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Press Release

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Central Bank Places Cap on Penal Interest Rates charged on Loans and Advances by Banks, Finance Companies and Leasing Companies

The Central Bank has observed with concern that penal interest rates charged by banks, finance companies and leasing companies at present are excessively high, and that such rates are an undue burden to overdue borrowers whilst also hindering entrepreneurship development in the country. The inability of borrowers to service their loans in the light of such high interest rates also has an adverse impact on the financial position of banks, finance companies and leasing companies, as well as financial system stability.

In this regard, a Central Bank survey has revealed that the current penal interest rates charged by banks are in the range of 2 per cent to 20 per cent per annum on the amount in arrears and sometimes on the total amount outstanding, over and above the original interest rates charged on the loan. In the case of finance companies and leasing companies, the comparative rates are even higher. Further, in respect of leasing facilities, penal rates charged by banks, finance companies and leasing companies are in the range of 36 per cent to 48 per cent per annum on overdue rentals over and above the original rates.

It is therefore clear that such excessive interest rates are not consistent with the present low interest rate regime prevailing in the country, and the low interest rates prevailing in other peer emerging economies where the lending rates range from 4 per cent to 12 per cent per annum only, and the penal interest rates charged are also comparatively much lower.

Considering the foregoing, the Central Bank has requested banks to reduce the penal rates of interest charged on all loans and advances, including credit facilities already granted, to a level not exceeding 2 per cent per annum, whilst the finance companies and leasing companies have been requested to reduce the penal rate of interest to 3 per cent per annum, with effect from 1 August 2013.

In addition to strengthening financial system stability, the above measures are expected to expand the economic activities of the country in line with the macroeconomic projections for the medium to long term, through the enhancement of lending operations of banks, finance companies and leasing companies in a prudent and productive manner.