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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Press Release

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Enhancing Efficiency of the Transmission of Recent Policy Decisions to Market Lending Rates

Over the past eleven months, the Central Bank of Sri Lanka has taken a number of monetary and regulatory policy measures to induce a reduction in market lending rates. These measures include the reduction of the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100 basis points in two steps, the reduction of the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of Licensed Commercial Banks (LCBs) by 2.50 percentage points that released around Rs. 150 billion of additional liquidity to the financial market, and the imposition of caps on rupee deposit interest rates offered by licensed financial institutions that enabled them to reduce the cost of mobilising funds from the general public.

The Central Bank has taken these measures with a view to supporting economic activity, given well contained inflation and inflation expectations. Further slowdown observed in the economy following the Easter Sunday attacks has intensified the need for lower market lending rates. Meanwhile, the growth of credit extended to the private sector has decelerated sharply since the beginning of this year, and the non-performing advances (NPAs) have grown due to various factors. The Central Bank is of the view that, among these, excessively high nominal and real lending rates are a key reason for slowing credit expansion and rising NPAs. In fact, Sri Lanka's real lending rates are unacceptably high compared to its peer economies, and are not consistent either with the low inflation regime experienced by the country over the past 10 years and the expectations of 4-6 per cent level of inflation envisaged under the proposed flexible inflation targeting framework.

Accordingly, the Monetary Board decided to order the Licensed Banks under Section 104(1)(b) of the Monetary Law Act, No. 58 of 1949, as amended, to reduce interest rates applicable on all rupee denominated loans and advances by at least 200 basis points by 15 October 2019, in comparison to the interest rates applicable as at 30 April 2019, subject to certain exclusions.

With effect from 01 November 2019, in the case of credit card advances, the maximum interest rate applicable will be 28 per cent per annum, while in the case of pre-arranged temporary overdrafts, the maximum interest rates applicable will be 24 per cent per annum. Penal interest rates added to loans and advances have been capped at 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 October 2019.

Each LCB is also expected to reduce its Average Weighted Prime Lending Rate (AWPR) by 250 basis points by 27 December 2019 compared to its AWPR as published by the Central Bank as at 26 April 2019. By 01 November 2019, each LCB's AWPR must be at least 150 basis points lower than its AWPR as at 26 April 2019.

The Central Bank will continue to closely monitor the movements in market lending rates to ensure a more effective transmission of monetary policy through the financial system. The Central Bank also expects to review this Order at end March 2020.