for existing saving deposits, new term deposits, debt instruments and at renewal of term deposits.
7. Revocation of previous Direction 7.1 The Finance Companies (Interest Rates) Direction, No.02 of 2016 is hereby revoked.

Dr. Indrajit Coomaraswamy

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*